

**Division of Finance & Management****Office of Air, Rail & Transit**

700 East Broadway Avenue

Pierre, SD 57501

Telephone: 605-773-3574 | Webpage: www.dot.sd.gov

TO: South Dakota Railroad Board

FROM: Jack Dokken, Office of Air, Rail, and Transit

DATE: October 10, 2026

SUBJECT: Consideration of Grant and Loan Termination

The Sisseton Milbank Railroad (SMRR) has notified the South Dakota Department of Transportation that SMRR no longer wishes to pursue the CRISI 2022 or STC 2023 projects previously approved by the Railroad Board for CRISI and STC grant funding. SMRR does not intend to execute the sub-recipient agreements for either of these grant projects. SMRR is requesting the grants be terminated. In addition, the Railroad Board had previously approved a loan to SMRR as match for the CRISI grant project, but the loan funds were never disbursed because the South Dakota Legislature appropriated General Funds to replace the loan. The loan agreement should also be terminated. The Bureau of Finance and Management will pursue the rescission of the General Funds appropriation.

Additional details, including SMRR's reasoning, operational considerations, and background, are included in the two attached letters from SMRR leadership. Upon Board direction, SDDOT will coordinate with FRA to initiate the de-obligation process and ensure all administrative actions comply with federal and state requirements.

Grant Summaries**1. SMRR Modernization Project (CRISI 2022) – Design and Reconstruction of the line**

- Grant Program: 2022 Consolidated Rail Infrastructure and Safety Improvements (CRISI) Program
- Federal Share: \$24,712,204
- State Share: \$6,250,000, appropriated via General Funds through SB 16 (2023); prior to this legislation awarding General Funds, the RR Board approved a loan in this amount and a loan agreement was executed but funds were never distributed.
- SMRR Share: \$50,000 (in-kind contribution for ballast delivery and dumping)
- Total Project Cost: \$30,952,160
- Obligation Date: December 10, 2025
- Expected End Date: October 31, 2029

2. SMRR Culvert Rehabilitation Project (STC 2023)

- Grant Program: 2023 Special Transportation Circumstances (STC) Program
- Federal Share: \$3,241,040
- SMRR Share: \$810,260
- Total Project Cost: \$4,051,300
- Obligation Date: December 8, 2025
- Expected End Date: October 31, 2029



SD Rail Board Meeting Request Letter

To: South Dakota Rail Board

From: Sisseton Milbank Railroad Company (SMRR)

Date: 10/6/2026

Date of Board Meeting: October 21, 2026

Agenda Item: SMRR Update

Approximate Time Needed: 15 minutes

Contact Information: Sisseton Milbank Railroad Company
2925 12th Street E. Glencoe, MN 55336
320-864-7200

Goal of Item: Provide the SD Rail Board an update on the SMRR's participation as a sub-recipient in the SMRR CRISI and STC grant projects.

Explanation of Agenda Item/Summary of Information: Since applying for the CRISI and STC grants, several key conditions have changed such that Sisseton Milbank Railroad Company (SMRR) can no longer justify the use of tax payer funding for projects which will prohibit SMRR to participate as a sub-recipient of the CRISI and STC grants.

The original business case underlying the grant project no longer exists. Following SMRR's acquisition in late 2012, annual carload volume averaged 989 cars during the 2013–2017 period. Although SMRR has made substantial efforts to expand traffic through broad service offerings, market demand for rail service has declined in recent years. As a result, average annual carload volume decreased to 446 cars during the 2021–2025 period, representing an overall decline of approximately 55 percent. The 2022 grant application projected 570% carload growth based on the anticipated customer investment on the SMRR. That projection was reasonable at the time that the grant application was submitted; however, this carload growth is no longer expected due to factors

outside of SMRR's control. As a result, the forecasted increase in carload volume can no longer be reasonably expected to occur.

Concurrently, SMRR's maintenance obligations and costs have increased substantially. SMRR experienced two significant washout events during this three-year period between grant application and grant obligation which have significantly increased the maintenance needs and costs to maintain the railroad. Washouts in spring 2023 and summer 2025 increased SMRR's maintenance responsibilities for track infrastructure well beyond the funding included in the grant application. SMRR was later awarded a Special Transportation Circumstances (STC) grant to help address track repairs after the 2023 washout; however, that grant was also obligated in December 2025, after the second washout occurred. Additionally, a third washout event occurred in the summer of 2026 which has created even greater maintenance obligations and increased costs to continue to maintain the infrastructure. It is anticipated that future Acts of God will occur in this watercourse that will create additional track maintenance and repair responsibilities beyond normal and routine track maintenance.

Project costs have also experienced a material increase during the delay in grant obligation. The lengthy delays in obligating the FY 2022 CRISI grant stemmed in large part from a significant backlog of unobligated grants in the last years of the Biden Administration and was not the fault of SDDOT or SMRR. Updated estimates from the project engineer indicate a \$4.9 million gap between available grant funding and total project cost. Although SMRR worked to revise the project scope and reduce the funding gap, an estimated shortfall of at least \$2.1 million remains, which is only achievable in a favorable pricing environment.

Given the reduced traffic, the absence of anticipated customer investment, increased infrastructure risk, and increased grant project costs, SMRR cannot make a sound financial business case for participating as a sub-recipient of this project. We are disappointed that we are in a position to decline involvement in this project, however, as a steward of the SMRR, the financial and operational considerations do not support SMRR's participation in the CRISI and STC grant projects.

SMRR is aware of the assurance language included in the STC grant that was awarded in 2019 for repairs of the Lake Farley bridge on the SMRR. SMRR intends to ensure the maintenance of the bridge to the level of utility (including applicable FRA track safety standards) which existed after the bridge was placed in service.

With respect to future grant activities, it is SMRR's understanding that the state of South Dakota will require approval from the SD State Rail Board to de-obligate these grant funds. The Federal Railroad

Administration and South Dakota Department of Transportation have both been informed of SMRR's decision not to participate as a sub-recipient in the CRISI and STC grant projects.

We do not take the decision to decline the available funding lightly; however, after careful consideration of the circumstances, acceptance of the funding cannot be reasonably justified for tax payers and for the SMRR private investment. We greatly appreciate your understanding.



Victor Meyers
President
2925 12th St. East
Glencoe, MN 55336

October 8, 2026

Re: SMRR Update

Dear Members of the South Dakota Rail Board:

In November 2022, the South Dakota Department of Transportation (SDDOT) applied for and was awarded an FY 2022 Consolidated Rail Infrastructure and Safety Improvements (CRISI) grant to fund the rehabilitation of the Sisseton Milbank Railroad (SMRR). The grant was ultimately obligated between the Federal Railroad Administration (FRA) and SDDOT in December 2025.

Since the application was submitted in November of 2022, several key conditions have changed such that SMRR can no longer make a business investment case for participation in the project as a sub-recipient.

The original business case underlying the grant project no longer exists. Following SMRR's acquisition in late 2012, annual carload volume averaged 989 cars during the 2013–2017 period. Although SMRR made substantial efforts to expand traffic through broad service offerings, market demand for rail service has declined in recent years. As a result, average annual carload volume decreased to 446 cars during the 2021–2025 period, representing an overall decline of approximately 55 percent. The 2022 grant application projected substantial carload growth based on the anticipated development of a grain shuttle facility on the SMRR. That projection was reasonable at the time that the grant application was submitted; however, investment in a grain shuttle facility is no longer expected to proceed due to factors outside of SMRR's control. As a result, the forecasted increase in carload volume can no longer be reasonably expected to occur.

Concurrently, SMRR's maintenance obligations and costs have increased substantially. SMRR experienced two significant washout events during this three-year period between grant application and grant obligation which have significantly increased the maintenance needs and costs to maintain the railroad. Washouts in spring 2023 and summer 2025 increased SMRR's maintenance responsibilities for track infrastructure well beyond the funding included in the grant application. SMRR was later awarded a Special Transportation Circumstances (STC) grant to help address track repairs after the 2023 washout; however, that grant was also obligated in December 2025, after the second washout occurred. Additionally, a third washout event occurred

in the summer of 2026 which has created even greater maintenance obligations and increased costs to continue to maintain the infrastructure. It is anticipated that future Acts of God will occur in this watercourse that will create additional track maintenance and repair responsibilities beyond normal and routine track maintenance.

Project costs have also experienced a material increase during the delay in grant obligation. The lengthy delays in obligating the FY 2022 CRISI grant stemmed in large part from a significant backlog of unobligated grants in the last years of the Biden Administration and was not the fault of SDDOT or SMRR. Updated estimates from the project engineer indicated a \$4.9 million gap between available grant funding and total project cost. Although SMRR worked to revise the project scope and reduce the funding gap, an estimated shortfall of approximately \$2.1 million remains.

Given the reduced traffic, the absence of anticipated customer investment, and increased infrastructure risk, SMRR cannot make a sound financial business case for participating as a sub-recipient of this project. We are disappointed that we are in a position to decline involvement in this project, however, as a steward of the SMRR, the financial and operational considerations do not support SMRR's participation in the grant project.

We greatly appreciate your understanding. Please let me know if you have any questions or need any additional information.



Victor Meyers