



Report to the State of Alaska

January 2011





ARRC President: A Look Ahead

The Alaska Railroad Corporation Act (AS 42.40.290) requires the Alaska Railroad Board of Directors to annually adopt a long-range capital improvement and program plan and to forward that plan to the governor and legislature. I am pleased to present the railroad's capital plan for 2011 through 2015.

I joined the Alaska Railroad Corporation (ARRC) as the President and CEO in September 2010 and already I appreciate the railroad's significant role in the state's history and its future. While new to the Alaska Railroad, I have spent 37 years in the national and international rail industry. Through that experience I understand the importance of communicating and working with local government leaders. This report begins my dialogue with you.

The 2010 business year sets the stage for the railroad's outlook. We will emerge from 2010 better than expected even though our largest freight commodity, petroleum, underperformed based on budget forecasts. While rail passenger numbers are down from the peak a couple of years ago, 2010 passenger service revenue surpassed revenue expectations. Gravel and trailer/container businesses were both strong, and export coal volumes set another record year. Real estate lease and permit revenue continued steady growth. Incremental revenue growth coupled with tight expense control yielded total unaudited revenues at \$167.0 million, total expense at \$152.9 million, with corporate net income forecast to be \$14.1 million. Audited results will true these numbers up by April 1, 2011.



CHRISTOPHER
AADNESEN
PRESIDENT & CEO

Railroaders marked many significant accomplishments in 2010. On the transportation side, we developed a method to move export coal trains over Grandview Pass with a single train rather than breaking the train into several sections. This approach offered measurable safety gains and more efficient operations that benefit our customers and our bottom line. We also increased the length of our export coal trains to 75 cars to better serve Usibelli Coal Mine as it increases its capacity to meet demands of the growing export market.

The railroad also continued core infrastructure investments in 2010. Crews installed 43 additional miles of continuous welded rail and replaced 50,000 cross-ties. We completed impor-

tant track realignment and retaining wall work in Healy Canyon and constructed bridge improvements along the system. Federal Stimulus funding accelerated rehabilitation work on the Anchorage Historic Depot and made passenger improvements possible at the Seward and Talkeetna depots. Stimulus funds also enabled installation of a Wheel Impact Load Detector to improve the safety of rail operations.

Improving safety was the driver behind another 2010 highlight. July 2010 marked the first time since 1983 that ARRC was allowed to use herbicides as part of an integrated vegetation management program. Without this crucial component to weed control, the Alaska Railroad was failing to live up to Federal Railroad Administration (FRA) safety standards. Thanks to a state-issued herbicide use permit and ARRC's implementation of an her-



ARRC President: A Look Ahead

bicide program on the south end of the rail corridor, the FRA has indicated it may consider suspending previously issued vegetation violations, which could save the railroad millions of dollars in fines.

Charting the course for capital spending over the next five years is a little like looking into a crystal ball. The Alaska and national economies appear to be slowly strengthening but the Alaska Railroad is not out of the woods yet. We are guardedly optimistic that improved Flint Hills Refinery forecasts will pan out. Our five-year revenue estimates hinge largely on this essential customer.

Looking forward, we will continue to improve the Alaska Railroad's safety systems, customer service, and infrastructure. This includes plans to modernize signal and train communication systems and is driven in large part by the Federal mandate to implement Positive Train Control by the end of 2015. We will pursue diversification of our revenue sources, working closely with customers and partners to identify new lines of business.



RENOVATING THE HISTORIC FREIGHT SHED TO LEADERSHIP ENERGY & ENVIRONMENTAL DESIGN (LEED) STANDARDS IS A MAJOR INTERNALLY-FUNDED PROJECT.

The information in this report provides a high-level snapshot of our long-range capital improvement plan.

Particularly as the legislative session begins, I will make myself and my team available to provide a more in-depth look at our operation and our budget

through one-on-one meetings, facility tours, or informational committee hearings in Juneau. Please contact our Vice President of Corporate and Government Affairs Wendy Lindskoog if you are interested in any or all of these avenues. You are always invited to stop by my office at our headquarters in Anchorage. I look forward to meeting Alaska's lawmakers and policy makers in the very near future and to working with you all to ensure the continued vitality of the state-owned Alaska Railroad.



AQUAMASTER HERBICIDE IS APPLIED TO THE SEWARD RAIL YARD IN LATE JULY 2010.

Best regards,

Chris Aadnesen
President and CEO



Mission, Vision and Values

Alaska Railroad Mission

- Safety... Customer Service... Profitability

Alaska Railroad Vision

“Building a great Railroad across the Greatland.”

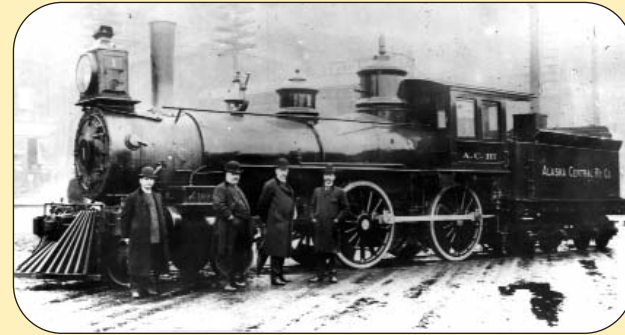
An important element in fulfilling this vision is ARRC’s success since 1996 in qualifying for federal funding...an entitlement afforded the railroad’s public status and its passenger service mission. As a result, ARRC has been able to greatly accelerate long overdue mainline maintenance and upgrades.

In addition, other federal grants have funded facility improvements, such as inter-modal facilities and docks; technology improvements, such as the collision avoidance system; and homeland security grants. These have come to the the Alaska Railroad via recent major federal legislation.

Alaska Railroad Values

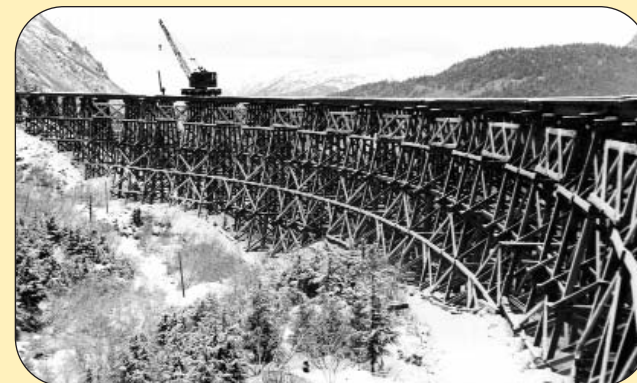
We are a values based organization. Values are all about people, not things. We are all about taking care of our people. We believe who you are is as important as what you do. Character counts. Many of our values are embodied in our corporate Code of Conduct. Our fundamental core values consist of integrity,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

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



ALASKA CENTRAL RAILWAY OWNERS POSE IN SEWARD. CIRCA 1902 TO 1907.

HURRICANE BRIDGE UNDER CONSTRUCTION. CIRCA 1921.



BRACE WORK TO STIFFEN THE LOOP DISTRICT TRESTLE AT MILE 48.3. CIRCA 1948.



Alaska Railroad Organizational Chart

Governor • State of Alaska

Board of Directors

President & CEO Chris Aadnesen

**VP Corporate Affairs
Wendy Lindskoog**

**VP Transportation & Mechanical
Pat Shake**

**VP Finance & Chief Financial Officer
Bill O'Leary**

**VP Real Estate & Facilities
Jim Kubitz**

**VP Information, Technology &
Telecommunications Eileen Reilly**

**VP Business Development
Steve Silverstein**

**VP Legal & General Counsel
William Hupprich**

**VP Engineering & Chief Engineer
Tom Brooks**



Alaska Railroad Quick Facts

Purchase Price (January 5, 1985)

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

Organization (following State purchase)

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

Financial Statistics

January 1-December 31, 2010* (unaudited)

Total Assets	\$ 872.7 million
Total Revenues	\$ 167.0 million
Total Expenses	\$ 152.9 million
Forecasted Net Income	\$ 14.1 million
Budgeted Net Income	\$ 8.4 million

Operating Data

Miles of main line	467
Miles of branch line	54
Miles of yards and sidings	130
Total miles of track	651
Freight cars (owned & leased)	1,160
Passenger cars	45
Locomotives	51

Operating Statistics

January 1-December 31, 2010 (estimated & unaudited)

Passenger ridership	405,135 passengers
Freight tonnage	6.33 million tons

Employees (as of December 2010) (estimated)

Number of year-round employees	657
Average years of service	12.3
Average age	46
Male	541
Female	116

Union Membership

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

United Transportation Union	125
Transportation Communication Union	41
International Association of Machinists	63
American Federation of Govt. Employees	254
American Train Dispatchers Department	8

Benefits

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

* ARRC audits are normally complete by March 31.

Five-Year Forecast — Operating Budget

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	TOTAL
Net Operating Income	\$ 11.3	\$ 12.1	\$ 12.1	\$ 12.6	\$ 12.4	\$ 60.5
Net Income-Real Estate	8.3	8.1	8.5	8.4	8.3	41.6
Net Other Income (Expense)	(1.4)	(1.1)	(1.0)	(0.8)	(0.3)	(4.6)
NET INCOME	\$ 18.2	\$ 19.1	\$ 19.6	\$ 20.2	\$ 20.4	\$ 97.5

Five-Year Capital Project Plan — Internal Funding

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	TOTAL
Nondiscretionary Projects	\$ 14.9	\$ 14.4	\$ 16.2	\$ 9.2	\$ 7.0	\$ 61.7
Continuing Program Projects	6.3	7.2	7.0	7.6	6.8	34.9
Strategic Business Initiatives	2.9	2.9	1.6	1.3	1.3	10.0
Ranked Projects	1.0	1.4	0.5	9.3	13.1	25.3
TOTAL INTERNAL FUNDING	\$ 25.1	\$ 25.9	\$ 25.3	\$ 27.4	\$ 28.2	\$ 131.9

Five-Year Capital Project Plan — Federal and Bond Funding

	2011	2012	2013	2014	2015	5-YR TOTAL
Federal Transit Administration						
Passenger Equipment: Rehabilitation	\$ 530,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 2,530,000
Projects:						
Depot Improvements	—	—	—	—	300,000	300,000
Track Rehabilitation	8,328,206	6,666,152	8,965,478	11,797,879	14,482,177	50,239,892
Positive Train Control	3,557,000	7,335,000	6,1561,000	3,556,000	2,040,000	22,649,000
<i>Track Project Subtotal</i>	12,415,206	14,501,152	15,626,478	15,853,879	17,322,177	75,718,892
Bridge Replacements/Upgrades:						
Bridge at Mile Post 29.5 Trail Lake	579,000	—	—	1,000,000	—	1,579,000
Bridge at Mile Post 422.9 Little Goldstream	—	—	—	—	458,402	458,402
Bridge 447.7 Permafrost Bridge	—	—	—	—	300,000	300,000
<i>Bridge Program Subtotal</i>	579,000	—	—	1,000,000	758,402	2,337,402
Debt Service Subtotal:						
2006 Bond Issue Debt Service	7,520,266	7,513,216	7,519,254	7,503,586	7,486,648	37,542,970
2007 Bond Issue Debt Service	9,175,686	9,176,261	9,180,361	9,140,152	9,139,078	45,811,538
<i>Debt Service Subtotal</i>	16,695,952	16,689,477	16,699,615	16,643,738	16,625,726	83,354,508
Preventive / Safety / Security:						
Preventive Maintenance Reimbursement	9,888,331	9,987,214	10,087,086	10,187,957	10,289,836	50,440,424
Slope Stabilization - Area MP52	400,000	—	—	—	—	400,000
Transit Enhancements	208,660	214,920	221,367	228,008	234,849	1,107,804
Transit Security	208,660	214,920	221,367	228,008	234,849	1,107,804
<i>Preventive/Safety/Security Subtotal</i>	27,401,603	27,106,531	27,229,435	27,287,711	27,385,259	136,410,540
Total Federal Transit Administration	40,395,809	41,607,683	42,855,914	44,141,591	45,465,838	214,466,835
Less: Preventive Maintenance Reimbursement	(9,888,331)	(9,987,214)	(10,087,086)	(10,187,957)	(10,289,836)	(50,440,424)
Less: Debt Service Grants	(16,695,952)	(16,689,477)	(16,699,615)	(16,643,738)	(16,625,726)	(83,354,508)
Add: 2010 FTA funds for track rehab	6,628,853	—	—	—	—	6,628,853
Total FTA for Federal Capital Projects	\$ 20,440,379	\$ 14,930,992	\$ 16,069,213	\$ 17,309,896	\$ 18,550,726	\$ 87,300,756

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

	2011	2012	2013	2014	2015	5-YEAR TOTAL
FTA Capital Grant Receipts 2007 Bonds						
Track Rehabilitation Program	\$ 13,580,907	\$ 12,341,552	—	—	—	\$ 25,922,459
Other Federal Funds						
US DOT TIGGER II, Locomotive Emissions Reduction Program	1,380,000	—	—	—	—	1,380,000
FEMA Grants, flood related	2,450,635	—	—	—	—	2,450,635
FEMA Security Related Projects, Anchorage and Fairbanks	478,000	—	—	—	—	478,000
Total Other Federal Funds	4,308,635	—	—	—	—	4,308,635
TOTAL FEDERAL & BOND FUNDING	\$ 38,329,921	\$ 27,272,544	\$ 16,069,213	\$ 17,309,896	\$ 18,550,726	\$117,532,300

FIVE-YEAR CAPITAL PROJECT PLAN SUMMARY - TOTALS BY FUNDING SOURCE

<i>(in millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan	5-YEAR TOTAL
FTA Formula Funds (net of PM/Debt Svc)	\$ 20.4	\$ 14.9	\$ 16.1	\$ 17.3	\$ 18.6	\$ 87.3
FTA Bond Proceeds - 2007 issue	13.6	12.3	—	—	—	25.9
Other Federal (FEMA, US DOT TIGGER II)	4.3	—	—	—	—	4.3
Internal Funds (ARRC Revenue)	25.1	26.0	25.3	27.4	28.1	131.9
Third Party Performance Settlement	—	2.7	—	—	—	2.7
TOTAL CAPITAL PROGRAM	\$ 63.4	\$ 55.9	\$ 41.4	\$ 44.7	\$ 46.7	\$ 252.1