



South Dakota Department of Transportation

Proposal to Purchase Mitchell to Rapid City (“MRC”) Rail Line

Clarifying Points for the Benefit of the Shippers and the State

Prepared By

Watco Companies



The following are some points of clarification for Watco's proposal to purchase the MRC from the State of South Dakota. If selected Watco would be honored to step into the State's position to maintain and operate this important transportation asset in a manner that creates value for the Customers, the State and ourselves over the long term.

All other provisions of our proposal that was sent previously remain as proposed. We felt it very important to clarify and expand on the following key provisions of our proposal.

Trackage Rights, Haulage Rights, and Interchange Rights

Watco has enjoyed a long term and successful relationship with the BNSF for over 36 years. We are confident that we will be able to negotiate and secure any applicable rights as a result of the settlement agreement and related documents.

We have reviewed the documents available to us and believe it is within the State's rights to sell the MRC and transfer all rights it has obtained by contract with the BNSF without any detriment to the Customers or the operations of the MRC. Watco understands the importance of this and will continue to review all documents in order to substantiate our position.

Line to be Purchased

Mitchell to Rapid City, SD ("MRC Line")

- Total Mileage: approximately 285.1
- Mitchell to Kadoka segment leased to MRC Regional Railroad Authority (through 2031)
- Operator: Dakota Southern Railway (through 2031 via sublease)
- Overhead trackage/haulage rights on Burlington Northern Sante Fe, LLC ("BNSF") Railway's lines to multiple interchange points for traffic originating/terminating on the MRC Line; trackage rights over BNSF line to access CHS Inc.'s grain elevator shuttle facility at Mitchell, SD; interchange rights with BNSF at Mitchell, SD
- Dakota Southern Railway Company holds a right of first refusal
- Class I and Class II purchasers require consent of BNSF Railway to maintain trackage/haulage/interchange rights
- Segments from Kadoka to Caputa and Caputa to Rapid City are railbanked.
- Maple Street Yard in Rapid City leased to American Colloid Company for car storage (through July 26, 2026)

Purchase Price

MRC Line \$13,000,000.00 to be paid as follows

Up to \$5,000,000.00 in cash at closing, with the balance, after subtracting any monies owed to the State, to be paid in 5 equal installments on the anniversary date of closing the transaction.

The MRC Line purchase will include mainline tracks, sidings, extra width property facilities and any property which is currently subject to a lease by the State to a third party. In addition, the purchase of the MRC Line purchase will include all contracts, improvements and other assets

associated with the State's ownership of the MRC Line. The purchase price includes the unpaid balance of \$4,348,600.00 that is owed to the State.

Capital Investment – Maintenance of Way Plan

Watco and DSR will develop the best plan possible to maintain and improve the track structure of the MRC Line. Our initial 3-year plan is broken out in detail below.

Annual Repair for the 1st 3 years of operation

Install 5,000 new and relay ties	\$ 400,000.00
Apply 15,000 tons of ballast	\$ 450,000.00
Tamping twice per year	\$ 800,000.00
Ditching / Undercutting	\$ 350,000.00
Crossing(s) Repair	\$ 80,000.00
Miscellaneous	<u>\$ 60,000.00</u>
Annual Total	\$2,140,000.00
3 Year Total	\$6,420,000.00

Post 3 Year plan calls for an average of \$2,000,000.00 to \$3,000,000.00 of track maintenance and capital spend annually.

Current Grant Commitments

Watco will comply with all reporting and other requirements associated with any grants associated with the lines. If the reporting needs to improve or be made more frequently, Watco would be open to consider such requests.

In addition, Watco would agree to pay the State \$500,000.00 per year for the first three years after closing to help reimburse the State for the passing track project being proposed. This project will construct a new 10,000-foot siding east of Highway 45 near the Gavilon Elevator. The siding will be located south of the track on extra width property half which is currently owned by the State. The other half of the project right of way will need to be acquired.

Other Financial Commitments

Watco is proposing to pay off the unpaid balance of \$4,348,600.00 that is owed to the State and or the Regional Railroad Authority with cash at closing. The unpaid balance of \$4,348,600.00 is included as part of Watco's proposed purchase price for the MRC Line.

With this loan payoff, Watco and the DSRC will reduce rates for Customers located on the MRC by \$25.00 per loaded rail car and agree to put the other \$25.00 towards the track maintenance and improvement plans as outlined in the Capital Investment – Maintenance of Way Plan above.