

02/05/13

OVERVIEW:

ALASKA

RAILROAD

CORPORATION

(ARRC)

<TARGET><BILL></BILL><SUBJECT>02-05-13 OVERVIEW ALASKA
RAILROAD CORPORATION
(ARRC)</SUBJECT><COMM>STRA28</COMM></TARGET>

Capital Funding Request by the Alaska Railroad Corporation

The Alaska Railroad Corporation (ARRC) requests funding of \$35.0 million in the FY 14 Capital Budget for the specific purpose of complying with the unfunded federal mandate to install Positive Train Control (PTC).

What is PTC?

Positive Train Control is technology designed to stop or slow a train before human-error causes an accident to occur. In 2008, the federal Rail Safety Improvement Act required certain railroads to install a fully functional PTC system by the end of 2015; by virtue of its passenger service, the Alaska Railroad is subject to this requirement. If PTC is not installed, ARRC will be required to severely curtail or eliminate its passenger service and/or face severe fines for non-compliance.

ARRC has invested \$55.0 million in developing a PTC system over the last 16 years, beginning long before mandated by Congress. To complete the development and installation ARRC will be requesting total funding of \$80 million to \$90 million between 2013 and 2018. These amounts do not include the estimated incremental \$5 million to \$6 million per year of operating and capital maintenance costs related to the system.

Why state funding is needed

ARRC has used federal funding as well as corporate revenues to fund the implementation of PTC since 1997. However, due to severe drops in ARRC revenues and federal funding and the lack of resolution of a deadline extension for PTC, it is necessary to find a different source to fund the capital cost.

Several key lines of ARRC revenue are forecast to drop precipitously over the next twelve months. Export coal from Usibelli Coal Mine in Healy, which saw record shipments in 2011 (1.1 million metric tons), predicted 1.3 million metric tons to be exported in 2013. However, due to global market factors, ARRC expects to transport approximately 500,000 metric tons in 2013. Flint Hills Resources, owner of the North Pole Refinery, shut down one of the two remaining crude processing towers producing jet fuel for Anchorage International Airport in mid-2012, severely curtailing shipments on the railroad. Federal formula funding allocating approximately \$36 million per year to ARRC since 2005 was reduced to \$27 million and the required funding match doubled. Taken together these three events have caused a hugely problematic swing in ARRC finances.

Steps taken by ARRC

In October 2012, ARRC sent a briefing regarding PTC to Governor Sean Parnell (attached). ARRC is undertaking a major corporate restructuring at this time, has put forward a request for exemption from certain aspects of PTC, and is working with national railroad associations to get Congress to extend the PTC deadline.

Budget request

ARRC is requesting \$35.0 million in the FY14 capital budget. Future funding requests will be made to meet the \$80 million to \$90 million total project budget.



**PORT MACKENZIE
RAIL EXTENSION
PROJECT**

**JANUARY 2013
EMBANKMENT CONSTRUCTION
STATUS**

SEGMENT 1

STATUS: Funded. Construction to resume February 2013.

SEGMENTS 3 & 6

STATUS: Funded. Contracts awarded. Construction to begin Spring 2013.

SEGMENTS 2 & 5

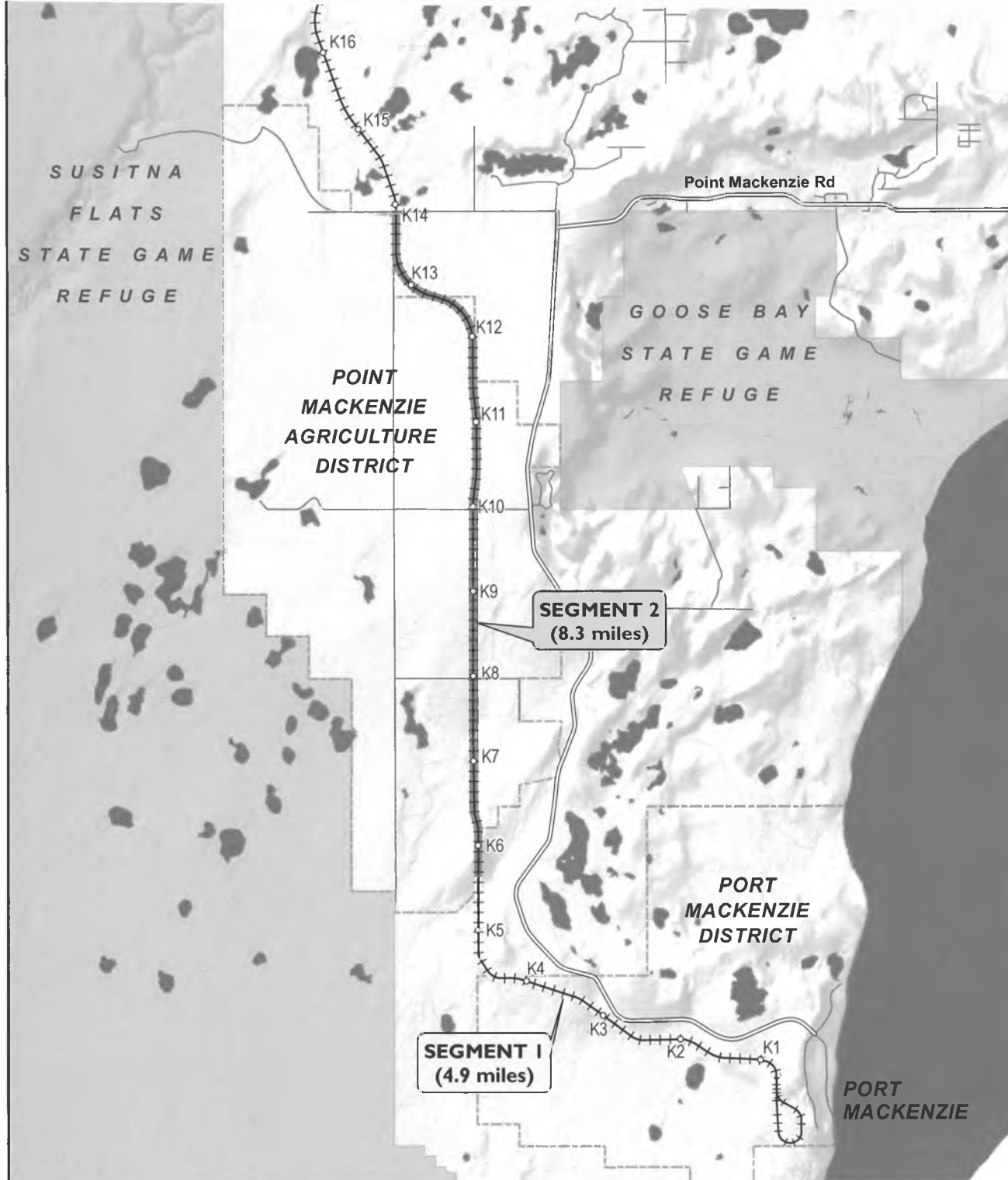
STATUS: Construction awaiting funding in the amount of \$60M in 2013 legislative session. Construction to begin in August 2013.

SEGMENT 4

STATUS: Funded. State GO Bonds approved by voters in November 2012. Scheduled bid opening July 1, 2013.

SEGMENTS 7 & 8

STATUS: Construction of track (subballast, ballast, rail) awaiting funding in the amount of \$66.5M in 2013 legislative session. Construction to begin in 2014 and 2015.



SUSITNA
FLATS
STATE GAME
REFUGE

POINT
MACKENZIE
AGRICULTURE
DISTRICT

GOOSE BAY
STATE GAME
REFUGE

PORT
MACKENZIE
DISTRICT

PORT
MACKENZIE

**SEGMENT 1
(4.9 miles)**

**SEGMENT 2
(8.3 miles)**

K16

K15

K14

K13

K12

K11

K10

K9

K8

K7

K6

K5

K4

K3

K2

K1

Point Mackenzie Rd

The Alaska Railroad Joint House and Senate Transportation Committee Briefing



Christopher Aadnesen
President & CEO

Bill O'Leary
VP Finance/CFO

AlaskaRailroad.com





ARRC Corporate Information



Alaska Railroad Quick Facts

Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors appointed by Governor
- Mandated to be self-sustaining, responsible for financial and legal obligations

Operating Data

- 656 Total miles of track
- 1,381 Freight cars (owned & leased)
- 45 Passenger cars
- 51 Locomotives

Operating Statistics (Jan - Dec 2012)

- 415,279 passengers
- 5.56 million tons of freight
- \$190.4 million total revenue (preliminary unaudited)

Employees (January 2013)

- 626 year-round employees
- 456 members of 5 unions



Freight Services



Oilfield Supplies



Petroleum Products



Military



Coal



TOFC/COFC



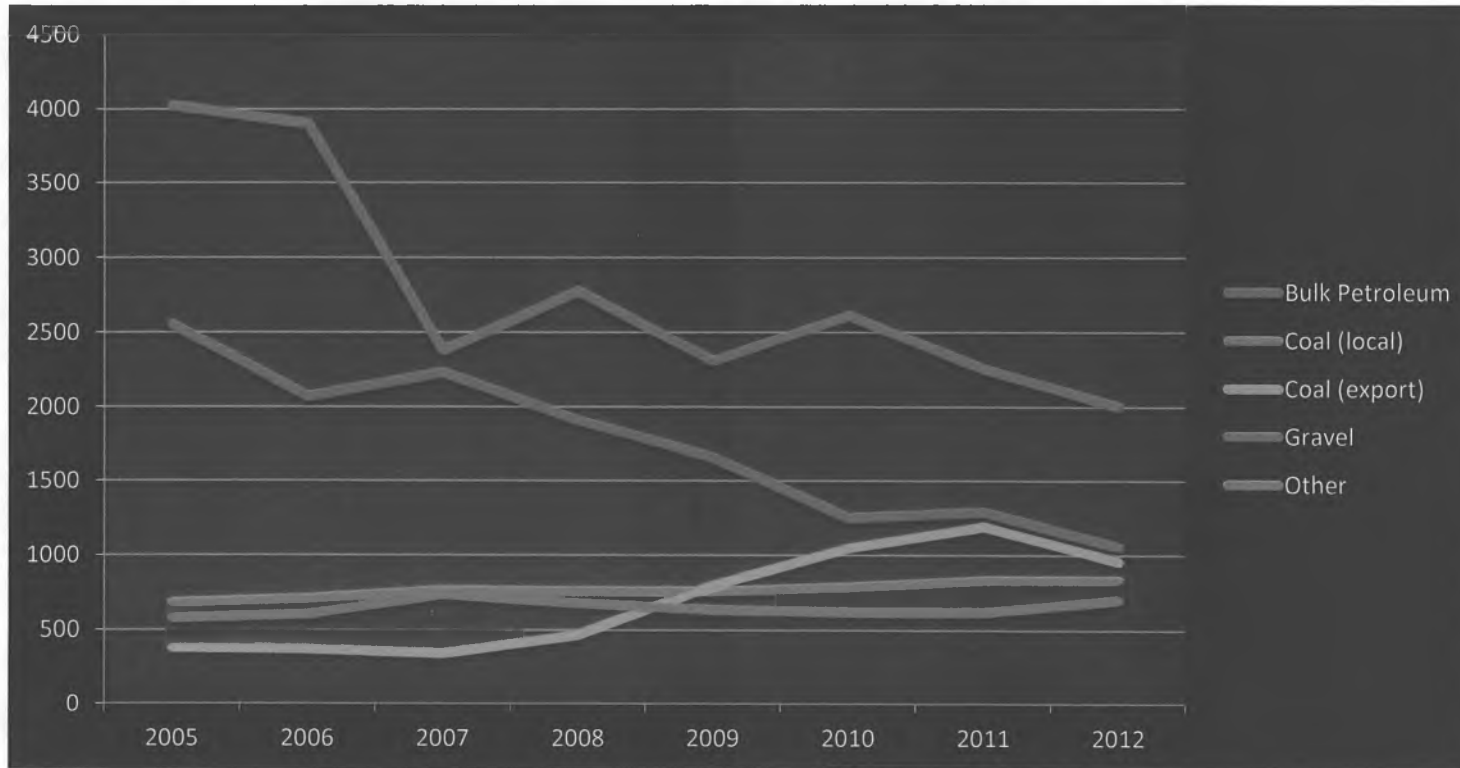
Gravel



Intermodal



Freight 2005-2012 (millions of tons)



Tons	2005	2006	2007	2008	2009	2010	2011	2012	% Chg 2011-12
	-----in millions of tons-----								
Bulk Petroleum	2,555	2,068	2,230	1,910	1,657	1,254	1,292	1,057	-18.2%
Coal (local)	683	713	766	761	762	791	836	838	0.2%
Coal (export)	384	374	342	471	801	1,051	1,195	961	-19.6%
Gravel	4,024	3,900	2,377	2,776	2,306	2,614	2,252	2,003	-11.1%
Other	580	607	742	681	637	622	619	702	13.4%
TOTAL	8,226	7,662	6,457	6,599	6,163	6,332	6,194	5,561	-10.2%

Handwritten note on the left side of the table: *4000*



2012 Freight Facts

- 57,250 railcars moved 5.6 million tons
- Accounted for 67% of customer revenue
- Intermodal, Interstate, Interline and International
- Longest Rail-Haul in North America
 - Alaska Railroad from Seattle to Fairbanks
 - 1815 Miles
 - Interline service from Panama City, Florida to Fairbanks
 - 4842 Miles



Intrastate Freight

Within Alaska

- TOFC & COFC
- Scrap Metal
- Coal (Local & Export)
- Construction Materials
- Gravel
- Jet Fuel



Interstate Freight

Lower 48 to Alaska

Alaska Railbelt Marine



- Seattle – Whittier
- BNSF & Union Pacific
- 52 Voyages/Year
- 7 Day Transit
- 45 – 50 Railcar Capacity
- Railcar Tracking
- Safe, Reliable, Affordable Service

International Freight

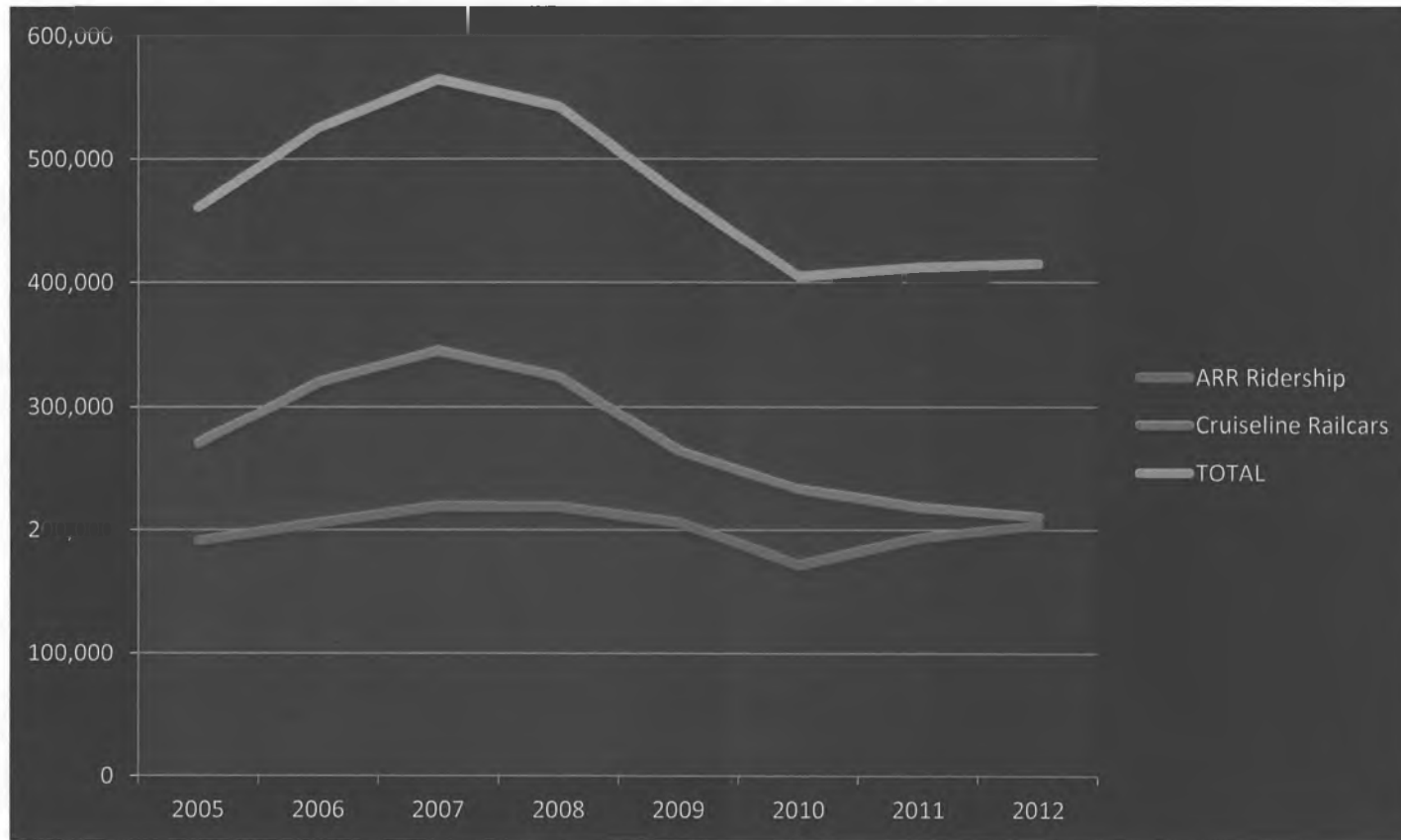
Canada to Alaska

Canadian National Railroad



- Prince Rupert – Whittier
- 30+ Voyages/Year
- 4 Day Transit
- 45 – 50 Railcar Capacity

Passengers 2005-2012



Passengers	2005	2006	2007	2008	2009	2010	2011	2012	% Chg 2011-12
ARR Ridership	190,963	205,924	219,370	218,833	206,410	171,975	193,293	204,120	5.6%
Cruiseline Railcars	270,155	319,369	345,430	323,838	264,376	233,160	218,916	211,159	-3.5%
TOTAL	461,118	525,293	564,800	542,671	470,786	405,135	412,209	415,279	0.7%



Regularly Scheduled Year-Round Passenger Service

- Full summer schedule of ARR trains and support to cruise lines
- Hurricane Turn and Aurora winter train
 - Flag stop service
 - Provides critical access for Alaska residents living and playing where there are no roads
- Provides eligibility for federal formula funds



Real Estate

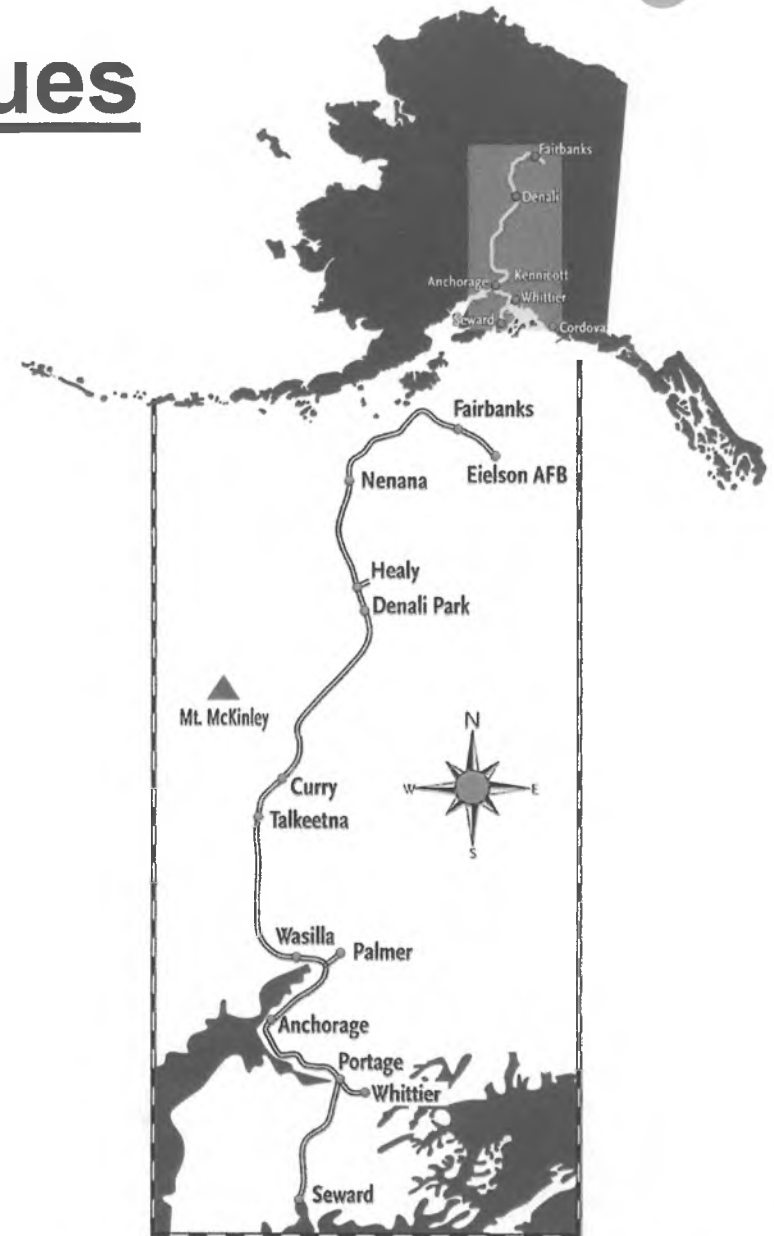
- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Approximately 36,000 acres



Clockwise from bottom left: Fairbanks depot; Ship Creek basin includes highly valuable leasable land; upland from the Seward freight dock is being developed

State Issues

- **State Rail Plan**
 - In process, completed in 2013
 - First since transfer to state
- **Transportation Infrastructure Fund**
 - If created ARRC would like to be included
- **95-Year Lease**
 - Developers appreciate it as a tool
 - No requests yet.

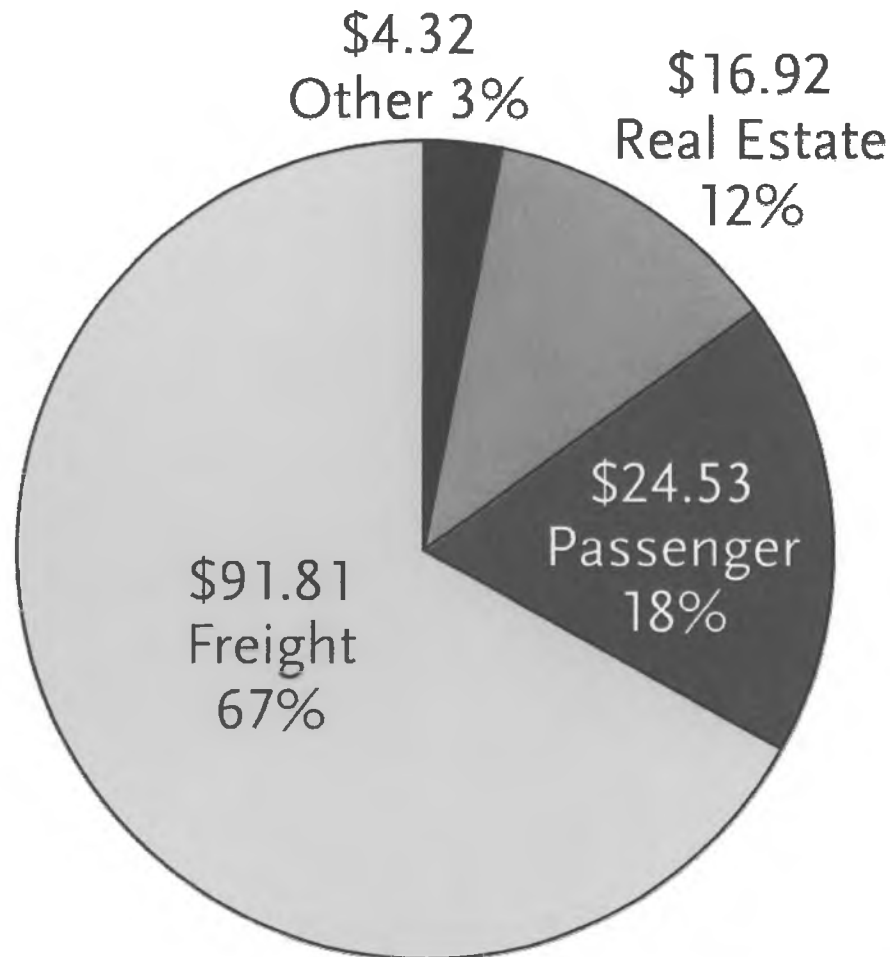




ARRC Financial Situation

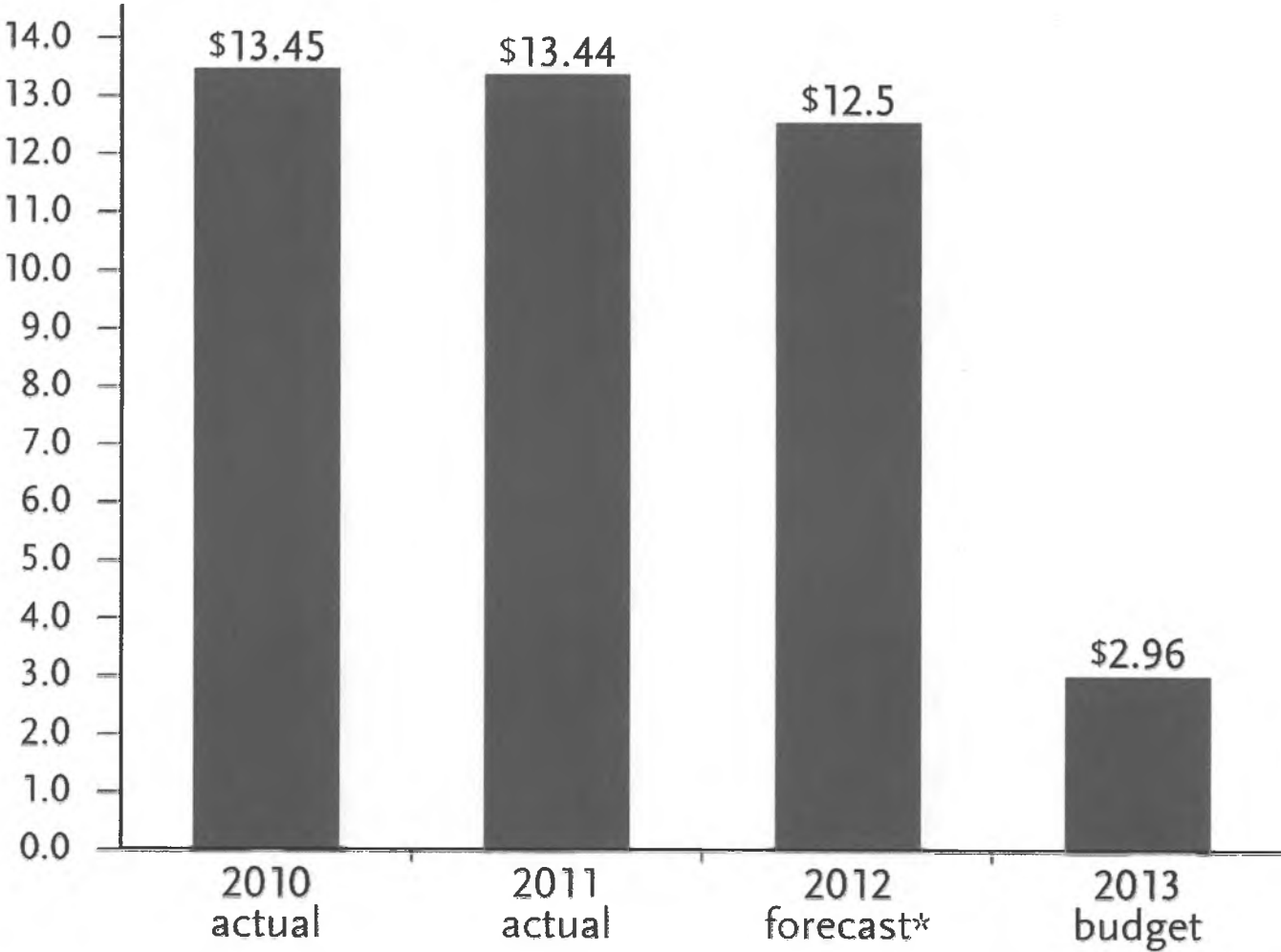
2013 Budget Revenue Sources

(millions of dollars)



Alaska Railroad Net Income

(in millions of dollars)



* preliminary and unaudited



Financial “Perfect Storm” Brewing

- Markedly reduced commercial activity forecast for key business lines in 2013 and beyond
 - Petroleum – North Pole Refinery reduced from three to one crude processing tower; reduced demand at ANC and increased import of foreign jet fuel
 - 2013 Petroleum gallons reduced 68% from peak of ten years ago
 - Export coal – depressed world market for coal impacting demand and price
 - Planned 2013 tonnage less than half that moved in 2011
 - ARRC 2013 freight revenue budget \$12 million lower than 2012 actual



Financial “Perfect Storm” Brewing

- Capital budget negatively impacted by federal formula funds reduction
 - MAP–21 federal transportation reauthorization cut \$9 million/year from ARRC formula funds allocation
 - 2013 capital budget less than half of 2012

- Positive Train Control
 - \$145 million unfunded federal mandate crippling blow
 - Average \$18 million/year need between 2014 – 2018 to comply with federal law



ARRC Capital Sources and Uses

	ARRC Board-Approved 5 Year Plan				Extrapolated	Total
	2014	2015	2016	2017	2018	
ARRC Capital Funding Available						
Federal	8,435,042	8,703,842	8,965,897	9,246,495	9,246,495	44,597,771
Internal	17,880,000	18,970,000	19,300,000	19,690,000	19,690,000	95,530,000
	<u>26,315,042</u>	<u>27,673,842</u>	<u>28,265,897</u>	<u>28,936,495</u>	<u>28,936,495</u>	<u>140,127,771</u>
ARRC baseline capital needs	30,874,538	30,604,200	31,413,900	32,170,900	32,170,900	157,234,438
Shortfall	<u>4,559,496</u>	<u>2,930,358</u>	<u>3,148,003</u>	<u>3,234,405</u>	<u>3,234,405</u>	<u>17,106,667</u>

Assumes FTA formula funds continue (baseline of \$28.7 million in 2013 vs. \$27 million to be actually received).
Assumes achieving a 1.0 operating ratio in 2014 and improving upon that for the next three years.



ARRC Response

- In concert with ARRC Board, management undertaking restructuring effort currently
 - Restructuring/reorganization plan being developed
 - Position reductions, department consolidations, asset utilization, employee benefits and other areas being acted upon
 - Designing ARRC for an uncertain future
- Meeting with ARRC Board at end of February
- Significant cost structure reduction achievable, but still will not address unfunded PTC mandate satisfactorily



Positive Train Control

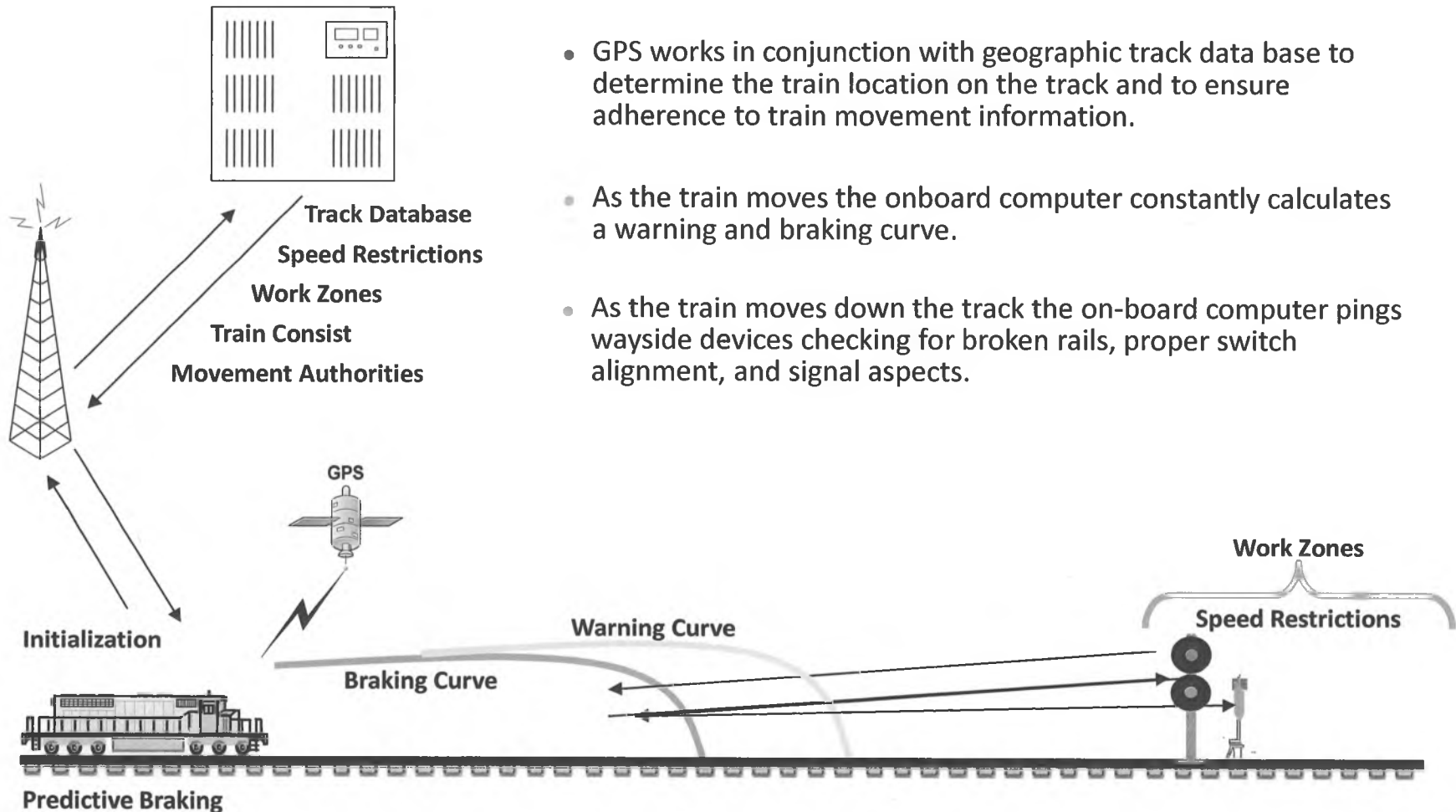
■ Unfunded federal mandate

- Federal law requires technology system to prevent:
 - Train to train collisions
 - Overspeed derailments
 - Incursion into established work zone limits
 - Train movement through a main line switch in the improper position
- Unattainable deadline Dec. 2015
- ARRC investment through Dec. 2012: **\$55 million**
- Would prohibit passenger service if not implemented



How Does PTC Work?

Office Systems



- Before a train leaves its originating terminal on-board computer is initialized.
- GPS works in conjunction with geographic track data base to determine the train location on the track and to ensure adherence to train movement information.
- As the train moves the onboard computer constantly calculates a warning and braking curve.
- As the train moves down the track the on-board computer pings wayside devices checking for broken rails, proper switch alignment, and signal aspects.

2014 – 2018 PTC Funding Need

	2014	2015	2016	2017	2018	Total
Office and Locomotive Base System	\$ 12,840,389	\$ 12,321,302	\$ 7,317,322	\$ 6,056,240	\$ 5,056,240	\$43,591,493
On-board Loco TMC and Install	\$ 4,206,123	\$ 4,210,540	\$ 500,000	\$ 1,000,000		\$ 9,916,663
MCC Radios and license	\$ 1,197,066	\$ 1,260,000				\$ 2,457,066
Comm Backbone infrastructure	\$ 650,000	\$ 1,450,000	\$ 1,100,000	\$ 1,000,000	\$ 1,000,000	\$ 5,200,000
Wabtec Phase II	\$ 2,373,000	\$ 1,120,000	\$ 1,350,000	\$ 1,050,000	\$ 1,050,000	\$ 6,943,000
Project Management/System integration	\$ 2,024,200	\$ 880,762	\$ 1,427,322	\$ 1,306,240	\$ 1,306,240	\$ 6,944,764
Safety Plan Development	\$ 1,650,000	\$ 2,940,000	\$ 1,100,000	\$ 900,000	\$ 900,000	\$ 7,490,000
Functional Testing (includes procedures)	\$ 740,000	\$ 460,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 2,100,000
MOW Portable Terminals			\$ 1,540,000	\$ 500,000	\$ 500,000	\$ 2,540,000
Wayside Monitoring	\$ 2,091,609	\$ 7,744,550	\$ 9,792,281	\$ 13,532,839	\$12,056,734	\$45,218,013
PTC upgrades in CTC	\$ 1,971,609	\$ 1,500,000				\$ 3,471,609
Pittman to Kashwitna CTC/PTC		\$ 3,354,950	\$ 3,714,443			\$ 7,069,393
Dark Territory Manual Switch Monitoring	\$ 120,000	\$ 2,889,600	\$ 6,077,839	\$ 13,532,839	\$12,056,734	\$34,677,011
Total	\$ 14,931,998	\$ 20,065,852	\$ 17,109,603	\$ 19,589,079	\$17,112,974	\$88,809,506



What if ARRC Does Not Comply?

Federal law provides penalties for non-compliance:

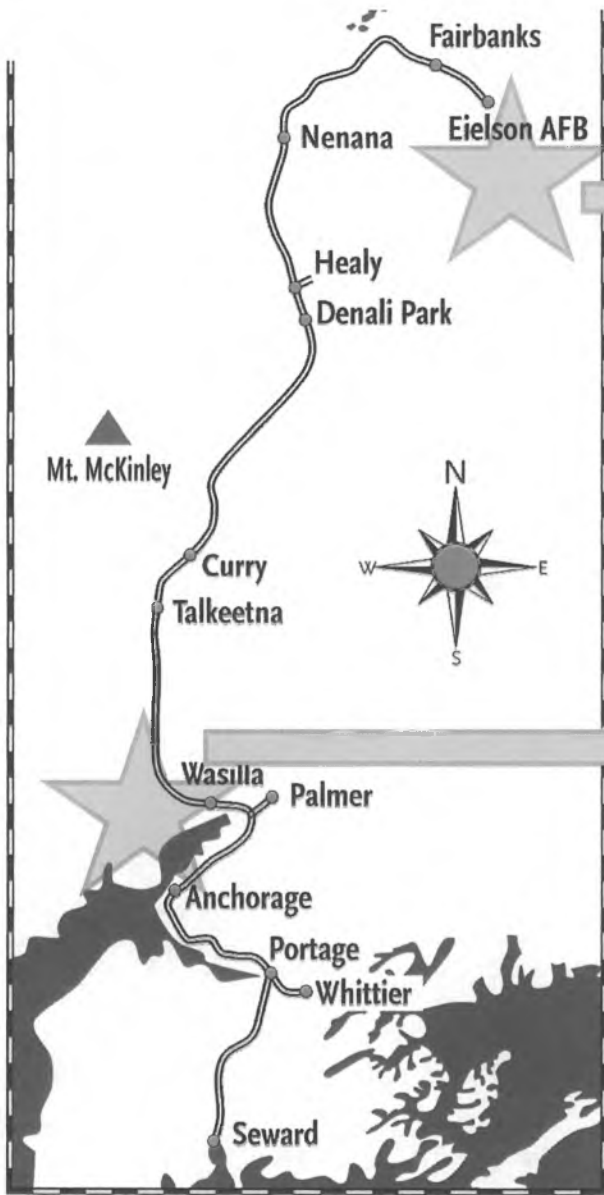
- Federal Railroad Administration (FRA) has authority to fine 61 different PTC-related violations.
- Fines begin for activities 90 days after regulations were final in 2010.
- Maximum FRA fine for failure to complete PTC installation by December 31, 2015, is \$16,000 per violation and \$25,000 for each “willful” violation. A separate violation is issued for each day the violation occurs.
- FRA rail safety law compliance pertains to “persons” so both the corporation and individuals are on the hook.





ARRC Project News





Northern Rail Extension

Phase 1 - Tanana River Crossing

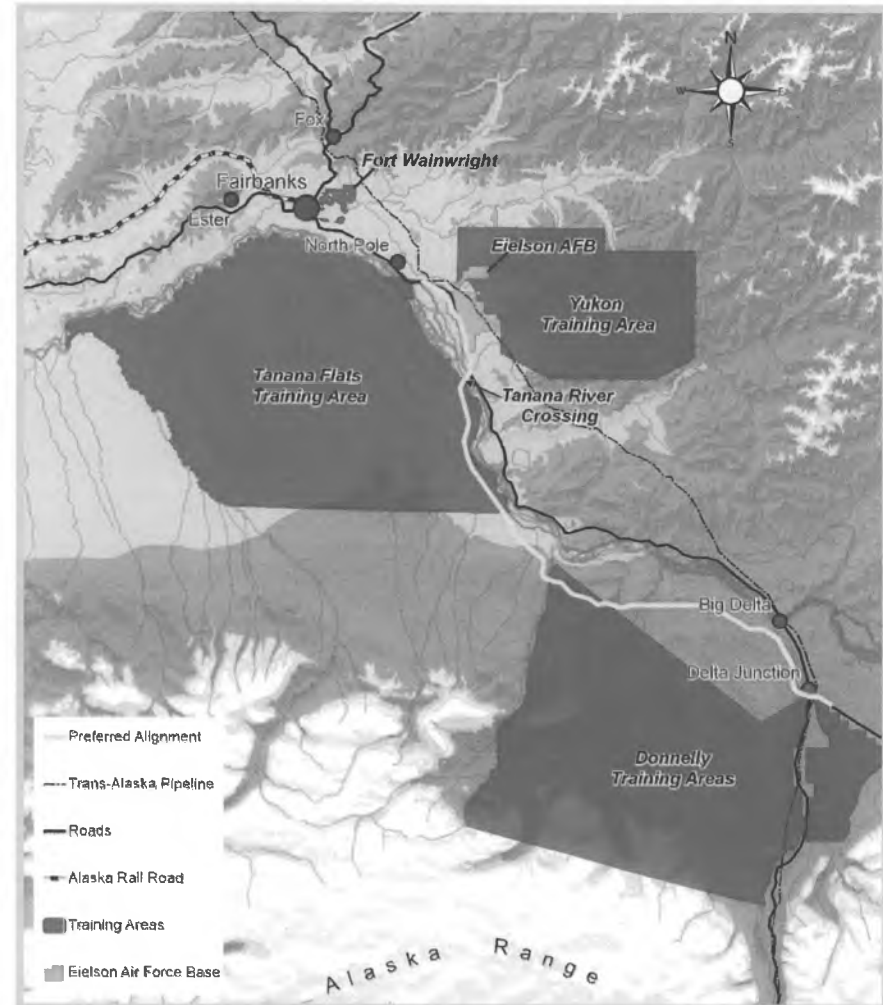
Port MacKenzie Rail Extension

Northern Rail Extension



Northern Rail Extension 4 Phase Project

- 80+ miles of rail from North Pole to Delta Junction
 - Phase 1 : Bridge over Tanana River, approach road and levee near Salcha
 - Phase 2 : 13 miles of rail from Moose Creek / Eielson AFB to Tanana River Crossing
 - Phase 3 : 30 miles of rail from Tanana River Crossing to Donnelly Training Area
 - Phase 4 : 38 miles of rail from Donnelly Training Area to Delta Junction



Northern Rail Extension Project Benefits

- Commercial freight and passenger service supporting communities
- Transportation alternative to Richardson Highway
- Connects military at JBER, Wainwright, Eielson, Clear and Delta Junction by rail to each other and to 3 Alaska ports
- Support regional tourism
- Economic and Resource Development Potential
- Future Canadian Connection?



Phase 1 – Tanana River Crossing

- Longest bridge in Alaska
 - 3300 Feet
- Levee to direct river flow
- \$188.2 million total cost
 - \$84.0 million State of Alaska
 - \$104.2 million Department of Defense
- Provide US Military with year round vehicle access to Joint Pacific Area Range Complex



Phase 1 – Tanana River Crossing

- Kiewit Infrastructure West Co.
 - Construction Management – General Contractor

- Outreach & Community Support
 - Regular Community Open Houses
 - Quarterly Legislative Updates
 - Piledriver Slough monitoring
 - Senior Center Support
 - Firewood

- 3rd Party Overview
 - 3 member project overview committee
 - Industry experts
 - Quarterly reviews and updates to Board of Directors



Phase 1 – Tanana River Crossing

■ Keeping Alaskans Working

- 70% Alaskan Hire on Project (2012 3rd Qtr. 86 out of 123)
- Alaskan Companies Providing Services

- Rolling Stone Construction
- Alaska Quality Insulators
- Statewide Clearing, Inc.
- Dimond Electric
- Alaska Drilling
- JD Steel
- HC Redimix
- Code 3 Logistics
- Bighorn Enterprises
- Arctic Surveys Company
- Alaska Industrial
- Brown's Hill Quarry
- HansonAlaska
- Shannon & Wilson
- PDC, Inc.
- MAPPA
- Northstar Terminal and Stevedore
- Maynard's Mill & Small Buildings
- HDRAAlaska
- Warwick Surveying
- Carlile Transportation
- Accupoint, Inc.
- Brice, Inc.

Phase 1 – Tanana River Crossing

■ Current Status

- Causeway
 - Nearly complete. Will have to be removed and rebuilt.
- Bridge
 - 56 Girders arrived in Valdez on Oct 25. Trucking to bridge site late Nov.
 - 4 of 19 piers complete. 5 in process
 - Crews working 20 hours/day 6 days/week.



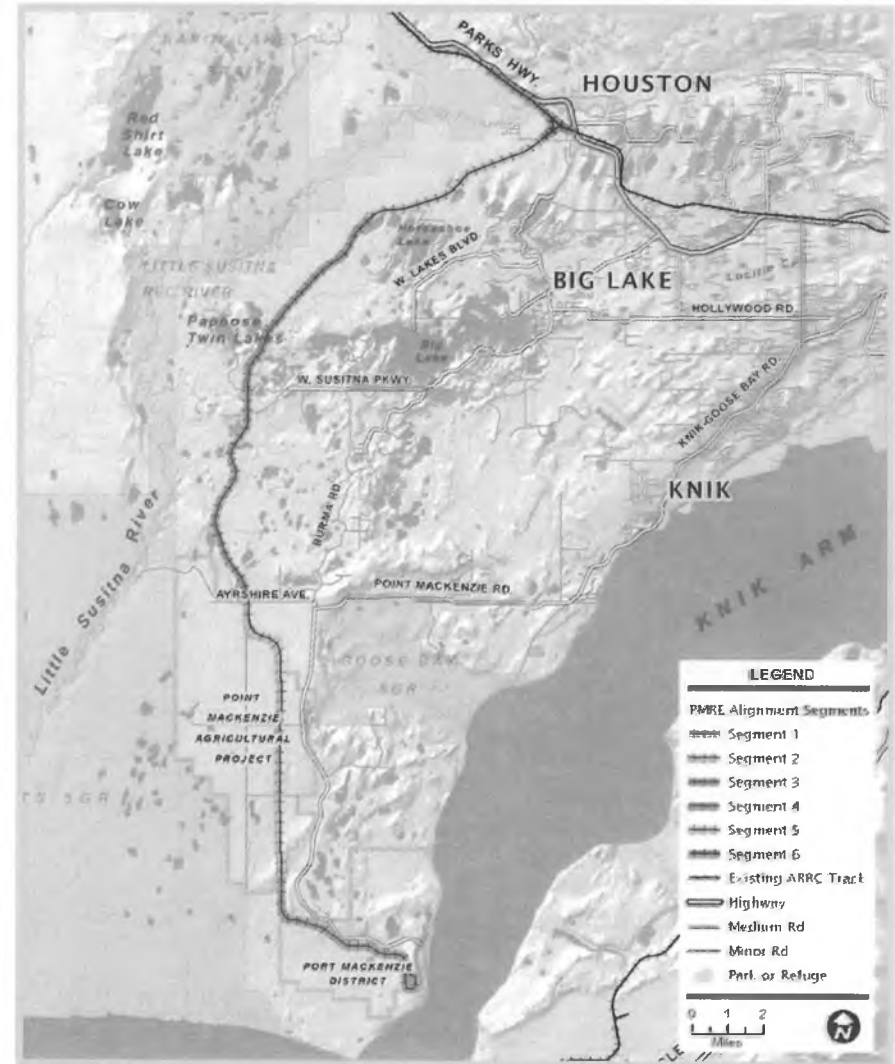
Phase 1 – Tanana River Crossing

- Next Steps
 - Pile driving and pier building to continue through 2013
 - Continued bank protection and stabilization in Summer 2013
 - Phase 1 Complete July 2014



Port MacKenzie Rail Extension

- 32 mile rail extension
 - Houston to Port MacKenzie
 - ARRC serving as program manager to Mat-Su Borough
- All funding from State of Alaska
- Will be 4th Alaskan Port served by Alaska Railroad



Port MacKenzie Rail Extension 1 mile – 100 railcar industrial loop



The Canada Connection

- Alberta Tar Sands oil on trains to Delta Junction
- Generating for Seven Generations (G7G)
 - Vancouver Based Consortium
 - Looking for \$40 million to fund study
- 1,500 miles of track
 - Fort MacMurray, B.C. to Delta Junction, AK.
 - Single Track \$8.4 billion, 1.5 million barrels/day
 - Double Track \$10.4 billion, 5 million barrels/day



Thank you!





2013 Alaska Railroad Corporation Report TO THE State



(Photo by Frank Keller)

Board of Directors

Chair Linda Leary



Susan Bell



John Binkley



Jack Burton



Jon Cook



Pat Kemp



Bill Sheffield



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. This report presents our 5-year outlook for capital investment and operations, 2013-2017.

Capital and operating plans are driven by our mission, as defined in the Alaska Railroad Transfer Act (U.S. Code) and the Alaska Railroad Corporation Act (Alaska Statute). ARRC's two-fold purpose is to:

- 1 provide safe, profitable, high-quality services to freight, passenger and real estate customers; and
- 2 to foster Alaska's economic development.

In recent history, the Alaska Railroad has been fortunate to report robust capital programs that stem from healthy operations and federal grants that have enabled modernization of an otherwise aging infrastructure. This year is different. Unforeseen and sizeable declines in two major business lines, a serious and ongoing threat to federal capital grants, coupled with an extensive unfunded federal regulatory mandate have created challenges ahead.

Ironically, the year 2012 began with promise for business line growth and capital investment. But by the end of the first quarter, sobering financial challenges began to unfold, dramatically changing the outlook for 2012 and several years beyond.

The North Pole Refinery closed the second of its three crude petroleum processing towers in July 2012, effectively cutting our fuel-hauling business to its lowest volume in two decades. For 2013, we anticipate an additional 10% reduction in the petroleum business line. During the last half of 2012, we also learned the global coal market had weakened considerably. The coal mine in Healy now forecasts at least a 30% drop from 2012 export coal shipping levels. Together, these reductions equate to about a \$10 million drop in revenue for 2013, compared to 2011.

Severe revenue reductions figure into a 2013 budget that indicates a \$5.1 million loss from train operations. Thanks in large part to railroad real estate revenues and FTA grant funds, net income for 2013 is budgeted to be \$3 million. This compares to a forecasted \$11.1 million net income for 2012 and over \$13 million actual net income for 2011. Railroad "net income" is used to fund major capital repairs and replacements for both train operation activities and to improve infrastructure for our real estate customers.

The 2013 capital budget is profoundly impacted not only by grim operating numbers, but also the status of federal grants that have traditionally enabled the railroad to modernize aging infrastructure over the past decade. The federal MAP 21 Transportation Reauthorization Law that passed in mid-2012 projected to reduce ARRC's Federal Transit Administration (FTA) formula funding from \$36 million a year to \$31 million. In October 2012, we learned that a technical error in MAP 21 could further reduce FTA funding to \$27 million for 2013. Alaska's congressional delegation is working to

• Outlook

correct this error, but there are no promises. The new law also stipulates FTA grants require a 20% local match as opposed to 9% previously. This means cash match outlay increases from \$3.5 million in 2011 and 2012 to \$7.2 million in 2013. The reduction in net income coupled with the increased match requirement means we have about 50% fewer internally-generated funds to dedicate to capital projects compared to 2012. In the 5-year capital improvement tables that follow in this report, you will notice many critical capital improvements that remain unfunded.

Much of our limited capital resources will be absorbed by an unfunded federal mandate to develop a Positive Train Control (PTC) system designed to prevent train-to-train collisions and derailments caused by human error. The U.S. Rail Safety Improvement Act of 2008 requires PTC implementation by December 31, 2015. We have already invested more than \$50 million and we estimate substantial additional costs to fully implement PTC, creating a critical financial dilemma for the Alaska Railroad.

We must think creatively and make bold adjustments that can substantially reduce expense. This will likely entail efforts to restructure our services and our organization in a way that can absorb some of the losses today, while leaving us prepared should our revenue picture improve. We'll be working on this task through February 2013. In this vein, we recently instituted a new fuel-conservation effort that could save nearly a million dollars annually through an additional locomotive idle-reduction initiative. Such innovation has been our hallmark in the past, and our employees, management team and Board of Directors remain committed to developing smart solutions for the future.



Christopher Aadnesen, President & CEO

Alaska's Railroad

The Alaska Railroad was built by the U.S. government between 1914 and 1923 and operated by the federal government until January 1985, when the State of Alaska purchased the railroad for \$22.3 million. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) to own and operate the railroad and to manage railroad property with the overriding goal to serve Alaska businesses and communities as an engine for community development and economic prosperity.

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

Management Team

Chris Aadnesen



President & CEO
Chris Aadnesen

Engineering and
Maintenance
VP Tom Brooks

General Counsel / Legal
VP Bill Hupprich

Real Estate and Facilities
VP Jim Kubitz

Corporate and
Government Affairs
VP Wendy Lindskoog

Chief Financial Officer /
Finance
VP Bill O'Leary

Information Services,
Telecommunications
and Signal
VP Eileen Reilly

Mechanical and
Transportation
VP Patrick Shake

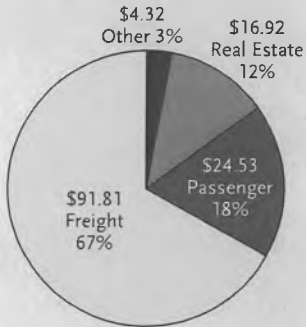
Business Development
VP Dale Wade

2013 ARRC

OPERATING PLAN

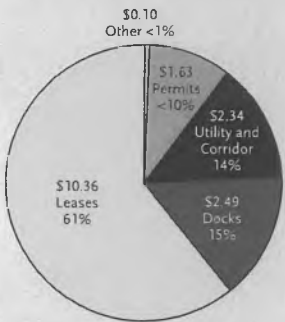
2013 Budget Revenue Sources

(in millions of dollars)



2013 Budget Real Estate Revenue

(in millions of dollars)



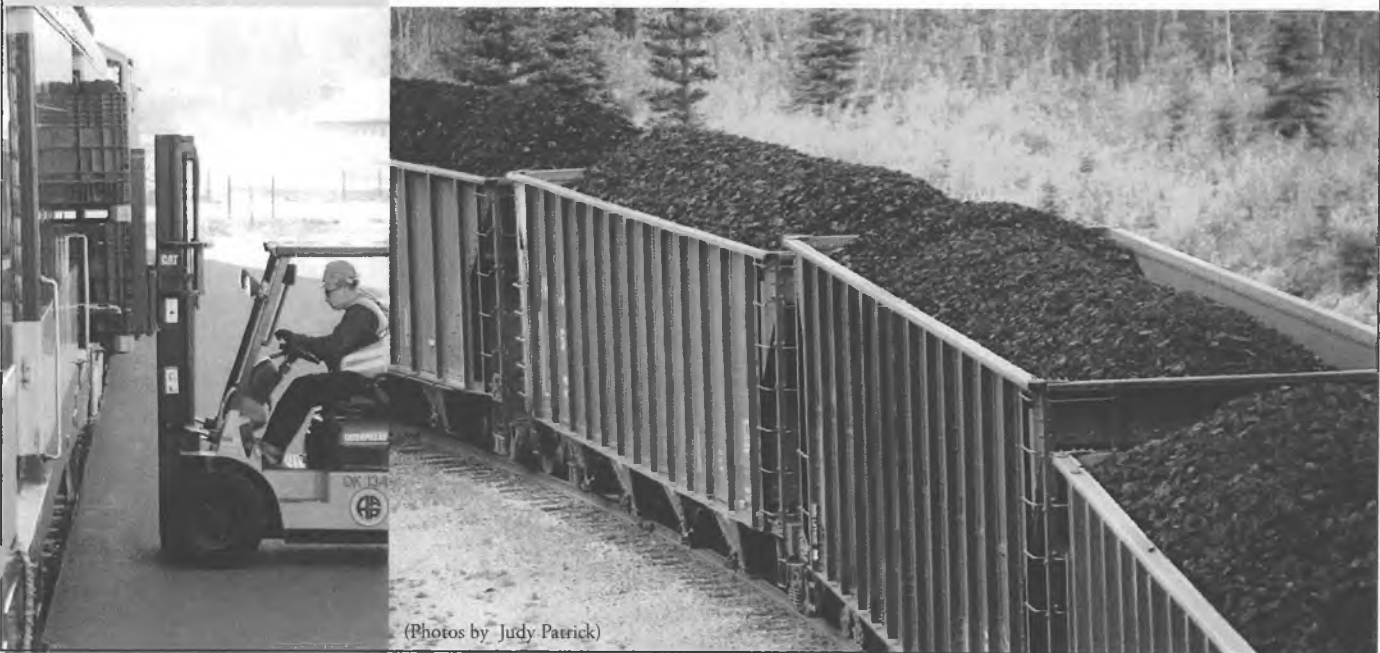
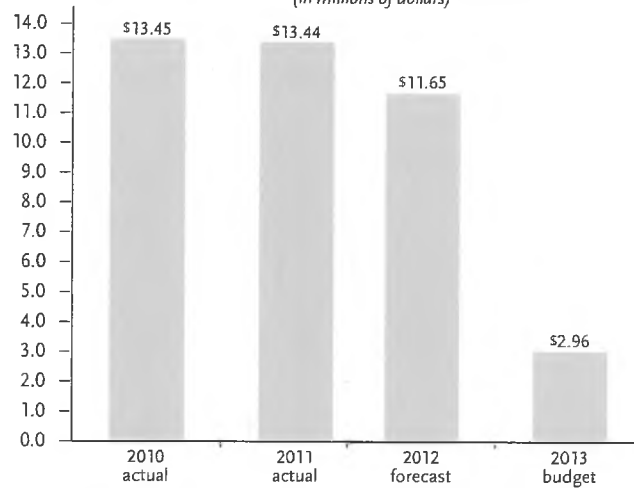
Five-Year Operating Plan

(in millions of dollars)

	2013	2014	2015	2016	2017
Operating Revenue	\$ 120.42	\$ 128.74	\$ 131.29	\$ 133.89	\$ 136.56
Operating Expense	125.54	129.01	130.48	131.84	132.95
Net Operating Income	(5.12)	(0.27)	0.81	2.05	3.61
Net Real Estate Income	9.38	9.69	9.96	10.92	11.36
Net Other Income (Expense)	(1.30)	(1.11)	(0.98)	(0.77)	(0.46)
Net Income	\$ 2.96	\$ 8.31	\$ 9.79	\$ 12.20	\$ 14.51

Alaska Railroad Net Income

(in millions of dollars)



(Photos by Judy Patrick)

AND OPERATING STATISTICS

Operating Assets and Infrastructure

- 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)*: 1,219
- Passenger cars: 45
- Locomotives: 51

* 928 revenue cars and 291 maintenance cars; not including 311 tanker cars owned by Flint Hills Resources

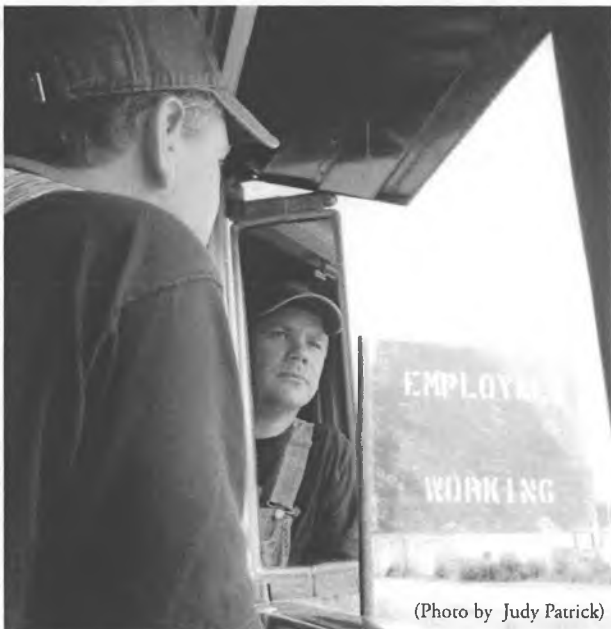
2012 Train Service Activity

- 2012 Ridership**: 414,700 passengers
- 2012 Freight tonnage**: 5.7 million tons

** January 1 - Dec. 31, 2012, Projected



(Photo by Judy Patrick)



(Photo by Judy Patrick)

Employees (November 2012)

- Year-round employees: 685
- Additional seasonal employees: ~100
- Average years of service: 12.4
- Average age: 46.2
- Male: 571
- Female: 114
- Percentage of Alaska Hire: 92%

A majority of employees are members of five unions:

- United Transportation Union: 127
- Transportation Communication Union: 45
- International Brotherhood of Teamsters Local 959: 66
- American Federation of Gov't Employees: 262
- American Train Dispatchers Department: 10



(Photo by David Blazejewski)

FIVE-YEAR CAPITAL PLAN: FEDERAL FUNDING

Federal Transit Administration (FTA) Formula Funds

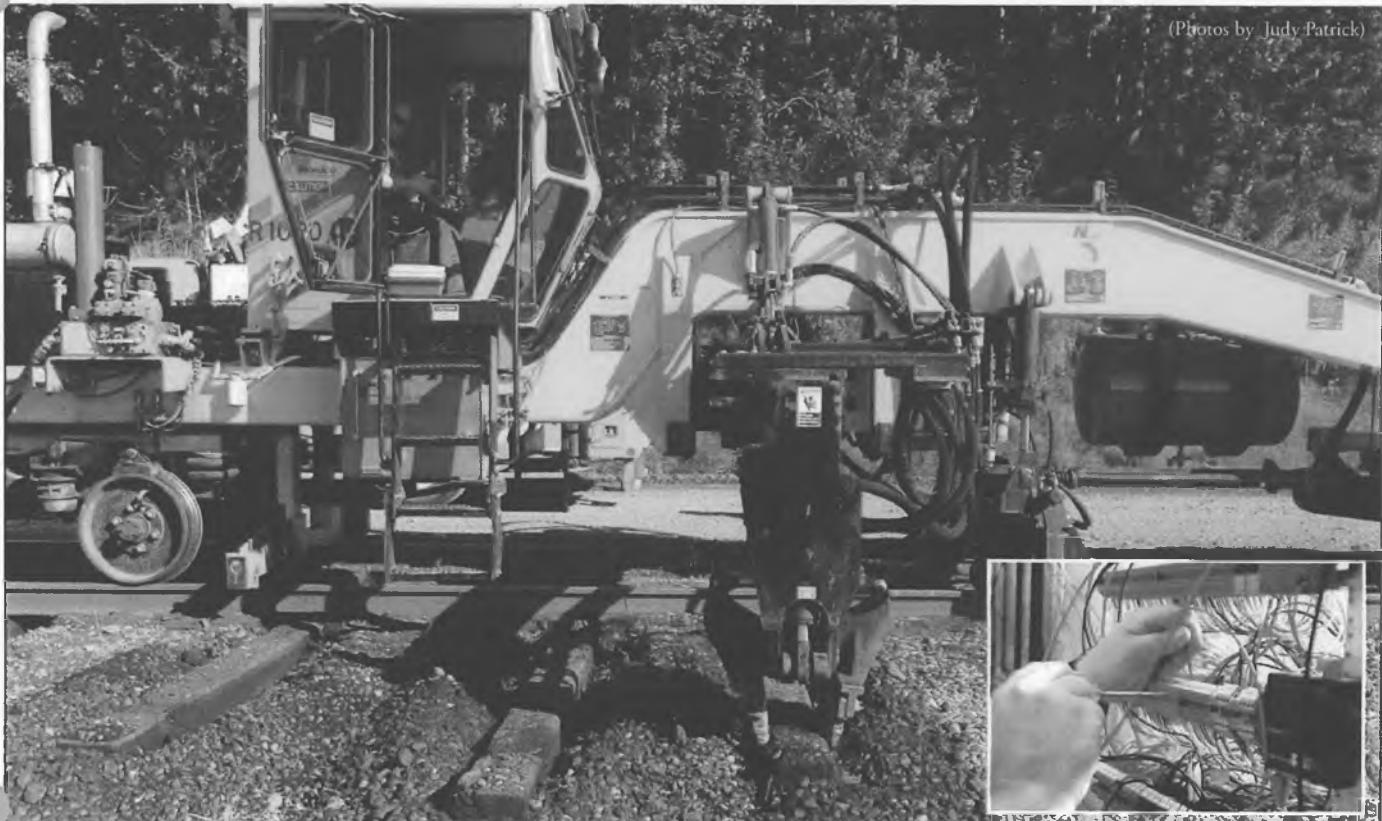
	2013	2014	2015	2016	2017	5-Yr Total
Total FTA Formula Funds (including 20% match)	\$ 35,875,000	\$ 35,875,000	\$ 36,233,750	\$ 36,596,088	\$ 36,962,048	\$ 181,541,886
Less Programmed Items (PI):						
Preventive Maintenance	10,437,234	10,541,620	10,647,036	10,753,506	10,861,041	53,240,438
2007 Bond Principal & Interest	9,180,362	9,140,152	9,139,078	9,136,906	9,118,638	45,715,136
2006 Bond Principal & Interest	7,519,254	7,503,586	7,486,648	7,480,060	7,473,560	37,463,108
Transit Security	127,300	127,300	128,573	129,859	131,157	644,189
Transit Enhancement	127,300	127,300	128,573	129,859	131,157	644,189
Total Programmed Items (PI)	27,391,450	27,439,958	27,529,908	27,630,190	27,715,553	137,707,060
FTA Funds Available for Projects	\$ 8,483,550	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$ 9,246,495	\$ 43,834,826
Projects Funded by FTA Funds:						
Positive Train Control	5,078,400	5,000,000	5,000,000	5,000,000	5,000,000	25,078,400
Track Rehab Program	3,405,150	3,435,042	3,703,842	3,965,897	4,246,495	18,756,426
Total FTA Grant Projects (net PI)	\$ 8,483,550	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$ 9,246,495	\$ 43,834,826

Other Federal - Federal Highway Administration (FHWA), Department of Homeland Security (DHS)

Positive Train Control (FHWA)	\$ 2,500,000	\$ —	\$ —	\$ —	\$ —	\$ 2,500,000
Port Security Grant (DHS)	80,400	—	—	—	—	80,400
Total Other Federal Funds	\$ 2,580,400	\$ —	\$ —	\$ —	\$ —	\$ 2,580,400

Total Federal-Funded (net PI*) \$11,063,950 \$ 8,435,042 \$ 8,703,842 \$ 8,965,897 \$ 9,246,495 \$ 46,415,226

* Federal grant money minus funds allocated to Programmed Items (see above). This net amount equates to federal funds available for capital projects.



(Photos by Judy Patrick)

Replacing decades-old wooden ties is a critical component to the railroad's capital Track Rehabilitation efforts. Inset: Positive Train Control is a complex technology-based capital project aimed at eliminating train collisions and incidents caused by human error.

FIVE-YEAR CAPITAL PLAN: INTERNAL FUNDING

Non-discretionary Projects	2013	2014	2015	2016	2017	5-Yr Total
Bridge Program	\$ 4,900,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 16,900,000
Track Rehabilitation Program	1,454,850	9,944,958	12,136,158	13,284,103	13,003,505	49,823,574
Equipment Program	587,000	1,413,638	1,132,000	1,930,000	2,025,000	7,087,638
Passenger Equipment Rehab	550,000	528,000	512,000	500,000	500,000	2,590,000
Vehicle Program	323,000	840,000	950,000	990,000	1,035,000	4,138,000
Equipment Rebuild Program	90,000	500,000	500,000	500,000	500,000	2,090,000
Whittier Barge Slip Sewer Line Replace	20,000	—	—	—	—	20,000
Positive Train Control	—	9,948,383	13,065,852	6,355,789	7,887,686	37,257,710
Portage Section Facility	—	1,000,000	—	—	—	1,000,000
Total Nondiscretionary Projects	\$ 7,924,850	\$ 27,174,979	\$ 31,296,010	\$ 26,559,892	\$ 27,951,191	\$120,906,922
Continuing Programs						
Capital Locomotive Overhaul/PM	\$ 807,000	\$ 1,880,000	\$ 1,920,000	\$ 1,967,000	\$ 2,284,000	\$ 8,858,000
Dock & Slip Maintenance & Repairs	800,000	2,357,500	1,907,500	1,307,500	2,082,500	8,455,000
Rip Rap / Drainage / Avalanche	350,000	940,000	685,000	650,000	450,000	3,075,000
Seward Coal Loading Facility Upgrades	350,000	750,000	750,000	750,000	750,000	3,350,000
Healy Canyon Stabilization	250,000	500,000	750,000	750,000	750,000	3,000,000
191 Heavy Maintenance	200,000	215,000	215,000	—	—	630,000
Corporate-wide Network Services	200,000	500,000	500,000	500,000	500,000	2,200,000
SD70MAC 4300 Fire Screen Upgrade	180,000	—	—	—	—	180,000
Crossing Signal Event Recorders	150,000	310,000	310,000	—	—	770,000
Premises Equipment Refresh (Telecom)	143,000	140,000	—	—	—	283,000
Locomotive Truck Overhaul	120,000	180,000	180,000	180,000	180,000	840,000
Defect Detector Upgrades	90,000	258,400	258,400	258,400	258,400	1,123,600
Comm Site Battery Plant Replacements	90,000	80,000	80,000	80,000	80,000	410,000
Facility Energy Conservation	55,000	90,000	90,000	90,000	90,000	415,000
Tenant Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Land and Utilities Improvements	40,000	75,000	75,000	75,000	75,000	340,000
Section Improvements	40,000	50,000	50,000	50,000	50,000	240,000
General Facility Repair	30,000	50,000	50,000	50,000	50,000	230,000
Trespass Mitigation	25,000	25,000	25,000	25,000	25,000	125,000
Access Plates for ASCTD	21,000	22,200	—	—	—	43,200
Facility Roofing Upgrades	—	375,000	350,000	275,000	—	1,000,000
Records Management Vital Records	—	469,000	21,600	—	—	490,600
Electrical Upgrades	—	165,000	100,000	100,000	100,000	465,000
Building Maintenance	—	50,000	50,000	50,000	50,000	200,000
Copier Fleet Replacement	—	30,800	68,200	—	—	99,000
Purchase End-of-Train Devices	—	—	—	36,000	36,000	72,000
Total Continuing Programs	\$ 3,981,000	\$ 9,562,900	\$ 8,485,700	\$ 7,243,900	\$ 7,860,900	\$ 37,134,400
Strategic Business Initiatives						
SD70MAC A/C Traction Pinion Puller	\$ 45,000	\$ —	\$ —	\$ —	\$ —	\$ 45,000
Crew Management & Timekeeping	—	500,000	—	—	—	500,000
Legacy Systems Conversions	—	150,000	184,500	—	—	334,500
Total Strategic Business Initiatives	\$ 45,000	\$ 650,000	\$ 184,500	\$ —	\$ —	\$ 879,500
Ranked Discretionary Projects						
Post Road Sewer Construction - Phase 4	415,000	\$ —	\$ —	\$ —	\$ —	\$ 415,000
Seward Pavement Replacement	40,000	—	—	—	—	40,000
Other Ranked Projects	—	—	—	—	—	—
Funds Available for Ranked Projects	\$ 455,000	\$ —	\$ —	\$ —	\$ —	\$ 455,000
Total Internal Capital Requests	\$ 12,405,850	\$ 37,387,879	\$ 39,966,210	\$ 33,803,792	\$ 35,812,091	\$ 159,375,822
Est. Funds from Internal Cash Flow	12,405,850	17,880,000	18,970,000	19,300,000	19,690,000	88,245,850
Funding Shortfall	\$ —	\$ 19,507,879	\$ 20,996,210	\$ 14,503,792	\$ 16,122,091	\$ 71,129,972
Debt-Financed Project						
Freight Car Replacement Program	\$ —	\$ 3,500,000	\$ —	\$ —	\$ —	\$ 3,500,000
Total Internal & Debt	\$12,405,850	\$40,887,879	\$39,966,210	\$33,803,792	\$35,812,091	\$162,875,822
Total Federal (net PI**)	\$11,063,950	\$ 8,435,042	\$ 8,703,842	\$ 8,965,897	\$9,246,495	\$ 46,415,226
Total Capital Requests	\$23,469,800	\$49,322,921	\$48,670,052	\$42,769,689	\$45,058,586	\$209,291,048

* Federal grant money minus funds allocated to Programmed Items (see previous page). This net amount equates to federal funds available for capital projects.

ARRC

CAPITAL PROGRAM INFO

More detailed information about the Alaska Railroad's capital improvement program — including capital project fact sheets — is available on the Alaska Railroad's web site.



ALASKARAILROAD.COM

Contact and Connections

Alaska Railroad Corporation

P.O. Box 107500 • Anchorage, AK 99510-7500

327 W. Ship Creek Avenue • Anchorage, AK 99501

(907) 265-2300

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(Photo by Judy Patrick)

Limited capital funding in 2013 will be focused in part on critical track repair and rehabilitation work.

(Photo by Judy Patrick)

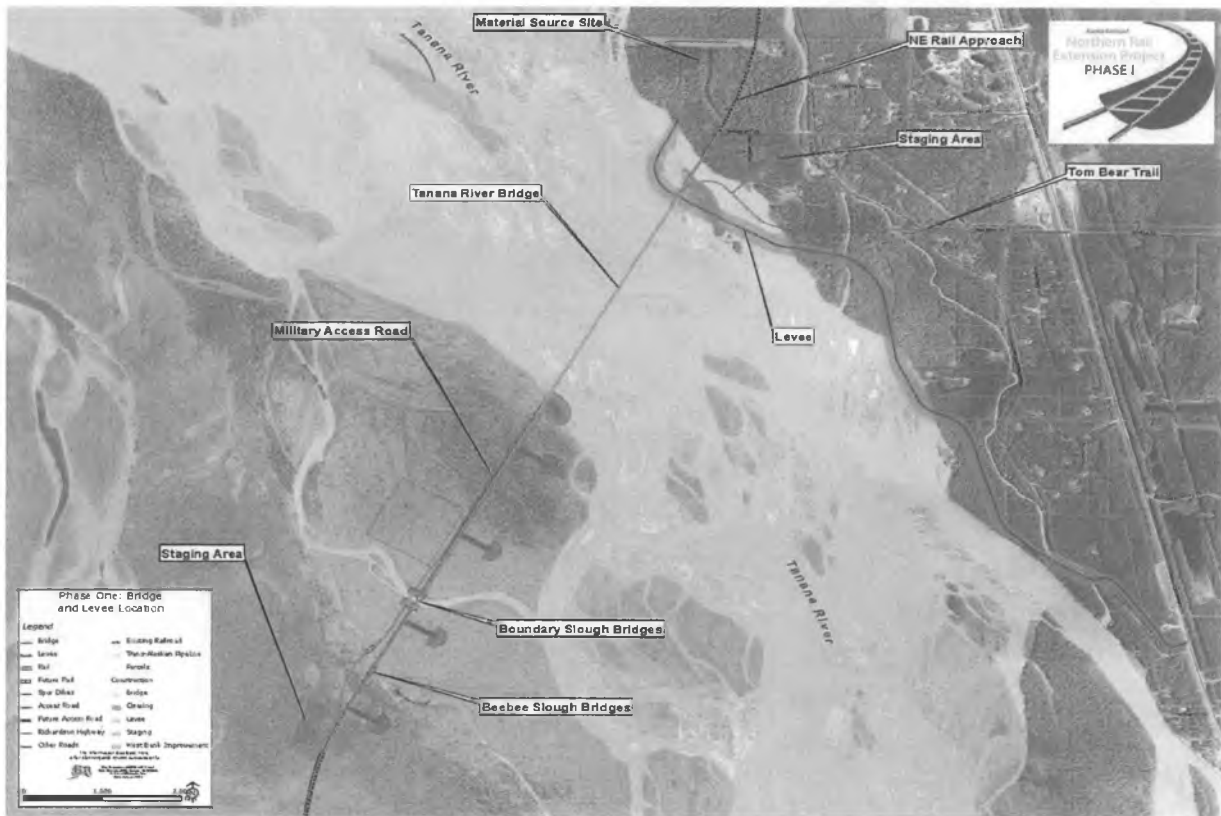


Progress continues on the Northern Rail Extension Phase One — a Tanana River bridge and levee near Salcha. The \$188 million required for this first phase is fully funded. Above, construction on a temporary causeway in summer 2012 will allow pier installation across the river.



Northern Rail Extension Phase 1

Tanana River Bridge Quarterly Progress Report January 15, 2013



This report covers the period:
October 1, 2012 through December 31, 2012

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

Rip Rap deliveries ended in early November. Approximately 250,000 tons have been delivered and placed. 180,000 tons remain for delivery in 2013.

Fourth quarter of 2012 saw completion of Piers 2, 3, 4, 8, 9, 11 and 17. These piers are all wrapped in blankets and plastic for the winter. Piers 16, 15, 7, and 6 are staged for concrete placement and completion in February, March and April prior to break up. Additional piers may be started based on weather conditions at the time. The contractor will fall short of their goal of completing 14 piers prior to break up. However, with the early delivery of the bridge girders the project is still tracking on schedule.

The 165' girder deliveries from Valdez to the site began in November. 14 of 80 girders have been delivered to the site. 32 are scheduled to be on site by February 1st with the balance expected prior to weight restrictions, around June 1st. The bridge has 20 spans, consisting of 4 girders for each span. Earlier than scheduled delivery of girders will allow the contractor to loft several girder spans prior to break up. This will allow the contractor to build less river access than originally planned for the 2013/2014 construction season

Northern Rail Extension Phase 1



Next Quarter Outlook

First quarter of 2013 activities will include:

- Continued girder deliveries to the site from Valdez.
- Balance of girders delivered to Valdez from the fabrication shop.
- Completion of piers 6, 7, 15, and 16 by the end of March.
- Lofting of some girder spans onto completed piers.

Northern Rail Extension Phase 1

Safety

7 Incidents this Quarter

90 Injury Free Days

10 Total incidents to date

Alaska Work Force (this quarter)

123 Total Manpower on Site

86 Alaskan Manpower on Site

70% Alaskans employed on-site this Quarter

Alaskan Companies providing services:

Construction

- **Rolling Stone Construction:** Gravel Salcha
- **Alaska Quality insulators:** Office Set up North Pole
- **Brice Inc:** Rip Rap Fairbanks
- **Alaska Industrial:** Trucking Fairbanks
- **Northstar Terminal and Stevedore:** Crane Valdez
- **Brown's Hill Quarry,** Rip Rap North Pole
- **JD Steel:** Ironwork-Rebar Salcha
- **HC Redimix:** Concrete North Pole
- **Code 3 Logistics:** On-Site Trucking North Pole
- **Bighorn Enterprises:** Trucking Fairbanks
- **Arctic Surveys Company:** Survey Fairbanks
- **Warwick Surveying:** Survey Anchorage
- **Carlile:** Trucking Anchorage

Engineering

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

Northern Rail Extension Phase 1

Public Outreach

- On site open House held December 8th for the local community. Holiday turkeys were distributed. Principal of Salcha elementary provided a presentation of the school's participation in the project required Pile Driver Slough monitoring experience.

Funding

	Spent FRA	Remaining FRA	Spent State Funds	Remaining State Funds	Total
Engineering, Design, Permitting	\$ 13,547,597	\$ -	\$ 821,562	\$ 3,130,841	\$ 17,500,000
Right-of-Way	\$ 635,384	\$ -	\$ 213,361	\$ -	\$ 848,745
Construction Administration	\$ 3,671,425	\$ -	\$ 2,605,670	\$ 4,987,521	\$ 11,264,616
ARRC Contingency	\$ -	\$ -	\$ -	\$ 5,061,813	\$ 5,061,813
Construction Contract	\$ 52,373,840	\$ 33,971,754	\$ 1,424,435	\$ 65,754,797	\$ 153,524,826
Total	\$ 70,228,246	\$ 33,971,754	\$ 3,911,477	\$ 78,934,972	\$ 188,200,000

Schedule

Original Estimated Schedule completion Date:

August 2014

Current Estimated Schedule completion Date

August 2014

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	July-12	Complete
South Bank Spur Dikes	September-13	
Bridge Sub-Structure	March-14	
Bridge Super-Structure	March-14	

Northern Rail Extension Phase 1

ARRC Project Staff

On-Site Project Manager

Mark Peterburs – Project Director
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748-1767 or 378-1762 (cell numbers)
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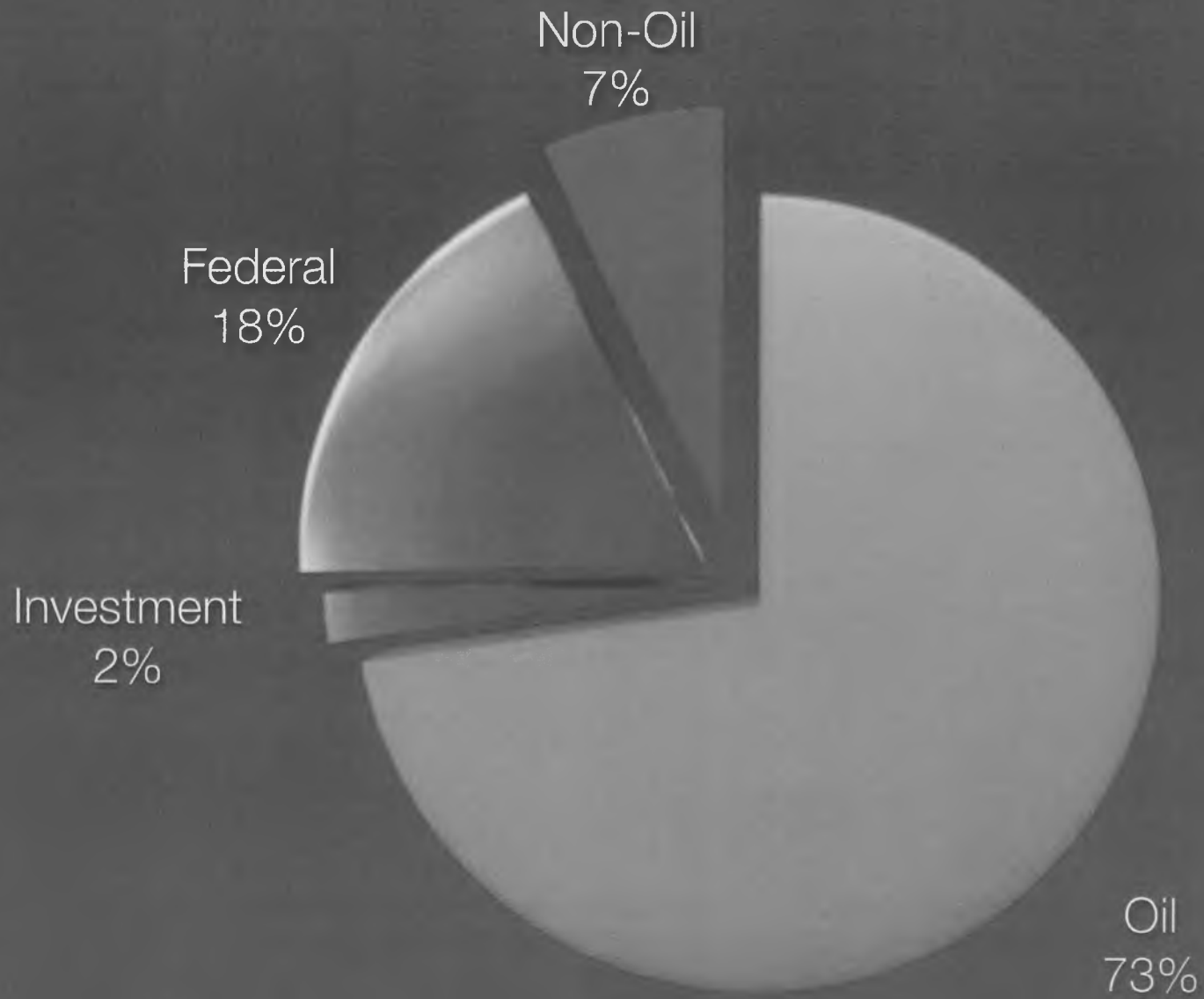
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POISED FOR GROWTH

VIDEO PLAYS HERE

Alaska Government Revenue Sources



Only port in Alaska with large (14 sq. mile)
staging, storage and industrial area



Alaska ranks **top ten** in the world for important minerals



2% of the world's **lead**

3% of the world's gold

17% of the world's **coal**

6% of the world's copper

3% of the world's **zinc**


2% of the world's silver



Alaska has more than **70 occurrences** of Rare Earth Elements



PORT MACKENZIE
RAIL EXTENSION



\$146 million

Five separate appropriations
and a state-wide general obligations bond sale

Project funding to date

FY 2008	\$10 million	state appropriation for EIS
FY 2009	\$17.5 million	state appropriation for project
FY 2011	\$35 million	state appropriation for project
FY 2012	\$30 million	state appropriation for project
FY 2013	\$23.5 million	state appropriation for project
FY 2013	\$30 million	state general obligation bond

\$146 million: Current Total Appropriations

Project funding summary

Total Estimate for project

\$272.5 million

Appropriated

\$146 million

GO Bond

\$30 million

Required for completion

\$126.5 million



Will have Alaska's only 100 railcar industrial loop





2.9 million cubic yards of soil moved
before 2012

**1.8 million cubic yards of soil moved
summer of 2012**

Totaling 4.7 million cubic yards

Progress at the Port

VIDEO PLAYS HERE

Regulatory Hurdles

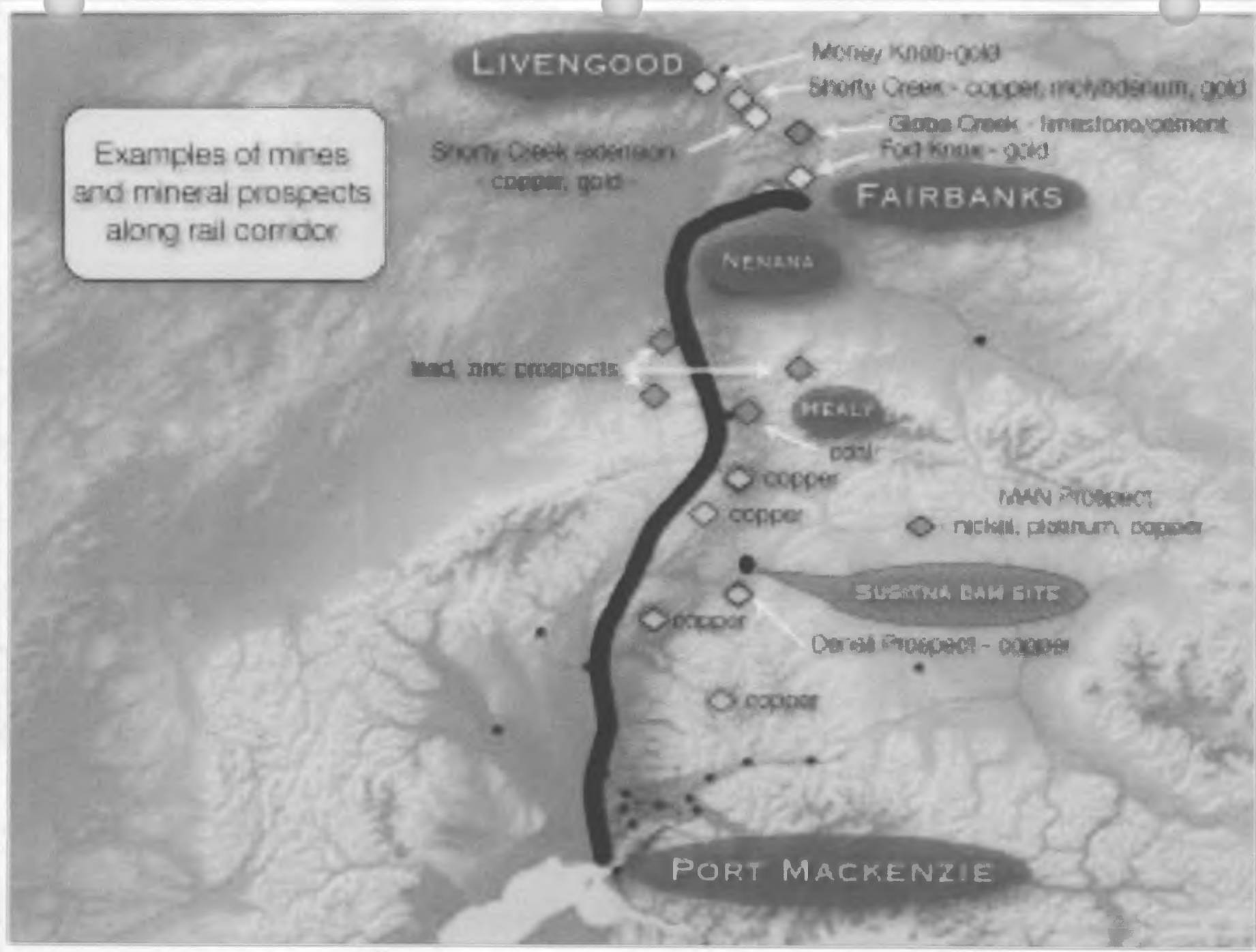
EIS

Record of Decision

State and Federal permits acquired

U.S. Army Corps Permit

Examples of mines and mineral prospects along rail corridor



Greater Wasilla Chamber of Commerce
Raven Gold Alaska Pogo Mine
Central Alaska Energy JDM Consultants

“Reducing
our opera
markets a
longevity.”

“The proposed rail to Port MacKenzie can help
carry Alaska forward and make the state’s minerals
more competitive on the world market.”

Lauren Roberts, PE
Regional Vice President, North America
Kinross Gold USA, Inc.

“This project is an important step towards
assuring a brighter economic future for Alaska.”

Bill Popp
AEDC
President & CEO

International Union of Operating Engineers

AEDC

The Alaska Miners Association

Companies & Freight on Port MacKenzie Rail

- PacArctic, Inc.
- Alaska Central Energy
- Tri Metal International
- Kinross Gold USA, Inc.
- Sumitomo Metal Mining
- Alutiiq
- NPI
- QAP
- Usibelli
- Koniag, Inc.
- Great Bear Petroleum



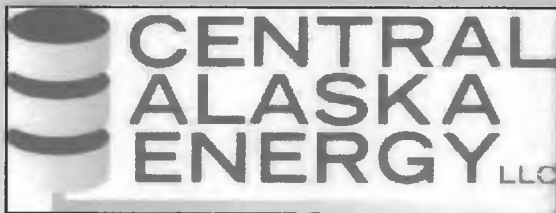
Paul Metz

University of Alaska Fairbanks
Professor at Department of Mining and Geology



Pac Arctic
LOGISTICS

King Hufford III
CEO
PacArctic



Justin Charon
CEO
Central Alaska Energy

JOBS

private development

mining development along rail line
4000

industrial development of Port MacKenzie

3500



*Estimates by HDR and ISER



Barge dock staging area

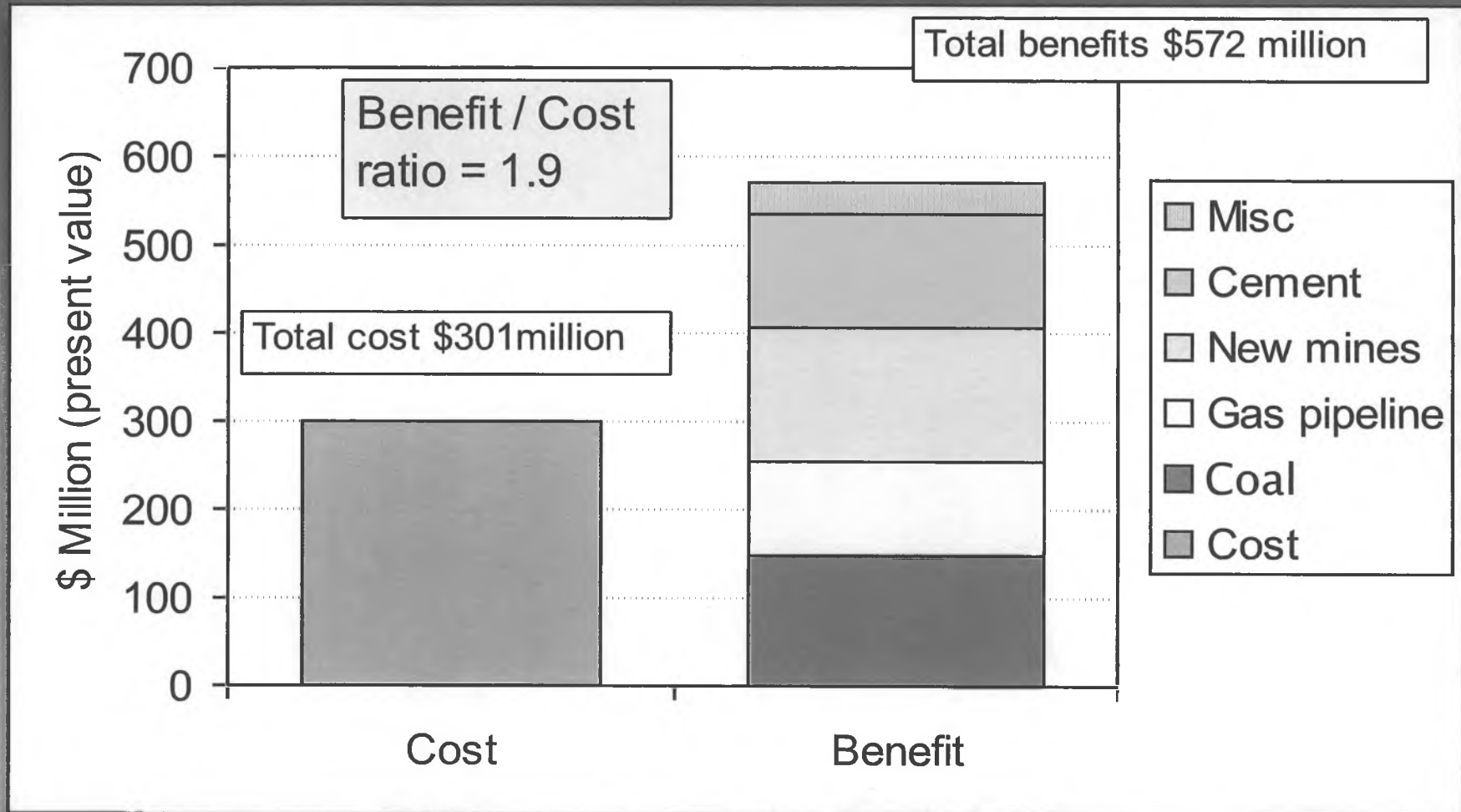


Upland lease lots



For large projects

ISER Benefit Cost Assessment of Rail Extension



Cost

Benefit

Activity at the Port

VIDEO PLAYS HERE

Heavy weight

high-value cargo





Why Fund It?

All Alaskans benefit

200 jobs alone this summer

Cheaper fuel to Interior

New industries

The State revenues alone outweigh the infrastructure costs

Diversifies our oil-driven economy



Thank you!

For supporting a project that benefits all Alaskans



2013 Mat-Su Borough Public Affairs

MEGA PROJECT REPORT: 02-01-13

NORTHERN RAIL EXTENSION

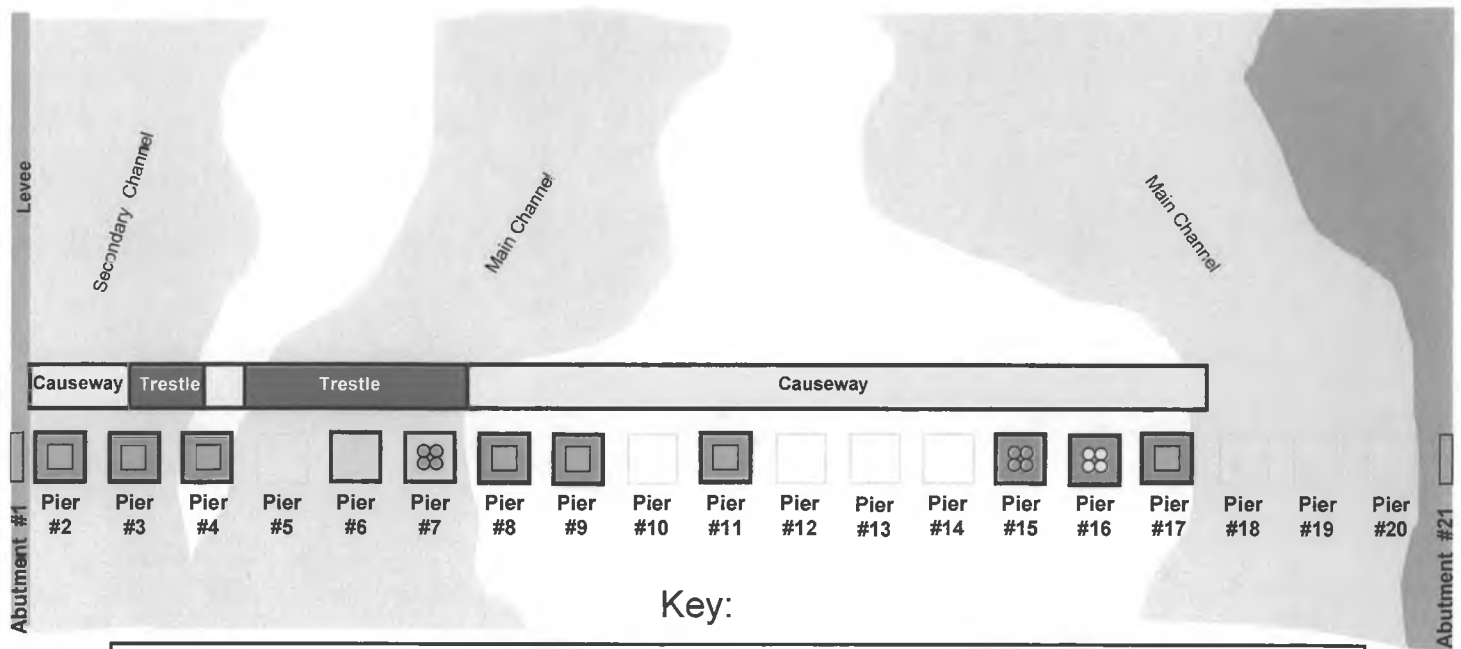
- Crews and management have remobilized to the Project
- Carlile trucking continues to truck girders from Valdez to the project.
- Planning for 2013 "in river" work is underway; meetings are being scheduled with local regulatory agencies regarding the 2013 work plan.
- Preparations this week for concrete pours next week.
- On ground erection of girders continues.

Site Work Summary:

- Erection of Girders
- Delivery of Girders (28 of 80 girders on site)
- Preparing Pier #15 and #16 for concrete next week.

Upcoming Work/Items (next week):

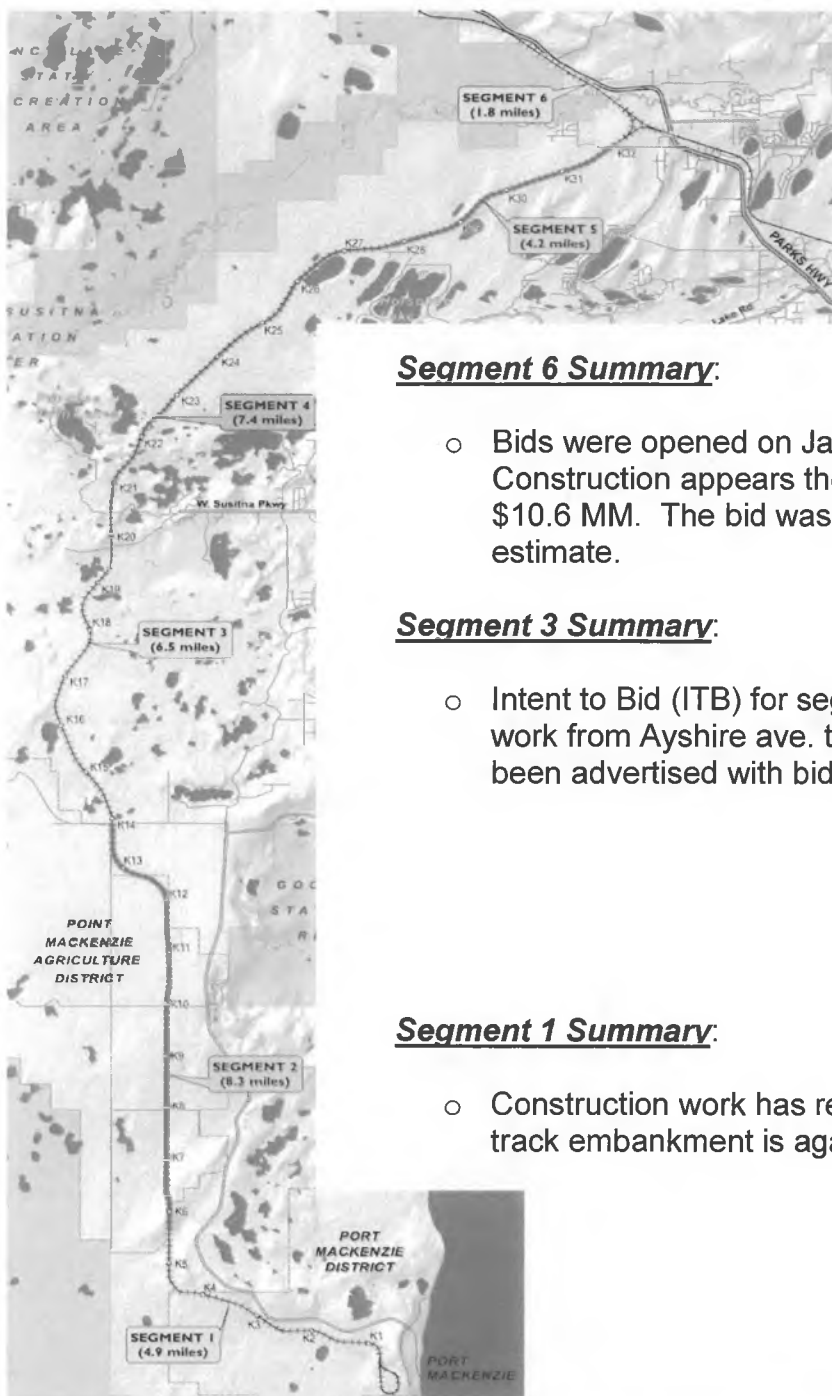
- Concrete footing pour @ Pier #16
- Concrete seal pour @ Pier #15
- Pile Driving @ Pier #6
- Pile cleanout @ Pier #7



Key:					
	Pier Location		Rebar/Concrete installed in pile		Girders Set
	Cofferdam sheet pile complete		Pile cap complete		Ballast Deck Set
	Cofferdam excavated		Column and cap rebar installed		Rip Rap causeway constructed
	Foundation pile driven		Column and cap formed		Temporary work trestle constructed
	Cofferdam concrete seal pour complete		Column and cap complete		

PORT MACKENZIE RAIL EXTENSION

- The project legal teams have filed opposition briefs on the Corps of Engineers (COE) wetlands case. Arguments are scheduled for February 7th.
- ARRC has received the COE wetland permit. Wetland mitigation credits have been purchased for all phases of the project, total cost was about \$2 million.
- A settlement with Segment 1 contractor Bristol Construction has been reached. The settlement addressed impacts to Bristol due to the late issuance of the COE wetland permit and the delay associated with the project lawsuit filed in the US 9th Circuit Court of Appeals. The settlement totaled 3.6 MM dollars; the project budget can accommodate the settlement. This contract was awarded in 2011 for 18 MM.
- The Segment 1 project completion date has been extended from October 31 2013 to October 31 2014.



Segment 6 Summary:

- Bids were opened on January 17th; Granite Construction appears the low bidder with a bid of \$10.6 MM. The bid was 500k below engineers estimate.

Segment 3 Summary:

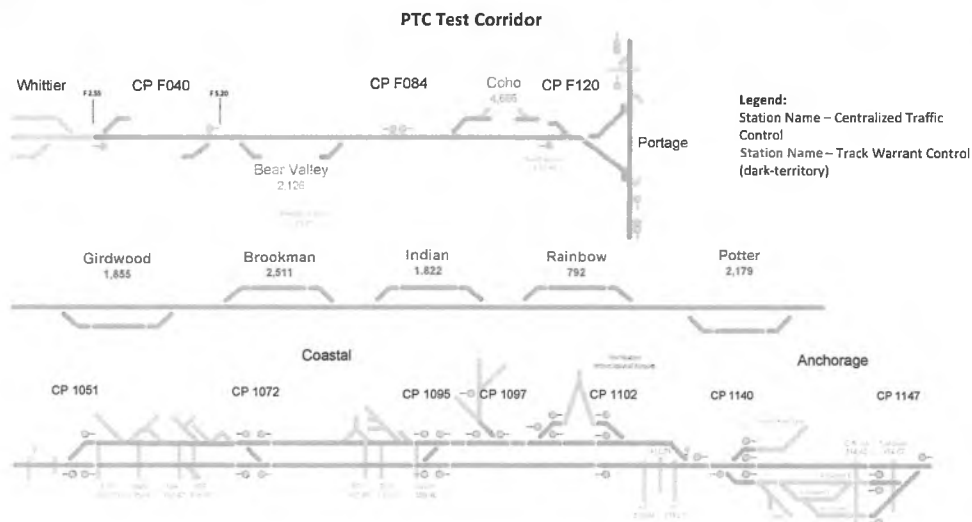
- Intent to Bid (ITB) for segment 3 (6.5 miles of civil work from Ayshire ave. to Papoose Twins rd.) has been advertised with bid opening of February 14th.

Segment 1 Summary:

- Construction work has resumed. Earthwork for the track embankment is again underway.

POSITIVE TRAIN CONTROL

- ARRC's PTC Team is preparing design documents in preparation for a February meeting with the Federal Railroad Administration (FRA) PTC specialists. This meeting will provide the FRA a detailed review of the ARRC's intended implementation of the Interoperable Electronic Train Management System (I-ETMS) PTC system and ARRC intends to seek approval of its implementation plans.
- Negotiations to lease radio frequency licenses for testing in the pilot corridor by PTC220 LLC (owned by Norfolk Southern, Burlington Northern Santa Fe, Union Pacific and CSX railroads) have not progressed due to a requirement that ARRC have \$200 million of liability insurance. This level of liability insurance would cost ARRC an additional \$600,000 per year. ARRC legal has been assisting in the negotiation and one potential solution is ARRC purchasing the required frequencies at fair market value which will address use of the frequencies when system is implemented. Unfortunately no testing in the PTC pilot corridor can take place until this issue is resolved.
- Computer-aided Dispatch System (CAD), considered Phase I, continues to be tested. The testing is progressing slower than expected and we have rescheduled the cut-over to this new CAD system for March 25th.
- Contract negotiations for Phase II have been slow. The Wabtec Railway Electronics (WRE) legal team has had the contract documents in review since December 17th with their review scheduled to be completed by end of next week. If the contract is acceptable we could be under contract for Phase II by mid-February.
- Wayside design engineering is underway for next year's planned installation. The corridor in design is from north of Pittman to Kashwitna. Sixty percent drawings for Houston through Kashwitna are under review by ARRC Signal Department.
- The wayside implementation for PTC dark-territory manual switch monitoring in the PTC Test Corridor (siding location with each switch to be equipped are indicated below in green) is progressing with all needed equipment and parts now on order. Expected delivery for four bungalows is April 15th with the rest at ARRC.



Project funding summary

Total Estimate for project

\$272.5 million

Appropriated

\$116 million

GO Bond

\$30 million

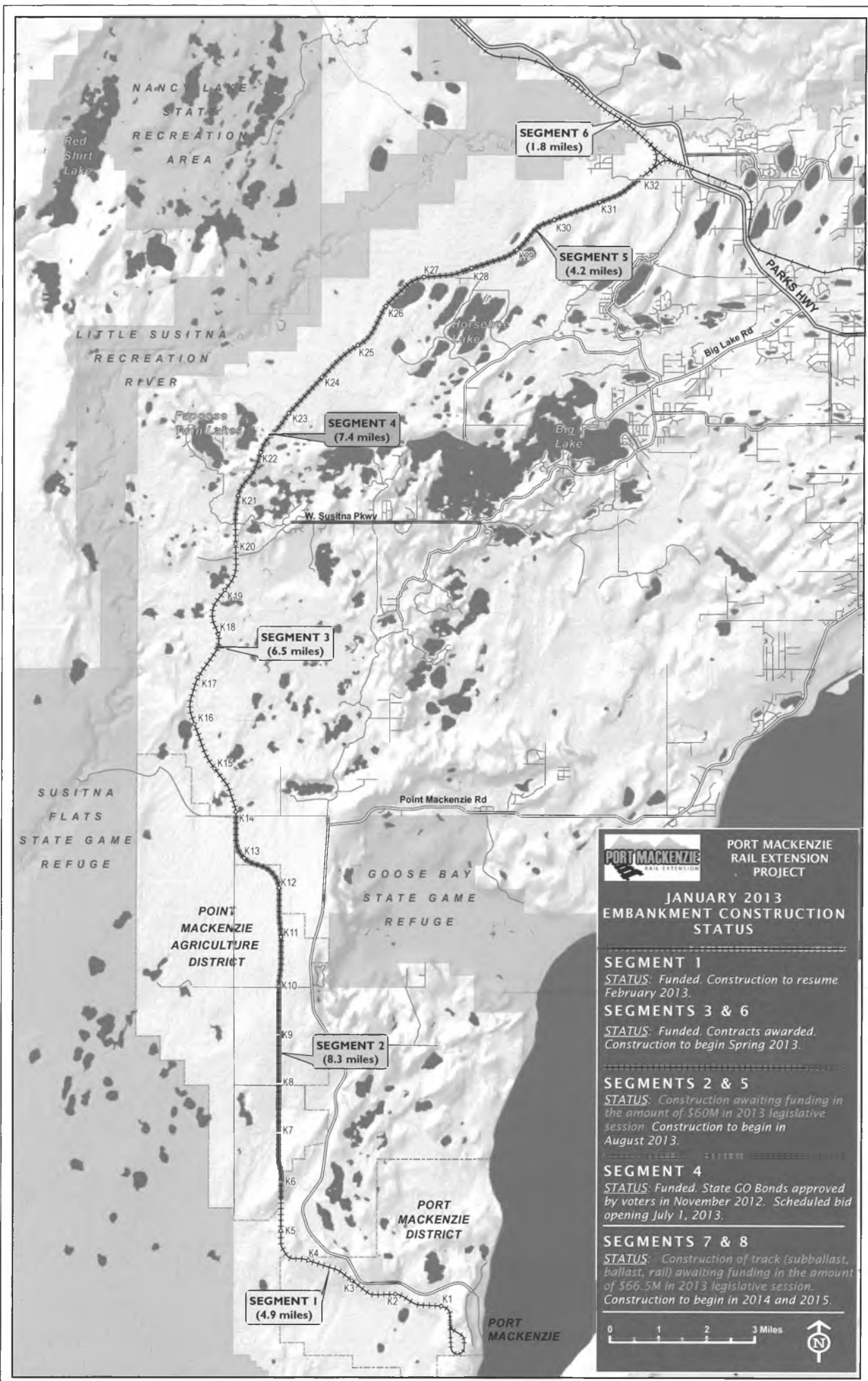
Required for completion

\$126.5 million

Project funding to date

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FY 2012	\$30 million	state appropriation for project
FY 2013	\$23.5 million	state appropriation for project
FY 2013	\$30 million	state general obligation bond

\$146 million available



PORT MACKENZIE RAIL EXTENSION PROJECT

JANUARY 2013 EMBANKMENT CONSTRUCTION STATUS

SEGMENT 1
 STATUS: Funded. Construction to resume February 2013.

SEGMENTS 3 & 6
 STATUS: Funded. Contracts awarded. Construction to begin Spring 2013.

SEGMENTS 2 & 5
 STATUS: Construction awaiting funding in the amount of \$60M in 2013 legislative session. Construction to begin in August 2013.

SEGMENT 4
 STATUS: Funded. State GO Bonds approved by voters in November 2012. Scheduled bid opening July 1, 2013.

SEGMENTS 7 & 8
 STATUS: Construction of track (subballast, ballast, rail) awaiting funding in the amount of \$66.5M in 2013 legislative session. Construction to begin in 2014 and 2015.

0 1 2 3 Miles

The legislature left session in 2012 with a projected \$490 million surplus.

Because of price and production there is actually a shortfall of \$410 million.

Additionally, because of production declines, revenue is expected to be \$510 million less next year.

As a result, if spending next year matched spending in this year's budget, there would be a deficit and associated impact on our savings accounts.

At current production every dollar in the price of a barrel of oil impacts the state treasury by \$130-135 million.

In the past 10 years there has been an increase of nearly 2700 full time positions.

The governor's budget does not reflect the anticipated cost of union contracts estimated to be an additional \$10-15 million.

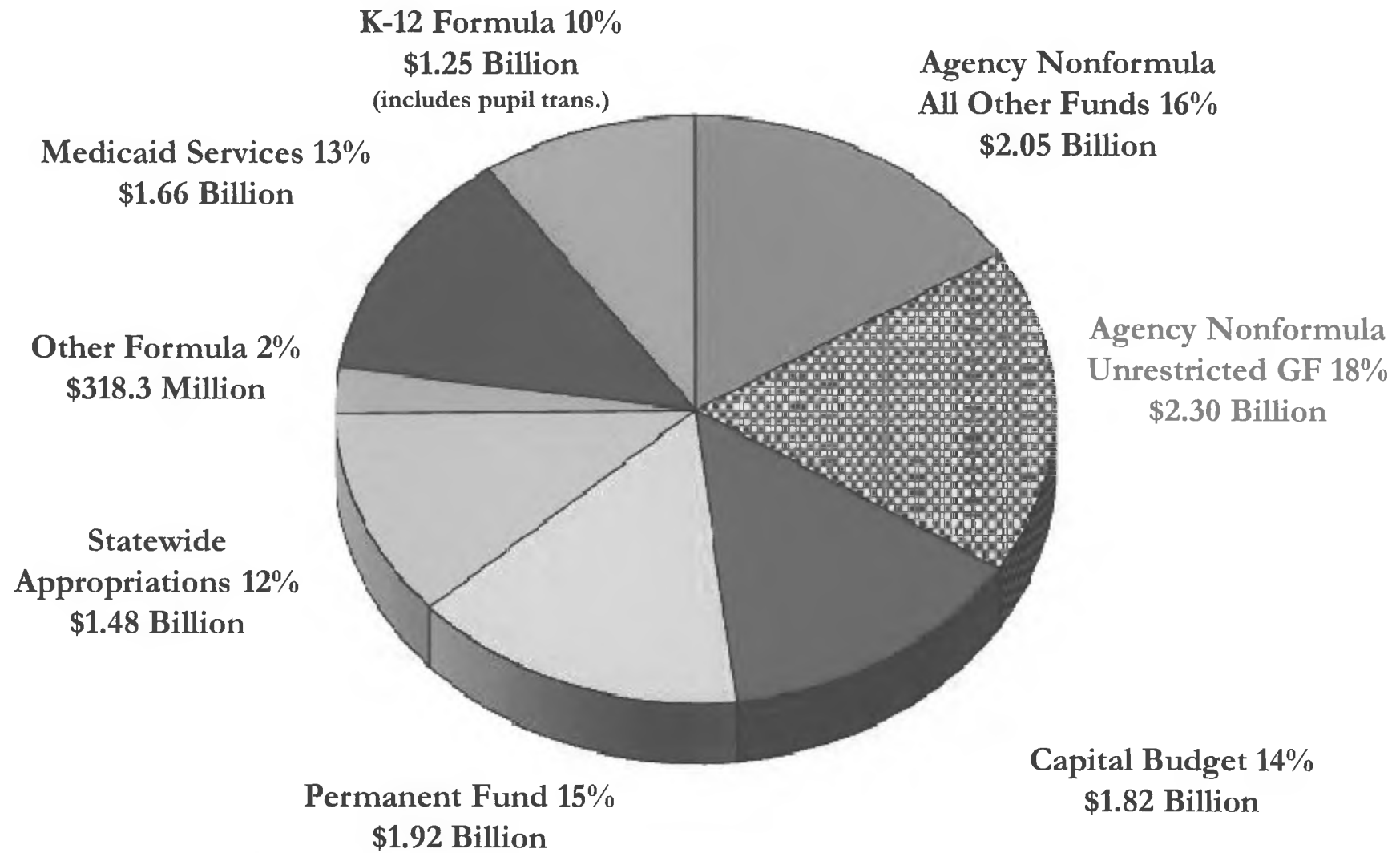
There has been a 6.5% average increase in the operating budget the past decade.

The governor's Agency Operations budget represents a 1% increase from last year's budget totaling a \$52 million increase.

Therefore, we have to cut \$52 million just to have a flat funded budget.

The operating budget has almost doubled in the last decade, from \$2.7 billion to \$5.1 billion.

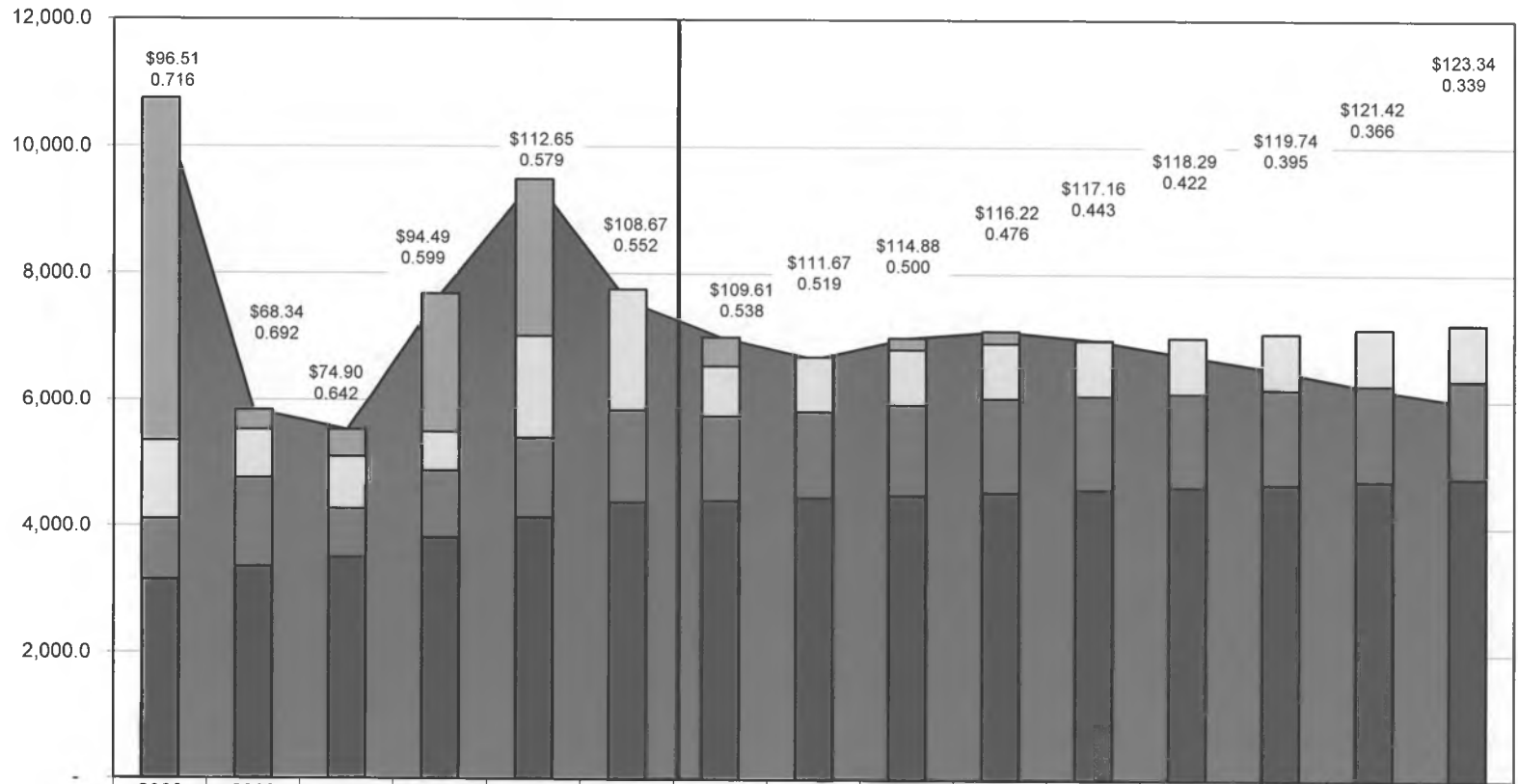
FY2014 Expenditures by Category



Total Funds = \$12.8 billion



Figure 1. Unrestricted General Fund Revenue/ Budget History
(\$ millions, except for oil prices)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
■ UGF Revenue (DOR Fall 2012)	10,749.	5,831.2	5,513.3	7,672.9	9,485.2	7,566.7	7,001.9	6,659.5	6,999.5	7,105.5	6,970.1	6,719.2	6,486.6	6,208.6	5,969.5
□ Net Fund Transfers	5,408.1	315.3	417.7	2,193.2	2,472.5	(188.4)	459.9	(32.2)	188.5	190.4	9.7	(286.5)	(586.4)	(934.1)	(1,247.
□ Capital Budget	1,229.8	764.9	818.0	614.6	1,616.8	1,926.7	795.2	875.0	875.0	875.0	875.0	875.0	875.0	875.0	875.0
□ Statewide Operating	961.6	1,389.3	771.0	1,052.1	1,249.6	1,440.9	1,326.8	1,352.5	1,427.2	1,486.2	1,485.9	1,485.2	1,506.1	1,528.9	1,555.8
■ Agency Operations	3,149.6	3,361.7	3,506.6	3,813.1	4,146.3	4,387.5	4,420.0	4,464.2	4,508.8	4,553.9	4,599.5	4,645.5	4,691.9	4,738.8	4,786.2

FY14 POSSIBLE OPERATING BUDGET HOLES			
Dept	Description	GF (millions)	Notes
DEED	K-12 Funding ??	-	Per DEED - Needs are met with following appropriations to DEED --\$25 million OTI for distribution to school districts (equal to the FY13 distribution) --\$5.9 million for Digitizing Education in Alaska --\$800.0 for Jobs for America's Graduates Program (JAG) --\$500.0 for Statewide Assessments Contract --\$320.0 for K-3 Literacy Project
HSS	Medicaid formula funding ??	-	\$44 million shortfall if growth = 8% The Department claims cost cutting measures mean that the \$10.5 million in the Governor's Request should be sufficient.
HSS	Medicaid: Health Care Reform Administration cost increases	2.3	\$2.25 million GF (and \$2.25 million Fed Funds) for 1/2 year if the HC Reform begins on January 1, 2014. If it's implemented on 1/1/14, the Department will request a supplemental.
Statewide	Bargaining Unit Agreement funding	10.0	<i>This is a guess.</i>
DOA	Office of Public Advocacy and Public Defender	-	Department claims it won't need anything but \$2 million is possible.
All Departments	Core Services Increases	8.1	Agencies may have to absorb this.
All Departments	Fuel Trigger language	9.0	Shortfall if oil price upper limit remains @ \$100/bbl but oil prices are at the projected price of \$109.61/bbl. (Sec 20 Gov's language)
Debt Service		(10.0)	The Governor's request is higher than necessary.
Supplemental Placeholder		45.0	The Governor's placeholder # is \$40 million. The average operating supplemental for the past 3 years has been \$85 million.
	TOTAL	64.4	

Debt Summary Table

(\$ thousands)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14Gov	FY13 to FY14	Comments
DEBT SERVICE/ REIMBURSEMENT											
ADRF Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	31,772.1	31,470.9	31,148.6	30,803.3	30,248.0	-	-	-	-	-	As requested by Legislative Finance, starting FY11, the budget does not capitalize the ADRF. Payments for debt service are appropriated directly, instead of through the ADRF.
GO Bonds - GARVEES (Series 2003B)	9,241.0	11,662.0	13,222.7	13,062.5	12,885.1	-	-	-	-	-	
GO Bonds -Transportation (Series 2009A)	-	-	-	-	5,589.0	-	-	-	-	-	
GO Bonds -Transportation (Series 2010A)	-	-	-	-	-	1,039.0	3,107.0	-	-	-	
Certificates of Participation (COPs)	13,782.1	13,147.6	11,170.1	8,061.3	8,036.3	-	-	-	-	-	
School Debt Reimbursement	59,463.5	66,935.0	70,497.0	73,621.2	77,045.3	-	-	-	-	-	
Administrative Systems Replacement	400.0	-	2,302.0	-	-	-	-	-	-	-	
AMHS Vessel Overhaul	764.0	-	-	-	-	-	-	-	-	-	
Subtotal	115,422.7	123,215.5	128,340.4	125,548.3	133,803.7	1,039.0	3,107.0	-	-	-	
Direct Debt Payments											
GO Bonds - Schools/Roads (Series 2003A)	96.8	44.5	11.4	13.6	221.5	30,199.9	29,927.9	27,581.2	20,212.0	(7,369.2)	GO Bond Premium, Interest & GF
GO Bonds - GARVEES (Series 2003B)	4,543.3	1,860.1	56.3	6.9	1.3	12,728.1	12,571.9	12,420.1	12,279.3	(140.8)	Interest & Federal Rcpts
GO Bonds -Transportation (Series 2009A)	-	-	-	-	-	10,832.1	12,878.3	12,905.0	12,932.2	27.2	GO Bond Premium, Interest & GF
GO Bonds -Educational Facilities (Series 2010A/B)	-	-	-	-	-	3,961.0	25,703.4	28,182.9	9,158.8	(19,024.1)	GF & Federal Rcpts
GO Bonds - Partial Refinanced Series 2003A (Series 2012A)	-	-	-	-	-	-	-	-	9,264.9	9,264.9	GF
GO Bonds - (Series 2013A/B/C/D); Trustee Fees; Arbitrage Rebate, Remarketing Costs	-	-	-	-	-	-	-	-	35,630.3	35,630.3	GF
Certificates of Participation (COPs)	-	-	-	-	-	8,009.5	6,943.5	6,982.5	1,795.8	(5,186.7)	GF
One-time Defeasance - COPs	-	-	-	-	-	-	24,000.0	-	-	-	GF
School Fund - School Debt Reimbursement	27,000.0	27,000.0	24,500.0	23,400.0	23,000.0	106,258.5	108,145.6	120,386.3	128,263.1	7,876.8	GF & School Fund
International Airport Revenue Bonds	33,125.9	45,426.3	49,085.7	50,027.4	50,028.7	50,047.9	41,571.5	41,208.4	42,212.1	1,003.7	IARF, PFC's, Fed
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	-	-	-	35,700.0	35,700.0	IARF, IACF
Clean Water Fund Bonds	1,630.0	1,539.3	831.8	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	(96.6)	ACWF Receipts
Drinking Water Fund Bonds	1,105.0	1,075.3	1,109.8	1,115.0	1,670.0	2,973.2	2,724.6	1,863.6	1,805.0	(58.6)	ADWF Receipts
Sport Fish Hatchery Revenue Bonds	-	8,219.0	7,000.0	7,500.0	8,900.0	7,500.0	7,500.0	7,500.0	7,500.0	-	Sport Fish License Surcharge
Capital Project Reimbursement (HB 528)	3,634.1	10,209.9	10,459.0	8,036.2	5,548.9	5,707.3	6,071.0	5,888.9	5,601.3	(287.6)	GF
DOA for Atwood Building	3,549.4	3,467.1	3,467.1	3,467.1	3,467.1	3,467.1	3,467.0	3,467.0	3,467.0	-	GF
DOA for Linny Pacillo Parking Garage	-	-	3,443.0	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	-	GF
Anchorage Jail (Capital Lease)	5,275.1	5,091.8	5,102.0	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	7.5	GF
One-time Defeasance - Anchorage Jail	-	-	-	-	-	-	25,000.0	-	-	-	GF
Spring Creek Correctional Center	-	-	-	1,755.6	-	-	-	-	-	-	-
Yukon-Kuskokwim Correctional Center	-	-	-	951.8	-	-	-	-	-	-	-
Goose Creek Correctional Center	-	-	-	-	17,813.4	17,816.5	17,813.7	17,815.8	17,820.0	4.2	GF, includes Trustee Fees for FY14
AHFC State Capital Project Bonds	59,895.4	31,935.0	6,138.6	6,139.6	6,139.9	6,140.8	6,139.0	10,779.3	10,880.3	101.0	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	16,000.0	16,400.0	27,600.0	29,800.0	25,200.0	23,600.0	23,500.0	23,300.0	23,100.0	(200.0)	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	155,855.0	152,268.3	138,804.7	142,657.9	151,403.2	300,363.4	363,738.4	329,481.1	386,733.1	57,252.0	
TOTAL Debt Service/Reimbursement	271,277.6	275,483.8	267,145.1	268,206.2	285,206.9	301,402.4	366,845.4	329,481.1	386,733.1	57,252.0	
Debt Payments by Type											
GO Bonds	45,653.2	45,037.5	44,439.0	43,886.3	48,944.9	58,760.1	84,188.5	81,089.2	99,477.5	18,388.3	
Lease - Purchase Financing	22,606.6	21,706.5	23,182.2	22,630.5	37,724.2	37,704.6	84,556.3	35,670.0	30,495.0	(5,175.0)	COP's, Atwood Building, Parking Garage, Anchorage Jail, Goose Creek Prison
Revenue Bonds	33,125.9	53,645.3	56,085.7	57,527.4	58,928.7	57,547.9	49,071.5	48,708.4	85,412.1	36,703.7	International Airport, Sport Fish
Debt Reimbursement	90,861.6	104,144.9	105,456.0	105,057.4	105,594.2	111,965.8	114,216.6	126,275.2	133,864.4	7,589.2	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	75,895.4	48,335.0	33,738.6	35,939.6	31,339.9	29,740.8	29,639.0	34,079.3	33,980.3	(99.0)	AHFC, NTSC
Short Term Financing	3,135.0	2,614.6	4,243.6	3,165.0	2,675.0	5,683.2	5,173.4	3,659.0	3,503.8	(155.2)	Clean and Drinking Water

Current State of Alaska General Obligation Debt Projection

		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GO Bonds								
2003 Series A - FY2024 Refinanced by 2012 A	10/3/2012	29,927,800	20,424,981	20,211,994	0	0	0	0
2012 Series A refinanced 2003 Series A	10/3/2012		7,152,957	9,264,900	29,277,750	29,121,925	28,989,875	28,876,000
2003 Series B (GARVEE) - FY2014 - included trustee fees of \$250	10/22/2012	12,571,450	12,419,775	12,279,332	0	0	0	0
2009 Series A Bonds (\$165.0 million) - FY2030	4/2/2009	12,878,225	12,904,975	12,932,163	12,956,350	12,924,700	12,853,800	12,813,900
2010 Series A (\$119.23 million) - FY 2034	12/1/2011	7,636,834	6,754,939	6,754,939	6,754,939	6,754,939	6,754,939	6,754,939
2010 Series B (\$45.0 million) - FY 2029	12/1/2011	2,717,743	2,403,900	2,403,900	2,403,900	2,403,900	2,403,900	2,403,900
2010 Series C (\$35.765 million) FY 2013	12/1/2011	18,451,029	19,024,000					
2013 Series A \$11.945 million	1/30/2013		0	471,079	460,839	460,839	460,839	460,839
2013 Series B \$150.535 million generating \$184.166 in proceeds	1/30/2013		0	7,161,025	16,160,925	16,170,500	16,168,125	16,169,000
* 2013 series planned for 3/2013 \$150 million portion of \$453.5 million 2012 authorization	<i>estimate</i>		0	10,000,000	15,000,000	15,000,000	15,000,000	15,000,000
* 2014 series planned for 3/2014 \$200 million portion of \$453.5 million 2012 authorization	<i>estimate</i>		0	0	10,000,000	17,000,000	17,000,000	17,000,000
* 2015 series planned for 3/2015 \$103.5 million portion of \$453.5 million 2012 authorization	<i>estimate</i>		0	0	0	5,000,000	8,500,000	8,500,000
Subtotal All GO Bonds		84,183,081	81,085,527	81,479,332	93,014,703	104,836,803	108,131,478	107,978,578
Subtotal 2009-2013 Bonds			41,087,814	39,723,106	63,736,953	75,714,878	79,141,603	79,102,578
PAYMENTS FROM US TREASURY OFFSETTING GO DEBT (shown in FY available - follows FY reimbursed)								
2010 A general obligation Bond Subsidy BAB There is talk at the FED level of diminishing this amount		0	2,672,892	2,364,229	2,364,229	2,364,229	2,364,229	2,364,229
2010 B general obligation Bond Subsidy QSCAB There is talk at the FED level of diminishing this amount		0	2,714,012	2,400,600	2,400,600	2,400,600	2,400,600	2,400,600
2013 Series A general obligation Bond Subsidy QSCAB - There is talk at federal level of diminishing subsidy		0	0		471,079	460,839	460,839	460,839
TOTAL		0	5,386,904	4,764,829	5,235,908	5,225,668	5,225,668	5,225,668
NET GO DEBT SERVICE AFTER SUBSIDY		0	75,698,624	76,714,503	87,778,796	99,611,136	102,905,811	102,752,911
* Note that projections of both amount of issue, timing of issue and debt service is all subject to change as future events including actual cash flow, interest rate environment and final debt structure are determined. General Obligation Debt service is only a portion of the total annual general fund obligation that the state pays.								

General Obligation Bond Funding Debt Service Analysis

The legislature has had an appetite to fund capital projects using General Obligation Bonds during the past 5 sessions.

Three separate bond proposals totaling \$1.16 billion were approved by voters that include:

2008 \$315 million for statewide transportation projects

2010 \$397 million for statewide education projects

2012 \$450 million for statewide transportation projects

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Subtotal All GO Bonds 2001-2013	81,085,527	81,479,332	93,014,703	104,836,803	108,131,478	107,978,578
Subtotal 2009-2013 Bonds	41,087,814	39,723,106	63,736,953	75,714,878	79,141,603	79,102,578

As you can see, the estimated debt service will rise by \$12 million in FY15 and increase another \$9 million in FY16.

The ratio of the state's total GO Bond debt service to the 2008-2012 bond debt service is roughly a 50/50 split in FY13 and FY14. However, in the out years, the 2008-2012 debt service will account for roughly 75% of the total GO bond debt service that is outstanding.

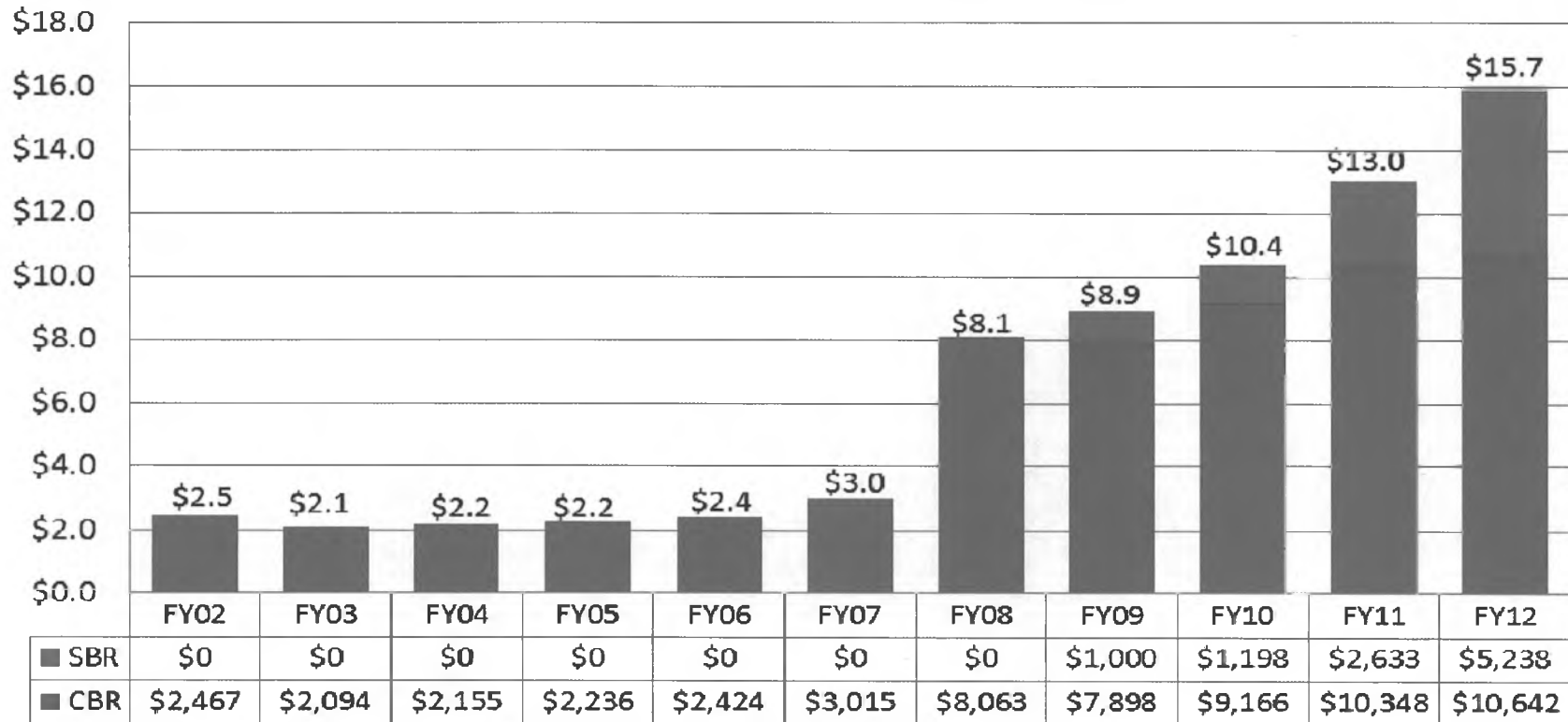
It should be noted that GO Bond debt service would be much higher in outer years had the legislature not paid cash of \$150 million to retire a portion of the 2008 and 2010 issuances.

Alaska's Reserve Accounts

Constitutional and Statutory Budget Reserve Funds are strong

Fiscal Year-end Balances in the CBR and SBR

Billions



Sources: Alaska Department of Administration, Division of Finance.

