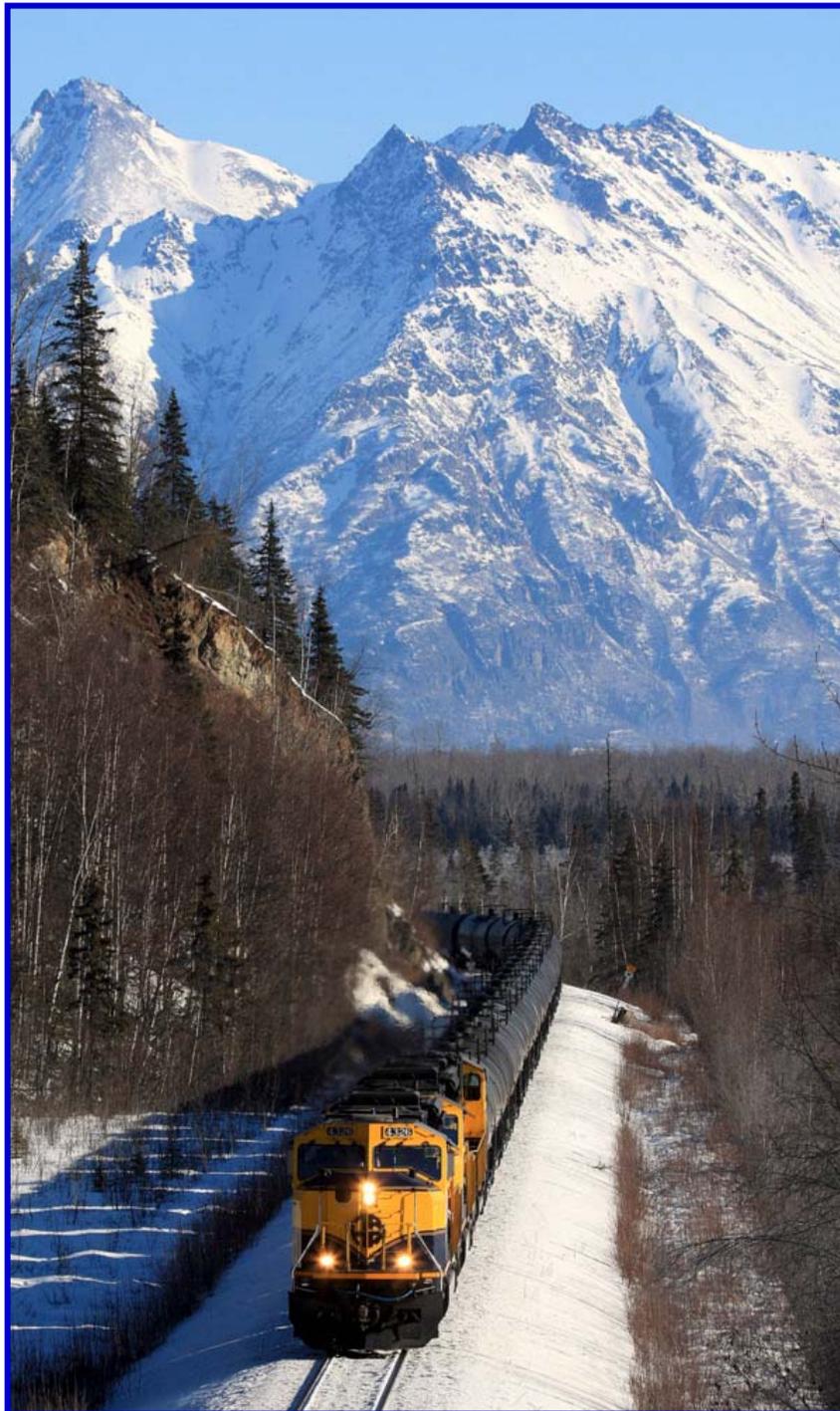




# Strategic Initiatives

# Alaska Railroad 2011-2015

MAY 26, 2011



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# President's View



**If you don't know where you are going how do you expect to get there?** The following pages present the Alaska Railroad's "Strategic Plan" for the next five years providing direction for how we intend to achieve and measure our company's mission and stated goals.

Our mission, defined within our two governing statutes, underpins our strategic effort: to provide safe, profitable, high quality service to our freight, passenger and real estate customers and to foster the development of Alaska's economy.

To realize this mission we focus our values on putting our employees and customers first, providing a safe working environment, operating trains safely, running a business in a financially sound manner, partnering with Alaska's communities, and protecting our environment.

In addition to our mission and values, our five year operating plan, corporate goals and five year objectives encompassed within this document provide the launching pad for our Strategic Plan. In partnership with our Board of Directors, we developed eight strategic initiatives to guide the Railroad over the next several years.

Our commitment to safety will be supported through a plan we call "Integrated Safety Management". Other initiatives provide direction in our efforts to install and develop technology at the Railroad, protect and expand our revenue base, take a closer look at our fixed expenses, a more balanced approach to work force development, a more consistent and customer friendly approach to dealing with our client base in freight and real estate services, and how we can better respond to our mandate to support economic development in the state.

The Strategic Plan is not something we do once and put on the shelf. It is a continuing process and must be renewed as necessary due to changes in the business climate, workforce, and other influences in which we operate. A strategic plan can only be considered successful if it leads to positive change in the organization.

I look forward to working with the Board of Directors, the railroad management team, employees, and our customers to fully realize the Alaska Railroad's great potential as an essential transportation service and to be the premier work place of choice for Alaskans.

Chris Aadnesen  
President & Chief Executive Officer



# Strategic Planning

"Strategic Planning is a continuous and systematic process where people make decisions about intended future outcomes, how outcomes are to be accomplished, and how success is measured and evaluated."

- **"...continuous..."** Strategic planning is ongoing; it does not end with the publication of a plan; its success depends on it purposefully becoming an uninterrupted and never-ending cycle.
- **"...systematic..."** Any effective strategic planning process has a deliberate and specific methodology and a sequence of events; it is never haphazard.
- **"...process..."** The value of strategic planning lies more in the journey than the destination. While strategic planning must indeed produce a product, a Strategic Plan document, the primary value comes from the teamwork, vision, commitment to and ownership of organizational success the planners gain through the process of making the decisions the document contains.
- **"...people..."** A strategic planning process must involve all the right people and those people must be ready and willing to contribute to the process.
- **"...decisions..."** Strategic planning is a decision making process. Organizations that are ready to plan strategically have leaders who are ready to make decisions.
- **"...outcomes..."** Strategic level planning addresses external results, or the organization's effects on the outside world, particularly how it affects its customers. An old adage states: "If you don't know where you're going, any road will take you there." Strategic planning is primarily about defining where "there" is, a type of roadmap outlining the outcomes and results designed to be achieved throughout the journey.
- **"...how outcomes are to be accomplished..."** Strategic planners don't quit just because they defined the target future; they go ahead and select the roads that will get them there.
- **"...how success is measured and evaluated..."** Strategic planning is all about succeeding. A well-written strategic plan will describe clearly how anyone can tell whether the organization is successful. The plan may measure intended future outcomes either quantitatively or qualitatively, but it always defines threshold criteria for achieving success.

**A Strategic Plan can only be considered successful if it leads to positive change in the organization.**



## Communicating the Plan

The Strategic Initiatives outlined in this document represent the core direction for establishing and prioritizing the ARRC's annual business and operating plans. It is critical that all of us understand the future direction of this company. In order to communicate this plan throughout the Railroad, portions of this plan will be posted on the company intranet. I expect the leadership team to discuss this plan during staff/team meetings, and I expect all employees to familiarize themselves with the basics of this organization-wide plan. Many of you will be working at the tactical level to implement these plans. I expect to see a level of knowledge about the basics of this plan demonstrated at all levels of the company.

This plan contains sensitive details that are considered proprietary to the Railroad. This plan is subject to change and, as mentioned in my letter introducing the plan, strategic planning is a continuing and evolving process. Some situations or business environments may require actions we now believe necessary, but those may look entirely different a year in the future and our plan will change accordingly.

I will occasionally publish information in the All Aboard outlining progress in achieving our goals in the strategic initiatives. I expect our annual budgets and work plans to reflect the Initiatives outlined in this Plan.





**The Alaska Railroad has a solid foundation in its tenure, structure, and governing statutes.**

## History

The United States government built the Alaska Railroad between 1914 and 1923. The federal government operated the railroad until January 1985, when it was purchased by the State of Alaska for \$22.3 million to serve Alaska business and communities as an engine of community development and economic growth.

The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) in 1984 as an independent entity to own and operate the Railroad and to manage Railroad property after transfer. Transfer itself was codified in both Federal and State transfer law, each providing the legislative wisdom that has enabled the Alaska Railroad to be self sufficient and successful for over 25 years.

## Business Facts

While wholly owned by the State of Alaska, ARRC is an independent authority responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation required to conduct its business on a sustainable basis without annual operating subsidies from the state.

ARRC has commercial property including docks and/or rail in four ports and serves communities from the Gulf of Alaska to Fairbanks. It may even be the only remaining full-service railroad in the United States, providing both year-round regularly scheduled freight and passenger services.

From tidewater at Whittier and Seward to the heart of Interior Alaska in Fairbanks, ARRC's mainline covers 467 miles. There are 656 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 Seward, Whittier, Anchorage, Healy and Fairbanks.

## Board of Directors

ARRC is a statutory corporation, managed by a board of directors appointed by the Governor. The seven-member board consists of the Commissioner of Transportation & Public Facilities, the Commissioner of Commerce, Community & Economic Development, one member representing ARRC labor organizations, at least one member with 10 years of management experience on a U.S. railroad, two members representing the two judicial districts in which the ARRC operates, and one member who has five years of management or ownership of a business in the State.

## Management Team

The ARRC management team is led by a President and Chief Executive Officer. The team includes vice presidents and directors who together have over 480 years of experience at the Alaska Railroad. The team has a wealth of corporate experience with such companies as IBM, BP, and Union Pacific Railroad and Burlington Northern Sante Fe Railroad and includes a third generation Alaska Railroader. Members of the team have also held elected positions in local government and served as staff for state legislators bringing a strong depth of knowledge and experience in the Alaska political environment.



## Alaska Railroad Guiding Principles

### Mission Statement

“Safety ... Service ... Profitability”

Be profitable while delivering safe, high quality service to our freight, passenger and real estate customers. Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.

### ARRC Core Values

- Integrity
- Service
- Excellence

### ARRC Operating Style

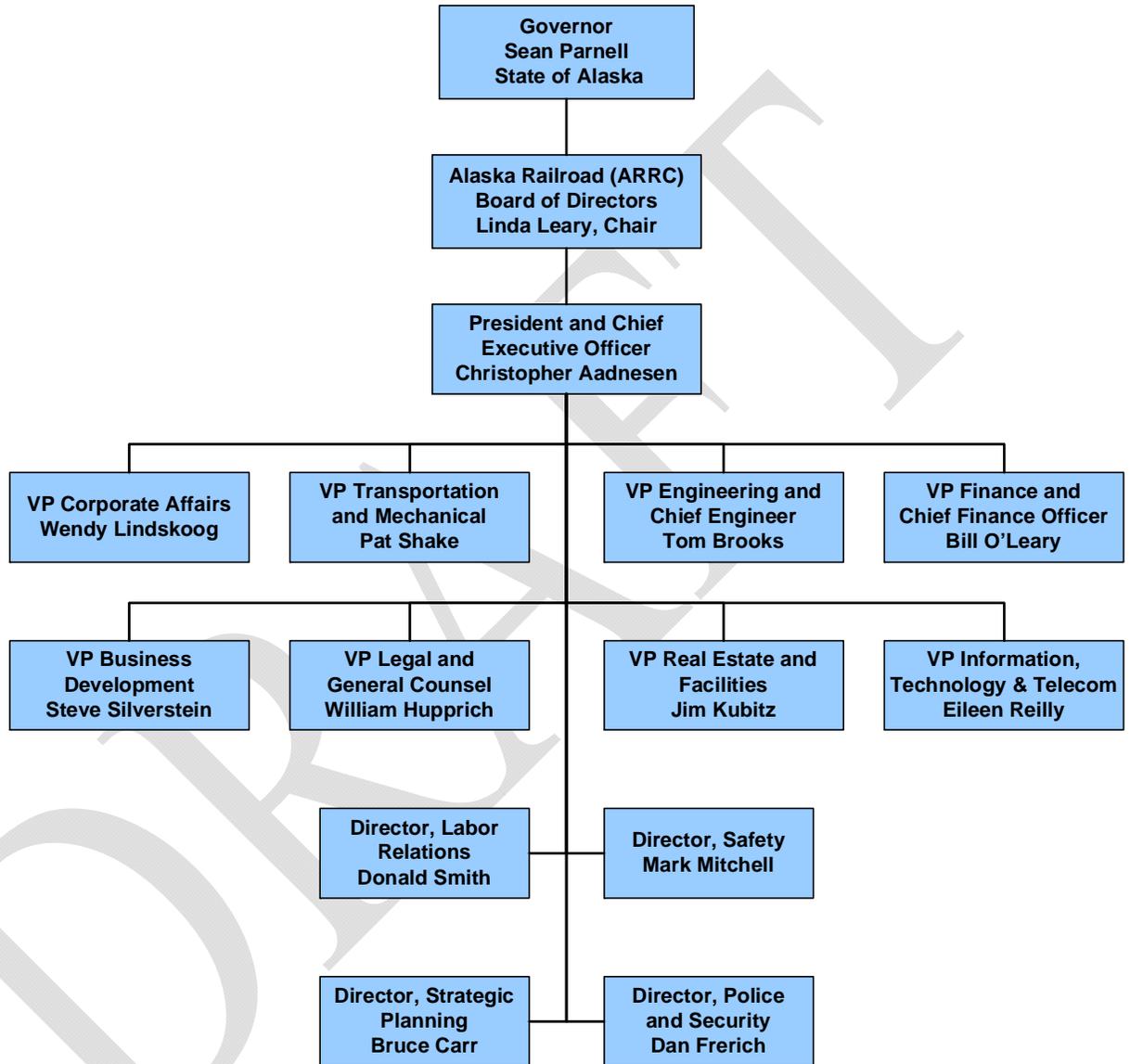
- Safe
- Secure
- Customer Responsive
- Open Communications
- Good Neighbor
- Financially Solid
- Environmentally Sound
- Employee friendly corporation





# Organization Chart

## Alaska Railroad Organization – 2011





# 5-Year Operating Plan

<i>(In millions)</i>	2011 Budget	2012 Plan	2013 Plan	2014 Plan	2015 Plan
<b>Net Operating Income</b>	\$11.32	\$12.08	\$12.14	\$12.58	\$12.43
<b>Net Income – Real Estate</b>	\$8.28	\$8.09	\$8.50	\$8.37	\$8.31
<b>Net Other Income (Expense)</b>	\$(1.44)	\$(1.10)	\$(1.02)	\$(0.79)	\$(0.29)
<b>Net Income</b>	\$18.16	\$19.07	\$19.62	\$20.16	\$20.45





# Corporate Goals

## 2011 Corporate Goals

### Safety and Operating Practices

- Reduce employee injuries by 15% from 2010
- No authority violations
- No FRA reportable derailments
- No on-track equipment collisions
- Eliminate run-away car incidents caused by human error
- Reduce minor derailments by 50%
- Reduce vehicle backing incidents by 50%

### Security

- Maintain 100% compliance with TSA regulations regarding passenger train and hazardous materials transportation.
- Maintain 100% compliance with USCG regulations regarding Port operations related to cruise ships and hazardous materials.

### Financial

- Generate a measurable increase in yield. On the freight side, better average revenue per ton, per car and per train. On the passenger side, better revenue averages per passenger, per car and per train.
- Continue to diversify our customer and commodity base on the freight side and our wholesale/travel agent customer base on the passenger side.
- Replace more of the previous Flint Hills revenue with new revenue, either from new customers, new rates or new business from existing customers generating \$2 million.
- Generate at least \$37 million in cash flow company-wide with Real Estate contributing at least \$10 million to that total.
- Generate an average return on Real Estate investment dollars of at least 10%.
- Maintain at least 90% funded status of pension and retiree medical trust funds
- Generate an Operating Ratio of 0.93 or better

## General

- Initiate strategic planning effort between management and the Board of Directors, culminating in short, medium, and long term goals and objectives
- Begin implementation of Enterprise Resource Planning (ERP) system
- Continue implementation of the Supply Chain Audit recommendations
- Revenue trains make Anchorage to Fairbanks in 12 hours or less: summer 45%, winter 70% of the time
- Successfully complete the Positive Train Control Development Plan (PTCDP) with FRA issuing Type Approval
- Develop Corporate Succession Plan for all Vice Presidents and Director positions
- Expand training opportunity for CPR & First Aid to all employees
- Based upon customer satisfaction survey and other data, develop programs to improve corporate image
- Manage facility energy use to 2009 levels
- Complete Radio Narrow-banding effort by December 31, 2011 (FRA mandate)



*ARRC employees participating in annual walk for charity*



# 5-Year Objectives

## Alaska Railroad 5-Year Objectives, 2011 - 2015

- Reduce employee year-over-year injuries by 15%
- Fully implement a Risk Reduction Plan
- Achieve Harriman Award status
- Achieve and sustain an operating ratio of at least .91 by 2015
- Generate and sustain company-wide cash flow, measured as net earnings plus depreciation of at least \$40 million by 2015
- Generate and sustain cash flow from real estate activities of at least \$10.0 million per year through 2015
- Develop a master and implementation plan (near term objectives) for the GSA and Consolidated Freightways area by 2013
- Develop alternative funding sources to complete the Anchorage Depot and uptown connections by 2015
- Fully implement Federal Railroad Administration (FRA) required Positive Train Control technology on all locomotives in 2013 and completion of wayside by 2015
- Reduce yearly average running time for freight trains between Anchorage and Fairbanks to eleven and one-half (11.5) or less hours
- Do not add any more at-grade highway/railroad crossings
- Ensure we maintain the highest possible customer satisfaction whether it be freight, passenger, or real estate related
- Fully lease out the Anchorage Freight Shed
- Develop sufficient business to justify expanding the Seward Freight Dock
- Complete the accelerated Track Rehabilitation Program (TRP) as planned by 2012
- Begin Anchorage and/or Talkeetna/Fairbanks and/or Girdwood Diesel Multiple Unit (DMU) demonstration service
- Continue to enhance environmental stewardship through wise business decisions, to include maintaining Green Star standards
- Continue to explore possible extensions of the railroad in cooperation with state, local, and private business plans
- Complete the Enterprise Resource Program (ERP) implementation.



## Alaska Railroad Strategic Initiatives

### Integrated Safety Management Initiative

The goal of this initiative is to create a safety program and culture that has a strong connection between the direction given by management and the execution of plans at all levels within the organization. The Risk Reduction Program (RRP) will be a highly focused and accountable, continuous safety improvement process that will provide for goal setting, planning and measuring performance in a fiscally responsible manner.

The benefits that will be realized by creating and actively working a RRP include:

- Reduce ARRC Workers' Compensation costs
- Reduce lost work days
- Reduce property damage (both for ARRC and its customers)
- Reduce ARRC service interruptions
- Improved regulatory compliance through individual accountability

### Protect Existing Revenue Base and Grow our Business

The goal of this initiative is to seek new business opportunities in our freight, passenger, and real estate portfolios. This includes responding to our current customer base and their needs while at the same time looking for new customers.

### Customer and Community Relationship Education Initiative

The goal of this initiative will encompass an overall effort to improve communication and relationships with Alaska Railroad customers. The effort will focus the majority of energy on being "proactive" in those communities the Alaska Railroad conducts its business and on relationships with local and state elected officials.

### Mitigate Impact of Spend-Out of Federal Transit Administration Bond Funds

The goal of this initiative is to rationalize a capital funding program over the next five years that includes pay-back of \$165 million in capital grant bonds issued in 2007 and 2007. Bond repayment will consume approximately 50% of our annual federal funding receipts.

## **Maintain Eligibility Criteria for Federal Transit Administration Formula Programs**

The goal of this initiative is to maintain and increase eligibility for federal funding programs related to passenger rail services. Continue to encourage the development of a regional transportation authority to develop an efficient public transportation network in Southcentral Alaska comprised of rail, ferry, bus, and other public transportation alternatives.

## **Cost Containment Initiatives**

The goal of this initiative is to reduce the cost of doing business. ARRC has made major investments to modernize its infrastructure, on-track equipment, rail and passenger car fleet, and vehicle fleets. ARRC will leverage these investments to improve its operating ratio.

## **Technology Initiatives**

The goal of this initiative is to identify strategies for maximizing our technology resources and implementing technology with a positive net value for the ARRC. Use technology that has a high market presence to address technology-based decisions. Apply principals and strategies to enhance opportunities for success when addressing technology-based decisions.

## **Economic Development of State/Rail Extensions**

The goal of this initiative is to ensure the Alaska Railroad is recognized and utilized by industry and state leaders in the continued development of the natural resources and movement of people and goods in the short-term and long-term in fulfillment of its mandate.

