

**02/03/15
OVERVIEW:
ALASKA RAILROAD
& POINT
MACKENZIE
RAILROAD
EXTENSION
UPDATE**

<TARGET><BILL></BILL><SUBJECT>02-03-15 OVERVIEW ALASKA
RAILROAD and POINT MACKENZIE RAILROAD EXTENSION
UPDATE</SUBJECT><COMM>STRA29</COMM></TARGET>

Alaska Railroad Update

Presentation to
Joint House & Senate Transportation Committee
February 3, 2015

Bill O'Leary
President & CEO



AlaskaRailroad.com



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 2014)

- 468,661 passengers
- 4.92 million tons of freight

Employees (January 2014)

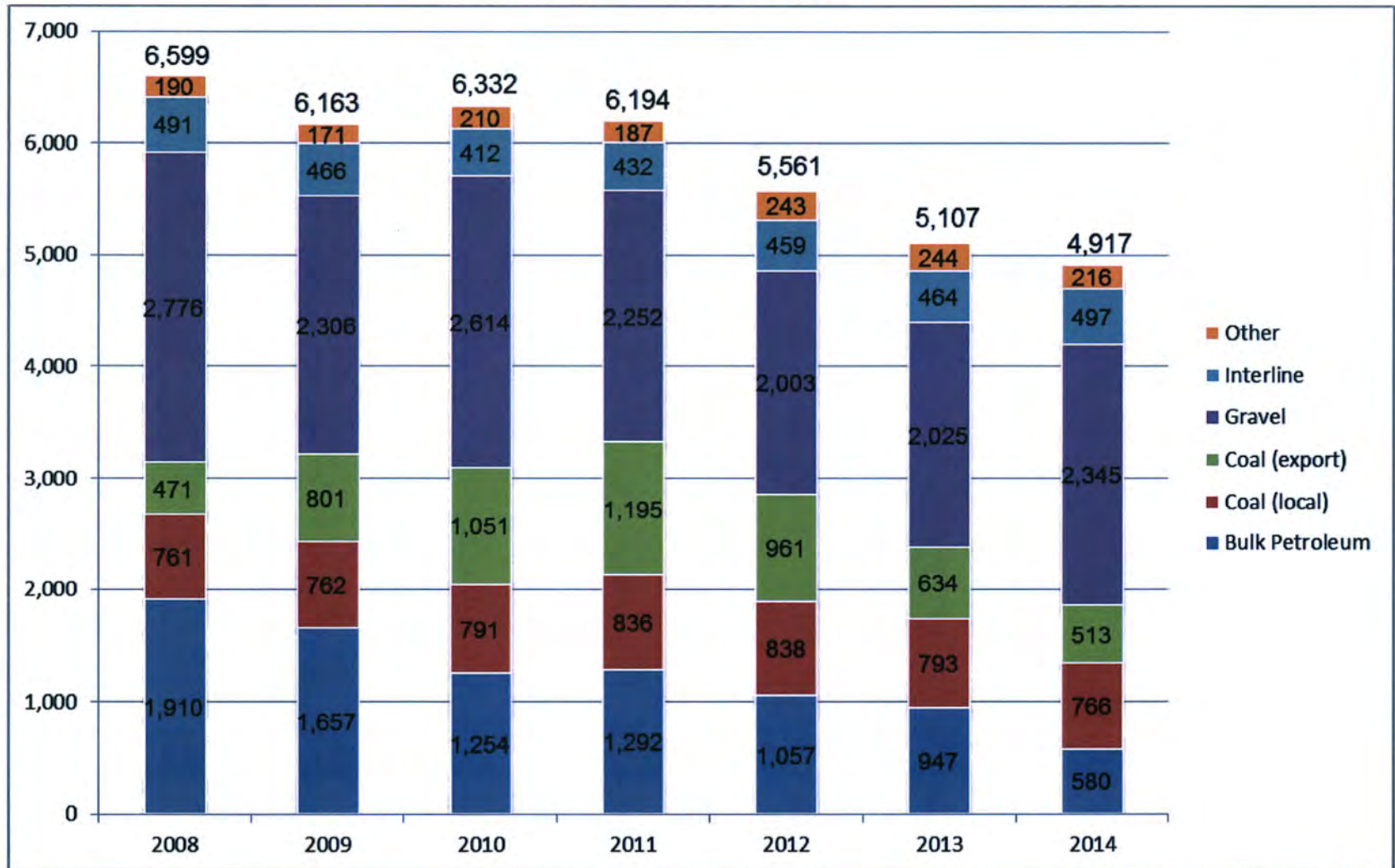
- 575 year-round employees
- 425 members of 5 unions





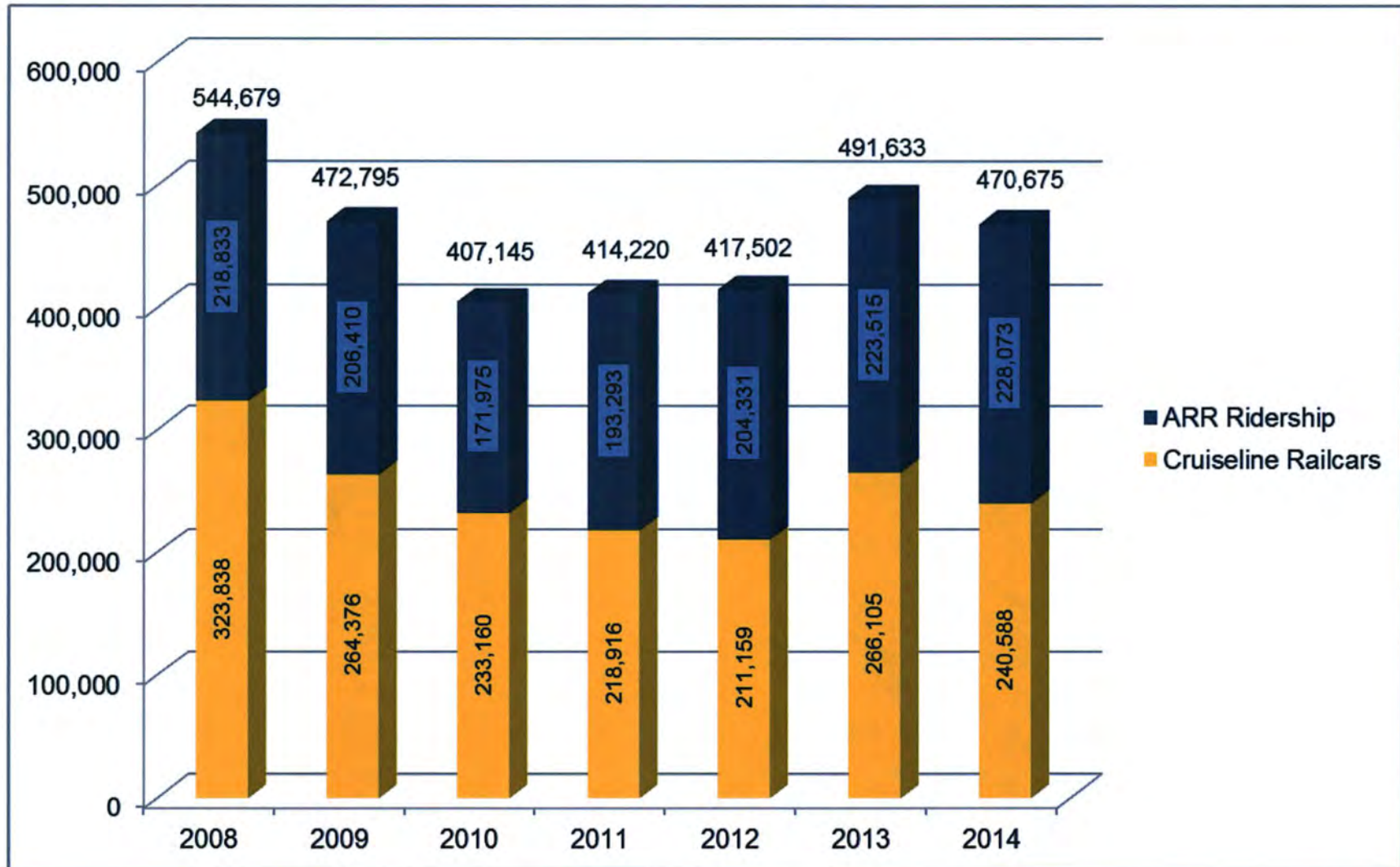
ARRC Freight

(in thousand tons)





ARRC Passenger Service





Alaska Railroad Real Estate

- Property Development
- Leases and Permits
- Dockage and Wharfage
- Facilities Maintenance and Management
- Revenue from Real Estate activities allow ARRC to weather financial cycles.
 - 2014: 75% of corporate net income derived from real estate. (Unaudited)



Top: Ship Creek basin includes highly valuable leasable land. Bottom: Seward freight dock viewed from waterside catwalk.



FTA Formula Funds

- Provided to ARRC for our year-round regularly-scheduled passenger service.
- Significant reduction for 2013 and moving forward (MAP-21)
- Cut was only to Alaska Railroad and did not reduce federal budget.
- Part of the reason behind the cut was ill will towards Senator Stevens' legacy.
- Will be up again in 2015





Handling Downturns

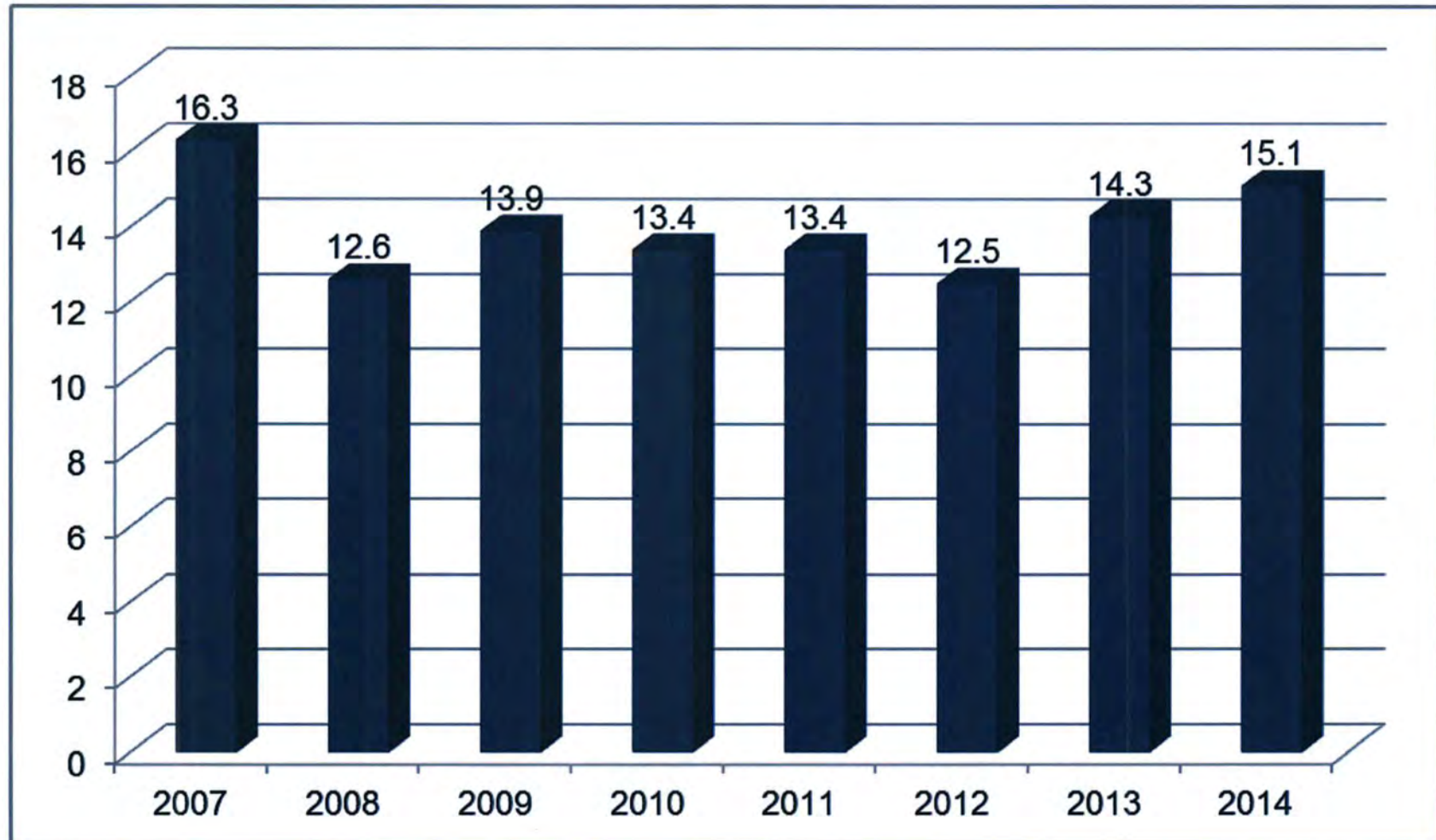
- Started in 2008
- 300 positions cut in 3 separate downsizings
- Streamline Operations
- Still experiencing downturns in two largest freight lines
- Ensure the Railroad doesn't look different from the outside
- Seek out new lines of business





ARRC Net Income

(in \$ millions)



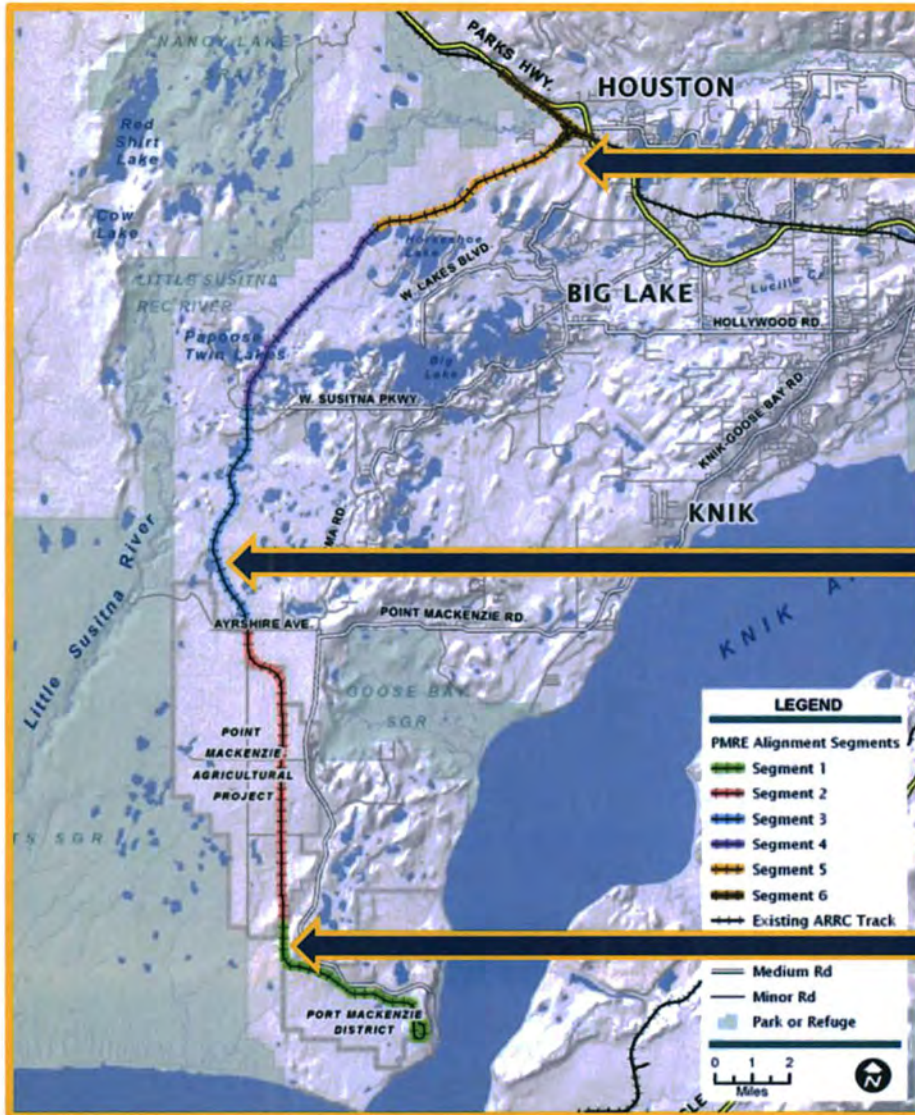


Northern Rail Extension

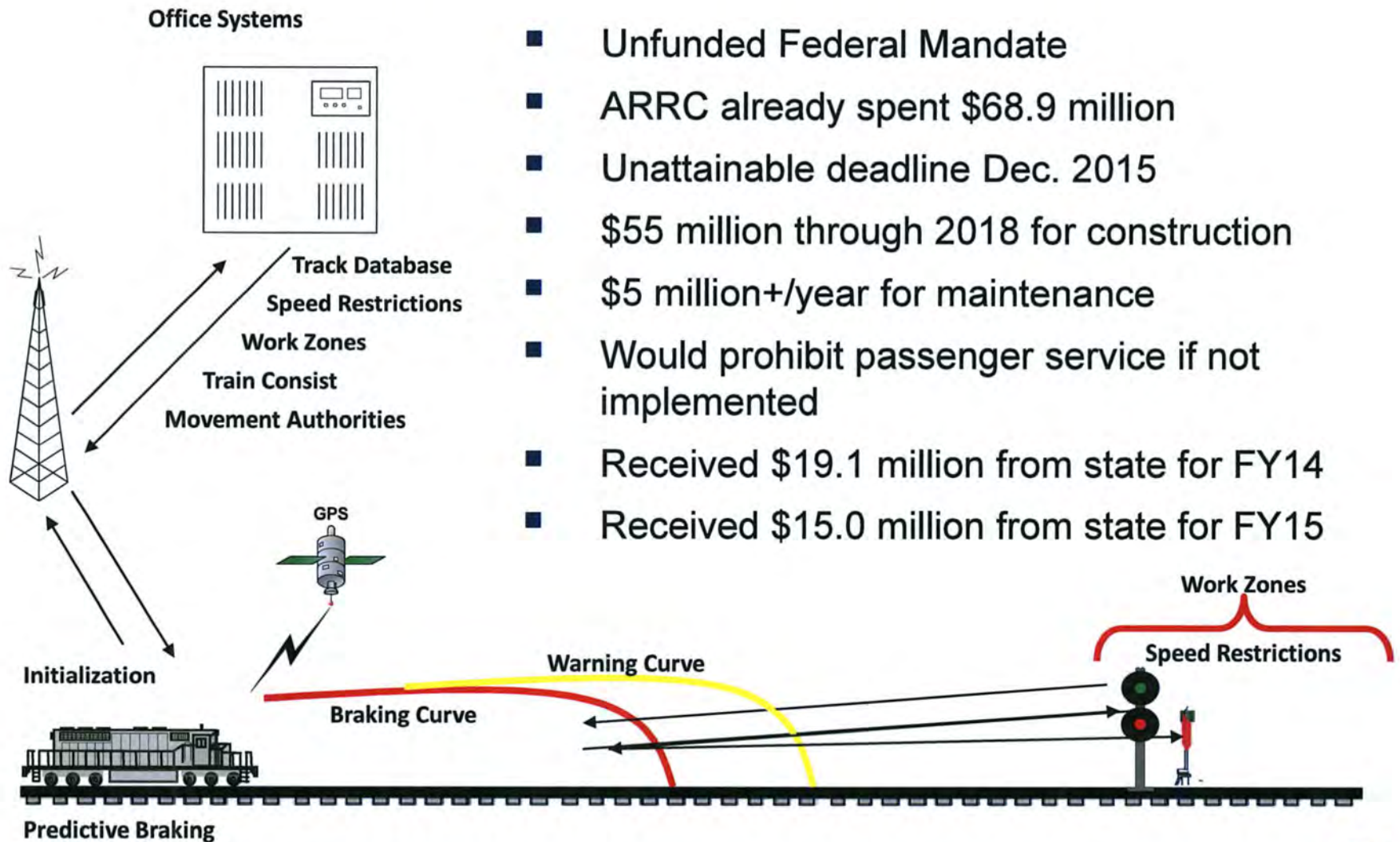


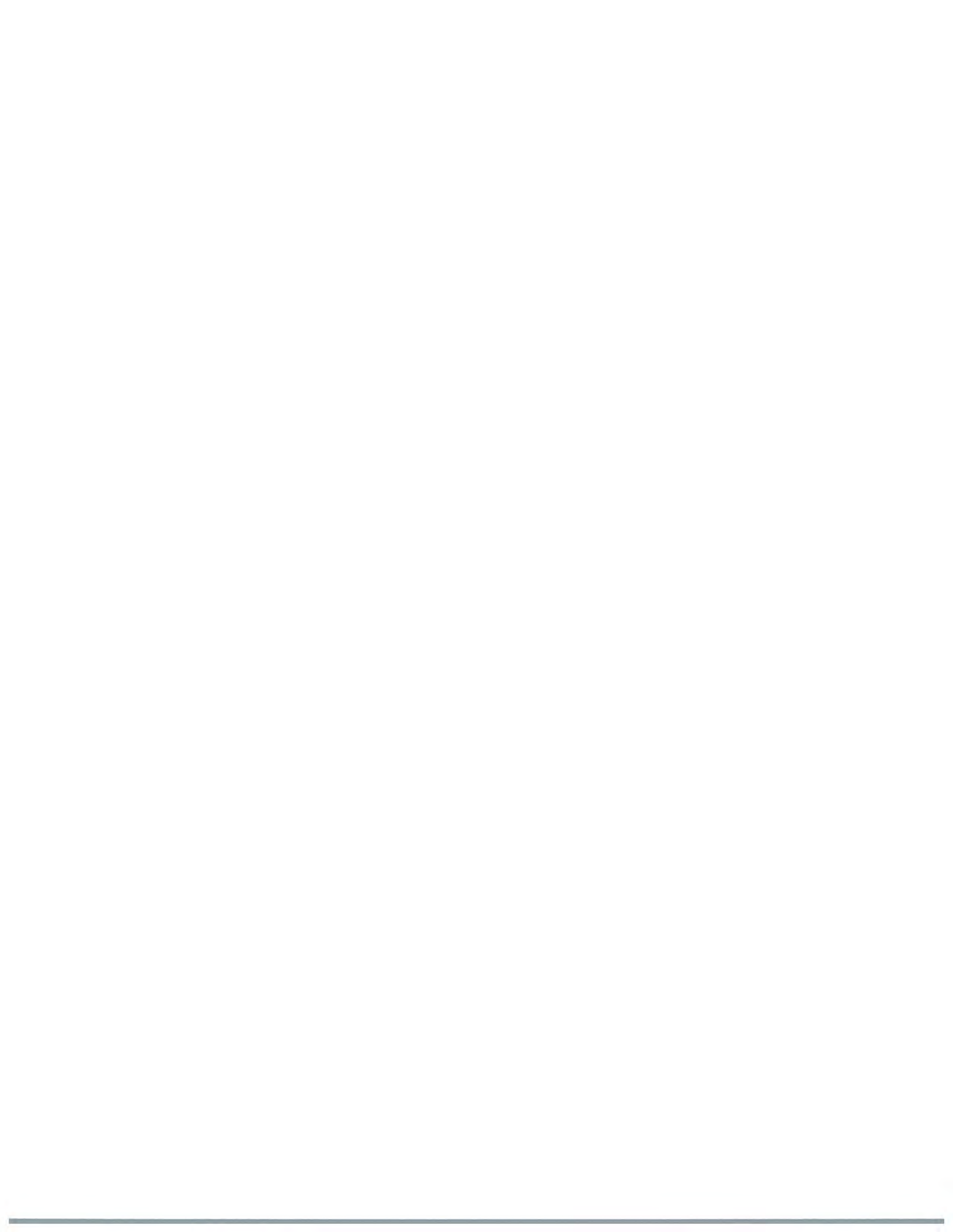


Port MacKenzie Rail Extension



Positive Train Control





What is PTC?

PTC is a safety overlay system that reduces human factor errors and must reliably and functionally prevent:

- Train-to-train collisions by enforcing authority limits;
- Overspeed derailments;
- Trains entering maintenance of way work zone limits; and
- Train movement through a main line switch in the improper position.

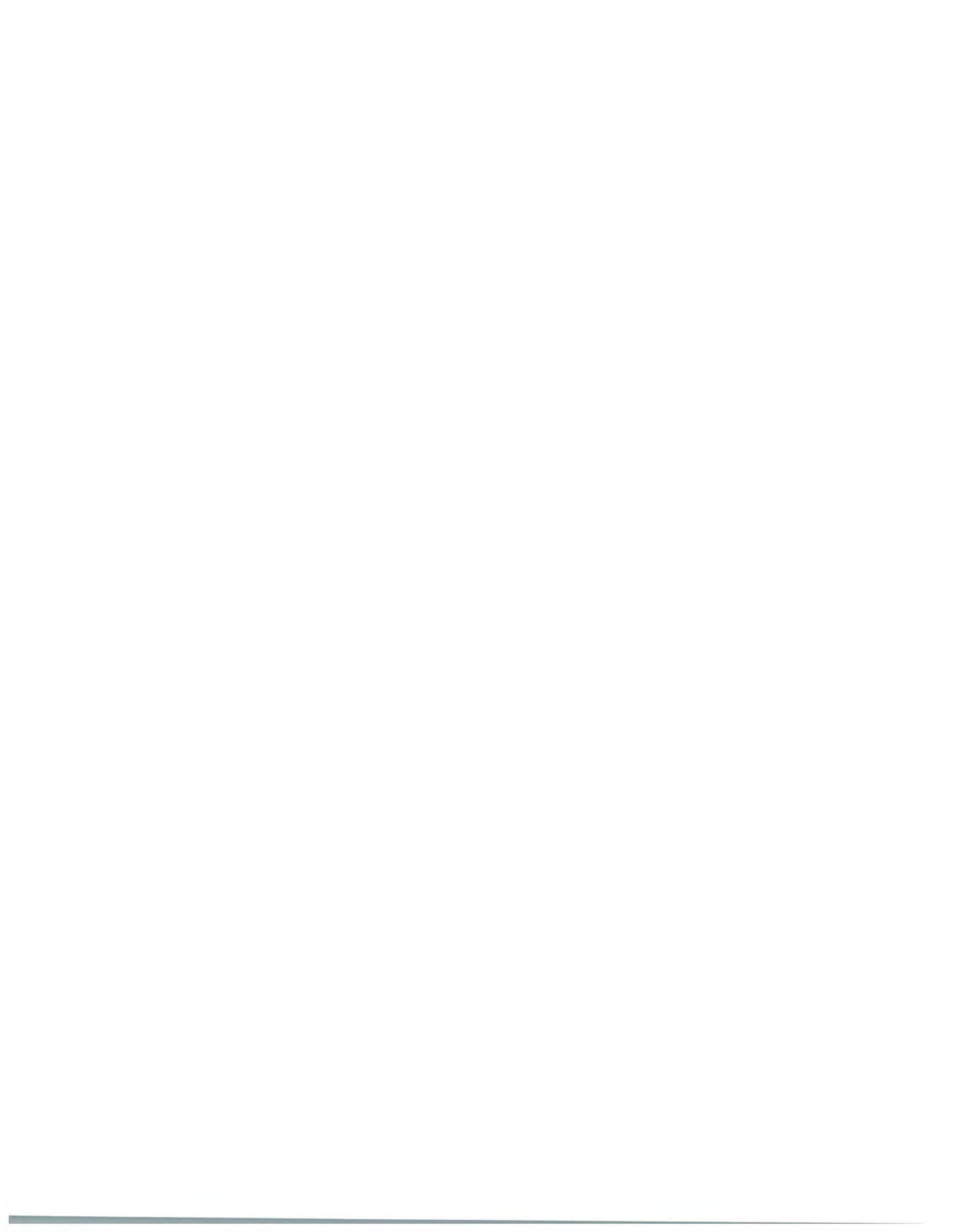




No Way Out

- \$12 billion to \$15 billion industry cost
 - \$160 million for ARRC
- Congressional Delegation
- Alaska Attorney General
- NTSB Most Wanted List – 2012 & 2014
- Association of American Railroads





What if ARRC Does Not Comply?

Federal law provides penalties for non-compliance:

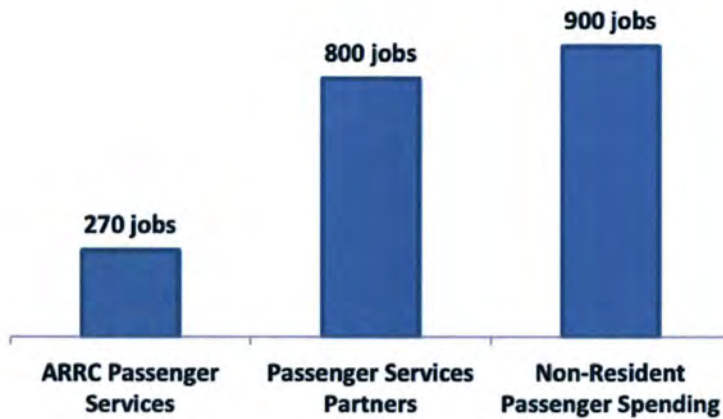
- FRA authority to fine 61 different PTC-related violations
- Maximum FRA fine for failure to complete PTC installation by December 31, 2015, is \$16,000 per violation and \$25,000 for each “willful” violation. A separate violation is issued for each day the violation occurs. The FRA can fine up to \$100,000 per day as it deems warranted.
- FRA rail safety law compliance pertains to “persons” so both the corporation and individuals are on the hook.
- Prohibit passenger service





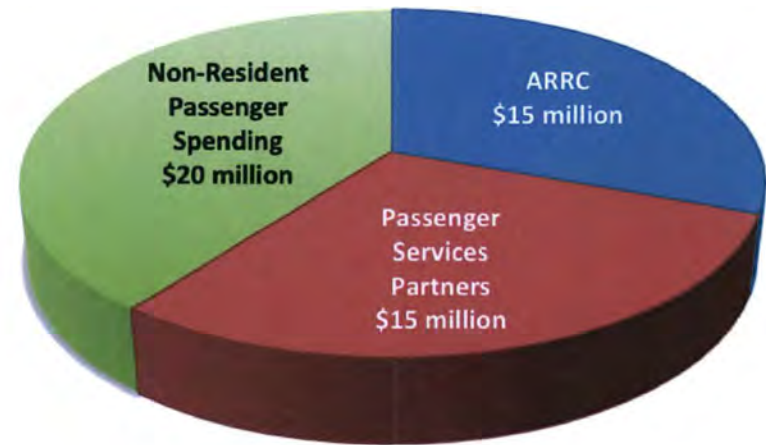
Loss of Passenger Service

A total of just under 2,000 jobs are connected in some way to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Employment, 2012

Approximately \$50 million in labor income is related to Alaska Railroad's passenger services.



ARRC Passenger Services-Related Labor Income, 2012

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McDowell
GROUP





Loss of Passenger Service

Discontinuation of Alaska Railroad's passenger services would have significant impacts not only on the Railroad, but on the Railbelt's visitor economy and infrastructure.

- Loss of all ARRC jobs and wages associated with providing passenger services.
- Loss of all ARRC passenger-related income, jobs, and wages in 275 businesses that provide goods and services to ARRC in support of its passenger operations.
- Unknown economic effects on ARRC's visitor industry partners, who would be challenged to replace the popular, scenic, high-amenity-value rail service with some other form of transportation with equal customer appeal.
- Loss of federal funding opportunities available to public transportation providers.
- Unknown, but certain redistribution of (and potential loss of) visitor spending in the region, as railroad passengers seek to replace their rail experience.
- Estimated 3,700 additional motorcoach trips along the Parks and Seward Highways and other areas served by the Railroad, with traffic congestion and highway maintenance impacts. There could also be increases in RV, van, rental vehicle, personal vehicle, and/or airplane usage as a large number of visitors will be forced to find alternative transportation methods.

PREPARED BY
 **McDowell**
GROUP





Topline Opportunities



- Intermodal, Interstate & International Shipping
 - Supplies for exploration, drilling and development
 - OCS, ANWR, NPR-A Pipelines
 - Natural Gas Pipeline
- Pipeline on Rails
 - LNG
 - Crude Oil
 - Refined Oil
- Seward Master Plan
- Interline Growth
- Corridors to resources
 - Include rail, road, utilities, pipelines, etc.
 - Can build road to railroad geometry



Barge Service

Lower 48 and Canada to Alaska



- Seattle or Prince Rupert to Whittier
- Safe, Reliable, Affordable Service
- Increased demand in past 24 months driven by increased oil development on North Slope
- Longest Rail-Haul in North America
 - Alaska Railroad from Seattle to Fairbanks - 1815 Miles
 - Interline service from Panama City, Florida to Fairbanks - 4842 Miles

Pipeline on Rails

Moving LNG to Fairbanks

- ARRC could be an interim energy solution
- Experience handling bulk commodities
- Already provide-year round freight service Cook Inlet to Fairbanks
- Could have equipment in 12-18 months



Pipeline on Rails

Equipment Options – ISO Tanks

- 39,958 lbs. payload
- 11,000 gallons
- Can be double stacked from Port Mackenzie
- Cost of ISO tank container is \$150,000
- 18 months manufacturing time





Pipeline on Rails Summary

- Alaska Railroad has existing infrastructure.
- Extensive capacity to move bulk commodities
- Cost effective option to truck shipments
- Safe off highway transportation network
- ISO's offer effective asset utilization and resale option
- Available Alaska Railroad real estate
- Near term logistics solution



State Rail Plan





The Future

- Despite challenges, the Railroad will continue moving forward
 - Critical piece of transportation infrastructure in a state woefully lacking in such infrastructure
- Almost all large development projects in Alaska will need the Railroad
 - Gasline variations
 - Mining
- Alaska needs a strong Alaska Railroad
 - Externally sound
 - Internally sound

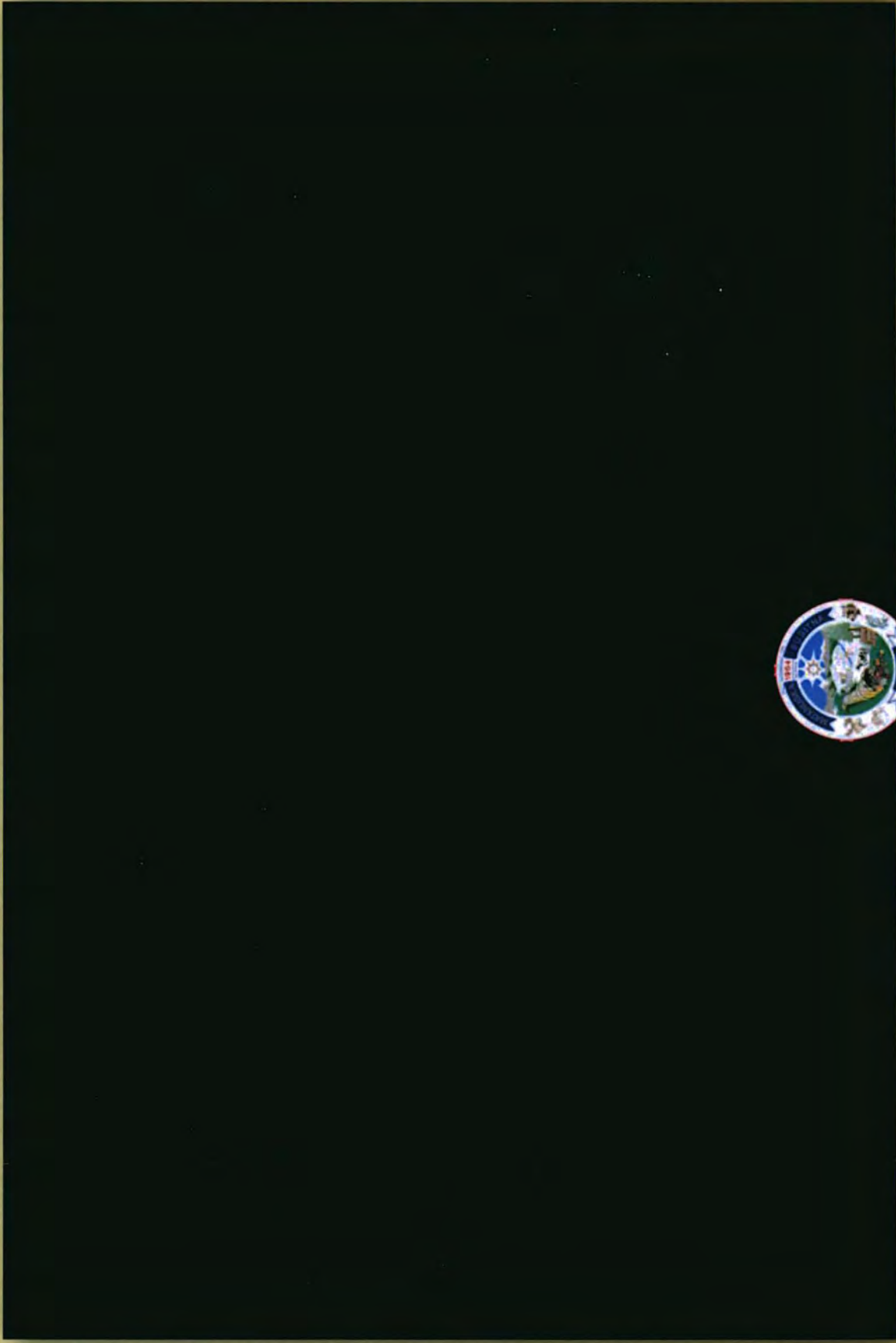






PORT MACKENZIE

RAIL EXTENSION

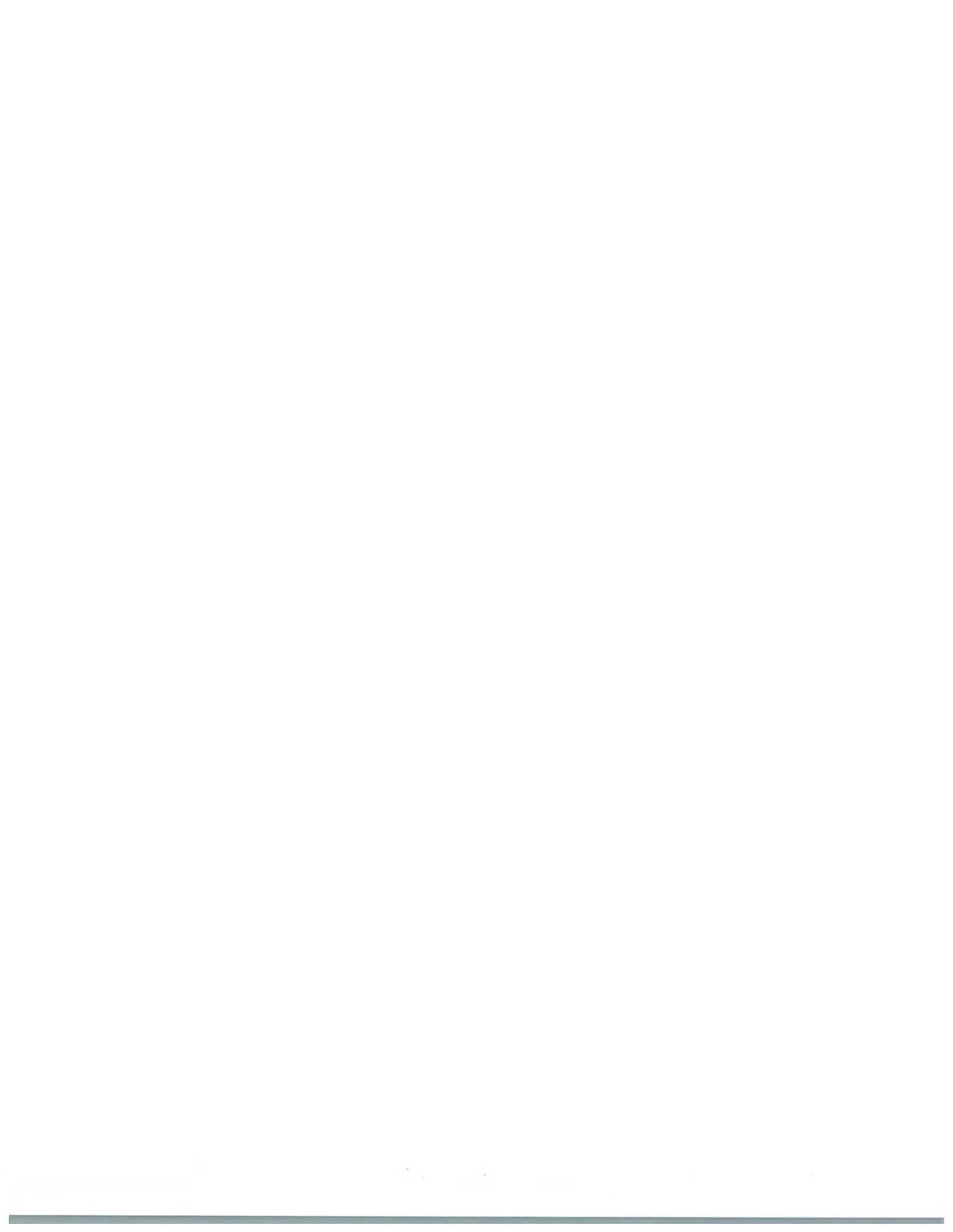


POISED FOR GROWTH



Port Mac & working ship in ice





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







Barge dock staging area



Upland lease lots



For large projects



Activity at the Port

16 miles of pipe to be off-loaded



Bulk Resources





WesPac Midstream



WesPac Midstream wants to establish an LGN alternative for the Interior markets

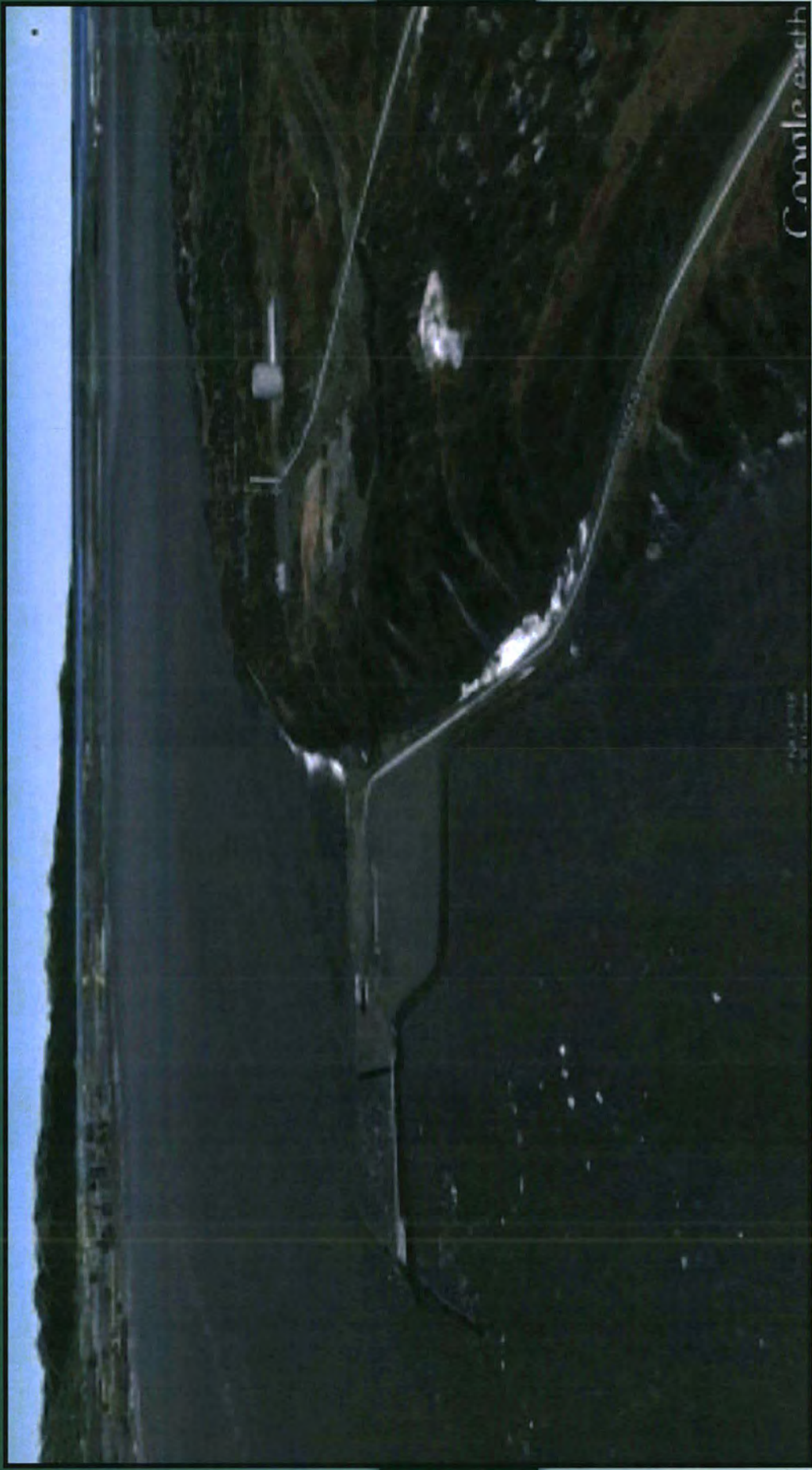
WesPac highlights Rail at Port MacKenzie as part of their project overview

- develop \$600 million in infrastructure at Port MacKenzie.
- include an LNG facility for 250,000 GPD liquefaction and storage
- build an 11 Megawatt power plant
- build gas pipeline connection to ENSTAR pipe
- build rail loop siding and laydown area

The Borough is in negotiations with WesPac.



WesPac Port Mackenzie Renderings





How WesPac sees Port Mackenzie Attributes

- Ideal location for LNG

- Existing port
- Abundant land
- No major permitting
- Minimal impact
- Gas pipelines
- Power transmission
- Rail lines
- Truck access
- Marine access
- Peaking for utilities
- Growth opportunities





Competing interest in this



Hilcorp & AIDEA both interested in buying the gas processing plant near Port MacKenzie owned by Tita. (Pentex, the parent company)



Central Alaska Energy

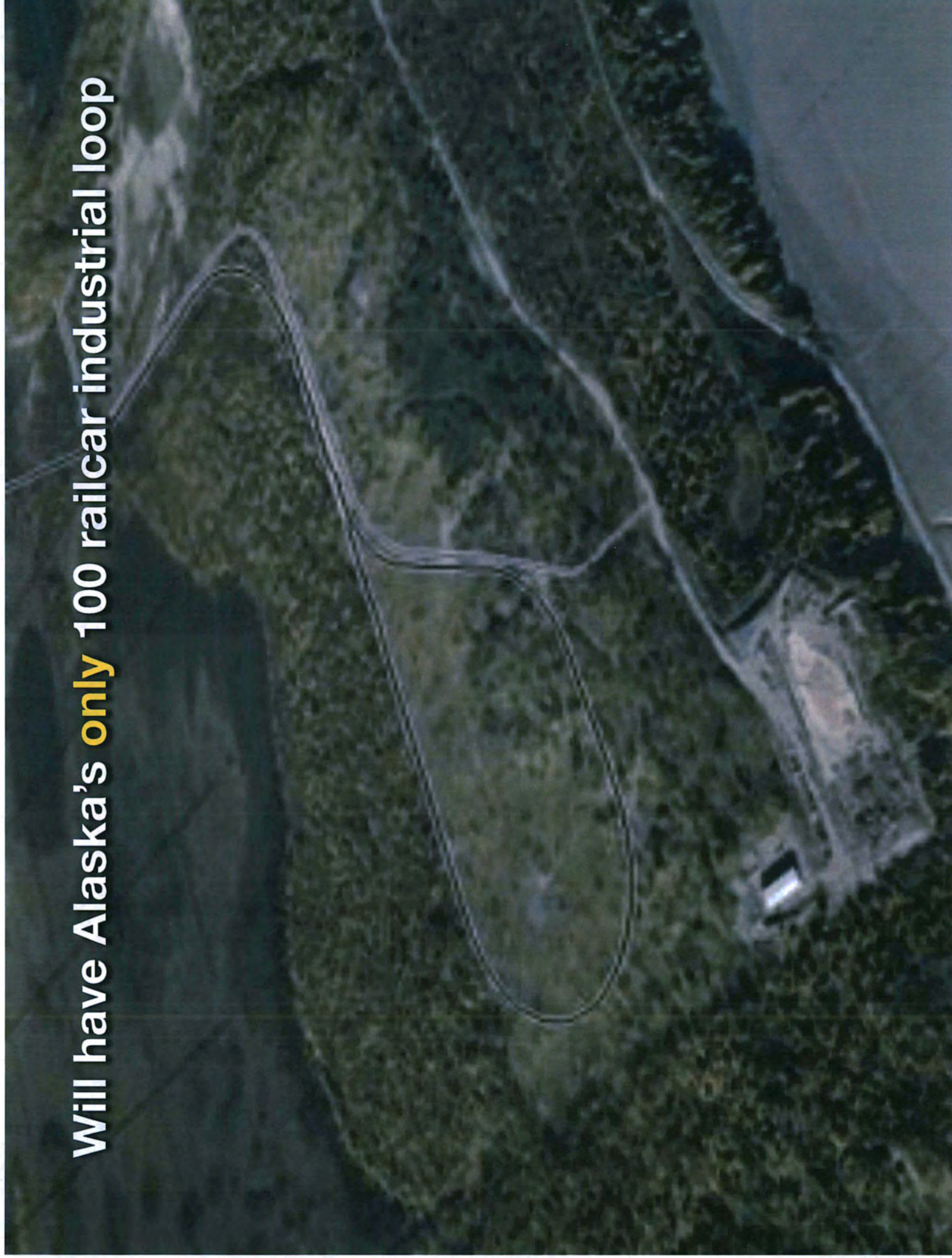
- 6.9 M gallon fuel tank farm, Central Alaska Energy
- providing low sulfur diesel fuel
- \$16 M in construction, may break ground 2015



**Central Alaska Energy
Fuel Storage Facility
Point Mackenzie, Alaska**



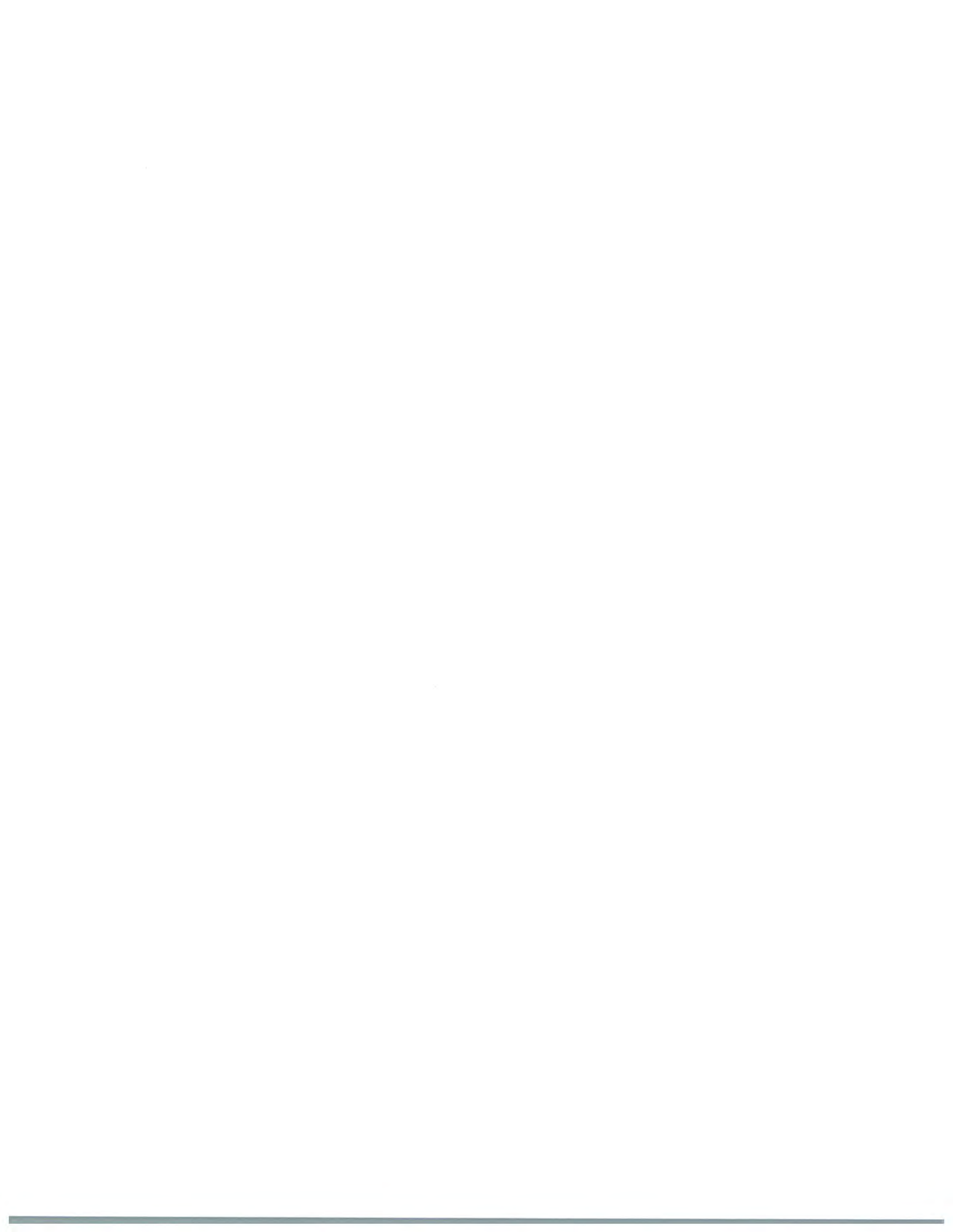
Will have Alaska's **only** 100 railcar industrial loop





An aerial photograph of a coastal industrial facility, likely a port or refinery. A large ship is docked at a pier on the right side of the image. The facility includes several large storage tanks and buildings. A prominent yellow arrow points to a specific area on the land. The word "Exports" is written in a yellow box with a blue border. The background shows a body of water and a forested hillside.

Exports





An MOU for natural gas with REI,
Resources Energy Inc. plans natural gas facility
in Cook Inlet, Port MacKenzie



A project cargo Port

- would reduce transportation costs for PROJECT CARGO on Alaska's biggest projects: natural gas pipeline, supplies for gold mines, large bridges, North Slope infrastructure
- would reduce transportation costs for recurring project materials delivery

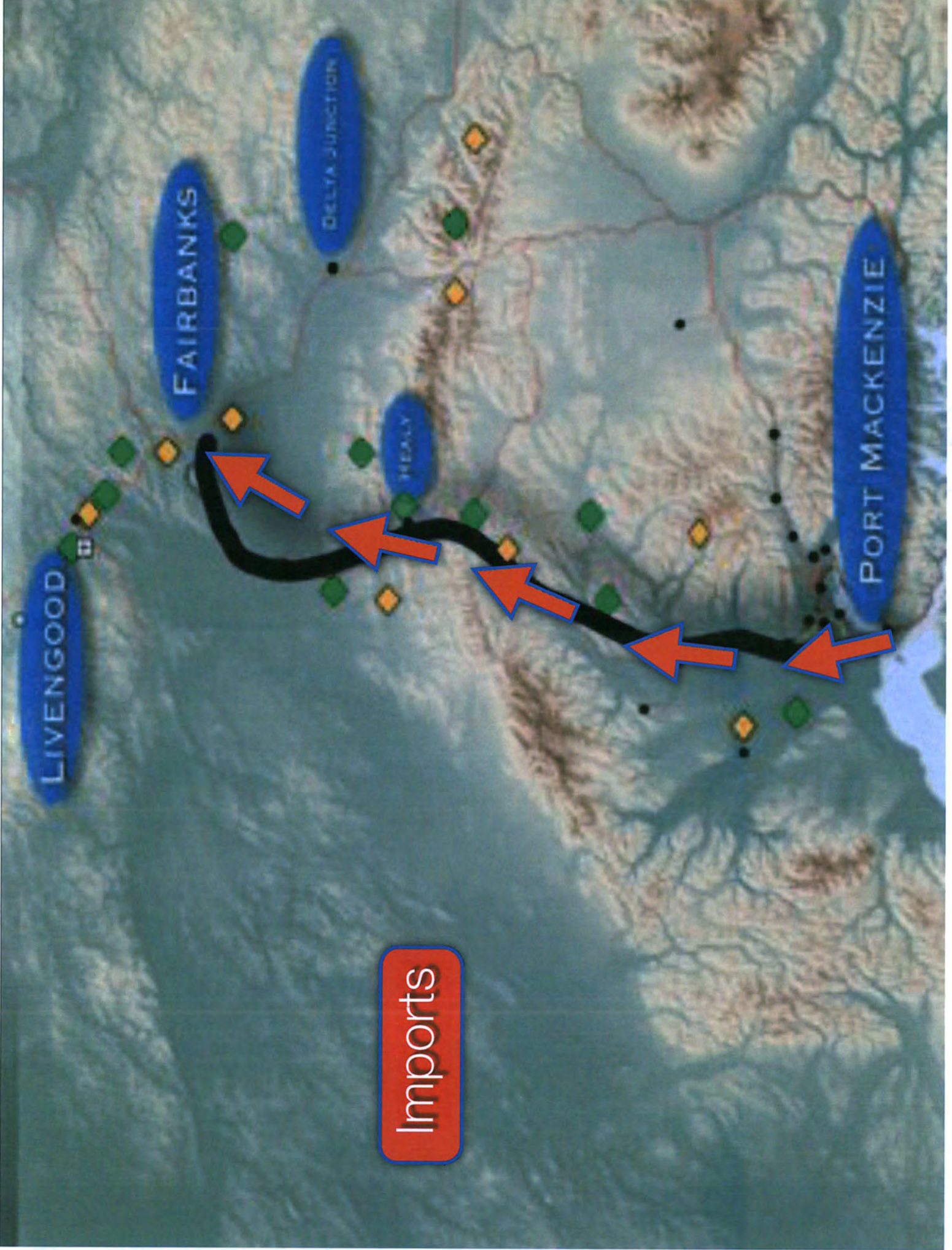




Imports







Imports



project cargo

- steel for northern bridges
- pipe for old and new oil fields
- fracking sand for future shale oil development
- other petroleum-related equipment





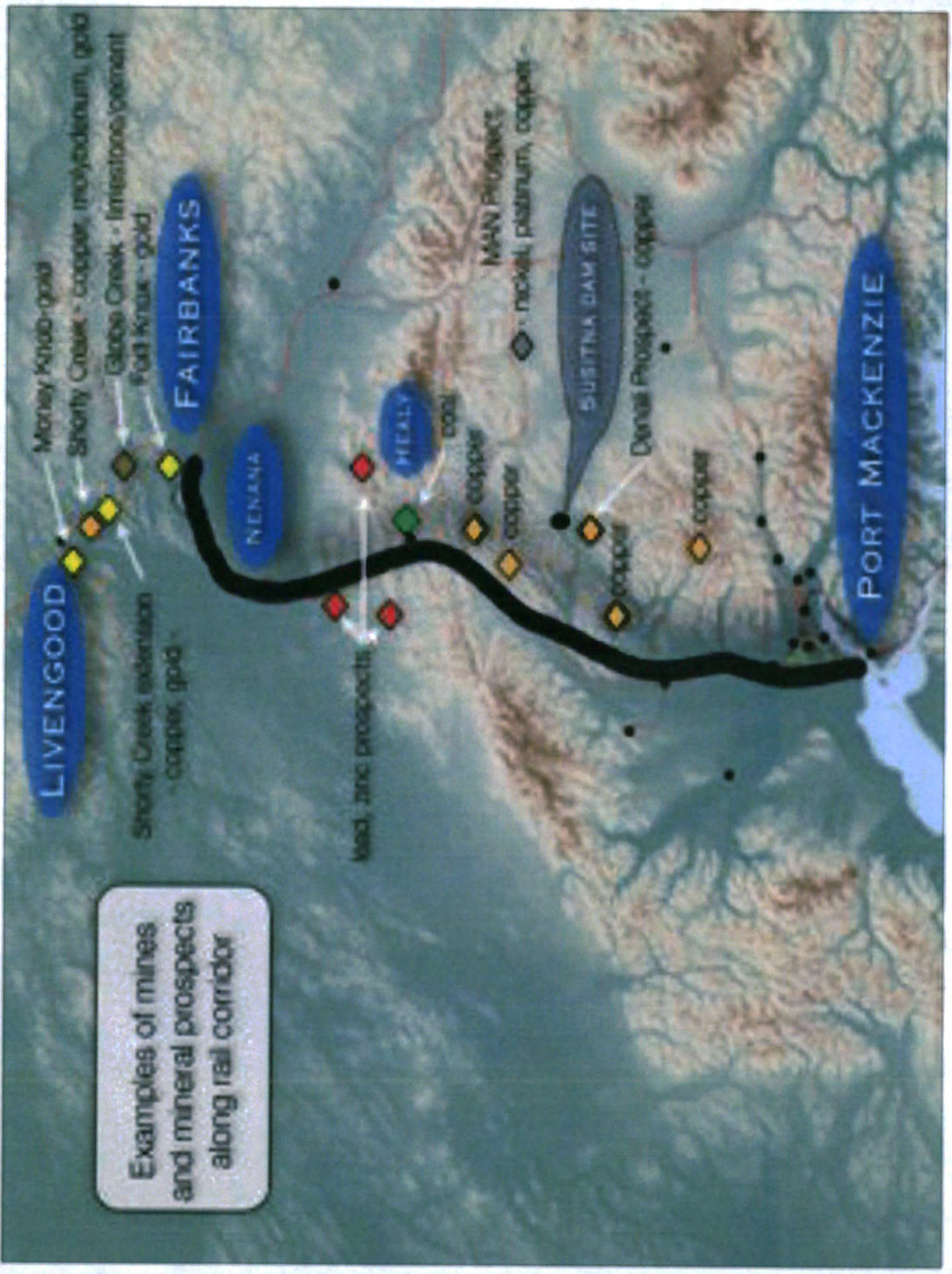
Project Forwarding Lessee



Fort Knox



Examples of mines and mineral prospects along rail corridor





Greater Wasilla Chamber of Commerce

Raven Gold Alaska Pogo Mine

Central Alaska Energy JDM Consultants

WestPac Logistics Klondike Concrete Co.

Houston Chamber of Commerce **Accelergy**

Greater Fairbanks Chamber of Commerce

ALASKA GASLINE DEVELOPMENT CORP. Alutiiq

Greater Palmer Chamber of Commerce

Alaska State Chamber of Commerce **Koniag**

Houston City

Kinross - Fort Knox

Alaska Railroad Fairbanks North Star Borough

Resource Development Council **NPI**

International Union of Operating Engineers

AEDC

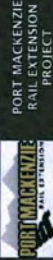
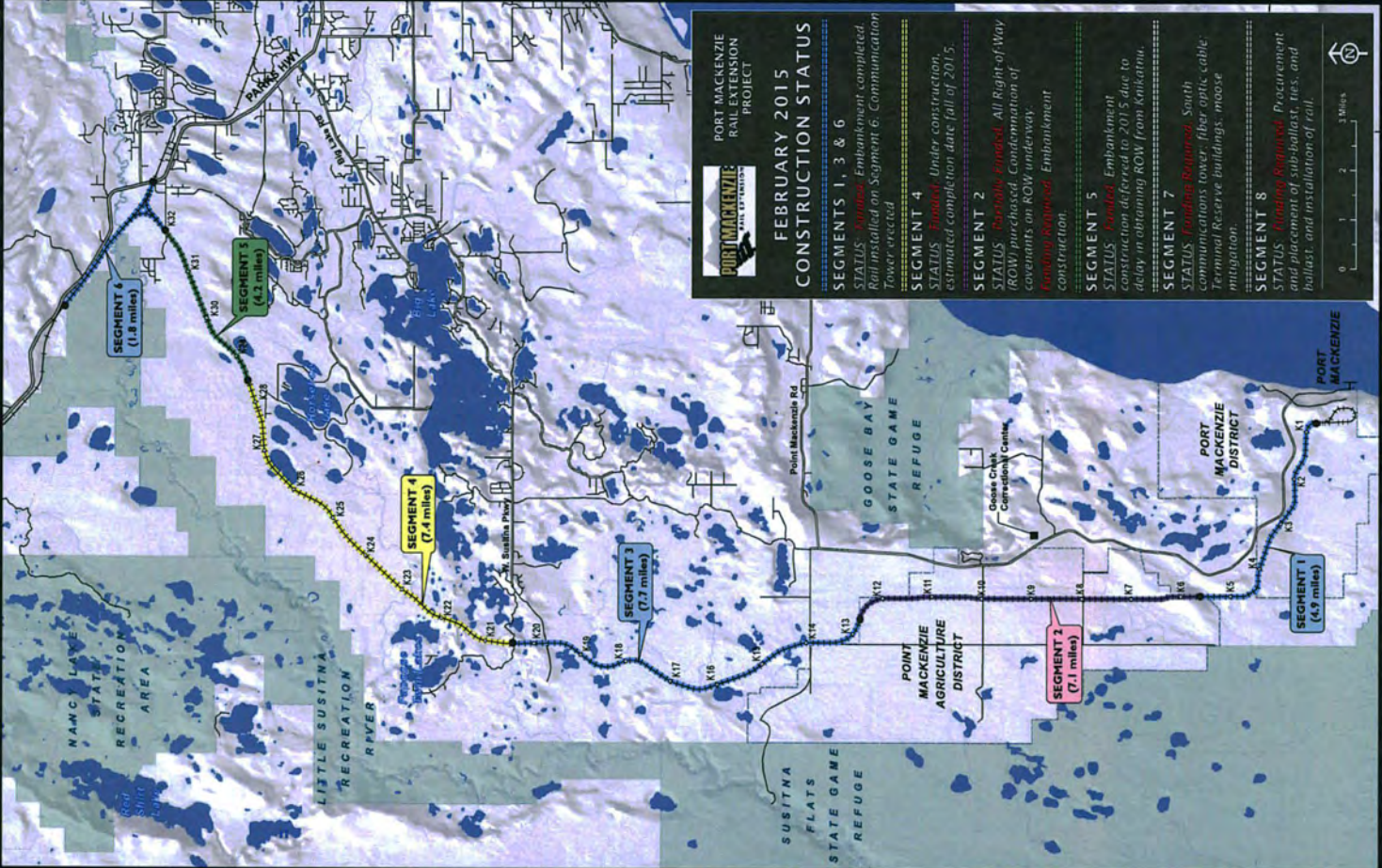
The Alaska Miners Association



Companies & Freight to use Port MacKenzie Rail

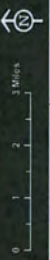
- ☀ WestPac Logistics
- ☀ Central Alaska Energy
- ☀ WesPac Midstream
- ☀ Sumitomo Metal Mining
- ☀ Alutiiq
- ☀ NPI
- ☀ QAP
- ☀ Usibelli





FEBRUARY 2015 CONSTRUCTION STATUS

- SEGMENTS 1, 3 & 6**
STATUS: *Completed* - Embankment completed. Rail installed on Segment 6. Communication tower erected.
- SEGMENT 4**
STATUS: *Stalled* - Under construction, estimated completion date fall of 2015.
- SEGMENT 2**
STATUS: *Barriers Fenced* - All Right-of-Way (ROW) purchased. Condemnation of covenants on ROW underway.
Funding Required - Embankment construction.
- SEGMENT 5**
STATUS: *Stalled* - Embankment construction deferred to 2015 due to delay in obtaining ROW from Knikatu.
- SEGMENT 7**
STATUS: *Funding Required* - South communications tower, fiber optic, cable. Terminal Reserve buildings, moose mitigation.
- SEGMENT 8**
STATUS: *Material Required* - Procurement and placement of sub-ballast, ties, and ballast, and installation of rail.





RAIL CONSTRUCTION



JOBS



Nearly 200 jobs at peak of 2013 & 2014 season



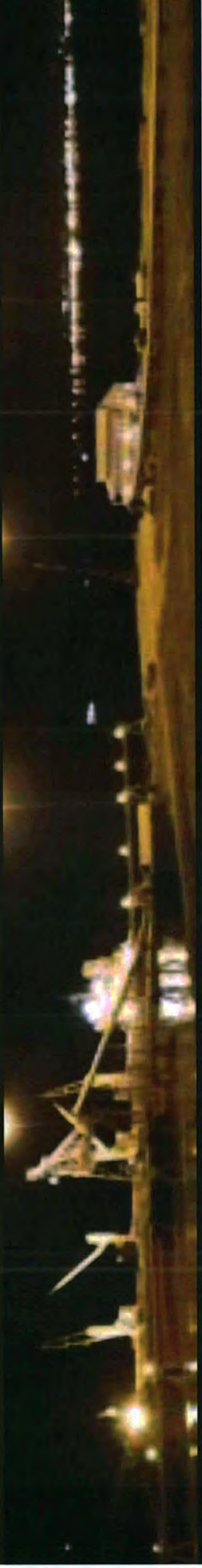


PORT MACKENZIE
RAIL EXTENSION

RAIL EXTENSION

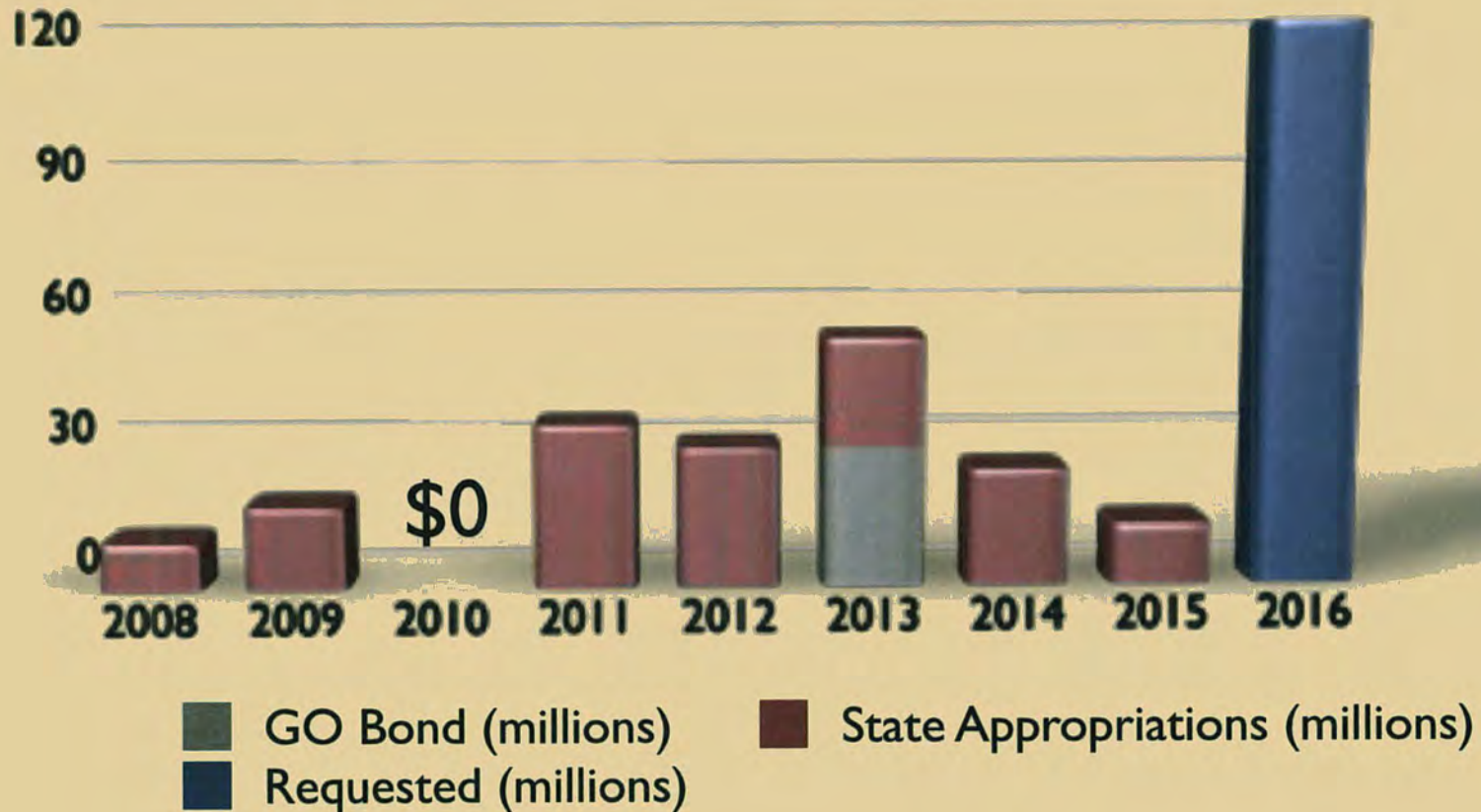
\$184 million

Seven separate appropriations
and a state-wide general obligation bond sale



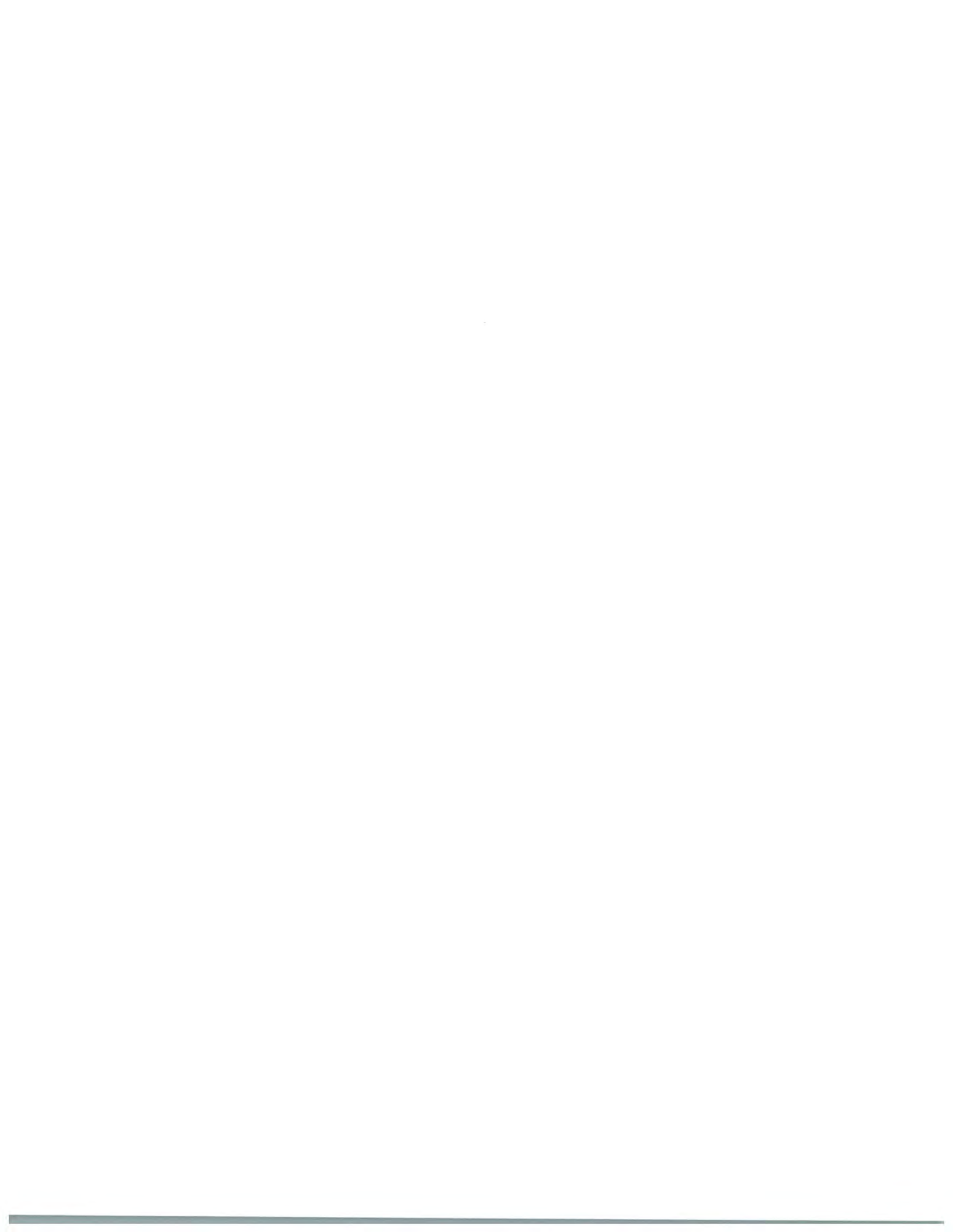


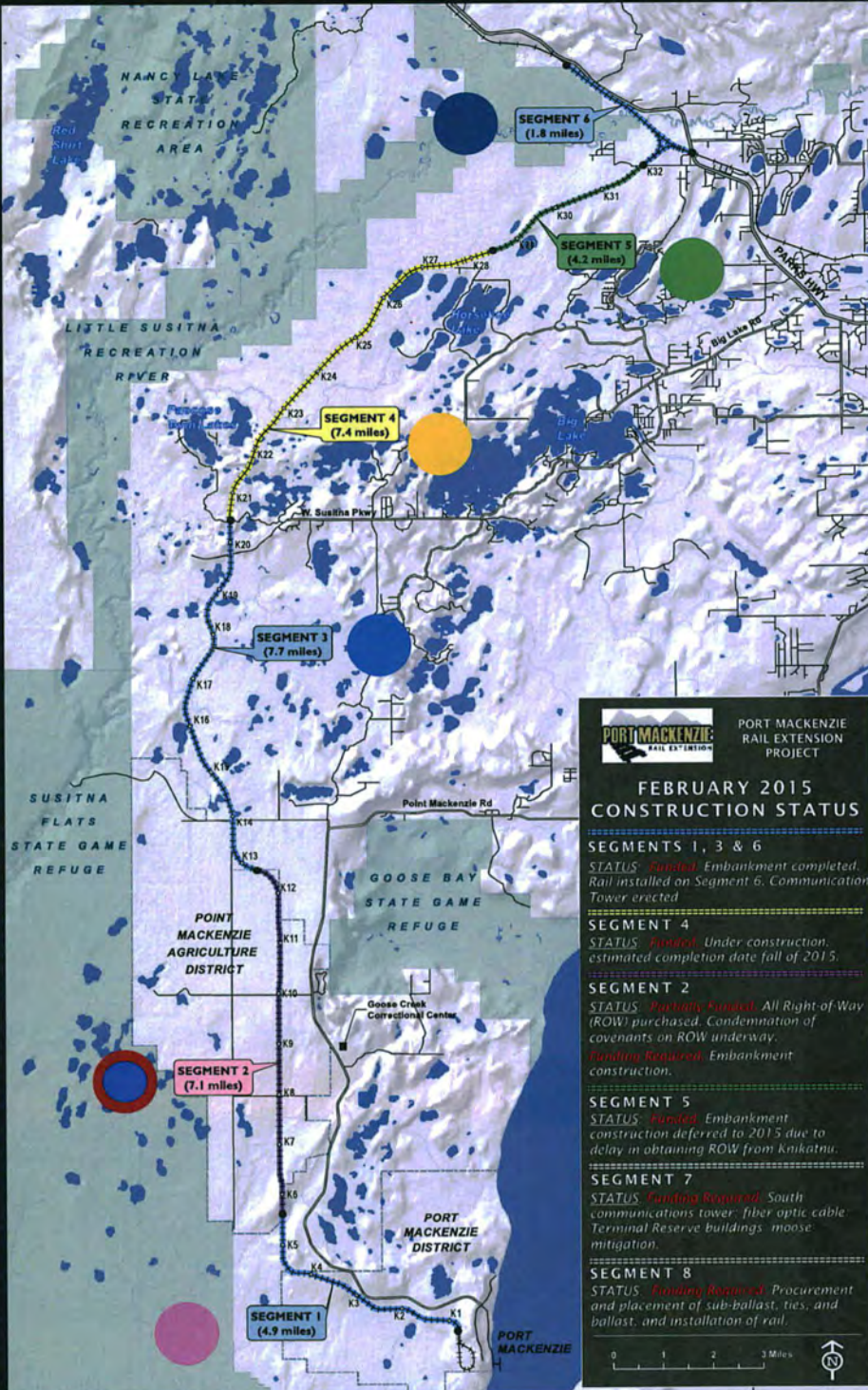
Project funding over time








Total funding to date

\$184 million






Funded

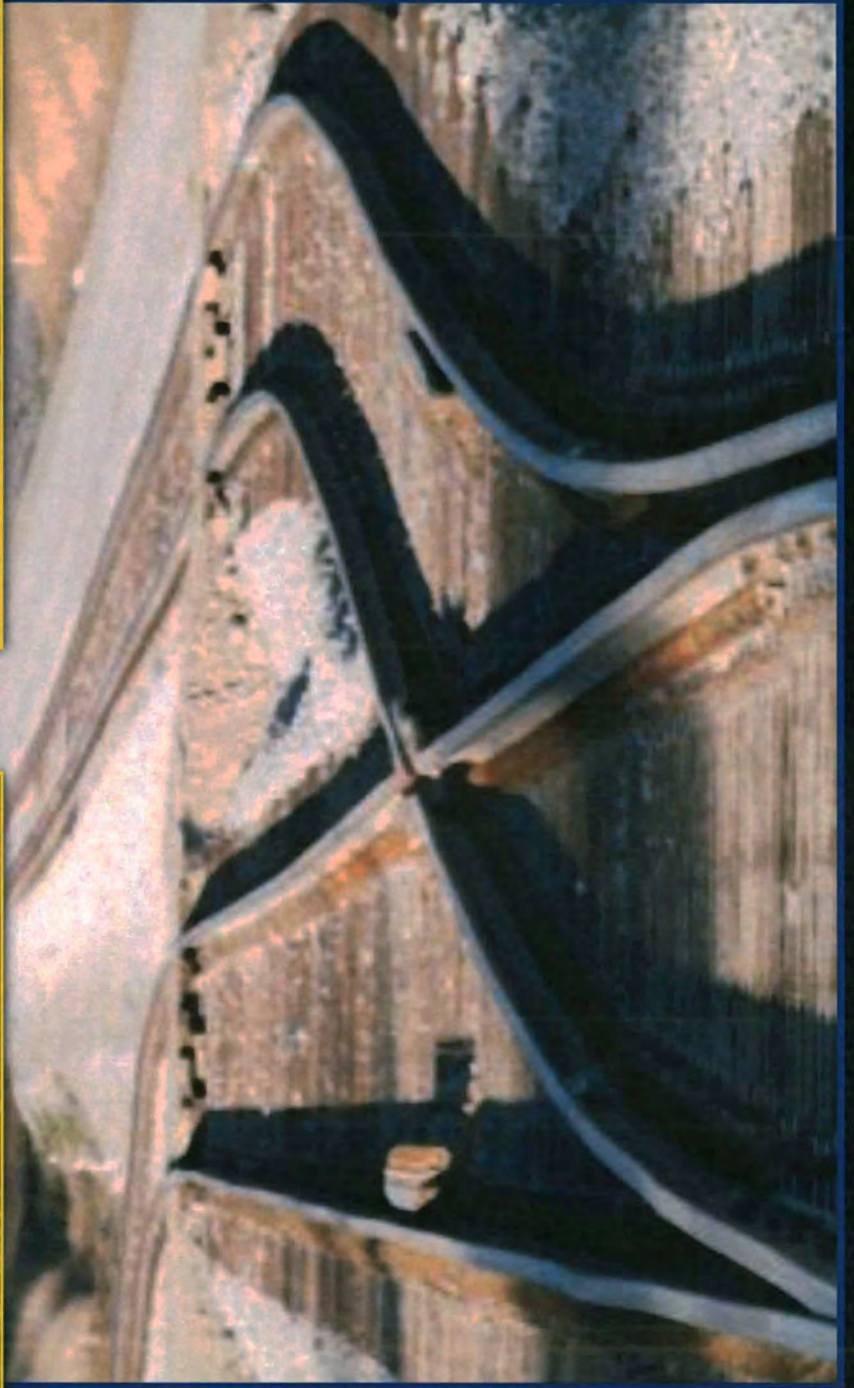
-  Segment 1
-  Segment 3
-  Segment 4
-  Segment 5
-  Segment 6

Funding Required

-  Segment 2
-  Segment 7
-  Segment 8

 Partial Funding







Thank You!





February 27, 2015

Senator Peter Micciche
Chair, Senate Transportation Committee
Capitol Building, Room 514
Juneau, Alaska 99801

Representative Shelley Hughes
Co-Chair, House Transportation Committee
Capitol Building, Room 13
Juneau, Alaska 99801

Representative Neal Foster
Co-Chair, House Transportation Committee
Capitol Building, Room 424
Juneau, Alaska 99801

Dear Senator Micciche, Representative Hughes and Representative Foster:

Thank you for the opportunity to testify before a Joint House and Senate Transportation Committee earlier this month. As a state owned corporation, we appreciate the chance to explain what we do for the State of Alaska.

One of the questions that was asked during the committee meeting was what our percentage of expenses related to fuel are as compared to a year ago. During 2013 diesel was 15% of our operating expense; for 2014 it was 14%.

As was requested during the meeting, I have attached a pie chart showing our proportion of revenue between passenger, freight and real estate as well as our financial highlights for 2005 through 2014.

Thank you again for inviting us to present at the Joint Transportation Committee. If you have any further questions, please don't hesitate to contact me.

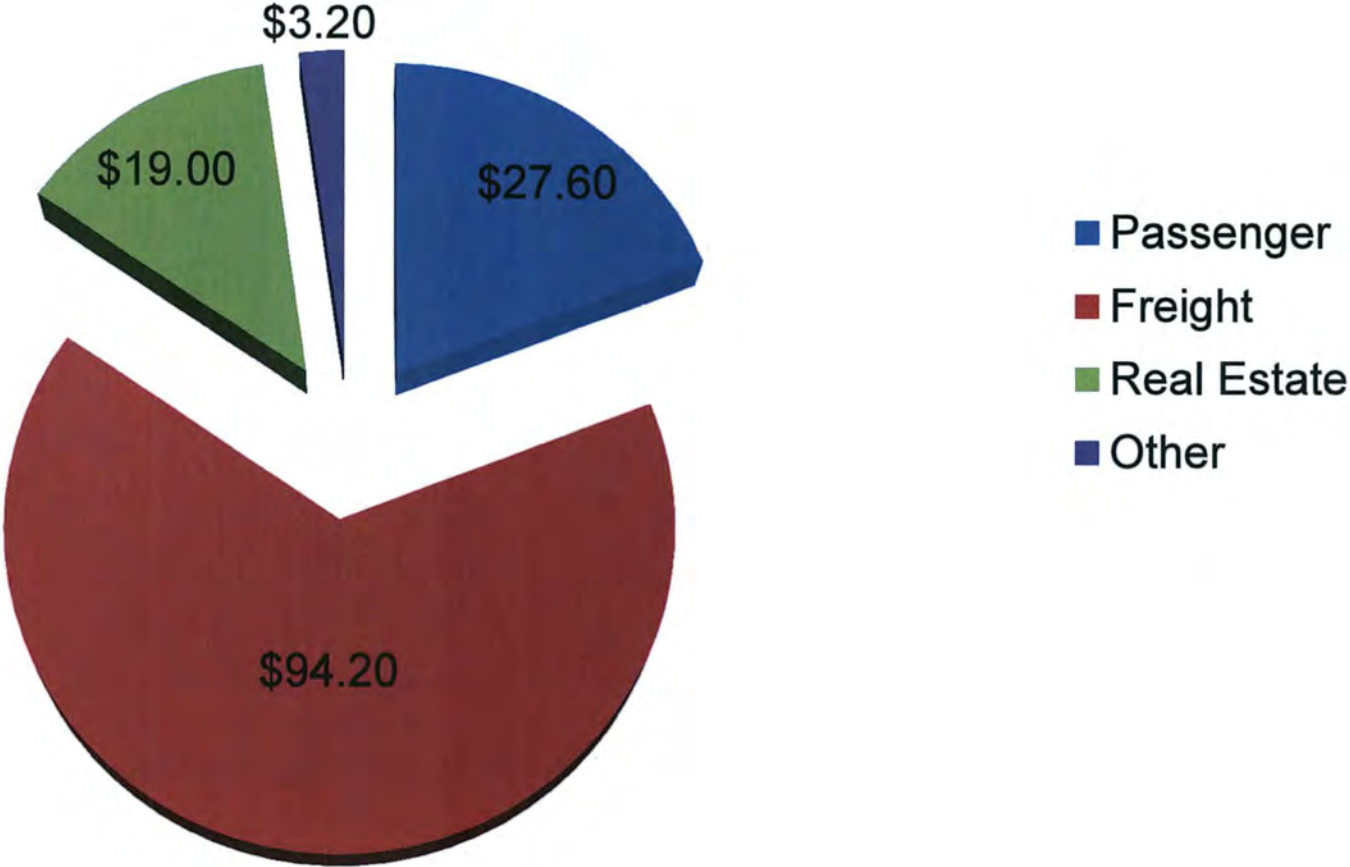
Sincerely,

Bill O'Leary
President & CEO
Alaska Railroad Corporation

cc: House and Senate Transportation Committee members



2014 ARRC Revenue by Service (Unaudited)
In millions

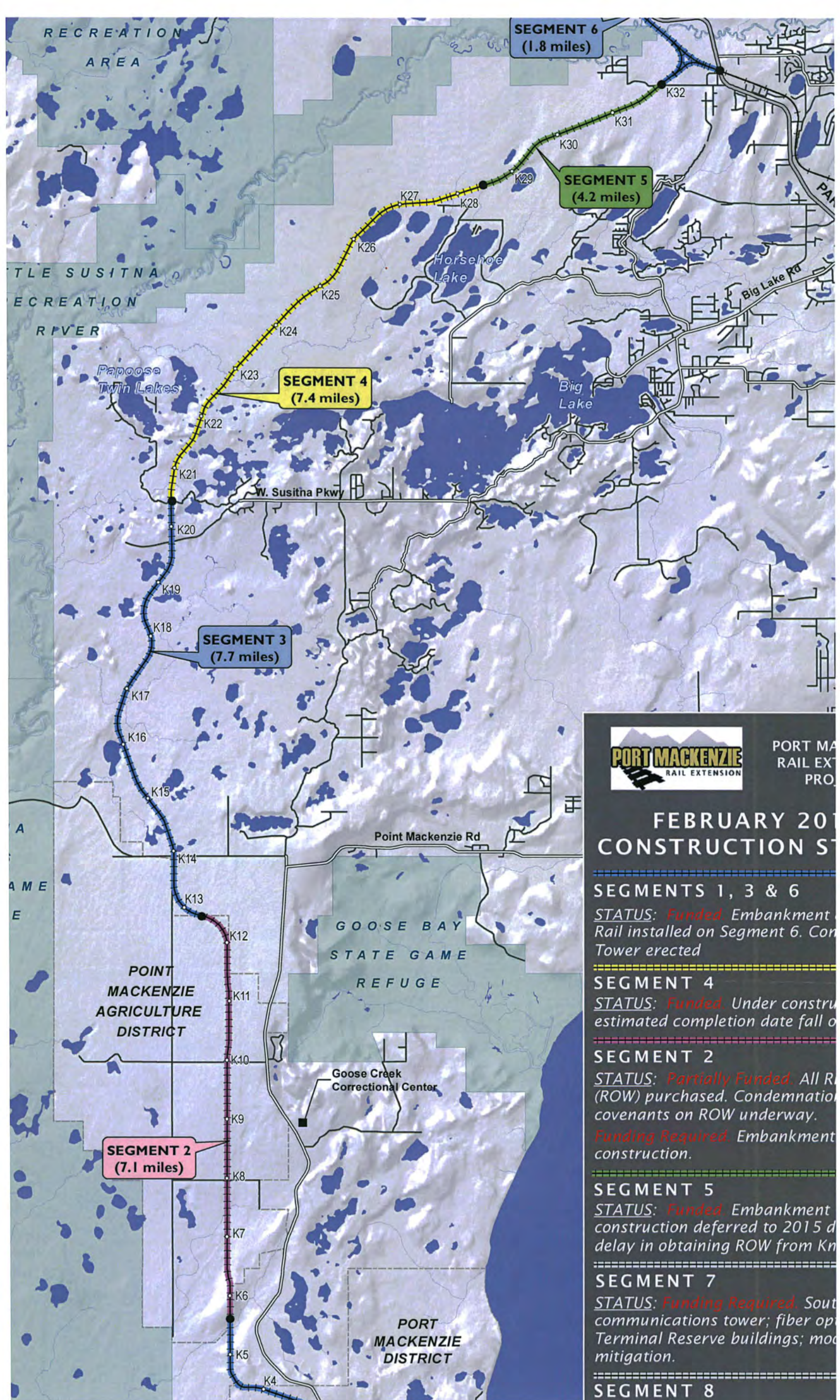




Alaska Railroad Corporation
Financial Highlights 2005 and 2014

Earnings (in thousands):	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 Unaudited
Operating Revenue:										
Freight	\$ 94,485	\$ 89,623	\$ 91,783	\$ 96,337	\$ 84,939	\$ 87,019	\$ 98,045	\$ 100,022	\$ 96,575	\$ 94,238
Passenger	19,472	21,292	23,304	24,550	21,455	20,783	22,382	24,027	25,650	27,605
Other	121	456	526	895	704	772	1,154	4,059	3,242	3,228
Grant	15,115	21,299	32,949	37,013	36,515	40,225	39,892	40,341	40,111	42,190
Total Operating Revenue	129,193	132,670	148,562	158,795	143,613	148,799	161,473	168,449	165,578	167,261
Operating Expenses	122,841	128,419	138,878	155,490	137,993	143,247	156,524	164,651	160,725	163,639
Operating Income	6,352	4,251	9,684	3,305	5,620	5,552	4,949	3,798	4,853	3,622
Non-operating Revenue (Expenses):										
Net Real Estate Income	6,506	6,510	6,670	10,407	9,365	9,378	8,548	10,104	10,929	11,626
Gain (Loss) on Sale Capital Assets	452	616	478	(13)	517	-	1,391	-	6	-
Investment Income	430	572	945	377	115	78	110	87	31	20
Interest Expense	(1,085)	(1,504)	(1,527)	(1,519)	(1,715)	(1,561)	(1,562)	(1,474)	(1,502)	(1,275)
Net Income	12,655	10,445	16,250	12,557	13,902	13,447	13,436	12,515	14,317	13,993
Balance Sheet (in thousands):										
Assets:										
Current Assets	48,005	53,896	59,702	76,867	73,928	97,910	111,098	104,860	113,716	126,221
Non-current Assets	525,954	660,350	774,812	777,255	787,327	790,208	815,756	885,032	924,364	936,754
Total Assets	573,959	714,246	834,514	854,122	861,255	888,118	926,854	989,892	1,038,080	1,062,975
Liabilities:										
Current Liabilities	27,449	34,322	38,108	44,464	40,768	43,863	54,645	50,933	49,642	50,558
Non-current Liabilities	375,331	496,356	598,263	629,927	606,714	611,626	626,949	683,417	710,207	720,194
Total Liabilities	402,780	530,678	636,371	674,391	647,482	655,489	681,594	734,350	759,849	770,752
Net Position	171,179	183,568	198,143	179,731	213,773	232,629	245,260	255,542	278,231	292,223
Total Liabilities & Net Position	573,959	714,246	834,514	854,122	861,255	888,118	926,854	989,892	1,038,080	1,062,975
Operating Ratio	0.95	0.97	0.93	0.98	0.96	0.96	0.97	0.98	0.97	0.98





PORT MACKENZIE
RAIL EXTENSION
PROJECT

FEBRUARY 2014 CONSTRUCTION STATUS

SEGMENTS 1, 3 & 6
*STATUS: **Funded*** Embankment construction; rail installed on Segment 6. Core Tower erected

SEGMENT 4
*STATUS: **Funded*** Under construction; estimated completion date fall of 2014

SEGMENT 2
*STATUS: **Partially Funded*** All Right-of-Way (ROW) purchased. Condemnation proceedings on ROW underway. *Funding Required* Embankment construction.

SEGMENT 5
*STATUS: **Funded*** Embankment construction deferred to 2015 due to delay in obtaining ROW from K29

SEGMENT 7
*STATUS: **Funding Required*** South communications tower; fiber optic; Terminal Reserve buildings; noise mitigation.

SEGMENT 8

