

CUSTOMER SERVICE



DESTINATION: EXCELLENCE

STRATEGIC PLAN 2016-2021

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SAFETY



PROFITABILITY



by Jonathan Fischer

ALASKA

RAILROAD

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KENAI FJORDS





by Bruce Gough

LETTER FROM THE CEO

PLANS PROGRESS

Led by our Board of Directors, just two years ago we developed a strategic direction to steer the Alaska Railroad toward more positive territory. Back then, we noted the tough period of relentless change our company was experiencing as customer volumes dropped, funding sources were challenged, regulatory requirements such as Positive Train Control were mounting, and we were healing from leadership and staffing changes.

We set out with a plan to take us to a destination where we'd describe ourselves as more nimble, healthy, proactive, smart, data-driven, growing, lean, focused, engaged, great-place-to-work, innovative, aligned, empowered, efficient and prepared.

Guess what? We made solid progress, but we are not there yet. Challenges remain, especially given Alaska's economic outlook due to low oil prices. But as I look back over these last two years, and forward for the next five years, I am encouraged. Our strategic plan put into motion important initiatives that are driving great results.

We focused on five strategies: grow the business, reduce costs, make smart capital investments, enhance our safety and engagement culture, and foster our relationships with the community and key stakeholders. With these as our focus areas, we achieved significant accomplishments:

We added new freight customers and saw better revenue results than expected, given the state's economic downturn. Passenger revenue increased and demand for specialty trains and winter services grew. Real Estate revenue increased and continues to be a reliable fiscal foundation.

LETTER FROM THE CEO

Our safety record improved, leading to a decrease in worker's compensation expense. We implemented our modernized health benefit plan to many groups, slowing the ever-increasing cost of medical benefits. Our utility consumption reduced by 3%, even as we added 40,000 square feet of building space. Our employee engagement scores improved, due in large part to an inward focus on our team.

Our aggressive multi-year federal campaign resulted in stability and growth in our federal funds, key regulatory changes, and an approval making the Alaska Railroad the first railroad in the United States to receive permission to transport Liquefied Natural Gas.

FIVE STRATEGIES

Given the solid performance since our Strategic Plan was created, our Board decided to double down on the direction we chose to head two years ago. That is why this update to our strategic five-year plan covering 2016 to 2021 does not markedly change the course. Our five strategies and the destination we defined will remain:

- **Revenue growth / diversification** – we are going to grow our way out of our current situation by aggressively courting new business, taking bold steps to introduce new sources of revenue, all the while providing superior customer service to our customers. We must be innovative and see the current economic environment as an opportunity to push ourselves to evolve and reinvent.
- **Cost structure** – revenue growth alone is not enough. We must continue to drive costs down through greater efficiency, better use of technology, a team effort to change our habits, and generally finding leaner ways to operate.
- **Capital investment** – invest wisely in capital maintenance and projects / initiatives that provide a return on capital dollars, and that enable us to provide exemplary customer service. Simply put, we need to take care of what we have and invest in projects to make us safer and more profitable.



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by Judy Patrick

LETTER FROM THE CEO

- **Safety/Engagement** – drive employee engagement and safety improvements by addressing shortcomings in our company culture. Train our employees so they have the tools to do the job well.
- **Relationships** – Foster and expand working relationships with key stakeholders and groups.

STAY THE COURSE

You have heard my mantra before. Alaskans need ARRC to be a strong and healthy entity, ready to uphold its mission to deliver safe, profitable, service-oriented transportation that fosters year-round economic development statewide. We will weather our state's economic downturn – we always do. And if we reinvent our company and move boldly toward the destination defined in this plan – we will come out other end stronger than ever.

Reaching the end of the line will take an aligned, coordinated effort by each employee, whether management or represented.

It will take ALL of us.

Bill O'Leary

A handwritten signature in white ink, appearing to read "Bill O'Leary", set against a dark blue background.

OUR MISSION

Through excellent customer service and sound business management practices, provide safe, efficient, and economical transportation and real estate services that support and **grow economic development opportunities for the State of Alaska.**

CUSTOMER SERVICE



SAFETY



PROFITABILITY



OUR VALUES

This set of values represents the culture we are creating and the conduct we expect to share with our co-workers, customers and the public.



by Bruce Gough

SAFETY

Safety is a fundamental value. We seek an accident-free, incident-free work environment in all areas of our operation. Without exception, keeping each other safe is the responsibility of each employee at every level. Employees are expected and empowered to act immediately to eliminate unsafe conditions and to prevent the risk of injury in the workplace.

SERVICE EXCELLENCE

We go the extra mile for our customers. We create long-term relationships by delivering value; helping customers reach their goals by understanding their business needs; being consistent, proactive and establishing realistic expectations for our company and those we serve.

INTEGRITY

We are honest, ethical, and transparent in all our actions. We inspire trust by saying what we mean and following through with actions that match our words. We are accountable to each other and our stakeholders acting in a manner that maintains public confidence.

TEAMWORK

We strive to be one team - engaged and aligned in mission. We participate, collaborate and use our collective skills to achieve common objectives. We share knowledge and information and focus on the success of the Alaska Railroad, our customers, our state and the communities we serve. We have fun together.

SUSTAINABILITY

We are focused on growing our business to support the Alaska Railroad's long-term financial viability and our purpose to foster economic development. We value stewardship for our environment, each other, the communities we serve and our responsibility as a state-owned enterprise.



SAFETY POLICY

The Alaska Railroad Corporation (ARRC) upholds safety as a fundamental value. Our company's most valuable assets are its people. Without exception, keeping each other safe is the responsibility of each employee at every level.

The Alaska Railroad seeks an accident-free, incident-free work environment in all areas of its operations. **We work diligently to continually improve on-the-job safety through:**

COMMUNICATIONS

TRAINING

AWARENESS

AUDITING

Safety relies on participation. Individuals and work groups must be willing to sacrifice productivity in favor of working safely. Employees are expected to act immediately to eliminate unsafe conditions and to prevent the risk of injury in the workplace.

To succeed, all employees must:

- Comply with all relevant federal, state and local rules and regulations.
- Observe all company rules and regulations related to safe work performance.
- Integrate safety into each job function.
- Report or correct unsafe equipment and practices.
- Report any and all accidents that occur while on the job, as soon as is practical.
- Foster mutual respect and cooperation between co-workers.

Bill O'Leary



STRATEGY SUMMARY

STRATEGY 1

Expand the Business by Growing and Diversifying Revenue

STRATEGY 2

Improve Profitability by Optimizing Cost Structure

STRATEGY 3

Balance Capital Program to Optimize Safety, Revenue Growth and Efficiency

STRATEGY 4

Build a Proactive Culture of Safety and Engagement

STRATEGY 5

Enhance Economic Development, Stewardship and Stakeholder Relations



STRATEGY 1



EXPAND THE BUSINESS BY GROWING AND DIVERSIFYING REVENUE



Update business marketing/sales plans annually, reflecting new strategies and economic changes.

Improve Customer Service:

- Institute a proactive, consultative customer approach that moves away from primarily a price-quote customer relationship.
- Use quarterly business reviews with all major accounts to continually improve service and uncover new revenue opportunities.
- Measure customer service improvement year-over-year through surveys and other techniques.

Develop and implement new business lines that leverage core railroad competencies.

Freight (baseline year 2015)

- Increase revenue by 28% by 2021.
- Add at least 20 new freight customers by 2021. In addition to organic growth from our current customer base, Freight Marketing will diversify revenue by executing business development opportunities as identified in the 2016 Partnership/Supply Chain Ownership Initiatives.

Passenger (baseline year 2015)

- Increase revenue by 46% by 2021.
- Develop untapped special event train market, partnering with Alaskan companies where practicable.
- Enhance Gift Shop profitability through expansion.

Real Estate (baseline year 2015)

- Increase revenue by 42% by 2021.
- Create a five year strategy to address below market leases where feasible.
- Increase value and desirability of developed/underdeveloped ARRC property through infrastructure upgrades, land trades and/or acquisitions.
- Leverage land holdings / development with goal of increasing rail traffic.

STRATEGY 2



IMPROVE PROFITABILITY BY OPTIMIZING COST STRUCTURE

- Drive corporate operating efficiency through implementation of initiative team recommendations.

- Drive train operating efficiency through longer trains, improved fuel economy and managed headcount with corporate metrics determined annually.

- Achieve unadjusted operating ratio of 0.97 by 2021.

- Reduce facility energy consumption by 15% by 2021. (baseline year 2015)

- Implement priority-driven phased plan to reduce facility utility consumption railroad-wide.
- Implement PTC power requirements utilizing the lowest cost power generation.

- Optimize vehicle and equipment costs through review of fleet-size appropriateness, replacement strategies, and maintenance / fuel consumption initiatives.

- Ensure workforce is appropriately sized for business need, taking into account safety, seasonality, regulatory requirements, and necessary profitability.

- Attain total benefits to total compensation ratio of 20% or less.

- Grow company-wide cash flow (EBITDA) to \$45 million by 2021.

STRATEGY 3



BALANCE CAPITAL PROGRAM TO OPTIMIZE SAFETY, REVENUE AND EFFICIENCY

■ For key asset classes, adopt a lifecycle management philosophy through development of master plans, an investment roadmap, and implementation/funding strategies.

- Submit mandated Transit Asset Management Plan to Federal Transit Administration.

■ Modernize technology to:

- Drive informed real-time decision making
- Enhance operational efficiency
- Grow business
- Improve customer service
- Reduce risk
- Enhance employee connectivity

■ Achieve system-wide Positive Train Control implementation and system certification on time and on budget by 2018.

- Develop and begin execution of post-Positive Train Control implementation plan in January 2017 to minimize financial impact, assure system reliability and reduce operational impacts.

■ Invest capital in support of a growing and sustainable business model.

- Require appropriate return on investment for non-capital maintenance projects.

- **Implement 2016-2021 Engagement Action Plan to improve engagement and safety culture as measured by engagement survey scores and safety results.**
- **Reduce employee year-over-year injuries at least 16% by 2021. (baseline year 2015)**
- **Develop and implement a robust training program to support corporate regulatory, safety and employee development needs.**
- **Maintain regulatory compliance.**
 - Submit mandated Part 243 training plan to the Federal Railroad Administration by May 2017.
 - Implement a System Safety Plan within federally mandated time frame.
 - Implement inward / outward camera mandate on locomotives within federally mandated time frame.
 - Implement additional federal mandates called for in the Rail Safety Act of 2008 and subsequent laws as regulatory requirements are defined through federal rule-making.
- **Sustain public awareness safety campaign to reduce incidents.**



STRATEGY 4



**BUILD A PROACTIVE
CULTURE OF SAFETY
AND ENGAGEMENT**

Vacations!

STRATEGY 5



ENHANCE ECONOMIC DEVELOPMENT, STEWARDSHIP AND STAKEHOLDER RELATIONS

Promote and advance regional economic development priorities through strategic partnerships.

- Strengthen and expand relationships with local and statewide economic development and tourism partners.
- Support the Matanuska-Susitna Borough's Port MacKenzie Rail Extension Project, subject to continued funding.
- Implement the phased recommendations of RailPort Seward Master Plan.

Enhance and promote environmental stewardship of our land, facilities, and the environment in which we operate.

- Reduce facility energy consumption by 15% by 2021. (2015 baseline year)

Increase the public's understanding about the Railroad and enhance our community spirit.

- Strengthen relationships with civic and elected leaders in communities affected by the Railroad's activities.
- Be a respectful, involved, and responsive neighbor.

by Judy Patrick

THE JOURNEY

OUR DESTINATION

SAFETY

FROM

RULE ORIENTED, SILOED, CONFUSING, REACTIVE

TO

EMPOWERED WORKFORCE, PROACTIVE, ACCOUNTABLE,
FOCUSED ON RISK REDUCTION, UNIVERSAL

CUSTOMER SERVICE

FROM

INCONSISTENT COMPANY-WIDE,
SOLID BUT NOT BEST OF CLASS

TO

EXCEED INTERNAL AND EXTERNAL EXPECTATIONS,
EVERY EMPLOYEE'S BUSINESS, BEST OF CLASS

FINANCIAL PERFORMANCE

FROM

CRISIS MODE, DIMINISHED RESOURCES,
UNSUSTAINABLE, REACTIVE

TO

PLANNED, DATA DRIVEN, EFFICIENT, SUSTAINABLE,
GROWING, VISION DRIVEN, PROFITABLE

OPERATIONS

FROM

TRADITIONAL, IN TRANSITION

TO

PROGRESSIVE, STREAMLINED,
BUSINESS-DRIVEN, CUSTOMER CENTRIC

COMMUNICATION

FROM

SILOED, OFTEN ONE-WAY, LIMITED BY
OUTDATED TECHNOLOGY

TO

DIALOGUE-DRIVEN, LISTENING EMPHASIZED,
ENGAGED, TECHNOLOGY ENHANCED

CULTURE

FROM

US-VERSUS-THEM, SKEPTICAL, INCONSISTENT, WEARY,
DISORGANIZED AND INCOMPLETE TRAINING

TO

ONE TEAM, COLLABORATIVE, ENGAGED, MOTIVATED, GOAL-ORIENTED,
FLEXIBLE, COHESIVE AND COMPREHENSIVE TRAINING

TECHNOLOGY

FROM

SLOW TO ADOPT AND MODERNIZE, UNDER-RESOURCED

TO

EFFICIENT, RISK REDUCTION,
CUSTOMER-FOCUSED, CONTEMPORARY

END OF THE LINE

What does excellence look like in 2021?



RAILROAD FEATURES NEW, GROWING REVENUE STREAMS WITH BEST OF CLASS CUSTOMER SERVICE



RAILROAD FUNDS CAPITAL MAINTENANCE AND EXPANSION CAPITAL APPROPRIATELY



SAFETY CULTURE IS PROACTIVE RESULTING IN REDUCED INCIDENT RATES



EMPLOYEES ARE SAFETY FOCUSED, TRAINED, EMPOWERED, ENGAGED, AND ALIGNED



POSITIVE TRAIN CONTROL IS IMPLEMENTED AND OPERATIONALLY SUCCESSFUL



RAILROAD IS A STRATEGIC PARTNER IN KEY ECONOMIC DEVELOPMENT INITIATIVES BENEFITTING BOTH STATE AND ARRC