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Alaska Railroad Corporation
1st Quarter, 2007

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EKLUTNA QUARRY DISPUTE ENDED

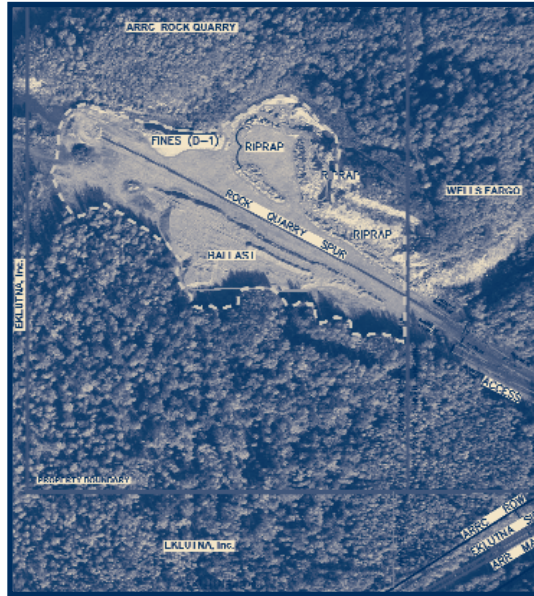
Railroad and Eklutna agree on land transfer and quarry use

In February, the Alaska Railroad Corporation (ARRC), Eklutna, Inc. and the Native Village of Eklutna signed an agreement that would transfer the 48-acre parcel of land near Eagle River (which includes a rock quarry) to Eklutna, Inc. The agreement would also enable ARRC to haul \$2 million worth of stockpiled rock material previously mined from the quarry.

According to Alaska law, any full conveyance (exchange, sale, donation, etc.) of railroad land must be approved by the legislature. Introduced by Senator Charlie Huggins and Representatives Bill Stoltze and Anna Fairclough, new legislation would authorize the land transfer.

The move ends a long-running dispute over the property's use as a quarry. The land was originally homesteaded and then held by the Bureau of Indian Affairs (BIA) as a Native school reserve. The Alaska Railroad was authorized to develop a rock quarry on site in 1944. In 1955, the BIA transferred the land to the railroad.,

Later, Eklutna, Inc. claimed the quarry site under the Alaska Native Claims Settlement Act (ANSCA). A 1987 ANSCA settlement agreement allowed ARRC to continue to mine the quarry, but the Native Village of Eklutna took legal action to protect the area, which has valid historical and cultural significance. Resulting court decisions made it increasingly difficult to mine and use the rock resources.



The rock quarry in Eklutna Hills.

ARRC is currently developing an alternative rock quarry at Curry. With another source of track maintenance material available, ARRC is in a better position to resolve the Eklutna Quarry controversy. If the legislation passes into law, the railroad will transfer ownership of the quarry to Eklutna, Inc. In turn, Native support has enabled ARRC to obtain a permit to remove the existing rock inventory and to use the rock on its capital projects.

The bill will also pave the way for ARRC and Eklutna, Inc. to work on future land negotiations that will be beneficial to both entities. ●

Alaska Railroad
Ongoing Projects:

Northern Rail Extension

Ft. Wainwright Realignment

Fairbanks-to-North Pole
Rail Realignment

Nenana Realignment

Collision Avoidance System

Curry Quarry Development

Anchorage Rail Capacity EA

Whistle Noise Reduction System

Crossbuck Illumination Test

Ship Creek Intermodal Center

Chugach Forest Whistle Stop

South Wasilla Rail Realignment

Seward Freight Dock Expansion

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these projects, visit the Alaska
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2006 ANNUAL REPORT FEATURES "ENGINEERED SUCCESS"

The Alaska Railroad's 2006 Annual Report offers an account of a year that exceeded expectations and capped off a well-executed five-year plan.

The 2006 report's theme "Engineered Success" could not be more fitting. Certainly, the efforts of our dedicated workforce engineered positive returns in several business sectors. Passenger services generated record revenues, our net income significantly outperformed budget expectations and we again marked our safest year ever. The year's robust financial outcome saw our assets grow to \$714 million... nearly double our \$367 million asset base in 2002 and a far cry from the \$22.3 million purchase price in 1984. The railroad earned a healthy \$10.4 million



in net income for 2006 surpassing our 2006 forecast by \$2.8 million. Gross revenues topped out at \$148.9 million with \$138.5 million in expenses.

Headlining the list of financial highlights was the railroad's entry into the public debt market. For the first time, the railroad issued tax exempt bonds, using funds to accelerate a track and bridge rehabilitation program to increase safety, reduce expenses, and enhance capacity and railroad speed.

The annual report is posted on the ARRC web site – www.AlaskaRailroad.com. Printed copies will be available at the end of April. If you receive *Community Ties*, you will receive a copy. ●

DEC DENIES WEED CONTROL PERMIT APPLICATION

Railroad faces another growing season with limited tools to combat vegetation

The Alaska Department of Environmental Conservation (DEC) denied the Alaska Railroad's permit application to use chemical weed control as part of a comprehensive vegetation management plan for more than 600 miles of mainline, siding and yard tracks. DEC cited concerns over the selected herbicides in relation to use near water resources.

"The recent decision by DEC is a clear and concise document," said ARRC President/CEO Pat Gamble. "It tells us that we need to do more homework."

Without the permit, the railroad faces the upcoming growing season with the same limited arsenal of tools to combat weeds, shrubs and trees that damage



the track bed, which raises the risk of derailment and environmental impacts resulting from a derailment. Overgrown vegetation also endangers employees, by obstructing line of sight and covering trip-and-fall hazards on the ground.

"We had a compelling reason to seek a permit to enhance our vegetation management plan – safety... safety for

our employees, customers and neighbors," said Gamble. "That hasn't changed. A serious vegetation problem is still on the table."

Gamble conceded that the permit process accomplished what it was supposed to. "One thing we can all take away from this long and in-depth application period is that the system worked," said Gamble.

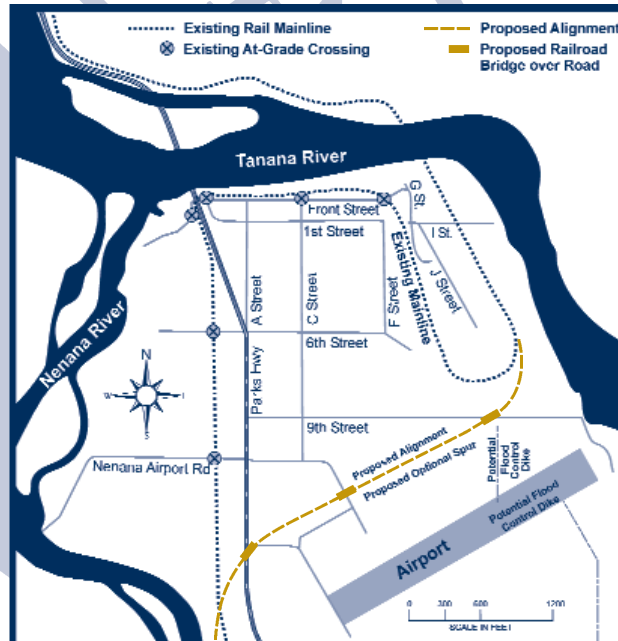
"Based on sound scientific studies, they have stated which weed killer can and cannot be used, as well as the application challenges we need to address in a future permit application. That is their job and they did it," Gamble continued. "It is now up to us to do our homework. We still need to kill weeds and will use any method allowed by law." ●

PROJECT UPDATE: NENANA RAIL REALIGNMENT

Interior Alaska project moves forward with land acquisition and final design

Like most major transportation improvement projects, the Nenana Rail Realignment (NRR) venture has gone through lengthy conceptual development and environmental review processes. NRR began an Environmental Assessment in 2003. In 2005, the project moved into final design, and thanks to a recent near-million dollar Federal Highway Administration appropriation, the railroad began purchasing land for the new right-of-way (ROW) in 2006. ROW acquisition continues this year.

The \$25 million project will greatly improve safety by straightening several large sharp curves and by significantly reducing rail traffic at six at-grade crossings in town. The project would also allow for faster train speeds over less maintenance-intensive track structure, enhancing operations efficiency and lowering costs.



The proposed elevated track bed, which moves train traffic outside of downtown Nenana, may engineer additional benefits, such as flood control elements (dikes, culverts, etc.). Gone will be most delays caused by long freight trains that can block city roadways and access to critical facilities (i.e., the health clinic). Concerns over train noise, vibration and hazardous materials transport should greatly diminish.

The existing track structure through Nenana will be maintained to support port and potential passenger activities.

In addition, the railroad will keep touting the historical significance of Nenana as passenger trains travel by the community. Tour guides will continue to tell visitors about such milestones as completing the Alaska Railroad in Nenana in 1923 and building the remarkable Mears Bridge over the Tanana River. ●

ARRC OFFERS PREMIER 1ST CLASS DINER TRAIN

Celebrity Chef Al dishes up gourmet cuisine for an unmatched dining experience

On April 21, the Alaska Railroad, along with celebrity chef Al Levinson, will serve up sumptuous cuisine for the Alaska Railroad's premier "Spring Diner Train with Chef Al." Riders will board the railroad's custom-made first-class double-decker dome cars in Anchorage to enjoy a gourmet cruise along Turnagain Arm to Portage.

Known as Chef Al, Levinson is the owner of the Kincaid Grill and executive chef of City Diner, Anchorage's newest, hottest restaurant. The renowned chef will serve up his distinctive brand of cooking, tempting Diner Train guests

with an assortment of tantalizing hors d'oeuvres, a savory main course and delectable desserts, topped off with a view no restaurant in Alaska can match.

"The Alaska Railroad is always looking for new and innovative trains that provide a truly Alaskan experience," said Susie Kiger, Director, Passenger Sales and Marketing. "With Chef Al in the galley preparing a signature dish, Diner Train riders are in for a real treat. We plan to complement his first-class meal with first-class service on board the best train in the world."

Reservations can be made on-line at AlaskaRailroad.com. ●

ALASKA RAILROAD TAKES STRYKER BRIGADE HOME

Iraq war comes closer to home with Stryker re-deployment in January 2007

The war in Iraq came a little closer to home for the Alaska Railroad, as dozens of ARRC employees in Anchorage and Fairbanks assisted with a re-deployment of the 1st Brigade, 25th Infantry Division (formerly the 172nd Stryker Brigade Combat Team). In late January soldiers and armored Stryker vehicles arrived at the Port of Anchorage aboard the Navy's *USS Shugart*, completing another leg on their way back home to Fort Wainwright.



Loading Stryker vehicles at the Port of Anchorage. (Photo by Blake Adolfae)

Two 57-car trains moved about 220 Stryker combat vehicles, a few HUMVs and several trailers with supplies and equipment over four days. The Strykers were returning to be reconditioned and refurbished in preparation for a possible future deployment.

Railroaders and Army personnel worked side-by-side to load and secure vehicles on flatbed railcars at the Port of Anchorage. Twelve hours later, outside of Fairbanks, Railroad operations employees spearheaded the off-load at Fort Wainwright.

"I'm proud of everyone at the railroad who made it all come together. It took the whole team. We really had to focus, due to the nature of this type of move," said ARRC Senior Freight Account Manager Rob Halpin, who facilitated, priced and marketed the railroad's role in the re-deployment. "This was no exercise. We were part of the war effort... not some distant action, but really part of it, doing our share."

And doing it well. "From all accounts, the Army was really pleased with our service and timeliness," said Halpin. ●

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COLLEGE THESIS FEATURES SHIP CREEK

Student crafts plans to connect downtown to Ship Creek waterfront

Young architectural visionary Paul R. Baril adopted Anchorage as home when he moved here from Los Angeles in 1992 at age 10. More than a dozen years later, Baril returned to his hometown bearing gifts born of his college pursuits. On May 31, the budding architect shared thoughtful, educated ideas for developing 27 acres of railroad property at the far west end of the Anchorage rail yard. Several city and civic leaders were on-hand to listen.

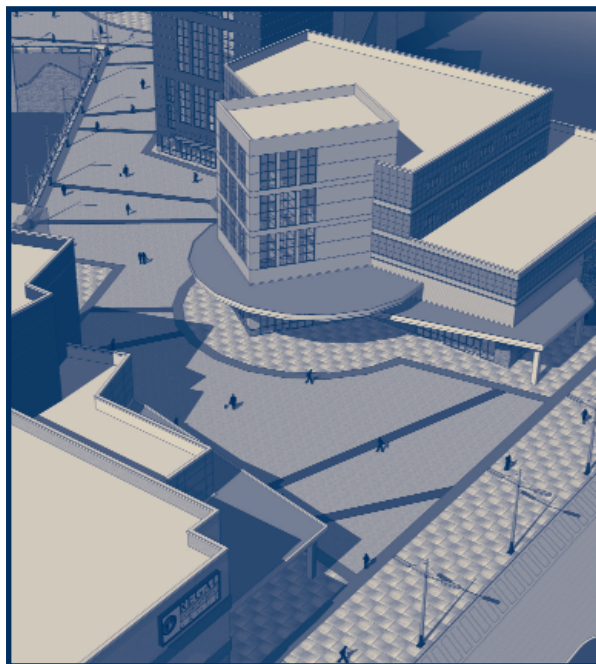
Baril began by thanking the Alaska Railroad for assisting with his architectural graduate thesis project. The overall goal, he said, was to provide ideas for enhancing the Ship Creek District and connecting downtown to the waterfront.

Anchorage Planning Department Director Tom Nelson was delighted with how well Baril's plans fit with the city-approved zoning guidelines for the Ship Creek Area, as well as with the city's proposed downtown comprehensive plan.

Anchorage Downtown Partnership Director Becky Beck was gratified to learn of the project's phased approach. And everyone was excited about the project's public plaza as the stand-out feature showcasing Baril's talent and vision.

"I've personally seen the city pay millions for the same type of work," said Assemblyman Allen Tesche. "I think the next step is to get developers together to listen to these ideas. Ask them what is feasible, and what they would need to pursue the project."

Baril attended the University of Alaska before moving to the University of Idaho, where he earned bachelor's and master's degrees in architecture. While attending school, Baril interned with Anchorage-based Porath Tatom Architects, where he continues to work full-time. ●



Architect Paul Baril's vision of an appealing public plaza.

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ARRC ENGAGES IN EMERGENCY RESPONSE EXERCISES

The Alaska Railroad and community responders continue to build important experience in emergency preparedness thanks to springtime exercises that featured passengers injuries and multi-agency coordination.

In April ARRC worked with the Girdwood Fire Department, Alaska Department of Transportation and City of Whittier in a situation involving a simulated passenger train derailed in the middle of the Anton Anderson Memorial Tunnel after a large earthquake dislodged a rock in the tunnel.

In May, the Railroad was one of dozens of players engaged in the Alaska Shield / Northern Edge exercise that drew federal, state and local

agencies in various disaster and accident scenarios statewide.

The scenario with the most agencies interacting was in Fairbanks May 8. More than 100 volunteers played passengers injured after a semi-truck slammed into the side of a train at a crossing (simulation only). The railroad interfaced with the Fairbanks Fire Department, Ester volunteer EMS, Fairbanks Red Cross and Fairbanks North Star Borough.



These exercises gave ARRC the opportunity to work its own incident command system as well as to work within the National Incident Management System. ARRC and other responders practiced protocol when working with other agencies, and all took stock of the additional resources needed when passengers are thrown into the mix. Such lessons continue to add to a response foundation that gets better and stronger with each exercise. ●



The exercise stages an overturned semi-truck.

RAIL-BARGE SERVICE GARNERS NATIONAL AWARD

Alaska Railroad and Lynden company recognized nationally for rail-barge link revival

The Alaska Railroad and Alaska Railbelt Marine (ARM) earned the *Argus Rail Business* 10th Annual Win-Win Award during the North American Rail Shippers Association (NRSA) annual meeting May 25. The award recognizes the two companies' successful revival of rail-barge freight service between Seattle and Whittier.

Argus Rail Business is an industry publication that discusses various rail freight issues; readers include shippers who use rail. NRSA represents rail shippers on a national level. The win-win award honors the best railroad-shipper partnerships in the industry.



ARRC began offering rail-barge service between Seattle and the Lower 48 in 1962, bolstered by development of the Trans Alaska Pipeline System in the 1970s. By the 1990s, a changing marketplace, maturing oil industry, and competing steamship service reduced demand for rail-barge traffic. The railroad had to choose: revitalize the rail-barge business or abandon it.

ARRC chose the former, first focusing on commodities that are most economical to move by rail. ARRC also found a partner in Lynden's newly-created business — ARM.

The two companies designed and constructed three new barges, each with a capacity of roughly 50 railcars. So equipped, ARRC and ARM could offer regular service out of Seattle. Barges now leave every Wednesday, creating consistency in what was a sporadic schedule.

Greater consistency and capacity has translated into remarkable growth, so much so that a fourth barge was put into service this spring. ●

ARRC IN "TOUGHER IN ALASKA" DOCUMENTARY

History Channel to feature Alaska Railroad in 13-part special on the state

The History Channel has been in Alaska since March shooting video, interviewing Alaskans and formulating stories for a 13-part series entitled *Tougher in Alaska*. The idea was born from the same production crew's two-hour special on Alaska last year. For that effort, railroad video was edited out due to an overabundance of material. However, producers used exceptional railroad footage to sell the idea of a longer multi-segment feature on the state; hence, *Tougher in Alaska*.



Show host plays track laborer.

The crew is expected to wrap up taping by year's end, with the first segment to air January 2008. One segment will feature ARRC. "Most people have no idea what it takes to run a railroad 365 days a year in an often grueling climate. The History Channel will tell that story," said External Affairs Manager Tim Thompson.

The show's host is Geo Beach, an award-winning writer, journalist and radio correspondent. A resident of Alaska since 1983, the former logger, fireman, medic and commercial fisherman resides in Homer. ●

ALASKA RAILROAD'S REGIONAL ROUND-UP

Anchorage depot gift shop, Fairbanks intermodal facility, Seward coal loading facility

A**NCHORAGE:** The Alaska Railroad has tripled the size of its gift shop in the Historic Ship Creek Depot, at 411 1st Avenue. Construction began mid-March on the original 12-by-12-foot shop located in the southeast corner of the depot's passenger holding area. Completed by mid-June, the project extended the outer wall about 25 feet to the edge of the depot entrance. Because displayed merchandise can be pulled into and out of the larger secured area, about an hour is saved in shop set-up and closing, allowing the shop to be open for business longer. Summer hours are 6:00 a.m. to 2:00 p.m. daily. In addition, the railroad's virtual gift shop — www.alaskarailroad.com/giftshop — has expanded the number of ARRC items for sale online.

FAIRBANKS: The Alaska Railroad's intermodal facility in Fairbanks got a little more intermodal May 29, with the advent of a public bus system connection. Operated by the Fairbanks North Star Borough, the Metropolitan Area Commuter System (MACS)'s red and blue line routes will stop at the depot in the morning Monday-Friday, on request. Effective July 2, MACS will add an evening stop Monday-Friday, and expand morning stops to include Saturday. Morning stops occur at about 7:30 and 8:00 to coincide with the 8:15 a.m. passenger train departure, while the evening stop will accommodate the 8:00 p.m. passenger train arrival.

SEWARD: When extremely dry and windy weather resulted in an unusual increase in coal dust from trains unloading at the Seward Coal Loading Facility (SCLF) in February, ARRC dispatched operations, health-safety-environment (HSE), and facilities managers to the scene. Immediately, train schedules were modified and train unloading delayed to minimize dust. ARRC invited Alaska Department of Environmental Conservation (ADEC) air and water quality specialists to observe, and hired a local air quality consultant to investigate. Water spray systems were thawed and retooled to further suppress dust. By mid-March ARRC formed a task force to solicit ideas from community leaders and citizens. Led by ARRC Assistant VP for HSE Mark Mitchell, a board-certified industrial hygienist (CIP) and safety professional (CSP), the task force has met March 28 and April 30.

Even given ARRC's mitigating efforts, ADEC issued a notice of violation (NOV) in mid-April. The railroad's HSE and facilities management departments continue to work to respond to ADEC's concerns and to prevent a reoccurrence. To assist, ARRC hired outside experts in dust suppression and dust collection to evaluate the SCLF's existing systems and other available technology. Recommendations are due to ADEC in August. Soon after, the task force will reconvene to consider expert recommendations and review ARRC's response to ADEC's NOV. ●

RAILROAD SUPPORTS NATIONAL GUARDSMEN

Railroad colleagues welcome home National Guardsmen who activate and deploy

Railroad employee and National Guard member Sgt. First Class Robert Kosusnik returned home June 1, after spending a year in Afghanistan. Kosusnik was one of nearly 130 members of the 207th Infantry Brigade who were deployed last year. Known as the *Arctic Warriors*, the unit is based at Camp Denali on Fort Richardson.

Kosusnik has been with the Alaska Railroad for nearly 15 years, and Railroad colleagues were on-hand to welcome him home during official ceremonies June 4. A journeyman sheetmetal / pipefitter with the ARRC Mechanical Department, Kosusnik plans to return to the railroad mechanical shop in July.

Kususnik is one of several employees that the Alaska Railroad has supported in their quest to serve with the National Guard. Among them are train conductors and engineers, locomotive machinists, electronics mechanics, track laborers, and brakemen (train crew).



SFC Robert Kosusnik stands in formation during an official welcome home ceremony held June 4 on Fort Richardson.

The Alaska Railroad remains committed to offering activated and deployed Guardsmen with the same or comparable jobs upon their return, as well as the personal support of railroad colleagues who help returning service members reintegrate. ●

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REGIONAL ROUNDUP: PROJECTS & PLANS

Mat-Su Borough, ARRC partner on Port MacKenzie Rail Extension

MAT-SU BOROUGH: The Mat-Su Borough (MSB) and Alaska Railroad (ARRC) will host five Port MacKenzie Rail Extension Project public open house events during the first week of October in

Wasilla, Big Lake, Houston, Willow and Knik. The purpose is to inform citizens about the joint effort to build a 30- to 45-mile rail line that connects Port MacKenzie with the existing rail system at a point between Meadow Lakes and north of Willow (*Schedule at right*). All events are 6:00 to 8:00 p.m., with a project presentation at 7:00 p.m.

In June 2007, MSB and ARRC signed a Memorandum of Agreement to pursue the Port MacKenzie Rail Extension. The State of Alaska appropriated \$10 million to fund the first step, an environmental study. Construction of a new rail line requires federal approval. The Surface Transportation Board (STB) is the federal agency responsible for completing an environmental study and approving a new route.

Between now and December 2007, the project team will gather public comment, and conduct fact-finding and preliminary engineering activities prior to submitting a project

application to the STB in January 2008. This approach ensures that local voices are heard before the formal environmental process begins, particularly to help identify ways to avoid, minimize, or mitigate potential impacts. For more project information, visit the project web site at www.portmacrail.com.

SEWARD: ARRC Health-Safety-Environment Director Mark Mitchell traveled to Seward September 5 to convene a meeting of the community task force formed

in March to consider coal dust mitigation plans for the Seward Coal Loading Facility (SCLF). Mitchell discussed the railroad's response to the Department of Environmental Conservation's notice of violation that resulted from coal dust problems caused by extreme dry and windy weather this spring. ARRC has taken several operational and maintenance actions to mitigate future dust problems and to better



OPEN HOUSES

WASILLA, OCTOBER 1
Lake Lucille Inn

BIG LAKE, OCTOBER 2
Big Lake Elementary School

WILLOW, OCTOBER 3
Willow Area Community Center

KNIK, OCTOBER 4
Knik Elementary School

HOUSTON, OCTOBER 5
Houston Middle School

(See "Regional Roundup" on page 3)

RAILROAD GOES "INTO THE WILD" WITH SEAN PENN

Railroad featured in new movie about Christopher McCandless' demise in Denali

The Alaska Railroad plays a "character role" in a movie entitled *Into the Wild*, which premiered September 21 in movie theaters across the nation and world. The movie features railroad footage.

Directed by Sean Penn, the movie is based on the book by Jon Krakauer, which chronicles the life and death of Christopher MacCandles who tragically died within Denali National Park. The story follows McCandless, a 24-year-old man who trekked into the Alaskan "wilderness" in 1992. Injuries and the elements eventually led to the adventurer's death in an abandoned bus near the Parks Highway, so close to possible rescue.



Actor/Director Sean Penn is filmed while being interviewed for a documentary in an Alaska Railroad boxcar headed between the Denali rail station and Hurricane.

In June 2007, Penn and Krakauer rode the train from Denali Station to Hurricane section, while talking about the upcoming release of *Into the Wild*. The train ride and discussion were documented by the Sundance Channel and will air sometime in October.

Captured on film were the two men talking about the motivation for making the movie, and reflections on its meaning. While there has been much controversy over McCandless journey and eventual demise, the story, according to Sean Penn and Jon Krakauer, is more about the wanderlust and rebellion that most people experience at one time or another in their lives. ●

RAILROAD SALVAGES THE UNSALVAGEABLE

Wildlife Center's bears to feed on moose kills that are unfit for human consumption

The railroad works with state and local agencies to ensure meat from moose killed on the track is made available to people in need. Sometimes, however, a moose kill may not be salvageable for human consumption. For these few cases, ARRC partnered this summer with the Alaska Wildlife Conservation Center (AWCC) near Portage to arrange for unfit moose carcasses to be recovered for brown and black bear feedings at the center.

AWCC is a non-profit organization that provides refuge for orphaned, injured or ill animals, as well as educates the public about Alaska's



wildlife. AWCC wildlife are housed in large multi-acre enclosures that mimic natural habitat. They include bald eagle, great-horned owl, porcupine, moose, elk, Sitka black-tail deer, caribou, bison, musk ox, lynx, coyotes and bear.

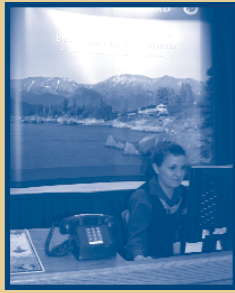
An estimated 6-8 moose killed annually on the railroad's south end

track are not suitable for people to process and eat, and are therefore candidates for the AWCC-ARRC bear-feeding program.

"During the summer when our eight bears are out of hibernation they are capable of consuming one moose each week," according to AWCC Executive Director Mike Miller. "The public is fascinated by the feeding bears and feeding times provide a unique opportunity to educate visitors and residents alike."

AWCC is located at mile 79 along the Seward Highway. For information, visit www.alaskawildlife.org, or call the center at (907) 783-2025. ●

ARRC PLANS TO REPEAT CITY TICKET OFFICE SUCCESS



The Alaska Railroad considers the first year's operation of an information and ticket office in downtown Anchorage a success, with plans to repeat in 2008. In May 2007, ARRC co-located a manned kiosk with the Alaska Public Lands Information Center in the old Federal Building. Open 9:00 a.m. to 5:00 p.m. seven days a week through the summer (closing mid

September), the railroad City Ticket Office offered passenger information and sales of rail tickets and packages.

Passenger tickets are also available year-round online at www.AlaskaRailroad.com and at depots in Anchorage and Fairbanks, and during the summer at the Seward depot. ●

REGIONAL ROUNDUP ... *(continued from page 1)*

prepare for any further extreme weather conditions. The SCLF currently supports spot-market sales of 4-5 coal shiploads per year. If long-term coal contracts can be secured, sufficient to make the SCLF profitable, ARRC will invest in capital mitigation upgrades as well.

Portage — Moose Pass: The Chugach Forest Whistle Stop service opened for business this August with completion of the first of several stops between

Portage and Moose Pass. Construction got underway this spring at Spencer Glacier where an ADA compliant passenger boarding platform, shelter, restrooms, interpretive signs, trail and viewing platform were built. A product of an ARRC and U.S. Forest Service partnership, the project includes plans for up to six whistle stop sites with similar amenities, as well as picnic, camping and wildlife viewing facilities. Whistle stops will be interconnected with 35 miles of trail that allow visitors to access lakes, glaciers, high mountain passes, campsites and public-use cabins. Future plans include a self-propelled all-in-one railcar due to arrive for whistle stop service in 2009.



Ship Creek:

Ground broke on Phase One of the Alaska Railroad's Ship Creek Intermodal Transportation Center (ITC) project this summer. Earthwork for utility relocations and



drainage improvements should be done by year's end, paving the way for rehabilitation of the existing tracks next to the depot, as well as construction of two new parallel tracks in 2008. The two main tracks and siding closest to the depot will serve passenger train traffic, while the third track will be used by freight trains. Due for completion in 2009, Phase One also entails constructing a new platform between the passenger tracks, installing power and water units for cleaning and prepping passenger trains, and landscaping. Future phases will renovate the Historic Ship Creek Depot, build a new pedestrian bridge from E Street to the depot, and erect a departure lounge over the tracks.

ARRC is pursuing plans to renovate the historic rail freight warehouse on First Avenue to offer mixed-use space suitable for professional offices, retail or other uses that are consistent with the Ship Creek planned community zoning. Businesses interested in leasing space should contact ARRC Leasing Manager Andrew Donovan at 265-2325.



Denali-North Pole: ARRC has hired Wilbur Smith Associates (WSA) to conduct the North Transit Rail Study to determine the feasibility of a commuter rail / rail transit service for communities between Denali and North Pole. WMA conducted a similar study for the Anchorage-to-Mat-Su area in 2002. Data is currently being gathered and may include a survey of area residents. Study results and recommendations will be released for public comment in early 2008. Portions of the study include the Fairbanks-to-North Pole Rail Realignment project. ●



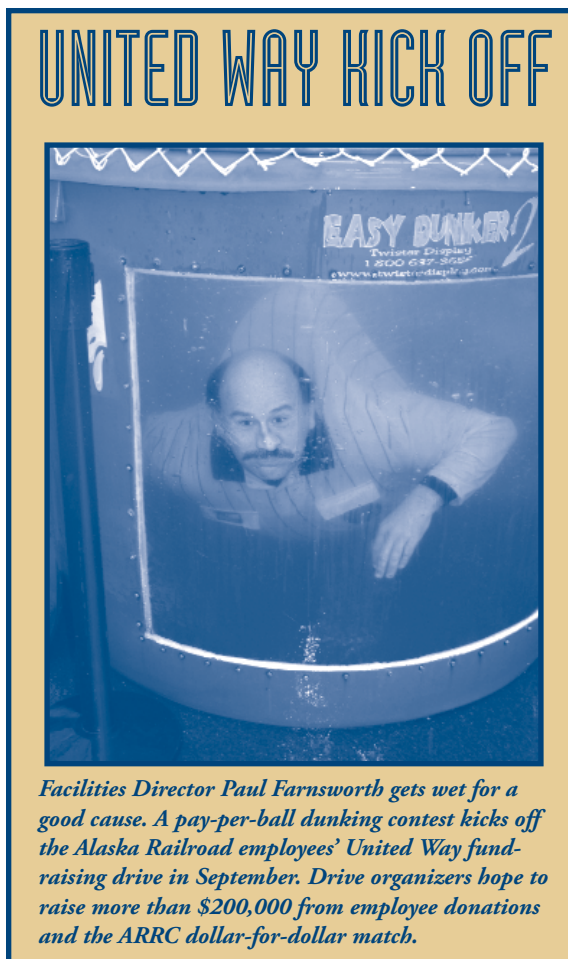
GREEN STAR PURSUITS

Railroad also applies for Air Quality Award

The Alaska Railroad is recertifying the Green Star Award it originally earned in 1993, having made strides in new areas of waste reduction, pollution prevention and energy conservation. ARRC's dedicated Waste Management Office has reduced hazardous waste streams by 70% over the last six years. And, the recently-formed Facilities Department has focused more expertise and resources on preventing building energy loss and on installing greener systems as old building systems need to be replaced.

ARRC is also applying for a Green Star Air Quality Award. Over the past few years, the Railroad has dramatically reduced locomotive emissions by purchasing new efficient locomotives, installing engine idle-reduction systems, implementing idle-reduction policies, and maintaining locomotive engines in peak condition. ARRC has also made commuter rail service more feasible by conducting regional commuter rail studies, straightening tracks, building and improving depots, and providing technical guidance to commuter rail advocates.

The Railroad hopes to recertify its Green Star and be well on its way to earning an Air Quality Award by the end of 2007.



Facilities Director Paul Farnsworth gets wet for a good cause. A pay-per-ball dunking contest kicks off the Alaska Railroad employees' United Way fundraising drive in September. Drive organizers hope to raise more than \$200,000 from employee donations and the ARRC dollar-for-dollar match.

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Alaska Railroad
Ongoing Projects:

Northern Rail Extension

Ft. Wainwright Realignment

Fairbanks-to-North Pole
Rail Realignment

Nenana Realignment

Collision Avoidance System

Curry Quarry Development

Port MacKenzie Rail Extension

Whistle Noise Reduction

Crossbuck Illumination Test

Ship Creek Intermodal Center

Chugach Forest Whistle Stop

South Wasilla Rail Realignment

Seward Freight Dock Expansion

For updates or comments on
these projects, visit the Alaska
Railroad web site at
www.AlaskaRailroad.com

2007 IN REVIEW: WHAT'S IN A YEAR?

2007 is baseline for developing Railroad's next 5-year plan

The year 2007 was a dynamic year. It was financially sound, markedly productive and introspective. We launched into 2007 having just concluded a successful corporate five-year plan and recognizing that we needed to build a new baseline from which to plan the next five years.

Engaged in this process was our Board of Directors. John Binkley returned to the helm as chair and recently-elected Governor Palin appointed three new members: Transportation Commissioner Leo von Scheben; Commerce, Community & Economic Development Commissioner Emil Notti and Mat-Su Borough Mayor Curtis Menard.

Financially, 2007 was solid with total revenues forecast at \$130.2 million, expense at \$114.4 million and net income estimated at \$15.8 million — one of our best years to date. While freight tonnage was down slightly, activity was vigorous and included two substantial military moves and the addition of one more weekly Anchorage-Fairbanks freight train to better meet growing Interior barge traffic demand.

Passenger services transported more than 562,000 travelers; ridership aboard our three summer service trains alone grew 8%, setting a new record. Due in part to growing interest in *Gold Star* first-class travel, passenger services revenue increased nearly \$2 million over 2006.



Rail Grinder in Broad Pass (by John Holland)

For the third consecutive year, Real Estate continued a steady revenue growth pattern (\$639,086 increase in revenues in 2005, \$735,558 increase in 2006 and forecast \$1.85 million increase in 2007).

To prepare for continuous improvement in the next five years, the Alaska Railroad initiated three in-depth audits to examine key areas of our business for possible updates and upgrades. We studied our vehicle fleet management program, information technology integration, and operating ratio, which produced practical recommendations for new system efficiencies. Such insight is also helping to orient strategic planning efforts.

To follow are highlights of another Great Railroad Year.

(See "2007: What's in a Year?" on page 2)

2007: WHAT'S IN A YEAR? ...

(continued from page 1)

FREIGHT SERVICE

- Hauled 5.7+ million tons.
- Cut costs by serving our three gravel customers with two train sets throughout the summer, as opposed to three.
- Consolidated fuel train traffic by using distributed power, i.e., locomotives positioned throughout the train, instead of stacked at the front, to haul more tonnage via longer trains with the same amount of horsepower.
- ARRC and Lynden shared the *Argus Rail Business* 10th Annual Win-Win Award, a national recognition awarded for reviving the Seattle-to-Whittier rail-barge service.



Military Move in January 2007.

PASSENGER SERVICE

- Tripled the size of the Historic Ship Creek Depot Gift Shop, enhancing the shopping experience and security.
- Developed a new Gift Shop website with expanded product line and shopping cart capability.
- Experienced a 10% increase in incoming reservation calls, dramatically improved call-answering speed, and reduced abandoned calls by 38%.
- Implemented an online-survey system to gain onboard customer feedback and enhance customer service.

EMPLOYEES

- Negotiated new agreements with three labor unions - American Federation of Government Employees (Alaska Railroad Workers); Transportation Communication Union; and the International Association of Machinists. Implemented changes in pay, benefits and other conditions.
- Human Resources offered 40 new programs, from entry-level professional development to college leadership courses.

PHILANTHROPY

- Employees pledged a record \$132,000 to United Way. With a dollar-for-dollar match by the corporation, the Railroad's total donation totals more than a quarter million dollars.
- ARRC teamed with the Rasmuson Foundation to restore a steam-era business rail car for charter rental and charity donations (*see separate story back page*).

SAFETY

- Only one reportable train accident (occurring on a private industry track) ties our record for lowest number of accidents, and reflects outstanding train handling, and track, locomotive and railcar maintenance.
- Developed a Safety Issue Resolution Process (SIRP) to identify, track and eliminate hazards across the workplace.
- Employee injuries remain low. Lifting injuries were reduced to nine, an 18% drop from 2006. Slip-trip-fall injuries fell to just eight, marking a 53% reduction in this category.
- Formed the Fatigue Countermeasures Working Group to research and implement ways for employees to maintain productivity while avoiding becoming overly tired.

ENVIRONMENT

- Applied for recertification of a 1993 Green Star Award and applied for a secondary Green Star Air Quality Award.
- Established a company-sponsored paper recycling program to complement employee volunteer office recycling efforts.
- Donated use of 12 gondola rail cars in 2007 (80 cars since 2003), valued at \$85,000, to support a solid waste/backhaul program aimed at rural Alaska clean up efforts.
- Facilities Department launched an Energy Management & Conservation Initiative: Replaced 480 inefficient florescent light fixtures in the ARRC Headquarters, for up to \$10,000 annual savings. Installed a new computer room cooling system that uses outside air temperature, *Building energy loss repairs.* saving \$5-10,000 in energy costs and improving reliability. Installed set-back thermostats in the Fairbanks freight shed on a trial basis. Performed infrared scans on dozens of ARRC yard buildings to identify energy loss defects, and to repair the defects for expected significant energy savings.



FINANCE

- Issued \$89 million revenue bonds backed by Federal Transit Administration formula funds, completing the \$165 million bond total authorized by the Legislature in 2006. Bond proceeds allow ARRC to accelerate vital rail rehabilitation.

MAINTENANCE OF WAY

- Maintenance of Way (MOW) crews laid 477,000 feet of welded rail and installed more than 65,000 wood ties and 22,000 concrete ties between Anchorage and Fairbanks.

(See "2007: What's in a Year?" on page 3)

ARRC SCHEDULES PROJECT OPEN HOUSES IN JANUARY 08

The Alaska Railroad invites the public to four open house events in January to showcase plans for capital improvements during 2008. These venues provide an opportunity for the public to review and comment on an annual proposed Program of Projects. Each open house will include continuing and proposed capital improvement projects that are in various stages – from conceptual planning to construction. Project managers will be on-hand to explain projects that are located all along the Alaska Railroad system.



- **Seward** – 9:00 a.m. to Noon, Saturday, January 19.
ARRC Passenger Dock Terminal on Port Avenue.

- **Anchorage** – 4:00-7:00 p.m., Wednesday, January 23.
Historic Ship Creek Depot at 411 West First Avenue.
- **Wasilla** – 4:00-7:00 p.m., Thursday, January 24.
Evangelo's Restaurant at 2530 E. Parks Highway.
- **Fairbanks** – 4:00-7:00 p.m., Wednesday, January 30.
ARRC Depot at 1745 Johansen Expressway.

People unable to attend the open house events may visit www.AlaskaRailroad.com for project information. Written comments may be e-mailed to public_comment@akrr.com or mailed to Alaska Railroad Capital Projects, P.O. Box 107500, Anchorage, AK 99510-7500.

For more information, call Public Involvement Officer Stephenie Wheeler at 265-2671 or External Affairs Manager Tim Thompson, 265-2695. ●

2007: WHAT'S IN A YEAR? ...

(continued from page 2)

- Began removing the top of Moody Tunnel (daylighting) in erosion-prone Healy Canyon. Completion expected 2008.

CAPITAL PROJECTS

- Broke ground on Phase One of the Ship Creek Intermodal Transportation Center project. First phase includes additional tracks parallel to the depot, utilities installation, new passenger platform, improved drainage, and a new crossing over North C Street.
- Began ballast and rip-rap production at the Curry Quarry.
- Partnered with the Mat-Su Borough to study a rail link from Port MacKenzie to the existing mainline at some point between Wasilla and Willow. The 2007 alternative analysis and preliminary engineering data will be included in an application to build and operate the rail extension, to be submitted to the Surface Transportation Board in 2008.
- ARRC tested locomotive on-board computers as part of the multi-phased Collision Avoidance System implementation. Testing will continue with FRA oversight in 2008 with revenue service expected in early 2009.
- Converted an aging timber trestle bridge to a modern steel bridge at milepost F5.7 along the Whittier Branch.
- Completed four new siding extensions to accommodate 6,000-foot trains.

- The Chugach Forest Whistle Stop Service, a joint ARRC and U.S. Forest Service venture, saw completion of the first whistle stop site at Spencer Glacier.

EQUIPMENT

- Received four new DOD-funded SD70MAC locomotives and 30 rail flat cars, which increases capacity to support military moves.
- Received one low-level and two bi-level passenger coaches.

REAL ESTATE & FACILITIES

- Formed and staffed a Facilities Department dedicated to maintaining railroad building assets.
- Agreed to transfer 48 acres to Eklutna, Inc., releasing \$2 million in stockpiled rock material for 2007 track projects, and ending a long dispute over the land's use as a quarry.
- Initiated redesign of the historic Ship Creek Freight Shed to meet Leadership in Energy & Environmental Design (LEED) standards — a first in Alaska. The Freight Shed redevelopment supports efforts to link Ship Creek with downtown. Steadily increasing land values equate to higher rent revenue.
- On January 1, 2007, Real Estate & Facilities took over the Seward Coal Loading Facility (SCLF) from Hyundai, the operator for the past 20 years. The SCLF is currently operated by Aurora Energy under an interim agreement, until a long range operating contract is negotiated. ●

ARRC POSTS DENALI CAR PILOT DONATION POLICY

Railroad & Rasmuson Foundation offer guidelines to request vintage railcar donation

The Alaska Railroad recently put the finishing touches on a Pilot Program for donating the *Denali Business Railcar* to non-profit organizations for the next year. The *Denali Car Contribution Policy & Guidelines* are now posted at AlaskaRailroad.com (Click Information, then Community, then Charitable Giving).

Developed jointly between railcar restoration partners ARRC and the Rasmuson Foundation, the pilot program outlines how contributions to 501(c)(3) organizations will be made mainly to augment fund-raising activities. The program is focused on supporting organizations that enhance educational opportunities, improve community quality-of-life or promote economic development. Priority will be given to non-profits that are capable of using the car to raise at least \$10,000 through auctions, raffles, challenge grants, collaborative efforts or other fund-raising measures.

While fund-raising assistance is the foremost objective, the *Denali Car* may be donated for non-profit business use up to three times per year. Such use includes board meetings, team-building, planning retreats and similar functions.



Use of the Denali Business Railcar is available to non-profit organizations, with rental costs ranging from \$0 (donation) to 50% off.

501(c)(3) organizations that are not awarded a donation, as well as non-profits falling into the 501(c)(6) category, are eligible to rent the *Denali Car* for \$5,250, about half the retail value (\$10,000 for one day). Catering is not included.

The *Denali Car* will be scheduled May to September on the daily northbound *Denali Star* and the southbound *Coastal Classic* trains. The pilot program will run through 2008, and will help formulate a final policy that becomes effective in 2009. ●

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