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China's rise to economic prominence is the biggest mega-trend of this century. China is already Alaska's 4th largest export market- and rising rapidly.

Does Your Company Have a China Strategy?

**1st Alaska-China Business Conference
Thursday, 1 September 2005 (8:30am to 5:00pm)
Hilton Anchorage Hotel**

You can't afford to miss this information-packed, one-day conference designed to provide you with the information you need to understand China's new economy and how to pursue business opportunities in this rapidly expanding market.

**WTCAK China Trade Mission: Shanghai - Beijing
September 17 – September 29, 2005**

Don't miss this chance to gain a first-hand perspective on the world's largest emerging market (and Alaska's fourth largest trading partner). Meet potential customers, business partners, and valuable contacts. Learn about China's history and culture.

World Trade Center Alaska

431 West 7th Avenue, Ste. 108 Anchorage, AK 99501

Telephone: (907) 278 – 7233

Fax: (907) 278 – 2982

For details and registration please visit WWW.WTCAK.ORG

2nd Annual
Alaska-China Business Conference
November 3, 2006
Hilton Anchorage Hotel

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WORLD TRADE
CENTER



ALASKA

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NEW CHINA, NEW REALITIES



2nd Annual Alaska-China Business Conference
Friday, November 3, 2006 (8:00am to 5:00pm)
Hilton Anchorage Hotel

Are you ready to take advantage of the new realities of China?

Gain the latest business intelligence and market insights
from experienced "China Hands"



Learn about resources to help you explore and pursue
business opportunities in Alaska's fastest growing export destination



Find out about the role of Hong Kong
as a gateway to the China Market



Meet the experts and have your questions
answered between sessions and during the reception

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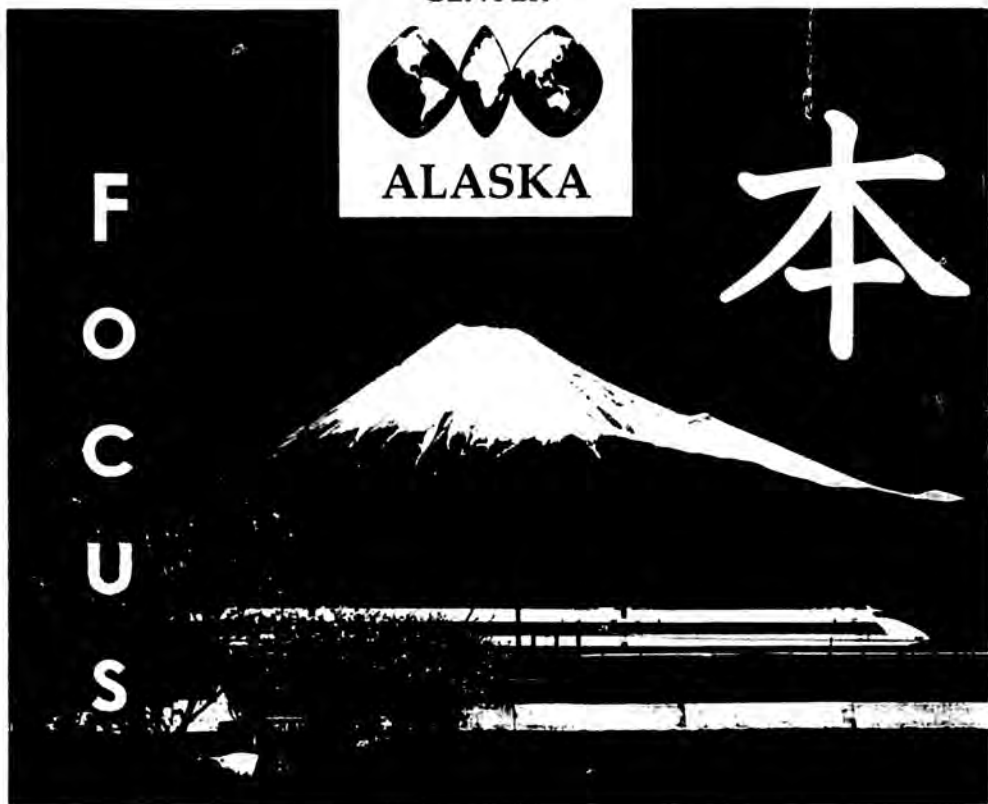
WORLD TRADE
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Join us for an exciting week of activities focused on Japan, Alaska's long-standing # 1 trading partner and major investor in Alaska's key industries. The week includes several business and cultural events to enhance your knowledge of Japan's economy, business environment and fascinating culture.

**Dinner with Minister Hiroaki Ishii
Embassy of Japan, Washington, D.C.**

Topic: "Japan's Long-Term Energy Needs and Strategy"

**Tuesday, November 15, 2005 (5:30pm to 7:30pm)
Hilton Anchorage Hotel**

Experience Japanese Culture through Cuisine

Wednesday, November 16, 2005 (5:30pm to 7:30pm)

Tempura Kitchen Restaurant (3826 Spenard Rd., Anchorage)

Enjoy Japanese cuisine while learning important cultural "do's" and "don'ts".

Executive Breakfast Briefing: JETRO representative

Friday, November 18, 2005 (8:00am to 10:00am)

Petroleum Club of Alaska (3301 C St # 120, Anchorage)

Gain insights about the services and information available from the Japan External Trade Organization as well from your local trade service providers.

World Trade Center Alaska

431 West 7th Avenue, Ste. 108 Anchorage, AK 99501

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For details please visit WWW.WTCAK.ORG



CHINA CALLING

中国

China Calling is a trade development program of World Trade Center Alaska. The program is designed to assist Alaskans to identify and pursue business opportunities in China

20 November 2006

Alaska's "China Era" Gathers Steam in 2006

Dear Members and Friends of the Center:

In case you missed the World Trade Center Alaska (WTCAK) 2nd Alaska-China Business Conference conducted on 3 November, I want to provide you with the latest information about Alaska's rapidly growing trade relations with China--Asia's big dragon. China is Alaska's fastest growing major export market and last year, for the first time in state history, China became our third largest trading partner, now trailing only Japan and Korea.

The Dragon Roars

In the attached copy of *Passport to Profit*, our periodic special report, we outline the impressive expansion of Alaskan exports to China. For the full year 2006, we are projecting that the state's exports to the country will reach \$400 million—up from just \$102 million five years ago. We also suggest, in the not too distant future, it is likely that Chinese firms will invest in Alaskan development projects as they seek the natural resources and foodstuffs necessary to support their growing and modernizing economy as well as to meet the rising expectations of a growing middle class. Please click here to view "The Dragon Roars" edition of *Passport to Profit*.

I hope you find this report informative and useful. This, and previous editions of *Passport to Profit*, can be found at our website: www.wtcak.org

I encourage you to bookmark our site and refer back to it frequently for updates on international trade, other business topics and for a listing of upcoming events.

2007 Statewide Economic Forecast Luncheon

You will want to mark your calendar now for the upcoming 2007 Statewide Economic Forecast Luncheon taking place on Wednesday, 17 January 2007 in the Howard Rock Ballroom of the Sheraton Anchorage Hotel. Wells Fargo Bank sponsors this unique and timely event. As in previous years, the luncheon is expected to sell-out, so please register early. We begin accepting reservations for individual seats and sponsored tables (10 seats) on Monday, 4 December.

Thank you, as always, for your support of the Center and for your participation in our programs and events. Working together, we can build a strong, diversified Alaskan economy.

Best Regards,

Greg Wolf
Executive Director



24 November 2006

Which Countries Will be the Next Big Markets for Alaska?

Dear Members and Friends of the Center:

Is it just me or has this year raced by? It's been a very busy year here at World Trade Center Alaska (WTCAK) and there's a lot more to come in 2007.

As the year comes to a close, I want to discuss one of WTCAK's trade development programs: **New Markets-New Customers**. This program got under way more than a year ago and represents the segment of our work devoted to seeking out new markets overseas for Alaskan exports and other business endeavors. It's an important program because in order for Alaska's international trade to grow we need to both expand sales to existing markets and develop new markets with high growth potential.

Historically, Alaska has benefited greatly by getting into emerging markets early, building trade relationships, and then reaping the dividends as these economies rise to prominence. Alaska formally entered the Japanese market in 1965. In that year, Alaska's export to Japan totaled \$30 million. Today, Alaska exports exceed more than \$1 billion to our number one trading partner. The story is true for Korea (our #2 partner) and, most recently, jumping early into China (our fastest growing major market) has also paid off in a big way.

So, where are the next big opportunities? Seeking an answer to that question, in a nutshell, is the driving force behind the **New Markets-New Customers** program at WTCAK. During the past year, we've begun our exploration of India and Singapore. We're also looking at Vietnam-- which last week joined the World Trade Organization (WTO) and whose current economic growth is second only to China--and other nations where Alaska's export characteristics match up with the import needs of these countries.

This is an exciting time to be involved with WTCAK. Stay tuned in 2007 for some important opportunities to position your company to benefit from the next major markets for Alaska. Be sure to make frequent visits to www.wtcak.org for updates, event announcements and special reports.

Best Regards,

Greg Wolf
Executive Director



Passport to Profit



Special Report No. 5

www.wtcak.org

November 2006

The Dragon Roars

Alaska's "China Era" Gathers Steam in 2006

By Greg Wolf

In my 18 years as an international trade and economic development professional in Alaska, we have not witnessed such a dramatic surge in exports to a major market as Alaska has experienced in the past five years with China.

From \$102 million in 2001 to \$337 million in 2005, China's growth as an export destination for Alaska has been unprecedented. In fact, last year, China even surpassed Canada, for many decades the state's third largest trading partner, to now trail only behind Japan and Korea among our Big Three export markets (see chart).

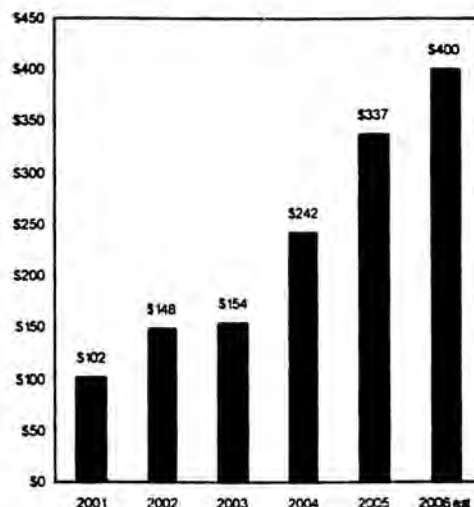
And, so far this year, between January and August (the latest period for which statistics are available), Alaska's exports to China continue to rise rapidly, up 44% over the same period last year. For the full year 2006, we project Alaska's exports to China to reach approximately \$400 million. Seafood is the primary export commodity, followed by fishmeal. Other important exports include minerals, forest products (mainly whole logs) and fertilizers (see chart). In addition to commodity exports, there are a number of Alaskan service-sector firms that have successfully secured business in China. These include oil and gas field service companies like VECO and Udelhoven.

World Trade Center Alaska (WTCAK) has made China a major focus of its efforts. Three years ago, we launched the "China Calling" program as an ongoing series of events and activities designed to give Alaskans the information, contacts and "hands on" assistance necessary to explore and pursue business opportunities in this exciting growth market. To date, the program has included a number of major events, such as the 1st and 2nd Annual Alaska-China Business Conferences, and a trade mission to Shanghai and Beijing. We have also conducted a number of presentations and seminars on how to do business in China, highlighting both the opportunities and challenges.

While most of the attention has focused on Alaska's growing trade relationship with China, we can also anticipate interest by Chinese companies to invest in Alaskan energy and minerals development projects. When one considers the amount of Chinese investment already occurring in places like Canada, Australia, South America, Africa and other resource-rich areas, it is only a matter of time before the hungry dragon casts its gaze on the attractive, yet largely untapped, opportunities in Alaska. In the not too distant future, I expect we will see Chinese firms joining the ranks of the British, Canadian and Japanese companies that have already made major investments in Alaska to develop natural resources and to build tourism infrastructure.

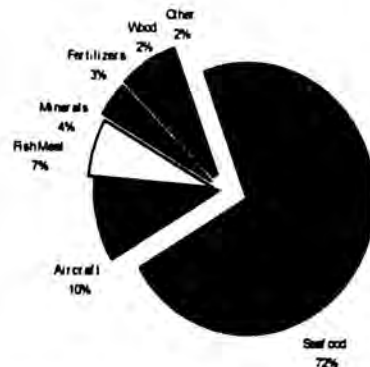
Alaska is well positioned to benefit from China's rise to economic prominence. We have the natural resources and foodstuffs they need to meet the requirements of an expanding and modernizing economy and to meet the rising expectations of a burgeoning consumer class. WTCAK is actively involved with its members and community partners to strengthen commercial ties between Alaska and China as the "China Era" proceeds.

Alaska's Exports To China
Yearly Totals - In Millions



Source: U.S. Census Bureau,
Origin of Movement Series

Alaska's Exports To China for
Year 2005 by Commodity





Passport to Profit



Special Report No. 4

www.wtcak.org

July 2006

The Lion at the Gate

Trade mission to explore new business opportunities

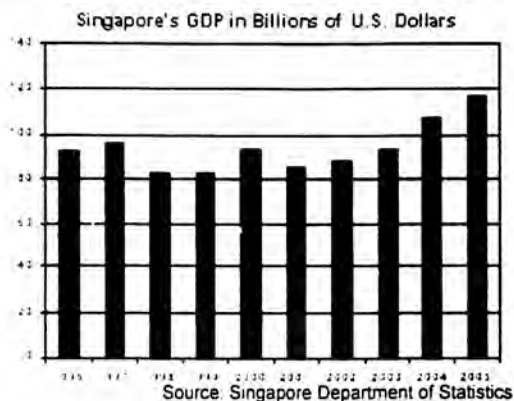
By Zoe Durner-Feiler and Greg Wolf

With China and India's dramatic economic ascent capturing much of the world's attention, other nations in the region are often overlooked. But while "Chindia" is still on the road to modernization, Singapore has achieved it, and is flourishing. As one of the most prosperous of the "Asian Tiger" countries, Singapore has a GDP per capita the equal of many countries in Western Europe. Last year, Singapore's GDP per capita measured at \$28,100, just \$3,400 less than Japan. Singapore has a strong economy that has weathered the Asian Economic Crisis (1997-1998) and SARS (2003) with only slight, temporary drops in its annual GDP. Singapore's economy is projected to grow another 4-6% this year, after a strong first quarter where growth was up 10%.



The statue of the Mer-lion before the towering buildings of central Singapore. The thriving nation of 4.5 million people is a gateway to China and S.E. Asia.

"Singapore" means "Lion City" in Malay, and though it is a small island country with a population of about 4.5 million, Singapore is a lion in terms of trade. As a gateway to Southeast Asia and China, Singapore has been an important strategic trading point since it was founded. Modern Singapore is considered to have been founded by Sir Thomas Raffles when he arrived at the behest of the British East India Company in 1819. It was a bold move, creating a British entrepot trade outpost in the middle of Dutch territory, but it was worth it, profiting both Singapore and Great Britain and setting Singapore on the road to becoming one of the world's largest trade hubs. Today, the Port of Singapore is one of the busiest in the world, and has been frequently voted The World's Busiest Port in terms of tonnage handled, most recently winning the title for 2004 and 2005. In addition, its airport was recently ranked the fourth most vital international air travel hub in the world.



DISCOVER NEW CUSTOMERS AND MARKETS FOR YOUR BUSINESS



World Trade Center Alaska will lead a Trade Mission to India and Singapore, September 23 - October 5, 2006

If you are interested in receiving details about the trade mission, please call us at (907) 278-7233 or send your name, address, phone number and e-mail address to: info@wtcak.org or fax us at (907) 278-2982



In 2006, from January through April, Singapore ranked fifteenth among Alaska's overseas markets. Exports to the city-state totaled \$7.1 million during this period. Refined fuel products accounted for about 90% of these exports. Considering that Singapore imports more than \$2 billion worth of fish and meat each year and that it is an island country which needs to import practically all of its natural resource requirements, opportunities to expand Alaska's trade relations with the country are abundant.

From September 23 to October 5th, World Trade Center Alaska will be leading the first Alaskan trade mission to India and Singapore. Mission participants will meet with government officials in both India and Singapore, U.S. government officials specializing in trade, and private business executives. Participants will learn about potential business opportunities, gain a greater understanding of the economic and business climates of the two countries, and get some valuable advice on how to navigate those markets. For more information about the trade mission, please contact us at 278-7233 or visit our website at www.wtcak.org.



Passport to Profit

WORLD TRADE CENTER



ALASKA

Special Report No. 3

www.wtcak.org

June 2006

The "Chindia" Phenomenon

Exploring new markets for Alaskan exports

By Zoe Durner-Feiler and Greg Wolf

For the past decade, the world has watched in awe as the two most populous countries in the world have started down a road toward becoming two of the most economically powerful nations in the world. India and China, the only two countries with populations exceeding 1 billion, are also countries with two of the highest average annual GDP growth rates, at 6% and 8% respectively over the last 10 years. Though they currently represent only 6% of the world's GDP combined, by 2050, India and China are expected to account for almost half of the global economy, according to *BusinessWeek*.

But China and India, for all that their rapid progress seems similar, follow very different paths. China's growth is cultivated mainly by foreign direct investment as it works toward becoming a manufacturing powerhouse, while India is mostly consumption driven as its Information Technology and services industries flourish. China has the hardware, India, the software. They complement each other even as they compete for resources. From this phenomenon came the word "Chindia," coined by Indian politician Jairam Ramesh. It has been used to describe the amazing economic progress of these two countries.

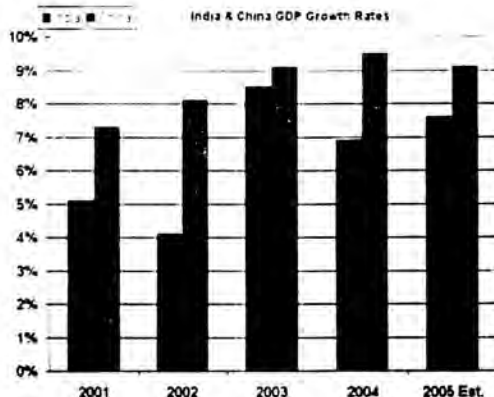
According to U.S. News & World Report, China boasts over 100 million people in its middle class. India over 60 million. Each year both countries graduate about 2.5 million students from college to join the ranks. The new generation of young Chinese has known nothing but economic prosperity and political stability. So, for the first time in China, people are spending more of their excess than past generations, rather than saving it all. And India isn't far behind. For the past decade, India's consumption has been increasing at an average rate of 5.3% a year and China at 6.4% and rising.

The rapid development of India and China has been compared to the economic miracles of Post-War Japan and South Korea. However, neither of those countries had the population that India and China have, and thus it is predicted that if Chindia continues to prosper, it may be prime to dominate the global market in the mid twenty-first century. Looking at Alaska's trade history with Japan and Korea, Alaska's exports to those countries grew dramatically as they rose to economic prominence. Alaska is well situated to benefit from trade with India and China, and with Chindia's progress mimicking the historical path of Alaska's top two trading partners, trade relations with Chindia may very well surpass Alaska's previous successes.



Above: Shoppers crowd onto Nanjing Road, Shanghai. Chinese consumption is expected to continue to increase.

Below: A department store in Mumbai, India. More Indians are visiting stores like this as the number of those with discretionary purchasing power rises.



Sources: The World Bank Group, CIA World Fact Book

The trade relationship between China and Alaska has already borne fruit in response to China's dramatic economic growth. Since 2001, Alaskan exports to China have grown by more than 200%. Last year, Alaska's exports to China reached a record \$337 million, a rise of 40% over the previous year. This increase enabled China to displace Canada from its long held position as the state's third largest export market.

As China's demand for natural resources continues, we expect Alaska's exports to the country to continue to expand at a healthy pace. So far this year, through April, exports from Alaska to China are up more than 16% compared with the same time period a year ago. World Trade Center Alaska (WTCAK) has made China a major focus of our efforts. Through our "China Calling" program, we have conducted a trade mission to Shanghai and Beijing and organized the 1st Alaska-China Business Conference, among other China-related activities and programs.

India, on the other hand, is not currently a significant export market for Alaska. As of April this year, India ranked 44th among Alaska's overseas trade partners, with exports last year totaling less than \$100,000. But historically over the past decade, trade with India has been more significant, primarily in the area of forest products. It is unlikely that India is familiar with what Alaska has to offer, and equally true that Alaskans are unaware of the opportunities provided by India's growing economy.

This situation, however, is about to change. In May, WTCAK conducted the Alaska-India/Singapore Business Conference and, in September, WTCAK will lead the first Alaska trade mission to India, with an intermediary stop in Singapore. Mission participants will get a "first-hand" look at these two fast growing markets and will make valuable contacts as they meet with U.S. and host country government trade officials and private sector executives. Participants will learn about potential business opportunities, gain a better understanding of the economies and business climates in these countries and get advice on how to avoid the pitfalls. The conference and mission are part of WTCAK's "New Markets-New Customers" program designed to help Alaskan companies identify and pursue opportunities in emerging markets for Alaskan exports. For more information about the trade mission, or this program, please contact us at 278-7233 or visit our web site: www.wtcak.org



DISCOVER NEW
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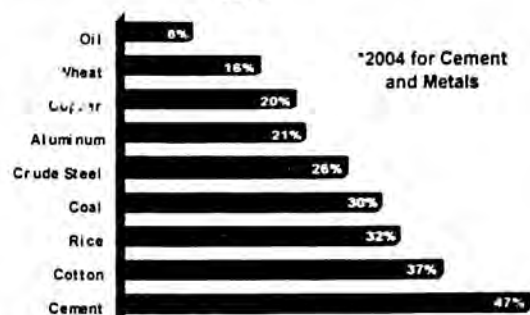
World Trade Center Alaska will lead a Trade Mission to India and Singapore, September 23 - October 5, 2006

If you are interested in receiving details about the trade mission, please call us at (907) 278-7233 or send your name, address, phone number and e-mail address to: info@wtcak.org or fax us at (907) 278-2982



China and India's economic progress has captured the headlines of several major magazines.

China's Estimated Share of Global Consumption in 2005*



Source: BusinessWeek (U.S. Geological Survey, Energy Dept., Agriculture Dept.)

What Others Say...

"China and India are setting the stage for the greatest period of discovery, invention, and technological change the world has ever known."

—Jeremy Siegel, Ph.D., Wharton School

"The Indian market, and its one billion plus population, presents lucrative and diverse opportunities for U.S. exporters with the right products, services, and commitment." — U.S. Commercial Service

"The likely emergence of China and India, as well as others, as new major global players will transform the geopolitical landscape"

—National Intelligence Council, 2020 Project



Passport to Profit

Special Report No. 2

www.wtcak.org

March 2006

Passage to India

Trade Mission to Explore New Business Opportunities for Alaska
By Greg Wolf

While China's rapid rise to economic prominence has captured the lion's share of the headlines, **India, the world's largest democracy, has been on a fast track to expand and modernize its own economy.** For America, India is a major trading partner and a strategic ally. President Bush's visit to India earlier this month highlighted the importance of this relationship.

Like China, India has a growing population that already exceeds 1 billion people. In order to raise the standard of living of its citizens, India needs to grow its economy through industrialization and modernization. It is making steady and impressive progress: annual growth of its Gross Domestic Product (GDP) has averaged approximately 6% over the past 10 years. Analysts expect this positive trend to continue in the foreseeable future and are forecasting GDP growth of 7 to 8% for 2006.

At present, India is not a significant export market for Alaska. In 2005, India ranked 60th among the state's worldwide trading partners. Last year, exports from Alaska to India totaled less than \$100,000. But looking back over the past decade, at various times, India has been a more substantial trade partner. For example, in 1997, India purchased nearly \$5 million dollars of forest products and, as recently as 2002, the country purchased forest products totaling nearly \$1 million. Outside of this category, exports to India have been minor. It is doubtful that Indian buyers are familiar with what Alaska has to offer and equally true that

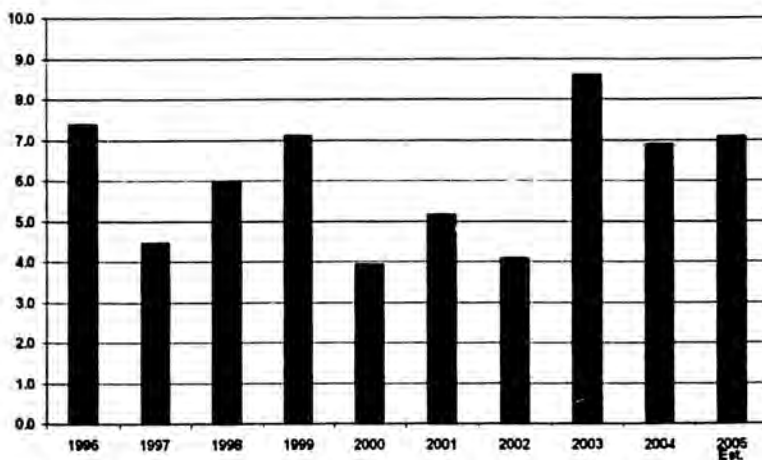


India's famous Taj Mahal is one of the 'seven wonders of the world' and a major tourist attraction.

"India's natural advantages make it poised to take a leading role in the global economy. In fact, India has the potential to be an economic powerhouse."
U.S. Secretary of the Treasury, John Snow. Nov. 2005-CNN Money report.

"After years of grinding poverty and stagnation, India has taken off in what to many seems like a miracle... By 2010 India may be the largest English-speaking country in the world, with more English speakers than the United States." -From Three Billion New Capitalists-The Great Shift of Wealth and Power to the East by Clyde Prestowitz, former Counselor to the Secretary of Commerce during the Reagan Administration.

India's GDP Growth Rate



Sources: The World Bank Group, CIA World Fact Book

Alaskans are unfamiliar with potential trade opportunities with this developing economic powerhouse.

This situation, however, is about to change. In a few months, World Trade Center Alaska (WTCAL) will be leading the first Alaskan trade mission to India. The mission will include an intermediate stop in **Singapore**. Mission participants will meet with Indian and Singaporean government leaders, U.S. government officials involved with trade, and private sector executives. Participants will learn about potential business opportunities, gain a better understanding of the economies and business climate in these countries, and make some valuable contacts. To find out more about this trade mission, please contact WTCAL at 278-7233.



Passport to Profit

Special Report No. 1

www.wtcak.org

February 2006

Enter The Dragon

The 2000's To Be Alaska's "China Era"

By Greg Wolf

In Alaskan trade circles, 2005 will go on record as the year China became the state's third largest trading partner, a position held for many decades by our next-door neighbor, Canada. Driven by strong demand and higher prices for natural resources, exports to China have surged dramatically in recent years, up more than 200% just since 2001. All signs point to a continuation of this growth in 2006.

Through the 90's and up to 2001, Alaskan exports to China hovered in the \$100 million range. Beginning in 2002, however, export shipments to China began to take off: \$148 million in 2002, \$154 million in 2003 and \$242 million in 2004. For the full year ending 2005, we anticipate exports to reach some \$335 million. This is truly remarkable growth in a very short period of time.

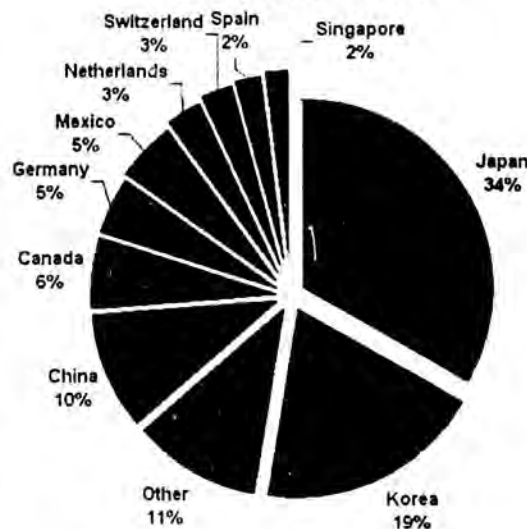
Seafood is the primary export commodity from Alaska to China, accounting for 71% of the state's total exports to the country. The second-largest export is seafood for non-human consumption, such as fishmeal. The three other significant export categories are minerals, fertilizers and forest products (primarily whole logs). In addition to commodity exports, there are a growing number of Alaska service sector companies (in areas such as oil and gas field support, project management and other technical services) who have opened offices in China and are exporting Alaskan "know-how" to customers and partners in the country.

World Trade Center Alaska (WTCAK) has made China a major focus of its efforts. Through our "China Calling" program, WTCAK is conducting an ongoing series of activities and events designed to assist Alaskans to identify and pursue business opportunities in China. In 2005, events included the 1st Alaska-China Business Conference and activities included the Alaska Trade Mission to Shanghai and Beijing.

In carrying out this program, WTCAK works closely with our trade colleagues at the State of Alaska and the Alaska Export Assistance Center. We are also working cooperatively with other organizations, including the Anchorage Economic Development Corporation and the University of Alaska, Anchorage who are working to develop business and education ties between Anchorage and China.

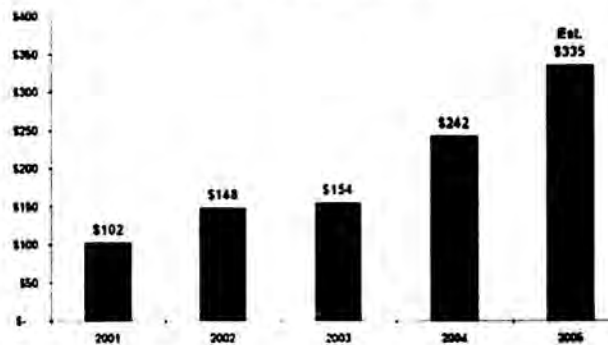
Looking back, Alaska's pioneering trade development in the '60's and 70's in Japan, and later with Korea in the '80's and '90's, has paid handsome dividends. Alaska's exports to those countries grew dramatically as those countries rose to economic prominence. Now comes China, Asia's big dragon. Our state is well positioned to benefit, perhaps even exceeding our previous successes, as the "China Era" for Alaska commences.

Alaska's Export Markets
January - November 2005



Source: U.S. Census Bureau, Origin of Movement Series

Alaska's Exports to China
Yearly Totals - in Millions



Source: U.S. Census Bureau, Origin of Movement Series

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At this time we will call the meeting to order.

Let the record reflect the time is 11 am on Tuesday, February 20, 2007.

Let the record show that

- Representative Gatto
- Representative Lynn
- Representative Kohring
- Representative Johansen
- Representative Doll
- Representative Doogan
- And myself Representative Neuman

and that we have a quorum.

(Let the record also reflect that _____ has been excused from the committee meeting today.)

Today we will be hearing a:

Moving Alaska's Economy - by the Alaska Railroad Corporation
Presented by Patrick Gamble, President & CEO

Before you start please, state your name for the record.

Does the committee have any questions?

Thank You.

This committee is adjourned



Alaska Railroad 2007 Program of Projects

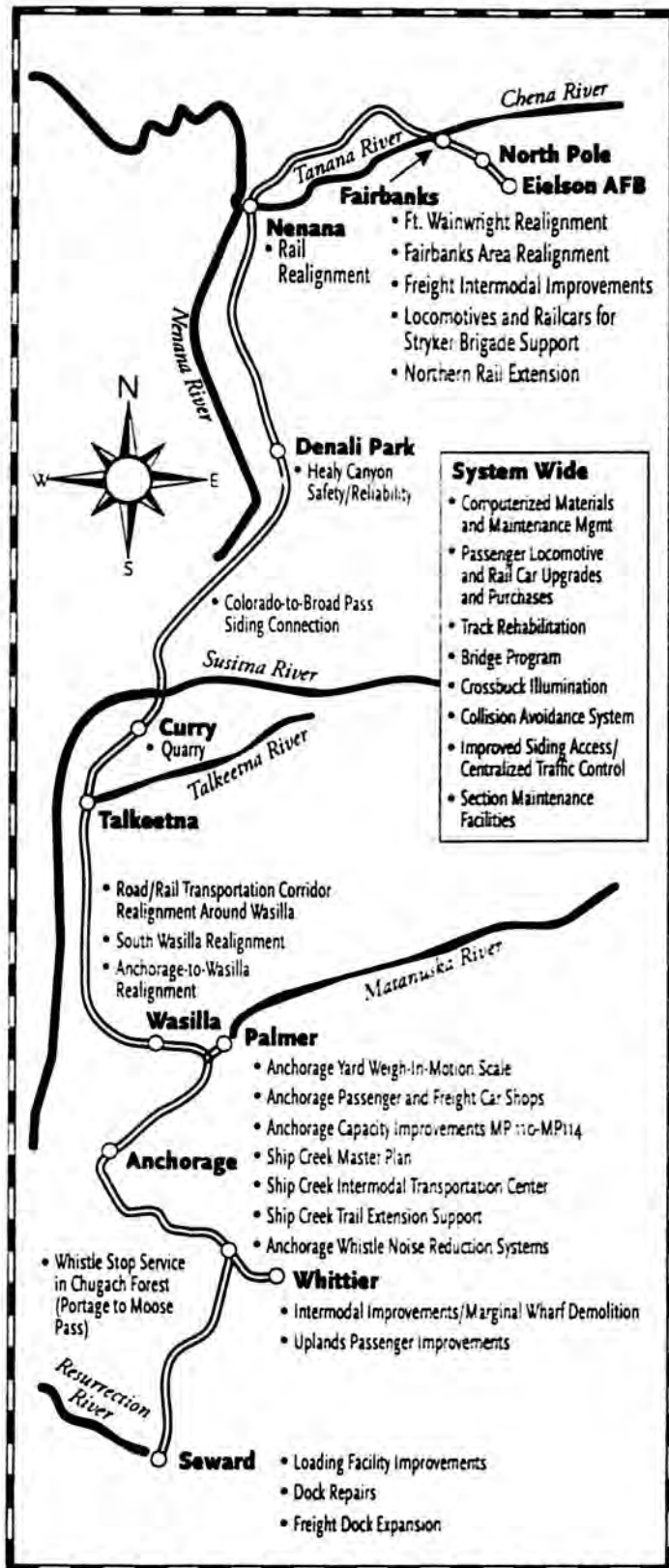
The Alaska Railroad Corporation (ARRC) continues to pursue a comprehensive program of capital improvements. ARRC is investing millions on rail, ties and ballast to aggressively improve infrastructure. Safety and efficiency upgrades include projects to straighten the main track in several areas, build longer sidings (railroad "passing" lanes), add automated and heated switches, and install a collision avoidance system. The railroad is also capitalizing on opportunities to better serve Alaskans through new depots, passenger services and equipment. Detailed project descriptions are available on ARRC's website, www.AlaskaRailroad.com.

Established in 1923, the Alaska Railroad is the last of the full-service railroads in the United States, offering both freight and passenger service. 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, however it does not receive state funding to operate. ARRC relies on passenger, freight and real estate revenues to operate its trains and maintain tracks and facilities.

Capital Project Funding

There are several sources of funding for capital improvements that have been made over the past decade, since 1996:

- **Federal Agencies:** Approximately \$580 in federal grants received to date, including approximately \$51.3 million for 2007.
- **Required Match:** Some federally-funded projects require a funding match of between 9% and 25% from the Alaska Railroad. Since 1996, ARRC has provided \$32.8 million in matching contributions, including \$3.4 million in 2007.
- **ARRC Internal Fund Investments:** Beyond a match to federal funds, ARRC invests millions of internally-generated dollars each year on many capital projects that are not federally funded. Since 1996, ARRC will have spent an additional \$158 million of its own income on capital improvements, including \$15.6 million in 2007.
- **Revenue Bonds:** The Alaska Railroad sold \$76.1 million worth of revenue bonds in 2006, primarily to accelerate track rehabilitation efforts. \$30 million of these funds will be expended on Track Rehabilitation in 2007. Bonds will be repaid with future Federal Transit Administration formula fund appropriations.



Frequently used acronyms:

- ARRC = Alaska Railroad Corporation
- FTA = Federal Transit Administration
- FRA = Federal Railroad Administration
- FHWA = Federal Highway Administration
- DOD = Department of Defense
- EA = Environmental Assessment
- EIS = Environmental Impact Study

Seward Loading Facility

ARRC acquired the Seward 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. The first phase of conveyor speed upgrades was completed in 2005. In 2006, ARRC obtained permits to make a 6-acre expansion of the coal stockpile area in order to meet market demands. FRA provide 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. With no additional federal money in place, ARRC is funding minor ongoing capital improvements.



The Seward loading facility dock loads a coal ship.

Seward Freight Dock Expansion

ARRC proposes to expand its freight dock in Seward in phases to improve safety, efficiency and capacity of freight intermodal operations (ship-to-train, ship-to-truck, ship-to-barge). Constructed between 2000 and 2002, the existing freight dock is 200 by 620 feet. Phase I of the expansion would widen a portion of the dock from 200 feet to 320 feet. Later phases would widen the entire dock to 320 feet, essentially doubling the dock's 5.3 acre footprint to 10.6 acres. Permit applications submitted in 2006; expansion efforts could begin in 2007 and be complete by 2008. \$2.2 million budget for Phase I, funded by ARRC.

Whittier Master Planning

ARRC is pursuing a Whittier Master Plan to guide development of improved railroad infrastructure. Several previous planning efforts have contributed to the Master Plan, and have spurred several infrastructure improvement projects in

recent years. Future actions recommended by the Master Plan include: a) passenger intermodal improvements including demolition of the condemned Marginal Wharf and construction of improved public use facilities; b) railyard reconfiguration and track improvements to separate freight and passenger activity; c) security measures including yard fencing and lighting, camera installation, and detection equipment for passenger facilities; and d) freight operational improvements, including barge slip replacement. \$2.1 million to demolish and remove the Marginal Wharf, funded by 91% by FTA and 9% by ARRC.

Whistle Stop Service in Chugach National Forest

ARRC and the U.S. Forest Service (USFS) are partners in developing a whistle stop service in Chugach National Forest, with up to six recreational sites between Portage and Moose Pass that will be accessible by rail and interconnected by trail. Sites include passenger rail platform, passenger shelter, toilets and interpretive signage. Other features may include picnic, camping and wildlife viewing facilities. The project also calls for purchase of two self-propelled rail cars (DMU). An EA began in 2005 and was complete in 2006. Construction at the first stop at Spencer began fall 2006, and will be complete in 2007. \$1.6 million for environmental and planning, and Spencer site construction, funded by USFS and ARRC. USFS funded \$4.7 million for a double-deck DMU for delivery in 2008. Estimated \$14 million is needed to construct infrastructure and recreational facilities at all six sites. Funding is not yet identified.



Above: a double-decker self-propelled (DMU) "commuter" railcar demonstration model. Below: proposed whistle stop sites.

Anchorage Rail Capacity Improvements MP 110-114

ARRC is investigating alternatives to increase capacity along the mainline track from the Anchorage International Airport Spur (near MP 110) to the Anchorage Rail Yard (MP 114), in order to alleviate congestion, enhance safety, increase operational efficiency, and prepare the Railroad to better handle future passenger and freight train demands. Alternatives fully analyzed in the EA include a) no action and b) double track the entire corridor. A siding and double track of part of the corridor (between Westchester Lagoon and the Anchorage Yard) were also originally considered as alternatives, but were later dismissed because they would not accomplish the needed capacity improvements. A draft EA is expected to be sent to the FTA for consideration in 2007. \$1 million budget for the EA and public involvement is funded 80% by FTA and 20% by ARRC. Double track option is estimated to cost \$40 million.

Whistle Noise Reduction Systems

ARRC tested and is installing train whistle noise reduction systems at at-grade (same level) road-rail crossings in Anchorage. One system involves wayside horns located at the crossing, which direct a whistle-like warning toward vehicle traffic. The other system involves concrete barriers running up to 100 feet down the roadway median on either side of the crossing. The purpose of this project is to reduce noise and confirm that the whistle reduction systems can operate reliably in the Alaska environment. The budget to test two sites was \$221,300. An additional \$994,100 is being used to establish a Quiet Zone from the Anchorage Rail Yard to Klatt Road. Funded by FRA.



A median barrier is installed at an Anchorage crossing.

Anchorage Yard Passenger and Freight Car Shops

ARRC proposes to build a new freight car repair shop and to remodel the existing car shop into a service and repair facility dedicated to passenger cars. Both shops would be located within the Anchorage Railyard. The project would separate passenger and freight operations, allowing more timely and efficient repair and maintenance of the railcar fleet. Investigation and evaluation of potential car shop sites began in 2006. Site evaluation and conceptual design is expected to be complete in 2007. \$300,000 for environmental compliance and conceptual design funded by revenue bonds underwritten by FTA. Final design and construction estimated at \$40 million; funding not yet identified.

Anchorage Yard Weigh-In-Motion Scale

ARRC is purchasing and installing a weigh-in-motion scale to replace the current static scale in the northeast area of the Anchorage Railyard. The new system can weigh entire trains, a group of several cars, or individual cars as they pass over the weigh bridge at speeds of up to 10 mph. The weigh-in-motion scale will greatly reduce employee exposure to pinch points and slip-trip-fall injuries by avoiding rail car coupling and uncoupling. It will also enhance operational efficiency by speeding up the weighing process. Equipment purchase and installation estimated to cost \$360,000, funded by ARRC.

Ship Creek Intermodal Transportation Center

ARRC is designing and engineering 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. Construction on the first phase will begin in 2007, and will entail relocation of utilities, construction of two new tracks and rehabilitation of two tracks between the existing depot and Ship Creek Avenue. Future phases will include constructing a service / office building, rehabilitating the historic depot, and constructing a new departure lounge over the tracks and a pedestrian skybridge connecting to downtown. \$19.3 million for conceptual and environmental work, preliminary design, and Phase I final design and construction is funded 91% FTA and 9% ARRC. Total cost is estimated at \$60 million (2005 dollars).



A model of the Ship Creek Intermodal Center concept.

Support of Ship Creek Trail Extension

ARRC is supporting a Municipality of Anchorage (MOA) effort to complete the Ship Creek Trail Extension project. The Railroad became involved in 2001 to help build a trail bridge over the mainline tracks. MOA and the Railroad began design work on the trail bridge in 2001. Bridge construction began in spring 2006, with completion anticipated in 2007.

Anchorage-to-Wasilla Track Realignments

ARRC is realigning 44 miles of mainline track, straightening about 70 curves, between Anchorage and Wasilla. The project will increase the speed that trains can safely travel, significantly improving operational efficiency and reducing operational costs. Travel time between Anchorage and Wasilla is expected to drop from 90 minutes to less than an hour, making rail commuter service feasible. Straighter track also lessens the risk of derailment, and reduces rail maintenance and wheel repair. The project was substantially complete in 2006, except for the Knik River Bridge (scheduled for completion in 2007) and straightening of curves at MP 133 (on hold indefinitely due to an underground ice lens). The Eagle River-to-Wasilla budget is \$22.3 million, funded 80% to 91% by FTA and 9% to 20% by ARRC. The Anchorage-to-Eagle River (military installations) budget is \$55.2 million, funded primarily by the U.S. Department of Defense.



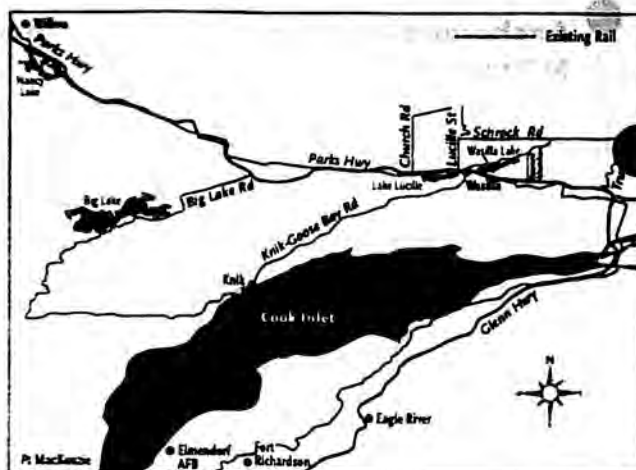
Intersection of new and old alignments at MP 126, near the end of the realignment on Fort Richardson.

South Wasilla Track Realignment

ARRC plans to straighten curves along the mainline track in South Wasilla, between ARRC MP 154 and 158. Realignment and track straightening would eliminate five at-grade crossings, reduce derailment risk, reduce operational and maintenance costs, and allow for faster train speeds. An EA of alternative realignment routes was completed in 2005. \$246,000 for conceptual engineering and the EA and \$2.72 million for preliminary engineering and land acquisition, funded by FTA with matching funds from ARRC. \$3.35 million to continue right-of-way land acquisition funded 91% by FHWA and 9% by ARRC. Total cost for construction of Phase One (MP 154 to 156) is estimated at \$24 million.

Road/Rail Transportation Corridor Realignment Around Wasilla

ARRC, Alaska Department of Transportation and Public Facilities (ADOT/PF), City of Wasilla (City), and Matanuska-Susitna Borough (MSB) are cooperating in the planning and development of an environmental impact study (EIS) for a multimodal corridor within Wasilla and the Mat-Su Borough. The EIS, which is expected to begin in 2007, will entail extensive public involvement, and in-depth analysis of environmental impacts for alternative alignments. As the lead agency, ADOT/PF has committed \$2 million toward the environmental work; ARRC has committed \$800,000 thus far.



Wasilla Road-Rail Realignment Study Area.

Curry Quarry Development

ARRC is developing a 10-acre quarry site located within its Curry Reserve, about 22 miles northeast of Talkeetna. The quarry will provide ballast, riprap, armor stone and other rock materials for construction and maintenance of the railroad's track. The project includes a 1-1/2 mile truck access road. Design was complete in 2005. The access road was constructed in 2005 and 2006. In 2007, new facility tracks will be constructed and the site prepared for mining. \$4.5 million budget funded by ARRC.



Curry quarry site development plan.

Colorado to Broad Pass Siding

ARRC proposes to connect the siding at Colorado (60 miles south of Healy) with the siding at Broad Pass (seven miles north of Colorado) by adding approximately 6.1 miles of new siding track and signal control. The project effectively creates a strategic section of double track, facilitating greater flexibility when trains meet on the single mainline track, thereby reducing run time between Anchorage and Fairbanks. Field work and data collection began in 2004 and was completed in 2005. Final design and construction is scheduled to begin in 2010. \$100,000 for environmental and engineering work funded by ARRC. Construction is conceptually estimated to cost between \$28 and \$32 million; funding is not yet identified.

Healy Canyon Safety and Reliability Program

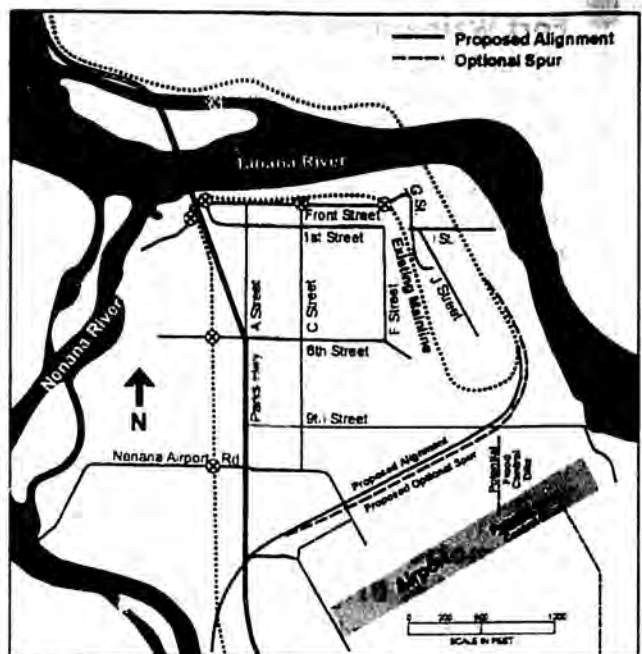
Healy Canyon lies between Denali Park Station and Healy. The tracks follow the Nenana River gorge on a narrow grade requiring two tunnels. ARRC proposes a series of projects to 1) stabilize the track bed in Healy Canyon; 2) control the rock fall problems; 3) "daylight" Moody Tunnel, i.e. removing the top of the tunnel; 4) realign tracks around Garner Tunnel; and 5) realign the tracks to straighten the corridor. The purpose is to enhance safety by addressing problems associated with the area's steep slopes and erosion-prone soil; to enhance reliability by decreasing delays; and to reduce operational costs by increasing speeds along straighter track. Total cost is estimated at \$74 million. \$2.9 million in FRA funds have been used on Healy to date. \$1.7 in FTA revenue bond money is budgeted for 2006 and 2007, and \$900,000 in FTA funds is budgeted for 2008.



Track is aligned around Garner Tunnel, and the tunnel is sealed, in 2005.

Nenana Rail Realignment

ARRC proposes to realign the railroad mainline track around the downtown area of 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. The purpose is to improve the safety of rail/highway crossings and railroad operations, reduce transportation time, and reduce operating costs. ARRC completed an EA of three alternative realignment routes and a "no action" alternative in 2004. Final design began in spring 2005. Right-of-way acquisition began in 2006 and will continue through 2007. \$1 million budget for the EA funded 91% by the FTA and 9% by ARRC. For 2006-2007, \$947,319 for land acquisition funded by FHWA and administered by FTA, with a 9% match from ARRC. Estimated \$25 million budget for construction and land acquisition for preferred alternative. Funding for construction has not yet been identified.



Nenana Rail Realignment preferred alternative.

Fairbanks Freight Intermodal Improvements

ARRC and the ADOT/PF are pursuing projects that will improve the Freight Intermodal area of ARRC's Fairbanks Rail yard. ARRC is leading improvements to Danby Street intersection access by moving and improving at-grade crossings, constructing a centralized trailer parking area near the entrance and adjacent to Danby, paving Danby Street access, paving and striping the intermodal unloading area and improving drainage. Future improvements call for 100-foot high mast lighting. ADOT/PF is leading improvements to Phillips Field Road by resurfacing and strengthening existing pavement, widening the shoulders, replacing and improving guardrail, and removing vegetation and other sight obstruction. FHWA is funding 91% of the projects with a \$5 million grant through ADOT/PF. ARRC and ADOT/PF will provide a 9% match to the grant; ARRC's match contribution is \$248,000.

Fairbanks Area Rail Realignment

ARRC is analyzing options to a) realign and improve safety of the mainline track, including potential realignment outside the more populated areas of Fairbanks (*previously known as the South Fairbanks Rail Realignment - SFRR - 2006*); and b) realign and improve the Eielson Branch, from the new Fairbanks depot to the end of the branch near Eielson AFB (*previously known as the Eielson Branch Rail Realignment EA - EBRR EA - in 2006*). In December 2006, the Ft. Wainwright segment of the EBRR EA was separated. For 2007, SFRR and EBRR efforts were combined into the Fairbanks Area Rail Realignment (FARR), which will likely require an Environmental Impact Statement. Until EIS funding is identified, FARR will move forward with an alternatives analysis that incorporates the findings of previous studies. \$250,000 is budgeted in 2007 funded 91% FTA and 9% ARRC.

Fort Wainwright Rail Realignment

ARRC proposes to improve and/or realign five miles of track through Fort Wainwright. Part of the Eielson Branch, the segment lies between MP G3.0 (Trainer Gate Road), and MP G8.0 (Badger Road). The fort segment was included in the EBRR EA, however, through public involvement, it became clear that part of the branch realignment would be better addressed in a broader study that included track realignment around Fairbanks. This broader effort is now known as FARR. Because the Ft. Wainwright Rail Realignment (FWRR) has immediate need and independent utility federal funding agencies agreed to pursue FWRR as a separate EA. Remaining DOD funding for EBRR is redirected to FWRR. DOD appropriated an additional \$12 million to finish design and begin construction in 2007. An additional \$25 million is needed to complete FWRR construction.

Locomotives and Railcars to Support the Stryker Brigade

ARRC has ordered four SD70MAC locomotives and 30 flat cars to enhance its capability to support the 1st Stryker Brigade, 25th Infantry Division, at Fort Wainwright. Additional locomotives and railcars will provide more flexibility and capacity to meet the brigade's demands for reliable transport. Delivery of the flat cars and locomotives is expected in 2007. \$16 million budget funded through DOD and administered through FRA.



ARRC crews load 1st Stryker Brigade vehicles and equipment.

Northern Rail Extension

ARRC proposes to extend its mainline track from Eielson AFB, about 80 miles southeast to Delta Junction. The extension may include a 15-mile spur from Flag Hill to Blair Lakes Military Training Area. 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 Surface Transportation Board initiated an EIS in fall 2005. The EIS, preliminary engineering and design is estimated to cost \$12.5 million, funded by a DOD appropriation, administered by the FRA. Construction cost is estimated at \$450 to \$800 million. Funding is not yet identified.



Northern Rail Extension: Potential alternatives for a proposed railroad extension from Eielson AFB to the Delta Junction area.

Passenger Locomotives and Cars

ARRC has a fleet of 58 passenger-related train vehicles, including 14 locomotives, 3 power/cab cars, 37 locomotive-hauled cars/coaches, and four self-propelled rail diesel cars. This equipment varies in age and condition. For 2006-07, \$7.15 million was budgeted to purchase two bi-level dome coaches and \$5.4 million is budgeted to purchase two low-level dome coaches, funded 91% by the FTA and 9% by ARRC. Also in 2006, \$1.55 million was spent to rebuild the *Denali Car* to include a bedroom suite, full kitchen, dining and conference areas; funded \$800,000 by the Rasmussen Foundation/Ed Rasmussen and the remainder by ARRC.



The new bi-level dome coaches offer first class service for the first time during the 2005 summer season.

Improved Siding Access

ARRC is improving signalization and access to sidings (turnout passing lanes) by replacing manual switches with remote controlled switches, locating switch locations, lengthening existing sidings to accommodate longer trains, upgrading rail and ties on existing sidings, building new sidings, and installing Centralized Traffic Control (CTC). These efforts are enhancing efficiency by enabling movement of more and longer trains in meet-and-pass situations. The risk of injury and incidents is reduced with the introduction of a fail-safe system to determine switch status. FRA provided more than \$24 million between 2001 and 2005, \$2.5 million in 2006 and a budget of \$3.066 million in 2007 funded 91% by FTA and 9% by ARRC.

Collision Avoidance System

ARRC is developing a multi-phased program to design, develop, and implement a communication-based train control system that uses data radio communications between train dispatchers and train crews, or dispatchers and roadway workers. The Collision Avoidance System (CAS) project is comprised of a Computer Aided Dispatch (CAD) system, an on-board computer system, VHF packet data radio technology, and GPS locator technology. The CAS will provide improved information for decision-making, and will also detect infrastructure failure and potential operations violations quickly, and intervene when necessary. The CAS is being accomplished in five phases, each achieving incremental safety benefits. FRA previously funded \$11.9 million, \$4.48 million in 2006, and \$7.5 million budgeted for 2007, funded 91% by FTA and 9% by ARRC.

Track Rehabilitation

ARRC continues an aggressive track rehabilitation program in 2007 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 [MP 181 to 187 (Willow) and MP 280 (Hurricane) to 311 (Broad Pass) in 2007]. Each year, ARRC also replaces a portion of its nearly two million wooden ties (64,000 ties in 2007), and installs concrete ties along curves and other high-use stretches (curves north of Nenana and south of Denali Park in 2007). In 2007, ARRC plans to resurface about 200 miles of track using 100,000 tons of ballast rock. \$31.7 million budget in 2007, funded through the sale of ARRC revenue bonds backed by annual FTA formula funds.



Crews install concrete ties.

Computerized Materials Maintenance Management System

ARRC is acquiring a fully integrated Computerized Materials and Maintenance Management System (CMMS) in phases, beginning in 2002. The CMMS is providing a flexible, cost-effective and automated system to support and manage equipment maintenance, facilities maintenance, purchasing and inventory. CMMS meets maintenance needs in several areas, including heavy equipment, mechanical (locomotives and rail cars), bridges, buildings, facilities, signals and crossings. The system will lead to safer, more reliable equipment, translating to better customer service. ARRC also anticipates substantial cost-savings as inventories are consolidated and reduced. 2005-2007, ARRC continues to expand CMMS into additional company departments and systems. The FTA assisted with start-up in 2002, funding \$800,000. ARRC has funded the remaining implementation costs totaling more than \$3.3 million between 2002 and 2007.



Use of CMMS is contributing to ARRC's goal of Reliability Excellence.

Bridge Program

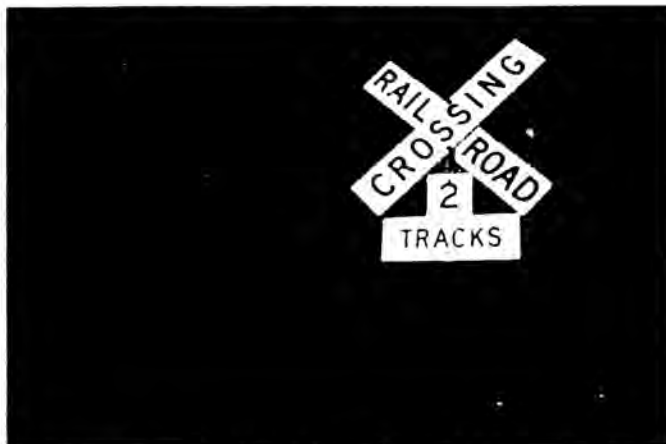
ARRC's 500-plus miles of mainline track includes 162 bridges that cross barriers ranging from streams to gulches. ARRC's 2007 Bridge Program calls for major maintenance, overhaul and replacement needed to maintain railroad integrity, safety and efficiency. In 2007, ARRC plans to finish replacing two aging timber trestle bridges with culverts, and to replace eight timber trestle bridges with ballast deck, concrete deck or steel bridges. Upgrades are planned for 11 other bridges. \$7.1 million budget (\$5.3 million by FTA, \$1.8 million by ARRC).



At Knik River Bridge (MP 146.1) new piers and a new south span were constructed in 2005-2006. Demolition of existing piers is scheduled to be complete in 2007.

Crossbuck Illumination Test

ARRC is testing the effectiveness of experimental illumination materials installed on railroad crossbucks, the familiar X-shaped warning signs that indicate a railroad crossing is present. ARRC will affix the luminescent material at select crossings that are not equipped with signals (flashing lights) and gates. The material is designed to retain light absorbed during the daylight hours, so that it radiates light during hours of darkness. Based on initial tests in 2005, material was reformulated for retesting in 2006 and 2007. \$992,500 budget funded by FRA.



Experimental illumination material may make railroad crossbuck warning signs more visible during the dark night time hours.

Section Maintenance Facilities

ARRC plans to build up to six steel-framed heated section maintenance facilities (SMF), which will house an office, restroom, utility room and open shop area for rail maintenance equipment and trucks. Cantwell is the site for construction of the first SMF. Other locations include: Hurricane, Portage, Talkeetna, Wasilla and Nenana. This project will bring uniformity to section architecture and infrastructure, lowering operating costs and supporting continued growth. The facilities will also improve employee conditions in semi-remote areas. Construction on the Cantwell SMF began in 2005 and was complete in fall 2006. Construction of facilities at other locations will follow over the next few years. \$750,000 to \$1 million budget per facility, depending on facility size and location; funded by ARRC.



The first Section Maintenance Facility was built in Cantwell in 2006.

current as of 1/29/2007

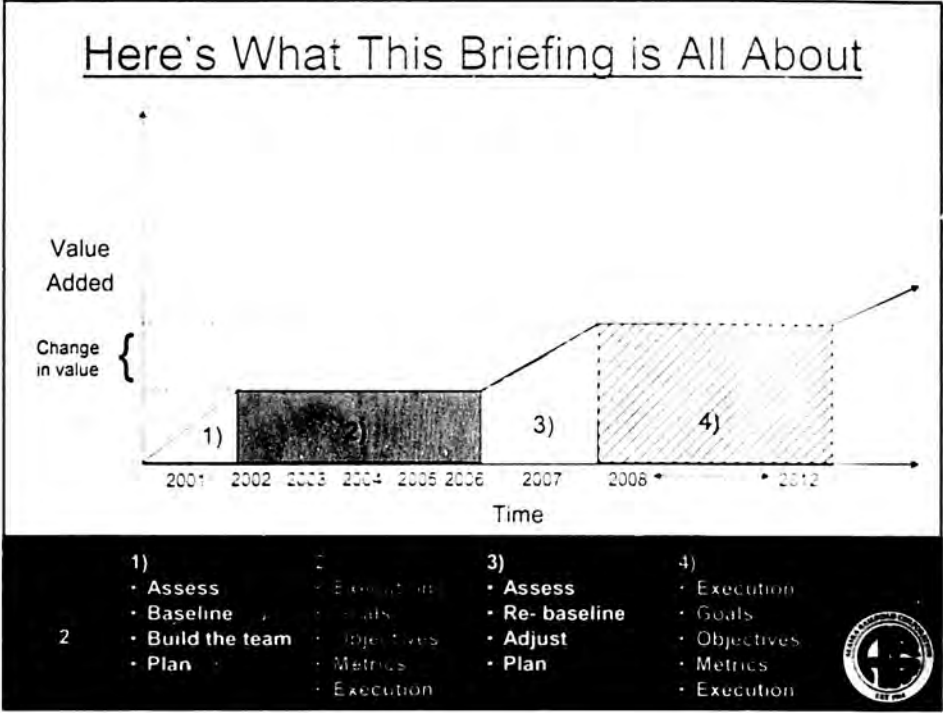
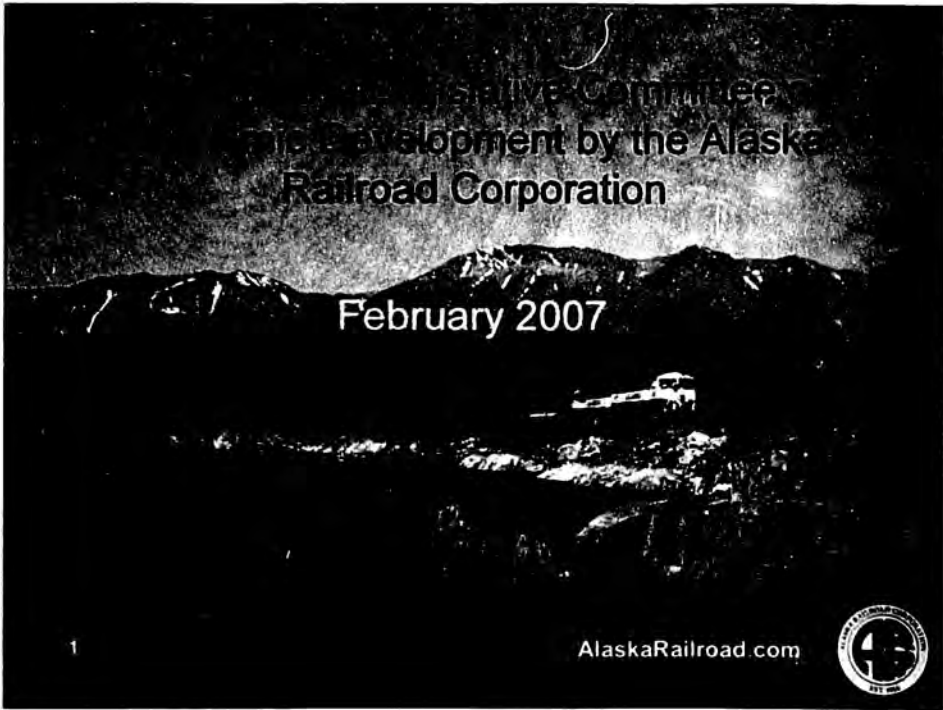
Alaska Railroad Corporation 2007 Program of Projects

At the beginning of each calendar year, ARRC conducts open house events in Anchorage, Fairbanks, Seward and the Mat-Su Valley 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 are accessible at the Alaska Railroad web site www.AlaskaRailroad.com (click first on "INFORMATION", then on "PROJECTS").

Public Input:

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

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



Alaska's Railroad

Spending on operations and capital projects

- Increases in construction, health care, business services, and retail payrolls
- Efficient way to transport heavy and/or bulk commodities
- Principal mover of jet fuel to Anchorage International Airport.
- Provides a viable alternative to long-distance driving
- Supports the U.S. military with the transport of equipment to and from the "DOD Strategic Port" of Anchorage
- Reduces pressure on State road system

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

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

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ARRC Mission

Be profitable while delivering safe, high quality service to our freight, passenger, and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.

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2001: A Year of Baselineing

- Safety An immediate priority
- Build the team
 - Include succession planning
- Organize for success
- Design legislative game plans
 - Washington, DC - Juneau, AK
- Restructure the budget process
- Self-assessment
- Intensify community outreach

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Create The "To Do" List

- Provide better leadership / management / supervision
- Change the safety culture
- Feedback... What are employees saying?
- Deal with imminent loss of federal Earmarks
- Pay and benefits need a comprehensive assessment
- Plan and exercise to meet tough Spill Response challenges

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"To Do" (continued)

- Seamless freight / passenger operations integration
- Technology application and integration assessment
- Bridge / siding comprehensive assessment
- Equipment comprehensive assessment
- Facility comprehensive assessment
- Create Code of Conduct

Build a Strategic Plan

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Planning Ahead

- Plans are a VECTOR.. magnitude + direction
- Plans create conditions for success that everyone can see more clearly
- Plans reduce county option and "I've Got a Secret"
- Plans force us to measure progress and be accountable

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1st Five Year Plan



2002 - 2006

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Management's Challenge:

Think strategic, become more demanding, more analytical, more disciplined

- Demand accountability
- Embrace change
- Insist on fact-based decisions
- Think programmatic solutions

We must improve "The Business of the Railroad" as we go about daily conducting the "The Railroad Business"

- Risk Management
- Entrepreneurship
- Investment Strategy
- Productivity
- ROI
- Cash Flow
- CapEx
- Strategy to Task
- Expense Control
- Revenue Entitlements
- Excellence

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Management's Challenge:

Bottom Line:

Make decisions that add value to the Alaska Railroad, and the State of Alaska

- Financial Value
- Beneficial Value

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How Did We Do?



2002 – 2006

Outcomes
Measurements

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2006 Earning Results (unaudited)

- Solid revenue growth overall
 - Total revenue exceeded budget by \$2.0 million (1.6%)
- Expense increases effectively mitigated where possible
 - Total expense under budget by \$840,000 (0.7%) despite significant employee benefit and extreme fuel cost increases

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2006 Balance Sheet / Cash Flow Highlights

- Strong Balance Sheet
 - Assets total \$725 million, equity rises to \$181 million
 - Very good liquidity
 - Current ratio – 1.83 (current assets / current liabilities)
 - Quick ratio – 1.52 (cash and receivables / current liabilities)
- More than \$24 million in cash flow (earnings plus depreciation) generated

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Year-End Status of Benefit Trust Funds

- Defined benefit pension fund totaled \$66 million
 - Up \$9.0 million from year end 2005
 - Funding exceeds liability by \$9.5 million
- Retiree medical trust fund totaled \$13.2 million
 - Up \$5.4 million from year end 2005 (inception year)
 - On-track for full-funding by end of 2009

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Outcomes

(in millions of dollars)

	2002	2003	2004	2005	2006
Assets	367	440	516	574	725
Net Assets	119	137	150	171	181
Freight Revenue	76	85	86	94	90
Passenger Revenue	14	14	17	19	21
Real Estate	11	14	13	14	12
Total Revenue (w/ Grants)	106	127	129	144	147
Net Income	8.9	14.5	15.4	12.7	10.2
End of Year Cash	19	26	10	2	13
Operating Ratio	.98	.89	.91	.95	.96
Cap Ex	66	81	102	90	107

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Outcomes

(in millions of dollars)

	2002	2003	2004	2005	2006
Retirement Obligation	38	45	56	53	56
Employer Contribution	1.4	1.6	1.5	.67	0.61
Retirement Plan Assets	32	44	51	57	66
Retiree Medical Obligation	14.3	14.1	15.8	16.4	22.6
Employer Contribution				7.7	5.0
Retiree Medical Assets	0.6	0.8	0.9	7.6	13.2

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Wholesale Change in Safety Culture

- 65% reduction in FRA reportable injuries
- 72% reduction in derailments
- ARRC FRA reportable train accidents 82% below US Railroad average
- Employee lost time down 60%

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Safety Achievements

- Incident Command Center
- Response plan, training, exercises
- Employees create a user friendly Safety Manual
- National Safety Employee of the Year
- Harriman Award

Four record years out of last five

2006 Best Ever !!

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Track Rehabilitation Program (TRP)

2006 = Year 1

<u>Project</u>	<u>2006 Planned</u>	<u>2006 Actual</u>	<u>2001</u>
Wooden Ties	50,000	40,000	30,600
Concrete Ties	flexible	21,000	-0-
Welded Rail	61.5 miles	85.2 miles	7.6 miles
Rail Replaced	56.8 miles	56.8 miles	11.0 miles
Resurfacing	300 miles	300 miles	242 miles
Rail Grinding	500 miles	500 miles	-0-
Rail Detection	2,000 miles	2,000 miles	-
Bridge Replace/Rehab	10	10	6
Siding Upgrades	0	1	3

Productivity!

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Infrastructure

- Rebuilding the Main Line 10 Years Faster
 - Secured \$165 million in tax exempt bond authority
 - First issuance, summer 2006, for \$76m
 - Funds concrete ties (for use on sharp curves), continuous welded rail, wood tie replacement, bridge improvements, technology
 - Accelerates line rehab from Anchorage to Fairbanks
- Technology Application
 - Implementation of Collision Avoidance System, PTC
 - Track integrity sensor system allows railroad to pinpoint rail breaks in "dark territory"
 - Estimate investment will reach \$ 47M when totally completed
- Curry Quarry Initiative
 - Annual Savings \$.75 million, IRR 24%

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Real Estate

- New facilities on line
 - Airport, Denali and Fairbanks Depots
 - Anchorage Operation Center
 - Consolidated Projects and Signals Buildings
 - Seward Freight Dock
 - Seward Intermodal Facility upgrades
 - Railroad Police / Security Building
- Ship Creek property development continues
 - The Bridge Restaurant
 - C-Street Park
 - Paved parking lots, curbs, landscaping
 - Purchased Railroad HQ building
- Fairbanks Heat Conversion Project completed

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Passenger Service

- 2006 sets revenue record
- GoldStar... first class upgraded service a big winner
- New coaches ordered to fit growing demand
- New charters:
 - Cruise Train and Princess "Straight to the Wilderness"
- New Services
 - Spencer Glacier Day trip, added tour packages, Curry and Forest Service Whistle Stop excursions on the horizon

Continued passenger growth of 3-5 percent projected

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Seeking More Business Building Stronger Business Partnerships

- Whittier Barge Dock improvement for Lynden / CN barges
- The "Bridge" restaurant agreement
- Princess "Straight to the Wilderness" from Whittier to Denali
- Usibelli Coal Mine ... spot market support
- TOTE Corp.
- Agrium Corp.
- Flint Hills Corp.

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Corporate Recognition

Operations Awards

- 2005: Dwight West for Safety Person of the Year, American Short Line and Regional Railroad Association (ASLRRRA).
- 2004, 2005: "Jake" Award from the ASLRRRA for exceeding the industry safety average.
- 2006: Wasilla Chamber "Gold Award" for significant contributions to the visitor industry

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Corporate Recognition

Marketing Sales & Service Awards

- 2003: Seven awards given from *Onboard Services*. Overall best Railroad; 1st place in safety, Equipment, entertainment, uniforms, and food services; 2nd for onboard services.
- 2004: Rob Halpin receives Distinguished Service Award from National Defense Transportation Association

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Corporate Recognition

Public Relations Awards

- 2004: Public Relation Society of America (PRSA):
 - Award of Excellence for 2004 Annual Report
- 2005: International Silver Davey Awards:
 - Consumer Magazine Advertisement – Industrial Strength
 - Print Collateral Annual Report – Alaska Railroad Annual Report
 - Print Collateral (safety advertisement) – Planes, Trains

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What's in Our Future?



Second Five Year Plan

2008 – 2012

A Peek Under the Tent

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A Robust 2007 Capital Budget

• Rail	\$15.3M
• Ties	\$12.0M
• Ballast/Surfacing	\$ 4.3M
• Bridges	\$ 7.3M
• Track, Sidings, Realignment	\$21.0M
• Equipment	\$ 2.9M
• Technology/Signal	\$10.4M
• Rip Rap	\$.7M
• Mechanical	\$.8M
• Facilities	\$ 5.5M
• Passenger Equipment	\$.75M
• Other	\$18.8M
Total	\$99.75M



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Seward Projects

- Freight Dock Expansion
- Seward Highway mile 0-8 trail support
- Coal Loading Facility improvements
- Yard Expansion



Above: Seward Freight Dock
Below: Seward Coal Loading dock next to cruiseship at ARRC's Passenger Dock.

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Whittier & Turnagain Arm Projects

Whistle Stop Service location and proposed self-propelled railcar



- Whittier Master Plan
- Whittier Passenger Intermodal Facility
- Barge slip upgrades
- Marginal Wharf
- Chugach Forest Whistle Stop Service with DMUs



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Anchorage Area Projects

- Ship Creek Historic Depot renovation and intermodal expansion
- Quiet Zone through Anchorage
- Anchorage Car Shop
- Reorganization of Anchorage Rail Yard
- Capacity improvements – possible double track extension to Anchorage Yard



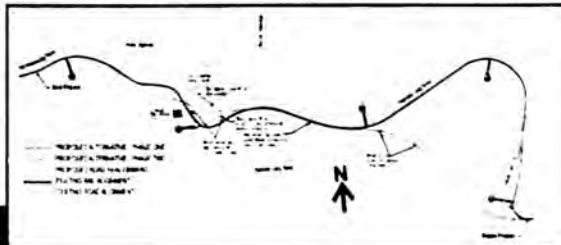
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Mat-Su Projects

- South Wasilla Rail Realignment
- Joint Transportation Corridor around Wasilla
- Community projects with Railroad interest
 - Willow to Port McKenzie Rail Spur
 - Mat-Su Ferry connections
 - The Great Wall of Wasilla



South Wasilla
Track
Realignment

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Fairbanks and Interior Projects

- Eielson Branch Realignment
 - Ft. Wainwright Base Realignment
- Tanana Bridge
- Fairbanks Freight Rail Realignment
 - Alternative Analysis
- Northern Rail Extension (From North Pole to Delta)
- Nenana Realignment
- Healy Canyon repair / upgrade
- Alaska Canada Rail Link Study



Healy Canyon stabilization efforts include a recent realignment around Garner Tunnel.

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Regional Transportation Outlook

- ARRC supports a regional transportation planning approach
- Commuter Rail... next steps:
 - Railroad will provide shuttle and other enhanced transit services to better utilize airport depot and introduce public to growing commuter potential.
 - Regional Transportation Authority needs to be formed to advance commuter rail service
- Intermodal is the way to go

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Community Development

ARRC and communities...
Integrated planning for access and economic growth.

- Comprehensive Plans
- Trails in ROW
- Crossings
 - Split grade
 - Culverts
 - Ownership
 - Indemnity
- Crossing Closures
- Trespass issues
- Eminent Domain

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Report to the State of Alaska

January 2007

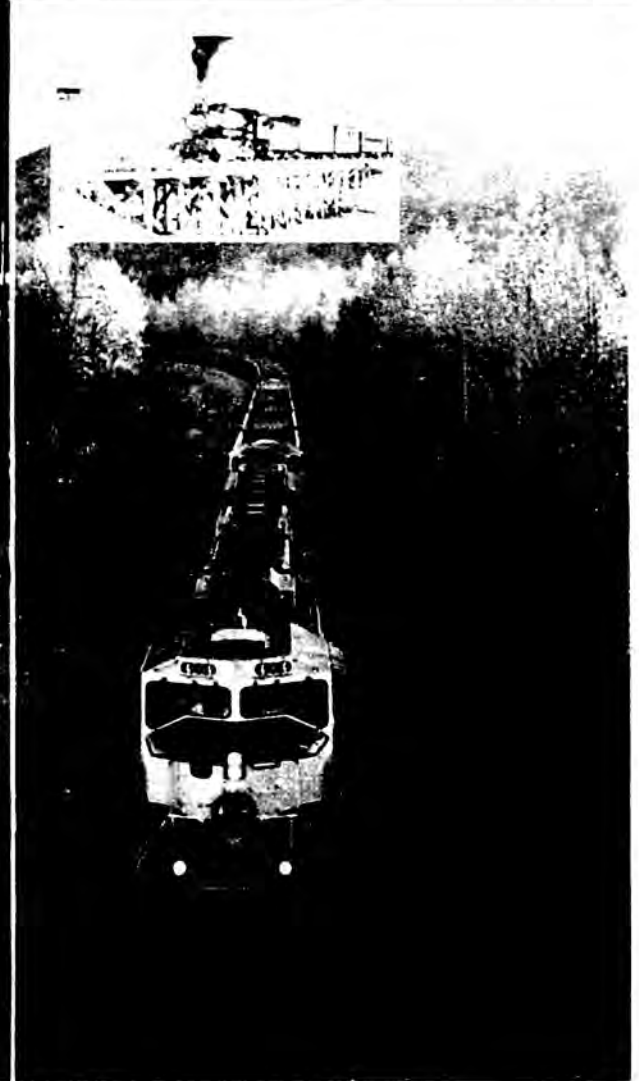
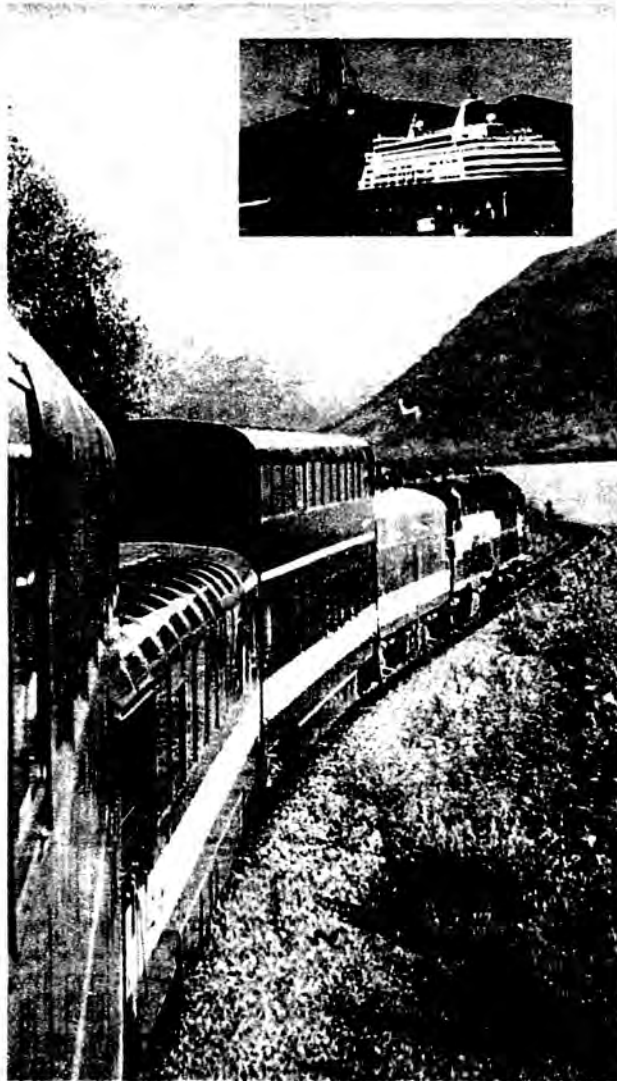




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ARRC Guiding Principles

ARRC Mission

- To be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers.
- To foster the development of Alaska's economy by integrating railroad and railbelt community development plans.

ARRC's mission stems from language found in the Alaska Railroad Corporation Act.

ARRC Vision

"Building a great Railroad across the Greatland."

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

In addition, other federal grants for facility improvements, such as intermodal facilities and docks, as well as improved technology, have come to ARRC via recent major federal transportation and transit bills.



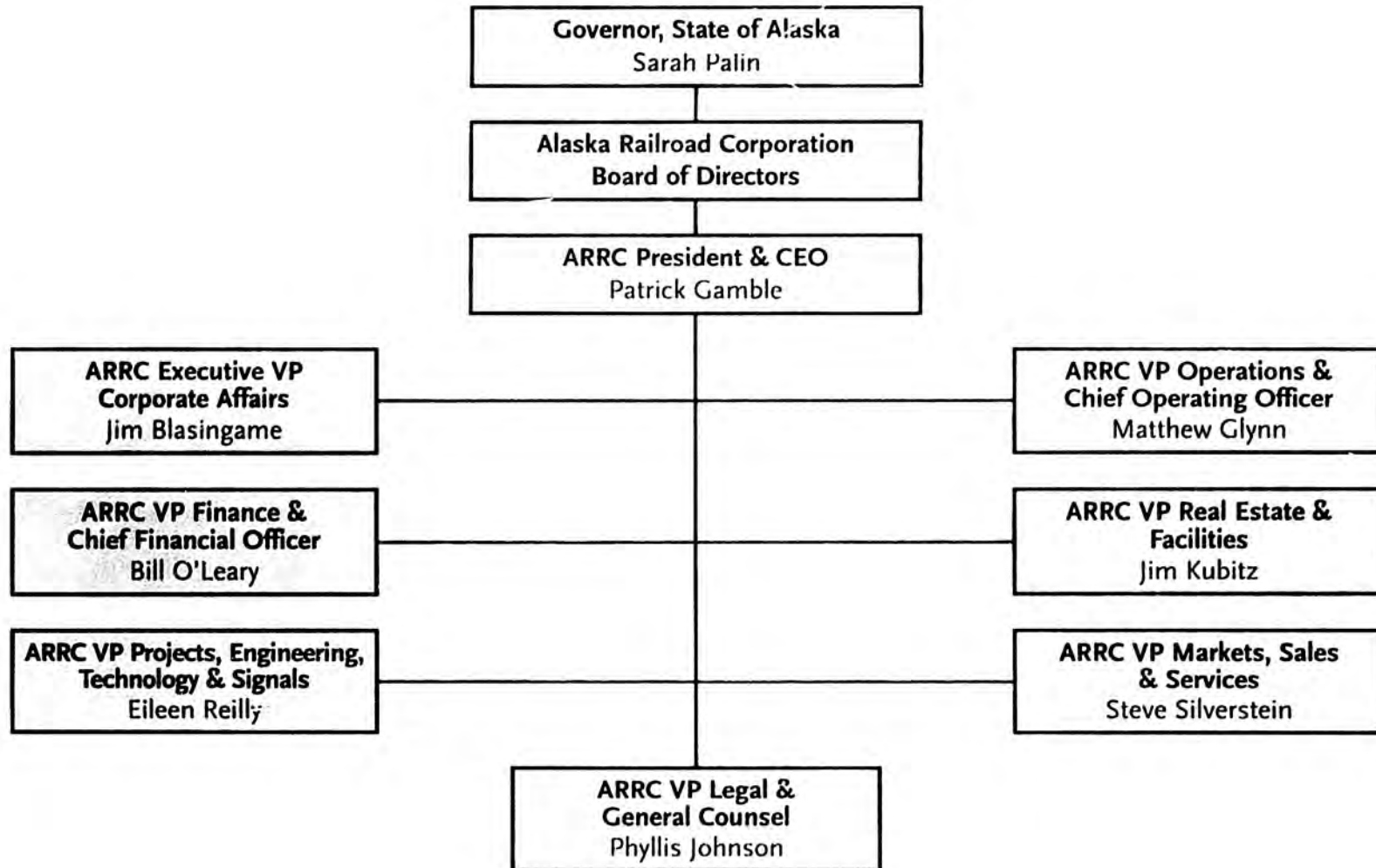
ARRC Values

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

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



Organizational Chart





Alaska Railroad Quick Facts

Purchase Price (January 5, 1985)

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

Organization (following State purchase)

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

Financial Statistics

January 1-December 31, 2006 (unaudited)*

Total Assets	\$ 725 million
Total 2006 revenues	\$ 124.3 million
Total 2006 expenses	\$ 114.1 million
2006 net income	\$ 10.2 million
2007 net income budget	\$ 11.5 million

Operating Data

Miles of main line	467
Miles of branch line	77
Miles of yards and sidings	107
Total miles of track	651
Freight cars (owned & leased)	1,643
Passenger cars	48
Locomotives	59

Operating Statistics

January 1-December 31, 2006

Passenger ridership	525,293 passengers
Freight tonnage	7.67 million tons

Employees (as of January 2007)

Number of year-round employees	777
Average years of service	10.6
Average age	44.05
Male	636
Female	141

Unions (as of January 2007)

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

United Transportation Union	137
Transportation Communication Union	45
International Association of Machinists	62
American Federation of Govt. Employees	303
American Train Dispatchers Department	10

Benefits

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

* ARRC audits are normally complete by March 31.



Alaska Railroad "At A Glance"

Corporate History

The Alaska Railroad was built by the U.S. government between 1914 and 1923. It was operated by the federal government until January 1985 when it was 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 (January 5, 1985). The legislative appropriation was sufficient to cover two payrolls and the costs of several ongoing capital projects.

Board of Directors

ARRC is a statutory corporation, managed by a board of directors whose positions are described in law and appointed by the Governor. The seven-member board consists of the Commissioner of Transportation & Public Facilities, Commissioner of Commerce, Community & Economic Development, one member of the board must have at least 10 years of management experience on a U.S. railroad, one member must be an executive with a U.S. Railroad, while one director must be an employee-member of ARRC's labor unions. Two positions are designated for residents of the two judicial districts in which the railroad operates.

Employees (as of November 2006)

ARRC employs approximately 785 full-time employees and another 150 seasonal employees from May through September. ARRC employee wages and benefits (approximately \$57.5 million in 2006) are paid through earned corporate revenues and grant activities.

The enabling act of the Alaska Railroad Corporation (AS 42.40) specifies that the employees of the corporation are not state employees. ARRC employees are not covered by state public employee contracts, nor do they receive state-funded benefits. Approximately 565 of ARRC's employees are represented by five different unions that negotiate separate contracts with the corporation.



Business Facts

While wholly owned by the State of Alaska, the Alaska Railroad is responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation—that is, required to conduct its business without operating subsidies from the state. ARRC serves ports and communities from the Gulf of Alaska to Fairbanks. It is the only full-service railroad in the United States providing both regularly scheduled year-round freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska, ARRC's route covers more than 500 miles (with 651 total miles of track including spurs, industrial and yard track).

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Anchorage, Cantwell, Fairbanks, Healy, Hurricane, Nenana, Portage, Seward, Talkeetna, Wasilla, and Whittier.

ARRC's fleet includes:

- 59 locomotives
- 48 passenger cars including three power cars and four rail diesel cars
- 1,643 freight cars (owned and leased)

Finances

With total revenues of \$124.3 million and total expenses of \$114.1 million, the Alaska Railroad netted \$10.2 million in 2006. Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for more than 73 percent of ARRC's gross revenues. ARRC serves more than half a million passengers each year, accounting for approximately 17 percent of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 8,000 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10 percent of the corporation's gross revenues.

The railroad invests all cash flow from its annual net earnings and depreciation on capital improvements to its 651 miles of track, 151 bridges, 81 crossing signals, the roadbed, technology application and other assets. Additionally, significant amounts of operating dollars are spent on maintenance of rail cars, locomotives, and rail infrastructure.

Safety & Security

Safety is all about risk management and good judgment. They are fundamental components of our safety culture. The corporate vision and mission are not achievable without a highly effective safety culture at work throughout the Alaska Railroad. The Railroad will expend significant resources to reinforce and improve safety, even to the extent that Return on Investment (ROI) for safety projects may be intentionally of less financial value and more of beneficial value.

"Security" no longer refers to just resource protection against theft or vandalism. The Department of Homeland Security (DHS) has implemented

numerous mandatory federal regulations and programs on U.S. railroads, including the Alaska Railroad. The Alaska Railroad has extensive port facility holdings between Southcentral Alaska and Seattle, which are fast coming under a growing list of U.S. Coast Guard (USCG) regulations. Associated with these requirements are both funded and unfunded mandates. Administrative competency has become a requirement for regulatory compliance, as well as a competitive skill for capturing federal grant allocations to help fund security initiatives. The Alaska Railroad is visited and inspected on a regular basis by DHS and USCG.



How ARRC Differs from State Agencies

The Alaska Railroad Corporation Act of 1984 established an independent state-owned corporation that is governed by a seven-member board of directors appointed by the Governor. The President and CEO of the corporation reports to the board.

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 shall be 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.

Although ARRC is not covered under the State's Executive Budget Act, the state government ensures oversight of ARRC's operation and management practices through the following controls:

- The ARRC Board of Directors is responsible for initiating both a financial and a performance audit each year conducted by independent financial and management companies. The annual performance audit is conducted by a recognized railroad management expert to ensure that ARRC is being managed and operated effectively and efficiently.
- ARRC must file an oversight report with the Legislature and Governor before it undertakes certain expansion, reduction, or diversification of services.
- Legislative approval is required for certain corporate actions, such as sale or transfer of the Railroad's entire interest in land, or leasing land for longer than 55 years.

- The Legislative Budget and Audit Committee reviews ARRC's operation and management practices.
- ARRC's procurement procedures are required to be substantially equivalent to state procurement requirements.
- ARRC employees and directors are subject to the Executive Branch Code of Ethics.
- ARRC's spill prevention and response plans are filed and regulated by the State and ARRC is required by state law to show sufficient financial responsibility to respond to spills.
- Bond sales must be approved by the Legislature.





Alaska Railroad Mileposts

Each year the Alaska Railroad takes stock of both its accomplishments and unmet challenges. From this annual analysis, the management team establishes a new baseline of goals and objectives for both the short and long terms.

ARRC Five-Year Objectives

- Reduce employee injuries to no more than 2.0 per 200,000 man hours.
- Eliminate 25% of at-grade highway/railroad crossings.
- Achieve and sustain an operating ratio of at least .98 by 2011
- Generate and sustain company-wide cash flow, measured as net earnings plus depreciation, of \$39 million per year by 2011.
- Generate and sustain cash flow from real estate activities of \$9 million per year by 2010.
- Fully implement Collision Avoidance System technology by 2008.
- Reduce average running time for freight trains between Anchorage and Fairbanks to consistently under 10 hours.
- Complete the entire Reliability Excellence transition plan by 2009.
- Set up an annual programmatic investment plan for ARRC facility infrastructure, including yards and marine facilities, to meet business, growth, employee, and community requirements.
- Ensure ARRC attracts and retains excellent employees by being known as a premier Alaskan employer and by continuously improving our employee training working environment, remuneration, and benefits.
- Work to harmonize ARRC business and development plans with railbelt community business and development efforts.
- Maximize return from existing business relationships and seek out new profitable opportunities without sacrificing world class customer service.
- Build the bridge across the Tanana River.
- Extend the rail line to Delta Junction.
- Complete the accelerated Track Rehabilitation Program (TRP) plan by 2012.



2007 Corporate Goals

Safety

- Achieve the 2007 individual Safety goals, with special emphasis on the human factor

incidents listed below achieving "0" violations:

- Blue flag violations
- Switch run throughs
- Runaway cars

Security

- Complete the ARRC Security Plan
- Conduct the first live training exercise

Financial

- Complete year 2 of the Track Rehabilitation Program (TRP) plan as scheduled
- Generate \$26.6 million in cash flow company-wide with Real Estate activities contributing \$6.8 million to that total
- Enhance and expand the on-line financial metrics dashboard suite
- Implement an improved capital project monitoring/reporting solution
- Continue implementation of the Real Estate acquisition strategy, focusing on Whittier

General

- Complete 2007 Capital Work Plan with less than \$1.5 million project carry over at year end
- Implement CMMS Inventory Management for Signals/Telecom & Facilities Maintenance
- Establish the Locomotive Power Management functions within the Mechanical Department
- Conclude the Ship Creek basin EPA consent decree. Engage FRA for reimbursement
- Run Anchorage to Fairbanks 75% of the time within 12 hours
- Engineer startup of a Regional Transit Authority in Southcentral
- Complete at least one major Ship Creek development project or initiative
- Conclude the Eklutna quarry and land swap agreements

Five-Year Forecast — Capital Budget

<i>(in millions)</i>	2007 Budget	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	TOTAL
ARRC Internally Generated	\$ 15.6	\$ 18.9	\$ 23.0	\$ 28.6	\$ 32.0	\$ 118.1
Bond Funded	\$ 31.1	\$ 22.2	\$ 25.9	\$ 22.6	\$ 20.8	\$ 122.6
Federal Railroad Administration	—	—	—	—	—	—
Federal Transit Administration	\$ 35.1	\$ 38.1	\$ 40.5	\$ 41.7	\$ 42.9	\$ 198.3
Federal Highway Administration	\$ 1.7	\$ 1.7	\$ 1.7	—	—	\$ 5.1
Department of Defense	\$ 16.0	\$ 12.0	\$ 12.0	—	—	\$ 40.0
Total	\$ 99.5	\$ 92.9	\$ 103.1	\$ 92.9	\$ 95.7	\$ 484.1

Five-Year Capital Project Plan — Internal Funding

	2007	2008	2009	2010	2011	TOTAL
Vehicle and Equipment Program	2,910,000					2,910,000
Maintenance	3,170,000					3,170,000
Mechanical	672,130					672,130
Transportation	604,000					604,000
Passenger Operations	318,000					318,000
Health, Safety & Environmental	443,750					443,750
Markets, Sales & Services	2,807,500					2,807,500
Human Resources	50,000					50,000
Security	85,000					85,000
Corporate	278,200					278,200
Finance	50,000					50,000
Accounting	500,000					500,000
Engineering	110,000					110,000
Information Services	601,000					601,000
Signaling/Telecommunications	939,545					939,545
Real Estate	2,024,000					2,024,000
Nondiscretionary Projects		5,499,690	6,184,800	6,694,200	7,999,351	26,378,041
Continuing Programs		3,120,075	2,548,883	2,367,500	1,956,000	9,992,458
Management Improvement Initiatives		1,168,200	850,000	1,300,000	1,700,000	5,018,200
Ranked Projects		9,123,753	13,446,099	18,268,926	20,372,552	61,211,330
Total ARRC Internal Capital Funding	15,563,125	18,911,718	23,029,782	28,630,626	32,027,903	118,163,154

Five-Year Capital Project Plan — Federal and Bond Funding

	2007	2008	2009	2010	2011	TOTAL
Federal Transit Administration						
Passenger Equipment: Repaint Bag Car 102	75,000					75,000
Fairbanks Realignment Alternative Analysis	250,000					250,000
South Anchorage Wilder Loop Upgrade	135,000					135,000
Track Rehabilitation	1,092,450	12,413,716	9,887,691	9,948,259	13,962,436	47,304,552
Siding Extensions/Upgrades	3,066,000	2,691,000	1,000,000	1,000,000	1,000,000	8,757,000
Track/Realignment Subtotal	4,543,450	15,104,716	10,887,691	10,948,259	14,962,436	56,446,552
Bridge Replacements/Upgrades:						
Bridge 227.9 Billion Slough	1,900,000					1,900,000
Bridge 352.7 Sheep Creek	250,000	500,000	250,000			1,000,000
Bridge 148.3 Matanuska River	3,000,000	500,000				3,500,000
Bridge 432.1 permafrost bridge	150,000	2,750,000				2,900,000
Bridge 422.9 permafrost bridge			1,000,000			1,000,000
Bridge 447.7 permafrost bridge				600,000		600,000
Bridge 29.5 Trail Lake		1,000,000	2,000,000			3,000,000
Bridge 284.2 Hurricane Gulch				3,000,000		3,000,000
Bridge Program Subtotal	5,300,000	4,750,000	2,250,000	3,600,000		16,900,000
Facilities: Whittier Marginal Wharf	500,000					500,000
DBE Disparity Study	33,625					33,625
Wasilla Transportation Corridor Study	200,000					200,000
Project Planning (Study) Subtotal	233,625					233,625
2006 Bond Issue Debt Service	7,426,050	7,206,015	7,186,144	7,192,245	7,171,655	36,182,109
2008 Bond Issue Debt Service			8,279,201	8,279,201	8,279,201	24,837,603
Debt Service Subtotal	7,426,050	7,206,015	15,465,345	15,471,446	15,450,856	61,019,712

continued on next page

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

	2007	2008	2009	2010	2011	TOTAL
FTA... continued						
Preventive Maintenance Reimbursement	9,122,964	9,807,187	10,542,726	11,333,430	12,183,437	52,989,744
Collision Avoidance	7,500,000					7,500,000
Moody Tunnel Rehabilitation		900,000				900,000
CMMS Preventive Maintenance System	220,000	100,000	100,000	100,000	100,000	620,000
Transit Security (1% of 5307 appropriation)	182,129	197,516	210,118	216,421	222,914	1,029,098
Preventive/Safety/Security Subtotal	<u>17,025,093</u>	<u>11,004,703</u>	<u>10,852,844</u>	<u>11,649,851</u>	<u>12,506,351</u>	<u>63,038,842</u>
Total Federal Transit Administration	35,103,218	38,065,434	40,455,880	41,669,556	42,919,643	198,213,731
FTA-Backed Revenue Bonds (2006)						
Passenger Equipment		2,000,000				2,000,000
Moody Tunnel	850,000					850,000
Track Rehabilitation Program	18,149,058	9,118,619				27,267,677
Track Rehabilitation Program- 2007	<u>12,100,000</u>					<u>12,100,000</u>
Total Revenue Bonds Series 2006	31,099,058	11,118,619				42,217,677
FTA-Backed Revenue Bonds (2008)						
Track Rehabilitation Program		11,111,446	25,876,680	22,615,129	20,788,719	80,391,974
Federal Highway Administration						
South Wasilla Realignment Land Acquisition	870,617	870,617	870,617			2,611,851
Fairbanks Freight Intermodal	<u>824,648</u>	<u>824,648</u>	<u>824,648</u>			<u>2,473,944</u>
Total Federal Highway Administration	1,695,265	1,695,265	1,695,265			5,085,795
Department of Defense						
Fort Wainwright Realignment (MP G3-G8)	12,000,000	12,000,000	12,000,000			36,000,000
Northern Line Extension	<u>4,000,000</u>					<u>4,000,000</u>
Total Department of Defense	16,000,000	12,000,000	12,000,000			40,000,000
Total Federal & Bond Funding	<u>83,897,541</u>	<u>73,990,764</u>	<u>80,027,825</u>	<u>64,284,685</u>	<u>63,708,362</u>	<u>365,909,177</u>

Five-Year Plan — Operating Budget

<i>(in millions)</i>	2007 Budget	2008 Plan	2009 Plan	2010 Plan	2011 Plan
Operating Revenues	\$ 116.96	\$ 120.09	\$ 123.76	\$ 127.03	\$ 130.84
Operating Expenses	\$ (105.66)	\$ (106.54)	\$ (108.69)	\$ (110.02)	\$ (111.78)
Net Income — Operations	\$ 11.31	\$ 13.55	\$ 15.07	\$ 17.01	\$ 19.06
Net Income — Real Estate	\$ 7.64	\$ 8.07	\$ 8.52	\$ 8.99	\$ 9.49
Other Income	\$ 0.79	\$ 0.85	\$ 0.92	\$ 0.99	\$ 1.06
Net Income (before depreciation & interest)	\$ 19.74	\$ 22.47	\$ 24.51	\$ 26.99	\$ 29.61
Depreciation	\$ (15.07)	\$ (16.55)	\$ (17.47)	\$ (18.87)	\$ (20.43)
Interest Expense	\$ (1.56)	\$ (1.62)	\$ (1.62)	\$ (1.44)	\$ (1.61)
Net Income (without preventive Maintenance)	\$ 3.11	\$ 4.30	\$ 5.42	\$ 6.68	\$ 7.57
Preventive Maintenance Reimbursement	\$ 8.42	\$ 9.05	\$ 9.72	\$ 10.45	\$ 11.24
Net Income	\$ 11.53	\$ 13.35	\$ 15.14	\$ 17.13	\$ 18.81
Operating Ratio*	1.02	1.01	1.00	0.99	0.98

* Operating Ratio is Operating Expense divided by Operating Revenue. The Operating Expense number used to calculate Operating Ratio includes the portion of Depreciation attributable to Operations.



Issues: ARRC Positions on Hot Topics

Federal Transportation Funding

- **Background:** When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. While the federal government partially rehabilitated the badly worn out railroad after World War II, it invested very little in maintenance after that effort. Today, Alaska's congressional delegation works hard to ensure that the ARRC is on equal footing with other railroads, including transit systems that provide passenger services. As a result, SAFETEA-LU provided an authorization for increased annual appropriations in the form of formula funds to ARRC to maintain and improve its passenger-related facilities and mainline track complex.
- **Position:** ARRC is entitled to continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services, including preparations that will eventually lead to commuter rail. ARRC had worked hard in Washington DC with all three congressional delegates to position itself in the federal formula funding process to offset reliance on unpredictable annual earmarks. SAFETEA-LU was reauthorized in FY 2006 and secured our enhanced position in the FTA formula as planned.

Railroad Tax-Exempt Bonding Authority

- **Position:** ARRC intends to use its tax-exempt bonding authority to support projects that benefit the State or its railbelt cities – such as energy projects or rail line extensions. These types of projects fall in line with the railroad's mission to foster state economic development. Collecting issuer transaction fees as compensation for assuming the fiduciary responsibility of administering such bonds over their lifetime would be appropriate.

Any revenue generated from fees would be directed back into railroad capital infrastructure.

Public Involvement Policies

- **Position:** The Alaska Railroad is committed to coordinating our planning, projects and real estate activities with railbelt communities to incorporate their community planning efforts and needs as best we can.

We emphasize a proactive public involvement process that encourages communities to participate in ARRC project decisions. This process includes our "heads up" direct mail correspondence initiative, our open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and regular community meeting presentations by executives and staff.

Partnering with Communities

- **Position:** ARRC is seriously committed to partnering. Collaborative support for important community, borough and private sector initiatives can enhance prosperity along the railbelt and create conditions for success that enable a more prosperous Alaska. Examples of partnering include the following:

Depots and Intermodal Facilities

- **Palmer Alaska State Fair Intermodal Commuter Center:** The ARRC administered funds and oversaw project management on behalf of the Alaska State Fair Intermodal Commuter Center in Palmer. This project was completed just prior to the start of the 2004 State Fair, offering better transportation choices for fair attendees through the use of

expanded direct rail service. This project is also a step towards improved transportation infrastructure for an increasing number of travelers moving to and from the state's fastest-growing area—the Mat-Su Valley.

- **Ship Creek Intermodal Facility:** The ARRC is working with the community of Anchorage on plans to construct an Intermodal Transportation Center, along with other related improvements, in the Ship Creek basin. The project calls for pedestrian amenities and a connection to downtown, transit infrastructure, parking, and rail modifications that will meet projected transportation growth for the next 30 years.
- **Fairbanks Intermodal Facility and Depot:** In 2005, the ARRC completed the new Fairbanks depot and associated loop track. This project allows faster on and off load of longer passenger trains, reduces the blocking of local crossings by standing trains, reduces operations and maintenance costs, and meets future growth in rail business demands within Alaska's interior.

Community Projects

- The ARRC is committed to improving the quality of life for Alaskans by contributing to a number of community-based projects. Through funding and land permits ARRC is partnering with many communities as well as the State Department of Transportation & Public Facilities (ADOT/PF) to build safe pedestrian trails and access. The Ship Creek Trail in Anchorage, Mile 0-8 Trail in Seward, the Palmer Trail/Skateboard Park and the Old Richardson Highway Trail in North Pole, are four current examples. In Palmer, ARRC worked with the City of Palmer to facilitate installation of water/sewer lines along ARRC's right-of-way to service the new Valley hospital.

Planning

- ARRC has contributed both money and considerable staff time to several formal railbelt community planning efforts such as the Talkeetna Community Plan to enhance our mutual property interests, especially as they relate to building and improving Alaska's transportation infrastructure. ARRC is currently working with the Metropolitan Planning Organizations in Fairbanks and Anchorage to update their long-range transportation plans. In Whittier, where ARRC is a significant landowner, we are coordinating closely with the City of Whittier on a comprehensive planning effort. ARRC is actively engaged in development of the Matanuska-Susitna Borough long range transportation plan. ARRC is a participant in the Port of Anchorage Working Group to facilitate the development of the Port of Anchorage and support the movement of military resources to and from this strategic port. And finally, ARRC works closely with ADOT/PF to plan crossing or right-of-way projects that provide mutual benefit.

Corporate Giving

- The railroad and its employees support communities through charitable giving, school business partnership programs, the United Way match program, and membership participation in many civic organizations. The ARRC also donates a number of different special event trains at reduced cost or free of charge. These trains, such as the Sea Train in 2006 that moved over 4,000 fifth graders from the Anchorage School District to Seward to learn about natural sciences, are ways the ARRC is able to give back to the communities we serve. Other types of donations include over 250 seats donated for family members of the 172nd Stryker Bridge to ride back to Fairbanks for "Operation Breakaway," special Holiday trains for the communities of Seward and Palmer, and the Artrain, a five-car rolling museum (up from the lower 48) that held school tours and public events along the railbelt from Seward to Fairbanks. A special Citizens Advisory Board (CAB), made

up of six individuals from across the railbelt, oversees a portion of our charitable program. The CAB is in the best position to let us know the needs of the communities we serve. Under parameters set by the Railroad Board, the railroad will lease land to communities at less than fair market value for trails, parks and other public amenities.

Regional Transportation Planning

- **Position:** ARRC fully supports local regional transportation planning and serves on a number of planning groups, including AMATS and FMATS. Local officials often seek out a broader perspective on how their projects might impact state transportation beyond local jurisdiction. ARRC believes transportation projects sell better when they are imbedded in the context of a regional plan. Accordingly, we advocate transportation analysis that is keyed on transportation nodes, linkages, and the intermodal transition points that join them. This preferred methodology consists of a more rigorous examination of the intended effects and unintended consequences of proposed city and state transportation projects. ARRC believes ADOT/PF should be the cognizant authority over local community projects that create important regional impacts.



Rail Extensions

- **Position:** ARRC will take its lead from state and federal policy makers regarding rail extension initiatives. ARRC supports extending or building new railroad lines in Alaska and believes this falls under its mission to foster state and community economic development. ARRC does not gener-

ate enough capital funding necessary to proceed with some of the larger proposed rail extension projects (projected at \$4-\$10 million/mile), but stands ready to provide planning, technical, engineering and operational expertise should funding be identified. ARRC assumes it will always be expected to generate sufficient revenues to pay the operating expenses of any rail extensions, and that any political decision to extend Alaska Railroad track will be made with that obligation in mind.

- **Canadian Rail Extension:** To reach the Alaska/Canadian border, approximately 270 miles of track would need to be constructed in Alaska. Approximately 1,000 miles would need to be constructed in Canada to connect the border to the Canadian rail system. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.
- **Rail Extension to Fort Greely:** We believe the time is right to extend the railroad to Fort Greely to support national defense objectives. To further promote this project, ARRC can provide use of its tax-exempt bonding authority to help buy down the project cost (\$500 million in bonding authorization was pre-approved by the state legislature in 2004). ARRC will also lend staff resources and planning expertise to the process. This extension conveniently aligns with proposed legislation to extend the rail to Canada and passes close by potential agricultural and mineral developments. Moreover, it aligns with a proposed state corridor that might include provisions for a natural gas pipeline.
- **Northwest Arctic Rail:** Extremely expensive, this initiative nonetheless opens up previously inaccessible energy and mineral resources to developers. Should such an initiative take root, ARRC would be pleased to be a member of the planning group.

Rail Realignments

- **Position:** ARRC supports realigning its main line track out of Alaska communities that have grown up along the route. The issue is one of enhancing safety and efficiency, as well as local quality of life. Fairbanks and Wasilla realignments would each eliminate numerous dangerous at-grade crossings as well as reduce the running time on our interior train routes. Both realignments are significant undertakings, and the railroad does not yet have enough internal or federal funding to fully proceed with either project on its own. We will continue working to integrate our recommendations with community and ADOT/PF planning efforts. We will be ready with plans when federal funding becomes available.
- **Fairbanks Realignment:** Could eliminate up to 45 crossings
- **Wasilla Realignment:** Could eliminate up to 11 crossings
- **Nenana Realignment:** Reduces potential for crossing accidents at 6 at-grade crossings when the highly circuitous main line becomes a spur.

Planning & Zoning Jurisdiction Over the Railroad

- **Background:** Several federal laws contain language that essentially pre-empts or eliminates state and local regulatory authority over the railroad except in very limited circumstances. For years, records indicate local governments and states have attempted to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in defending railroads' rights nationwide to operate without local interference in order to protect interstate commerce. To that end, ARRC remains under the jurisdiction of the Federal Railroad



Administration and the federal Surface Transportation Board. In addition to its federal status, ARRC is also an instrumentality of the State of Alaska.

In 2004, the Alaska Supreme Court held that ARRC is not automatically exempt from local planning and zoning land use regulations, despite its status as a state instrumentality. As a result, until the state legislature decides to pass clarifying language on the issue, the Supreme Court decision requires the Railroad to first attempt to comply with local planning and zoning land use procedures when undertaking an activity traditionally regulated by local governments. If the result of the local process is unsatisfactory for the Railroad, the courts must resolve the intergovernmental dispute by applying, in each case, a "balancing of interests test" to determine whether the legislature intended the Railroad to be immune from local zoning in that particular situation. Each decision is then subject to appeal by either side.

- **Position:** ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would negatively impact the railroad's ability to offer efficient, economical and reliable service to its freight and passenger customers. ARRC is comfortable with the clear protection of its core operations by federal regulations on behalf of interstate commerce. However, the lack of precision on what are "core operations" and the often-shifting status of the Railroad's non-operating lands may lead to unpredictable results, and precipitate lawsuits that will greatly slow economic development projects. ARRC would be pleased to work with any legislative initiative to clarify the situation.

Anchorage International Airport Rail Station Operation & Marketing Plan

- **Position:** ARRC is working with its transportation partners and the Ted Stevens Anchorage International Airport to provide rail service to the airport that responds specifically to all our customers needs.



Beginning with the 2003 season, we ran two trains five days per week to serve cruise ship passengers (the trips into and out of the facility are each considered a train.) Current plans do not yet include a transit airport shuttle service from ARRC's downtown depot. However the railroad will remain flexible to customers and market demand. Beginning in the summer of 2008, ARRC intends to initiate a wintertime transit service with connectivity between the Airport, Dimond Center, downtown depot and possibly Girdwood using new, modern commuter equipment.

Commuter Rail Service

- **Position:** ARRC supports developing Alaska's intermodal and commuter rail services as transportation options for the traveling public. We are prepared to assist the local communities if policy makers and residents decide to initiate commuter rail service. ARRC does not necessarily see itself as the sole proprietor of commuter rail operations. A Regional Transit Authority (RTA) would function better in that role. In the meantime, ARRC will continue to plan and build infrastructure in a way that can enable and support such services when we are called upon to implement.

Knik Arm Crossing

- **Position:** Rail is not currently planned for the Knik Arm Bridge and must therefore continue through Wasilla for the extended foreseeable future. Accordingly, efforts to straighten the track from Anchorage to Wasilla, and the project to realign track around Wasilla, have taken on a new sense of planning urgency. If commuter service is to be viable, track speeds must increase overall. Once trains reach Wasilla, having an alternative to running every train through the city center makes eminent sense for both the safety of the community and to enhance Railroad operations, safety and service. The success of projects throughout the Wasilla-Anchorage corridor will have a major impact on the Alaska Railroad's overall schedule effectiveness.

Trails in ARRC's Right-of-Way

- **Position:** In general, the railroad right-of-way is not a safe or appropriate location for a trail. However, ARRC will consider use of its right-of-way for trails if there are no other feasible alternatives. For the railroad, the issue is purely a matter of safety and liability risk. Because any trail seeking to use the right-of-way would expose the corporation to substantial liability, such trails must be constructed in a way to specifically mitigate the risks involved. Furthermore, such trails must not negatively impact railroad operations, they must be maintained and insured by an entity other than the Railroad, and that entity must agree to indemnify ARRC for all related claims.

Railroad Crossings

- **Background:** The Alaska Railroad has hundreds of crossings along the railbelt from Seward to the interior. Many of these crossings (293) are at-grade crossings (road and rail crossing at same level) that present safety and liability risks to the railroad, the traveling public and other local and state agencies. The Railroad is dealing with an increasing number of

requests to approve even more at-grade crossings, most of which are trying to conveniently broaden access to new private developments, oftentimes well after construction has started. In some cases, people are even buying raw land with no access, fully aware that any access to their land will have to cross existing track.

- **Position:** The Railroad is committed to protecting the public and its employees in its day-to-day operations. At-grade crossings are inherently a risk to both. In the United States the average is one death per day at a railroad crossing. The Alaska Railroad is reviewing all of its crossings to ensure each constitutes a valid need, proper protective devices are installed, and maintenance and liability agreements are in place. Railroad surveys suggest that up to 25% of the at grade crossings in Alaska are probably unnecessary and it has adopted a five-year objective to eliminate these crossings. Some major road crossings are scheduled for grade separation as part of ADOI/PF road projects. But many others merely provide redundant access, are not covered by a permit, or present tremendous safety concerns. They will be targeted for closure. The Alaska Policy on Railroad/Highway Crossings, which utilizes a diagnostic team assessment consisting of local, state and railroad participants, will validate crossing decisions. The Alaska Railroad will also implement a comprehensive public involvement plan for each proposed closure, to identify property access challenges and other community issues prior to making the final determination. ARRC is soliciting legislative understanding for this safety initiative, even though it is often quite unpopular with affected individual constituents.



Crossing Closures

- **Background:** Currently there are several crossings for which no individual or organization is responsible for the crossing's maintenance or liability. The legal effect of such "orphan" crossings is that no legal access exists across the ARRC right-of-way at these locations, which can seriously impact private financing on adjacent development. In many cases, alternative access is readily available or can be constructed so that safety is achieved and the private needs satisfied. ARRC seeks to close crossings wherever these circumstances exist. Most crossing closure objections stem from minor inconvenience.
- **Position:** In order to provide safe, high quality services ARRC seeks to eliminate 25% of its crossings by 2009 and to ensure all remaining crossings are legally permitted. Before identifying individual crossings to eliminate, a systematic approach will be used to test a crossing's status keeping safety and public impact foremost in mind.

Taxing the Railroad

- **Position:** State and federal law expressly prohibit the use of ARRC revenues for anything other than Railroad purposes. But there are also practical reasons why the Railroad should retain its revenues and not be taxed. Before net earnings are calculated, ARRC pays for its operating and maintenance expenses, including all pay and benefits for its employees, who are not considered state employees. ARRC then invests its entire net earnings back into maintaining and modernizing its capital infrastructure. ARRC revenue not only effects upgrades and repairs, it is able to do so by leveraging a 10-to-1-dollar return when it provides corporate matching funds for federal grants. The backlog of ARRC capital needs is several hundred million dollars. Until such time as the ARRC is able to clear this backlog and then generate sufficient net earnings on its own in excess of annual sustainment requirements, we believe that taxing the corporation would be premature and would constitute a very poor business practice.