



2012 Alaska Railroad Corporation Report TO THE State

Photo by David Blazejewski



Strategic

Leadership's Outlook

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

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

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

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

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

Chris Aadnesen



President/CEO

Linda Leary



Board Chair

Plan

History

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

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

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

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

Board of Directors

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

Management Team

President & CEO
Chris Aadnesen

Engineering & Maintenance
VP Tom Brooks

General Counsel / Legal
VP Bill Hupprich

Real Estate & Facilities
VP Jim Kubitz

Corporate & Gov't Affairs
VP Wendy Lindskoog

CFO / Finance
VP Bill O'Leary

Technology, Info & Telecom
VP Eileen Reilly

Mechanical & Transportation
VP Patrick Shake

Business Development
VP Steve Silverstein

Board of Directors

Susan Bell



Director

John Binkley



Director

Jack Burton



Director

Jon Cook



Director

Marc Luiken



Director

Bill Sheffield



Vice Chair

FIVE-YEAR CAPITAL PLAN: FEDERAL FUNDING

Federal Transit Administration (FTA) Formula Funds

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

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

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

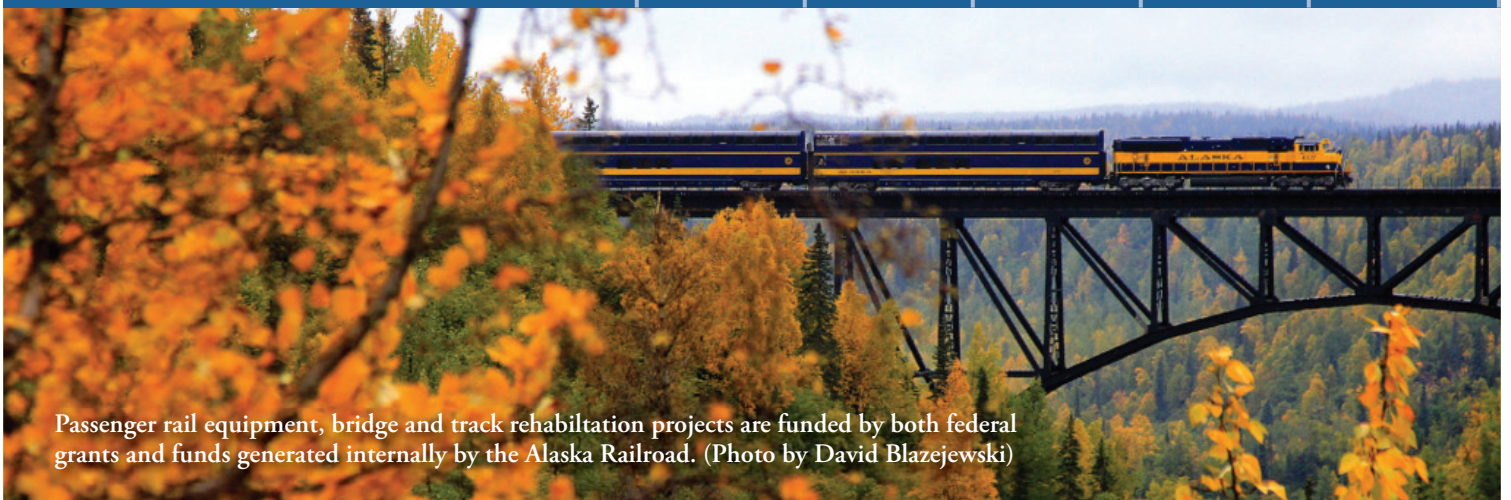
Other Federal - Federal Railroad Administration (FRA), Federal Emergency Management Agency (FEMA), Dept. of Homeland Security (DHS)

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

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

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

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

FIVE-YEAR CAPITAL PLAN: INTERNAL FUNDING

Non-discretionary Projects	2012	2013	2014	2015	2016	5-Yr TOTAL
Track Rehabilitation Program	\$ 6,259,026	\$ 12,887,248	\$ 5,693,482	\$ 8,037,389	\$ 7,972,865	\$ 40,850,011
Bridge Program	2,950,000	3,500,000	3,500,000	3,120,799	2,500,000	15,570,799
Equipment Program	1,925,000	2,182,894	1,485,000	2,787,000	3,190,000	11,569,894
Vehicle Program	1,350,000	1,405,018	2,050,000	1,095,000	1,635,000	7,535,018
Positive Train Control	1,000,000	—	—	—	—	1,000,000
Portage Section Facility	750,000	—	—	—	—	750,000
2012 Capital Equipment Rebuilds	620,000	550,000	550,000	200,000	—	1,920,000
Passenger Equipment Rehab	600,000	—	—	—	—	600,000
ARRC Narrow Band Radios	376,000	—	—	—	—	376,000
Mandated Wheel Registration	154,250	—	—	—	—	154,250
Fleet Management GPS Units	105,000	—	—	—	—	105,000
Whittier Barge Slip Sewer Line Replacement	20,000	—	—	—	—	20,000
Whittier Maintenance Facility Arctic Entry	15,000	—	—	—	—	15,000
Total Nondiscretionary Projects	\$ 16,124,276	\$ 20,525,160	\$ 13,278,482	\$ 15,240,188	\$ 15,297,865	\$ 80,465,972

Continuing Programs/Projects						
Capital Locomotive Heavy PM Program	\$ 1,234,000	\$ 1,829,000	\$ 2,378,000	\$ 2,323,000	\$ 2,263,000	\$ 10,027,000
Dock & Slip Maintenance & Repairs	980,890	1,500,000	1,500,000	1,500,000	1,500,000	6,980,890
Healy Canyon Stabilization	—	800,000	500,000	500,000	500,000	2,300,000
Seward Coal Loading Facility Upgrades	555,000	500,000	500,000	500,000	500,000	2,555,000
Rip Rap Program / Drainage Maintenance	500,000	500,000	1,000,000	1,000,000	1,000,000	4,000,000
Corporate-wide Network Services	409,250	400,000	400,000	400,000	400,000	2,009,250
Avalanche / Slide Zone Mitigation	363,000	525,000	415,000	435,000	450,000	2,188,000
Roof Replacements	300,000	315,000	534,000	25,000	—	1,174,000
191XX Freight Car Heavy Maintenance	256,100	256,100	128,050	—	—	640,250
Crossing Signal Event Recorders	202,700	214,700	214,700	—	—	632,100
Locomotive Truck Overhaul	180,000	180,000	180,000	180,000	180,000	900,000
Defect Detector Upgrades	179,000	301,000	240,000	—	—	720,000
Code Line Upgrade	162,000	572,704	—	—	—	734,704
Electrical Upgrades	100,000	65,000	50,000	50,000	50,000	315,000
Energy Management / Conservation	50,000	75,000	75,000	75,000	75,000	350,000
Building Maintenance	40,000	50,000	50,000	50,000	50,000	240,000
Comm Site Battery Plant Replacements	40,000	80,000	80,000	80,000	80,000	360,000
General Facility Repair	40,000	50,000	50,000	50,000	50,000	240,000
Section Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Trespass Mitigation	35,000	35,000	35,000	35,000	35,000	175,000
Small Tools and Test Equipment	34,000	34,000	34,000	34,000	34,000	170,000
Purchase of End of Train Devices	30,000	30,000	30,000	30,000	30,000	150,000
Copier Fleet Replacement	29,000	29,000	29,000	50,000	—	137,000
Infrastructure Updates	—	200,000	200,000	200,000	200,000	800,000
Total Continuing Programs	\$ 5,759,940	\$ 8,591,504	\$ 8,672,750	\$ 7,567,000	\$ 7,447,000	\$ 38,038,194

Strategic Business Initiatives						
Passenger Reservations System Enhance	\$ 179,550	\$ —	\$ —	\$ —	\$ —	\$ 179,550
Premisys Equipment Refresh	143,000	143,000	140,000	176,000	—	602,000
Records Management & Retention	116,000	86,201	384,040	—	5,000	601,241
Tunnel 2 Drainage Improvements	60,000	25,000	—	—	—	85,000
Land & Utilities	40,000	50,000	50,000	50,000	50,000	240,000
Tenant Improvements	40,000	50,000	50,000	50,000	50,000	240,000
Anchorage Historic Depot Restrooms	20,000	—	—	—	—	20,000
Access Plates for ASCTD (Yr 1 of 3)	16,800	21,000	22,200	—	—	60,000
Total Strategic Business Initiatives	\$ 615,350	\$ 375,201	\$ 646,240	\$ 276,000	\$ 115,000	\$ 2,027,791

Ranked Discretionary Projects						
Post Road Sewer Construction - Phase I	400,000	\$ —	\$ —	\$ —	\$ —	\$ 400,000
CITRIX Virtual Desktops - Phase 1 of 2	198,500	—	—	—	—	198,500
Peger Road Access for Chena Landings	180,000	—	—	—	—	180,000
Post Road Sewer Line Design - Phases 2 - 4	150,000	—	—	—	—	150,000
Talkeetna Depot Pavement Renovation	30,000	—	—	30,000	—	60,000
Denali Depot Upgrades	20,000	—	—	—	—	20,000
Funds Available for Ranked Projects	—	—	6,053,388	8,233,586	9,379,324	23,666,297
Total Ranked Discretionary Projects	\$ 978,500	\$ —	\$ 6,053,388	\$ 8,263,586	\$ 9,379,324	\$ 24,674,797

Debt-Financed Project						
Freight Car Replacement Program	\$ —	\$ 3,050,000	\$ —	\$ —	\$ —	\$ 3,050,000

Total Internal & Debt	\$23,478,066	\$32,541,866	\$28,650,860	\$31,346,774	\$32,239,189	\$148,256,755
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Total Federal & Settlement	\$31,953,442	\$12,396,329	\$13,524,793	\$14,649,567	\$15,800,306	\$ 88,324,436
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Total Capital Program	\$55,431,508	\$44,938,195	\$42,175,653	\$45,996,341	\$48,039,495	\$236,581,191
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OPERATING DATA AND PLANS

Operating Statistics

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

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

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

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

Employees (November 2011)

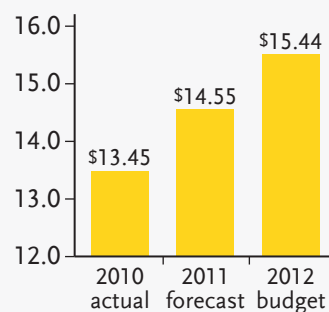
• Year-round employees:	685
• Additional seasonal employees:	~100
• Average years of service:	12.1
• Average age:	46.2
• Male:	571
• Female:	114

A majority of employees are members of five unions:

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

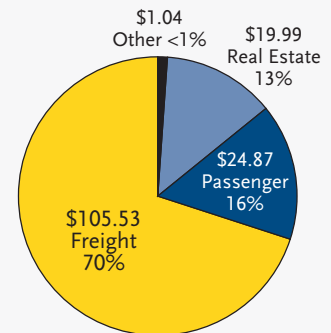
Net Income

(in millions of dollars)



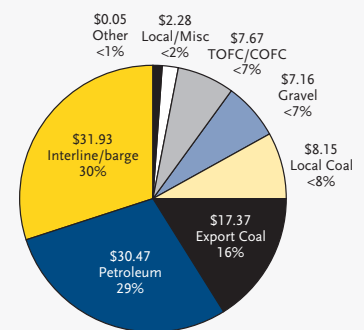
2012 Budget Revenue Sources

(in millions of dollars)



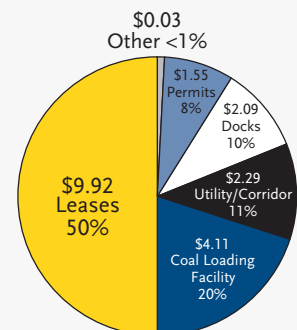
2012 Budget Freight Revenues

(in millions of dollars)



2012 Budget Real Estate Revenues

(in millions of dollars)



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

Five-Year Operating Plan

(in millions)

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



Photo by David Blazejewski

A gravel train being loaded in Birchwood.

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



RECOGNITION ROUND-UP

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

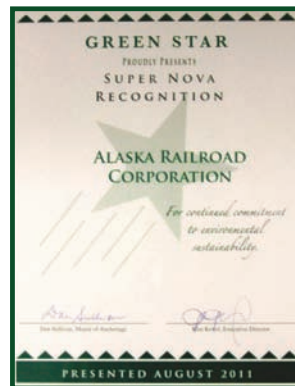
- In April, the Alaskans for Litter Prevention and Recycling (ALPAR) named the railroad its 2010 Contributor of the Year for ARRC's steady support of recycling backhaul efforts benefitting ALPAR and Alaska communities. ARRC helped affordably move 5.8 million pounds of recyclable materials in 2010.
-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

ALPAR



Recycling Support

Green Star Inc.



Best Practices

Anchorage Chamber



Community Service



ALASKARAILROAD.COM

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