



COMMUNITY

Alaska Railroad Corporation
4th Quarter 2012



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2012 IN REVIEW AND 2013 OUTLOOK

Financial factors challenge railroad in 2012, 2013 and beyond

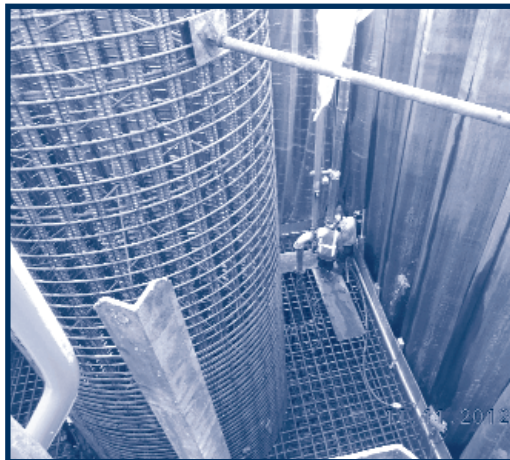
The year 2012 presented both ordeals and opportunities. The Alaska Railroad's (ARRC) forecasted net income of \$12 million is \$3.2 million (21%) below budget due in large part to serious declines in two major lines of business and the severe and unpredictable weather of last winter and fall. We also face an ongoing unfunded federal regulatory mandate. Our response to these external factors kept the railroad on solid financial footing in 2012, but the problems are compounded in 2013. While working through the challenges, we also defined the year with highpoints in customer focus, promising projects and planning, and community commitment.

Given the fiscal dilemmas, steady income from ARRC's real estate business is more important than ever. In 2012 we continued to invest in opportunities for our real estate customers. We supported a new state law to extend our maximum land lease term from 55 to 95 years. We revised our long-term lease policy to be more flexible and enhance investment prospects. We built the first phase of a sewer extension benefiting Ship Creek area tenants. And we welcomed the U.S. Forest Service as the agency moved into the newly-completed Historic Freight Shed. As Alaska's only historic building renovated to meet Leadership in Energy and Environmental Design (LEED) standards, this project inspired a new Alaska Railroad *Mears Award of Excellence* presented to the architectural firm and railroad employees with the vision and persistence to see it through.

(see "Year in Review and Outlook" on page 2)



Work on the Tanana River Bridge piers continues in early winter. (photo courtesy of John Binkley).



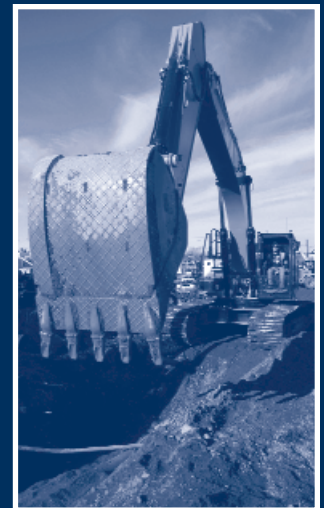
Crews work on the foundation of a huge pier structure.



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Consider winter rail travel: regular weekend service between Anchorage and Fairbanks and the Ski Train in March.



ARRC installs a connection to the existing sewer system as the first phase of a Ship Creek area sewer expansion. Another phase is funded in 2013.

NORTH POLE PROJECT FONSI

The Federal Railroad Administration has issued a Finding of No Significant Impact (FONSI) for the Environmental Assessment (EA) of the North Pole Road/Rail Crossing Reduction project. This allows the project to move forward into land acquisition, final design and permitting, as funding is identified.

“This finding will allow us to work to secure funding for an important project,” said Representative-Elect Doug Isaacson, who was North Pole mayor through the EA process. “This is one of several key projects that will further the economic development of the state. I look forward to working with my new colleagues in Juneau to provide the funding we’ll need.”

The project would realign the track between Richardson Hwy Milepost 9 and the Chena River Floodway, to the landward side of the Tanana River Flood Control Levee. It would close nine at-grade (same level) crossings through North Pole, and replace the existing at-grade highway crossing with a grade-separated crossing.

The FONSI documents and attachments are available on the Alaska Railroad web site at www.AlaskaRailroad.com > Capital Projects > Fairbanks / Interior Projects. ●

YEAR IN REVIEW AND OUTLOOK ...



Crews in Whittier dig out from record snow-fall last winter. (photo by Judy Patrick)

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On the north end, several projects progressed. We completed the environmental assessment for the North Pole Road/Rail Crossing Reduction project, and the Federal Railroad Administration (FRA) issued a Finding of No Significant Impact (FONSI). Pending funding, the FONSI paves the way for the project to move forward.

We built the levee and started on the 19-pier bridge for the Tanana River crossing at Salcha, the first phase of the Northern Rail Extension (NRE). The project also spawned a remarkable partnership between ARRC, Salcha School, Alaska Department of Fish & Game, and the Tanana Valley Watershed Association. The alliance formed to carry out a 10-year beaver dam mitigation measure identified in the NRE Environmental Impact Study.

Just north of Denali, the Alaska Railroad played an integral role in an important energy project for Alaska. Our trains hauled more than 2,000 pieces of equipment and tons of supplies needed for the Golden Valley Electric Association (GVEA) Eva Creek Wind Farm project near Ferry. Our six-month rail transportation service performed on time and under budget.

Such efficiency is important not only to the railroad, but also to our customers



Locomotives are stored inside the railroad's diesel shop to reduce engine idling.

and communities. A prime example is our revitalized fuel conservation program, which included a locomotive idle reduction initiative this year. By storing more locomotives inside during winter, we avoid engine idling, significantly lowering fuel expense and reducing emissions. This supports the Fairbanks North Star Borough's efforts to address poor air quality during the Interior's frigid winter months.

The railroad continues to seek ways to be a responsive and engaged corporate citizen within our railbelt communities. Up and down the line this year, we held public meetings and sought public input on a proposal to protect the mainline track right-of-way for safe train operations. This safety policy and planning effort will continue into 2013. Also on the planning front, the Alaska Railroad is engaged in the Alaska Department of Transportation and Public Facilities (ADOT&PF) long-awaited update to the *Alaska State Rail Plan*, which will help guide state policy on developing its rail assets throughout the state. ARRC CEO Chris Aadnesen and two ARRC Board members Susan Bell (Commerce Commissioner) and Patrick Kemp (ADOT&PF Commissioner) are participating on the Steering Committee. The railroad hosted the first committee meeting in late November. The plan will be complete by December 2013.

(see “Year in Review and Outlook” on page 3)

YEAR IN REVIEW AND OUTLOOK ...



*Healy kids play with GVEA windmills aboard the free train ride.
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While the railroad seeks dialogue through public and committee forums, we also seek hands-on exchange. In January, we galvanized the interest and support of Alaska's rail fans by keeping a promise to bring Steam Engine 557 home to Alaska. The non-profit formed to oversee the historic locomotive's restoration has already recruited more than a dozen volunteers, including railroad customers, partners and employees. In October, we organized a small community open house in Healy. Similar to the large annual spring open house events in Fairbanks and Anchorage, the Healy event provided fun children's activities and free train rides to residents. It was combined with rail-related training for local emergency responders.

Looking ahead, the railroad again faces very tough fiscal challenges. Some 2012 factors persist. We expect our fuel-hauling business to remain at its lowest volume in two decades, and we expect to haul 30% less export coal in 2013. Declines in these key businesses will contribute to a budgeted net income of about \$3 million — far below what is needed to fund essential capital maintenance and investments.

For about a decade, our capital program has relied in part on Federal Transit Administration (FTA) formula funds. In



Healy open house volunteer Bruce LaLonde mans the tattoo table.

2012, ARRC's share of FTA funding came under fire from members of Congress who don't believe we deserve it. With new surface transportation legislation (MAP 21) passed into law, our 2013 FTA funding allocation will drop from \$36 million to \$27 million and the required local match increases from 9% to 20%. Congressional sentiment against ARRC lingers, and we expect an uphill battle to keep any FTA funding in 2014, when MAP 21 expires.

Finally, much of our limited capital resources are consumed by an unfunded federal mandate to develop a Positive Train Control (PTC) system designed to prevent train-to-train collisions and derailments caused by human error. The U.S. Rail Safety Improvement Act of 2008 requires PTC implementation, but provides no funding to develop it. The cost to finish implementing PTC is many millions of dollars per year for years to come.

The railroad has weathered several boom-and-bust cycles since its inception nearly 90 years ago. Our approach to navigating 2013's challenging factors will be no different. Railroaders will capitalize on opportunities and forge solutions to difficult ordeals with the same grit and innovation that has been our hallmark. ●



A fuel train loads at the North Pole Refinery and a coal train loads at the Healy Coal Mine. Petroleum and coal businesses have declined.

ARRC 2013 CAPITAL PROGRAM SMALLER

Capital project information and public input moves to online format

The Alaska Railroad's capital program for 2013 will be substantially smaller than in recent years due to fewer funds from internal and external sources. Instead of organizing Program of Project (POP) open house events in Anchorage, Fairbanks, Mat-Su and Seward, the railroad will update pertinent project fact sheets and post them online in January/February once we fine-tune a proposed 2013 capital program. The public is welcome and encouraged to comment on any or all of ARRC's projects via:

- Email: public_comment@akrr.com
- Mail: Alaska Railroad, Attn: Capital Projects
P.O. Box 107500, Anchorage, AK 99510-7500
- Fax: (907) 265-2365



As a state-owned business, ARRC works to generate enough revenues to cover our costs. In fact, ARRC must do better than break even, because “profits” maintain railroad infrastructure — track, bridges, facilities, railcars, equipment, technology, and land assets. ARRC income pays for many capital projects and provides the required local match to projects that qualify for federal grants.

The railroad's preliminary 5-year capital outlook is provided in a *Report to State* issued in December. As the railroad revises budget plans, and as the likelihood of future federal and internal funding is refined, this 5-year plan will change. The *2013 Special Report to the State of Alaska Legislature and Administration* is available online at www.AlaskaRailroad.com > About ARRC > Reports & Policies > Legislative Reports. ●

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