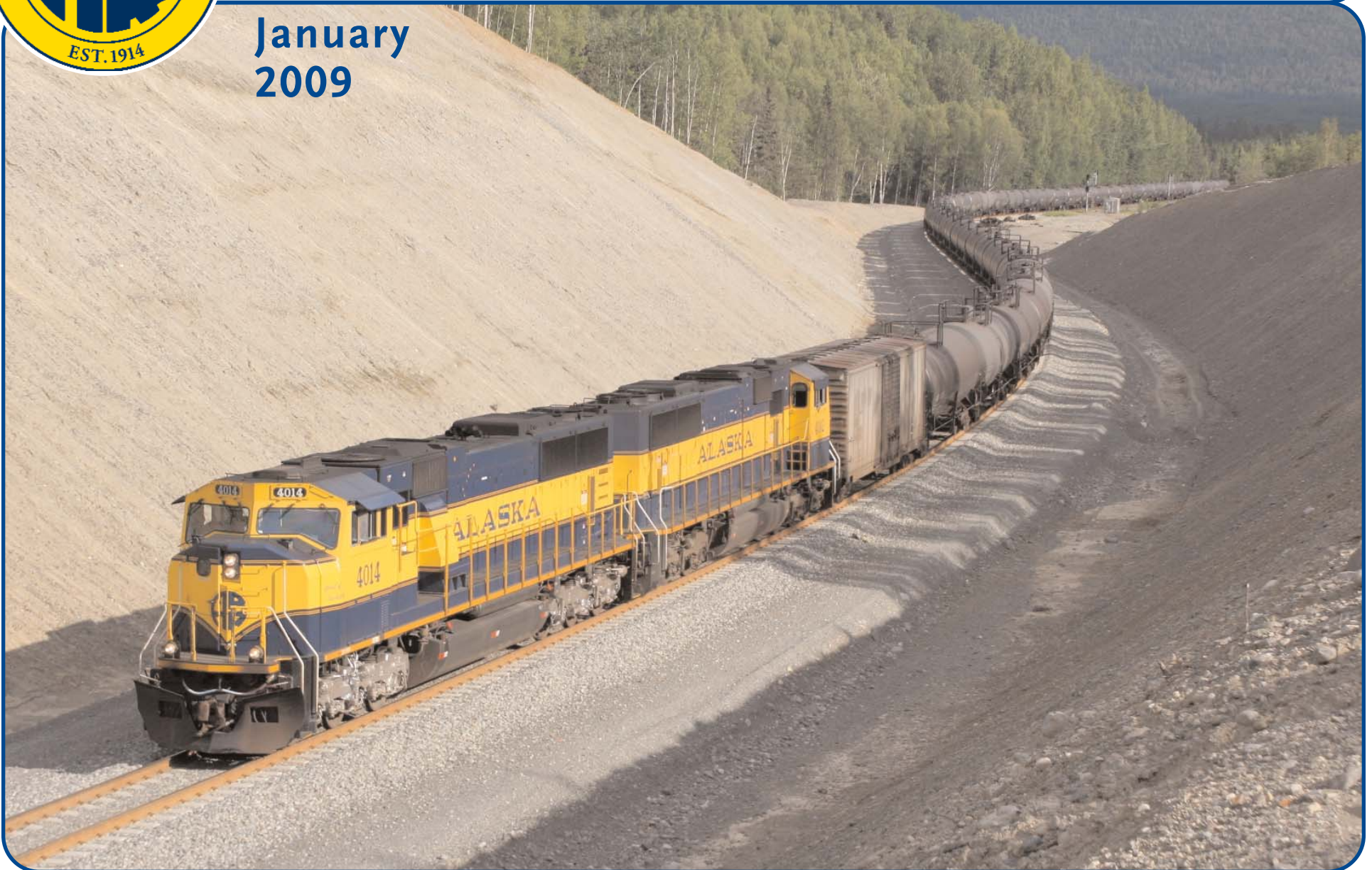




# Report to the State of Alaska

January  
2009





# ARRC President: A Look Ahead

As defined in the Alaska Railroad Corporation Act (AS 42.40), the Alaska Railroad Board of Directors shall adopt a long-range capital improvement plan each year and shall share that plan with the governor and legislature. I am pleased to present our plan for the year ahead.

For starters, I would characterize the ARRC's 2008 business year as highly challenging, considering production from our largest revenue customer was markedly down and the cost of doing business significantly higher than estimated. From a financial standpoint, unaudited 2008 results forecast total revenues of \$138 million, total expense at \$125 million, yielding a corporate net income of \$13 million. Audited numbers will true these numbers up by April 1, 2009.

We transported more than 5.8 million tons of freight, which represents a gross tonnage decrease, primarily in fuel. Petroleum volume transported from the Flint Hills refinery in North Pole dropped about 14 percent from 2007. Cargo shipped by trailers and containers dipped 12 percent and associated barge-rail tonnage declined 16 percent from 2007.

On the up side, gravel grossed 2.8 million tons for a 19 percent increase over budget. The export coal market was buoyed by a rise in demand and solid global coal prices. At 550,000 gross metric tons, 2008 turned out to be one of the railroads' better years for export coal. In late spring, the railroad conducted one of the state's largest military deployments to date. About 300 railcars moved nearly 1,000 military vehicles from Fort Wainwright to the Port of Anchorage in support of the 1-25th Stryker Brigade Combat Team's deployment to Iraq.

Alaska Railroad passenger movement increased 6 percent and record-breaking summer ticket sales generated \$1.2 million more than even last year's record sales. Consistent with a consistently positive annual trend line, ARRC Real Estate revenue increased 12 percent over 2007 for a total of nearly \$16 million. We attribute growth in real estate revenue to rising land value, higher property occupancy, and the Seward coal loading facility's revenue share.

2008 was also the first year of our newly published (second) 5-year plan. It was a tough start. A misfiring economy drove corporate belt tightening throughout the year as we began in earnest to react to an uncertain financial future. Confronting flat revenues and rising expenses in 2008, we adjusted on the fly by cutting supply and travel costs, conserving utilities, implementing substantive operational efficiencies and eliminating 10 percent of our manpower positions through attrition and, unfortunately, some unavoidable layoffs. Consequently, these actions spurred the corporation to reorganize and consolidate across departmental areas of responsibility, thereby contributing significantly to reduced operating expenses. Successful cost saving efforts throughout 2008 established the baseline for an even more stringent 2009 expense budget. As a result, we believe we enter 2009 in a stronger corporate position.

For 2009, the Alaska Railroad Corporation will continue a program of strict cost control in view of what has become a persistently unsteady economic outlook. Our capital program, however, will remain relatively robust. We will continue our bond-financed six-year plan to invest in rail, ties, ballast and bridges in order to complete the total refurbishment of our track infrastructure from Anchorage to Fairbanks by 2012.

Safety and efficiency upgrades remain paramount to the programmed capital effort. We will continue straightening the main track in several areas, extending sidings (railroad "passing lanes") to handle our longest trains, adding more automated and heated switches, and bringing on-line the nation's first fully operational collision avoidance system (recently mandated by Congress for all railroads to have in place by 2016.) We are also touting several large "shovel ready" rail infrastructure projects as worthy contenders for a prospective economic stimulus package being worked in Washington D.C.

Clearly, the biggest threat to the Alaska Railroad's viability in 2009 is the possible closure of the Flint Hills refinery in North Pole. We are heavily engaged, work-



# Mission, Vision and Values

ing alternatives with the state's Department of Natural Resources and Flint Hills, to preclude that disastrous and hopefully avoidable outcome.

Payment for most of the railroad's larger capital projects program comes from federal funds (often requiring matching dollars from the Alaska Railroad). In-house capital funding uses ARRC net earnings to cover dozens of smaller capital improvements and investments. In 2008 the Alaska Railroad supported a \$115 million capital budget. We plan on a \$138 million capital budget for 2009, on our way to an estimated \$412 million expenditure over the next five years (2009 through 2013).

These dollars go to good jobs in good Alaskan businesses. Details of our program are highlighted in this report and detailed descriptions of all major railroad capital projects are available at the railroad's web site — [www.AlaskaRailroad.com](http://www.AlaskaRailroad.com).

I hope this budget-based report provides a useful topline picture of the Alaska Railroad's long range plan. We would be happy to provide you or your staff with more project information via a detailed ARRC briefing at anytime during your 2009 legislative session. It is the honor of every Alaska Railroad employee to serve this great state.

Warm regards,

Patrick K. Gamble  
President and Chief Executive Officer

## 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 intermodal 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 Railroad Organizational Chart

**Governor • State of Alaska**

**ARRC Board of Directors**

**ARRC President & CEO Pat Gamble**

**Executive VP Corporate Affairs  
Jim Blasingame**

**VP Operations & Chief Operating  
Officer Ernie Piper**

**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  
Phyllis Johnson**

**AVP Projects & 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, 2008* (unaudited)	
Total Assets . . . . .	\$ 850 million
Total 2008 revenues . . . . .	\$ 138 million
Total 2008 expenses . . . . .	\$ 125 million
2008 net income . . . . .	\$ 13 million
2009 net income budget . . . . .	\$ 16.8 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) . . . . .	1,381
Passenger cars . . . . .	51
Locomotives . . . . .	57

## Operating Statistics

January 1-December 31, 2008	
Passenger ridership . . . . .	541,019 passengers
Freight tonnage . . . . .	5.82 million tons

## Employees (as of January 2009)

Number of year-round employees . . . . .	715
Average years of service . . . . .	11.5
Average age . . . . .	45
Male . . . . .	585
Female . . . . .	130

## Unions (as of January 2009)

Most of ARRC employees are members in one of five unions:	
United Transportation Union . . . . .	121
Transportation Communication Union . . . . .	44
International Association of Machinists . . . . .	63
American Federation of Govt. Employees . . . . .	283
American Train Dispatchers Department . . . . .	10

## 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.



# Alaska Railroad Mileposts

Each year the Alaska Railroad forecasts its long term objectives and unmet challenges. From this annual analysis, the Alaska Railroad management team establishes an annual rolling 5-year baseline of goals and objectives covering both the short and long terms. At the end of the year, ARRC scores itself against progress made towards meeting these challenges. As objectives are permanently achieved, they are dropped and new ones take their place.

## ARRC Five-Year Objectives

- Reduce employee safety incidents to no more than 48 per year.
- Do not add any more at-grade highway/railroad crossings.
- Achieve and sustain an operating ratio of at least .95 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.
- Maximize return from existing business relationships and seek out new profitable opportunities without sacrificing world class customer service.
- Fully implement Collision Avoidance System technology in 2009.
- Reduce average running time for freight trains between Anchorage and Fairbanks to 10 hours. (Does not include slow orders for natural occurrences)
- Complete the entire Reliability Excellence transition plan by the end of 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, as well as energy efficiency goals.
- 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.
- Build the bridge across the Tanana River.
- Extend the rail line to Delta Junction.
- Complete the accelerated Track Rehabilitation Program plan by 2012.
- Begin local DMU transit demonstration service of some kind in or around Anchorage-Wasilla-Gridwood.
- Continue to enhance environmental stewardship through wise business decisions, to include maintaining Green Star standards.

## Five-Year Forecast — Capital Budget

<i>(in millions)</i>	2009 Budget	2010 Plan	2011 Plan	2012 Plan	2013 Plan	TOTAL
ARRC Internally Generated	\$ 21.6	\$ 23.0	\$ 24.0	\$ 23.6	\$ 21.8	\$ 114.0
Bond Funded	31.1	18.6	20.7	7.6	—	78.0
Federal Transit Administration	42.2	43.4	44.7	46.1	47.5	223.9
less: Preventive Maintenance Reimburse	(10.4)	(10.8)	(11.0)	(11.3)	(11.5)	(55.0)
Less: Debt Service Grants	(16.4)	(16.3)	(16.2)	(16.2)	(16.2)	(81.2)
Federal Highway Administration	0.9	—	—	—	—	0.9
FEMA/DoD/Real Estate Debt	70.4	45.6	5.7	10.0	1.2	132.9
<b>Total Capital Budget</b>	<b>\$ 138.5</b>	<b>\$ 103.4</b>	<b>\$ 67.9</b>	<b>\$ 59.9</b>	<b>\$ 42.8</b>	<b>\$ 412.5</b>

## Five-Year Forecast — Operating Budget

<i>(in millions)</i>	2009 Budget	2010 Plan	2011 Plan	2012 Plan	2013 Plan	TOTAL
Net Operating Income	\$ 27.4	\$ 26.2	\$ 25.8	\$ 26.4	\$ 25.9	\$ 131.6
Net Income-Real Estate	\$ 9.2	\$ 8.6	\$ 8.6	\$ 8.7	\$ 9.2	\$ 44.4
Other Income	\$ 0.5	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.7	\$ 2.9
Net income (before Depreciation & Interest)	\$ 37.2	\$ 35.3	\$ 35.0	\$ 35.8	\$ 35.7	\$ 179.0
Depreciation	\$ (18.3)	\$ (18.1)	\$ (18.5)	\$ (18.3)	\$ (18.0)	\$ (91.2)
Interest Expense	\$ (2.1)	\$ (2.1)	\$ (1.8)	\$ (1.6)	\$ (1.5)	\$ (9.2)
<b>Net Income</b>	<b>\$ 16.8</b>	<b>\$ 15.0</b>	<b>\$ 14.7</b>	<b>\$ 15.9</b>	<b>\$ 16.2</b>	<b>\$ 78.6</b>

## Five-Year Capital Project Plan-Internal Funding

	2009 Budget	2010 Plan	2011 Plan	2012 Plan	2013 Plan	TOTAL
<b>Nondiscretionary Projects</b>	\$ 13,848,800	\$ 12,329,794	\$ 13,346,918	\$ 14,065,154	\$ 12,556,249	\$ 66,146,915
<b>Continuing Program Projects</b>	\$ 4,801,000	\$ 6,917,030	\$ 5,980,614	\$ 6,896,862	\$ 6,619,898	\$ 31,215,404
<b>Strategic Business Initiatives</b>	\$ 2,492,650	\$ 3,754,000	\$ 4,659,000	\$ 2,649,113	\$ 2,650,500	\$ 16,205,263
<b>Ranked Projects</b>	\$ 455,000	—	—	—	—	—
<b>Total - Internal Funding</b>	<b>\$ 21,597,450</b>	<b>\$ 23,000,824</b>	<b>\$ 23,986,532</b>	<b>\$ 23,611,129</b>	<b>\$ 21,826,647</b>	<b>\$ 114,022,583</b>

## Five-Year Capital Project Plan — Debt Financed Real Estate Projects

	2009	2010	2011	2012	2013	TOTAL
Freight Shed Renovation	7,685,000	—	—	—	—	7,685,000
GSA Building Acquisition	—	2,800,000	—	—	—	2,800,000
<i>Total-Debt Financed Real Estate Projects</i>	<i>7,685,000</i>	<i>2,800,000</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>10,485,000</i>

## Five-Year Capital Project Plan — Federal and Bond Funding

### Federal Transit Administration

Passenger Equipment: Rehabilitation	780,000	1,000,000	900,000	900,000	900,000	4,480,000
<b>Track Projects:</b>						
Depot Improvements	—	500,000	500,000	500,000	500,000	2,000,000
Track Rehabilitation	49,593	9,917,150	9,758,912	13,858,957	15,089,899	48,674,511
Siding Extensions/Shoulder Widening	825,000	1,000,000	1,000,000	1,000,000	1,000,000	4,825,000
<i>Track Project Subtotal</i>	<i>874,593</i>	<i>11,417,150</i>	<i>11,258,912</i>	<i>15,358,957</i>	<i>16,589,899</i>	<i>55,499,511</i>
<b>Bridge Replacements/Upgrades:</b>						
Bridge 432.1 Goldstream Creek Bridge	3,635,000	—	—	—	—	3,635,000
Bridge 29.5 Trail Lake	75,000	2,065,000	425,000	—	—	2,565,000
Bridge 284.2 Hurricane Gulch	100,000	—	2,000,000	800,000	450,000	3,350,000
Bridge 148.3 Matanuska River	1,150,000	—	—	—	—	1,150,000
Bridge replacing large culvert at Indian	—	140,000	1,350,000	—	—	1,490,000
Bridge 422.9 Permafrost Bridge	—	—	600,000	—	—	600,000
Bridge 447.7 Permafrost Bridge	—	—	—	600,000	850,000	1,450,000
<i>Bridge Program Subtotal</i>	<i>4,960,000</i>	<i>2,205,000</i>	<i>4,375,000</i>	<i>1,400,000</i>	<i>1,300,000</i>	<i>14,240,000</i>

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

	2009	2010	2011	2012	2013	TOTAL
<b>FTA... continued</b>						
Debt Service Subtotal:						
2006 Bond Issue Debt Service	7,366,776	7,368,016	7,293,976	7,281,965	7,288,771	36,599,504
2007 Bond Issue Debt Service	8,996,466	8,966,425	8,901,563	8,895,736	8,900,619	44,660,809
<b>Debt Service Subtotal</b>	<b>16,363,242</b>	<b>16,334,441</b>	<b>16,195,539</b>	<b>16,177,701</b>	<b>16,189,390</b>	<b>81,260,313</b>
Preventive / Safety / Security:						
Preventive Maintenance Reimbursement	10,400,096	10,816,100	11,032,422	11,253,071	11,478,132	54,979,821
Slope Stabilization/Healy Canyon	1,110,000	1,200,000	500,000	500,000	500,000	3,810,000
Collision Avoidance-Phase II Completion	7,216,129	—	—	—	—	7,216,129
Wheelchair Lift Replacements	17,000	—	—	—	—	17,000
Transit Enhancements	221,157	227,792	234,625	241,664	248,914	1,174,152
Transit Security	221,157	227,792	234,625	241,664	248,914	1,174,152
<i>Preventive/Safety/Security Subtotal</i>	<i>19,185,539</i>	<i>12,471,684</i>	<i>12,001,672</i>	<i>12,236,399</i>	<i>12,475,960</i>	<i>68,371,254</i>
<b>Total Federal Transit Administration</b>	<b>42,163,374</b>	<b>43,428,275</b>	<b>44,731,123</b>	<b>46,073,057</b>	<b>47,455,249</b>	<b>223,851,078</b>
Less: Preventive Maintenance Reimbursement	(10,400,096)	(10,816,100)	(11,032,422)	(11,253,071)	(11,478,132)	(54,979,821)
Less: Debt Service Grants	(16,363,242)	(16,334,441)	(16,195,539)	(16,177,701)	(16,189,390)	(81,260,313)
<b>Total FTA for Federal Capital Projects</b>	<b>15,400,036</b>	<b>16,277,734</b>	<b>17,503,162</b>	<b>18,642,285</b>	<b>19,787,727</b>	<b>87,610,944</b>
<b>FTA Capital Grant Receipts Bonds</b>						
Track Rehabilitation Program	30,167,841	18,559,844	20,726,946	7,637,134	—	77,091,765
Healy Canyon Stabilization-Moody Tunnel	915,000	—	—	—	—	915,000
<b>Total FTA Capital Grant Receipts Bonds</b>	<b>31,082,841</b>	<b>18,559,844</b>	<b>20,726,946</b>	<b>7,637,134</b>	<b>—</b>	<b>78,006,765</b>
<b>Other Federal Funds</b>						
FEMA 2008 Fall Flood Disaster Funds	1,820,000	—	—	—	—	1,820,000
FHWA Rail Realignments	870,617	—	—	—	—	870,614
DoD Tanana River Access	60,000,000	—	—	—	—	60,000,000
Tanana River Training-Fund Source Unidentified	—	38,000,000	—	—	—	38,000,000
Collision Avoidance-Fund Source Unidentified	—	4,758,000	5,700,000	10,000,000	1,225,000	21,683,000
<b>Total Other Federal Funds</b>	<b>62,690,617</b>	<b>42,758,000</b>	<b>5,700,000</b>	<b>10,000,000</b>	<b>1,225,000</b>	<b>122,373,617</b>
<b>Total Federal &amp; Bond Funding</b>	<b>109,173,494</b>	<b>77,595,578</b>	<b>43,930,108</b>	<b>36,279,419</b>	<b>21,012,727</b>	<b>287,991,326</b>