



Report to the State of Alaska

January 2007





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ARRC Guiding Principles

ARRC Mission

- To be profitable by focusing on safe, high quality service to our freight, passenger, and real estate customers.
- To foster the development of Alaska's economy by integrating railroad and railbelt community development plans.

ARRC's mission stems from language found in the Alaska Railroad Corporation Act.

ARRC 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 for facility improvements, such as intermodal facilities and docks, as well as improved technology, have come to ARRC via recent major federal transportation and transit bills.



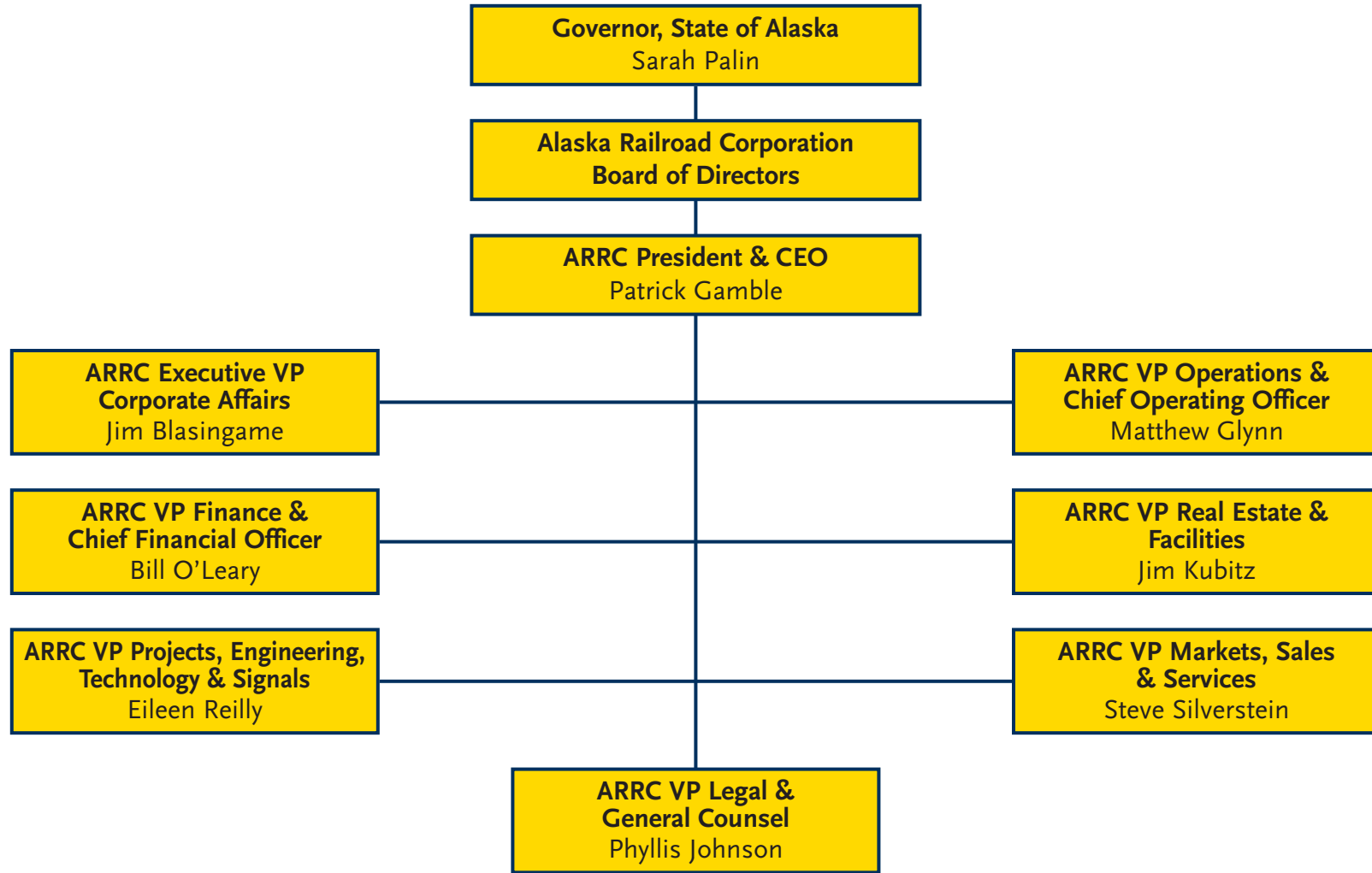
ARRC Values

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.



Organizational Chart





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, 2006 (unaudited)*

Total Assets	\$ 725 million
Total 2006 revenues	\$ 124.3 million
Total 2006 expenses	\$ 114.1 million
2006 net income	\$ 10.2 million
2007 net income budget	\$ 11.5 million

Operating Data

Miles of main line	467
Miles of branch line	77
Miles of yards and sidings	107
Total miles of track	651
Freight cars (owned & leased)	1,643
Passenger cars	48
Locomotives	59

Operating Statistics

January 1-December 31, 2006

Passenger ridership	525,293 passengers
Freight tonnage	7.67 million tons

Employees (as of January 2007)

Number of year-round employees	777
Average years of service	10.6
Average age	44.05
Male	636
Female	141

Unions (as of January 2007)

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

United Transportation Union	137
Transportation Communication Union	45
International Association of Machinists	62
American Federation of Govt. Employees	303
American Train Dispatchers Department	10

Benefits

- Corporation provides a fully funded 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.



Alaska Railroad “At A Glance”

Corporate History

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

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

Board of Directors

ARRC is a statutory corporation, managed by a board of directors whose positions are described in law and appointed by the Governor. The seven-member board consists of the Commissioner of Transportation & Public Facilities, Commissioner of Commerce, Community & Economic Development, one member of the board must have at least 10 years of management experience on a U.S. railroad, one member must be an executive with a U.S. Railroad, while one director must be an employee-member of ARRC's labor unions. Two positions are designated for residents of the two judicial districts in which the railroad operates.

Employees (as of November 2006)

ARRC employs approximately 785 full-time employees and another 150 seasonal employees from May through September. ARRC employee wages and benefits (approximately \$57.5 million in 2006) are paid through earned corporate revenues and grant activities.

The enabling act of the Alaska Railroad Corporation (AS 42.40) specifies that the employees of the corporation are not state employees. ARRC employees are not covered by state public employee contracts, nor do they receive state-funded benefits. Approximately 565 of ARRC's employees are represented by five different unions that negotiate separate contracts with the corporation.



Business Facts

While wholly owned by the State of Alaska, the Alaska Railroad is responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation — that is, required to conduct its business without operating subsidies from the state. ARRC serves ports and communities from the Gulf of Alaska to Fairbanks. It is the only full-service railroad in the United States providing both regularly scheduled year-round freight and passenger services. From tidewater at Whittier and Seward to the heart of Interior Alaska, ARRC's route covers more than 500 miles (with 651 total miles of track including spurs, industrial and yard track).

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Anchorage, Cantwell, Fairbanks, Healy, Hurricane, Nenana, Portage, Seward, Talkeetna, Wasilla, and Whittier.

ARRC's fleet includes:

- 59 locomotives
- 48 passenger cars including three power cars and four rail diesel cars
- 1,643 freight cars (owned and leased)

Finances

With total revenues of \$124.3 million and total expenses of \$114.1 million, the Alaska Railroad netted \$10.2 million in 2006. Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for more than 73 percent of ARRC's gross revenues. ARRC serves more than half a million passengers each year, accounting for approximately 17 percent of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 8,000 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10 percent of the corporation's gross revenues.

The railroad invests all cash flow from its annual net earnings and depreciation on capital improvements to its 651 miles of track, 151 bridges, 81 crossing signals, the roadbed, technology application and other assets. Additionally, significant amounts of operating dollars are spent on maintenance of rail cars, locomotives, and rail infrastructure.

Safety & Security

Safety is all about risk management and good judgment. They are fundamental components of our safety culture. The corporate vision and mission are not achievable without a highly effective safety culture at work throughout the Alaska Railroad. The Railroad will expend significant resources to reinforce and improve safety, even to the extent that Return on Investment (ROI) for safety projects may be intentionally of less financial value and more of beneficial value.

"Security" no longer refers to just resource protection against theft or vandalism. The Department of Homeland Security (DHS) has implemented

numerous mandatory federal regulations and programs on U.S. railroads, including the Alaska Railroad. The Alaska Railroad has extensive port facility holdings between Southcentral Alaska and Seattle, which are fast coming under a growing list of U.S. Coast Guard (USCG) regulations. Associated with these requirements are both funded and unfunded mandates. Administrative competency has become a requirement for regulatory compliance, as well as a competitive skill for capturing federal grant allocations to help fund security initiatives. The Alaska Railroad is visited and inspected on a regular basis by DHS and USCG.



How ARRC Differs from State Agencies

The Alaska Railroad Corporation Act of 1984 established an independent state-owned corporation that is governed by a seven-member board of directors appointed by the Governor. The President and CEO of the corporation reports to the board.

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

Although ARRC is not covered under the State's Executive Budget Act, the state government ensures oversight of ARRC's operation and management practices through the following controls:

- The ARRC Board of Directors is responsible for initiating both a financial and a performance audit each year conducted by independent financial and management companies. The annual performance audit is conducted by a recognized railroad management expert to ensure that ARRC is being managed and operated effectively and efficiently.
- ARRC must file an oversight report with the Legislature and Governor before it undertakes certain expansion, reduction, or diversification of services.
- Legislative approval is required for certain corporate actions, such as sale or transfer of the Railroad's entire interest in land, or leasing land for longer than 55 years.

- The Legislative Budget and Audit Committee reviews ARRC's operation and management practices.
- ARRC's procurement procedures are required to be substantially equivalent to state procurement requirements.
- ARRC employees and directors are subject to the Executive Branch Code of Ethics.
- ARRC's spill prevention and response plans are filed and regulated by the State and ARRC is required by state law to show sufficient financial responsibility to respond to spills.
- Bond sales must be approved by the Legislature.





Alaska Railroad Mileposts

Each year the Alaska Railroad takes stock of both its accomplishments and unmet challenges. From this annual analysis, the management team establishes a new baseline of goals and objectives for both the short and long terms.

ARRC Five-Year Objectives

- Reduce employee injuries to no more than 2.0 per 200,000 man hours.
- Eliminate 25% of at-grade highway/railroad crossings.
- Achieve and sustain an operating ratio of at least .98 by 2011
- Generate and sustain company-wide cash flow, measured as net earnings plus depreciation, of \$39 million per year by 2011.
- Generate and sustain cash flow from real estate activities of \$9 million per year by 2010.
- Fully implement Collision Avoidance System technology by 2008.
- Reduce average running time for freight trains between Anchorage and Fairbanks to consistently under 10 hours.
- Complete the entire Reliability Excellence transition plan by 2009.
- Set up an annual programmatic investment plan for ARRC facility infrastructure, including yards and marine facilities, to meet business, growth, employee, and community requirements.
- Ensure ARRC attracts and retains excellent employees by being known as a premier Alaskan employer and by continuously improving our employee training working environment, remuneration, and benefits.
- Work to harmonize ARRC business and development plans with railbelt community business and development efforts.
- Maximize return from existing business relationships and seek out new profitable opportunities without sacrificing world class customer service.
- Build the bridge across the Tanana River.
- Extend the rail line to Delta Junction.
- Complete the accelerated Track Rehabilitation Program (TRP) plan by 2012.



2007 Corporate Goals

Safety

- Achieve the 2007 individual Safety goals, with special emphasis on the human factor
incidents listed below achieving “0” violations:
 - Blue flag violations
 - Switch run throughs
 - Runaway cars

Security

- Complete the ARRC Security Plan
- Conduct the first live training exercise

Financial

- Complete year 2 of the Track Rehabilitation Program (TRP) plan as scheduled
- Generate \$26.6 million in cash flow company-wide with Real Estate activities contributing \$6.8 million to that total
- Enhance and expand the on-line financial metrics dashboard suite
- Implement an improved capital project monitoring/reporting solution
- Continue implementation of the Real Estate acquisition strategy, focusing on Whittier

General

- Complete 2007 Capital Work Plan with less than \$1.5 million project carry over at year end
- Implement CMMS Inventory Management for Signals/Telecom & Facilities Maintenance
- Establish the Locomotive Power Management functions within the Mechanical Department
- Conclude the Ship Creek basin EPA consent decree. Engage FRA for reimbursement
- Run Anchorage to Fairbanks 75% of the time within 12 hours
- Engineer startup of a Regional Transit Authority in Southcentral
- Complete at least one major Ship Creek development project or initiative
- Conclude the Eklutna quarry and land swap agreements

Five-Year Forecast — Capital Budget

<i>(in millions)</i>	2007 Budget	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	TOTAL
ARRC Internally Generated	\$ 15.6	\$ 18.9	\$ 23.0	\$ 28.6	\$ 32.0	\$ 118.1
Bond Funded	\$ 31.1	\$ 22.2	\$ 25.9	\$ 22.6	\$ 20.8	\$ 122.6
Federal Railroad Administration	—	—	—	—	—	—
Federal Transit Administration	\$ 35.1	\$ 38.1	\$ 40.5	\$ 41.7	\$ 42.9	\$ 198.3
Federal Highway Administration	\$ 1.7	\$ 1.7	\$ 1.7	—	—	\$ 5.1
Department of Defense	\$ 16.0	\$ 12.0	\$ 12.0	—	—	\$ 40.0
Total	\$ 99.5	\$ 92.9	\$ 103.1	\$ 92.9	\$ 95.7	\$ 484.1

Five-Year Capital Project Plan — Internal Funding

	2007	2008	2009	2010	2011	TOTAL
Vehicle and Equipment Program	2,910,000					2,910,000
Maintenance	3,170,000					3,170,000
Mechanical	672,130					672,130
Transportation	604,000					604,000
Passenger Operations	318,000					318,000
Health, Safety & Environmental	443,750					443,750
Markets, Sales & Services	2,807,500					2,807,500
Human Resources	50,000					50,000
Security	85,000					85,000
Corporate	278,200					278,200
Finance	50,000					50,000
Accounting	500,000					500,000
Engineering	110,000					110,000
Information Services	601,000					601,000
Signaling/Telecommunications	939,545					939,545
Real Estate	2,024,000					2,024,000
Nondiscretionary Projects		5,499,690	6,184,800	6,694,200	7,999,351	26,378,041
Continuing Programs		3,120,075	2,548,883	2,367,500	1,956,000	9,992,458
Management Improvement Initiatives		1,168,200	850,000	1,300,000	1,700,000	5,018,200
Ranked Projects		9,123,753	13,446,099	18,268,926	20,372,552	61,211,330
Total ARRC Internal Capital Funding	15,563,125	18,911,718	23,029,782	28,630,626	32,027,903	118,163,154

Five-Year Capital Project Plan — Federal and Bond Funding

	2007	2008	2009	2010	2011	TOTAL
Federal Transit Administration						
Passenger Equipment: Repaint Bag Car 102	75,000					75,000
Fairbanks Realignment Alternative Analysis	250,000					250,000
South Anchorage Wilder Loop Upgrade	135,000					135,000
Track Rehabilitation	1,092,450	12,413,716	9,887,691	9,948,259	13,962,436	47,304,552
Siding Extensions/Upgrades	3,066,000	2,691,000	1,000,000	1,000,000	1,000,000	8,757,000
Track/Realignment Subtotal	4,543,450	15,104,716	10,887,691	10,948,259	14,962,436	56,446,552
Bridge Replacements/Upgrades:						
Bridge 227.9 Billion Slough	1,900,000					1,900,000
Bridge 352.7 Sheep Creek	250,000	500,000	250,000			1,000,000
Bridge 148.3 Matanuska River	3,000,000	500,000				3,500,000
Bridge 432.1 permafrost bridge	150,000	2,750,000				2,900,000
Bridge 422.9 permafrost bridge			1,000,000			1,000,000
Bridge 447.7 permafrost bridge				600,000		600,000
Bridge 29.5 Trail Lake		1,000,000	2,000,000			3,000,000
Bridge 284.2 Hurricane Gulch				3,000,000		3,000,000
Bridge Program Subtotal	5,300,000	4,750,000	,250,000	3,600,000		16,900,000
Facilities: Whittier Marginal Wharf	500,000					500,000
DBE Disparity Study	33,625					33,625
Wasilla Transportation Corridor Study	200,000					200,000
Project Planning (Study) Subtotal	233,625					233,625
2006 Bond Issue Debt Service	7,426,050	7,206,015	7,186,144	7,192,245	7,171,655	36,182,109
2008 Bond Issue Debt Service			8,279,201	8,279,201	8,279,201	24,837,603
Debt Service Subtotal	7,426,050	7,206,015	15,465,345	15,471,446	15,450,856	61,019,712

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

	2007	2008	2009	2010	2011	TOTAL
FTA... continued						
Preventive Maintenance Reimbursement	9,122,964	9,807,187	10,542,726	11,333,430	12,183,437	52,989,744
Collision Avoidance	7,500,000					7,500,000
Moody Tunnel Rehabilitation		900,000				900,000
CMMS Preventive Maintenance System	220,000	100,000	100,000	100,000	100,000	620,000
Transit Security (1% of 5307 appropriation)	182,129	197,516	210,118	216,421	222,914	1,029,098
Preventive/Safety/Security Subtotal	17,025,093	11,004,703	10,852,844	11,649,851	12,506,351	63,038,842
Total Federal Transit Administration	35,103,218	38,065,434	40,455,880	41,669,556	42,919,643	198,213,731
FTA-Backed Revenue Bonds (2006)						
Passenger Equipment		2,000,000				2,000,000
Moody Tunnel	850,000					850,000
Track Rehabilitation Program	18,149,058	9,118,619				27,267,677
Track Rehabilitation Program- 2007	12,100,000					12,100,000
Total Revenue Bonds Series 2006	31,099,058	11,118,619				42,217,677
FTA-Backed Revenue Bonds (2008)						
Track Rehabilitation Program		11,111,446	25,876,680	22,615,129	20,788,719	80,391,974
Federal Highway Administration						
South Wasilla Realignment Land Acquisition	870,617	870,617	870,617			2,611,851
Fairbanks Freight Intermodal	824,648	824,648	824,648			2,473,944
Total Federal Highway Administration	1,695,265	1,695,265	1,695,265			5,085,795
Department of Defense						
Fort Wainwright Realignment (MP G3-G8)	12,000,000	12,000,000	12,000,000			36,000,000
Northern Line Extension	4,000,000					4,000,000
Total Department of Defense	16,000,000	12,000,000	12,000,000			40,000,000
Total Federal & Bond Funding	83,897,541	73,990,764	80,027,825	64,284,685	63,708,362	365,909,177

Five-Year Plan — Operating Budget

<i>(in millions)</i>	2007 Budget	2008 Plan	2009 Plan	2010 Plan	2011 Plan
Operating Revenues	\$ 116.96	\$ 120.09	\$ 123.76	\$ 127.03	\$ 130.84
Operating Expenses	\$ (105.66)	\$ (106.54)	\$ (108.69)	\$ (110.02)	\$ (111.78)
Net Income — Operations	\$ 11.31	\$ 13.55	\$ 15.07	\$ 17.01	\$ 19.06
Net Income — Real Estate	\$ 7.64	\$ 8.07	\$ 8.52	\$ 8.99	\$ 9.49
Other Income	\$ 0.79	\$ 0.85	\$ 0.92	\$ 0.99	\$ 1.06
Net Income (before depreciation & interest)	\$ 19.74	\$ 22.47	\$ 24.51	\$ 26.99	\$ 19.61
Depreciation	\$ (15.07)	\$ (16.55)	\$ (17.47)	\$ (18.87)	\$ (20.43)
Interest Expense	\$ (1.56)	\$ (1.62)	\$ (1.62)	\$ (1.44)	\$ (1.61)
Net Income (without preventive Maintenance)	\$ 3.11	\$ 4.30	\$ 5.42	\$ 6.68	\$ 7.57
Preventive Maintenance Reimbursement	\$ 8.42	\$ 9.05	\$ 9.72	\$ 10.45	\$ 11.24
Net Income	\$ 11.53	\$ 13.35	\$ 15.14	\$ 17.13	\$ 18.81
Operating Ratio*	1.02	1.01	1.00	0.99	0.98

* Operating Ratio is Operating Expense divided by Operating Revenue. The Operating Expense number used to calculate Operating Ratio includes the portion of Depreciation attributable to Operations.



Issues: ARRC Positions on Hot Topics

Federal Transportation Funding

- **Background:** When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. While the federal government partially rehabilitated the badly worn out railroad after World War II, it invested very little in maintenance after that effort. Today, Alaska's congressional delegation works hard to ensure that the ARRC is on equal footing with other railroads, including transit systems that provide passenger services. As a result, SAFETEA-LU provided an authorization for increased annual appropriations in the form of formula funds to ARRC to maintain and improve its passenger-related facilities and mainline track complex.
- **Position:** ARRC is entitled to continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services, including preparations that will eventually lead to commuter rail. ARRC had worked hard in Washington DC with all three congressional delegates to position itself in the federal formula funding process to offset reliance on unpredictable annual earmarks. SAFETEA-LU was reauthorized in FY 2006 and secured our enhanced position in the FTA formula as planned.

Railroad Tax-Exempt Bonding Authority

- **Position:** ARRC intends to use its tax-exempt bonding authority to support projects that benefit the State or its railbelt cities – such as energy projects or rail line extensions. These types of projects fall in line with the railroad's mission to foster state economic development. Collecting issuer transaction fees as compensation for assuming the fiduciary responsibility of administering such bonds over their lifetime would be appropriate.

Any revenue generated from fees would be directed back into railroad capital infrastructure.

Public Involvement Policies

- **Position:** The Alaska Railroad is committed to coordinating our planning, projects and real estate activities with railbelt communities to incorporate their community planning efforts and needs as best we can.

We emphasize a proactive public involvement process that encourages communities to participate in ARRC project decisions. This process includes our “heads up” direct mail correspondence initiative, our open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and regular community meeting presentations by executives and staff.

Partnering with Communities

- **Position:** ARRC is seriously committed to partnering. Collaborative support for important community, borough and private sector initiatives can enhance prosperity along the railbelt and create conditions for success that enable a more prosperous Alaska. Examples of partnering include the following:

Depots and Intermodal Facilities

- Palmer Alaska State Fair Intermodal Commuter Center: The ARRC administered funds and oversaw project management on behalf of the Alaska State Fair Intermodal Commuter Center in Palmer. This project was completed just prior to the start of the 2004 State Fair, offering better transportation choices for fair attendees through the use of

expanded direct rail service. This project is also a step towards improved transportation infrastructure for an increasing number of travelers moving to and from the state's fastest-growing area — the Mat-Su Valley.

- Ship Creek Intermodal Facility: The ARRC is working with the community of Anchorage on plans to construct an Intermodal Transportation Center, along with other related improvements, in the Ship Creek basin. The project calls for pedestrian amenities and a connection to downtown, transit infrastructure, parking, and rail modifications that will meet projected transportation growth for the next 30 years.
- Fairbanks Intermodal Facility and Depot: In 2005, the ARRC completed the new Fairbanks depot and associated loop track. This project allows faster on and off load of longer passenger trains, reduces the blocking of local crossings by standing trains, reduces operations and maintenance costs, and meets future growth in rail business demands within Alaska's interior.

Community Projects

- The ARRC is committed to improving the quality of life for Alaskans by contributing to a number of community-based projects. Through funding and land permits ARRC is partnering with many communities as well as the State Department of Transportation & Public Facilities (ADOT/PF) to build safe pedestrian trails and access. The Ship Creek Trail in Anchorage, Mile 0-8 Trail in Seward, the Palmer Trail/Skateboard Park and the Old Richardson Highway Trail in North Pole, are four current examples. In Palmer, ARRC worked with the City of Palmer to facilitate installation of water/sewer lines along ARRC's right-of-way to service the new Valley hospital.

Planning

- ARRC has contributed both money and considerable staff time to several formal railbelt community planning efforts such as the Talkeetna Community Plan to enhance our mutual property interests, especially as they relate to building and improving Alaska's transportation infrastructure. ARRC is currently working with the Metropolitan Planning Organizations in Fairbanks and Anchorage to update their long-range transportation plans. In Whittier, where ARRC is a significant landowner, we are coordinating closely with the City of Whittier on a comprehensive planning effort. ARRC is actively engaged in development of the Matanuska-Susitna Borough long range transportation plan. ARRC is a participant in the Port of Anchorage Working Group to facilitate the development of the Port of Anchorage and support the movement of military resources to and from this strategic port. And finally, ARRC works closely with ADOT/PF to plan crossing or right-of-way projects that provide mutual benefit

Corporate Giving

- The railroad and its employees support communities through charitable giving, school business partnership programs, the United Way match program, and membership participation in many civic organizations. The ARRC also donates a number of different special event trains at reduced cost or free of charge. These trains, such as the Sea Train in 2006 that moved over 4,000 fifth graders from the Anchorage School District to Seward to learn about natural sciences, are ways the ARRC is able to give back to the communities we serve. Other types of donations include over 250 seats donated for family members of the 172nd Stryker Bridge to ride back to Fairbanks for "Operation Breakaway," special Holiday trains for the communities of Seward and Palmer, and the Artrain, a five-car rolling museum (up from the lower 48) that held school tours and public events along the railbelt from Seward to Fairbanks. A special Citizens Advisory Board (CAB), made

up of six individuals from across the railbelt, oversees a portion of our charitable program. The CAB is in the best position to let us know the needs of the communities we serve. Under parameters set by the Railroad Board, the railroad will lease land to communities at less than fair market value for trails, parks and other public amenities.

Regional Transportation Planning

- **Position:** ARRC fully supports local regional transportation planning and serves on a number of planning groups, including AMATS and FMATS. Local officials often seek out a broader perspective on how their projects might impact state transportation beyond local jurisdiction. ARRC believes transportation projects sell better when they are imbedded in the context of a regional plan. Accordingly, we advocate transportation analysis that is keyed on transportation nodes, linkages, and the intermodal transition points that join them. This preferred methodology consists of a more rigorous examination of the intended effects and unintended consequences of proposed city and state transportation projects. ARRC believes ADOT/PF should be the cognizant authority over local community projects that create important regional impacts.



Rail Extensions

- **Position:** ARRC will take its lead from state and federal policy makers regarding rail extension initiatives. ARRC supports extending or building new railroad lines in Alaska and believes this falls under its mission to foster state and community economic development. ARRC does not gener-

ate enough capital funding necessary to proceed with some of the larger proposed rail extension projects (projected at \$4-\$10 million/mile), but stands ready to provide planning, technical, engineering and operational expertise should funding be identified. ARRC assumes it will always be expected to generate sufficient revenues to pay the operating expenses of any rail extensions, and that any political decision to extend Alaska Railroad track will be made with that obligation in mind.

- Canadian Rail Extension: To reach the Alaska/Canadian border, approximately 270 miles of track would need to be constructed in Alaska. Approximately 1,000 miles would need to be constructed in Canada to connect the border to the Canadian rail system. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.
- Rail Extension to Fort Greely: We believe the time is right to extend the railroad to Fort Greely to support national defense objectives. To further promote this project, ARRC can provide use of its tax-exempt bonding authority to help buy down the project cost (\$500 million in bonding authorization was pre-approved by the state legislature in 2004). ARRC will also lend staff resources and planning expertise to the process. This extension conveniently aligns with proposed legislation to extend the rail to Canada and passes close by potential agricultural and mineral developments. Moreover, it aligns with a proposed state corridor that might include provisions for a natural gas pipeline.
- Northwest Arctic Rail: Extremely expensive, this initiative nonetheless opens up previously inaccessible energy and mineral resources to developers. Should such an initiative take root, ARRC would be pleased to be a member of the planning group.

Rail Realignments

- **Position:** ARRC supports realigning its main line track out of Alaska communities that have grown up along the route. The issue is one of enhancing safety and efficiency, as well as local quality of life. Fairbanks and Wasilla realignments would each eliminate numerous dangerous at-grade crossings as well as reduce the running time on our interior train routes. Both realignments are significant undertakings, and the railroad does not yet have enough internal or federal funding to fully proceed with either project on its own. We will continue working to integrate our recommendations with community and ADOT/PF planning efforts. We will be ready with plans when federal funding becomes available.
- Fairbanks Realignment: Could eliminate up to 45 crossings
- Wasilla Realignment: Could eliminate up to 11 crossings
- Nenana Realignment: Reduces potential for crossing accidents at 6 at-grade crossings when the highly circuitous main line becomes a spur.

Planning & Zoning Jurisdiction Over the Railroad

- **Background:** Several federal laws contain language that essentially pre-empts or eliminates state and local regulatory authority over the railroad except in very limited circumstances. For years, records indicate local governments and states have attempted to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in defending railroads' rights nationwide to operate without local interference in order to protect interstate commerce. To that end, ARRC remains under the jurisdiction of the Federal Railroad



Administration and the federal Surface Transportation Board. In addition to its federal status, ARRC is also an instrumentality of the State of Alaska.

In 2004, the Alaska Supreme Court held that ARRC is not automatically exempt from local planning and zoning land use regulations, despite its status as a state instrumentality. As a result, until the state legislature decides to pass clarifying language on the issue, the Supreme Court decision requires the Railroad to first attempt to comply with local planning and zoning land use procedures when undertaking an activity traditionally regulated by local governments. If the result of the local process is unsatisfactory for the Railroad, the courts must resolve the intergovernmental dispute by applying, in each case, a “balancing of interests test” to determine whether the legislature intended the Railroad to be immune from local zoning in that particular situation. Each decision is then subject to appeal by either side.

- **Position:** ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would negatively impact the railroad’s ability to offer efficient, economical and reliable service to its freight and passenger customers. ARRC is comfortable with the clear protection of its core operations by federal regulations on behalf of interstate commerce. However, the lack of precision on what are “core operations” and the often-shifting status of the Railroad’s non-operating lands may lead to unpredictable results, and precipitate lawsuits that will greatly slow economic development projects. ARRC would be pleased to work with any legislative initiative to clarify the situation.

Anchorage International Airport Rail Station Operation & Marketing Plan

- **Position:** ARRC is working with its transportation partners and the Ted Stevens Anchorage International Airport to provide rail service to the airport that responds specifically to all our customers needs.



Beginning with the 2003 season, we ran two trains five days per week to serve cruise ship passengers (the trips into and out of the facility are each considered a train.) Current plans do not yet include a transit airport shuttle service from ARRC's downtown depot. However the railroad will remain flexible to customers and market demand. Beginning in the summer of 2008, ARRC intends to initiate a wintertime transit service with connectivity between the Airport, Dimond Center, downtown depot and possibly Girdwood using new, modern commuter equipment.

Commuter Rail Service

- **Position:** ARRC supports developing Alaska's intermodal and commuter rail services as transportation options for the traveling public. We are prepared to assist the local communities if policy makers and residents decide to initiate commuter rail service. ARRC does not necessarily see itself as the sole proprietor of commuter rail operations. A Regional Transit Authority (RTA) would function better in that role. In the meantime, ARRC will continue to plan and build infrastructure in a way that can enable and support such services when we are called upon to implement.

Knik Arm Crossing

- **Position:** Rail is not currently planned for the Knik Arm Bridge and must therefore continue through Wasilla for the extended foreseeable future. Accordingly, efforts to straighten the track from Anchorage to Wasilla, and the project to realign track around Wasilla, have taken on a new sense of planning urgency. If commuter service is to be viable, track speeds must increase overall. Once trains reach Wasilla, having an alternative to running every train through the city center makes eminent sense for both the safety of the community and to enhance Railroad operations, safety and service. The success of projects throughout the Wasilla-Anchorage corridor will have a major impact on the Alaska Railroad's overall schedule effectiveness.

Trails in ARRC's Right-of-Way

- **Position:** In general, the railroad right-of-way is not a safe or appropriate location for a trail. However, ARRC will consider use of its right-of-way for trails if there are no other feasible alternatives. For the railroad, the issue is purely a matter of safety and liability risk. Because any trail seeking to use the right-of-way would expose the corporation to substantial liability, such trails must be constructed in a way to specifically mitigate the risks involved. Furthermore, such trails must not negatively impact railroad operations, they must be maintained and insured by an entity other than the Railroad, and that entity must agree to indemnify ARRC for all related claims.

Railroad Crossings

- **Background:** The Alaska Railroad has hundreds of crossings along the railbelt from Seward to the interior. Many of these crossings (293) are at-grade crossings (road and rail crossing at same level) that present safety and liability risks to the railroad, the traveling public and other local and state agencies. The Railroad is dealing with an increasing number of

requests to approve even more at-grade crossings, most of which are trying to conveniently broaden access to new private developments, oftentimes well after construction has started. In some cases, people are even buying raw land with no access, fully aware that any access to their land will have to cross existing track.

- **Position:** The Railroad is committed to protecting the public and its employees in its day-to-day operations. At-grade crossings are inherently a risk to both. In the United States the average is one death per day at a railroad crossing. The Alaska Railroad is reviewing all of its crossings to ensure each constitutes a valid need, proper protective devices are installed, and maintenance and liability agreements are in



place. Railroad surveys suggest that up to 25% of the at-grade crossings in Alaska are probably unnecessary and it has adopted a five-year objective to eliminate these crossings. Some major road crossings are scheduled for grade separation as part of ADOT/PF road projects. But many others merely provide redundant access, are not covered by a permit, or present tremendous safety concerns. They will be targeted for closure. The Alaska Policy on Railroad/Highway Crossings, which utilizes a diagnostic team assessment consisting of local, state and railroad participants, will validate crossing decisions. The Alaska Railroad will also implement a comprehensive public involvement plan for each proposed closure, to identify property access challenges and other community issues prior to making the final determination. ARRC is soliciting legislative understanding for this safety initiative, even though it is often quite unpopular with affected individual constituents.

Crossing Closures

- **Background:** Currently there are several crossings for which no individual or organization is responsible for the crossing's maintenance or liability. The legal effect of such "orphan" crossings is that no legal access exists across the ARRC right-of-way at these locations, which can seriously impact private financing on adjacent development. In many cases, alternative access is readily available or can be constructed so that safety is achieved and the private needs satisfied. ARRC seeks to close crossings wherever these circumstances exist. Most crossing closure objections stem from minor inconvenience.
- **Position:** In order to provide safe, high quality services ARRC seeks to eliminate 25% of its crossings by 2009 and to ensure all remaining crossings are legally permitted. Before identifying individual crossings to eliminate, a systematic approach will be used to test a crossing's status keeping safety and public impact foremost in mind.

Taxing the Railroad

- **Position:** State and federal law expressly prohibit the use of ARRC revenues for anything other than Railroad purposes. But there are also practical reasons why the Railroad should retain its revenues and not be taxed. Before net earnings are calculated, ARRC pays for its operating and maintenance expenses, including all pay and benefits for its employees, who are not considered state employees. ARRC then invests its entire net earnings back into maintaining and modernizing its capital infrastructure. ARRC revenue not only effects upgrades and repairs, it is able to do so by leveraging a 10-to-1-dollar return when it provides corporate matching funds for federal grants. The backlog of ARRC capital needs is several hundred million dollars. Until such time as the ARRC is able to clear this backlog and then generate sufficient net earnings on its own in excess of annual sustainment requirements, we believe that taxing the corporation would be premature and would constitute a very poor business practice.

Chemical Weed Control as Part of Integrated Vegetation Management

- **Background:** In 1983, the federal railroad stopped using chemical weed control in the face of public controversy and litigation. Since the state took over the Railroad, we've spent millions of dollars on non-chemical methods and research. We cut brush with machinery and hire people to pull and hack weeds manually. In the end, these methods are simply not effective, or practical, in keeping the weeds at bay



between the rails and ends of the ties along more than 600 miles of main, siding, branch and yard track. The cumulative effects of inadequate vegetation control are impossible to ignore. Entrenched root systems are collecting water in the ballast. The freeze-thaw cycles are eroding the track bed. Roots cause railroad ties to heave and rail joints to connect unevenly, increasing the risk of derailment. Above ground, overgrown weeds hide holes and hazards, increasing the risk of employee trip-slip-fall injuries. And overhanging bushes and tree branches conceal important warning and operating signs.

The Federal Railroad Administration (FRA) knows how serious uncontrolled vegetation is. That's why the FRA continues to impose fines on the Alaska Railroad for failing to adequately control vegetation.

- **Position:** Maintaining the status quo with regard to vegetation control poses an unacceptable level of risk. For this reason, ARRC has applied for an Alaska Department of Environmental Conservation (ADEC) permit to integrate chemical weed control into our vegetation management program.

Our vegetation control plan includes hiring the most qualified licensed professionals to apply the weed control products. Leading industry experts in railroad vegetation control will use state-of-the-art equipment with low-volume, low-pressure ground-directed application to target only our track bed and operating yards.

Our goal is to fashion a vegetation control program responsible and responsive to local concerns, while protecting our employees, customers and neighbors and the state's investment in our critical transportation infrastructure.

In addition to compliance with federal regulatory requirements, use of chemical weed control products as part of an integrated program will address the numerous safety issues, as well as reduce fuel for wild fires, protect recent substantial capital investment in track and infrastructure, and prevent the spread of noxious non-native invasive weeds species.

Chugach Forest Whistle Stop Service

- **Background:** The USDA Forest Service (USFS) and Alaska Railroad are partners in developing a new Whistle Stop Service that will provide a variety of world-class recreation and transportation opportunities for users of the Chugach National Forest. The project includes development of several sites between Portage and Moose Pass that will be accessible by rail and interconnected by approximately 35 miles of trail between the proposed locations. Other likely features include picnic facilities, camping facilities, wildlife viewing facilities and expanded trails.

A successful whistle stop experience requires that the rail passenger equipment be independent of other railroad operations. The current project scope calls for acquisition of two self-propelled commuter style railcars.

- **Position:** The project would provide an opportunity for visitors to connect with nature in a variety of unique, safe and memorable settings otherwise largely inaccessible. It would provide controlled access to the Chugach National Forest backcountry while protecting the forest

resources. It would provide a variety of activities for visitors with varying degrees of skill. It would support the Alaska Railroad's Anchorage-Seward operations with increased ridership. And, the project would enhance ridership on the rail route south of Anchorage and would offer an alternative to the congested Seward Highway, thereby helping to reduce heavy summer traffic. We have therefore embraced this initiative and are working closely with the USFS to make it happen.

Business with the Military in Alaska

- **Position:** The military is an important customer of the Alaska Railroad. In turn, the Railroad provides freight, fuel and mobility services that are critical to the military's mission in Alaska. Some mutually beneficial projects and agreements include:
 - Eielson Branch Rail Realignment — Funding for the environmental phase of this project is being underwritten by the Department of Defense (DOD), in large part due to the significant benefit the project will have on Fort Wainwright. Realignment of the track around the more congested areas of the Army base will enhance base security and alleviate delays to traffic and base operations caused by slow train movement through the installation, as well as returning right-of-way property to the base for construction of more Army facilities.
 - 1st Stryker Brigade, 25th Infantry Division (25 ID) Support — The Alaska Railroad has acquired additional locomotives and rail flat cars to enhance its capability to support the 1st Stryker Brigade of the 25 ID, stationed at Fort Wainwright, particularly with its rapid deployment requirements. A \$15.88 million DOD grant was funded in 2006.
 - Northern Rail Extension — This project would extend the existing rail from North Pole 80 miles southwest to the Delta Junction / Fort Greeley area. The proposed rail line would provide freight and passenger rail services serving commercial interests and communities in or near the project corridor. The rail line as planned would also provide

access to military property west of the Tanana River. It would provide transportation alternatives to support military training exercises as well as DOD passengers of all types. Because of potential benefits to the military the Environmental Impact Statement is being funded by DOD.

Reversion

- **Background:** The federal transfer act included a provision under which railroad right-of-way reverted to the U.S. (and eventually passed to adjacent landowners) if it ceased to be used by the State for transportation, communication, or transmission purposes for a period of 18 years. ARRC began to focus on this around 2000, because swapping right-of-way for various realignment projects raised the issue with other parties. Also, a couple of spurs existed that had been unused since before transfer, and 18 years was fast elapsing. Rather than deal piecemeal with separate federal legislation for projects or doing "makework" on the old spurs to qualify as use, ARRC determined it more appropriate to seek a repeal of the reversion from the transfer act. Legislation was signed into law on February 20, 2003 (Public Law 108-7).
- **Position:** ARRC believed, as a policy matter, it was important to preserve the entire rail corridor in case either the railroad or State had a transportation or utility use for it. Corridors are notoriously difficult and costly to assemble and ARRC's corridor has a lot of value for different forms of transportation (other than rail), communication and transmission purposes. For example, the old Palmer Branch could someday prove important to development of the well-known Wishbone Hill coal prospects. Any decision to convey or lose any portion of such a valuable State asset should be a State initiative, not solely ARRC's. While the subject is now removed from any automatic federal law, it is one that can be considered on a case-by-case basis at the State level when any significant realignment occurs.



2007 Potential Railroad Legislation

Land Exchanges

- Exchange land with ADOT/PF to support Fairbanks airport heavy aircraft apron parking.
- Exchange land with ADOT/PF for Parks Highway upgrade in Wasilla.
- Eklutna, Inc.

Eklutna Quarry

- Transfer Eklutna Quarry to Eklutna, Inc. fee simple. This may be possible under current authorization provided within the North Anchorage Land Agreement.

Railroad Bonds

- Agrium Corporation is considering the use of Railroad tax-exempt conduit revenue bonds to finance its Kenai Blue Sky coal gasification project. The bond dept would be repaid by Agrium.

