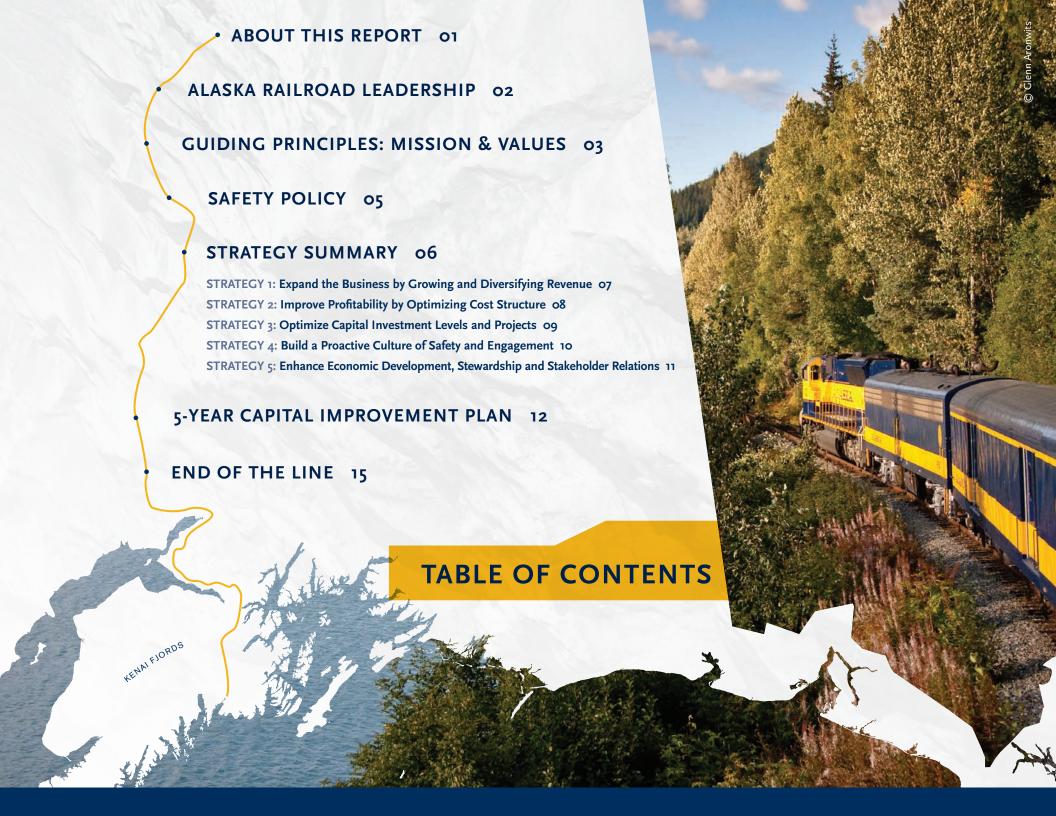


# ALASKA

RAILROAD





### **ABOUT THIS REPORT**

# STATE OF ALASKA LEADERSHIP:

Each year by December 1, the Alaska Railroad (ARRC) provides a "look ahead" report to the Governor, Alaska State Legislators, and key officials in the State government. As is traditional, the report offers an overview of the railroad's strategic plans for the next five years.

Our strategic planning includes capital investments. The final pages of this report detail the Alaska Railroad's 5-Year Capital Plan, which lists projects that are important to railroad safety and efficiency, and that promote growth and enhance service. The capital plan outlines anticipated funding sources and expected funding levels. This portion of the Report to the State fulfills the ARRC's statutory requirement to inform state leadership about railroad capital improvements over the next five years.

Bill O'Leary

President and CEO

## ALASKA RAILROAD LEADERSHIP



#### **MANAGEMENT**



Bill O'Leary
President & CEO

Doug Engebretson Chief Operating Officer

Clark Hopp VP Engineering

Bill Hupprich General Counsel & VP Legal

Jim Kubitz VP Corporate Planning & Real Estate



Wendy Lindskoog VP Business Management & Corporate Affairs

Eileen Reilly VP Advanced Train Control Systems & Technology

Dale Wade VP Marketing & Customer Service

Barbara Amy Chief Financial Officer

### **BOARD OF DIRECTORS**



Linda Leary, Chair



Bill Sheffield, Vice Chair



Susan Bell



John Binkley



Jack Burton



Jon Cook



Pat Kemp



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** 



#### **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.



# STRATEGY SUMMARY

### STRATEGY 1

**Expand the Business by Growing and Diversifying Revenue** 

#### **STRATEGY 2**

Improve Profitability by Optimizing Cost Structure

### STRATEGY 3

Optimize Capital Investment Levels and Projects

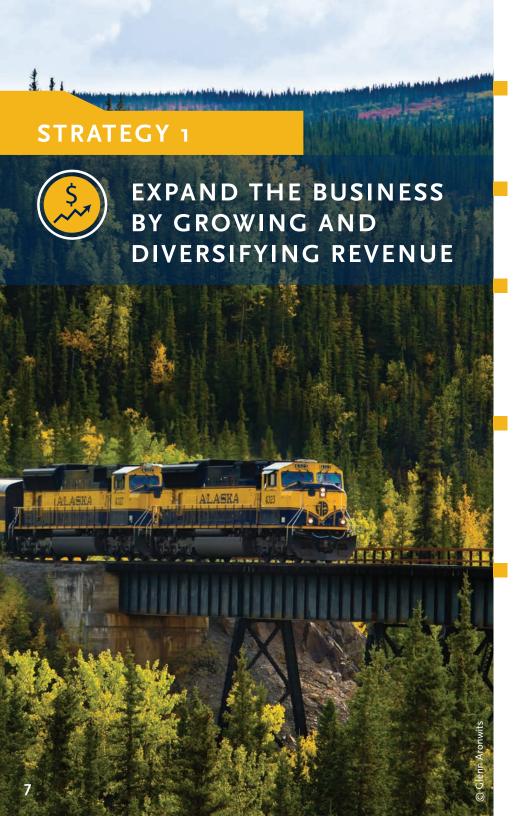
### **STRATEGY 4**

Build a Proactive Culture of Safety and Engagement

### **STRATEGY 5**

**Enhance Economic Development, Stewardship and Stakeholder Relations** 





Develop and annually update detailed marketing/sales plans for freight, passenger, and real estate business lines

Provide exemplary service to all customers, measured through surveys, repeat business, and customer interaction

#### Freight:

- Increase revenue from existing customers by at least 5% annually
- Add at least six new freight rail customers annually
- Grow with focus on higher-margin freight commodities

#### Passenger:

- Increase revenue by at least 7% annually
- Grow existing and new business through aggressive marketing, introduction of new services, expansion of existing services, enhanced customer relationships, and improved use of technology

#### **Real Estate:**

- Increase revenue from all sources (leases, permits, docks, etc.) by at least 5% annually
- 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



### Continue to drive train operating efficiency with a focus on:

- Longer trains maintain average freight train length of 4,600 ft. or better
- Heavier trains maintain average GTM¹/train mile of 3,900 or better (an average of loaded and empty)
- Locomotive Fuel Economy maintain average 635 GTM/gallon or better
- Managed headcount maintain average revenue²/employee of \$215,000 or better

#### Reduce facility energy consumption by 2% annually

■ Identify largest areas of utility consumption and design plans to reduce with necessary capital investment identified and quantified

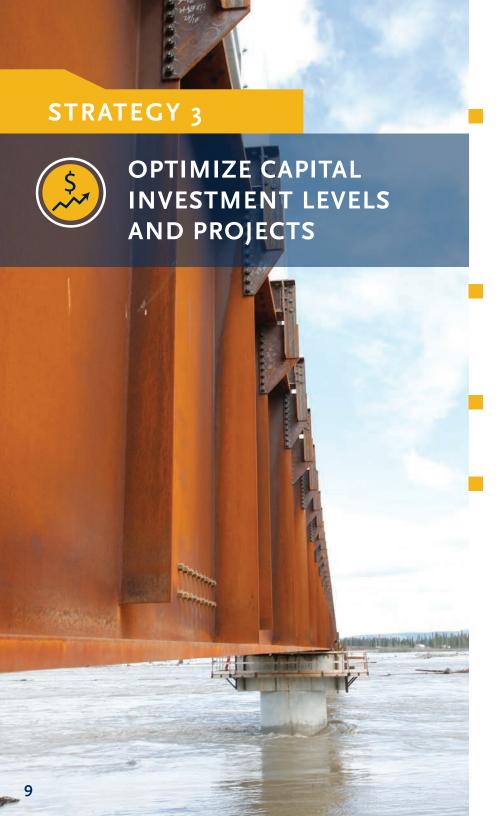
# Reduce vehicle and equipment maintenance and fuel expense

- Annually reduce the ratio of maintenance expense to fleet replacement cost
- Improve average fuel economy of vehicle fleet via:
  - purchase of more fuel efficient vehicles without compromising performance
  - more fuel efficient driving habits
- Report on vehicle and equipment property damage incidents and have a goal to reduce the number per year

Reduce ratio of total benefits to total compensation to 30% and reduce total benefits to total operating expense ratio to 10%

Generate and sustain company-wide cash flow, measured as earnings before interest and depreciation (EBITDA) of \$37 million by 2019. Annual targets below:

2015: \$32 million • 2016: \$33 million • 2017: \$34 million
 2018: \$35 million • 2019: \$37 million



# Develop master plans, define investment roadmap and begin implementation for key asset classes

- Operating infrastructure system-wide (yards, sidings, other holdings)
- Vehicles, equipment, and rolling stock
- Real Estate holdings

Modernize with value-added technology to enhance operational efficiency, grow business, and improve customer service and employee engagement

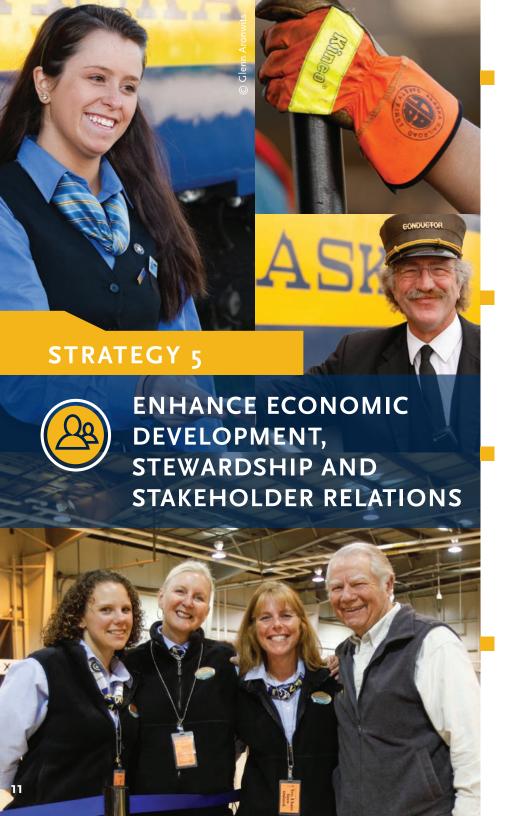
Achieve system certification of Positive Train Control (PTC) system by 2018

# Target return on invested capital of at least one full percentage point higher than ARRC's cost of money

- Invested capital is the debt, equity and grant funds invested in the assets of the business
- ARRC's cost of money is a weighted-average of the cost of each of its debt, equity and grant funds

The 5-year Capital Improvement Plan starting on page 12 provides more detail on other key projects and funding.





# Promote and advance regional economic development priorities through strategic partnerships

- Strengthen and expand relationships with local and state-wide economic development and tourism partners
- Support state and military efforts to secure funding for Northern Rail Extension Phase II
- Complete and place in service the Port McKenzie Rail Extension in compliance with Matanuska-Susitna Borough plans and funding

#### Implement state and national advocacy campaigns

- Execute annual PTC funding campaigns until project implementation is complete
- Execute federal formula funds retention campaign if and when needed
- Work with national industry associations to manage the impact of regulatory changes

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

- Retain Green Star certification
- Reduce carbon footprint by 1% annually
- Reduce utility consumption 2% per year

# Increase the public's understanding about the Railroad and enhance our community support

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



FEDERAL FUNDING									
FEDERAL TRANSIT ADMINISTRATION (FTA) FORMULA FUNDS									
	2015	2016	2017	2018	2019	5-Year Total			
Total FTA (with 20% match):	\$35,030,003	\$35,030,003	\$35,030,003	\$35,030,003	\$35,030,003	\$175,150,015			
Preventive Maintenance	12,119,150	12,240,342	12,362,745	12,486,372	12,611,236	61,819,845			
2007 Bond Debt Service	9,139,077	9,136,906	9,118,638	9,107,776	9,095,726	45,598,123			
2006 Bond Debt Service	7,486,648	7,480,060	7,473,560	7,467,905	7,456,250	37,364,423			
Transit Security	119,970	119,970	119,970	119,970	119,970	599,850			
Transit Enhancements	119,970	119,970	119,970	119,970	119,970	599,850			
Total Programmed Items	28,984,815	29,097,248	29,194,883	29,301,993	29,403,152	145,982,091			
Total Grant Funds Available for Projects	\$6,045,188	\$5,932,756	\$5,835,120	\$5,728,010	\$5,626,851	\$29,167,924			
Projects Funded by FTA Funds:									
Track Rehab Program	6,045,188	5,932,756	5,835,120	5,728,010	5,626,851	29,167,924			
Total Projects	6,045,188	5,932,756	5,835,120	5,728,010	5,626,851	29,167,924			
Total FTA Grant Projects, Net of Programmed Items	\$35,030,003	\$35,030,003	\$35,030,003	\$35,030,003	\$35,030,003	\$175,150,015			
STATE FUNDING (REQUESTED)									
Positive Train Control	\$21,767,322	\$16,406,240	\$15,306,240	-	-	\$53,479,802			
Total State of Alaska Funding	\$21,767,322	\$16,406,240	\$15,306,240	-	-	\$53,479,802			
DEBT FINANCING									
Vehicle & Equipment Program	\$3,725,000	-	-	-	-	\$3,725,000			

INTERNAL FUNDING								
NON-DISCRETIONARY PROJECTS								
	2015	2016	2017	2018	2019	5-Year Total		
Bridge Program	\$3,700,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$19,700,000		
Track Rehab	979,900	10,567,245	10,614,880	10,721,990	12,423,149	45,307,164		
Seward Passenger Dock Cathodic Protection Repairs	400,000	-	-	-	-	400,000		
Whitney Rd. And C St. Storm Drain Replacement	150,000	-	-	-	-	150,000		
Vehicle Program	725,000	905,000	980,000	1,040,000	1,015,000	4,665,000		
Equipment Program	120,000	3,080,000	3,238,500	3,118,500	3,595,000	13,152,000		
Wasilla Shops Landscaping and Paving	225,000	-	-	-	-	225,000		
Explorer Creek Bridge Replacement	725,000	-	-	-	-	725,000		
Subtotal - Non-Discretionary Projects	\$7,024,900	\$18,552,245	\$18,833,380	\$18,880,490	\$21,033,149	\$84,324,164		
CONTINUING PROGRAMS								
Avalanche and Slide Zone Risk Mitigation	\$230,000	\$6,330,000	\$475,000	\$14,215,000	\$475,000	\$21,725,000		
Gravel Corridor Pony Truss Replacement	2,000,000	3,300,000	3,300,000	3,300,000	3,300,000	15,200,000		
Capital Locomotive Overhaul Program / PM Plan	1,050,000	1,896,000	1,659,000	1,427,000	1,134,000	7,166,000		
Capital Locomotive Truck Overhaul Program	180,000	180,000	\$180,000	180,000	180,000	900,000		
Docks and Slips Maintenance	1,000,000	1,500,000	1,500,000	1,500,000	1,500,000	7,000,000		
MP 356-357 Stabilization	150,000	475,000	150,000	150,000	150,000	1,075,000		
Rip Rap Program / Drainage Maintenance	400,000	500,000	500,000	500,000	500,000	2,400,000		
Yard and Branch Improvements	400,000	1,000,000	1,000,000	350,000	687,500	3,437,500		
Trespass Mitigation	35,000	35,000	35,000	35,000	35,000	175,000		
Defect Detector Upgrades	400,000	465,457	479,421	375,898	-	1,720,776		
Passenger Rolling Stock Rehab Program	627,800	\$500,000	500,000	500,000	500,000	2,627,800		
Roofing Upgrades	110,000	225,000	225,000	225,000	225,000	1,010,000		
Seward Coal Loading Facility Upgrades	375,000	375,000	375,000	375,000	375,000	1,875,000		
Electrical Upgrades	75,000	100,000	100,000	100,000	100,000	475,000		
B-26 Air System Replacement	280,000	-	-	-	-	280,000		
191 Heavy Maintenance	210,000	158,000	-	-	-	368,000		
Building Maintenance	50,000	75,000	75,000	75,000	75,000	350,000		
General Repair	55,000	55,000	55,000	55,000	55,000	275,000		
Section Improvements	25,000	25,000	25,000	25,000	25,000	125,000		
Capital Locomotive Compressor Overhauls	150,000	-	-	-	-	150,000		
Crossing Signal Event Recorders	108,000	108,000	108,000	-	-	324,000		

(Continued)	2015	2016	2017	2018	2019	5-Year Total		
Tenant Improvements	75,000	75,000	75,000	75,000	75,000	375,000		
Energy Management	150,000	150,000	150,000	150,000	150,000	750,000		
Land & Utilities	50,000	75,000	75,000	75,000	75,000	350,000		
IT Server/Storage Budget	519,500	-	-	-	-	519,500		
Power Distribution and Monitoring	50,000	80,000	80,000	100,000	100,000	410,000		
Network Services	214,650	214,000	214,000	214,000	214,000	1,070,650		
Copier Fleet Replacement	40,000	30,000	10,000	-	-	80,000		
Alcatel Equipment	200,000	75,000	75,000	-	-	350,000		
Subtotal - Continuing Programs	\$9,209,950	\$18,001,457	\$11,420,421	\$24,001,898	\$9,930,500	\$72,564,226		
STRATEGIC BUSINESS INITIATIVES								
APU Spur Rehabilitation	\$284,000	\$91,000	-	-	-	\$375,000		
MP 59 Skookum Creek Flood Mitigation	-	2,500,000	-	-	-	2,500,000		
IFRA Measure	85,000	-	-	-	-	85,000		
Surge Tester	60,000	-	-	-	-	60,000		
Summit Detector Relocation	92,400	-	-	-	-	92,400		
Diesel Generator Upgrade to SOFC	223,700	223,700	447,400	447,400	-	1,342,200		
Talkeetna Driveway Approach Pavement Repairs	80,000	-	-	-	-	80,000		
Wayside Rail Lubricators	200,000	50,000	50,000	50,000	-	350,000		
Voice Recorder Replacement	100,000	-	-	-	-	100,000		
Upgrade of Access Control Panels	76,550	-	-	-	-	76,550		
Post Road Sewer Construction - Finish Phase 2	420,000	-	-	-	-	420,000		
Post Road Sewer Construction - Start Phase 4	415,000	-	-	-	-	415,000		
JD Edwards Rollout Effort	350,000	-	-	-	-	350,000		
Subtotal - Strategic Business Initiatives	\$2,386,650	\$2,934,700	\$497,400	\$497,400	-	\$6,316,150		
Total Internally Funded Project Requests	\$18,621,500	\$39,488,402	\$30,751,201	\$43,379,788	\$30,963,649	\$163,204,540		
Estimated Funds from Internal Cash flow	\$18,621,500	\$22,127,920	\$24,374,763	\$27,153,100	\$30,426,137	\$122,703,420		
Total Internal Funding Shortage	-	( 17,360,482)	(6,376,438)	(16,226,688)	(537,512)	(40,501,120)		
TOTAL GRANT FUNDS AVAILABLE FOR PROJECTS	\$6,045,188	\$5,932,756	\$5,835,120	\$5,728,010	\$5,626,851	\$29,167,924		
TOTAL DEBT FINANCING	3,725,000	-		-	-	3,725,000		
TOTAL STATE FUNDING	21,767,322	16,406,240	15,306,240	-	-	53,479,802		
TOTAL INTERNAL FUNDING AVAILABLE	18,621,500	22,127,920	24,374,763	27,153,100	30,426,137	122,703,420		
TOTAL CAPITAL PROGRAM	\$50,159,010	\$44,466,916	\$45,516,123	\$32,881,110	\$36,052,988	\$209,076,146		

