

ALASKA RAILROAD CORPORATION MINUTES OF THE REGULAR BOARD OF DIRECTORS MEETING

Fairbanks, Alaska
Tuesday, February 4, 2020

I. CALL TO ORDER

The Acting Chair, John Binkley, called the meeting to order at 9:00 a.m. on Tuesday, February 4, 2020 in the Fireweed Room on the 2nd Floor of Pike's Waterfront Lodge located at 1850 Hoselton Road, Fairbanks, Alaska 99705.

II. ESTABLISH QUORUM

Acting Chair Binkley requested that Board Secretary, Andy Behrend, establish a quorum. Commissioner Julie Anderson, Commissioner John MacKinnon and Director Burton participated telephonically. Acting Chair Binkley, Director Campbell, Director Petry and Director Shively attended in person. A full board quorum was established by Mr. Behrend. Acting Chair Binkley acknowledged that Commissioner MacKinnon would participate for a portion of today's meeting. Commissioner Mackinnon left the meeting about 10:30 a.m.

Staff members present:

B. Amy, Chief Financial Officer	A. Behrend, Chief Counsel/Board Secretary
A. Donovan, Director Real Estate Permits & Leasing	P. Farnsworth, Director, Facilities/ Energy Management
J. Haldane, Chief Human Resources Officer	L. Hall, Executive & Corporate Administrator
C. Hopp, Chief Operating Officer	B. Lindamood, VP, Engineering
J. Kubitz, VP, Real Estate & Facilities	B. O'Leary, President & Chief Executive Officer
K. Mepsted, Special Agent	
T. Sullivan, Director External Affairs	
D. Wade, VP Marketing & Customer Service	

Members of the public present:

Snjez Arthur, Chambers, Conlon and Hartwell, LLC.
Bonne´ Therriault Wolstad

III. SAFETY BRIEFING

Acting Chair Binkley asked Tom Covington to present the safety briefing. Mr. Covington discussed what to do in case of an emergency, how to exit the building, and the importance of learning to operate Automated External Defibrillator (AED) life-saving equipment and being CPR trained. Mr. Covington shared a lifesaving incident which

occurred last year in Fairbanks amongst CPR trained and quick responding railroad co-workers.

IV. ELECTION OF OFFICERS

Our two newest board members Judy Petry and John Shively, were both individually given the oath of office for their Alaska Railroad Corporation (ARRC) Board positions. Director Burton moved that the Alaska Railroad Board of Directors elect the following slate of officers for the year 2020: Craig Campbell as Chair, Judy Petry as Vice Chair, Jennifer Haldane as Board Secretary and Andy Behrend as Assistant Board Secretary. Director Shively seconded the motion. There was no discussion or objection and the motion advanced as presented.

Acting Chair John Binkley stated, as a former chairman he is proud to pass the gavel to our newly elected Chair Craig Campbell. He welcomed him as the seventh chairman in the ARRC Board of Directors thirty-year history as a state entity.

V. CHAIR COMMENTS

Chair Campbell stated that he is pleased to take on the job of Board Chairman and continue ARRC's mission of Safety, Service and Profitability. He jokingly recalled a conversation with Director Burton regarding the first board chairman, James O. (Jim) Campbell, stating that although there is no relation, it is refreshing to have it revert back to another Campbell. Chair Campbell enlisted the assistance of fellow board members over the coming week to remit their board committee assignment preferences for the following committees: Executive Chair, Real Estate Chair, Audit Chair, and Safety Chair.

VI. ADOPTION OF AGENDA

Chair Campbell asked for a motion to approve the meeting Agenda. Director Binkley moved to adopt the Agenda and Director Petry seconded the motion. During discussion Director Shively moved to amend the Agenda as follows; correcting the meeting minutes date from November 18, 2019, to November 19, 2019, and adding two additional items under New Business C. Executive Session Briefings; Item 7. Right-of-Way Easement Discussion, and Item 8. ARRC Board Member Compensation. Director Shively stated that the additional briefings are needed for clarity. The amended Agenda was approved, noting the date correction and the two added items under the executive session.

VII. CONFLICT OF INTEREST DISCLOSURES

Director Binkley disclosed that he may have a potential conflict of interest related to item 6. Seward Dock Update. He noted that he had discussed potential issues of conflict with the previous two board chairman's, in addition to recusing himself from all previous non-public discussions and participation regarding the project at both Executive Committee and Board meetings'. He stated that although he doesn't have a direct conflict at this time, there is a potential that he might develop such a conflict later. As such, he requested to be excused from any non-public discussions regarding the Seward Passenger Dock

Project. He said this recusal would include discussions during today's Executive Session, and that he would leave the room immediately prior to that discussion taking place. Chair Campbell concurred with the request.

VIII. ADOPTION OF MINUTES

Chair Campbell asked if there were any corrections to the Regular Board Meeting Minutes from November 19, 2019, none were stated. Director Petry moved to adopt the meeting minutes as presented, and Director Shively seconded the motion. The Regular Board Meeting Minutes for the November 19, 2019 meeting were approved by the Board.

IX. OPPORTUNITY FOR PUBLIC COMMENT

Bonne' Therriault Wolstad presented public comment from a letter she addressed to the Board of Directors dated February 4, 2020. Ms. Wolstad said she attended today's board meeting to meet the new board and to continue as she has done since 2005, requesting that her family, the Therriault family "valid existing claim" as addressed in section 1203 of the Alaska Railroad Transfer Act (ARTA) be acknowledged by ARRC. Ms. Wolstad submits that the Therriault family's subsurface rights was issued through US Patent No. 1127840 to the Finnell homestead which included 160 acres, and was never relinquished.

Chair Campbell asked Ms. Wolstad where the Therriault family's property was located. She stated that it is in North Pole, Alaska at Hector Welding, Inc. Director Shively asked how the land dispute and ARRC easement affected her family's ownership rights. Ms. Wolstad stated that ARRC closed the Ruby Crossing back in 2005 affecting access to the family's land. In 2003 or 2005 when ARRC petitioned Congress for the reversionary repeal of ARTA Sections' 1208 and 1209, the approval of the action created an inverse take on their property. She said former Representative Tammy Wilson assisted her in seeking approval of House Bill 146 returning reversionary subsurface rights back to the Eielson Spur. She also said ARRC is collecting about \$1400 per year in royalty fees for fiber optics running through the property. She submits that, as a property owner the surface and subsurface rights belongs to the owner, and so should collected fees for usage. She stated that her family offered, a portion of twenty percent for administrative assistance in the collection of fees. Lastly, Ms. Wolstad said the ARRC patent received from the Federal government was flawed, because the Therriault family patent was in placed and received first.

X. BRIEFING ITEMS

A. Public Briefings

1. CEO Update

Mr. O'Leary said that he was happy to be back in Fairbanks. He thanked board members and staff for attending last night's Customer Appreciation Party. He said the financial report will provide detailed updates from November through the operational and financial successful year-end close. All three business lines; Real Estate, Passenger and Freight experienced increased and promising growth. Real Estate growth was \$1 million year-

over-year, as a result of dock and leasing activities. From 2018 to 2019 freight cars moving pipe doubled, and more than doubled for drilling muds and chemicals moved. Mr. O'Leary said ARRC 2020 Corporate Goals and Initiatives was finalized, and updates will be provided throughout the year. During the first half of December, Mr. Hopp and I engaged with over 300 employees in ten Town Halls from Whittier to Fairbanks, discussing various employee and rail related issues. Mr. O'Leary noted that the DC team report is located behind Tab A in the board book, however, Snjez Arthur will present today's legislative update. She is a partner of Chambers, Conlon & Hartwell, LLC which is one of our two Washington, DC company team members. Mr. O'Leary said together with Blank Rome, LLC the dynamic duo have been dutifully keeping us up to speed and represented on legislative and transportation related issues in Washington, D.C.

Ms. Arthur said her government relations firm have worked with ARRC since 1994. The handout is a snapshot of the 2020 Surface Transportation bill priorities, printed in the board book behind the CEO briefings. She began with the year-end good news of the 45G Tax Credit approval. Stating that when this effort began in 2005, all extensions were excluded, thus, the biggest victory is the five-year extension with the retroactive inclusion of 2018 and 2019. Ms. Arthur commended Director Petry for her consistent efforts with the tax credit approval, and for being a key supporter and contributor as Chairman of the American Shortline and Regional Railroad Association (ASLRRA). She said this means annually, ARRC will have \$2 million in additional funding for infrastructure. Ms. Arthur said for certainty, there is an effort to attach the freestanding tax credit bills to permanently extend the 45G tax credit to the next surface transportation authorization act under the revenue section of the highway trust fund authorization, or other tax vehicles.

Ms. Arthur discussed the five 2020 surface transportation authorization bill priorities for ARRC. She said the 2015 FAST Act expires at the end of September 2020, which includes the FTA Formula Funds minimum attributable miles, and the Railroad Historic Preservation Reform bills. Representative Don Young is a member of the House Transportation & Infrastructure Committees, and Senator Dan Sullivan is a member of the Senate Commerce & Environment Committees. Ms. Arthur said the first two priorities; the FTA Formula Funds minimum attributable miles and the Default Allocation of FTA Formula Funds, are more challenging since no Alaska Congressional Delegate is a member of the Senate Banking Committees. The goal is to make the funds default if no understanding is reached by a set time. Ms. Arthur said the reauthorization of FRA CRISI Grants is expected by the end of February. She said the Association of American Railroads (AAR) has made reform a reauthorization bill priority. Lastly, the ideal goal is to remove the \$500 million cap on the Repeal Infra (Discretionary) Grant Caps for Rail & Port Projects, at this time the current proposal is for a 30% increase.

Director Binkley thanked Ms. Arthur and company for 25 years of dedicated service, great representation, direction, and for sharing quality information and knowledge to help guide ARRC.

Director Shively asked for an update on the ARRC Right-Of-Way issue as related to the GAO study. Ms. Arthur said a letter was sent to Representative Young and Senator Murkowski, however, there is no response to update.

2. Safety Update

Mr. Hopp and Mr. Covington presented highlights from the year-end Safety Report. Mr. Covington said that employees did not repeat peak injury months from 2018, during 2019. The 2019 restricted work days was the only reportable data that experienced an increase over 2018 reporting. The Safety Department have been diligently working in the field to keep safety awareness at the forefront. Mr. Covington noted a data input correction removing the grade crossing incident reported in 2019. During an FRA audit it was discovered that the incident had occurred near, not at the grade crossing. He stated that FRA requires reporting of incidents over \$10,700, which a derailment at a bridge caused us one reporting. Mr. Hopp and Mr. Covington both agreed that slips, trips, and falls remain the challenging contributor of soft tissue injuries, which is the highest reportable injury category, at about 70% of our reported injuries. Since the Incident Free Culture (IFC) Campaign began in early 2019, about 100 employees have successfully completed the workshop. Mr. Hopp said we owe a debt of gratitude to Conoco Phillips for sharing their knowledge and research. Mr. Covington invited the audience to join tomorrow's IFC workshop at 8:00 am at the Fairbanks Round House.

Mr. Hopp said for the past few years we have been on a steady trend toward safety improvements, which are on par with industry standards. In the past five years under Mr. Covington's directorship, the Safety Department developed a process of incident tracking and investigation to determine the issues affecting safe operations and we have safety training programs and videos in place. Mr. Hopp said now that our safety problems are diagnosed, we need to apply the prescription of continued training and teaching of the IFC. The goal is moving our cultural lifestyle toward a discussion of team work, co-worker rapport and discussions of how consequences drive benefits and behavior. Mr. Hopp recalled that during former director and safety committee Chair Linda Leary tenure, she urged ARRC to seek a partnership with occupational doctors and perform case management as related to injuries. The Safety Committee also suggested creating active work-related videos in order to increase understanding of potential railroad industry work-related injuries. Since ARRC is a state entity employee related injuries are covered by Workers' Compensation, instead of Federal Employers Liability Act (FELA) enacted to protect and compensate railroad workers injured on the job. Mr. Covington said the Safety Department is working with Human Resources and Risk Management initiating safety goals to review and adopt during the new employee orientation process. Also, the charter for the Employee Safety Committee is almost complete and in the final stage of committee election. Mr. Covington's expectation is that the committee will act as liaisons between workers and management networking IFC in the field.

Director Petry said safety begins with a renewed mindset. She asked if ARRC had utilized ASLRRRA Safety Institute cultural safety audit. Mr. Covington said yes, a Safety Culture Assessment Survey Report was completed by ASLRRRA during our 2017 annual Audit Performance Topic, and during December 2019 a re-evaluation with management was completed.

Chair Campbell asked about specific charter details of the Employee Safety Committee. Mr. Covington said the goal is to have the committee decide how they proceed. Research

and review of the slips, trips and falls simulator would be a great initial discussion topic for the committee, and he hopes they meet quarterly, and focus on the culture.

3. Business Report

Ms. Amy presented the year-to-date November 2019 business results located in the board book behind Tab A, she noted that ARRC uses calendar year-end reporting. Her brief detailed several key highlights thru January. Ms. Amy said net income was \$14.5 million which was \$2.7 million higher than the original budget approved in November 2018.

Operating expenses came in \$4.8 million above original budget, Contracts & Rents which includes barge expenses was over budget by \$4.0 million. Operational highlights more train starts in 2019 of the variety of gravel Whittier is train length restraints due to its geography. Shorter hauls and shorter trains. Director Shively inquired about the abbreviated references. Gross Ton Miles (gtm), Fuel Surcharge (fsg). Ms. Amy said that the operating expense on slide 8 was up 2% over original budget operating expenses. Largest is salaries and wages are 36% of operating expenses. Driven by ARMs barge activity.

Mr. Hopp said that the 2018 Earthquake track repair issues heavily impacted track speed and decreased locomotive fuel economy. He explained that lowering speed for large areas of slow orders and powering back up to regain track speed to make the 12 hours over the road affected planned and budgeted operations for the first-half of 2019. He replied that ARRC run SD 70 Locomotives in response to Director Petry's question.

As of November 30, 2019, ARRC cash balance is \$81.7 million and recourse debt is \$4.5 million. Ms. Amy said total debt is broken out to separate FTA bonds which will be fully repaid in 2023 from recourse debt. She further explained that total debt consist of bonds issued during 2006 and 2007, refinanced in 2015, and planned for repayment with FTA grant stream funds. She said we run a very conservative balance sheet, with low leverage and continue to maintain strong liquidity which allows us to handle serious issues. Our working capital is \$108 million, and we generate ten times the cashflow to our recourse debt.

Freight revenue outperformed original budget by \$7.9 million, with the top two performing business lines being interline, and local miscellaneous and freight forwarding. With respect to freight revenue performance, Ms. Amy noted that coal, petroleum and gravel showed lower volumes on a year-over-year basis from 2018 to 2019. Freight revenue per carload is up 41% due to the interline business from the Alaska Rail Marines services (ARMs) barge, primarily consisting of oilfield activity and supplies. She said year-over-year we are growing our revenue faster than our labor force. Overall, most freight lines were up over budget. For newer board members Ms. Amy detailed the freight abbreviations; Interline container-on-flat-car (ICOFC), trailer-on-flat-car (TOFC), Canadian National Rail barge (CNR) which comes into the Whittier dock from Prince Rupert.

Passenger revenue under-performed original budget by \$1.6 million or by 4%. She said the Coastal Classic and Glacier Discovery were top performing passenger routes. Ms. Amy provided details related to the total passenger revenue line, including passenger routes from North to South and ridership information for new board members. The Denali Star is the largest passenger revenue line, but did not get the ridership as planned in the budget. However, the top two lines that experienced positive growth this year were the Coastal Classic and Glacier Discovery passengers which come from cruise ships.

Ms. Amy said Real Estate revenue outperformed original budget by \$0.4 million while real estate expenses came in under budget. Real Estate revenue performance is up 2% versus original budget, the largest revenue category is leases, and it is more than half of the Real Estate revenue. She said dock revenue particularly as related to Seward passenger dock, exceeded budget and showed significant growth over the prior year.

Ms. Amy outlined several important issues arising during the first quarter of 2020. We are expecting three Section 45G tax credits in one year, the current year and two years retroactive during the first quarter of 2020 making year-to-year comparison difficult. Ms. Amy stated that Mr. Hopp will provide a Positive Train Control (PTC) update following this report, explaining that all trains running in the Central and Kenai subdivisions are actively operating in (PTC). ARRC was successful in receiving a shipload of new product called proppant at the Seward Dock, for rail transport to Fairbanks. Mr. Wade said it is a high-priced manufacture specific commodity from China. He said the move did not go entirely as planned due to cold weather challenges with the on-ship crane system. However, the challenges were ultimately overcome and lessons were learned that will improve future moves, should we capture another opportunity like this one. The rail move will reflect as January revenue. Director Binkley asked for more details as related to the customer. Mr. Wade responded that Haliburton is the primary customer, the product is supersacs of frac-sand. He said the shipload generated 50 flatcar train loads of proppant going north from the port of Seward to a final destination of Prudhoe Bay. A lengthy dialogue ensued regarding the potential development of this new business. Ms. Amy said the outlook for oil field supply volumes continue to be strong on the ARMs barge, and we are expecting a late February or early March start on Petro Star northbound transport.

In summary, Ms. Amy explained that pension expenses could impact the forecast as we close the books on December. Our actuaries valued our liability and provided an annual report in June. We made two changes in key assumptions; mortality assumption since reports show people are living longer which increase our liability, and reduced a long-term target return from 7.5% to 7.25% which increased our expense. She said expense adjustments are booked in December. The 2019 financial markets for pension trust assets finished up a little more than 18% so all extra over 7.5% performance will be recognized over the next five years for revalued liability. Pension expense will be lower than recognized in the budget when liability is valued. We should finish closer to 2019 original budget. Ms. Amy said the 2020 budget net income approved by the board in November 2019 was \$22 million, first quarter budget revisions will be ready by the March board meeting, and will include three tax credits and pension expense expectation.

4. Positive Train Control (PTC) Update

Mr. Hopp provided an update on PTC. He said ARRC have been working on PTC for more than a score. The Rail Safety Transportation Act mandated that PTC was originally scheduled to be in place by the end of 2015, however industry challenges moved mandated installation and live PTC date ahead five years to December 2020. Currently, ARRC is in great shape, we have run about 350 trains in PTC service, we are experiencing about a 2% failure rate. We are on target to make our December 2020 mandated deadline. With the assistance of our consultant, we will submit our required PTC Safety Program documentation by mid-April. FRA is requiring at least ninety days to review the Safety Program.

Mr. Hopp said the ARRC is split into three subdivisions Kenai and Central, which are operating in live PTC and Mountain which is in revenue service demonstration (RSD). The main focus is to mitigate any impasse to the operation. Currently a few hurdles remain, the biggest hurdle is getting our precision GPS program to access U.S. Satellites or writing a white paper proposal for FRA approval to use the Russian satellites. Mr. Hopp said we continue collaborative work with Wabtec, using grant funding to work on vital solutions (an electronic delivery of authority to the trainmen) in an effort to bring additional proficiency to PTC. Trainmen must perform comparison of the digital bulletin to a paper copy for exactness. Also, radio blocking in after arrival authorities is an add-on piece, which will not be ready by December 2020. After arrival authority radio-blocking is the authority to occupy a piece of track after a certain train has passed you by. Director Binkley said he is concerned about trainmen taking an additional fifteen minutes prior to rolling the train to compare a paper copy to electronic copy. Mr. Hopp said the electronic authority which is within the onboard computer system, controls the train to apply a penalty application of the brakes, there is no way for the train crew to guaranty the information in the bulletins are an exact match to the computerized version other than manually carrying it out. He said reviewing the bulletins prior to initial movement is a key requirement for approved FRA vital systems. Mr. Hopp said locomotive engineers (trainmen) are briefing bulletins and reviewing against on-board computer inside the locomotive cab.

Director Petry asked if Mr. Hopp had chosen Wabtec. He said they are the sole provider of PTC technologies and thus the best choice. He said prior to the merger with General Electric, we had a single point of contact. We have had challenges since the merger eighteen months ago, and a collapse in the past six months. Mr. Hopp said he and Bill have met with Wabtec and have established a central point of contact and appears to be back on track.

B. Committee Reports

1. Real Estate Committee

Mr. Kubitz stated that the Real Estate Committee met on January 23, 2020. The Committee reviewed several topics and recommend three items under Consent Agenda for approval at today's meeting. Resolution 2020-01 Relating to Increase in Funding for 2020 Access Improvements to the Rail Complex through AFE No. 10799 S-1, for improvements to Depot Drive, and two lease contracts seeking more than a five-year commitment requiring board approval, No. 20546 which is a 30-year request for lease

and No. 5611 which is an expansion of land use under the tenants current land lease. The resolution and lease summaries are located behind Tab D in the board book. Mr. Kubitz provided a quick brief of all topics covered during the Committee meeting and referred board members whom were not at the Committee meeting to review the meeting notes located under Tab B in the board book for more details.

2. Executive Committee

Mr. O'Leary said the Executive Committee which consisted of Chair Campbell, Director Binkley and Commissioner Anderson, also met on January 23rd and the confidential meeting notes are under Tab B in the Board book. The following updates were provided a financial update, A2A update, PTC update, a discussion regarding utilizing and transitioning to Electronic board books, and the Seward Dock Project update. Mr. O'Leary said recommended for approval under the consent agenda are two benefit amendments; Resolution 2020-02 related to ARRC pension plan, and Resolution 2020-03 related to ARRC 401K Tax Deferred Savings plan for eligible employees and board members. All of the aforementioned items will be redressed during executive session.

XI. NEW BUSINESS

C. Executive Session Briefings

Director Shively moved to have the Board recess to Executive Session to discuss the respective listed Executive Session agenda items. Director Petry seconded the motion. There was no further discussion or objection. The motion was approved and the Board convened to Executive Session at 11:20 a.m. The following items were discussed in Executive Session:

1. Contracts, Claims, Litigation, Personnel and Financial Matters
2. Collective Bargaining Agreement Negotiations Update
3. A2A Update
4. Legislative Strategy
5. Business Development Report
6. Seward Dock Updates
7. Right-Of-Way Easement Discussion
8. ARRC Board of Directors Compensation

It was noted that during Executive Session briefings Director Binkley exited the room prior to any discussion ensuing on item #6 Seward Dock Updates. Chair Campbell called the Regular Board Meeting back to order at 1:51 p.m.

D. Adoption of Consent Agenda

Chair Campbell asked for a motion to adopt the Consent Agenda. Director Binkley made a motion to adopt the five items listed under the Consent Agenda. Director Shively seconded the motion. There was no further discussion or objections and the following items were all approved:

1. Resolution No. 2020-01 – Relating to Increase in Funding for 2020 Access Improvements to the Rail Complex (AFE No. 10799-S1)
2. Resolution No. 2020-02 – Relating to Approval of the Sixth Amendment to the Alaska Railroad Corporation Pension Plan (Eligible Employee/Board Member Definition)
3. Resolution No. 2020-03 – Relating to Approval of the Third Amendment to the 401(k) Tax Deferred Savings Plan for Non-Represented Employees (Eligible Employee/Board Member Definition)
4. Contract Lease No. 20546 – Medallion Building, LLC
5. Contract Lease No. 5611 – York Steel

XII. DIRECTOR/CEO/STAFF COMMENTS/ OPPORTUNITY FOR PUBLIC COMMENT

Mr. O’Leary recognized and wished Director Binkley happy birthday. Commissioner Anderson said she was sorry to have missed the opportunity to have met in Fairbanks, and is looking forward to the next meeting. Chair Campbell wrapped up stating again that he was happy to serve as chairman and as a semi-retired professional, it is best to reach him by phone. He welcomed fellow board members to be in touch with him about any issues they want to address. Lastly, he confirmed that board members should be present and ready to take pictures at the March 31, 2020 Board of Directors meeting, and only reschedule should the Governor’s office require changes.

XIII. ADJOURNMENT

Chair Campbell stated that if there was nothing further to discuss, he would entertain a motion to adjourn. Director Binkley moved to adjourn, Director Petry seconded the motion, and the meeting adjourned at 1:58 p.m.