

2017 REPORT TO THE STATE
FIVE-YEAR CAPITAL PLAN

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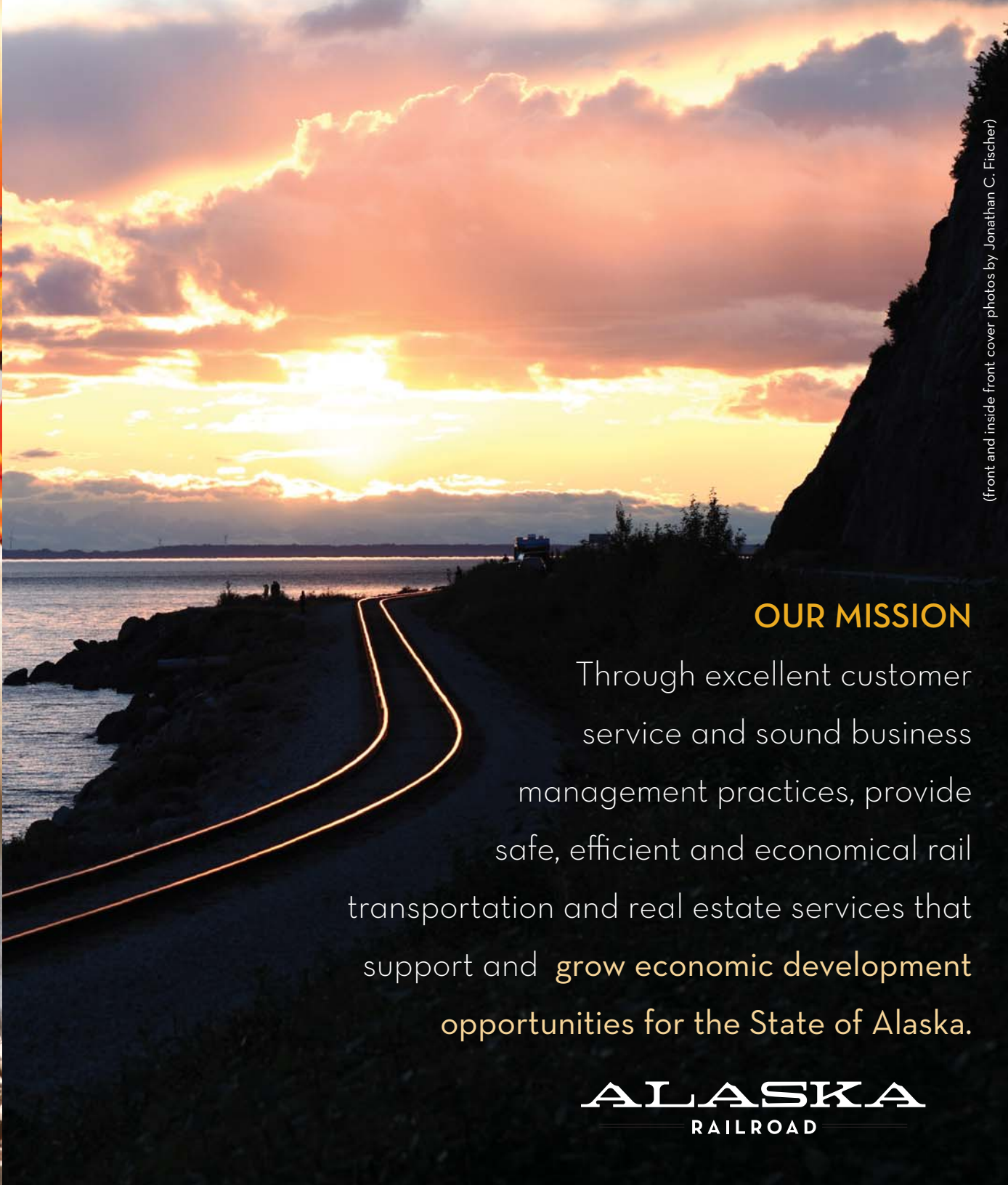


ALASKA

RAILROAD



(by Judy Patrick)



(front and inside front cover photos by Jonathan C. Fischer)

OUR MISSION

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

ALASKA
RAILROAD

Each December the Alaska Railroad (ARRC) informs the Governor, Legislators and other state government officials about our capital improvement plans. This *Report to the State* includes a 5-year projection for capital spending to sustain and improve infrastructure along the railroad's nearly 500-mile route. Because limited resources cannot fund all necessary capital investments, we prioritize with a back-to-basics approach.

For even one train to operate, the Alaska Railroad must have safe infrastructure that comes by way of millions of dollars spent annually to maintain track, bridges, buildings and equipment. The majority of projects are internally funded with income generated by train operations and land uses. Federal Transit Administration (FTA) grants (matched 20% by ARRC) also help with some passenger-related projects. In turn, the FTA requires funded assets to be maintained in a state of good repair. This, too, demands ongoing investment.

The rail industry's regulatory agency – the Federal Railroad Administration (FRA) – is keenly interested in safe operations and infrastructure. In 2015, when the FRA approved ARRC to haul liquified natural gas (LNG), the permit included many safety provisions. As the first U.S. railroad to obtain such approval, ARRC exceeded permit stipulations with a 2016 demonstration of our ability to safely haul LNG to interior Alaska, where cleaner, more affordable energy sources are sorely needed. Developing a future LNG hauling business will rely upon our reputation for safety, along with substantial investment.

Fuel and Fairbanks are also key to a recent capital investment involving railroad land. During late summer 2016, ARRC approved a 50-year lease to Petro Star to develop a fuel terminal facility on about 5 acres on the east end of the Fairbanks Rail Yard. ARRC prepared and improved the site in 2016 and will invest another \$500,000 to link the facility to rail service with 1,700 feet of track. Petro Star is expected to construct fuel storage tanks and a rail loading facility in 2017.

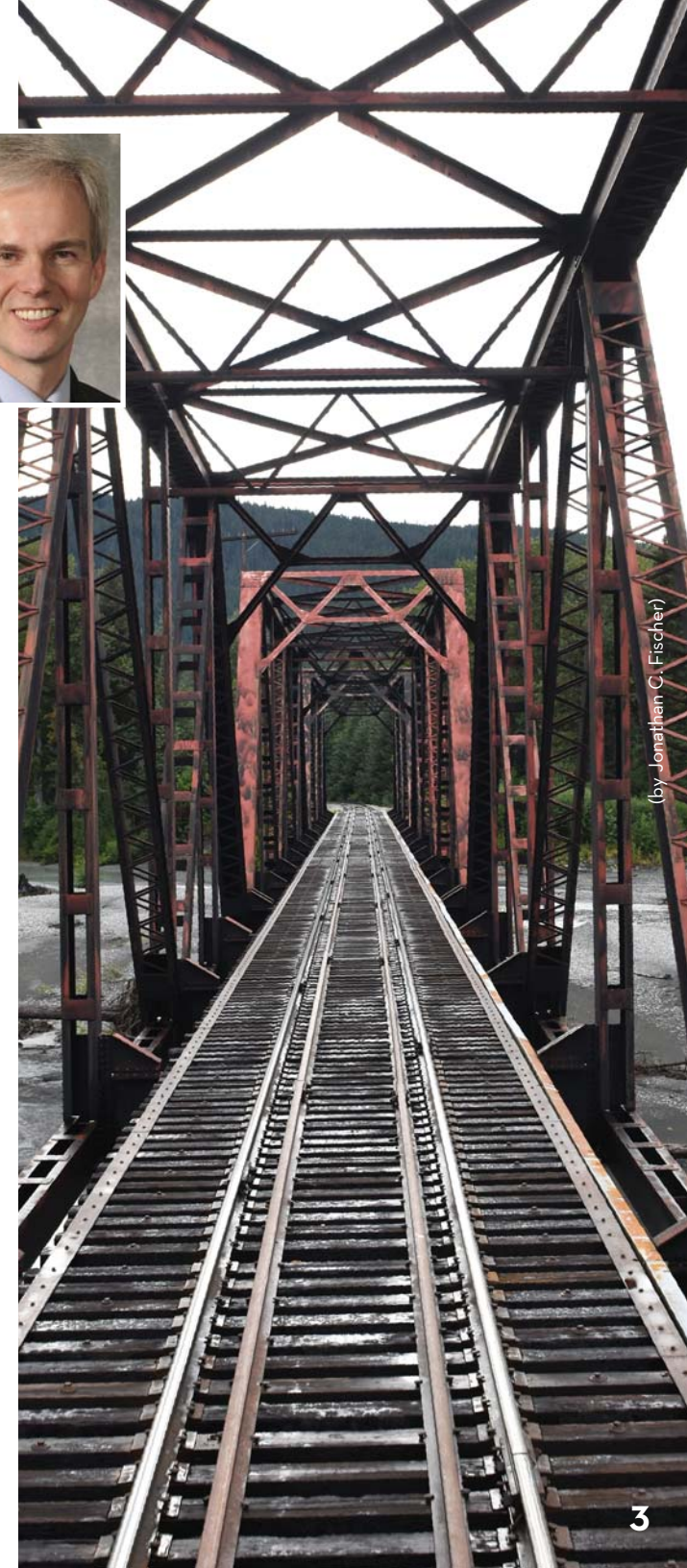
Another initiative to maximize land potential involves up to 300 acres that could be used to establish a wetlands mitigation bank. While we would forgo use of this acreage for railroad purposes, ARRC could earn a substantial return from the sale of credits to offset wetland impacts. In 2017, we plan to complete an analysis that may lead to a wetlands mitigation agreement with the Army Corps of Engineers.

While the return on some ideas and investments have yet to be determined, ARRC has a clear winner with our ongoing building energy conservation program. That's why over the next four years, we plan to accelerate repairs and upgrades that will markedly decrease fuel and power consumption at several key railroad facilities. In many cases, these projects will also enhance employee working environments.

Like many Alaska businesses and organizations facing a more challenging state economy, our capital dollars must underpin essential functions while supporting new opportunities. Along these lines, the 2017 - 2021 annual capital budgets focus on safe rail transportation, excellent service, efficient operations and sustainable asset management.



Bill O'Leary
President and CEO



(by Jonathan C. Fischer)



MANAGEMENT

President and Chief Executive Officer (CEO)
Bill O'Leary

Chief Operating Officer (COO)
Doug Engebretson

Chief Financial Officer (CFO)
Barbara Amy

Vice President (VP) Engineering
Clark Hopp

General Counsel & VP Legal
Bill Hupprich

VP Corporate Planning & Real Estate
Jim Kubitz

VP Business Management & Corporate Affairs
Wendy Lindskoog

Chief Information Officer (CIO)
Jim Ratchford

VP Advanced Train Control Systems
Eileen Reilly

VP Marketing & Customer Service
Dale Wade

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Jon Cook



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Bill Sheffield



Director
John Binkley



Director
Jack Burton



Commissioner
Chris Hladick



Director
Linda Leary



Commissioner
Marc Luiken

5-YEAR CAPITAL IMPROVEMENT PLAN

FEDERAL FUNDING

FEDERAL TRANSIT ADMINISTRATION (FTA) FORMULA FUNDS

	2017	2018	2019	2020	2021	5-Year Total
FTA Funding Estimate	\$ 34,043,731	\$ 34,688,656	\$ 35,285,679	\$ 35,949,248	\$ 36,594,577	\$ 176,561,891
ARRC-funded 20% Match	8,510,933	8,672,164	8,821,420	8,987,312	9,148,644	44,140,473
Total FTA Funding (including 20% match):	\$ 42,554,663	\$ 43,360,820	\$ 44,107,099	\$ 44,936,560	\$ 45,743,221	\$220,702,363
Preventive Maintenance	14,772,755	14,772,755	14,772,755	14,772,755	14,772,755	73,863,775
2015A Bond Debt Service	15,953,250	15,941,375	15,919,825	15,902,875	—	63,717,325
2015B Bond Debt Service	1,890,750	1,883,750	1,886,550	1,884,053	17,768,000	25,313,103
Transit Security	133,982	137,009	139,364	142,463	145,313	698,131
Total Programmed Items	32,750,737	32,734,889	32,718,494	32,702,146	32,686,068	163,592,334
Total FTA Funds Available for Projects	\$ 9,803,926	\$ 10,625,931	\$ 11,388,605	\$ 12,234,414	\$ 13,057,153	\$ 57,110,029
Projects Funded by FTA Funds:						
Track Rehabilitation (current year funds)	6,270,000	7,800,000	8,375,000	9,526,261	10,053,697	42,024,958
Track Rehabilitation (prior year funds)	—	1,452,926	—	—	—	1,452,926
Passenger Car Rehabilitation	1,150,000	689,000	418,000	653,000	1,021,000	3,931,000
Locomotive Engine Overhaul	440,000	458,000	—	—	—	898,000
Locomotive Truck Overhaul	202,000	311,500	320,800	107,000	110,200	1,051,500
Historic Depot Sidewalk Enhancements	239,000	—	—	—	—	239,000
Transit Asset Management	50,000	898,105	1,785,389	1,458,738	1,502,500	5,694,731
Dispatch Radio Modernization	—	469,326	489,416	489,416	369,756	1,817,914
Total FTA Projects, net of Programmed Items	8,351,000	12,078,857	11,388,605	12,234,414	13,057,153	57,110,029
Funds available for subsequent year projects	1,452,926	(1,452,926)	—	—	—	—
Total FTA Funds for Projects, current year	\$ 9,803,926	\$ 10,625,931	\$ 11,388,605	\$ 12,234,414	\$ 13,057,153	\$ 57,110,029

INTERNAL FUNDING

NON-DISCRETIONARY PROJECTS

	2017	2018	2019	2020	2021	5-Year Total
Bridge Program	\$ 941,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 16,941,000
Track Rehabilitation Program	—	8,347,074	8,325,000	8,073,740	6,246,303	30,992,117
Avalanche and Slide Zone Risk Mitigation	25,000	250,000	250,000	250,000	250,000	1,025,000
WatchGuard (SMTP) Replacement	35,000	—	—	—	—	35,000
Wheel Lathe Upgrades	175,000	—	—	—	—	175,000

Internally-funded projects continued on next page

INTERNAL FUNDING

NON-DISCRETIONARY PROJECTS						
(continued...)	2017	2018	2019	2020	2021	5-Year Total
Locomotive CCBI Brake Conversion	297,800	300,000	150,000	—	—	747,800
Bearing Press Upgrade	52,000	—	—	—	—	52,000
Travel Studio Enhancements	38,500	38,500	—	—	—	77,000
Wasilla Shops Conditions Compliance, Ph 2	250,000	—	—	—	—	250,000
Subtotal Non-Discretionary Projects	\$ 1,814,300	\$ 12,935,574	\$ 12,725,000	\$ 12,323,740	\$ 10,496,303	\$ 50,294,917
CONTINUING CAPITAL PROGRAMS						
Rip Rap Program / Drainage Improvements	\$ 450,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 500,000	\$ 2,450,000
Docks and Slips Maintenance Program	1,800,000	1,800,000	1,895,000	2,100,000	1,625,000	9,220,000
Dispatch Radio Modernization	451,000	—	—	—	—	451,000
Culvert Program	998,500	1,000,000	1,000,000	1,000,000	1,000,000	4,998,500
Vehicle & Equipment Program	2,965,000	2,891,500	2,831,500	3,283,000	3,618,000	15,589,000
Accelerated Energy Program	463,000	463,000	463,000	75,000	75,000	1,539,000
Yard and Branch Improvements	500,000	500,000	500,000	500,000	500,000	2,500,000
Trespass Mitigation	35,000	35,000	35,000	35,000	35,000	175,000
Electrical Upgrades	70,000	100,000	100,000	100,000	100,000	470,000
ARRC Telephone System Upgrade	250,000	190,000	—	—	—	440,000
Building Maintenance	60,000	75,000	75,000	75,000	75,000	360,000
Locomotive Engine Overhaul	441,000	375,500	246,200	351,000	1,069,800	2,483,500
Passenger Car Rehab	—	663,000	759,000	845,000	865,000	3,132,000
Locomotive Truck Overhaul	303,000	207,550	213,820	443,655	456,975	1,625,000
Section Improvements	100,000	75,000	75,000	75,000	75,000	400,000
Roofing Upgrades	350,000	150,000	220,000	15,000	350,000	1,085,000
General Repair	55,000	55,000	55,000	55,000	55,000	275,000
Solid Oxide Fuel Cell (SOFC) for Tunnel	188,758	-	—	—	—	188,758
194XX Heavy Maintenance	170,000	123,000	—	—	—	293,000
Power Distribution & Monitoring	78,454	50,000	50,000	50,000	50,000	278,454
Land and Utilities	75,000	75,000	75,000	75,000	75,000	375,000
Tenant Improvements	75,000	75,000	180,000	75,000	75,000	480,000
Nokia Equipment	150,000	150,000	150,000	150,000	150,000	750,000
Subtotal Continuing Capital Programs	\$ 10,028,712	\$ 9,553,550	\$ 9,423,520	\$ 9,802,655	\$ 10,749,775	\$ 49,558,212

Internally-funded projects continued on next page

STRATEGIC BUSINESS INITIATIVES						
Mobile Platform Development Initiative	\$ 84,000	\$ 100,000	\$ —	\$ —	\$ —	\$ 184,000
Government Hill Comm Site Generator	49,000	—	—	—	—	49,000
Telecom Work Space	75,000	—	—	—	—	75,000
Kings Landing/Boat Storage Area Cameras	55,000	—	—	—	—	55,000
GOB 3rd Floor Network Replacement, Ph I	91,000	90,000	90,000	—	—	271,000
Contract Management Solution	120,000	—	—	—	—	120,000
CBR Network Services	189,000	407,000	298,330	298,330	298,330	1,490,990
Security Assessment/Regulatory Mandates	170,000	200,400	105,600	—	—	476,000
Data Analytics	100,000	—	—	—	—	100,000
Subtotal Strategic Business Initiatives	\$ 933,000	\$ 797,400	\$ 493,930	\$ 298,330	\$ 298,330	\$ 2,820,990

RANKED CAPITAL PROJECTS						
Website Modernization	\$ 32,000	\$ 20,000	\$ —	\$ —	\$ —	\$ 52,000
Seward Freight Dock Fill Project	200,000	200,000	200,000	200,000	—	800,000
Fire Protection Control Points	7,500	—	—	—	—	7,500
Peger Road Access to Chena Landing	300,000	—	—	—	—	300,000
Develop Operating Land in Talkeetna	200,000	200,000	200,000	200,000	—	800,000
Anchorage Yard Service Upgrade	150,000	400,000	400,000	400,000	400,000	1,750,000
Technology Modernize/Legacy Replacement	56,000	—	—	—	—	56,000
Boardroom Conference Room Update	60,000	—	—	—	—	60,000
Painting Program	70,000	—	—	—	—	70,000
Funds available for Ranked Projects	—	—	3,130,915	7,020,303	11,489,203	21,640,421
Subtotal Ranked Capital Projects	\$ 1,075,500	\$ 820,000	\$ 3,930,915	\$ 7,820,303	\$ 11,889,203	\$ 25,535,921
Total Internally Funded Project Requests	\$ 13,851,512	\$ 24,106,524	\$ 26,573,365	\$ 30,245,028	\$ 33,433,611	\$ 128,210,040
Estimated Funds from Internal Cash Flow	13,851,512	23,173,106	26,573,365	30,245,028	33,433,611	127,276,621
Total Internal Funding Shortage	—	(933,418)	—	—	—	(933,418)

POTENTIAL DEBT FINANCING						
Freight Car End of Life Replacement	\$ —	\$ 2,212,500	\$ 2,212,500	\$ 2,212,500	\$ 2,212,500	\$ 8,850,000
TOTAL FTA GRANT FUNDS AVAILABLE	\$ 8,315,000	\$ 12,078,857	\$ 11,388,605	\$ 12,234,414	\$ 13,057,153	\$ 57,110,029
TOTAL INTERNAL FUNDING AVAILABLE	\$ 13,851,512	\$ 23,173,106	\$ 26,573,365	\$ 30,245,028	\$ 33,433,611	\$ 127,276,621
TOTAL POTENTIAL DEBT FINANCING	\$ —	\$ 2,212,500	\$ 2,212,500	\$ 2,212,500	\$ 2,212,500	\$ 8,850,000
TOTAL CAPITAL PROJECT PROGRAM	\$ 22,202,512	\$37,464,463	\$ 40,174,470	\$ 44,691,942	\$48,703,264	\$193,236,650

