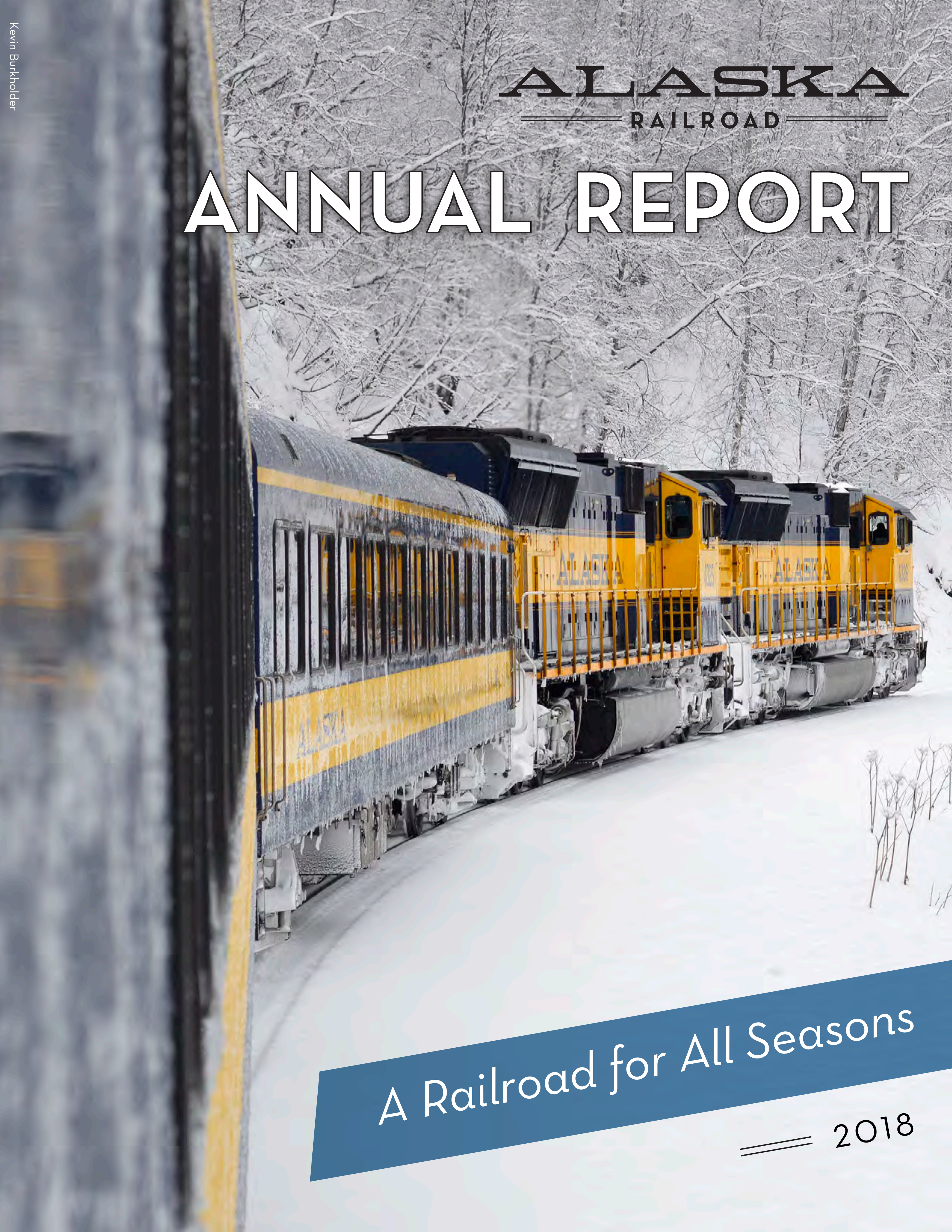
ALASKA RAILROAD

ANNUAL REPORT

A Railroad for All Seasons

2018



Kevin Burkholder

MISSION

Through excellent customer service and sound business management practices, provide safe, efficient, and economical transportation and real estate services that support and grow economic development opportunities for the State of Alaska.

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RAILROAD LEADERSHIP

MANAGEMENT TEAM

Bill O'Leary
President and CEO

Clark Hopp
Chief Operating Officer

Barbara Amy
Chief Financial Officer

Andy Behrend
Chief Counsel

Jim Kubitz
VP Real Estate

Brian Lindamood
VP Engineering

Susan Lindemuth
Chief Human Resources Officer

Dale Wade
VP Marketing & Customer Service

BOARD OF DIRECTORS

Jon Cook
Chair

Bill Sheffield
Vice Chair

Julie Anderson
Commissioner

John Binkley
Director

Jack Burton
Director

Linda Leary
Director

John MacKinnon
Commissioner

by Judy Patrick

LEADERSHIP YEAR IN REVIEW

A Railroad for All Seasons

Ours is a railroad for all seasons in a state known for wide swings in weather and economics. Year after year, the Alaska Railroad Corporation (ARRC) demonstrates the scrappy resilience needed to succeed through challenging cycles. Same story for 2018, when ARRC generated total revenues of $189.6 million, and total expenses of $171.6 million to post an $18.0 million net income and a 0.99 operating ratio.

Transportation All Year, Every Year

The railroad delivers people and payloads 12 months of the year, promoting industry and commerce in every season.

Passenger Service: Trains for All Seasons

The railroad welcomed 531,611 passengers aboard our trains in 2018. That's up 5 percent from the year prior and represents a 10 percent gain in passenger revenue. While the bulk of our passengers travel mid-May to mid-September, ARRC offers residents and visitors year-round rail transportation. Winter ridership has exploded over the last few years, with filled seats more than doubling between 2015 and 2018.

For years, the *Aurora Winter Train* ran between Anchorage and Fairbanks on weekends only. In 2014, we introduced mid-week service with four trains during Spring Break. Demand has grown every year since. During 2018, 24 mid-week trains operated in January, February, March, November and December.

Spring and fall passenger growth also comes from special event trains. Fall 2018 debuted two special event trains, including the sold-out *Fairbanks Family Fun Train* on Sept. 28, a no-school day. A week later, nearly 200 passengers boarded the *Seward Music & Arts Festival Train* for two-day round-trip travel between Anchorage and Seward.

Freight Service: A Diversified Portfolio

Although some signs pointed to recession recovery, fiscal uncertainty proved an economic drag for certain sectors, and this impacted our freight business. Freight volumes declined by a third, dropping from 4.77 million tons in 2017 to 3.2 million tons in 2018. The decrease was largely attributed to nearly halved gravel volumes off a strong 2017 season, and a 21 percent drop in hauled petroleum products.

Thanks to a diversified portfolio, ARRC absorbed these hits to end the year with freight revenues very close to 2017. An 8 percent increase in our rail-barge business helped, driven primarily by a resurgence in oil-and-gas exploration and development which prompted more pipe and oilfield supply shipments. In addition, ARRC executed major U.S. Army equipment and supply movements in support of Fort Wainwright deployment and training activities.

courtesy of Suzanne Arceneaux

by Ben Traylor

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Business through Boom-and-Bust

Alaska's economic seasons tend to cycle from expansion and prosperity, to slowdown and recession, to recovery and upswing. Through boom-and-bust, the Alaska Railroad serves the economic good at local and state levels with investments in capital projects, commercial and real estate opportunities, and employment.

Capital and Commercial Investments

The Alaska Railroad is a capital-intensive business requiring tens of millions in infrastructure spending each year. Along with purchased materials and supplies, ARRC contracts with scores of vendors to help build and maintain assets now totaling $1.1 billion. ARRC plows earned revenue-over-expense cash flow into infrastructure. Plus, we used about $50 million in grant revenue to underwrite specific capital needs.

Real estate transactions approved by ARRC's Board of Directors and the Alaska Legislature drove economic opportunities for rail belt Alaskans. Legislation passed during the 2018 session, allowing ARRC to sell some non-operating lands that were not otherwise used for railroad purposes. As a result, we expanded opportunities for home ownership with the sale of residential riverfront lots in the Chena Landings subdivision in Fairbanks, and the TriValley residential subdivision in Healy. We furthered tourism potential by selling land on Otto Lake near Healy, where a new waterfront hotel will soon serve visitors to Denali Park.

Land deals with local governments moved forward to support community infrastructure. In Anchorage, ARRC agreed to sell land to the municipality for the Port of Alaska's expansion project. ARRC and Eklutna, Inc. discussed a mutually beneficial land exchange in Eagle River and Birchwood. In Whittier, ARRC exchanged its Delong Dock facility for valuable industrial land in a mutually beneficial transaction with the city.

Thanks to long-term land leases in Anchorage and Fairbanks, PetroStar is pursuing a new inter-city fuel distribution project. The project links PetroStar's tank farm and fueling rack in Anchorage with a rail-connected fuel terminal being constructed on railroad land within the Fairbanks rail yard.

by Judy Patrick

CONTINUED...

Leasing activity in Anchorage's Ship Creek area underpinned other commercial investment. In May, the Downtown Edge condominium project broke ground on leased railroad land, and the first phase is scheduled for occupancy by mid-2019. A stone's throw away, the 49th State Brewing Company bought an ARRC-owned building on railroad leased land just west of the Anchorage Historic Depot. The company plans to open a brewery and tasting room in 2019. In addition, new tenants moved into the Historic Depot, bringing this facility to full leased occupancy in 2018.

Employment

Employment numbers held steady in 2018. Nearly 550 railroaders work year round, and another 130 to 140 are hired in spring to meet the summer season uptick in passenger trains and construction activity. Given a 90 percent rate of resident hire, the vast majority of the $75 million spent on wages and benefits in 2018 were injected into local rail belt economies.

Good-paying jobs, excellent benefits and an organization with an inspiring tradition of service to Alaska. It's no wonder that employees average 11 years of service. Many serve for decades. In fact, in 2018, two employees — a conductor and a mechanic — celebrated 50-year work anniversaries. Such employment longevity lends stability and experience to the railroad.

Weathering the Seasons Safely and Efficiently

Weathering the seasons safely and efficiently is the product of preparation, planning and compliance. Employee stability and experience contribute to all three.

Preparation

Emergencies and disasters follow their own rhythm of impact. Our best defense is to excel in the response cycle — with practiced preparation, immediate assessment, quick resource mobilization and masterful recovery. Natural forces cause damage every year. Experienced railroad teams respond quickly to rebuild infrastructure in remarkably short order.

That experience was fully apparent as mid-May flooding and ice flows on the Susitna River rendered several miles of track impassable near Curry. Within a few days, railroaders cleared walls of ice and

by Judy Patrick

CONTINUED...

repaired badly damaged track. We reopened the main line in time for the first *Denali Star* passenger train to begin daily summer service on schedule.

Our response to the 7.1 earthquake on Nov. 30 was as good, if not better. After evacuating the quake-damaged train operations nerve center, we set up alternate operations and emergency response centers, and directed repair and recovery from the field. Incredibly, within 72 hours, our people restored rail supply lines and passenger transportation.

Safety and Regulatory Compliance

The Alaska Railroad is meeting regulatory requirements on several fronts involving operational safety and asset management.

POSITIVE TRAIN CONTROL

ARRC's Positive Train Control (PTC) system aims to prevent accidents caused by human error. The $182 million federally mandated project is fully funded and on track to meet regulatory deadlines. Like the majority of affected railroads across the country, ARRC requested an alternate schedule to finish PTC by Dec. 31, 2020, instead of 2018. The Federal Railroad Administration (FRA) said yes, but only after we met PTC hardware installation milestones, and initiated a revenue service demonstration (RSD). This means we ran a series of revenue-generating trains along a stretch of track with the PTC system enabled. The RSD continues into 2019.

In 2018, ARRC secured just over $12 million in FRA grants to enhance certain PTC safety features, and to minimize potential impacts to train speeds. Railroaders also developed our own software to monitor the PTC system, allowing proactive response to problems that could hamper train operations.

SAFETY INTIATIVES

A few years ago, Congress passed new safety requirements within the Transportation section of the Code of Federal Regulations (CFR 49). Rules say railroads must develop a comprehensive System Safety Program Plan (SSPP) and must create an FRA standards-based training program for safety-related employees and contractors. Although the FRA pushed original 2018 deadlines to 2019, ARRC completed our work early and we are ready to submit well ahead of the new extended due dates.

by Judy Patrick

CONTINUED...

Outside the regulatory realm, ARRC pursued two safety training initiatives that feature engaging videos made in-house. The Incident Free Culture (IFC) safety training borrows ideas from the oil-and-gas sector to teach practical and respectful ways of challenging unsafe behavior. The *Dirty Dozen* program highlights common safety hazards in the workplace.

In 2018, the railroad also erected a Fall Protection Training facility fashioned from stacked shipping containers and a track panel mounted on top. Located in the Anchorage rail yard, the facility is essentially a simulator to accommodate hands-on training in a controlled environment.

TRANSIT ASSET MANAGEMENT

Two years ago, the Alaska Railroad faced the daunting task of developing a formal asset management program, as mandated by the Federal Transit Administration. Annually, the FTA provides tens of millions of grant dollars that support critical infrastructure. With company-wide involvement, the railroad completed a Transit Asset Management Plan (TAMP), State of Good Repair Policy, and other asset planning tools by the Oct. 1, 2018, deadline.

Service for all Seasons

Railroad employees are always on the lookout for ways to ensure and enhance our customer experiences, safety, security and satisfaction. In doing so, we often rely on technology, facilities, security and mechanical expertise.

Technology has played a big part in how our passenger customers experience ticket sales. In 2017, we established a travel trade partner (TTP) portal that allows TTPs (including travel advisors) to book online. With enhancements added in 2018, the portal's popularity grew, as evidenced by a steady increase in TTP online bookings. During the year, we also introduced an online booking shopping cart that allows direct customers and TTPs to book more than one trip at a time. By early fall 2018, we had integrated the mobile travel application Viator to allow direct sales of select routes using a smart phone. Finally, we enhanced the security of credit card payments by using a third-party site that already complies with regulatory requirements.

Our facilities and police departments boosted safety and comfort for passengers using ARRC's Denali Rail Station. Federal Transit Security grant funding underwrote new lighting, security cameras

CONTINUED...

and safety-focused signs on station property. The railroad self-funded radiant heaters and LED lighting for one of the partially enclosed pavilions at the station. This provides comfort to winter passengers as they wait for tours or shuttle services offered by businesses seeking to expand winter tourism.

Train service reliability, capacity and quality depends on work that gets done in our mechanical shops, where railroaders rehabilitate, repair and renovate equipment that rolls along our tracks. In 2018, mechanics re-decked 13 flatcars to carry specialized and oversized equipment and to facilitate efficient roll-on / roll-off operations.

Mechanics improved reliability when they overhauled the engines of five 4300-series locomotives. This work also standardized locomotive horsepower and upgraded systems to meet EPA Tier 2+ emission criteria, decreasing our environmental impacts.

Within ARRC's car shops, mechanics rehabilitated six passenger coach interiors, overhauled three passenger car exteriors, and converted several flat cars to accommodate refrigerated / freezer loads. We track car shop work for cost accounting and railcar record-keeping. In 2018, the car shop converted to a paperless billing system that is faster, more accurate, and makes required reports automatically.

95 Years of Resilient Operations

Whether seasonal pendulums swing from natural or human forces, Alaska's planned resilience and experienced response are the measures that matter. ARRC marks 95 years of operation in 2018, proving our worth as a durable and vital part of the state's transportation network. Through the annual and fiscal cycles, the railroad remains an economic driver across a spectrum of industries, in communities along and beyond the rail belt.

Bill O'Leary | President and CEO

Jon Cook | Board Chair

INFRASTRUCTURE HIGHLIGHTS

by Judy Patrick

EMERGENCY RESPONSE

Track maintenance crews removed 6- to 8-foot walls of ice that stacked up from a flooding Susitna River near Curry. Mid-May ice flows shoved the track from the trackbed, causing major damage. Within days, service resumed on repaired track.

Heavy equipment moves massive ice chunks from the rail corridor as the railroad responds to late spring flooding and ice flows along the Susitna River.

A 7.1 magnitude earthquake split sections of the trackbed during severe shaking Nov. 30.

Track maintenance, engineering and project management departments coordinated to quickly repair cracks and other infrastructure damage caused by a strong earthquake that struck Southcentral Alaska in late November 2018.

BRIDGE REPLACEMENT

The Alaska Railroad's 2018 capital bridge program included work on several bridge replacements. With funding from the Federal Transit Administration, five modern 28-foot concrete spans took the place of a 172-foot timber trestle crossing the Luebner Lake drainage at MP 58.7. Crews finished replacing the main pony-truss span at bridge 147.4 over the Knik River. It was the first bridge in ARRC's pony-truss bridge replacement program funded primarily by ARRC. Next in the program is the bridge at MP 147.5, where work got underway in 2018. Further north at MP 370.7, the project to replace the center pier on Ferry Bridge began the construction phase in 2018. Funding comes from the Federal Emergency Management Agency.

Work began in 2018 to replace the multi-span bridge at MP 147.5, which spans the North Channel of the Knik River.

Construction began to replace the center pier on the bridge over the Nenana River at MP 370.7. Bridge infrastructure was compromised during the floods of 2012.

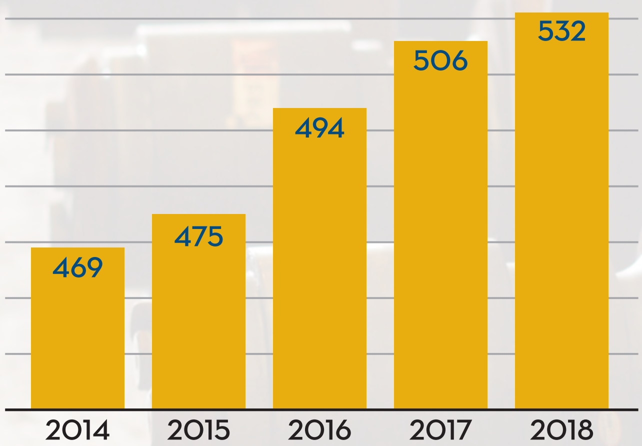
2018 BUSINESS HIGHLIGHTS

PASSENGER BUSINESS

Passenger Growth Trends

ARRC's passenger business has steadily grown over the past decade. In 2018, ridership totaled 531,611, representing a 5% increase over 2017. Winter and shoulder season (mid-September to mid-May) ridership more than doubled over the past five years.

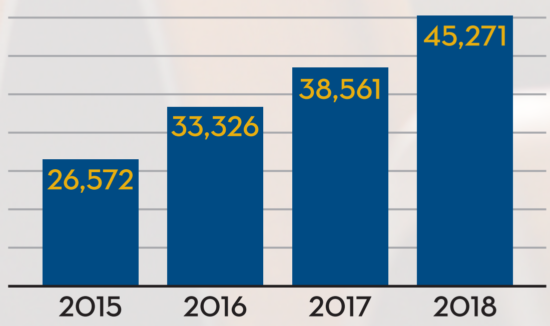
Passenger Ridership (in thousands)



Online Passenger Booking Growth

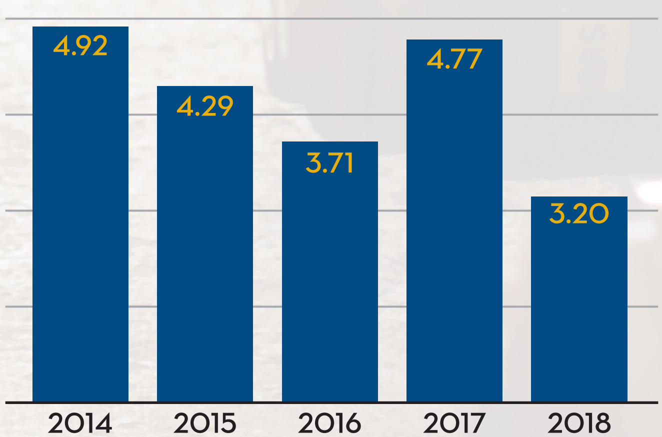
The number of people buying rail tickets online grew 70% from 2015 to 2018, thanks to customer-centric improvements beginning with a new website launched in 2016. In 2018, ARRC enhanced the online travel trade partner (TTP) portal and added a shopping cart that allows direct passengers and TTPs to book more than one trip at time.

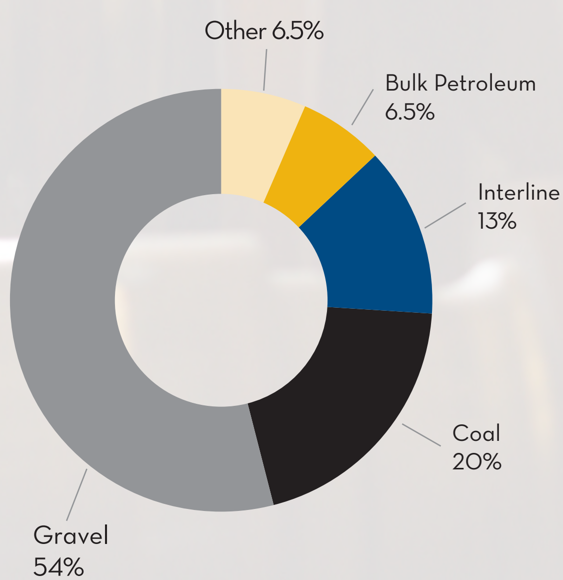
Passenger Seats Sold Online



FREIGHT BUSINESS

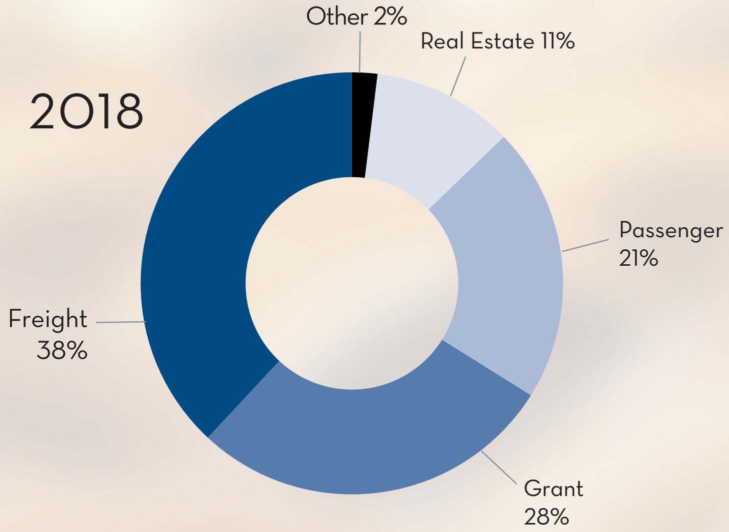
Total Freight Tonnage (millions of tons)

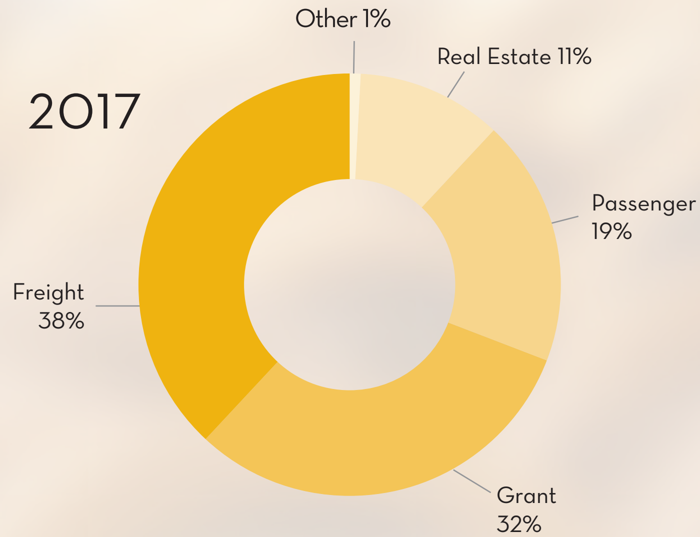




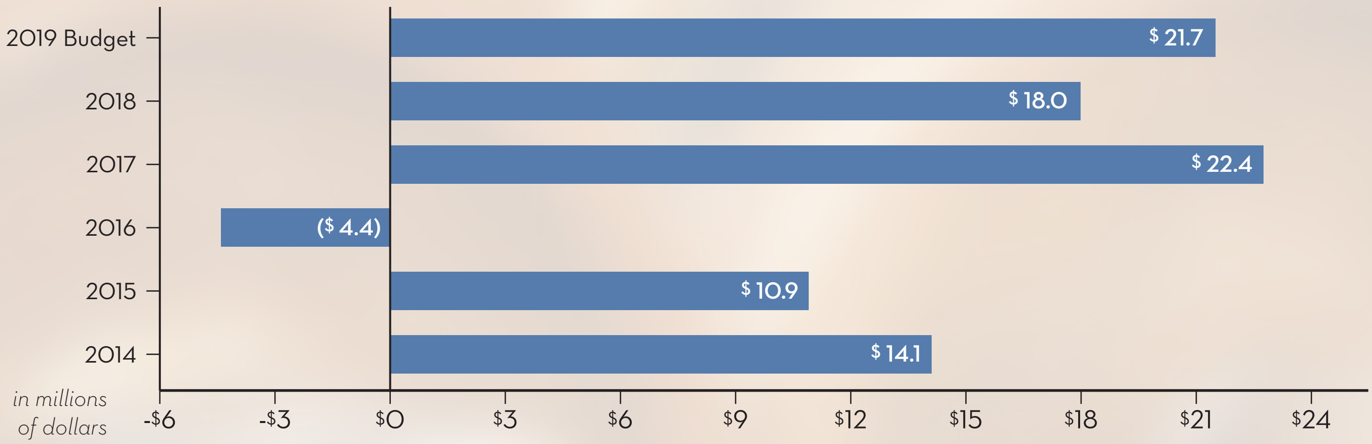
by Judy Patrick

REVENUE

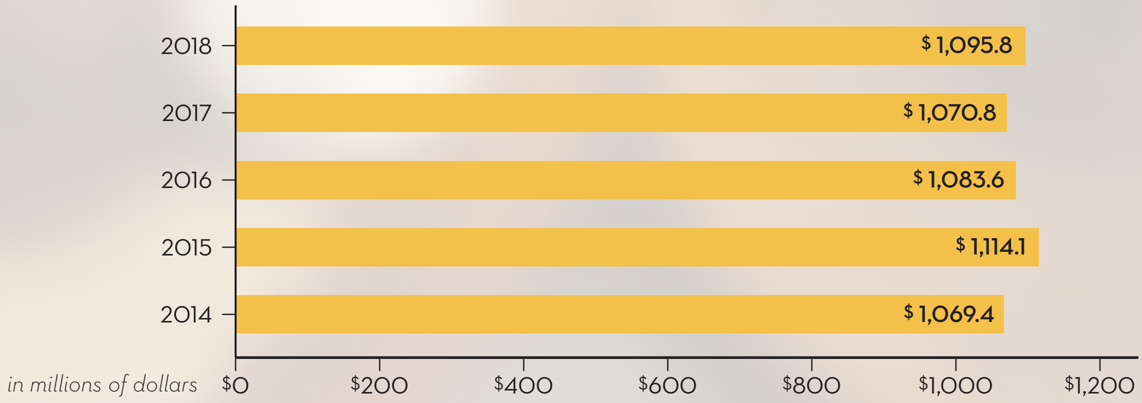




NET INCOME



TOTAL ASSETS



by Judy Patrick

2018 BUSINESS HIGHLIGHTS

EARNINGS
(IN THOUSANDS)

	2018	2017
Operating Revenues		
Freight	$ 71,470	$ 71,824
Passenger	38,985	35,427
Other	431	520
Grant	52,540	57,380
TOTAL OPERATING REVENUE	**163,426**	**165,151**
Operating Expenses	161,916	158,696
OPERATING INCOME	**1,510**	**6,455**
Non-Operating Revenues (Expenses):		
Net Real Estate Income	13,030	12,546
Gain on Sale of Capital Assets	2,165	–
Investment Income	1,338	1,238
Interest Expense	(946)	(2,219)
Grant Revenue	878	4,450
NET INCOME	**17,975**	**22,360**
Net Position, Beginning of Year	338,698	316,338
NET POSITION, END OF YEAR	**$ 356,673**	**$ 338,698**
OPERATING RATIO	**0.99**	**0.96**

STATEMENTS OF NET POSITION
(IN THOUSANDS)

Assets:		
Current Assets	$ 147,956	$ 133,967
Capital Assets	892,447	894,851
Restricted Assets	3,981	7,046
Other Assets	29,934	29,493
Deferred Outflows:		
Pension and Postretirement Actuarial	21,519	5,453
TOTAL ASSETS & DEFERRED OUTFLOWS	**$ 1,095,837**	**$ 1,070,810**
Liabilities:		
Current Liabilities	44,359	42,508
Other Liabilities	117,039	118,502
TOTAL LIABILITIES	**161,398**	**161,010**
Deferred Inflows:		
Pension and Postretirement Actuarial	7,531	6,029
Unearned Grant Revenue	570,235	565,073
TOTAL LIABILITIES & DEFERRED INFLOWS	**739,164**	**732,112**
NET POSITION	**356,673**	**338,698**
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 1,095,837**	**$ 1,070,810**

March 29, 2019

In accordance with Alaska Statute (AS) 42.40.260, it is our pleasure to present the financial section of the Alaska Railroad Corporation's (ARRC) Annual Report for the fiscal year ending December 31, 2018.

The financial section of the Annual Report is presented in four parts:

- Management's Discussion and Analysis (MD&A) — provides an introduction, overview, and analysis of the basic financial statements
- The independent auditor's report on the basic financial statements
- The basic financial statements and accompanying notes
- Required supplementary information relating to the ARRC's defined benefit pension and other post-employment benefit plans

Whether an ARRC customer, creditor, or other resident of the State of Alaska, we hope you find this section of the Annual Report useful.

Sincerely,

Barbara Amy
Chief Financial Officer

Wendy Richerson, CPA
Controller

ALASKA RAILROAD CORPORATION

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

ALASKA RAILROAD CORPORATION

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ALASKA RAILROAD CORPORATION

Management's Discussion and Analysis

December 31, 2018 and 2017

This section of the Alaska Railroad Corporation's (ARRC's) annual financial report presents management's discussion and analysis of the ARRC's financial performance during the years ended December 31, 2018 and 2017. Please read it in conjunction with the ARRC's financial statements, which follow this section.

Financial Highlights

The ARRC's total net position increased 5.3% during the course of this year's operations and increased 7.1% over the course of 2017 operations.

- During 2018, the ARRC's operating revenue was greater than operating expenses by $1.5 million, yielding an operating ratio of 0.99. Last year, operating revenue was greater than operating expenses by $6.5 million, yielding an operating ratio of 0.96.
- The total 2018 operating costs of the ARRC's programs were $161.9 million, an increase of 2.0% compared to last year. The total 2017 operating costs of the ARRC's programs were $158.7 million, a decrease of 1.5% compared to 2016.
- Expenditures on capital assets totaled $58.5 million during 2018, an increase of 10.6% compared to last year. Expenditures on capital assets totaled $52.9 million during 2017, a decrease of 7.1% compared to 2016.
- Grant funding was used for $31.8 million, or 54.4%, of the 2018 capital expenditures. Grant funding was used for $20.1 million, or 38.1%, of the 2017 capital expenditures. These amounts were recorded as unearned revenue in the regulatory liabilities section of the statements of net position. Revenue associated with capital grants is recognized when the assets are depreciated. Grant revenue for capital assets equals grant depreciation expense in operations and real estate. More detailed information can be found in notes 4 and 8 to the financial statements.

Overview of the Financial Statements

The ARRC is a component unit of the State of Alaska and operates like a stand-alone business. The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB), and the ARRC's rates for services are established by its board of directors and designed to recover the cost of providing the service. The financial statements report information about the ARRC using accounting methods similar to those used by private sector companies. This annual report consists of two parts – *management's discussion and analysis (this section)* and the *basic financial statements*. The basic financial statements consist of three statements that present information about the ARRC's overall financial status:

- Statement of net position – The statement of net position reports assets, deferred outflows, liabilities, deferred inflows, and net position of the ARRC. Assets and liabilities are segregated into current and noncurrent; that is, assets and liabilities that are expected to be received or liquidated within one year (current), and those that are not expected to be received or liquidated within one year (noncurrent). Net position, the difference between the ARRC's assets, liabilities, deferred outflows, and deferred inflows is one way to measure the ARRC's financial health. Over time, increases or decreases in the ARRC's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- Statement of revenues, expenses, and changes in net position – This statement reflects revenue earned from services and expenses incurred to operate the ARRC, as well as the activities of the ARRC not considered to be operations. All of the current year's revenue and expenses are accounted for in this statement, regardless of when cash is received or paid.

- Statement of cash flows – This statement reports activities of the ARRC as they affect cash balances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

In addition to the basic financial statements and accompanying notes, the financial statements present certain required supplementary information regarding the Defined Benefit Pension Plan and Defined Benefit Postretirement Medical Plan. The statements also include notes to the required supplementary information.

Financial Analysis of the Alaska Railroad Corporation

Net position – ARRC's net position increased 5.3% between fiscal years 2017 and 2018 to approximately $356.7 million. ARRC's net position increased 7.1% between fiscal years 2016 and 2017 to approximately $338.7 million.

		2018	2017	2016
			(In thousands)	
Assets:				
Current assets	$	147,956	133,967	115,727
Capital assets		892,447	894,851	902,356
Other noncurrent assets		33,915	36,539	50,440
Total assets		1,074,318	1,065,357	1,068,523
Deferred outflows				
Pension and postretirement		21,519	5,453	14,537
Total	$	1,095,837	1,070,810	1,083,060
Liabilities:				
Current liabilities	$	44,359	42,508	45,918
Notes payable outstanding, less current installments		4,380	8,332	11,286
Revenue bonds payable, less current portion, net of a unamortized premiums		74,624	90,386	104,894
Net pension liability		34,452	15,385	25,466
Other liabilities		3,583	4,399	5,317
Deferred inflows:				
Pension and postretirement		7,531	6,029	1,633
Regulatory liabilities:				
Unearned grant revenue		570,235	565,073	572,208
Total liabilities and deferred inflows	$	739,164	732,112	766,722
Net position:				
Net investment in capital assets	$	225,344	215,559	209,712
Restricted for reinvestment in infrastructure		131,329	123,139	106,626
Total net position	$	356,673	338,698	316,338

Capital assets – Capital assets, net of accumulated depreciation decreased $2.4 million in 2018 and $7.5 million in 2017, as depreciation expense continued to exceed expenditures on capital additions. During 2018 and 2017, the ARRC continued an extensive capital improvement plan, including bridge rehabilitations and track refurbishing. Also during this time period, ARRC continued developing the federally mandated positive train control system. Capital expenditures also funded dock and slip work, and vehicle and equipment fleet replacements.

Long-term debt – Notes payable decreased $4.5 million and $2.9 million in 2018 and 2017, respectively. During 2018, ARRC retired a long-term loan for real property. No new debt was issued during 2018 or 2017.

Regulatory liabilities – The STB regulate the ARRC's operations and has specific accounting requirements. The ARRC's board of directors establishes rates for services that are designed to recover the cost of providing the services. The ARRC records regulatory assets and liabilities, as allowed by Governmental Accounting Standards Board Codification Section Re. 10, *Regulated Operations*. The regulatory liability consists of unearned grant revenue relating to capital assets funded with federal grants. Unearned grant revenue increased $5.2 million in 2018 and decreased $7.1 million in 2017. The changes in unearned grant revenue reflects the grant revenue received and/or recognized as the related capital assets are depreciated, partially offset by capital assets constructed with grant funding.

Net other postemployment benefit assets and net pension liabilities – The postretirement benefits assets increased $441,000 during 2018, primarily as a result of $4.5 million favorable difference between expected and actual experience, offset by $1.5 million changes in assumptions. The accrued pension benefit liability increased $19.1 million during 2018 as a result of unfavorable investment returns on plan assets and differences between expected and actual plan experience. The postretirement benefits assets increased $2.1 million as a result of favorable investment returns on plan assets and the accrued pension benefit liability decreased $10.1 million during 2017 as a result of differences between expected and actual plan experience.

Deferred outflows and inflows – Deferred outflows or inflows of resources relating to pension and postretirement plans increase or decrease based on the net difference between actual and projected plan earnings, variances in plan activity versus projected activity, or changes in plan assumptions. The deferred outflows of resources will be recognized as expense and the deferred inflows of resources will be recognized as income during the years 2018 and later, as reflected in note 7. Deferred outflows of resources increased $16.1 million and decreased $9.1 million during 2018 and 2017, respectively. Deferred inflows of resources increased $1.5 million and $4.4 million during 2018 and 2017, respectively.

Deferred inflows of resources related to unearned grant revenue increased $5.2 million and decreased $7.1 million during 2018 and 2017, respectively, for the recognition of grant revenue equal to depreciation and other grant activities, as discussed in note 8.

		2018	2017	2016
			(In thousands)	
Deferred outflows:				
Postretirement actuarial (note 7)	$	5,415	1,410	3,410
Pension actuarial (note 7)		16,104	4,043	11,127
Total deferred outflows	$	21,519	5,453	14,537
Deferred inflows:				
Postretirement actuarial (note 7)	$	5,405	1,582	1,633
Pension actuarial (note 7)		2,126	4,447	—
Regulatory liability – unearned grant revenue (note 8)		570,235	565,073	572,208
Total deferred inflows	$	577,766	571,102	573,841

Change in net position – During 2018, ARRC reported a net income of $18.0 million, a decrease of $4.4 million from ARRC's reported net income in 2017 of $22.4 million. ARRC's 2017 net income of $22.4 million was a $26.8 million increase from the prior year net loss of $4.4 million.

		2018	2017	2016
			(In thousands)	
Operating revenue:				
Freight	$	71,470	71,824	69,578
Passenger		38,985	35,427	32,721
Other		431	520	662
Total transportation revenue		110,886	107,771	102,961
Grant revenue		52,540	57,380	46,933
Total		163,426	165,151	149,894
Operating expense:				
Transportation		34,720	33,455	32,341
Passenger		14,455	13,516	12,857
Advanced train control systems		268	310	344
Marketing and customer service		18,181	15,807	16,248
Mechanical		24,222	24,339	24,371
Engineering		50,121	49,489	50,015

(Continued)

		2018	2017	2016
			(In thousands)	
Facilities	$	11,044	11,641	12,160
General and administrative		8,905	10,139	12,762
Total		161,916	158,696	161,098
Operating income (loss)		1,510	6,455	(11,204)
Nonoperating revenue (expenses):				
Real estate, net of expenses		13,030	12,546	11,695
Gain (loss) on sale of capital assets		2,165	—	(1,516)
Investment income		1,338	1,128	365
Interest expense		(946)	(2,219)	(3,693)
Grant revenue		878	4,450	—
Net income (loss)	$	17,975	22,360	(4,353)

Revenue – The ARRC's total revenue decreased approximately 0.9% and totaled $189.6 million in 2018. The ARRC's total revenue increased approximately 12.7% and totaled $191.3 million in 2017. Approximately 37.7% and 37.6% of the ARRC's revenue comes from freight revenue during 2018 and 2017, respectively, and 20.6% and 18.5% of the revenue comes from passenger services during 2018 and 2017, respectively. The majority of the remaining income relates to real estate activities and federal grant revenue.

Total transportation revenue for 2018 was $3.1 million greater than 2017. The increase in transportation revenue is attributed to increased freight volume to the North Slope oilfields and continued growth in passenger revenue.

Total transportation revenue for 2017 was $4.8 million greater than 2016. The increase in transportation revenue is attributed to a strong road construction season and continued growth in passenger revenue.

Grant revenue – Generally, federal grant revenue is recognized as the capital assets funded by the grants are depreciated. The ARRC also recognizes grant revenue associated with maintenance expense and grant funded bond principal, interest, and issuance costs. During 2016, maintenance expenses and interest costs were not adjusted by Federal Transit Administration (FTA) 5307 Urbanized Area Formula Funds grant revenue. Under this program, formula funds flow from the FTA to a local area planning organization in a lump sum, where designated recipients, ARRC and Municipality of Anchorage (MOA), are required to agree on how best to split the funds to benefit the area's transportation needs. Since 2006, ARRC and MOA have agreed to split the funds along programmatic lines so that all funds generated by ARRC as "rail tier" funds have gone to ARRC and all funds generated as "bus tier" funds have gone to MOA. During 2016, the MOA did not agree to continue this practice and the amount ARRC would ultimately receive was uncertain. As a result, ARRC did not recognize FTA Section 5307 grant revenue during 2016. During 2017, the MOA and ARRC reached an agreement to continue the historical practice of allocating all "rail tier" funds to ARRC. During 2017, ARRC recognized FTA Section 5307 "rail tier" funds of $7.4 million for 2016 and $8.5 million for 2017, which were included in operating and nonoperating grant revenue. During 2018, ARRC recognized FTA Section 5307 "rail tier" funds of $4.9 million, which were included in operating and nonoperating grant revenue.

Operating expenses were $161.9 million in 2018, $158.7 million in 2017, and $161.1 million in 2016, an increase of $3.2 million, or 2.0%, from 2017 to 2018 and a decrease of $2.4 million, or 1.5%, from 2016 to 2017.

Real estate expenses were $8.7 million in 2018, $8.0 million in 2017, and $7.8 million in 2016, an increase of 8.8% from 2017 to 2018 and an increase of 2.6% from 2016 to 2017.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the ARRC had invested $892.4 million in a broad range of capital assets (net of accumulated depreciation) including land, road and roadway structures, equipment, and leasehold improvements. This amount represents a net decrease (including additions and deductions) of $2.4 million, or 0.3%, over last year. Grants have funded $464.3 million and $486.1 million of the assets, net of accumulated depreciation at the end of 2018 and 2017, respectively.

		2018	2017	2016
			(In thousands)	
Land and improvements	$	32,717	32,744	32,683
Road materials and supplies		10,342	9,712	9,308
Road and roadway structures		610,863	632,450	653,663
Equipment		124,587	135,076	146,782
Leasehold improvements		96	179	262
Quarry improvements		3,272	3,272	3,272
Construction in progress		110,570	81,418	56,386
Total capital assets, net of accumulated depreciation	$	892,447	894,851	902,356

The ARRC's fiscal year 2019 capital budget approved spending another $44.1 million for capital projects, principally for continued track and bridge rehabilitation, planned replacement of vehicles and equipment, and other infrastructure improvements. The ARRC intends to use federal grant funding for $12.6 million of the capital additions. The remaining capital projects will be funded out of current year earnings and cash flow and new debt. During 2015, ARRC issued FTA Capital Grant Receipt Bonds to fund approximately $37.0 million of costs related to the federally mandated Positive Train Control system. During 2019, ARRC anticipates spending the remaining $2.1 million balance of the bond funds. Additional detailed information about the ARRC's capital assets is presented in note 4 to the financial statements.

(Continued)

Long-Term Debt

At the end of 2018, the ARRC had $6.8 million in notes payable outstanding, a decrease of 40.2% from 2017, and $88.9 million in revenue bonds payable outstanding, a decrease of 14.5% from 2017. At the end of 2017, the ARRC had $11.3 million in notes payable outstanding, a decrease of 20.4% from 2016, and $104.0 million in revenue bonds payable outstanding, a decrease of 11.7% from 2016. More detailed information about the ARRC's long-term debt is presented in note 6 to the financial statements.

Bond Rating

During June 2015, Moody's issued an "A3" rating with a stable outlook and Standard & Poor's issued an "A" rating with a stable outlook in association with the ARRC's Capital Grant Receipts Bonds, Series 2015A and 2015B.

More detailed information about ARRC's bond-funded activities is presented in note 6 to the financial statements.

Next Year's Budget

The 2019 budgets for freight and passenger revenue are $75.7 million and $41.0 million, respectively. As a result, the ARRC's net position is expected to increase $21.7 million, or approximately 6.1%, by the close of 2019.

Contacting the ARRC's Financial Management

This financial report is designed to provide residents of the state of Alaska and customers and creditors with a general overview of the ARRC's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Alaska Railroad Corporation, P.O. Box 107500, Anchorage, Alaska 99510-7500, 907-265-2300, or visit the Web site at www.alaskarailroad.com.

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Directors
Alaska Railroad Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alaska Railroad Corporation, a component unit of the State of Alaska, which comprise the statements of net position as of December 31, 2018 and 2017, the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alaska Railroad Corporation as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 1–7 and the schedules and notes thereon relating to the Alaska Railroad Corporation's defined-benefit pension plan and other postemployment benefit plans on pages 43–51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the Alaska Railroad Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alaska Railroad Corporation's internal control over financial reporting and compliance.

KPMG LLP

March 28, 2019

ALASKA RAILROAD CORPORATION

Statements of Net Position

December 31, 2018 and 2017

(In thousands)

Assets and Deferred Outflows		2018	2017
Current assets:			
Cash and cash equivalents (note 3)	$	85,675	71,268
Accounts receivable, net of allowance for doubtful accounts of $693 in 2018 and $396 in 2017		14,789	11,936
Grants receivable		10,736	17,775
Materials and supplies		11,706	11,768
Prepaid expenses and other current assets		1,693	1,411
Under recovery of vehicle and equipment allocated costs (note 2(k))		86	—
Restricted assets (note 3)		23,271	19,809
Total current assets		147,956	133,967
Capital assets, net (notes 4 and 8)		892,447	894,851
Restricted assets (note 3)		3,981	7,046
Net other postemployment benefit (OPEB) asset (note 7)		29,916	29,475
Other assets		18	18
Total assets		1,074,318	1,065,357
Deferred outflows:			
Postretirement actuarial (note 7)		5,415	1,410
Pension actuarial (note 7)		16,104	4,043
Total deferred outflows		21,519	5,453
Total assets and deferred outflows	$	1,095,837	1,070,810
Liabilities, Deferred Inflows, and Net Position			
Current liabilities:			
Current portion of notes payable (notes 5 and 6)	$	2,373	2,954
Accounts payable and accrued liabilities (notes 5 and 12)		10,991	9,843
Payroll liabilities		11,137	10,087
Environmental remediation reserve (notes 5 and 13)		411	311
Interest payable		1,656	1,959
Over recovery of vehicle and equipment allocated costs (note 2(k))		—	318
Unearned revenue		3,541	3,461
Current portion of revenue bonds payable (notes 5 and 6)		14,250	13,575
Total current liabilities		44,359	42,508
Notes payable, less current portion (notes 5 and 6)		4,380	8,332
Revenue bonds payable (net of unamortized premiums), less current portion (notes 5 and 6)		74,624	90,386
Environmental remediation reserve, less current portion (notes 5 and 13)		2,036	2,144
State of Alaska advances (notes 3 and 5)		1,547	2,255
Net pension liability (note 7)		34,452	15,385
Total liabilities		161,398	161,010
Deferred inflows:			
Postretirement actuarial (note 7)		5,405	1,582
Pension actuarial (note 7)		2,126	4,447
Regulatory liability – unearned grant revenue		570,235	565,073
Total deferred inflows		577,766	571,102
Total liabilities and deferred inflows		739,164	732,112
Net position:			
Net investment in capital assets (note 4)		225,344	215,559
Restricted for reinvestment in infrastructure (notes 2(a) and 2(l))		131,329	123,139
Total net position		356,673	338,698
Commitments and contingencies (notes 5, 6, 7, 11, 12,13, and 14)			
Total liabilities, deferred inflows, and net position	$	1,095,837	1,070,810

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Operating revenues:			
Freight (note 9)	$	71,470	71,824
Passenger		38,985	35,427
Other		431	520
		110,886	107,771
Grant revenue (note 8)		52,540	57,380
		163,426	165,151
Operating expenses:			
Transportation		34,720	33,455
Passenger		14,455	13,516
Advanced train control systems		268	310
Marketing and customer service		18,181	15,807
Mechanical		24,222	24,339
Engineering		50,121	49,489
Facilities		11,044	11,641
General and administrative, net of indirect cost recovery of $2,163 in 2018 and $1,823 in 2017		8,905	10,139
		161,916	158,696
Operating income		1,510	6,455
Nonoperating revenues (expenses):			
Real estate income, less direct expenses of $8,732 in 2018 and $7,978 in 2017 (notes 6 and 10)		13,030	12,546
Gain on sale of capital assets		2,165	—
Investment income		1,338	1,128
Interest expense		(946)	(2,219)
Grant revenue (notes 6 and 8)		878	4,450
Total nonoperating revenues		16,465	15,905
Net income		17,975	22,360
Net position, beginning of year		338,698	316,338
Net position, end of year	$	356,673	338,698

See accompanying notes to financial statements.

ALASKA RAILROAD CORPORATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Receipts from customers	$	108,033	108,729
Operating grants received		12,651	17,325
Payments to suppliers		(43,484)	(39,482)
Payments to employees		(56,401)	(58,356)
Net cash provided by operating activities		20,799	28,216
Cash flows from capital and related financing activities:			
Principal payments on long-term debt		(19,636)	(16,788)
Interest payments on long-term debt		(1,249)	(2,485)
Grant received for interest expense		878	4,450
Purchases and construction of capital assets		(57,040)	(57,408)
Proceeds from sales of capital assets		2,815	66
Grants and advances received for construction of capital assets		51,398	25,411
Net cash used for capital and related financing activities		(22,834)	(46,754)
Cash flows from investing activities:			
Real estate income and related cash flows		21,842	20,430
Real estate direct expenses paid		(6,341)	(6,153)
Net sales (purchases) of restricted investments		(397)	15,378
Interest received		1,338	1,128
Net cash provided by investing activities		16,442	30,783
Net increase in cash and cash equivalents		14,407	12,245
Cash and cash equivalents at beginning of year		71,268	59,023
Cash and cash equivalents at end of year	$	85,675	71,268
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	1,510	6,455
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization		58,536	58,919
Bond issuance cost and amortization		16	16
Grant revenue associated with capital assets		(39,905)	(40,071)
Changes in operating assets and liabilities that provided (used) cash:			
Materials and supplies		62	83
Accounts receivable		(2,853)	958
Prepaid expenses and other assets		(282)	192
Accounts payable and accrued liabilities		(985)	1,540
Under recovery of vehicle and equipment allocated costs		(404)	(795)
Payroll liabilities		1,050	(313)
Environmental remediation reserve		(8)	(105)
Accrued postretirement and pension benefits		4,062	1,337
Net cash provided by operating activities	$	20,799	28,216
Supplemental schedule of noncash investing and capital and related financing activities:			
Depreciation included in real estate activity	$	2,474	1,825
Capital assets acquired through accounts payable		3,371	1,238

See accompanying notes to financial statements.

(1) Organization and Operations

The United States Congress authorized construction of the Alaska Railroad (ARR) in 1914 and operations began in 1923. The federal government operated the railroad until its sale to the State of Alaska in January 1985. The sale of the ARR to the State of Alaska was authorized under the Alaska Railroad Transfer Act of 1982, which was signed into law on January 14, 1983. The State of Alaska legislature created the Alaska Railroad Corporation (ARRC), a component unit of the State of Alaska, to own and operate the railroad and to manage the railroad's rail, industrial, port, and other properties. The ARRC commenced operations on January 6, 1985. The investment by the State of Alaska as of December 31, 2018 and 2017 was $34.17 million.

The ARRC operates 683 track miles, providing both freight and passenger services. The ARRC serves the cities of Anchorage and Fairbanks, the ports of Whittier, Seward, and Anchorage, as well as Denali National Park and military installations. Vessel and rail barge connections are provided from Seattle, Washington and Prince Rupert, British Columbia.

(2) Summary of Significant Accounting Policies

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America, management is required to make a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and revenue and expenses for the reporting period. Actual results could differ from these estimates. The more significant accounting and reporting policies and estimates applied in the preparation of the accompanying financial statements are discussed below:

(a) Basis of Accounting

As a component unit of the State of Alaska and for the purpose of preparing financial statements in accordance with accounting principles generally accepted in the United States of America, the ARRC is subject to the accounting requirements as set forth by the Governmental Accounting Standards Board (GASB).

The ARRC is an enterprise fund of the State of Alaska. Accordingly, the financial activities of the ARRC are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The ARRC is subject to the jurisdiction of the Surface Transportation Board (STB) and the ARRC's rates for services are established by the board of directors and designed to recover the cost of providing the service. Accordingly, the ARRC follows the provisions of GASB Codification Section Re. 10, *Regulated Operations*.

The ARRC's board of directors has adopted a resolution requiring a measure of net income in the statement of revenues, expenses, and changes in net position. The ARRC's board of directors has also adopted a resolution restricting net position for reinvestment in infrastructure.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include time deposits, money market accounts, money market mutual funds, and repurchase agreements with original maturities of three months or less at the time of purchase. Restricted assets are excluded from cash and cash equivalents for purposes of the statements of cash flows.

Money market accounts are valued at amortized cost. Money market mutual funds are recorded at fair value, which is determined by management based on published market prices and quotations from national exchanges.

(c) Materials and Supplies

Materials and supplies inventories are carried at the lower of weighted average cost or market. Road materials and supplies include rail, ties, ballast, and other track materials. These items will generally be capitalized when placed into service and, accordingly, are included in capital assets.

(d) Capital Assets

Capital assets are stated at cost. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the related assets, ranging from 3 to 32 years.

(e) Restricted Assets

Restricted assets include interest bearing savings, money market mutual fund accounts, and receivable from Healthcare Trust, and are reported at fair value. These assets are restricted as to use by Trust or other third-party agreements.

(f) Regulatory Assets and Liabilities

The ARRC's rates for services are established by the board of directors and are designed to recover the cost of providing the service. For purposes of establishing rates, the ARRC defers the recognition of grant revenue relating to depreciable capital assets funded with grants and amortizes the unearned amounts over the life of the related capital assets.

(g) Operations

The ARRC considers all revenues and expenses related to the transportation of freight and passengers, including general and administrative costs, to be operating revenues and expenses. Revenues and expenses associated with leasing and permitting ARRC property are not considered a part of the ARRC's primary operations and are reported as nonoperating activities.

(h) Grants

Grant revenue is recognized when all eligibility requirements have been met; however, revenue for grants expended for depreciable capital assets is recognized over the period in which the asset is depreciated, as described in note 2(f).

(i) Income Taxes

As a corporation owned by the State of Alaska, the ARRC is exempt from federal and state income taxes.

(j) Environmental Remediation Costs

The ARRC accrues for losses, including legal fees, associated with environmental remediation obligations based on obligating events as defined under GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Costs of future expenditures for environmental remediation liabilities are not discounted to their present value.

(k) Vehicle and Equipment Allocated Costs

The ARRC's vehicle and equipment costs for maintenance, fuel, depreciation, and leases are recorded in the vehicle and equipment cost pool. These costs are recovered through various responsibility centers through a fixed charge rate based on usage of vehicles and equipment. Any over recovery or under recovery of actual vehicle and equipment cost is applied against fixed charge rates in subsequent years.

(l) Net Position

As of December 31, 2018 and 2017, the ARRC's board of directors has restricted $131,329,000 and $123,139,000, respectively, of net position for reinvestment in infrastructure.

(m) Pensions and Defined-Benefit Postretirement Medical Plan

For purposes of measuring the net pension liability, net other post-employment benefit asset (OPEB), deferred outflows of resources and deferred inflows of resources related to pensions and OPEB asset, and pension and OPEB expense, information about the fiduciary net position of the ARRC's defined-benefit plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The fair value for mutual fund investments is determined based on published market prices and quotations from national security exchanges. The fair value of real estate and collective funds is determined based on the net asset value per share of the fund.

(n) Recently Issued Accounting Pronouncements Not Yet Adopted

GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83) was issued in November 2016. This Statement establishes uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported, and requires disclosures related to those AROs. GASB 83 is effective for reporting periods beginning after June 15, 2018. The ARRC is currently evaluating the impact GASB 83 will have on its future financial statements.

GASB Statement No. 84*, Fiduciary Activities* (GASB 84) was issued in January 2017. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is effective for reporting periods beginning after December 15, 2018. The ARRC is currently evaluating the impact GASB 84 will have on its future financial statements.

GASB Statement No. 87, *Leases* (GASB 87) was issued in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 is effective for reporting periods beginning after December 15, 2019. The ARRC is currently evaluating the impact GASB 87 will have on its future financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89) was issued in June 2018. This Statement requires interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business type activity or enterprise fund. GASB 87 is effective for reporting periods beginning after December 15, 2019. The ARRC has evaluated the impact GASB 89 will have on its future financial statements. Beginning January 1, 2019, ARRC will begin recognizing interest cost incurred before the end of a construction period as an expense in the period in which the cost is incurred.

(o) Reclassifications

Certain reclassifications not affecting net income have been made to the 2017 financial statements to conform to the 2018 presentation.

(3) Deposits

Restricted assets are reported on the statements of net position as follows at December 31, 2018 and 2017:

		2018	2017
		(In thousands)	
Restricted assets – current:			
Money market mutual funds	$	21,907	18,348
Receivable from Healthcare Trust		1,364	1,461
		23,271	19,809

	2018	2017
	(In thousands)	
Restricted assets – long term:		
Interest bearing savings	$ 136	153
Money market mutual funds	2,821	5,067
Receivable from Healthcare Trust	1,024	1,826
	3,981	7,046
	$ 27,252	26,855

These assets are restricted by the terms of grant, trust, bond, debt service, or other agreements and are summarized as follows at December 31, 2018 and 2017:

Description of restriction	2018	2017
	(In thousands)	
Capital assets as authorized by the Department of Natural Resources	$ 136	153
Advance grant funding	433	426
State of Alaska advance funding for Positive Train Control	—	643
State of Alaska advance funding for Northern Rail Extension	1,417	1,476
Projects authorized by bond agreements	2,130	2,266
Welfare benefits plan	2,388	3,287
Debt service reserve 2015A and 2015B	20,490	18,348
Debt service reserve 2012A and 2012B for notes payable	258	256
	$ 27,252	26,855

Cash and cash equivalents consist of the following at December 31, 2018 and 2017:

	2018	2017
	(In thousands)	
Cash	$ 5,852	7,265
Money market deposit accounts	10,108	10,085
Money market mutual funds	69,715	53,918
	$ 85,675	71,268

(a) Custodial Credit Risk

In the case of deposits, custodial credit is the risk that in the event of a bank failure, the ARRC's deposits may not be returned to it. For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the ARRC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The ARRC's Investment Policy requires that all investments be collateralized and/or insured.

At December 31, 2018, the ARRC's carrying amount of cash and cash equivalents was $85.7 million and the bank balance was $86.1 million. Of the bank balance, $250,000 was covered by federal depository insurance, $79.8 million represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2018, the ARRC's carrying amount and bank balance of restricted assets was $27.3 million, all of which was held by a custodian bank in ARRC's name.

At December 31, 2017, the ARRC's carrying amount of cash and cash equivalents was $71.3 million and the bank balance was $71.6 million. Of the bank balance, $250,000 was covered by federal depository insurance, $64.0 million represents money market funds held by the ARRC's agent in the ARRC's name, and the remaining balance is uncollateralized. At December 31, 2017, the ARRC's carrying amount and bank balance of restricted assets was $26.9 million, all of which was held by a custodian bank in ARRC's name.

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The ARRC's Investment Policy limits investment maturities to five years or less as a means of managing its exposure to fair value losses arising from increasing interest rates. The ARRC uses the specific identification method to report maturities of investments.

(c) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. The ARRC's Investment Policy authorizes the ARRC to invest in U.S. Treasury and agency obligations, state and local government obligations, corporate bonds, certificates of deposit, bankers' acceptances, commercial paper, asset-backed securities, and money market funds. The ARRC's cash and cash equivalents and its restricted assets consist primarily of money market funds, which are excluded from credit risk disclosure requirements.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to holding investments from a single issuer. The ARRC Investment Policy places no limit on the amount the ARRC may invest in any one issuer.

(e) Foreign Currency Risk

Foreign currency risk arises when changes in foreign exchange rates will adversely affect the fair value of an investment. ARRC does not have a policy to limit foreign currency risk associated with investment funds. ARRC does not have exposure to foreign currency risk in its investment funds at December 31, 2018 or 2017.

(f) Fair Value Measurements

The ARRC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The ARRC has the following recurring fair value measurements as of December 31, 2018 and 2017:

			Fair value measurements using		
		December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Investments by fair value level:					
Cash and cash equivalents:					
Money market mutual funds	$	69,715	69,715	—	—
Restricted assets:					
Money market mutual funds		24,728	24,728	—	—
Total investments by fair value level	$	94,443	94,443	—	—

			Fair value measurements using		
		December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
			(In thousands)		
Investments by fair value level:					
Cash and cash equivalents:					
Money market mutual funds	$	53,918	53,918	—	—
Restricted assets:					
Money market mutual funds		23,415	23,415	—	—
Total investments by fair value level	$	77,333	77,333	—	—

(4) Capital Assets

During 2002, the ARRC received initial approval from its federal cognizant agency, which was updated in 2005, of its indirect cost rate agreement. In compliance with Federal Transit Administration (FTA) Circulars, ARRC will continue to update its indirect cost rate proposal but will retain it on site and make it available for review during its annual financial audit. This agreement allows ARRC to allocate certain general and administrative expenses to grant-funded capital assets. Indirect costs allocated to capital assets under this agreement totaled $2,163,000 and $1,823,000 during the years ended December 31, 2018 and 2017, respectively.

The following tables summarize activity in the capital assets accounts during the years ended December 31, 2018 and 2017:

		Balance at December 31, 2017	Increases	Decreases	Balance at December 31, 2018
		(In thousands)			
Capital assets not being depreciated:					
Land and improvements	$	32,744	278	(305)	32,717
Road materials and supplies		9,712	8,600	(7,969)	10,343
Construction in progress		81,418	58,543	(29,391)	110,570
Total capital assets not being depreciated		123,874	67,421	(37,665)	153,630
Capital assets being depreciated:					
Road and roadway structures		1,101,621	19,067	(1,213)	1,119,475
Equipment		415,966	10,045	(1,948)	424,063
Leasehold improvements		2,172	—	—	2,172
Total capital assets being depreciated		1,519,759	29,112	(3,161)	1,545,710
Capital assets being depleted:					
Quarry improvements		4,114	—	—	4,114
Less accumulated depreciation for:					
Road and roadway structures		469,171	40,320	(879)	508,612
Equipment		280,890	20,524	(1,937)	299,477
Leasehold improvements		1,993	83	—	2,076
Total accumulated depreciation		752,054	60,927	(2,816)	810,165
Less accumulated depletion for:					
Quarry improvements		842	—	—	842
Capital assets being depreciated and depleted, net		770,977	(31,815)	(345)	738,817
Net capital assets	$	894,851	35,606	(38,010)	892,447

(Continued)

	Balance at December 31, 2016	Increases	Decreases	Balance at December 31, 2017
		(In thousands)		
Capital assets not being depreciated:				
Land and improvements	$ 32,683	61	—	32,744
Road materials and supplies	9,308	4,897	(4,493)	9,712
Construction in progress	56,386	52,901	(27,869)	81,418
Total capital assets not being depreciated	98,377	57,859	(32,362)	123,874
Capital assets being depreciated:				
Road and roadway structures	1,083,046	18,609	(34)	1,101,621
Equipment	408,797	9,199	(2,030)	415,966
Leasehold improvements	2,172	—	—	2,172
Total capital assets being depreciated	1,494,015	27,808	(2,064)	1,519,759
Capital assets being depleted:				
Quarry improvements	4,114	—	—	4,114
Less accumulated depreciation for:				
Road and roadway structures	429,383	39,823	(35)	469,171
Equipment	262,015	20,838	(1,963)	280,890
Leasehold improvements	1,910	83	—	1,993
Total accumulated depreciation	693,308	60,744	(1,998)	752,054
Less accumulated depletion for:				
Quarry improvements	842	—	—	842
Capital assets being depreciated and depleted, net	803,979	(32,936)	(66)	770,977
Net capital assets	$ 902,356	24,923	(32,428)	894,851

(Continued)

Depreciation was charged to the following departments during the years ended December 31, 2018 and 2017:

	2018		2017	
	Grant-funded depreciation	**Nongrant-funded depreciation**	**Grant-funded depreciation**	**Nongrant-funded depreciation**
	(In thousands)			
Transportation	$ 6,906	739	6,805	741
Passenger	—	104	11	104
Marketing and customer service	—	846	—	955
Mechanical	3,075	6,566	3,198	6,202
Engineering	26,087	7,262	26,095	6,854
Facilities	3,661	1,894	3,771	2,049
General and administrative	176	1,220	188	1,946
Real estate	491	1,900	67	1,758
	$ 40,396	20,531	40,135	20,609

Net investment in capital assets is as follows at December 31, 2018 and 2017:

	2018	2017
	(In thousands)	
Net capital assets	$ 892,447	894,851
Capital assets acquired through accounts payable	(3,371)	(1,238)
Notes payable (note 6)	(6,753)	(11,286)
Outstanding balance of revenue bonds (note 6)	(88,874)	(103,961)
Assets restricted for projects authorized by revenue bond agreements (note 3)	2,130	2,266
Unearned grant revenue	(570,235)	(565,073)
	$ 225,344	215,559

(5) Long-Term Liabilities

Long-term liability activity is summarized as follows during the years ended December 31, 2018 and 2017:

	Balance at December 31, 2017	Additions	Reductions	Balance at December 31, 2018	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 11,286	—	(4,533)	6,753	2,373
Revenue bonds payable	92,295	—	(13,575)	78,720	14,250
Plus (less) unamortized amounts:					
Issuance premiums	11,666	—	(1,512)	10,154	—
Total revenue bonds payable	103,961	—	(15,087)	88,874	14,250
Environmental remediation reserve	2,455	584	(591)	2,448	411
State of Alaska advances	2,255	—	(708)	1,547	—
Total long-term liabilities	$ 119,957	584	(20,919)	99,622	17,034

	Balance at December 31, 2016	Additions	Reductions	Balance at December 31, 2017	Due within one year
			(In thousands)		
Long-term debt:					
Notes payable	$ 14,180	—	(2,894)	11,286	2,954
Revenue bonds payable	105,240	—	(12,945)	92,295	13,575
Plus (less) unamortized amounts:					
Issuance premiums	12,617	—	(951)	11,666	—
Unamortized issuance costs	(18)	18	—	—	—
Total revenue bonds payable	117,839	18	(13,896)	103,961	13,575
Environmental remediation reserve	2,466	—	(11)	2,455	311
State of Alaska advances	3,031	—	(776)	2,255	—
Payable from restricted assets	106	—	(106)	—	—
Total long-term liabilities	$ 137,622	18	(17,683)	119,957	16,840

The ARRC has arrangements for three short-term unsecured lines of credit. The two general purpose lines of credit allow borrowing up to $20,000,000 at rates of 78.5% to 100% of London Interbank Offered Rate (LIBOR) plus 1.45% to 1.85%. The self-insurance line of credit allows borrowing up to $10,000,000 at rates of 78.5% to 100% of LIBOR plus 1.45% to 1.85%. None of the lines of credit had an outstanding balance at December 31, 2018 or 2017.

(6) Long-Term Debt

Long-term debt at December 31, 2018 and 2017 consists of the following:

		2018	2017
		(In thousands)	
Notes payable:			
Note payable, secured by real estate revenue, due in monthly payments of $36,210, including interest at 2.65%, matures on April 21, 2023	$	1,777	2,159
Note payable, secured by real estate revenue, due in monthly payments of $48,538, including interest at 2.65%, matures on April 21, 2023		2,381	2,894
Note payable, secured by equipment, due in monthly payments of $136,842, including interest at 1.71%, matures on August 1, 2019		1,088	2,696
Note payable to State of Alaska, secured by real property, due in annual payments (varies), including interest at 3.00%, retired on October 23, 2018		—	1,669
Note payable, secured by equipment, due in monthly payments of $32,469, including interest at 1.67%, matures on December 18, 2022		1,507	1,868
		6,753	11,286
Less current portion		2,373	2,954
	$	4,380	8,332
Revenue bonds:			
Revenue Bonds – Series 2015A and 2015B, interest at 4.0%–5.0%, payable semiannually on February 1 and August 1, secured by 5307 and 5337 FTA Formula Funds, matures on August 1, 2023	$	88,874	103,961
Less current portion		14,250	13,575
	$	74,624	90,386

(Continued)

Annual payments on debt are scheduled as follows at December 31, 2018:

		Notes payable		Revenue bonds payable		
		Principal	Interest	Principal	Interest	Total
				(In thousands)		
Years ending December 31:						
2019	$	2,373	128	14,250	3,634	20,385
2020		1,316	91	14,960	2,909	19,276
2021		1,348	59	15,705	2,147	19,259
2022		1,380	27	16,490	1,347	19,244
2023		336	2	17,315	505	18,158
		6,753	$ 307	78,720	10,542	96,322
Current portion of principal		(2,373)		(14,250)		(16,623)
Unamortized premium		—		10,154		10,154
Total noncurrent portion	$	4,380		74,624		89,853

Federal Transit Program – ARRC Participation in Section 5307 Urbanized Area Formula Program and Section 5337 State of Good Repair Formula Program

In association with the issuance of the 2015 revenue bonds, Moody's issued an "A3" rating with a stable outlook and Standard & Poor's issued an "A" rating with a stable outlook. These ratings have not changed through December 31, 2018. The following table sets forth the authorized funding allocation of the FTA Section 5307 Formula Program Funds and Section 5337 Formula Program Funds to ARRC in Federal Fiscal Years (FFY) 2018 and the estimated apportionments for FFY 2019 through 2023:

FFY		Section 5307 formula program	Section 5337 formula program	Total
2018 Apportionments	$	14,067,216	33,459,820	47,527,036
2019 Estimated apportionments		13,936,403	30,170,696	44,107,099
2020 Estimated apportionments		14,246,339	30,690,222	44,936,561
2021 Estimated apportionments		14,531,266	31,211,956	45,743,222
2022 Estimated apportionments		14,821,891	31,742,559	46,564,450
2023 Estimated apportionments		15,118,329	32,282,183	47,400,512

The FTA 5307 Urbanized Area Formula Funds flow from the FTA to a local area planning organization in a lump sum, where designated recipients, ARRC and MOA, are required to agree on how best to split the funds to benefit the area's transportation needs. Since 2006, ARRC and MOA have agreed to split the funds along programmatic lines so that all funds generated by ARRC as "rail tier" funds have gone to ARRC and all funds generated as "bus tier" funds have gone to MOA. During 2016, the MOA did not agree to continue this practice and the amount ARRC would ultimately receive was uncertain. As a result, ARRC did not recognize FTA Section 5307 grant revenues during 2016. During 2017, the MOA and ARRC reached an agreement to continue the historical practice of allocating all "rail tier" funds to ARRC. During 2017, ARRC recognized FTA Section 5307 funds "rail tier" funds of $7.4 million for 2016 and $8.5 million for 2017, which were included in grant revenue. During 2018, ARRC recognized FTA Section 5307 funds "rail tier" funds of $4.9 million which was included in grant revenue.

Section 509 of the Trust Indenture required five-year arbitrage certificates to be filed with the trustee for the Capital Grant Receipts Bonds, Series 2006 and Series 2007. There was no rebate due on the Series 2006 during the final filing of the 2016 arbitrage certificate. There was a rebate paid during August 2017 of $102,000 due on the final Series 2007 filing of the 2017 arbitrage certificate.

The ARRC expended $2.74 million and $14.56 million during 2018 and 2017, respectively, of the 2015B bond proceeds on eligible capital costs relating to the development of the federally mandated Positive Train Control.

The following table sets forth the interest capitalized or applied to the long-term capital construction projects:

		2018	**2017**
		(In thousands)	
Capitalized interest:			
Interest expense	$	2,048	2,016
Less interest income		(42)	(76)
Total capitalized interest	$	2,006	1,940

State of Alaska Authorizations

Chapter 8, SLA 2015, authorized the ARRC to issue up to $37 million in revenue bonds to finance a positive train control rail transportation safety project that qualifies for federal financial participation and associated costs. To date, $34.7 million in bonds have been issued, with a premium of $5.1 million.

Chapter 65, SLA 2007, authorized the ARRC to issue up to $2.9 billion in revenue bonds to finance all or a portion of the Kenai gasification project and Port MacKenzie rail spur project, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued.

Chapter 28, SLA 2006, authorized the ARRC to issue up to $165 million in revenue bonds to finance rail transportation projects that qualify for federal financial participation and associated costs. To date, $165 million in bonds were issued and were fully refunded subsequent to issuance.

Chapter 46, SLA 2004, authorized the ARRC to issue up to $500 million in revenue bonds, subject to an agreement with a third party to pay the debt service and other related bond costs, to finance the cost of extending its rail line to Fort Greely, Alaska. To date, no bonds have been issued.

Chapter 71, SLA 2003, authorized the ARRC to issue up to $17 billion in revenue bonds to finance the construction of a natural gas pipeline and related facilities, subject to an agreement with a third party to pay the debt service and other costs of the bonds. To date, no bonds have been issued. This authorization was repealed in July 2018 by Chapter 64, SLA 2018.

Chapter 77, SLA 1994, authorized the ARRC to issue up to $55 million in revenue bonds to finance the construction and acquisition of the Alaska Discovery Center for the Ship Creek Project in Anchorage. To date, no bonds have been issued.

(7) Employee Benefits

(a) Alaska Railroad Corporation Pension Plan

The ARRC has a single-employer defined-benefit-pension plan (the Plan) administered by the Tax Deferred Savings and Pension Committee covering all regular represented and nonrepresented employees who are not covered by the Civil Service Retirement System (CSRS). Benefits provided by the Plan include retirement, disability, and death benefits. Benefit terms and contribution rates are established and amended under the authority of the Board of Directors. Benefits under this Plan are based upon the employee’s years of service and final average compensation. The ARRC’s funding policy is to contribute each year an actuarially determined contribution rate recommended by an independent actuary. The actuarially determined contribution rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees contribute an amount equal to 9% of eligible compensation.

As of December 31, 2018, the Plan assets consist of cash and cash equivalents of less than 1%, fixed-income securities of 22.0%, equities of 55.1%, commodities of 1.6%, and real estate investments of 20.9%.

At December 31, the plan membership consisted of the following:

	2018	2017
Inactive plan members or beneficiaries currently receiving benefits	293	268
Inactive plan members entitled to but not yet receiving benefits	367	364
Active plan members	685	647
	1,345	1,279

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2018 and 2017, the ARRC reported a liability for the pension plan. The net pension liability was measured as of December 31, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the ARRC recognized pension expense of $8,240,000 and $5,498,000, respectively.

At December 31, the ARRC reported deferred outflows of resources and deferred inflows of resources related to pension as follows:

Deferred outflows and (inflows) of resources		2018 Deferred outflows of resources	2018 Deferred inflows of resources	2017 Deferred outflows of resources	2017 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	2,555	(2,126)	3,826	(383)
Changes of assumptions		161	—	217	—
Net difference between actual and projected earnings on investments		13,388	—	—	(4,064)
Total	$	16,104	(2,126)	4,043	(4,447)

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

		Amount
		(In thousands)
Year ending December 31:		
2019	$	5,177
2020		2,964
2021		1,864
2022		3,973
2023		—
Thereafter		—
	$	13,978

Actuarial Assumptions: The total pension liability in the January 1 actuarial valuation was determined using the following actuarial assumptions:

Actuarial assumption	2018	2017
Inflation	2.8%	2.8%
Salary increases	3.0% CPI plus merit based rates	3.0% CPI plus merit based rates
Long term rate of return	7.5%	7.5%
Cost of living allowance	1.4%	1.4%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.65% of payroll, based on current year actual expense	0.86% of payroll, based on current year actual expense

Mortality rates were based on the Society of Actuaries RP-2000 combined mortality table (65%/35%; blended blue/white collar) and the Scale AA generational mortality improvement in longevity that management expects to occur in the future.

The long-term expected rate of return on pension plan investments of 7.5% was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Cash	— %	0.50 %
U.S. Treasury Inflation-Protected Securities (TIPS)	5.00	2.00
Total return bond	13.00	2.50
Global bond	5.00	2.50
High yield bond	7.00	4.00
Domestic large cap	20.00	7.00
Domestic mid cap	12.00	8.00
Domestic small cap	8.00	9.00
International equity	13.00	7.25
Commodities	2.00	1.50
Real estate	15.00	4.75
Total	100.00 %	

Discount Rate: The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the ARRC contributions will be made based on the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (6.5)%	Current discount rate (7.5)%	1% Increase (8.5)%
			(In thousands)	
Net pension liability (asset) as of:				
December 31, 2018	$	64,523	34,452	9,704
December 31, 2017		44,208	15,385	(8,293)

Changes in the net pension liability are as follows:

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
			(In thousands)	
Balances at January 1, 2018	$	200,808	185,423	15,385
Changes for the year:				
Service cost		5,676	—	5,676
Interest		15,221	—	15,221
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(2,321)	—	(2,321)
Changes of assumptions		—	—	—
Contributions – employer		—	3,555	(3,555)
Contributions – employee		—	4,341	(4,341)
Net investment loss		—	(8,075)	8,075
Benefit payments, including refunds of employee contributions		(7,062)	(7,062)	—
Administrative expenses		—	(312)	312
Net changes		11,514	(7,553)	19,067
Balances at December 31, 2018	$	212,322	177,870	34,452

		Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
			(In thousands)	
Balances at January 1, 2017	$	187,054	161,588	25,466
Changes for the year:				
Service cost		5,777	—	5,777
Interest		14,230	—	14,230
Changes of benefit terms		154	—	154
Difference between expected and actual experience		(482)	—	(482)
Changes of assumptions		272	—	272
Contributions – employer		—	4,051	(4,051)
Contributions – employee		—	4,302	(4,302)
Net investment income		—	22,088	(22,088)
Benefit payments, including refunds of employee contributions		(6,197)	(6,197)	—
Administrative expenses		—	(409)	409
Net changes		13,754	23,835	(10,081)
Balances at December 31, 2017	$	200,808	185,423	15,385

Additional required supplementary information for ARRC's defined-benefit pension plan can be found on pages 43 and 44.

(b) Alaska Railroad Corporation Health Care Trust

The ARRC sponsors a single-employer, defined-benefit retiree health care plan (Plan) administered by the Nonrepresented Tax Deferred Saving, 457 and Health Care Trust Plan Committee covering nonrepresented and Alaska Railroad Workers (ARW) represented employees, who became employed prior to November 4, 2014. The Plan also covers regular represented employees covered under the American Train Dispatchers Association (ATDA) or other represented employees hired before March 4, 2016 for United Transportation Union (UTU), April 2, 2015 for Carmen's Division of Transportation Communication International Union (TCU), and April 26, 2016 for International Brotherhood of Teamsters Local 959 (IBT), as specified in the labor agreements.

The Plan provides postretirement medical benefits to employees receiving retirement under the pension plan and retired CSRS employees who do not qualify for the federal medical insurance, and who move directly from active coverage to retiree coverage. The Plan is contributory with retiree premiums adjusted annually, and contains other cost-sharing features such as deductibles and coinsurance. The ARRC's funding policy is to contribute each year an amount equal to the actuarially determined contribution. Benefit terms and contribution rates are established and amended under the authority of the Board of Directors and management.

There were no contributions recognized or due by the Plan from the ARRC during the year ended December 31, 2018 or 2017. As of December 31, 2018, the Plan assets are held in trust and consist of cash and cash equivalents of less than 1%, fixed-income securities of 34.5%, equities of 32.3%, and real estate investments of 33.2%. The value of trust assets used for GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* excludes certain Trust assets segregated for use toward the ARRC Welfare Benefit Plan.

At December 31, the Plan membership consisted of the following:

	2018	2017
Inactive plan members or beneficiaries currently receiving benefits	39	31
Inactive plan members entitled to but not yet receiving benefits	—	—
Active plan members	404	444
	443	475

The components of the net other postemployment benefit (OPEB) asset for the Plan at December 31, 2018 and 2017 were as follows:

	2018	2017
	(In thousands)	
Total OPEB liability	$ 15,332	17,152
Fiduciary net position	(45,248)	(46,627)
Net OPEB asset	$ (29,916)	(29,475)
Plan fiduciary net position as a percentage of the total OPEB asset	(295.1)%	(271.8)%

OPEB Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At December 31, 2018 and 2017, the ARRC reported an asset for the OPEB plan. The net OPEB asset was measured as of December 31, 2018 and 2017, and the total OPEB asset used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2018 and 2017. For the years ended December 31, 2018 and 2017, the ARRC recognized net OPEB income of $623,000 and $113,000, respectively.

At December 31, the ARRC reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

Deferred outflows and (inflows) of resources		2018 Deferred outflows of resources	2018 Deferred inflows of resources	2017 Deferred outflows of resources	2017 Deferred inflows of resources
		(In thousands)		(In thousands)	
Differences between expected and actual experience	$	—	(5,405)	—	(1,582)
Changes of assumptions		2,281	—	1,129	—
Net difference between actual and projected earnings on investments		3,134	—	281	—
Total	$	5,415	(5,405)	1,410	(1,582)

The deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense or income as follows:

		Amount
		(In thousands)
Year ending December 31:		
2019	$	859
2020		165
2021		154
2022		439
2023		(379)
Thereafter		(1,228)
	$	10

Actuarial Assumptions: The total OPEB liability in the January 1 actuarial valuation was determined using the following actuarial assumptions.

Actuarial assumption	2018	2017
Discount rate	6.75% based on crossover test	6.75% based on crossover test
Inflation	2.8%	2.8%
Salary increases	3.0% CPI plus merit based rates	3.0% CPI plus merit based rates
Cost of living allowance	Not Applicable	Not Applicable
Long-term rate of return	6.75%	6.75%
Retirement, disablement, and termination	Based on 2010-2014 experience study	Based on 2010-2014 experience study
Administrative expenses	0.18% of payroll, based on current actual year expenses	0.22% of payroll, based on current actual year expenses
Participation rates	Varies from 35% to 85%	Varies from 35% to 85%
Medical trend	Non medicare 7.5%, decreasing to an ultimate rate of 4.0% in 2076 Medicare 6.5%, decreasing to an ultimate rate of 4.0% in 2019	6.2%, grading down over five years to 4.5%

Mortality rates were based on the Society of Actuaries RP-2000 combined mortality table (65%/35% blended blue/white collar) and the Scale AA generational mortality improvement in longevity that management expects to occur in the future.

The long-term expected rate of return of 6.75% on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Cash	— %	0.50 %
U.S. TIPS	5.00	2.00
Intermediate term bond	30.00	2.50
Global bond	5.00	2.50
High yield bond	10.00	4.00
Domestic large cap	15.00	7.00
Domestic mid cap	5.00	8.00
Domestic small cap	4.00	9.00
U.S. healthcare (equity)	5.00	7.50
International equity	6.00	7.25
Real estate	15.00	4.75
Total	100.00 %	

Discount Rate: The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and contributions from employers will be made based on the actuarially determine contribution rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate: The following presents the net OPEB liability calculated using the discount rate of 6.75%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (5.75)%	Current discount rate (6.75)%	1% Increase (7.75)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2018	$	(27,601)	(29,916)	(31,805)
December 31, 2017		(26,769)	(29,475)	(31,658)

Sensitivity of the net OPEB liability to changes in the Medical Cost Trend Rate: The following presents the net OPEB liability calculated using the medical cost trend rate of 7.5% beginning in 2015, reducing over eight years to 4.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or higher than the current rate:

		1% Decrease (6.5)%	Medical cost trend rate (7.5)%	1% Increase (8.5)%
			(In thousands)	
Net OPEB liability (asset) as of:				
December 31, 2018	$	(32,270)	(29,916)	(26,936)
December 31, 2017		(32,177)	(29,475)	(26,022)

Changes in the OPEB liabilities are as follows:

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB asset (a) – (b)
			(In thousands)	
Balances at January 1, 2018	$	17,152	46,627	(29,475)
Changes for the year:				
Service cost		599	—	599
Interest		981	—	981
Changes of benefit terms		—	—	—
Difference between expected and actual experience		(4,511)	—	(4,511)
Changes in assumptions		1,461	—	1,461
Contributions – employer		—	—	—
Net investment loss		—	(958)	958
Benefit payments, net of retiree premiums		(350)	(350)	—
Administrative expenses		—	(71)	71
Net changes		(1,820)	(1,379)	(441)
Balances at December 31, 2018	$	15,332	45,248	(29,916)

		Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB asset (a) – (b)
			(In thousands)	
Balances at January 1, 2017	$	15,327	42,740	(27,413)
Changes for the year:				
Service cost		700	—	700
Interest		1,095	—	1,095
Changes of benefit terms		526	—	526
Difference between expected and actual experience		(165)	—	(165)
Changes in assumptions		—	—	—
Contributions – employer		—	—	—
Net investment income		—	4,295	(4,295)
Benefit payments, net of retiree premiums		(331)	(331)	—
Administrative expenses		—	(77)	77
Net changes		1,825	3,887	(2,062)
Balances at December 31, 2017	$	17,152	46,627	(29,475)

Additional required supplementary information for ARRC's OPEB plan can be found on pages 45 through 47.

(c) *Civil Service Retirement System (CSRS)*

Federal employees who transferred to the ARRC continue to participate in the CSRS, a multiemployer, defined-benefit plan. ARRC is required to contribute 7% of the transferred employees' eligible compensation. Benefit expense related to CSRS was $35,000 and $44,000 for the years ended December 31, 2018 and 2017, respectively.

(d) *Alaska Railroad Corporation 401(k) Tax Deferred Savings Plan*

The ARRC sponsors a defined contribution plan (Plan) under Section 401(k) of the Internal Revenue Code (IRC) for employees. All regular employees are eligible to contribute to the Plan. Under the terms of certain collective bargaining agreements and the plan document for nonrepresented employees, representing 80% of employees, the ARRC will match a portion of employee contributions. The maximum amount of matching required under the agreements is 66% of employee contributions for the first 9% of salary. Benefit expense related to the Plan was $744,000 and $742,000 for the years ended December 31, 2018 and 2017, respectively.

(e) *Alaska Railroad Corporation 457 Deferred Compensation Plan*

ARRC sponsors a Section 457 deferred compensation plan (Plan) under Section 457(b) of the IRC for nonrepresented employees. There are no benefit expenses related to the Plan for the years ended December 31, 2018 or 2017.

(8) Grants

The ARRC has spent grant funding on a variety of operating property, right-of-way acquisition, and equipment. Generally, grant revenue will be recognized equal to depreciation on these assets each year.

The original cost of assets constructed or acquired with grant funding as of December 31, 2018 and 2017 consists of the following:

		2018	2017
		(In thousands)	
Land and improvements		$ 8,729	8,729
Road and roadway structures	15–32 year life	670,863	662,175
Equipment	5–25 year life	185,424	181,412
Construction in process		45,434	26,300
		$ 910,450	878,616

Grant revenue earned during the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
	(In thousands)	
Depreciation on assets constructed with grant funds	$ 40,396	40,135
Grant funded maintenance expense	12,635	17,296
Grant funded bond principal, interest, and issuance costs	878	4,466
	53,909	61,897
Less grant revenue included in real estate nonoperating revenues	(491)	(67)
Less grant funded interest on Series 2015A revenue bonds included in nonoperating revenues	(878)	(4,450)
	$ 52,540	57,380

The original cost of assets constructed or acquired with Capital Grant Receipts Bonds consists of the following:

			2018	2017
			(In thousands)	
Road and roadway structures	15–32 year life	$	163,779	163,779
Equipment	5–25 year life		18,960	18,960
Construction in process			41,878	39,142
		$	224,617	221,881

(9) Concentrations

During 2018, ARRC entered into an agreement with a customer under the Internal Revenue Code §45G. Under the agreement, ARRC received $4.8 million for qualified track maintenance expenses and gave the customer a rebate of $2.5 million. The 2018 qualified track maintenance expenses and the rebate are recorded as net reductions in operating expenses.

A significant portion of ARRC's funding comes from the federal government in the form of grants. Federal grant funding was used for 54.4% and 38.1% of capital expenditures in 2018 and 2017, respectively.

(10) Land

The ARRC leases a significant portion of its land to various parties under long-term agreements. Rental income on these leases, which is included in real estate income, was $17,274,000 and $16,764,000 in 2018 and 2017, respectively. The following table summarizes future minimum lease receipts contractually due under long-term agreements as of December 31, 2018:

		Amount
		(In thousands)
Year ending December 31:		
2019	$	14,356
2020		13,863
2021		13,516
2022		12,558
2023		10,928
Thereafter		160,750
	$	225,971

(Continued)

(11) Operating Leases and Agreements

The ARRC leases certain operating equipment and barge services under operating leases and agreements. Payments under the leases and agreements totaled $9,445,000 and $9,456,000 in 2018 and 2017, respectively. Future minimum lease payments as of December 31, 2018 are summarized as follows:

		Amount (In thousands)
Year ending December 31:		
2019	$	9,372
2020		1,490
2021		—
2022		—
2023		—
Thereafter		—
	$	10,862

(12) Insurance

The ARRC is self-insured to certain limits for employee health benefits, personal injury, property and casualty damage claims, and workers' compensation claims, and establishes reserves for the estimated losses of such claims, including estimates of losses incurred but not reported, based on historical experience adjusted for current trends. The ARRC uses third-party administrators that process claims based on the provisions of the employee health plan, or for on-the-job injuries, in compliance with the State of Alaska Workers' Compensation Act. ARRC's commercial insurance policies with self-insured retention limits are summarized as follows at December 31, 2018 and 2017:

		2018	2017
		(In thousands)	
Casualty/liability	$	300,000	300,000
Property damage		100,000	100,000
Casualty/liability retention		5,000	5,000
Property damage retention		10,000	10,000

Self-insurance activity is summarized as follows during the years ended December 31, 2018 and 2017:

		Balance at December 31, 2017	Incurred claims	Claim payments	Balance at December 31, 2018
			(In thousands)		
Employee health benefits	$	1,213	8,508	(9,020)	701
Workers' compensation		1,396	2,315	(1,287)	2,424
	$	2,609	10,823	(10,307)	3,125

		Balance at December 31, 2016	Incurred claims	Claim payments	Balance at December 31, 2017
			(In thousands)		
Employee health benefits	$	1,174	11,155	(11,116)	1,213
Workers' compensation		1,732	1,401	(1,737)	1,396
	$	2,906	12,556	(12,853)	2,609

(13) Environmental Remediation Reserve

The ARRC has accrued certain environmental pollution remediation liabilities for its properties. ARRC has estimated the liability for pollution remediation by estimating a reasonable range of potential outlays and multiplying those outlays by the probability of occurrence, reduced by the allocation of liability to other potentially responsible parties, where applicable. The liabilities associated with these sites could change over time due to changes in costs of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation efforts.

(14) Commitments and Contingencies

Approximately 71% of the ARRC's labor force is subject to one of five collective bargaining agreements with various expiration dates. The representative unions are:

United Transportation Union (UTU),
International Brotherhood of Teamsters Local 959 (IBT),
American Train Dispatchers Association (ATDA),
Carmen's Division of Transportation Communication International Union (TCU), and the
Alaska Railroad Workers (ARW)

The ATDA labor agreement expired May 2017; a successor agreement was negotiated but not ratified by the membership, as a result the expired agreement was extended until a successor agreement is successfully negotiated. The ARW labor agreement expired November 2017, a successor agreement was negotiated but not ratified by the membership; resulting in the expired agreement being extended until negotiations commence again. The TCU labor agreement expired April 2018, a successor agreement was negotiated but not ratified by the membership. Negotiations are on-going. The IBT labor agreement will expire April 2019, and the parties have opened negotiations. The UTU labor agreement will expire on February on 2021.

The ARRC has certain other contingent liabilities resulting from lawsuits, contract disputes, and claims incident to the ordinary course of business. Provision has been made in the financial statements for probable losses, if any, from such contingencies. In the opinion of management, the resolution of such contingencies will not have a material effect on the financial position of the ARRC.

(15) Related Party Transactions

The State of Alaska awarded ARRC appropriations for two capital improvement projects totaling $116,500,000. The ARRC incurred $2,300,000 and $457,000 of costs during 2018 and 2017 under these appropriations. The State of Alaska awarded grants for a 2012 disaster declaration. Under these disaster grant awards, the ARRC incurred $3,523,000 and $185,000 of costs in 2018 and 2017, respectively. These amounts are included in accounts receivable, construction in progress, and unearned grant revenue as of December 31, 2018 and December 31, 2017. Consistent with other grants, revenue from these appropriations will be deferred and recognized over the life of the related capital assets.

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net Pension Liability and Related Ratios – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

		2018	2017	2016	2015
Total pension liability:					
Service cost	$	5,676	5,777	5,853	5,834
Interest		15,221	14,230	13,244	11,832
Changes of benefit terms		—	154	—	—
Differences between expected and actual experience		(2,321)	(482)	6,368	—
Changes of assumptions		—	272	—	—
Benefit payments, including refunds of member contributions		(7,062)	(6,197)	(5,541)	(4,920)
Net change in total pension liability		11,514	13,754	19,924	12,746
Total pension liability – beginning		200,808	187,054	167,130	154,384
Total pension liability – ending (a)		212,322	200,808	187,054	167,130
Plan fiduciary net position:					
Contributions – employer		3,555	4,051	4,163	3,571
Contributions – employees		4,341	4,302	4,383	4,290
Total net investment income (loss)		(8,075)	22,088	11,774	(199)
Other miscellaneous income		—	—	—	—
Benefit payments, including refunds of member contributions		(7,062)	(6,197)	(5,541)	(4,920)
Administrative expenses		(312)	(409)	(593)	(550)
Net change in plan fiduciary net position		(7,553)	23,835	14,186	2,192
Plan fiduciary net position – beginning		185,423	161,588	147,402	145,210
Plan fiduciary net position – ending (b)		177,870	185,423	161,588	147,402
Plan's net pension liability (a) – (b)	$	34,452	15,385	25,466	19,728
Plan fiduciary net position as a percentage of the total pension liability		83.77 %	92.33 %	86.39 %	88.20 %
Covered payroll	$	48,228	47,804	48,705	47,660
Net pension liability as a percentage of covered payroll		71.40 %	32.18 %	52.29 %	41.39 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Pension Plan

Last 10 Fiscal Years*

(In thousands)

		2018	2017	2016	2015
Actuarially determined contribution	$	3,555	4,051	4,163	3,571
Contributions in relation to the actuarially determined contribution		3,555	4,051	4,163	3,571
Contribution deficiency (excess)	$	—	—	—	—
Covered payroll	$	48,228	47,804	48,705	48,705
Contributions as a percentage of covered payroll		7.37 %	8.47 %	8.55 %	7.33 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Changes in Plan Net OPEB Liability and Related Ratios –
Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

		2018	2017	2016	2015
Total OPEB liability:					
Service cost	$	599	700	699	633
Interest		981	1,095	985	1,021
Changes of benefit terms		—	526	—	—
Differences between expected and actual experience		(4,511)	(165)	(1,832)	—
Changes of assumptions		1,461	—	1,442	—
Changes in benefit terms		—	—	—	—
Benefit payments, net of retiree premiums		(350)	(331)	(506)	(193)
Net change in total OPEB liability		(1,820)	1,825	788	1,461
Total OPEB liability – beginning		17,152	15,327	14,539	13,078
Total OPEB liability – ending (a)		15,332	17,152	15,327	14,539
Plan fiduciary net position:					
Contributions – employer		—	—	—	—
Total net investment income (loss)		(958)	4,295	2,670	(384)
Other miscellaneous income		—	—	—	—
Benefit payments, net of retiree premiums		(350)	(331)	(506)	(193)
Administrative expenses		(71)	(77)	(66)	(48)
Net change in plan fiduciary net position		(1,379)	3,887	2,098	(625)
Plan fiduciary net position – beginning		46,627	42,740	40,642	41,267
Plan fiduciary net position – ending (b)		45,248	46,627	42,740	40,642
Plan’s net OPEB liability (asset) (a) – (b)	$	(29,916)	(29,475)	(27,413)	(26,103)
Plan fiduciary net position as a percentage of the total OPEB liability		(295.12)%	(271.85)%	(278.85)%	(279.54)%
Covered payroll	$	33,444	35,292	46,941	47,660
Net OPEB liability as a percentage of covered payroll		(89.45)%	(83.52)%	(58.40)%	(54.77)%

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors’ report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of ARRC Contributions – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

(In thousands)

	2018	2017	2016	2015
Actuarially determined contribution	$ —	—	—	—
Contributions in relation to the actuarially determined contribution	—	—	—	—
Contribution deficiency (excess)	$ —	—	—	—
Covered payroll	$ 33,444	35,292	46,941	47,660
Contributions as a percentage of covered payroll	— %	— %	— %	— %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to required supplementary information.

ALASKA RAILROAD CORPORATION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns – Defined-Benefit Postretirement Medical Plan

Last 10 Fiscal Years *

	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	(2.39)%	10.55 %	3.50 %	0.70 %

* This schedule is intended to present information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report and notes to the required supplementary information.

(1) Actuarial Assumptions and Methods

The significant actuarial assumptions used in the defined-benefit pension valuation as of December 31, 2018 are as follows:

(a) Actuarial Valuation Date: January 1, 2018

(b) Amortization Period: The Unfunded Actuarial Accrued Liability is amortized as a level dollar payment over a rolling (open) 30-year period.

(c) Actuarial Determined Contribution: Sum of (1) employer normal cost (2) amortization of unfunded actuarial accrued liability and (3) expected administrative expenses

(d) Asset valuation method: Actuarial value of assets, 5-year smoothed market value, gains/losses recognized over 5 years

(e) Inflation: 2.8%

(f) Investment rate of return: 7.5%

(g) Administrative Expenses: $83,000 payable as of the last day of the plan year

(h) Cost of Living Allowance: 1.4% (1/2 assumed inflation Tier 1, none for Tier 2)

(i) Mortality: Society of Actuaries RP-2000 combined mortality table (65%/35%; blended blue/white collar) and Scale AA generational mortality improvement

(j) Termination: Ultimate withdrawal rates of the V Table (Employee Termination Study, Roger L. Vaughn, 1992)

(k) Disability: 1985 Pension Disability table (blended 80% Class 1 and 20% Class 3)

(l) Retirement: Rates vary based on age. Sample rates follow. Tier 1 deferred vested members are assumed to retire at age 58:

Age	Tier 1 rate	Tier 2 rate
55	6.0 %	N/A
56	6.0	N/A
57	12.5	N/A
58	12.5	N/A
59	20.0	N/A
60	20.0	10.0 %
61	20.0	10.0
62	25.0	15.0
63	15.0	15.0
64	20.0	20.0
65	15.0	25.0
66	15.0	25.0
67	25.0	25.0
68	25.0	25.0
69	25.0	25.0
70	100.0	100.0

The significant actuarial assumptions used in the actuarially determined contribution for the OPEB healthcare plan as of December 31, 2018 are as follows:

(a) Actuarial Valuation Date: January 1, 2018

(b) Amortization Period: The Overfunded Actuarial Accrued Liability is amortized as a level dollar payment over a rolling (open) 6-year period

(c) Actuarially Determined Contribution: Sum of (1) employer normal cost (2) amortization of unfunded actuarial accrued liability and (3) Expected administrative expenses.

(d) Asset valuation method: Actuarial value of assets, 5-year smoothed market value: gains/losses recognized over 5 years, reduced by Trust payments expected to be made for non-OPEB medical benefits.

(e) Inflation: 2.8%

(f) Investment rate of return: 6.75%

(g) Administrative Expenses: $21,000 payable as of the last day of the plan year

(h) Mortality: Society of Actuaries RP-2000 combined mortality table (65%/35%; blended blue/white collar) and Scale AA generational mortality improvement

(i) Termination: Ultimate withdrawal rates of the V Table (Employee Termination Study, Roger L. Vaughn, 1992)

(j) Disability: 1985 Pension Disability table (blended 80% Class 1 and 20% Class 3)

(k) Retirement: Rates vary based on age. Sample rates:

Age	Tier 1 rate	Tier 2 rate
55	6.0 %	N/A
56	6.0	N/A
57	12.5	N/A
58	12.5	N/A
59	20.0	N/A
60	20.0	10.0 %
61	20.0	10.0
62	25.0	15.0
63	15.0	15.0
64	20.0	20.0
65	15.0	25.0
66	15.0	25.0
67	25.0	25.0
68	25.0	25.0
69	25.0	25.0
70	100.0	100.0

(l) Medical Trend:

Year	Increase rate
2019	5.8 %
2020	5.4
2021	5.1
2022	4.8
2023	4.5
2024+	4.5 to 6.0

(m) ACA Excise Tax: Estimated based on blended rates.

(n) Participation: 45% of future retirees elect coverage, 85% of future disabled retirees to elect coverage, 25% of disabled retirees under age 65 are Medicare eligible, all retirees over age 65 are assumed Medicare eligible, 55% of nondisabled retirees continue coverage at first Medicare eligibility.

(Continued)

(o) Per capita claims costs:

Age		Old plan		Blue plan		Gold plan	
		Male	Female	Male	Female	Male	Female
50	$	10,358	12,126	9,647	11,365	9,163	10,830
55		13,730	14,129	12,933	13,320	12,358	12,736
60		18,609	17,118	17,712	16,247	17,025	15,593
64		20,725	18,378	19,789	17,482	19,053	16,797
65		7,132	5,972	6,198	5,092	5,464	4,422
70		8,248	6,753	7,169	5,758	6,320	5,000
75		9,809	7,924	8,525	6,756	7,515	5,867
80		11,782	9,455	10,240	8,061	9,027	7,000
85		13,834	11,103	12,023	9,467	10,599	8,221

Changes in Actuarial Methods since the prior Valuation

Defined-Benefit OPEB healthcare plan

Administrative expenses: Administrative expenses changed from 0.18% of payroll, based on actual expenses paid, which decreased by 7.0%.

ALASKA RAILROAD OFFICES

ALASKA RAILROAD OFFICES	PHYSICAL LOCATION	PHONE	FAX
ANCHORAGE, ALASKA (99501)			
Headquarters Offices	327 W. Ship Creek Avenue	907.265.2300	907.265.2312
Reservations & Depot	411 W. 1st Avenue	907.265.2494	907.265.2509
Operations Center	825 Whitney Road	907.265.2434	907.265.2643
FAIRBANKS, ALASKA (99701)			
Passenger Depot	1031 Railroad Depot Road	907.458.6025	907.458.6068
Freight Customer Service	1888 Fox Avenue	907.458.6022	907.458.6034
Freight House	230 Jack Lindsey Lane	907.458.6048	907.458.6061
SEWARD, ALASKA (99664)			
Dock Operations / Terminal	913 Port Avenue	907.224.5550	907.265.2660
SEATTLE, WASHINGTON (98134)			
Barge Operations Office	1140 SW Massachusetts Street	206.767.1100	206.767.1112

TOLL FREE NUMBERS			
Corporate Information 1.800.321.6518	Freight Marketing/Customer Service 1.800.321.6518	Passenger Customer Service 1.800.544.0552	Seattle Office 1.800.834.2772

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