Genesee & Wyoming Inc.

Proposal to South Dakota Department of Transportation to Purchase or Lease Certain State-Owned Rail Lines

November 21, 2019

John C. Hellmann
Chairman, President and Chief Executive Officer

November 21, 2019

CONFIDENTIAL

Secretary Darin Bergquist
South Dakota Department of Transportation
500 East Capital Avenue
Pierre, SD 57501

Re: Non-Binding G&W Proposal to Acquire Certain Assets Owned by the South Dakota Department of Transportation (SD DOT)

Dear Secretary Bergquist,

We are pleased to respond to the Department of Transportation's Invitation for Proposals to Purchase State-owned Rail Lines. South Dakota is vitally important to Genesee & Wyoming (G&W) as the Rapid City, Pierre and Eastern (RCP&E) is our largest North American rail operation and investment. Since acquiring the RCP&E in 2014, we have enjoyed an extraordinarily positive partnership with all stakeholders in the State, including our employees, our customers, the local communities in which our railroad employees live and operate, as well as the dedicated members of your Department. As a result of these strong relationships and the success of the RCP&E's operations, we have been comfortable investing $80 million in the railroad's infrastructure. This investment has not only increased our shipping capacity and transit speed across the State, but also has provided existing and new customers with the confidence to invest $300 million in new development projects along the RCP&E. In my 20 years at G&W, the South Dakota-RCP&E partnership has yielded the most successful economic development case study that I have experienced across the 41 U.S. States in which we operate.

You will find attached to this letter our proposal to form a new company to purchase the Mitchell to Rapid City rail line (the MRC Line) as well as an offer by our RCP&E to extend the lease of the Wolsey Interchange Yard for another ten years.

We understand that the MRC Line is leased to the MRC Regional Railroad Authority until 2031, with the operations subleased to the Dakota Southern Railroad (DSRC) for the same period. We are impressed with what the State, the Rail Authority, the DSRC and the local counties and customers have accomplished in rebuilding and re-initiating rail service between Mitchell and Presho. This project was no small undertaking and the results speak for themselves with the MRC Line now moving more than 10,000 carloads per year.

G&W is committed to South Dakota for the long-term. Our proposal assumes the existing lease and sublease remain in place and, if we are the successful acquirer, we would step into the shoes of the State and act as a steward of the asset as landlord until the end of 2031. At that point we would expect our subsidiary to take over the rail operations of the MRC Line.

We believe that we are uniquely qualified to provide the greatest long-term value to the State of South Dakota for the MRC Line and Wolsey Interchange Yard transactions. Due to the proximity of the RCP&E and the resources it can share with the MRC Line, the strong operational and financial support of the G&W parent company, as well as our positive working relationship with the State, we have little doubt that we will be able to enhance the long term economic performance of South Dakota.

In addition to upfront consideration, our proposal includes a commitment to invest specific capital in the infrastructure once the current lease expires and we are the operator of the Line. We also commit to maintaining the Line to a Class II condition and making available grain hoppers to the customers of the MRC Line in the same way we have done on the RCP&E. This supply of equipment on the RCP&E has been successful in driving additional traffic to rail and increasing the competitiveness of rail transportation alternatives for the State.

I know our team will be highly responsive to any of your department's questions or considerations throughout this process, but if you have any questions at all please do not hesitate to contact me. We are committed to making sure our proposal is as strong as it can be and remain open and flexible to incorporating the State's priorities as it considers its alternatives.

Regards,

John C. Hellmann

John C. Hellmann

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Introduction

Genesee & Wyoming Inc. (**G&W**), through its affiliates, is a key transportation supplier to the agricultural community in South Dakota as well as throughout the western and mid-western United States and Canada, and we are pleased to offer the following proposal to the South Dakota Department of Transportation.

In 2018, G&W railroads moved more than 300,000 carloads of agricultural products, both from origination points in South Dakota, Kansas, Colorado, Indiana, Ohio, Michigan and Missouri and from export locations where we operate the railroads at the Gulf ports of Corpus Christi and Galveston as well as Grays Harbor, Wash., and Quebec City, Quebec. Our volumes are hauled in every combination of train type, from unit trains to a single car moving in a larger merchandise train or as part of a local shuttle move from one part of our railroad to another. Additionally, we have approximately 6,500 railcars dedicated to providing our agricultural customers with equipment, which is especially important in times of increased demand from our shippers when equipment is difficult to come by or when Class Is are not prepared to make cars available to customers located on a short line or regional railroad.

Total G&W Agricultural Volumes

Agricultural Commodity	2018A Carloads
Grain	162,853
Soybean Meal	47,647
Fertilizers	36,622
Other Grain Products	28,637
DDGs	19,909
Farm products, ex Grain	12,659
Total Carloads	**308,327**

Total G&W Hopper Car Fleet

G&W Railroad	Covered Hopper Cars
RCP&E	2,633
KYLE	2,009
KWT	475
MNA	328
HESR	264
IORY	157
QGRY	130
GSWR	129
TPW	107
CAGY	64
BAYL	42
OTVR	40
WGCR	39
LXVR	32
CFE	15
CORP	2
Total Covered Hoppers	**6,466**

Please see the 2018 cover story "Linking Farmers to Markets" from our ***Interchange*** employee magazine in Appendix I and the ***Railway Age*** magazine cover story "Regional of the Year: Rapid City, Pierre & Eastern" in Appendix II.

G&W is committed to the State of South Dakota for the long term

Since starting up the Rapid City, Pierre & Eastern Railroad (RCP&E) in 2014, G&W has invested more than $83 million into the railroad (exclusive of grants), not including the railcars we have made available. It has been a great success story, with annual carloads expected to increase by more than 20,000 from when G&W took over operations, and with the infrastructure in far better condition as a result of both G&W internal capital and funding received from the State and the federal government. Additionally, the RCP&E has attracted more than $300 million in new business investment as a result of increased marketing and focused industrial development in cooperation with local economic development initiatives.

CASE STUDY

Starting Up the Rapid City, Pierre & Eastern Railroad

Canadian Pacific (CP) determined that the West End of the Dakota, Minnesota & Eastern Railroad (DM&E) was a poor fit with their precision scheduled railroading (PSR) operating ratio goals and decided to sell the 739-mile line in 2014. G&W was successful in acquiring the line and formed the RCP&E as a Class II regional railroad. Unlike in the typical acquisition of an existing railroad company, G&W's purchase only covered the track infrastructure, buildings, inventory, vehicles, right of way and some commercial contracts. All other resources necessary to create and operate the railroad needed to be identified, built, purchased or created in five months in order to meet a June 1, 2014, launch date, which coincided with the start of the grain harvest in South Dakota (which ended up being a history-making crop that exceeded previous years' production levels and the capacity of South Dakota's grain elevators).

The daunting task that confronted the integration team during the compressed time frame included hiring and training over 180 employees and procuring 50 locomotives and 2,500 railcars. In addition, customer operations and accounting systems had to be built from the ground up, operating and commercial sales teams formed, and communications licenses acquired from the Federal Communications Commission. The backbone of this effort was provided by functional teams made up of internal G&W experts.

By June 1, safety training had been conducted, nearly all the systems and customer interfaces had been pre-tested, employees had been hired and about half of the cars acquired were in position, all leading to a safe and seamless start up on day one – a strong demonstration of G&W's experience and commitment to customer service.

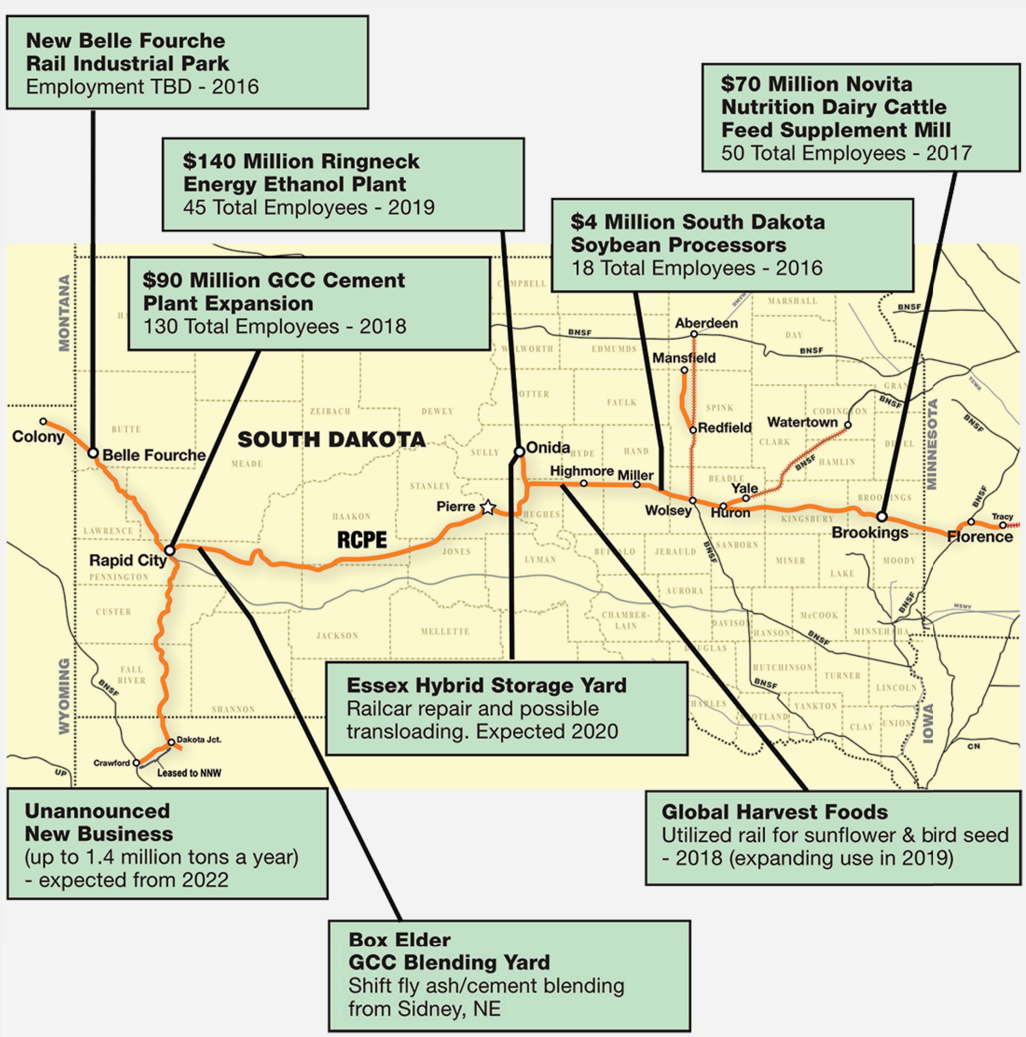
Targeted Investment Across the RCP&E

The $83 million the RCP&E has invested in its infrastructure since start-up, exclusive of South Dakota and federal grants, has been used primarily to increase operating speeds and capacity. This investment has included:

- Doubling line capacity through the construction of sidings at Aurora, Huron and Philip, S.D., meant that cars were no longer left behind, and customer loads could continue to move during the peak construction and harvest season. The 7,000-foot siding at Philip was a TIGER-funded project, and the other two siding projects received State support
- Replacing 100-year old rail east of Wall, S.D., reduced run times by one hour each way and allowed for longer trains; this was a CRISI-funded project in partnership with the FRA
- Increasing the RCP&E's fleet of railcars by ~2,000 allowed the railroad to meet shipper demand, especially during peak harvest season

Customer Investment in New and Expanded Facilities

Bolstered by the RCP&E's increased capital spend to improve speed and capacity across the line, customers have invested over $300 million to expand their own existing operations and construct new facilities. These investments provide additional jobs and tax revenues for South Dakota and are projected to contribute an incremental 20,000 new carloads for the RCP&E. The map below details a summary of industrial development that has occurred or is currently in development since June 2014.



Customers Choose G&W to Operate Their Railroads

In 2019, Kokomo Grain Co., a large agriculture producer in Kokomo, Indiana, and owners of the Kokomo Railway and Winamac Southern Railway, whose owned infrastructure represents their only rail connection to the U.S. rail network, chose to replace the long-term operator of their rail lines and enter into an agreement to lease these lines to two G&W railroads. As the press release (below) made clear, the drivers of Kokomo Grain's decision were the owners' trust in G&W, our willingness and commitment to invest capital in the infrastructure and our ability to enhance their ability to reach more Class I connections.

DARIEN, Conn.--(BUSINESS WIRE)-- Friday, March 22, 2019-- Genesee & Wyoming Inc. (G&W) announced today that its subsidiaries Toledo, Peoria & Western Railway Corp. (TPW) and Central Railroad Company of Indianapolis (CERA) have signed long-term agreements to lease and operate the Winamac Southern Railway (WSRY) and Kokomo Railroad (KR), respectively, which together own 57 miles of track in Indiana. Terms of the agreement were not disclosed.

Together with G&W's Illinois & Midland Railroad, Inc. (IMRR) and Tazewell & Peoria Railroad, Inc. (TZPR), the new leases create a contiguous 400-mile, four-railroad footprint (CERA-TPW-TZPR-IMRR) spanning from Eastern Indiana to Western Illinois with connections to six Class I railroads.

TPW and CERA obtained authority from the U.S. Surface Transportation Board to lease and operate WSRY and KR effective as of Feb. 27, 2019, and commenced operations under the new agreements today with five employees and two locomotives. TPW and CERA are expected to handle approximately 5,000 carloads per year over the new lines, consisting primarily of agricultural products, chemicals and plastics and metals, of which approximately 3,000 carloads are currently interchanged with CERA.

WSRY and KR share common ownership with Kokomo Grain Co., which is a large customer of WSRY and the only customer of KR. "TPW and CERA have been operating WSRY and KR under a short-term agreement for the past three months and providing excellent rail service," said Scot Ortman, president of Kokomo Grain. "Considering that prior to G&W's ownership of CERA [when it was owned by RailAmerica, which was purchased by G&W in 2012], Kokomo Grain evaluated building its own track to bypass CERA, the turnaround in our relationship is a testament to G&W's customer focus and commitment to mutually beneficial partnerships."

TPW and CERA are managed with G&W's Midwest Region railroads under the leadership of Senior Vice President Martin Pohlod. "Since acquiring CERA and TPW in 2012, we have worked hard to repair their relationship with Kokomo Grain, and these long-term leases of WSRY and KR are a direct result of those efforts," said Pohlod. "We're planning immediate upgrades to the WSRY and KR lines to support the business and further enhance our customers' routing options, interchange locations and geographic reach through G&W's footprint of contiguous railroads."

3. Proposal Requirements

3.1 Proposer Information

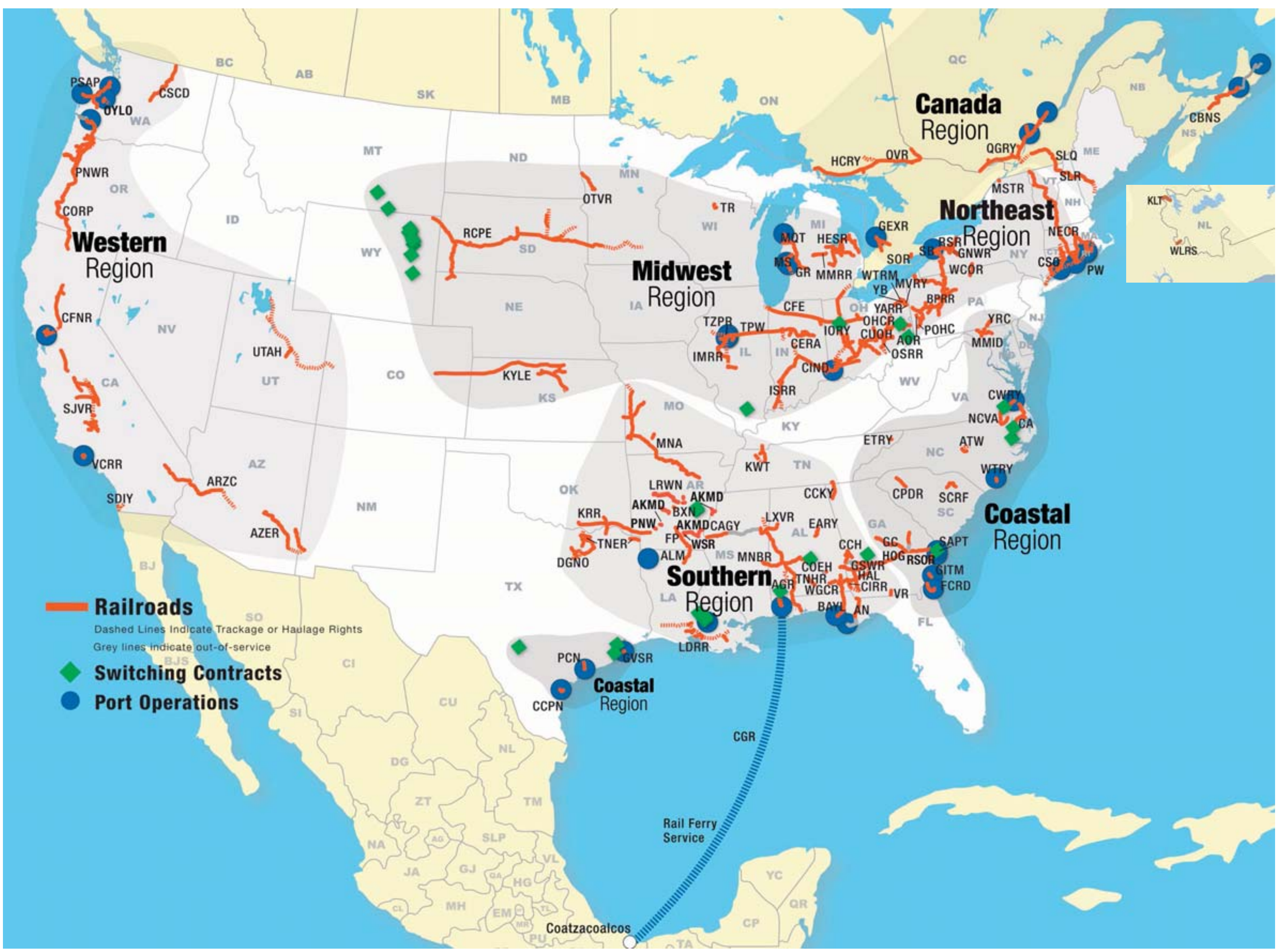
1. Proposer's lead contact information, including the e-mail address for official correspondence

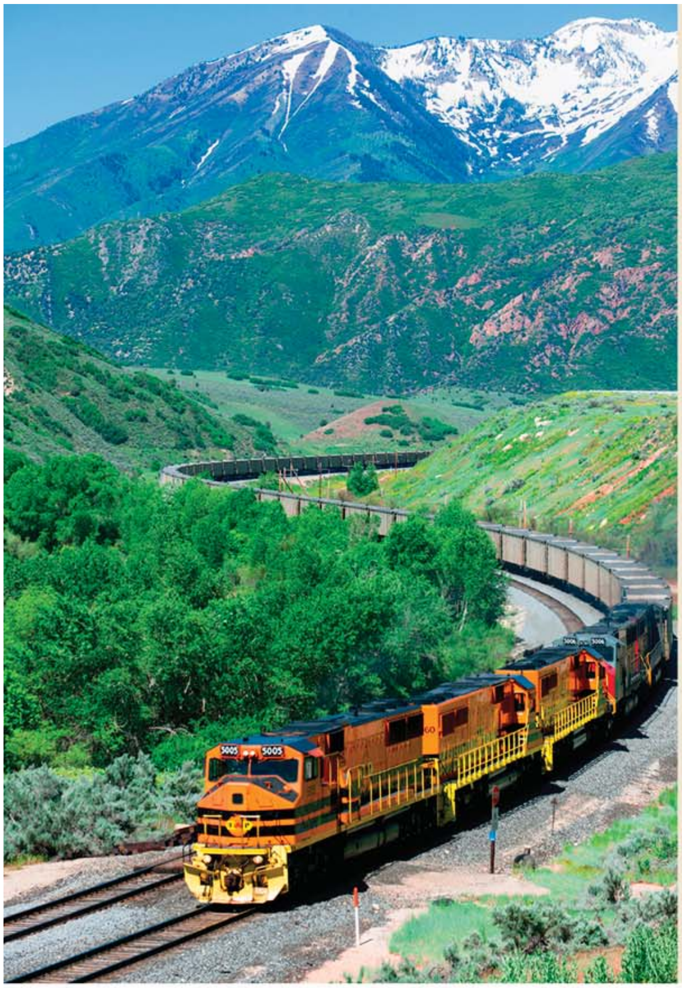
Matthew O. Walsh
Executive Vice President
Genesee & Wyoming Inc.
Darien, CT 06820
203-202-8908
mwalsh@gwrr.com

2. History and background information about the Proposer and the Proposer's railroad industry experience

Genesee & Wyoming Inc. would form a new railroad subsidiary, provisionally called the Dakota & Eastern Railroad (D&E), to acquire the assets of the MRC Line. Our proposal for the Wolsey Interchange contemplates an extension of the existing lease for this trackage by the RCP&E.

Genesee & Wyoming Inc. is the largest owner and operator of short line and regional railroads in North America.





Overview

New York Stock Exchange (NYSE) Listed: **GWR**

Market Capitalization: **~$6 billion**

Railroads: **119**

Track: **16,000 miles owned/leased**
(80% North America; 20% Australia/Europe)

Employees: **8,000**

Customers: **3,000**

Locomotives: **1,350**

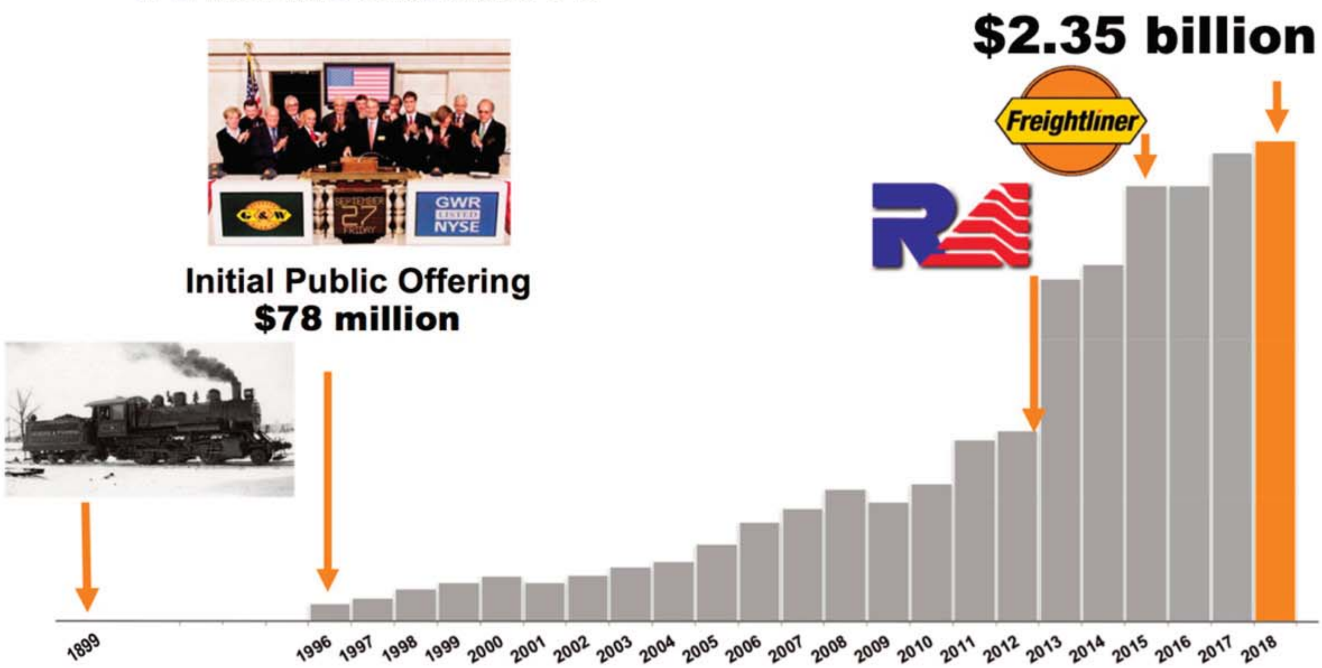
Railcars: **~30,000**

Carloads: **3.3 million**

**Unless otherwise specified, when used in this document, the terms "Genesee & Wyoming," "G&W," "the company," "we," "our," and "us" refer collectively to Genesee & Wyoming Inc. and its subsidiaries and affiliated companies.*

Consistent Long-Term Growth

17% Revenue CAGR since IPO



G&W Growth Includes More Than 100 Acquisitions and Start-Ups in the Past 15 Years

1985	1986	1987	1988	1992	1993	1993	1995	1996	1996
1996	1996	1996	1997	1997	1997	1998	1998	2001	2002
2002	2002	2002	2003	2003	2003	2004	2004	2005	2005
2005	2005	2005	2005	2005	2005	2005	2005	2005	2005
2005	2005	2005	2006	Genesee & Wyoming Australia 2006	2007	2008	2008	2008	2008
2008	2008	2008	2008	2008	2008	2008	2008	2008	2008
2008	2008	2008	Genesee & Wyoming Australia Freightlink acquisition 2010	2011	2011	2012	2012	2012	2012
2012	2012	2012	2012	2012	2012	2012	2012	2012	2012
2012	2012	2012	2012	2012	2012	2012	2012	2012	2012
2012	2012	2012	2012	2012	2012	2012	2012	2012	2012
2012	2012	2012	2012	2012	2012	2012	2012	2012	2012
2012	2012	2014	2014	2015	2015	2015	2015	2016	2016
GRail 2016	2017	2017							

Our Values, Our Commitment

G&W recently updated its core values based on input and feedback from the General Managers of our railroads, who are committed to live by and lead with these values every day.

oneG&W

One Team. Common Values.
Individual Responsibility.

Our Core Purpose

To be the safest and most respected transportation service provider in the world.

Our Core Values

The foundation of our success comes from living our core values every day:

Safety	We have an unconditional commitment to the well-being of our people and the safety of our operations
Service	We have an absolute commitment to our customers based on a philosophy of mutual success
Integrity	We possess the courage to do the right thing always
Respect	We treat all people with dignity and fairness, fostering diversity and inclusion
Transparency	We communicate openly to enable well-informed decision making
Accountability	We set high standards and take full ownership of our results as an individual and a team
Innovation	We embrace creativity, technology and new ideas
Excellence	We have relentless focus on continuous improvement and excellence in all we do

GENESEE G&W WYOMING

After the safety of our people, our primary responsibility is world-class service to our customers

Industry-Leading Customer Satisfaction

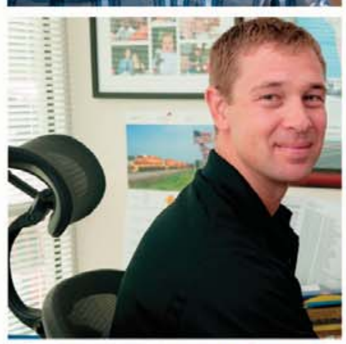
Biennial Survey of All G&W Customers Worldwide

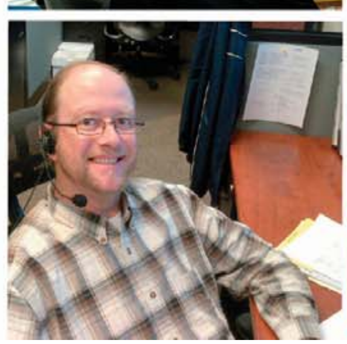
2017 Survey

G&W's Top 3 Customer-Rated Attributes

2017 Survey

G&W's Key Customer Touch-Points



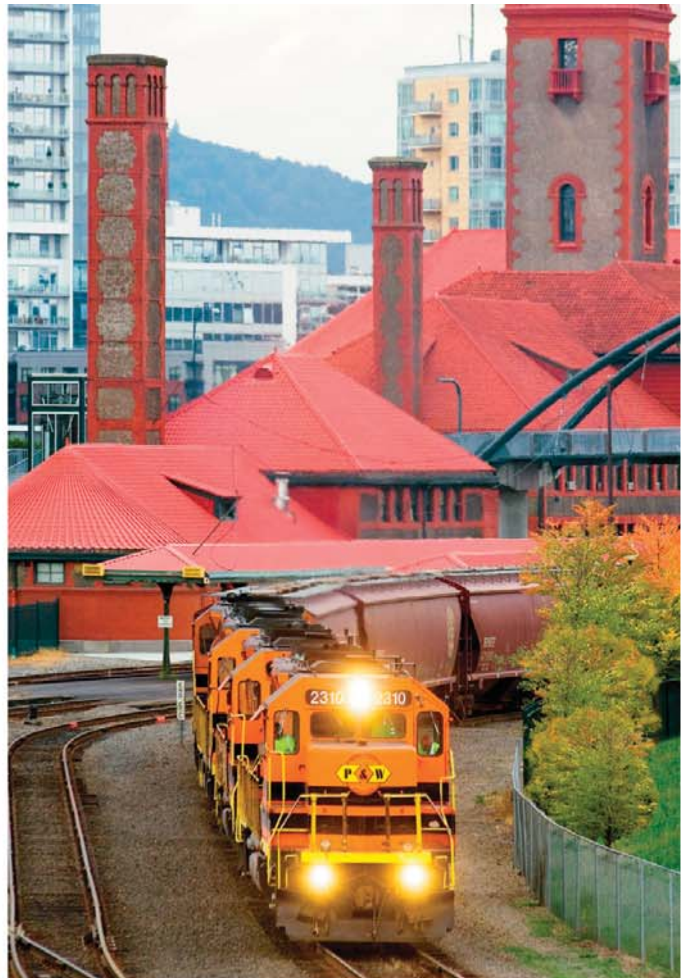


G&W's Decentralized Operating Philosophy

Eight regions with strong local management backed by centralized corporate staff support

Continuous safety improvement
Focused regional marketing
Lower operating costs
Efficient use of capital

Our local focus is key to G&W's strong safety and customer-satisfaction results



Centralized (G&W Corporate) Staff Support

3. Proposer's leadership personnel and command structure

Each of G&W's railroads is a distinct and separate operational and legal entity. Each has a General Manager based at the railroad who manages and is accountable for all day to day operations along with his or her management team (transportation, mechanical, commercial, engineering, etc.).

The railroads themselves are supported by and grouped into a geographic regional structure. Both the RCP&E and the D&E, assuming G&W is the successful acquirer of the MRC Line, would be operated as part of our Midwest Region, with oversight by a VP Transportation and a Regional Senior Vice President. Ultimately, all regions report up to our President of North America and the CEO of G&W.

G&W's structure allows for the local management teams' expertise to be supplemented by resources at the regional and corporate level, creating an environment that allows for local decision making, communication and responsiveness combined with the operational benefits and financial and relationship resources of being part of a much larger organization.

Reporting Structure	Supporting Organization
D&E & RCP&E General Manager Rod Wiseman	Sales, Engineering, Mechanical, Transportation, HR, Safety
VP Transportation South Dakota Based Blake Jones	
RSVP Midwest Region Marty Pohlod	Sales, Engineering, Mechanical, Transportation, HR, IT, Finance, Safety, Environmental
President North America Michael Miller	Sales, Engineering, Mechanical, Transportation, HR, IT, Finance, Industrial Develop., Fleet Mgmt., Purchasing, Service Design, National Accounts / Transload, Legal, Communications, Gov. Affairs, Environmental, Compliance, Dispatch
CEO G&W Jack Hellmann	

4. A description of any parental relationships and any guarantor relationships that apply

The D&E would be a wholly-owned subsidiary of G&W and a Delaware corporation. It will be capitalized by G&W and all of its obligations to close on a transaction under the asset purchase agreement will be guaranteed by G&W.

5. Details of any prior bankruptcies or operational issues experienced by the Proposer or any guarantor within the last five years

G&W and its subsidiaries are all well-capitalized entities. There have been no bankruptcies or work stoppages at any G&W operation at any level of the North American organization.

6. Details of any instances where the Proposer has been fined or assessed a civil penalty by federal, state or municipal agencies within the last five years

G&W owns and operates more than 100 short line and regional railroads and 13,800 miles in North America. Our entities are regulated and subject to inspections by the Federal Railroad Administration (FRA) and other regulatory bodies. These inspections and audits typically result in recommendations along with minor fines for various infractions. Any infractions are typically cured quickly. G&W is not aware of any material fine or dispute with any regulatory body, with the exception of several matters that have been publicly disclosed in G&W's financial statements. We believe we have a good relationship and reputation with all the federal, state and municipal agencies with whom we interact.

3.1 Proposer Information

7. Business goals in relation to the purchase of the Lines, and company-wide goals

We remain highly impressed with what the stakeholders of the MRC Line have achieved over the last decade by restoring rail service between Mitchell and Presho. Our goal is to build upon what has been accomplished, and we are confident we are uniquely qualified to do so.

G&W believes it provides the best, most responsive and dedicated rail service in South Dakota. Our current operations in the State represent our single largest investment in North America. Since taking over the west end of the DM&E from CP, we have invested in infrastructure, people and equipment. These investments led to more volumes from existing shippers and brought more than $300 million of new business investments to the rail line and the State. We foresee the same opportunity with the MRC Line, and our approach would be similar.

Uniquely positioned. Due to the geographic proximity of the RCP&E and its ability to transfer equipment and share resources, we are uniquely positioned to maximize the potential of the MRC Line. The MRC Line and the RCP&E share many of the same customers, equipment needs and infrastructure maintenance requirements, particularly over the Pierre Shale formation. With the RCP&E as the much larger entity and with resources already in place, the MRC Line will benefit significantly.

The MRC Line is being sold with its current lease and sublease agreements in place through the end of 2031. Our intention is to act as a good steward and owner of the asset until that time, assuming the current rights and obligations of the State of South Dakota.

Once the lease terminates, as operator, our goal for the MRC Line would be to run an operation with zero injuries; committed employees working with the right equipment; infrastructure in a continuous, normalized state of maintenance; customers that have active competition for their business from multiple Class I railroads; local and regional shuttles that maximize the ability to use rail; and communities that are supportive partners of the railroad. The operation also would be financially self-sufficient to allow for consistent service and investment as well as having the resources to drive new business growth and react quickly to operating challenges brought about from industry changes or natural causes.

8. Anticipated successes and challenges in achieving business goals and company-wide goals

As outlined in the IFP, our proposal assumes the D&E will purchase the assets of the MRC Line and assume all of the rights and obligations of the State, including the current leases and subleases. We understand this means the MRC Regional Railroad Authority will continue to lease the MRC Line through 2031 with rail operations provided under its sublease with the Dakota Southern Railroad (DSRC) who has operated the MRC Line for the last 10 years and been instrumental in restoring rail service to Presho. We look forward to working with the MRC Regional Railroad Authority and the DSRC as their continued success will benefit the D&E as the owner of the infrastructure, both in the medium term through lease payments, which are tied to a revenue share and a per car charge, and the longer term as the asset is improved.

D&E will have the people, equipment and resources in place and the financial capacity available to immediately get to work once the current lease expires at the end of 2031 and assume the operation of the MRC Line. We will need to work with customers and other Class Is on developing alternative transportation options and work with BNSF on efficiently using the overhead haulage and trackage rights to both Wolsey and Sioux City. With railcars available, we can add merchandise and less-than-unit-train traffic volumes off the MRC Line to existing trains that RCP&E interchanges with UP and CP.

Deep relationships with all Class I railroads. Through industry association, their regard for our dedication to safety and strong operations and the amount of traffic we interchange with them, we have solid relationships with all North American Class I railroads. In 2018, we estimate G&W railroads handled 7% of all North American merchandise traffic, which represents a significant amount of revenue for our Class I partners.

G&W's Volumes Represent a Material Component of Class I Merchandise Revenue

	Carloads with G&W (1) (000s / % of Class I Total)	
CSX	404 / 11.3%	REDACTED
UP	371 / 7.6%	
BNSF	337 / 6.4%	
NS	286 / 8.1%	
CN	152 / 4.6%	
CP	67 / 3.9%	
KCS	67 / 5.3%	
Total Class I	**1,685**	

As average rate per car on merchandise traffic is 2x - 3x higher than intermodal traffic, Class I railroads are focused on growing this base in a post-PSR era

(1) Assumes Class I's average rate per merchandise carload

(2) BNSF carloads also exclude auto volumes which are classified as intermodal

BNSF is particularly important to customers of the MRC Line. G&W's Arizona & California Railroad (ARZC) was just named BNSF's short line railroad of the year for 2019, which means G&W railroads have been awarded this honor two years in a row and in three of the last six. Note BNSF has highlighted our railroads' commitment to safety and investment to improve operations which lead to traffic growth overall.

BNSF Named G&W's Arizona & California Railroad their 2019 Short Line of the Year and G&W's Kiamichi Railroad their 2018 Short Line of the Year

In both cases, BNSF cited the railroads' commitment to safety, service and infrastructure investment which led to increased train velocity and superior carload growth.

2019: Arizona and California Railroad

"ARZC's dedication to safety is evident by its remarkable safety record," said Merril Lieb, assistant vice president, BNSF Shortline Development. "The railroad mirrors that dedication in its continued infrastructure investments, which have produced significant customer growth."

Over the last seven years, ARZC has invested more than $12 million in its line and recently shared the cost with BNSF to upgrade infrastructure in Matthie to facilitate more efficient delivery of trains and reduction of dwell time. While investing in its railroad for business growth, ARZC has continued to operate injury-free for the last 13 years.

"In addition to completing our 13th consecutive year injury-free, we saw significant growth in 2019 with the addition of the Rose Acres egg farm and outbound Fondomonte alfalfa shipments, both using the new loop track which was opened on the ARZC line," said Rick Spiering, general manager of ARZC. "Thanks to the collaborative efforts of our customers, BNSF and ARZC, we expect this growth to continue for years to come."

2018: Kiamichi Railroad

"Kiamichi's employee safety record, including an impressive injury-free streak, is a testament to their focus on safe rail operations," said Merril Lieb, assistant vice president, BNSF Shortline Development. "The railroad has also made significant investments in their infrastructure that led to a 300 percent growth in their carload business with BNSF."

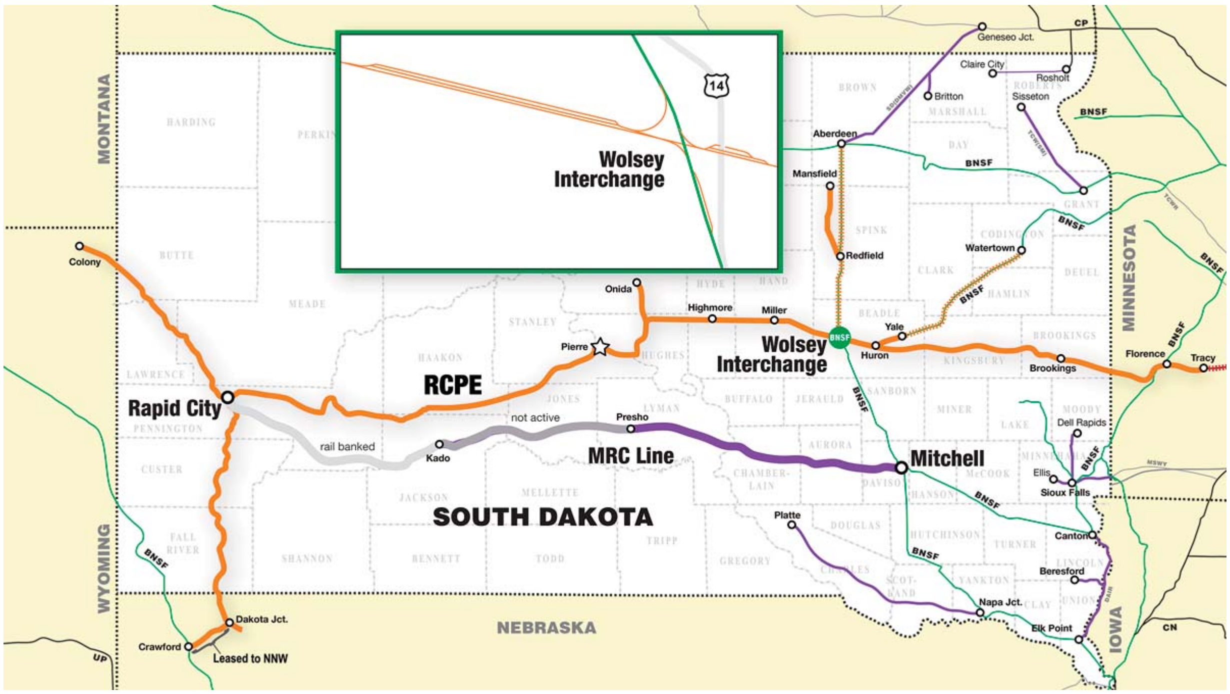
Since 2012, Kiamichi has improved much of its 265-mile line to handle 286,000-lb. loads of traffic, including upgrading 150 miles of track and investing more than $35 million. With BNSF, Kiamichi worked to capture market share in aggregates, fluff pulp and coal. "We are a customer-focused railroad and have worked diligently to help our existing customers grow while bringing more businesses to our rail line," said Ryan Englebright, Kiamichi's general manager. "We have seen growth in transload facilities and attracted a new steel mill."

Section 3.2 Lines to Be Purchased

G&W, or a wholly owned subsidiary, is proposing to:

1. **MRC Line:** Purchase all infrastructure assets and right of way, as well as all rights and obligations, associated with the MRC Line from Mitchell to Rapid City.

2. **Wolsey Interchange:** Extend the RCP&E's current lease of this asset for another 10 years. This interchange yard is key to RCP&E's ability to effectively interchange with other Class I railroads. It is an important piece of infrastructure supporting interstate commerce originating in the State of South Dakota.



Section 3.3 Purchase Price

1. **MRC Line:** $10,000,000 (Purchase Price) to purchase all infrastructure assets and right of way, as well as all rights and obligations (in each case, by way of a formal assignment), associated with the MRC Line from Mitchell to Rapid City.

   The Purchase Price would be paid 100% upfront in cash. We would also propose to pay a $2 million deposit at the signing of the purchase agreement. Sections 3.8 and 3.9 refer to unpaid Loan Commitments of the Regional Rail Authorities as well as Other Financial Commitments. For any amounts that are currently outstanding, if it is in the interest of the State, we would propose these are paid off or discharged by the State using proceeds from the Purchase Price.

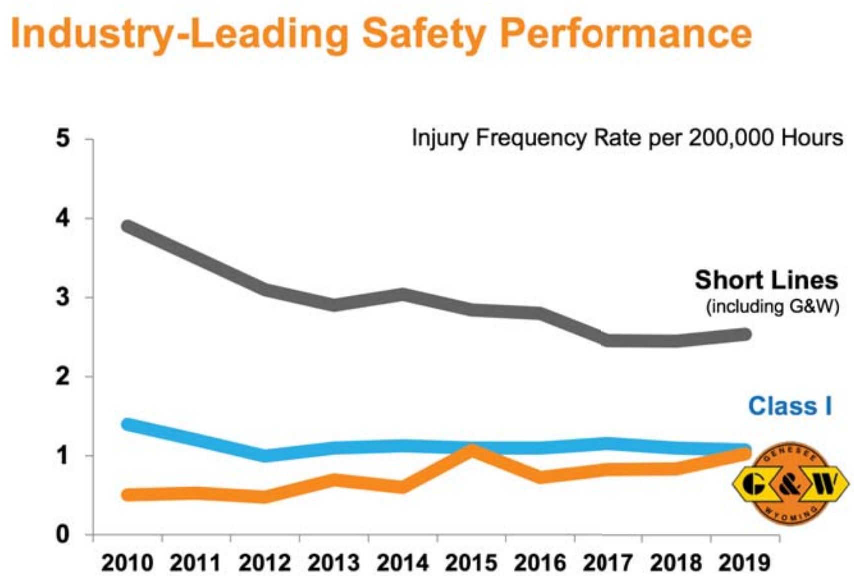
2. **Wolsey Interchange:** RCP&E to make an upfront payment of $250,000 to extend the current lease of the Wolsey Interchange by another 10 years (currently set to expire in 2026), with RCP&E continuing to make the existing payments required by the lease on an annual basis. Our proposal contemplates that RCP&E would receive a right of first refusal on the sale of this infrastructure, similar to the provisions which exist in the leases of other State-owned rail assets.

Please be advised that this proposal is non-binding and is not intended to impose any obligation on any party unless and until a definitive purchase agreement formalizing any such obligation is negotiated and executed. This proposal will be governed by, and construed in accordance with, the laws of the State of South Dakota without giving effect to the conflict of laws principles thereof.

1. Expected operational improvements or methods

Following the assumption of operations after expiration or earlier termination of the existing lease and sub-lease, the following benefits will be available:

- **Participation in G&W's Industry-Leading Safety Program.** The safety of our people, our customers and the communities we serve is our highest priority. Although our commitment to safety is not about numbers or financial performance, our CEO is so committed to our safety platform that 15% to 30% of his bonus compensation is tied to safety. G&W is the safety leader in the short line industry. All of D&E's employees will participate in G&W safety programs to which we also invite customers and community members.



- **Increase track investment to provide dependable and consistent service.** We expect shippers to benefit from fewer infrastructure outages due to slow orders or extended embargos as well as faster turn times on equipment on a day to day basis - meaning restored opportunity for achieving origin efficiency payments (OEP) and more consistent service, leading to better planning and more efficient operations.

  Railroading works best when there is consistency for both the service provider and the customer. Unfortunately, railroading can be an unpredictable business, with both the customers and the rail operators having to react to extreme weather conditions, continuous changes in Class I railroad operating protocols and customer demand that fluctuates with both the harvest season and the size of the harvest. Events will always happen on the railroad – the operator just needs to have the ability to react quickly and solve issues for all stakeholders.

- **We commit to make capital investments of $7.4 million in the first year as operator.** Our approach to track maintenance is, in most cases, to get the infrastructure into a state of normal repair, which may require upfront investment, and then maintain and inspect on a consistent basis. By stabilizing the track upfront and creating a more programmed approach, an operator can more easily spot issues, maintain the infrastructure and react more quickly to problems as they arise. This is especially important on a railroad such as the MRC Line, with much of it built on the Pierre Shale formation, which has unique challenges. Due to our experience with the RCP&E operating over the Pierre Shale, we know proper maintenance requires constant and repeated surfacing, ballast and grading year after year.

Section 3.4 Service Protections

As presented in our planned capital program, once operator, our plan is to invest $7.4 million in the infrastructure in year one, primarily in ballast and ties, and then continue with a normalized level of investment over the next several years. We have taken similar approaches in many of our operations and start-ups. Most notably, we pursued the same in our acquisition of the Arizona Eastern Railway (not to be confused with the previously mentioned Arizona & California Railway) that connects the largest copper smelter and related copper mine complex in North America – both of which are owned by Freeport-McMoRan. The previous short line operator lacked the financial capacity and expertise to stay on top of drainage issues, perform consistent inspection and maintenance and meet its capital requirements. This resulted in multiple line failures and bridge collapses where the railroad had to consistently approach the customer for multi-million dollar "loans" to repair the railroad, for which the customer had no choice but to make as the rail line was its sole connection to North American rail network. This put the customer in an untenable position – needing the rail line to ship their product but not receiving the required rail service, with there being nothing that Freeport-McMoRan, one of the world's largest mining companies, could do to rectify the situation. Once G&W purchased the railroad, we invested more than $30 million in the infrastructure over the first several years and committed to an increased service plan that the customer could count on. Traffic volumes increased materially, and the customer had the confidence to make further investment in its facilities. This was a great long-term success for the customer, for the connecting Class I who received more volumes as a result, and for G&W.

Similarly, on our RCP&E railroad, when we started up operations, our customer, GCC in Rapid City, had plans to double the size of its facility but was unwilling to do so prior to the change in ownership due to limited confidence in the former rail service provider. After proving our commitment through the continuous upgrade of the RCP&E and building trust with the customer, GCC proceeded with its $90 million expansion of its cement plant.

Freeport-McMoRan Copper Smelter on the Arizona Eastern Railway

GCC Cement Plant on the Rapid City, Pierre & Eastern Railroad

- **Resources to keep the railroad in operation.** Unforeseen events will always occur, and a railroad needs to be able to manage through any situation. In 2019, the State of South Dakota faced several extreme weather incidents which challenged much of the State's rail infrastructure and rail operations, including both the RCP&E and the MRC Line. During May, the RCP&E faced a severe washout of much of the grading underneath its line where the previous operator had filled in under a bridge and not properly accounted for the potential impact of significant future flooding. **Although faced with the destruction of infrastructure and grading more than 50 feet deep and 80 feet in length after the ground washed away, the RCP&E was able to have the line back in service within a week.** This was a herculean effort that was only possible as a result of being part of a large organization having the engineering expertise to oversee the reconstruction, the financial capacity to move immediately and the inventory and resources of neighboring G&W railroads to draw from and get material into place far faster than would otherwise be possible.

  The May 2019 storm also caused two other washouts of depth ranging from 50' to 10' and a total of 245' in length. Additionally it undermined a significant bridge at Fort Pierre, S.D., damaging 360' of structure, causing new piers and stringers to be installed and riverbank reinforced. The washouts were able to be repaired in a week's time, and the bridge was completed in 3 weeks' time. Similarly, in August, a deluge in a concentrated area caused 8 separate washouts in depth varying from 20' to 5' totaling 1,595' in length. All were restored within one week.

Capa, South Dakota on May 22, 2019
Washout (left) and Repair (right)

Section 3.4 Service Protections

- **Put D&E or D&E affiliate cars in service on the MRC Line to (i) allow shippers to take advantage of the ability to interchange with multiple Class I railroads in Sioux City and via the RCP&E, (ii) have access to equipment when demand increases across the North American rail network, and (iii) drive local and regional business.**

  We understand that grain shippers on the MRC Line ship exclusively with BNSF, using BNSF's power and cars via their shuttle train service. The BNSF shuttle program is an excellent and proven transportation service; however, shippers should be able to take advantage of more than one Class I to reach their markets. Shippers on the MRC Line have the ability to interchange directly with the same Class Is as the RCP&E (plus Canadian National) yet do not do so, or do so on very limited occasions. Conversely, RCP&E customers take advantage of interchange with all of the Class Is on a consistent basis and benefit from being able to reach different markets and make the Class Is compete for their traffic. Although UP, CN and CP could theoretically provide cars to customers on the MRC Line, they are not as likely to do so because they are not assured of traffic on a consistent basis. Customers on the MRC Line need a fleet of cars that are dedicated to serving them, that are available online, and that are able to be loaded and shipped to any Class I.

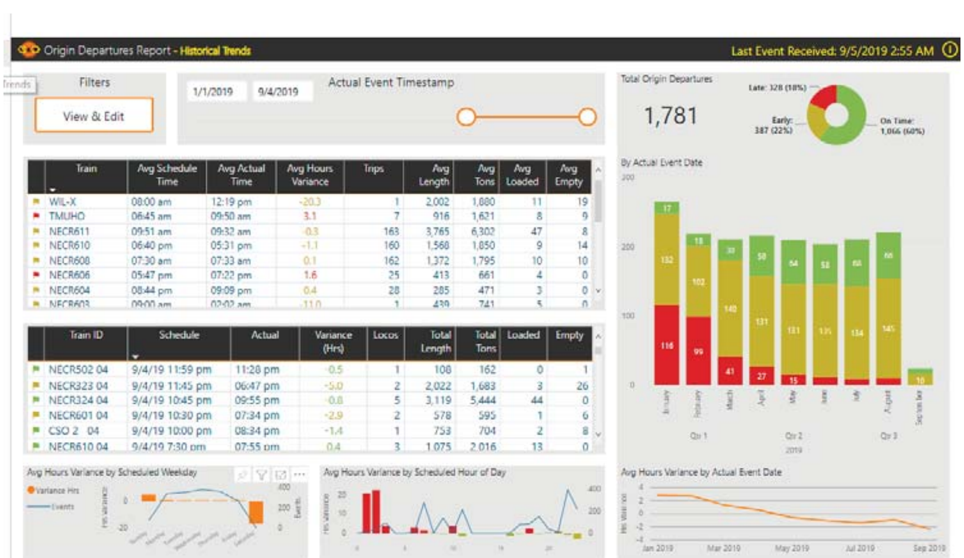
  To move traffic locally and regionally, both on the MRC Line and to locations on other regional rail lines with whom MRC Line customers can access via haulage or trackage rights, the D&E can provide a fleet of railcars suitable for these moves to support customer demand.

- **The D&E will be able to access the significant resources of the RCP&E via the haulage and trackage rights between Mitchell and Wolsey.** This includes the locomotives and railcars of the RCP&E as well as the locomotive and car repair shops and the large fleet of maintenance of way equipment that the RCP&E has on site.

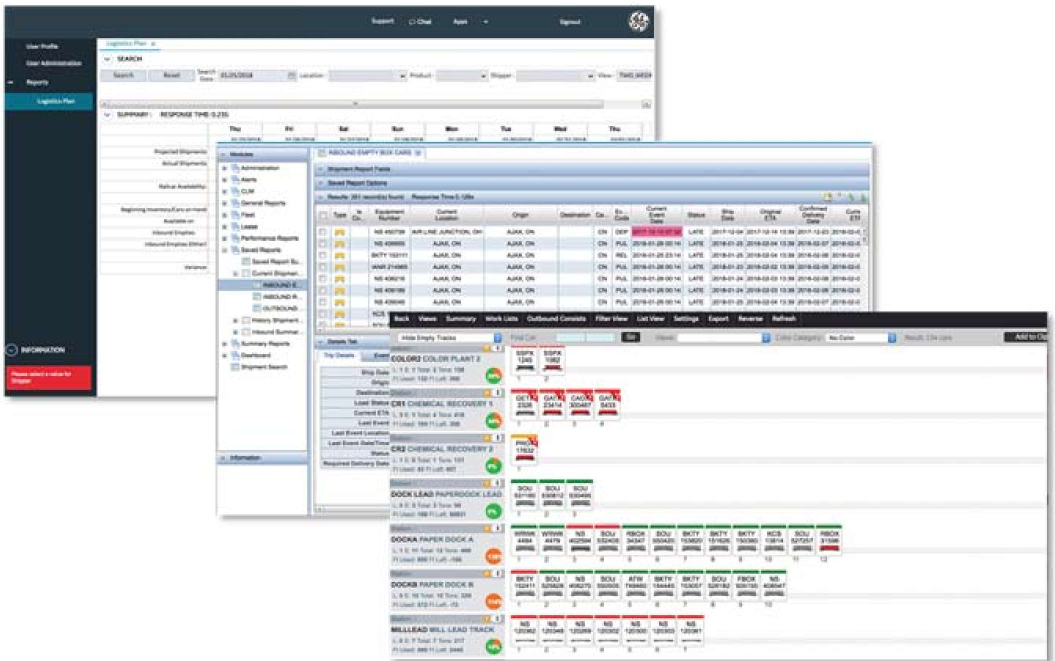
- **Offer 24 / 7 customer service and centralized dispatch. Our customer service structure allows for both local management on the ground who customers can always "reach out and touch" as well as 24-hour access to our centralized customer service and dispatch personnel.**

- **Benefit from increased investment in technology to improve operations and customer communication. G&W continues to make significant investments in technology, which are expected to continue to increase in the next several years. This includes:**

  - *Railroad Operations Dashboard:* Recently deployed railroad-specific operational dashboards, combining data from multiple existing reports with additional features and enhancements to facilitate local decision making that is fact-driven and in real time.



- *Enhanced Customer Experience with Shipment Visibility:* Railcar visibility pilot with GE Transportation (now Wabtec) generated ~7% carload increase at a test customer's facility in 2018; currently rolling out to four additional locations and two additional customers.



2. Capital investment commitments or a capital investment plan

Based on the hi-rail tour of the MRC Line (completed October 7), our capital and maintenance program, which will be implemented once we are the operator, would be focused on addressing various areas we observed, including through the following actions:

- Dumping ballast on areas of the line that have little or none;
- Carrying out an extensive resurfacing program;
- Replacing failed ties, including some relay ties requiring replacement;
- Replacing existing culverts (some of which may require enlargement) or constructing new culverts and ditches to alleviate washout risks across the line;
- Weed spraying and brush cutting throughout the line;
- Cleaning up some areas with trash and installing fencing; and
- Updating whistle boards and adding yard limit and clearance signs.

In addition, we have significant experience in dealing with the unstable clay base of the Pierre Shale formation from our operations on the RCP&E's PRC Subdivision, which has similar conditions as the MRC Line from Chamberlain to Presho. This clay base can create a "bath tub" effect where, during rain and snow, the grading under the track can be pushed down and out to the sides of the track infrastructure, trapping and pooling water and creating weakened track conditions. While this presents potential challenges to operating service and speeds, our maintenance plan includes constant maintenance and surfacing (to rebuild and re-support the sub-grade) to enable safe and consistent operations on the Line.

Capital Investment Plan

Upfront Capital Investments. Once the D&E is the operator of the MRC Line upon the expiration or earlier termination of the current lease and sublease, year one would include a program of (a) increased track and bridge capital expenditure, (b) the purchase of a locomotive, vehicles and maintenance of way equipment for operations and (c) provision of railcars as required.

a. We would commit to maintaining the MRC Line to the standards required under existing grant agreements. Based on this, we estimate our year one capital plan for track and bridge infrastructure works would total approximately $7.4 million, with the table below providing an estimated allocation of the committed capital.

Category	Year One $ million
Ties	$4.1
Ballast	$1.8
Surfacing	$0.4
Signals	$0.1
Culverts	$0.3
Crossings	$0.2
Rail	$0.1
Turnouts	$0.1
Bridges	$0.2
Grading	$0.1
Total	**$7.4**

b. We also would expect to purchase locomotives for operations; vehicles for the Train Master, Signal Maintainer and Track Inspector; a MOW section truck and a MOW trailer and backhoe;

c. We would also make railcars available to shippers on the Line on the same basis as made available to customers of the RCP&E, as discussed in Section 3.4.1.

Ongoing Capital Investments. Once operator, after year one we would estimate spending approximately $1.8 million annually on track and bridge capital works (not including the additional $1.1 million we expect to incur in normal annual track maintenance expense). The exact capital works plan would depend on the MRC Line's specific infrastructure conditions and priorities, including traffic volumes, but our current estimates incorporate replacing failed ties, adding ballast and resurfacing the line, replacing worn rail and turnouts, repairing bridges, replacing or rehabilitating culverts, crossings and signals, and additional grading work.

Continue to Apply for Grant Funding. As operator and owner, we would continue to pursue government-sponsored grant funding to accelerate capital works on the MRC Line. Our financial capacity also means that we have the resources to contribute required matching funds when it makes economic sense to do so. The ability to offer a greater amount of matching funds in the application for federal funding programs has become more and more important and adds significantly to the potential for success.

G&W and its U.S. subsidiaries have a long and successful record in working collaboratively with state and local governments and other stakeholders. **Over the last decade, we have received more than $300 million in grant funding from various sources and contributed more than $100 million in matching funds.**

Section 3.4 Service Protections

Similar to the success of the MRC Line, many of these grants have allowed us to transform the infrastructure of a particular railroad, creating significant benefits for the customers and communities they serve. Examples include:

- Following the 2005 acquisition of the 182-mile Bay Line Railroad in the panhandle of Florida and southern Alabama, G&W aggressively pursued continued improvement in its infrastructure, including replacement of the entirety of older main line rail. This work was done in partnership with Florida Department of Transportation and included grants of $13 million, resulting in significant expansion of rail activities through the Port of Panama City.

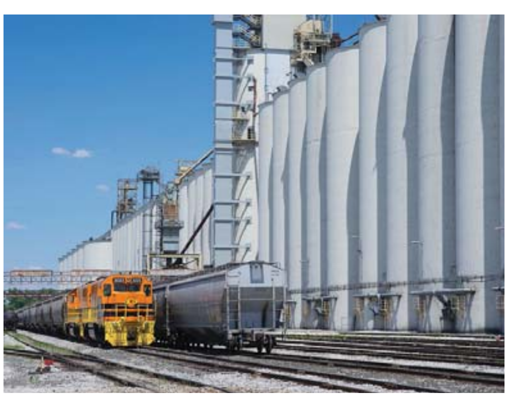
- When Georgia Central Railway became part of G&W in 2005, the 211-mile line between Savannah and Macon was experiencing a tremendous fall-off in traffic due to the closing of its largest on-line customer. Through a long-term strategy of upgrading the bridges and rail on the line to handle 286,000-lb. freight cars, along with its sister property, the Heart of Georgia Railroad, it is now a catalyst for new economic activity in southern Georgia. This was made possible through continuous grants totaling more than $10 million over several years.

- Prior to becoming part of G&W in 2012, the main line of the Chicago, Ft. Wayne & Eastern Railroad had deteriorated with many slow orders (nearly 90 miles of mainline was limited to 10 mph operation). The 312-mile line between Crestline, Ohio, and northwestern Indiana was at one time the primary route of the Pennsylvania Railroad into Chicago. Through a cooperative effort with a major eastern Class I freight railroad, G&W renewed the line with a very significant tie and surfacing project and more than $20 million in investment to allow 40 mph operations. This created a new competitive route into the Chicago gateway.

- After acquiring the North Carolina & Virginia Railroad Company in 2012, G&W developed a plan with the North Carolina Department of Transportation to upgrade the 56-mile railroad in northeastern North Carolina and southwestern Virginia to increase its weight limit to 286,000-lbs. and speed to 25 mph. With a total project cost of $11.6 million, with 50% funded by a federal TIGER grant and 50% funded by North Carolina Dept. of Transportation and the railroad (50/50), this railroad finished its improvements and is now providing superior freight service to its customers.

- G&W continued this pattern following the start-up of the RCP&E in 2014, with three federal and state cooperative efforts to expand the capacity of the railroad through installation of new sidings and improving its main line operating speed with replacement of rail.

- We also have had great success in the last 12 months achieving funding for low emissions locomotives, including a $3.7 million grant to replace two locomotives on our California Northern Railroad and a more than $10 million grant to replace four locomotives on our San Joaquin Valley Railroad.



3. Potential railroad expansion options

The re-initiation of rail service from Mitchell to Presho as a result of a decade's worth of commitment, coordination and perseverance by all of the stakeholders is very impressive. As the owner and operator of the MRC Line, G&W would be committed to continuing to invest in the infrastructure. As described elsewhere in this proposal, our priority will be to invest in the existing infrastructure and bring in new maintenance equipment to ensure that expected service standards are met on a consistent basis. Our focus also will be on making sure we can offer competitive access to other Class I railroads and making railcars available, as well as potentially making other investments to promote more competition. Depending on customer demand, we also will look to expand the railroad's existing infrastructure, similar to what we do with all of our operations.

Over the last 10 years, G&W has invested an average of $25 million to $30 million per year on North American business development projects to upgrade or build out our infrastructure (this is in addition to government grant matching funds) and purchase cars and locomotives, as well as in IT initiatives to support customers.

4. Projected industry developments for current and future shippers

The demand for grain transportation by rail will continue to grow long-term, and Class Is will continue to push for greater efficiencies and conformity to their operating plans. Short lines and regional railroads will need to be able to continue to adjust and invest to ensure their customers continue to receive the equipment and service that is required to keep them competitive. Below are some trends that we believe will continue to impact the grain shipping industry:

- Agriculture volumes will continue to increase as acres planted continue to grow and technology drives greater yield improvement. Railroads will need to be able to keep pace with demand and remain the most competitive way for shippers to get their product to market.
- Class Is will continue to grow train size and weight. At Canadian Pacific between 2014 and 2018, grain train length grew 13 percent from 6,682 feet to 7,313 feet while grain train weight climbed 9 percent from 8,076 tons to 9,100 tons. CP is now planning for 8,500-foot trains pulling 134 cars. Short lines will need to invest in infrastructure to handle ever increasing train size – this means longer, and more, sidings and strengthened track condition.
- The market for grains has increased in volatility in recent years causing significant swings in rail volumes. Local issues (drought, flooding) cause variations in supply, and changing world markets (tariffs, growing production overseas) cause changes in pricing on the world market. The best short lines need to have a plan with the people, equipment and infrastructure to get the grain to market when the prices are in farmers' favor.
- The focus by Class I railroads on precision scheduled railroading (PSR) will continue. Often this means short lines need to be more flexible and focused on hitting the Class I's service plan in order to meet interchange and return equipment. Having the ability to adjust and to communicate with Class I railroads and customers using advanced technology will become industry standard.

5. Identification of management headquarters, projected employee needs, and job creation estimates

Once operator, our operating plan assumes that D&E’s rail freight operations would be managed by a General Manager who may also be the General Manager of the RCP&E. This position would have overall responsibility for the D&E, with particular emphasis on safety, customer service, business development and the day to day operations of the railroad. In addition to the General Manager, D&E would be directly staffed by the following personnel:

Position	Number	*Description*
Train Master	1	*Responsible for overseeing transportation activities*
Transportation: Engineer	1	
Transportation: Conductor	1	
Road Master	1	*Responsible for overseeing engineering activities*
Track Inspector	1	
Foreman	1	
Track Laborer	3	
Signal Maintainer	1	
Locomotive Mechanic	1	*Based at the RCP&E's locomotive shop at Huron, SD; supplemented by other experts at the shop and in the Midwest Region*
Total	**11**	

These personnel (excluding the locomotive mechanic) would be based at two locations on the MRC Line, which are expected to be Chamberlain, S.D., and White Lake, S.D.

The RCP&E is located in close proximity to the MRC Line (Mitchell is just 50 miles from Huron), providing the D&E with significant additional resources which add to the redundancy and resiliency of operations on the line. These include:

- Management expertise, including sales & marketing and operational support (from the RCP&E’s offices in Rapid City, S.D.);
- Additional employees to cover spikes in demand for rail freight services, along with staff sickness and vacations (the RCP&E has a team of 179 employees); and
- Locomotives, railcars and other equipment (the RCP&E has a fleet of 46 locomotives and 2,775 railcars)

From the public benefits analysis that was conducted by WSP USA, it also is estimated that D&E’s projected investment in infrastructure and equipment over the next 20 years, as operator of the MRC Line, would create a total of 464 job-years (one job-year equating to full-time employment for one person during the year). A copy of WSP’s public benefits analysis report is included as Appendix III.

6. Marketing plan for rail customers and users

We are highly cognizant of the more than $110 million customers have invested in their facilities on the MRC Line, on top of the $70 million that has been invested by the State, the US DOT, shippers, local communities and the DSRC to reinstate rail service. The MRC Line is their connection to the North American rail network, upon which they rely to get their products to market in the most competitive and consistent way possible. We have spoken to the three major grain customers on the MRC – Gavilon, Agtegra and DMG, as well as to Graphic Packaging and to former customer CHS. All of these customers are known to us as we serve them either on the RCP&E and/or other G&W railroads.

Our marketing plan is based on our knowledge of regional and North American grain markets as well as from our experience acquiring and starting up new rail operations. Simply put, once we are the rail service provider, our plan is to invest in all aspects of the operation – infrastructure, equipment and the tools and technology that our employees and customers use. The outcome of this will be to increase the confidence of existing customers to continue to invest and grow their business, maximize their use of rail and overall competitiveness, and attract both old and new business to the railroad through both winning back volumes from truck and winning industrial development projects.

Our plan and expectation includes, once operator, to make investment in track and railcars and to take advantage of resources available to the D&E from its affiliate RCP&E and overall corporate operating expertise, relationships and financial capacity. Similar to our experience with other rail operations, by providing more equipment (both railcars and locomotives), offering more consistent service and deploying our corporate resources, we will drive more customer volumes to rail. Our multi-pronged organizational approach to sales and marketing on a local, regional and national level also will drive new business to the railroad. More specifically, our plan is to:

a. *Grow existing customers' volumes*. We expect more volumes from existing customers as they are provided more: (i) consistent service through improved track condition and greater asset redundancy; (ii) capacity by making D&E-controlled railcars available and not relying solely on Class I car supply; (iii) rail transportation alternatives by making potential connections to multiple Class Is more of a practical reality; and (iv) financial resources in place to make investments to grow alongside the customer base as their businesses in the State of South Dakota increase.

b. *Return local volumes from truck to rail.* We understand from speaking to customers that the lack of railcars and reliable service has led to the diversion of volumes from rail to truck. Specifically, CHS discussed with us their historical use of rail to move product from their facility in Chamberlain to Mitchell but had to move this to road as rail service was no longer available for this move. On a greater scale, our experience on our other agricultural lines is that by bringing cars online, we can serve smaller elevators once or twice per week with two or three cars and run them to larger silos or add them onto existing trains. We understand in some cases this may require investment in fall protection to allow for safe train loading, which we would explore.

c. *Develop other regional volumes.* Similar to running local shuttles, we are confident that we would be able to move grain by rail from MRC Line customers to customers on the RCP&E line, taking advantage of the haulage and trackage rights between Mitchell and Wolsey, including to Valero's ethanol facility at Aurora and to soybean crushers in Mankato. We expect the logistics of the local soybean market to shift as AGP's new facility in Aberdeen draws supply that previously was trucked to supply the Mankato area. Once we are the operator, having cars on hand and in coordination with the RCP&E, we would be able to take advantage of these opportunities.

d. *Deploy our corporate Industrial Development teams to drive new business.* The MRC Line has the advantages of being 286,000-lb. capable, located on an interstate and able to connect to multiple Class I railroads. Our Industrial Development (ID) team will be focused on driving larger, new projects to the MRC Line. We have been highly successful in using our corporate ID resources to work both locally and nationally to develop new investment and projects on our railroads. On the RCP&E, more than $300 million of new business projects have been secured since 2014, which we have supported from inception and provided rail expertise and committed capital. We believe with its location running next to I-90, the MRC Line could be well positioned to draw new customers to the Line. Additionally, with its location 70 miles from Sioux Falls and potential connections to multiple Class I railroads, we believe there is an opportunity to develop a transload facility. Note we have a transload terminal division, G&W Choice Terminals, that develops and markets transloads on our railroads and offers their services through our corporate teams to our network of national customers. Our ID team:

1. **Communicates with our network of customers, railroad partners and stakeholders on a consistent basis.** Includes the distribution of a quarterly newsletter to facilitate two-way communication;

2. **Works with and is in consistent communication with State and local economic development authorities.** We establish professional relationships and provide logistics expertise early in any project life-cycle. We also educate EDC's and offer a Rail 101 presentation tool to build confidence with those individuals so they can speak knowledgeably with potential clients about the rail industry;

3. **Builds and maintains strategic relationships with ports, site consultants, commercial brokers and utilities** to develop creative solutions and facilitate efficient project management;

4. **Makes our dedicated, in-house rail design services available** to conceptualize, consult and market site layouts;

5. **Maintains an up-to-date, interactive online property / site database.** A highly valuable tool, we coordinate with State/local EDC's to establish a comprehensive inventory of developable rail sites. Please refer to www.gwrr.com/customers/industrial_development; and

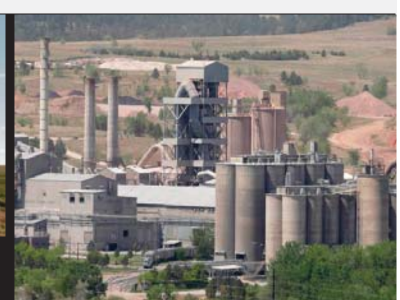
6. **Use an integrated approach with our corporate teams,** including our National Accounts program, which promotes the G&W railroad footprint / portfolio of services to larger national customers and our network of Choice Terminals and inland ports, which includes developing new ones.

Increased Speed and Capacity Leads to Customer Investment on the RCP&E

Novita – New Feed Products Plant

Ring Neck Energy – New Ethanol Plant

SD Soybean – Facility re-opening



GCC – Kiln Expansion

Over $300 Million of Customer Investment and 20,000 Projected New Carloads

7. Rate or service modifications to better serve customers (Proposer should provide estimates of potential fees and rates, including any comparison to similar local, regional and State services operated by the Proposer)

As the MRC has a current operator in place under a contract that runs until 2031, any change to customer rates for rail services prior to the expiry of their agreement to provide rail services would be under their control. At such time when the D&E operates the MRC Line, we would negotiate rates based on existing commercial relationships and the need for customers to remain competitive, the operating and capital costs of operating the railroad and adequate profit that also allows for capital expenditure to both reinvest and grow the railroad. Until that time, the D&E will step into the position of the State as an interested landlord of the MRC Line rail assets.

G&W successfully operates the RCP&E, which is in close proximity to the MRC Line and serves a similar customer base in South Dakota. The purchase of the RCP&E was similar to the proposed sale of the MRC Line as it was likewise a sale of assets with connectivity to multiple Class Is. Since taking over the RCP&E, we have seen volumes grow by making our customers more competitive through increased service, materially improved connectivity with multiple Class Is and the provision of more than 2,500 railcars. As the operator of the MRC Line, we would expect a similar result.

The MRC Line customers will benefit from a closer relationship with the RCP&E as a related party. Once D&E operates the MRC Line, the RCP&E would be able to use haulage / trackage rights between Mitchell and Wolsey to make locomotives, railcars, materials inventory and maintenance of way equipment available to D&E. The MRC Line currently has limited locomotive and car repair facilities and more limited online track equipment. Being able to take advantage of these resources will allow for significant redundancy and improved service to customers.

Commercially, as discussed in our marketing plan in Section 3.4.6, we would expect to develop local and regional traffic that does not exist today, and we would expect to open up the MRC Line customers to UP and CN in Sioux City and CP and UP via the RCP&E in addition to the BNSF service they receive currently.

Our enhanced investment in the MRC Line and operating timetable will allow customers the ability to achieve their origin efficiency payments (OEP) and also satisfy BNSF's service plan which, like all Class I railroads, is focused more and more on set interchange times under Precision Scheduled Railroading (PSR).

8. Expected impact to existing shippers and other rail users

We have detailed the expected benefits to both existing and future shippers in Section 3.4.6. Once operator, with increased track investment, shippers will receive more consistent and faster service. They will have access to cars and greater capacity to ship with other Class Is. Additionally, we will provide 24 / 7 customer service and dispatch.

Every two years, we engage a nationally recognized third-party to complete a comprehensive customer satisfaction survey of all G&W customers worldwide. In our last survey, G&W scored an 8 out of 10 overall (with 10 being the highest), which is considered optimum for a "sticky" customer relationship. According to our customers, G&W railroads outscore not only their Class I railroads but also their trucking providers. In South Dakota, our RCP&E also scored an 8. Our highest scores related to "Operating personnel demonstrate a clear commitment to safety," "Professionalism of Customer Service personnel" and "Availability of Customer Service personnel."

9. Expected impact to communities located along or near the Line(s)

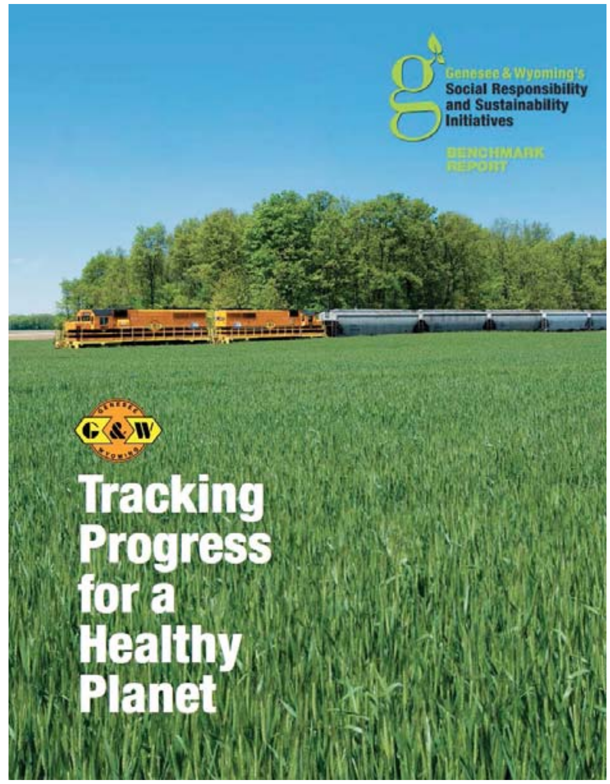
In addition to the estimated $144 million of aggregated public benefits that our proposal to the State and local communities, as calculated by our third-party economic consultant (see following page and Appendix III), we are likewise focused on delivering environmental and social goals, including:

Safety and Environmental Sustainability

Employees of G&W's short line and regional railroads live and raise their families in the same communities we serve. G&W is committed to proactively reducing its environmental impact in all regions where we operate. In 2018, we published our benchmark report on G&W's social responsibility and sustainability initiatives, ***Tracking Progress for a Healthy Planet,*** in which we present a number of multi-year goals within the framework laid out for the transportation industry by the Sustainability Accountability Standards Board (SASB).

G&W approaches its commitment to sustainability across three tracks: 1) Environment; 2) Safety & People; and 3) Community & Governance. Our 2018 sustainability report includes eight quantifiable goals in the Environment track. See G&W's benchmark report at www.gwrr.com/sustainability

Our commitment to safety is well described in Section 3.4.1.



G&W Community Involvement

In the last five years, employee volunteers from G&W railroads gave more than 2,000 Operation Lifesaver presentations to 378,000 schoolchildren, school bus and truck drivers, law enforcement personnel, first responders and other individuals to discuss the importance of rail-crossing safety.

Learn more at www.oli.org

OPERATION LIFESAVER®
Rail Safety
Look, Listen, Live
oli.org

10. Experience operating short line railroads or experience working in concert with or hiring short line railroad operators for business purposes

Please refer to Section 3.1 for an overview of G&W's short line railroads and operating experience.

Recognizing that the MRC Line has a rail operator under a sublease through 2031, G&W accepts its role will be as the asset owner through the end of this sublease. G&W has other relationships where other short line railroads operate on infrastructure owned or controlled by G&W as well as minority investments in railroads that we do not control. As we would be a highly interested party and benefit from the continued growth and success of the MRC Line, we believe there are ways we can work together and share best practices and resources.

11. Projected economic impact of the Proposal (Proposers should be as detailed as possible without incurring excessive expenses to produce economic studies)

To assess the projected economic impacts of G&W's purchase of the MRC Line, we engaged WSP USA to conduct a public benefits analysis, using accepted modeling practices for federal benefit studies. This analysis presents the public benefits that are estimated to occur assuming the lease with the current operator has expired and the D&E is the operator of the MRC Line.

This analysis identifies significant public benefits in the form of favorable impacts on the State of South Dakota's economy, along with general social benefits. **These aggregated public benefits total $143.9 million over 20 years with:**

- $104.1 million of in-state benefits from expanded investment in infrastructure and equipment; and
- $39.8 million of general public benefits to South Dakota.

These benefits also include **$1.9 million in additional State tax revenues** associated with the D&E operating over the MRC Line. A copy of WSP's public benefits analysis report is included as Appendix III.

12. Long-term maintenance plan to meet or exceed current applicable rail standards

As owner of the MRC Line, D&E, along with the MRC Regional Railroad Authority, would take on the obligation to inspect the Line to ensure compliance with the maintenance obligations under the sublease and grant obligations (discussed in Section 3.6). Then, as the operator of the Line, D&E expects to carry out a track and bridge capital works program as summarized in detail in Section 3.4.2 above.

Section 3.5 Trackage Rights, Haulage Rights, and Interchange Rights

The trackage, haulage and interchange rights (the Rights) that the State negotiated as part of its sale of the Core Lines have significant value and greatly enhance the ability of the MRC Line to maintain and grow its business. The Rights are also a key component of our planned sales and marketing plan to put railcars into service on the MRC Line and to grow both local, regional and national business with multiple Class Is competing for volumes. G&W can assure the State that it will protect the rights in accordance with the terms of the agreements governing the rights.

Section 3.6 Current Grant Commitments

We acknowledge and concur with the commitments required under the current grant agreements. Our capital commitments and plan, as provided in Section 3.4, item 12, should be sufficient for the MRC Line to be maintained to a Class 2 standard.

We note under the terms of its sublease, the current operator must maintain the MRC Line that was upgraded with federal and State funds to Class 2 standards. As owner of the MRC Line, D&E, along with the MRC Regional Railroad Authority, would take on the obligation to inspect the Line to ensure compliance. To the extent that the current operator does not or is not able to comply with its obligations under its sublease, D&E would work with all parties, including the MRC Regional Railroad Authority, on ways to remedy any noncompliance. If, during the period when the current sublease and lease are in effect, the US DOT provides notice that the MRC Line is not in compliance with its obligations under its TIGER grant, and the current operator does not cure the potential default, and D&E is held liable because it cannot step in at that time, or in a timely fashion, to directly operate the Line and cure the default (which it would not do if it did not have the ability to take over operations of the Line as a result), any funds the D&E was obligated to pay the US DOT as Line owner would result in a reduction of our commitment in this proposal to invest in the Line to maintain it to the standards required under the TIGER grant. Our expectation would be if any such situation were ever to occur, then all parties would work together on a solution that was best for the infrastructure and stakeholders of the MRC Line and the original spirit of the agreement.

One request we have as part of our proposal is for the State and the MRC Regional Railroad Authority to amend their lease so that the maintenance obligations mirror such obligations in the MRC Regional Railroad Authority's sublease with DSRC.

If there are separate maintenance obligations associated with a State grant associated with the MRC Line, those documents have not been provided.

Section 3.7 Future Grant Commitments

Our assumption is that any commitments made in any grant applications submitted during the period in which the State is considering and/or negotiating proposals for the MRC Line will be consistent with previous obligations, and without a required financial contribution. We would quickly review any grant applications as soon as they are provided.

Section 3.8 Loan Commitments

Our proposal assumes the assumption of the current contractual obligations of the MRC Line owner (i.e. the State), which does not include any attachment to the outstanding Loan Commitments of the MRC Regional Railroad Authority. Our proposal is that if the State desires to reduce or eliminate these obligations it does so out of the proceeds of the sale.

Section 3.9 Other Financial Commitments

Our proposal assumes the current contractual obligations of the MRC Line owner, which do not include any provision for the paydown of outstanding Other Financial Commitments of the MRC Regional Railroad Authority. Our assumption is the State may choose to reduce or eliminate these obligations out of the proceeds of the sale.

Our proposal assumes that, as owner and lessor of the MRC Line, D&E would receive the 1% of gross revenues and the $50 per car surcharge as required under the Lease with the MRC Regional Railroad Authority.

Section 3.10 Lease and Sub-lease Agreements

Our proposal is consistent with the IFP as issued by the State and does not include any contingency requiring the early termination of any existing lease or sublease agreements. We assume as purchaser of the MRC Line that we assume the rights and obligations of the SD DOT per the documents provided as part of Attachment L of the IFP. As noted in Section 3.6, we do request that the State and the MRC Regional Railroad Authority amend their lease so that the maintenance obligations mirror such obligations in the MRC Regional Railroad Authority's sublease with the DSRC.

Section 3.11 Permits, Licenses, Excess Property Leases, other Land Use Agreements

We acknowledge the State's position on this. We would like any property not currently being used but with a potential for business development to be included with the sale. Not all documentation has been provided regarding excess property and other items in this category.

Section 3.12 Approval of Sale

G&W has confirmed with the Staff of the Surface Transportation Board (STB) that the MRC Line is a line of railroad and, therefore, any purchaser of the MRC Line would need STB authority to acquire, and residual authority to operate, the MRC Line. Accordingly, the D&E will file with the STB a Notice of Exemption to obtain such authority. The Notice of Exemption should be effective 30 days after filing. In addition, G&W will need to concurrently file with the STB a Notice of Exemption for authority to control the D&E together with its other U.S. railroads. This Notice of Exemption also should be effective 30 days after filing.

Please also note that the Staff of the STB confirmed that a modified certificate, as currently held by DSRC, is only available for a state-owned line, and not for a privately-owned line. As a result, an operator of a state-owned line that becomes privately-owned is not permitted to operate pursuant to a modified certificate and, therefore, DSRC would need to file with the STB for authority to operate the line. We recommend that the State seeks the advice of counsel regarding this requirement.

Section 3.13 Environmental Liabilities

We have engaged a third-party environmental consultant to perform a desktop review of the MRC Line. No material risks were identified. We are prepared to purchase the property on an as-is-where-is basis.

Section 3.14 Conditions of Sale

Please see our responses in Section 4. We are agreeable to the conditions as proposed, acknowledging these are issues that will ultimately be negotiated as part of the purchase agreement.

Conditions to add: (i) DSRC to file with the STB for authority to operate the MRC Line; (ii) State lease language regarding maintenance standard to match that of the sublease; and (iii) if not otherwise used by the operator of the MRC Line, the owner of the MRC Line to be able to utilize property tax credits generated by investment in the MRC Line regardless of whether the investment comes from the operator of the MRC Line or the owner.

We also call attention to the commitments that we are prepared to have the D&E make to the State as part of our proposal and purchase agreement, which we believe are consistent with the State's stated objectives as presented in Section 1.3 of the IFP, as follows:

1. **We will maintain all of the infrastructure that has been upgraded with government funds to Class 2.** Additionally, we commit that once we are the operator, we will spend $7.4 million in the first year of operation, with such amount based on our track inspection and commensurate with what we would require to put the infrastructure in a state of more normalized maintenance. We also commit to being able to provide the State evidence of our financial capacity to make this investment annually post acquisition. If, at the time D&E becomes the operator of the MRC Line, the infrastructure does not require this level of investment or the business conditions have deteriorated materially, then the State and D&E will jointly re-evaluate the requirement. Additionally, if as the owner of the MRC Line but prior to our assumptions of operations on the MRC Line, the US DOT seeks repayment of the remaining pro rata portion of the TIGER IV grant due to an alleged failure to maintain the project to the required standard, any amount repaid will be offset against this year-one committed investment amount, and our obligation to maintain to Class 2 going forward will be eliminated.

2. **Once D&E is operating the MRC Line,** we would commit the D&E would have access to grain hoppers as other G&W's railroads do so as to enable customers on the MRC Line to grow their business.

3. **From the date we acquire the MRC Line, we will maintain $250 million of liability insurance and $100 million of property insurance.** While the lease and sublease are in place, the lessee and the sublessee will continue to have the obligation to insure the MRC Line to the required amounts under the lease and sublease, but D&E's insurance will sit above that as secondary coverage. This commitment is consistent with the State's stated desire to return assets to private sector ownership. Current levels of insurance and no requirements on operator liquidity are not necessarily adequate to cover the potential liability that comes with operating these assets once they are no longer owned by the State.

4. **We will make available to the operator of the MRC Line RCP&E's locomotive shop with at least 11 indoor bays with pits and a car shop with two bays within 70 miles of Mitchell, S.D.,** with DSRC to pay third-party rates for maintenance work.

5. **We will make a $2 million deposit at the time of signing a purchase agreement for the MRC Line.** This will be repaid to us only if the MRC Line is sold to the current operator if it exercises its right of first refusal or if our acquisition of the MRC Line does not receive STB approval or does not close for a reason that is not the fault of or in the control of D&E or G&W.

1. **The ability to re-purchase the Lines in an abandonment proceeding or if the purchaser were to discontinue service for any reason**

   Agreed. The State will always have the right to purchase rail lines that a party has sought to abandon as per STB regulations. Our assumption around discontinued service is that it refers to the MRC Line as a whole and also incorporates normal carve-outs, including for Force Majeure.

2. **Preferred re-purchase rights if a sale is contemplated to another buyer**

   We are agreeable to the State having the right to repurchase if a proposed buyer is a Class I railroad or otherwise not deemed an appropriate buyer by the State, being reasonable. If the State does not act on its right to repurchase, then the buyer of the MRC Line is free to sell.

3. **A requirement that any assignee or successor to the purchaser abide by the terms of the sale agreement**

   Agreed.

4. **A requirement that the sale of the line be considered "AS IS, WHERE IS", as allowed by law**

   Agreed.

5. **A provision requiring the purchaser to indemnify the Department and hold the Department harmless for any claims related to any acts or omissions after the closing of the sale**

   Agreed.

6. **Provisions requiring the purchaser to fully protect any haulage, trackage and interchange rights that apply to the line as a result of the Department's settlement agreement with BNSF, and to fully comply with any other obligations that apply to the purchaser pursuant to that settlement agreement**

   Agreed.

7. **The Department will retain mineral rights as required by South Dakota law**

   Agreed.

8. **The purchase will be subject to the right of highway authorities to maintain, construct, re-construct, sign, mark and repair all existing public highway crossings**

   Agreed.

9. **The Department will reserve a right to crossings that have not yet been constructed but are identified in the Department's current Statewide Transportation Improvement Plan; and**

   Agreed as identified in the Department's 2020 to 2023 Statewide Transportation Improvement Plan.

10. **The Lines will be conveyed by quit claim deed and the purchaser will waive any title defects**

    Agreed.

Proposal to South Dakota Department of Transportation to Purchase or Lease Certain State-Owned Rail Lines

Appendix I:

Interchange cover story:

"Linking Farmers to Markets"

Volume 24 Number 1, 2018

Genesee & Wyoming Inc.

Interchange

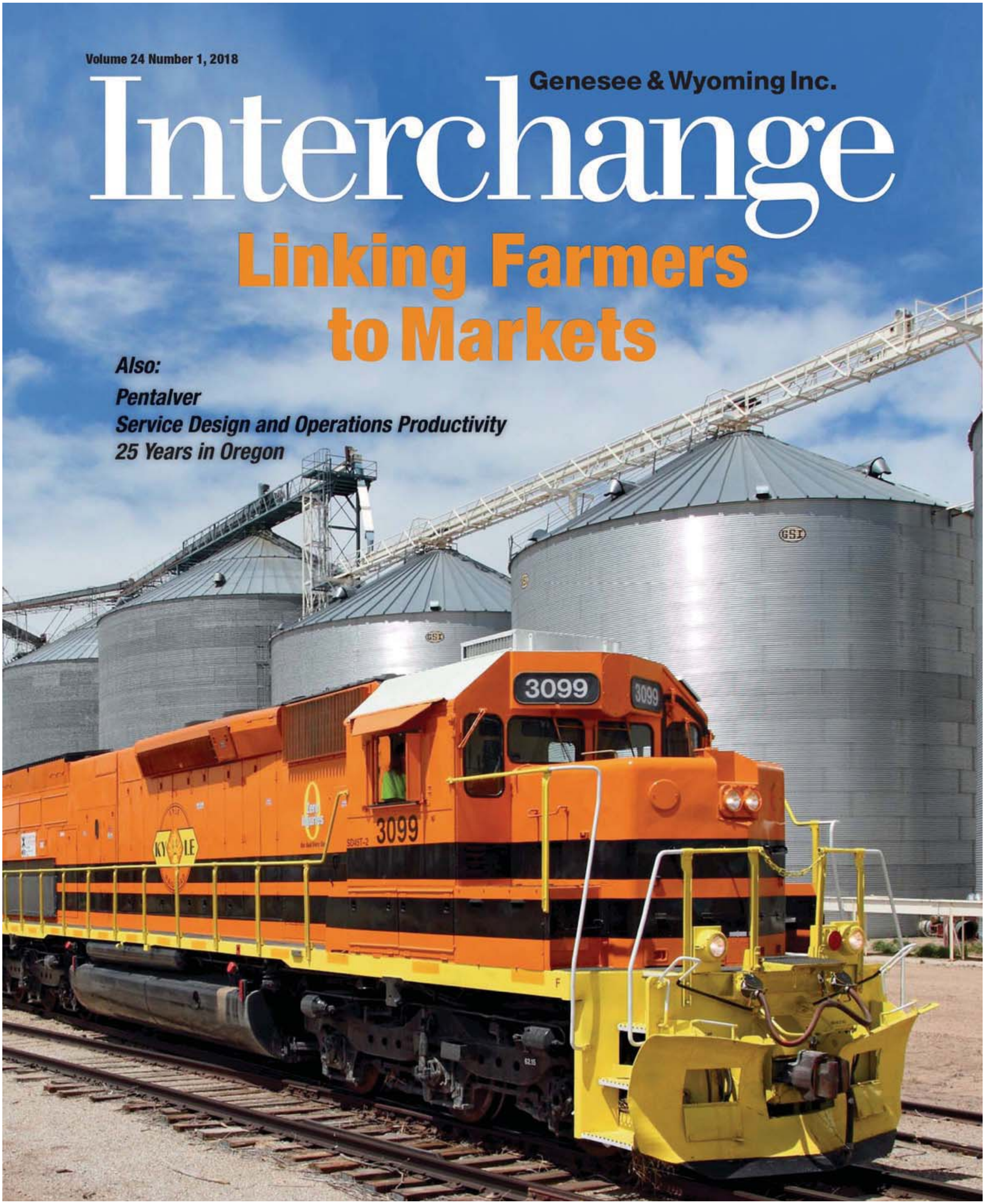
Linking Farmers to Markets

Also:

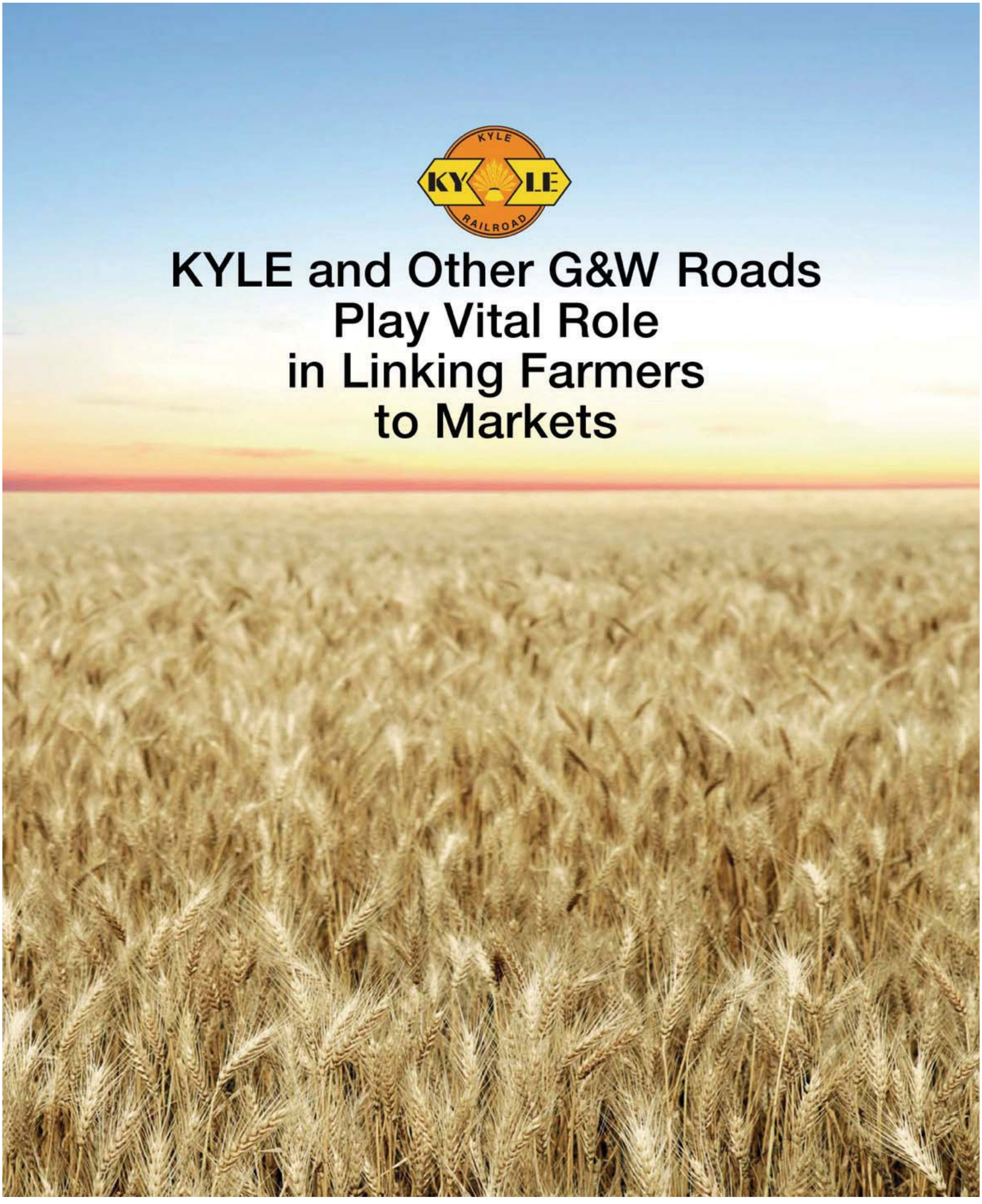
Pentalver

Service Design and Operations Productivity

25 Years in Oregon



KYLE and Other G&W Roads Play Vital Role in Linking Farmers to Markets



Railroads have played a critical role in the U.S. agricultural economy for more than 150 years, when they first began linking farmers and farming communities to emerging urban markets. That role is as important now as it was then, although the impact of railroads on the agricultural marketplace has evolved from local to national to international.

G&W railroads are an integral component in the efficient and economical movement of agricultural products, particularly in the U.S., but also in Australia and, to a lesser extent, Canada and Europe. Seventy-two of the company's roads hauled a total of more than 260,000 carloads of corn, wheat, soybeans, milo, sorghum, fertilizer and other ag-related commodities in 2017.

G&W is uniquely positioned to serve customers in the U.S. agricultural sector, thanks to a footprint that spans most of the country's key agricultural production areas. As a result, about 80 percent of its total shipments of agricultural products are in the U.S., with approximately half of them on G&W's Midwest and Central Region railroads.

Wheat Belt Presence

Among the leaders in agricultural shipments for G&W is the Central Region's Kyle Railroad (KYLE), which operates in the heart of the U.S. Wheat Belt. The road runs 550 miles (885 kilometers) from north-central Kansas into eastern Colorado, interchanging with BNSF in Courtland and Concordia, Kansas, as well as with Union Pacific in Salina, Kansas, and Limon, Colorado. Kansas is the nation's top wheat-producing state, with Colorado ranking seventh.

In 2017, KYLE hauled more than 20,000 carloads of agricultural products, 85 percent of them outbound. Hard red winter wheat, which flour mills use to make bread and rolls, comprised the largest share of the road's agricultural volume, followed by sorghum and corn.

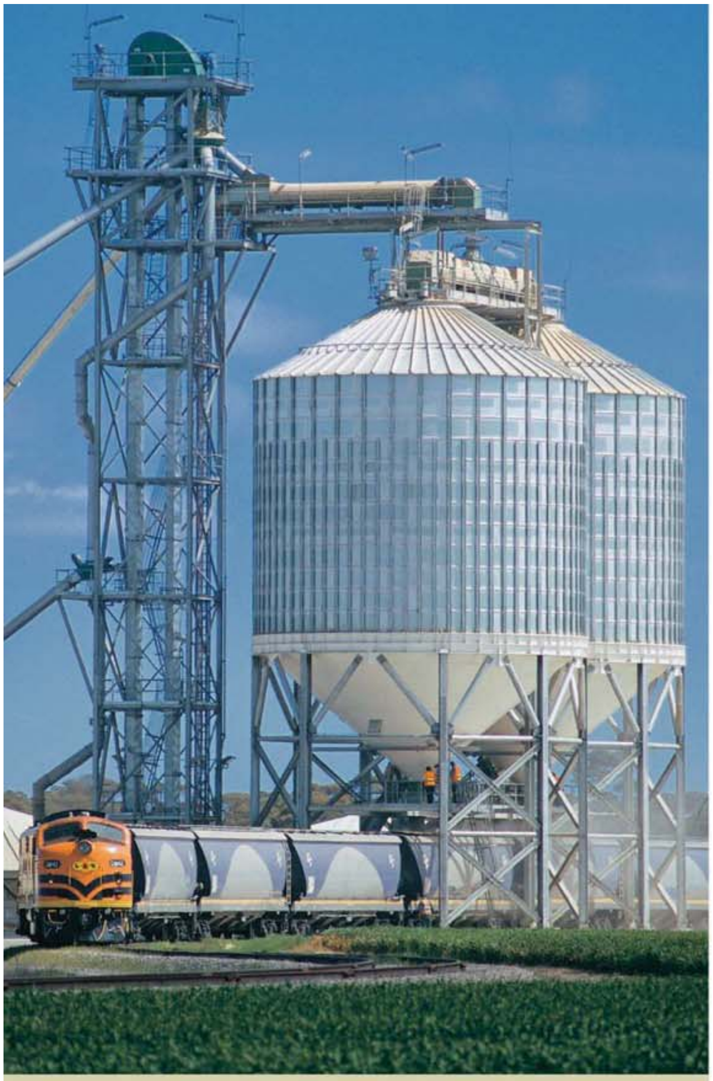
To handle the volume, KYLE relies on 1,300 owned or leased covered hoppers and 11 locomotives. Fall harvest is the busiest time of year, but thanks to changes in the way wheat and other grains are harvested, stored and sold, shipments of agriculture products on KYLE occur year-round. KYLE has approximately 50 customers, the largest being Scoular, a 125-year-old company with annual sales over $4 billion. Its more than 1,000 employees buy, store and sell commodities such as barley, corn, soybeans and wheat as well as manage transportation and logistics worldwide.

Kyle Railroad (KYLE) operates in the heart of the U.S. Wheat Belt.

The company's relationship with KYLE dates back to 2003, when the railroad began providing grain-hauling services to Scoular's unit-loader facility in Downs, Kansas. Four years later, KYLE began serving Scoular's single-car facility in Goodland, Kansas.

Keeping Grain Moving

"Good communications with each Scoular facility, as well as with G&W managers at the regional and corporate levels, is the key to our relationship," says Deb Alexander, marketing and sales manager for KYLE. "Whether it's coordinating



G&W Australia Services Grain and Cotton Markets

Genesee & Wyoming Australia (GWA) has serviced the South Australian grain export rail market since 1997. Today, it hauls grain to ports in South Australia for Viterra, a global leader in originating, handling, processing and marketing agricultural commodities. Viterra rails approximately 1.5 million tons of wheat and barley to Port Adelaide and 800,000 tons to Port Lincoln annually, although shipments can vary based on annual crop production and export market dynamics.

"We have a well-established relationship with Viterra," says Natasha Jensen, director of intermodal, commercial and business development for GWA, "and they view us as their partner of choice for their rail logistics."

GWA also hauls cotton in New South Wales for Naomi, Australia's leading cotton processing and marketing company. Jensen anticipates GWA's agriculture business expanding over the next few years in New South Wales as contracts currently with other service providers come up for renewal.

Fall harvest is the busiest time of year, but thanks to changes in the way wheat and other grains are harvested, stored and sold, shipments of agriculture products on KYLE occur year-round.

unit trains at Downs or switching single cars into Goodland, it's critical for everyone to be on the same page logistically to keep the grain moving."

As the Scoular-KYLE relationship has strengthened over the years, it has also grown in volume. According to Alexander, KYLE has taken advantage of growth opportunities by "increasing local shipments from Scoular's Goodland facility, hauling wheat or milo to hit unit trains at Downs, and moving corn for feedlot markets from customers on the eastern side of our footprint to Goodland."

Another opportunity for business growth surfaced in May 2017, when Scoular approached Alexander about leasing six acres (two hectares) of unused land at KYLE's Goodland yard in order to construct two storage bunkers, each with the capacity to store 500,000 bushels of grain.

Thirty days after the lease was signed, the ground had been cleared, and construction of the bunkers was complete. The two bunkers give Scoular the flexibility to handle additional grain at harvest, using one bunker for corn and another for wheat or both bunkers for a single commodity as the situation dictates. In the end, the project was a win-win for both Scoular and KYLE.

Mutual Dependency

"We have a great, mutually dependent relationship with Scoular because we both understand that when one business grows, so does the other," says Jon Harman, G&W vice president of corporate accounts. "The Scoular team knows that KYLE's goal is to provide the best and safest rail service possible every day and that we're investing for the long-term to continue to grow their business and ours. That not only defines this relationship but the relationships that other G&W roads have with many of their agricultural customers." ■

California Northern Railroad (CFNR)

U.S. Agriculture: A Productivity Machine and Linchpin of the U.S. Economy

Since 1948, U.S. agricultural productivity has more than doubled, enabling farmers to feed more people at home and abroad with less labor and land and to make important contributions to the U.S. economy. Driving this increased productivity were improvements in seed, fertilizer and other inputs as well as technology advances in farming equipment, including tractors and combines. The following numbers tell an impressive story:

- There are 2.1 million farms in the U.S., 99 percent of them operated by individuals and families. On average, the production from each farm feeds 165 people each year in the U.S. and abroad.
- The top 10 agriculture-producing U.S. states in terms of cash receipts are, in order, California, Iowa, Texas, Nebraska, Minnesota, Illinois, Kansas, Wisconsin, North Carolina and Washington.
- Agriculture, food and related industries contributed $992 billion to the U.S. gross domestic product in 2015, with about 15 percent coming directly from domestic farmers.
- The U.S. agricultural sector is the world's most productive. U.S. farmers, for example, rank first globally in corn and soybean production and third in wheat production, and are among the leaders in a number of other crop categories as well.
- Not only is the U.S. the world's top producer of agricultural products, it is also the world's top exporter of those products. More than 20 percent of U.S. agricultural production is exported, with soybeans, corn and wheat leading the way.
- U.S. agricultural exports support more than one million American jobs both on and off the farm each year.

Proposal to South Dakota Department of Transportation to Purchase or Lease Certain State-Owned Rail Lines

Appendix II:

Railway Age cover story:

"Regional of the Year: Rapid City, Pierre & Eastern"

MARCH 2019

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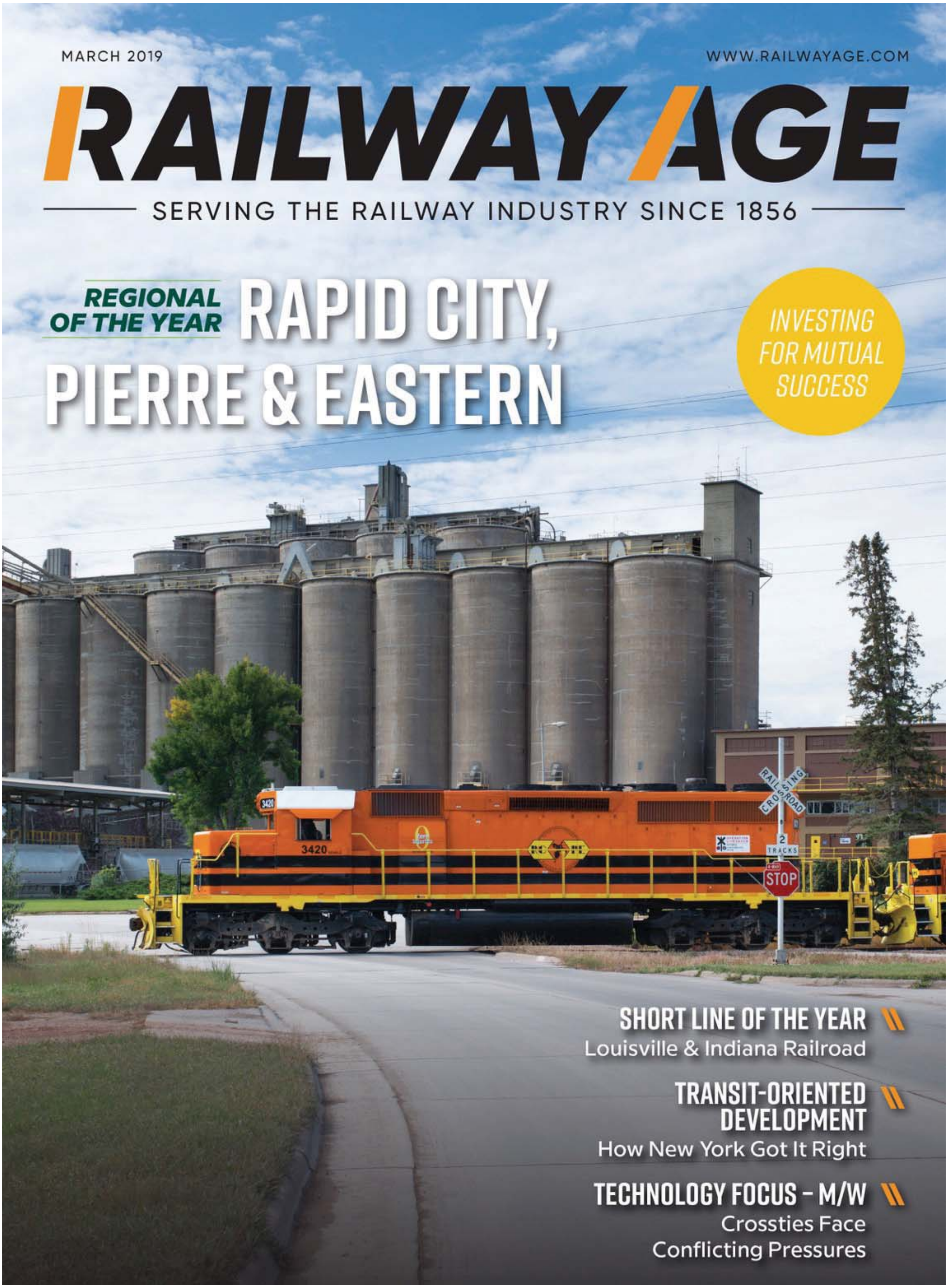
RAILWAY AGE

SERVING THE RAILWAY INDUSTRY SINCE 1856

REGIONAL OF THE YEAR RAPID CITY, PIERRE & EASTERN

INVESTING FOR MUTUAL SUCCESS



SHORT LINE OF THE YEAR
Louisville & Indiana Railroad

TRANSIT-ORIENTED DEVELOPMENT
How New York Got It Right

TECHNOLOGY FOCUS – M/W
Crossties Face Conflicting Pressures

REGIONAL OF THE YEAR

RAPID CITY, PIERRE & EASTERN

The South Dakota Class II represents a successful public-private partnership involving customers and government.

BY WILLIAM C. VANTUONO. EDITOR-IN-CHIEF

All photos courtesy of Genesee & Wyoming

Genesee & Wyoming's Rapid City, Pierre & Eastern Railroad (RCPE) is *Railway Age's* 2019 Regional Railroad of the Year. The 670-mile RCPE, which began operations June 1, 2014, had zero FRA-reportable injuries for 2016, 2017 and 2018; invested more than $80 million into its infrastructure; grew revenues by more than 20%; lowered its operating ratio from 73% to 61%; and attracted more than $300 million in new customer investments generating 20,000 projected new carloads.

Here's the RCPE success story, as told to *Railway Age:*

On May 30, 2014, the newly created Rapid City, Pierre & Eastern Railroad (RCPE) completed its purchase of the west end of the Dakota, Minnesota & Eastern (DM&E West) rail line. That evening, the 670-mile line, which runs from western Minnesota across South Dakota and into northern Nebraska and western Wyoming, shut down. On June 1, following 24 hours of safety training and orientation, the 177 newly hired employees commenced freight service on the RCPE.

Immediately facing a pre-existing backlog of grain from the 2013 harvest, along with the expected typical challenges of starting a new railroad company from scratch, RCPE employees were simultaneously tasked with expanding their already aggressive operating plan to handle a record-breaking 2014 South Dakota wheat harvest—150% above normal yields in some areas.

Fast-forward four years, and that initial competency test has helped to transform RCPE into a regional railroad that is synonymous with safety and service.

The transition is a result of a comprehensive strategic plan that saw RCPE working more closely with existing customers and attracting new businesses along its entire line by communicating that customers could reach broader markets through three connecting Class I carriers.

"The real success story at RCPE has been the true public-private partnership among the railroad, the customers and government to invest and grow together," says Michael Miller, President of North American operations at G&W, parent of RCPE.

"We committed to investing and improving service levels, and customers committed to growing their business with us. State and federal grants helped the railroad increase its capacity and upgrade the line."

Prior to RCPE's acquisition of the DM&E West line, trains ran relatively unscheduled, essentially picking up what cars they could with the available power and crews. RCPE management successfully instituted a scheduled railroad that today runs 25 trains per week. Each crew knows where and when they come on and off duty and which customers to serve. Each customer, in turn, knows which days to expect service, and they receive that service within a 90-minute window.

More than $80 million of investment in infrastructure and equipment since 2014, including internal capital and federal and state grants, has contributed to RCPE's success. Replacing 100-year-old rail allowed for longer trains and increased speeds from Wall, S.Dak., east as well as fuel and labor savings. Building three additional sidings along the line doubled capacity; customer cars no longer get left behind during crucial peak harvest or construction seasons. Five "heavy bad-order" six-axle locomotives were repaired, and 2,000 railcars were purchased to meet customer demand.

Customers have responded to these efforts—including planning two new plants along the line, one re-opening a facility and another expanding an existing operation—with a total of $300 million in investment and a potential 20,000 new carloads for RCPE.

The changes have benefited RCPE operations as well. The railroad completed 2016-2018 without a single FRA-reportable employee injury. Revenues have grown more than 20% from 2015 to date, with a 27% reduction in the locomotive fleet. And in biennial satisfaction surveys in 2015 and 2017, customers rated RCPE above 8.0 out of 10, which is the benchmark for truly loyal customers.

"For 2019 and beyond, we are committed to providing a safe work environment for employees so that they can, in turn, provide first-class service to our customers," says Daniel Dalton, RCPE General Manager. "We have a tremendous team of dedicated, professional and safe employees striving every day to meet customer expectations and grow our business."

CLASS I PARTNERSHIPS

Part of RCPE's success is the solid relationships that parent Genesee & Wyoming has forged over the years with Class I connecting railroads. G&W chief executive Jack Hellmann, *Railway Age's* 2018 Railroader of the Year, spoke with Editor-in-Chief William C. Vantuono about that, and other topics, in the January 2018 issue:

"In general terms, our relationships with the Class I's are very strong. Our philosophy as short lines is pretty simple. Number one, we try to run the safest railroads in the world, so our Class I partners aren't having to worry about the condition of our track, whether any of our people are getting hurt and whether we're running a world-class operation. We like to be low-profile, under the radar screen, with no one worrying about us.

"Second, we spend all of our time in the commercial function hustling new traffic. That's our job. We view ourselves as the retail part of the network. The fact that we even exist today, if you look back to Staggers and deregulation to where we are now, is a deeply reinvigorated industry overall, including the short line component. One of the key elements of that success has been derivative of our ability to attract new carloads to our railroads. We've got guys that are out hustling the last carload on every single one of our railroads. Even as we've gotten to be a global company, we've never lost track of our roots, taking care of the customer first and foremost.

"With those two components with the Class I's, hustling carloads for customers—and most Class I's will tell you that short lines can drive a higher internal growth rate across their networks—it's just a question of providing seamless service to interchange. And I think as we've gotten bigger, the relationship with Class I's has progressively gotten better, every single year."

On working with government to establish a P3, Hellmann said public dollars have played an important role in growing a sustainable business:

"Government policy overall, whether it's federal or state, has been an important ingredient of the story of taking short line railroads that were never supposed to make it, if you look back 30 years, and breathing capital into them. Although the vast proportion of the investment has been private-sector dollars, in certain instances, state funds, state programs married to federal programs, have helped elevate our rail infrastructure.

"What we operate over today at G&W—and I couldn't have said this 20 years ago—is going to be there for the next 50 years, for the next generation to come, because of the success of the industry, the investment in the plant. By virtue of our own efforts as well as those of local and federal governments, we've simply elevated the caliber of our infrastructure in a meaningful way. Our plant has never been in better condition than it is today. It's very gratifying."

Finally, there's the 45G investment tax credit, which the small-road industry has been struggling to make permanent:

"45G is one of the component parts of the public-private partnership that's led us to tackle some of the longer lead-time projects—the big bridges, the big tunnel projects, the ones that you can defer for a while that are eventually going to have to come. With the support of things like 45G, our confidence and our ability to invest in those projects now rather than later has been accelerated, and you can see that in the condition of our plant today. It remains a priority. A lot of G&W now is 286-compliant. But we continue to have lines that require upgrades. 45G will be an important part of that prospectively. So we do spend a lot of time in Washington, D.C., talking about the merits of what has happened up until now, as well as what we see that can happen going forward, as we continue to upgrade track."

Proposal to South Dakota Department of Transportation to Purchase or Lease Certain State-Owned Rail Lines

Appendix III:

Economic Impact Study

Public Benefits of D&E Acquisition of the MRC Line

November 21, 2019

The acquisition of the MRC Line by G&W will provide the State of South Dakota (the State) with significant incremental public benefits. They will be in the form of favorable impacts on the State's economy and general social benefits.

This analysis was conducted by WSP USA, using accepted modeling practices for federal benefits studies, identified total aggregated public benefits of $143.9 million over 20 years, comprising a $104.1 million impact on the South Dakota economy from expanded investment in infrastructure and equipment, and $39.8 million in general public benefits. In addition, the construction and equipment investment will generate $1.9 million in additional State tax revenues associated with D&E operating over the MRC Line. These benefits are grouped into six key areas:

1. Expanded investment in infrastructure and equipment
2. Improved logistics for existing customers
3. Increased economic growth for the region
4. Leveraged existing in-state rail resources
5. Improved safety
6. Improved operating resiliency

Table 1 and Table 2 outline the public benefits to South Dakota, and the discussion that follows further explains each one.

Table 1: South Dakota Economic and Tax Impacts of Investment in the MRC Line, 2019 Dollars

Economic and Tax Impacts						
	Employment (Job-Years)	Labor Income ($Millions)	Economic Output ($Millions)	**Total ($Millions)**	**State & County Taxes ($Millions)**	Associated Federal Taxes ($Millions)
Expand Infrastructure Investment	423	$22.5	$67.9	**$90.4**	**$1.5**	$4.5
Equipment Investment	41	$2.8	$10.9	**$13.7**	**$0.4**	$0.6
All Investment	**464**	**$25.3**	**$78.8**	**$104.1**	**$1.9**	**$5.1**

Source: WSP Analysis using IMPLAN Model
Note: Economic output is the value of production

Table 2: General Public Benefits to South Dakota, 2019 Dollars

General Public Benefits						
	Avoided Pavement Damage ($Millions)	Avoided Carbon Emissions ($Millions)	Other Avoided Emissions ($Millions)	Avoided Highway Accidents ($Millions)	Improved Economic Competitiveness ($Millions)	**Total ($Millions)**
Improve Logistics for Existing Customers	$4.2	$0.03	$0.8	$2.8	$6.4	**$14.2**
Increase Economic Growth for State	$7.9	$0.06	$1.0	$5.5	$11.1	**$25.6**
Leverage Existing In-State Rail Resources					Use of RCP&E resources to benefit shippers	
Improve Safety				Aggressive crossing safety program	Reduced service disruptions due to incidents	
Improve Service Resiliency	Quick recovery or proactive avoidance of service disruptions alleviates need for trucks				Dependable service improves competitiveness	
Total Quantifiable Benefits	**$12.1**	**$0.1**	**$1.8**	**$8.3**	**$17.5**	**$39.8**

Source: WSP Analysis using IMPLAN Mode

Economic and Tax Impacts

1. EXPAND INVESTMENT IN INFRASTRUCTURE AND EQUIPMENT

In addition to the cost of the purchase, G&W, once it becomes the rail operator, proposes to invest capital of $52.4 million in improving the infrastructure and related equipment over the next 20 years. This includes $8.6 million in year one investments and between $2 million and $4 million projected each year over the next 20 years. This does not include the projected $1.1 million (2019 dollars) the D&E will incur in normal maintenance of way expense on an annualized basis (which adds another $22+ million in infrastructure spend over the next 20 years).

The investment will have a significant impact on the South Dakota economy. The economic impacts of construction expenditures were calculated using the IMPLAN model for South Dakota.[1] The model estimates how expenditures in any economic sector percolate through other sectors of the economy. The model also estimates the taxes that will be paid to different levels of government from these expenditures.

[1] https://www.implan.com/platform/

Table 3 presents the economic impacts of the investment. This expenditure is anticipated to support 247 job-years in the construction sector (direct impacts), producing $13.7 million in labor income and $39.9 million in economic output. In addition to labor, the initial and subsequent construction activities will require materials and services from other sectors of the economy. The construction expenditures of the project will generate an additional $15.0 million in indirect output in these other sectors, supporting 79 job-years that earn $4.5 million in income. The income from the direct and indirect economic activity supports purchase of additional goods and services (e.g. food, personal transportation, entertainment, housing, etc.) which is referred to as induced economic impacts. Investment in upgrading the MRC Line will produce an additional $13.0 million in induced economic activity, supporting an additional 98 job-years of employment generating $4.4 million in labor income.

Table 3: Economic Impacts of Construction Investment in the MRC, 2019 Dollars

Impact	Employment (job-years)	Labor Income	Output
Direct	247	$13,679,426	$39,892,533
Indirect	79	$4,464,082	$14,999,778
Induced	98	$4,352,907	$13,028,981
Total	**423**	**$22,496,415**	**$67,921,292**

Source: WSP Analysis using IMPLAN Model

The IMPLAN model also provided estimated taxes attributable to the construction activity presented in Table 4. It is estimated that a total of $6.0 million in taxes will be paid to all levels of government, $4.5 million to the federal government, $0.7 million to the South Dakota state government, and the remainder, $0.8 million, to various local governments. For calculating local taxes, the model applies the average county and sub-county tax rates in the State.

Table 4: Estimated Tax Impacts of Construction Expenditures, 2019 Dollars

	Federal Tax Impacts	State Tax Impacts	County Tax Impacts	Sub County General Tax Impacts	Sub County Special Districts	Total
Total Taxes	$4,540,594	$736,212	$130,816	$235,987	$311,363	$5,954,972

Source: WSP Analysis using IMPLAN Model

In addition to construction expenditures, the project also includes $4.1 million over 20 years in expenditures on rolling stock, vehicles and equipment. The direct, indirect, and induced impacts of these expenditures were also estimated using the IMPLAN model and are presented in Table 5 below

Table 5: Economic Impacts of Equipment Expenditures, 2019 Dollars

Impact	Employment (job-years)	Labor Income	Output
Direct	6	$503,258	$3,500,000
Indirect	18	$1,409,336	$4,540,208
Induced	17	$913,817	$2,851,458
Total	**41**	**$2,826,411**	**$10,891,667**

Source: WSP Analysis using IMPLAN Model

Table 6 shows the estimated tax implications of this expenditure.

Table 6: Estimated Tax Impacts of Equipment Expenditures, 2019 Dollars

	Federal Tax Impacts	State Tax Impacts	County Tax Impacts	Sub County General Tax Impacts	Sub County Special Districts	Total
Total Taxes	$642,911	$197,065	$40,529	$61,852	$60,041	$1,002,398

Source: WSP Analysis using IMPLAN Model

Remaining Public Benefits

Beyond the investments planned by G&W in the MRC Line, operation of this railroad by D&E will produce significant public benefits in the form of enhanced economic competitiveness. This is attributable to increased income to producers, principally farmers. Additional public benefits include maintaining a state of good repair of the highway network, reduction of emissions, and improved safety. They are driven by the reduction in truck use (offset by the disbenefits of increased rail operations). The presented benefits are only those that accrue to South Dakota.

2. IMPROVED LOGISTICS FOR EXISTING CUSTOMERS

Acquisition of the MRC Line by G&W will improve the logistics for current shippers using this railroad in several ways. Operation by the D&E will open up new market opportunities for South Dakota's farmers. Current operations on the MRC Line are focused on a single interchange with BNSF in Mitchell. Current abilities to reach RCP&E using the State secured trackage rights on the BNSF Core Line between Mitchell and Wolsey, and use of the existing rights to reach Sioux City, Iowa over the BNSF line east of Chamberlain are not utilized for multiple reasons:

- Lack of railroad controlled locomotives and grain covered hoppers to create an alternative to those now only provided by BNSF in its shuttle train service.
- Lack of ability to reach critical volumes to make these new moves economically feasible.

This current effective single interchange with BNSF in Mitchell reduces the availability of new market opportunities. Acquisition and operation by a G&W affiliate will facilitate access to additional markets by leveraging the network of the RCP&E and its existing train service and interchange with CP and UP (note that the RCP&E also participates in the BNSF shuttle program). The shipper and public benefits of providing the resources necessary to support opening up new markets over Tracy (CP), Mankato (UP) and Sioux City (UP and CN) are significant, and are already demonstrated through the RCP&E in developing new traffic flows over Mankato with UP since its start-up in 2014.

Expanding the types of rail service available to MRC Line customers is expected to allow shippers using the line to target new markets now not readily accessible through the current BNSF shuttle train program. D&E operation, with its ability to supply shippers' railcars to access alternative interchanges, will permit, and in fact encourage, shipping in small car blocks or as single car shipments. The ability to ship grain in smaller lot sizes will thus expand rail shipment opportunities. Grain currently being moved by truck could now be converted to rail transportation. The conversion to rail will reduce shipping costs benefitting the farmer.

Supporting this potential growth in business as well as expected organic growth by existing shippers will require having a readily available fleet of freight cars. The DSRC relies on BNSF to supply freight cars to meet its traffic needs. Class I railroad connections are not always the most reliable source of freight cars as they have their own demands, particularly during periods of high demand such as during the peak of the grain harvest (there is also a secondary auction market for BNSF grain train shuttle loadings). Generally, it is in the carrier's best interest to place a higher priority on providing cars to customers on its own lines rather than on meeting the car capacity needs of its short line connections.

In contrast with the current operator, G&W will provide railcars for service on the MRC Line. It has an extensive fleet from which it can draw to meet its needs including during periods of peak demand. G&W has more than 6,500 covered hopper railcars dedicated for use by agricultural customers on its railroads throughout North America. This includes a fleet of 2,633 cars on RCP&E that are available for its use and, with D&E as operator, use by shippers on the MRC Line.

Several opportunities with significant public benefits involving existing shippers have been identified and are outlined below:

Improved Service Reliability Benefitting All MRC Line Shippers

The availability of freight railcars under the control of G&W subsidiary railroads, access to existing RCP&E locomotive and freight car repair facilities, increased investments in the track structure, improved resiliency in operations and the ability of the D&E to provide superior service will all significantly improve the reliability of rail operations on the MRC Line. Besides intrinsically more satisfied customers, improved reliability will result in eliminating forfeited Origin Efficiency Payments (OEP) to shippers for delays in BNSF shuttle train operations on the Line. These incentive payments are involved with the majority of current rail freight traffic over the MRC Line.

Using information from the South Dakota Railroad Board's 2018 Federal Railroad Administration (FRA) Special Transportation Circumstance (STC) grant application, it is estimated that 13 percent of potential OEP payments can be expected to be missed under current conditions. Improved operations can eliminate payment forfeitures resulting in an economic competitiveness benefit of $2.3 million over a 20 year period based on conservative growth in shuttle train shipments. Additionally, in a 2019 MRC Line grant application for a Meet and Pass siding it noted $132,000 in annual missed OEP payments, growing to as much as $264,000 annually in just a few years.

Availability of Alternative Interline Gateways - Opening Other Markets for Soybeans

Currently, with no alternative car supply or meaningful less than unit train freight service, shippers on the MRC Line are limited to a single Class I railroad connection by default. This affects the prices that South Dakota's farmers receive for grain, the supply of grain cars, and service levels. Through the use of D&E controlled cars and utilization of the State secured trackage rights on the BNSF Core Line to reach the RCP&E, D&E will connect multiple interline partners: CP at Tracy, Minnesota and the UP at Mankato. This will expand the market reach for the State's products. South Dakota's soybean shippers located on the MRC Line will immediately benefit from the ability to access Mankato's soybean processing facilities. Based on an estimated $0.05 per bushel differential in rail rates, South Dakota's shippers, and thus the State's economy, is projected to benefit by $4.1 million over the next 20 years.

Other Truck to Rail Diversion

Other truck to rail conversions are expected as improved service and higher grain prices to farmers will attract additional business to existing elevators. The potential for additional rail traffic drawn from current truck shipments of soybeans and wheat will eliminate another 17 million truck miles over a 20 year period with nearly 4,100 trucks annually leaving the State's roadways.

The conversion of selected fertilizer shipments to rail is also an opportunity. During the initial year of the D&E operation, it is expected that 20,000 tons of inbound fertilizer will convert to rail eliminating 1,000 trucks and 250,00 truck miles from the highway network. At the end of 20 years, the number is expected to grow to 1,500 trucks, annually

3. INCREASED ECONOMIC GROWTH FOR THE REGION

Improved service and operating efficiencies will also attract new business to the railroad. Several opportunities have been identified.

Smaller Elevators: Ability to Share in Rail Economies

Because grain traffic moves in BNSF shuttle trains, many smaller elevators are precluded from shipping by rail. The D&E would provide service to smaller elevators by pulling their cars and delivering to a larger elevator or adding on to an existing merchandise train. Initially 330 annual carloads have been identified as candidates for this type of service. It is estimated that initially 1,848 trucks per year will be taken off the road growing to approximately 2,700 annually over a 20 year period. During this time frame, 898,000 truck miles would be avoided.

Rail Repositioning: CHS Chamberlain to CHS Mitchell

Another new opportunity is converting the movement of grain from CHS elevators at Chamberlain and Mitchell. This is currently a 70 mile truck move that can be converted to rail (and previously was a rail move). It is estimated that initial annual volume produces 325 carloads. In the first year of operation 1,800 truckloads would be removed from State's highways increasing to 2,600 trucks per year in 20 years. Approximately three million truck miles would be saved over the period.

New Off-Line Markets For Wheat Producers

A third opportunity is shipping wheat to alternative markets. Wheat currently moves in BNSF shuttle trains. The D&E will provide wheat farmers with the ability to ship in single cars and less-than-unit train blocks of cars by providing D&E controlled railcars and D&E locomotives to support non BNSF shuttle train moves. The ability to ship under single car rates coupled with the access that D&E-RCP&E will provide to new markets will open up new opportunities for South Dakota wheat producers. Conservatively, it is estimated that 1,200 carloads of wheat will take advantage of the alternative routing. At a saving of $0.02 per bushel over a truck alternative, farmers would benefit by $92,000 during the initial year of the service, growing to $135,000 20 years in the future.

4. LEVERAGE EXISTING IN-STATE RAIL RESOURCES

In addition to the RCP&E freight cars that the D&E can draw from to meet peak market demands and organic growth as well as to provide capacity to open-up alternative markets for South Dakota's shippers, it also has a fleet of 46 locomotives that provide redundancy to the D&E's operations on the MRC Line.

In addition, the RCP&E has other assets that will be immediately accessible to the D&E. The RCP&E maintains the following facilities:

- Huron locomotive shop: 15 stall roundhouse equipped with two overhead cranes (5 ton and 17.5 ton). The shop performs running repairs, inspections, component change outs and heavy repairs.
- Huron car shop: enclosed building with two repair tracks with eight car spots each. It has a vehicle to do wheel change outs on the road and a service truck for mobile car repairs.
- Rapid City locomotive shop: four stall roundhouse shared with MOW services. Shop performs minor running repairs. It has a service truck for over the road locomotive repairs.
- Rapid City car shop: an enclosed building with two RIP tracks each with five car spots. It has a truck for wheel change outs on the road and a service truck for mobile car repairs.

5. IMPROVE SAFETY

G&W and RCP&E already place a high importance on safety, which will be shared by the D&E. The RCP&E has been recognized for its focus on safety, winning the 2016 G&W Chairman's Award, presented to the G&W operation with the best safety performance. In 2016 and 2017, the RCP&E also won the prestigious short line industry Jake Award, presented to those railroads who went injury free in the previous year.

6. IMPROVE OPERATING RESILIENCY

A resilient rail operation is defined as the ability of the railroad to quickly return service after a major disruptive event, more often than not a weather event. The G&W railroads have strong track records in returning their lines to service. The RCP&E provides a good example. Its expedited return to service can serve as a benchmark for South Dakota rail operations. A severe weather event in 2019 resulted in both the RCP&E line and the MRC line falling out of service and requiring embargo. After experiencing a very material washout of an entire section of subgrade, the RCP&E was embargoed for 17 days. Similarly, the DSRC was embargoed for two months and 18 days. The quick recovery by the RCP&E was due both to the ability to marshal resources to bring the railroad back to a state of good repair, the railroad being well-maintained before the weather related incidents and its financial capacity to immediately address the emergency.

Even during the period that the RCP&E was not fully operational, the railroad took actions to accommodate its customers. It rerouted traffic over the BNSF, compensating the Class I for the move. RCP&E also set up a transload for bentonite clay to ensure service for its Colony clay customers. No customer was completely shut down.

Financial Analysis of Other Public Benefits

Monetized benefits were developed using the benefits module of the benefit-cost model that follows FRA and US DOT guidance for the development of benefit-cost ratios. All benefits are to South Dakota only. It is important to note that the benefits presented are not a comprehensive measure of the total impact of the operation of the D&E. Many additional benefits cannot be readily quantified or occur under conditions of uncertainty.

The analysis comprises four long-term impact areas identified by US DOT:

- State of Good Repair: D&E operations will have an impact on the state of good repair of the highway network as the conversion of tonnage from truck to rail will reduce highway damage.
- Environmental Sustainability: D&E operations will result in sustainability benefits both from the shift of traffic to rail.
- Safety: D&E operations will enhance safety by reducing vehicular miles traveled.
- Economic Competitiveness: The D&E will have an impact on South Dakota's economic competitiveness by reducing logistics costs to rail customers, allowing them to expand their markets both domestically and internationally.

The aggregated results are summarized in Table 7. The increased economic growth opportunities have the largest benefit at $25.6 million. The majority of that benefit category, $14.5 million, is attributable to removing trucks from the South Dakota road network. Similarly, the public also benefits more in the existing business category from reduced miles. However, improved economic competitiveness is also an important generator of benefits in both categories.

Table 7: Summary of Benefits of D&E Operation

	Improved Logistics For Existing Customers	2019 US$ (20 year, Discounted @3%)
Other Public Benefits	Value of Avoided Pavement Damage (2019 Dollars)	$4,169,654
	Value of Avoided Carbon Emissions (2019 Dollars)	$29,389
	Value of Avoided NOX, PM10, VOC Emissions (2019 Dollars)	$815,633
	Value of Avoided Crashes (2019 Dollars)	$2,783,696
	Subtotal Social Benefits	$7,798,372
Economic Competitiveness Benefits	Avoided Forfeited OEP Payments	$2,325,884
	Alternative Market for Mankato Beans	$4,074,703
	Subtotal Economic Competitiveness Benefits	$6,400,587
	Total Benefits to Current Businesses	***$14,198,959***
	Increased Economic Growth for the Region	**2019 US$ (20 years, Discounted @3%)**
Other Public Benefits	Value of Avoided Pavement Damage (2019 Dollars)	$7,913,505
	Value of Avoided Carbon Emissions (2019 Dollars)	$59,039
	Value of Avoided NOX, PM10, VOC Emissions (2019 Dollars)	$1,019,373
	Value of Avoided Crashes (2019 Dollars)	$5,473,376
	Subtotal Social Benefits	$14,465,293
Economic Competitiveness Benefits	Alternative Markets for Wheat	$10,902,582
	CHS Chamberlain to CHS Mitchell	$104,720
	Small Elevator Service	$106,331
	Subtotal Economic Competitiveness Benefits	$11,113,633
	Total Benefits to New Business	***$25,578,926***

Source: WSP Analysis using the WSP Benefit-Cost Model

Conclusion

Acquisition of the MRC Line by G&W will produce significant public benefits to the State of South Dakota with only a few identified in this analysis. The benefits will be driven by opportunities offered by the D&E and improvements in several areas:

1. Expanded investment in infrastructure and equipment
2. Improved logistics for existing customers
3. Increased economic growth for the region
4. Leveraged existing in-state rail resources
5. Improved safety
6. Improved operating resiliency

Total public benefits, with the D&E as operator, are expected to be $143.9 million, comprising a $104.1 million impact on the South Dakota economy and $39.8 million in general in-state public benefits. In addition, construction and equipment investment will generate $1.9 million in State tax revenue.

These estimates are conservative. As the D&E operates over time, other opportunities will arise that will generate benefits to South Dakota.