

South Dakota Department of Transportation

**Invitation for Proposals to Purchase State-Owned
Rail Lines**

November 21, 2019

Prepared By

SDR Holding Company

Company Information

Lead Contact for Official Correspondence

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History and Background

Michael Williams is the President of Railroad Materials Salvage, Inc. (“RMSI”), a railroad contracting and supply company, as well as the owner of numerous shortline railroad companies across the United States. He entered the railroad industry in 1980 and formed RMSI in 1984. He started acquiring shortline railroads in 1989, and his shortline companies now operate over 900 miles. He remains involved in the operation and sales of each of his companies.

Mike has been involved in transactions in the railroad industry totaling over \$900 million. He has been involved in short line railroad acquisitions, the buying and selling of steel rail and other track components, railroad rehabilitation, and NLV appraisals of rail lines as well as many other aspects of the industry.

Using his expertise of the railroad construction industry and the supply of relay rail within RMSI, Mike was instrumental in partnering with the State of South Dakota-Department of Transportation to secure TIGER Grants for the Mitchell-Rapid City Rail (MRC) line project to rebuild a state-owned branch line from Mitchell to Presho, South Dakota. The reconstructed rail line increased the capacity and efficiency of the line principally used for transportation of agricultural commodities. The existing branch line was in poor condition, limiting the amount of freight shipped over the railway. The rehabilitation took 7,200 truckloads of grain and put them on rail, reducing emissions and road maintenance costs and lowering shipping costs for farmers and gave South Dakota farmers easier access to national and international markets served by Burlington Northern Santa Fe, Union Pacific, and Canadian Pacific.

Mike is thoroughly knowledgeable in all aspects of the railroad industry. His clients include companies such as Canadian National Railroad, Herzog Companies, Union Pacific, Watco Companies and Chicago Heights Steel as well as numerous other shortline and regional railroads and railroad contractors.

Mike is an active member of the National Railroad Construction and Maintenance Association and the American Short Line and Regional Railroad Association.

Mike graduated from the University of Central Missouri with a BS in Construction Management. He resides in Richmond, MO.

Proposer's leadership Personnel

Michael Williams	President
Avory Beggs	Chief Operating Officer
Webb Roberts	Chief Financial Officer
Terry Carter	Vice President of Corporate Affairs
Heath Haden	Vice President of Operations & FRA Compliance
Annie Bowman	Director of Human Resources

Bankruptcies or Operational Issues

SDR Holding Company has no bankruptcies in its history. Any operational issues in the past have been due to flooding and tornadoes.

Fines or Civil Penalties

SDR Holding company has no history of civil penalties or fines.

Business Goals

The business goals of SDR Holding company are to continue providing quality, on time service to our customers through daily communication and continued discussions on their business growth. We will also aggressively pursue any new potential growth for the benefit of the communities and the state.

Lines to Be Purchased

Napa Junction to Platte, SD (“Napa-Platte Line”)

- Total Mileage: approximately 83.3
- Segment from Napa Junction to Ravinia (approximately 54.5 miles) leased to operator, Dakota Southern Railway Company (through Nov. 30, 2026)
- Overhead trackage/haulage rights on BNSF’s lines to multiple interchange points for traffic originating/terminating on the Napa-Platte Line; interchange rights with BNSF at Napa, SD
- Class I and Class II purchasers require consent of BNSF Railway to maintain trackage/haulage/interchange rights
- Segment from Ravinia to Platte is railbanked (approximately 28.8 miles)

Purchase Price

The proposed purchase price is ONE MILLION SEVEN HUNDRED NINTEY FIVE THOUSAND AND NO/100 (\$1,795,000.00), subject to STB approval. Estimated time to close is within 120 days.

Payment method: Pay 100% at closing after approval of STB or other government entities. Purchase will be funded by our current lender, Simmons Bank.

Service Protections

Expected operational improvements or methods

SDR Holding Company expects to help new industry with track construction for new or existing facilities while expanding locomotive maintenance of way equipment and manpower for new growth opportunities.

Capital investment plan

SDR Holding Company has banking relationships with major banks to fund expansion projects and line acquisitions, such as Brule and Ironhorse facilities located in Kimball, SD. We have historically co invested with our customers to support additional development in the community and carload generation for the railroad. We continue to review investment opportunities and jointly plan development in communities across the US with SDR Holding Company and its affiliates.

Potential railroad expansion options

Rehabilitation of track between Napa Junction and Tindall, SD with 5 miles of passing tracks and switch yards to service new business.

Projected industry developments

Mike Williams currently has ownership in Dakota Protein at Napa Junction (opening 2020).

Cogeneration and recycling of rail ties at Napa Junction.

Transload Yard for specialty commodities in containers for export.

Locomotive and Railcar repair shop.

Build office for maintenance of way and management team at Napa Junction. Projected employee needs: 1 Engineer, 1 Conductor, 3 maintenance of way employees.

Marketing Plan

Our marketing plan will be to promote the shuttle loader service as we have on the MRC line, while giving utmost attention to smaller companies needing safe, reliable and timely services. We will pursue all growth opportunities, large and small.

Rate or Service Modifications

SDR Holding Company is prepared to increase equipment, manpower and trackage to new and existing customers. Rates modifications would be minimal if any, except where it could be a benefit to the customers.

Expected Impact to existing shippers

As there are no existing customers, however we implement that same principals and business model that has helped service and reliability on the MRC line.

Expected impact to communities

We strive to have a positive impact in the communities we serve. We have been involved in community service projects, including the ones Dakota Southern Railway currently provides, such as the Easter Train, and Santa Train in South Dakota communities. We have, and will continue to make donations to the local fire departments and food banks.

Experience operating short line railroads

We operate 9 short line railroads and 3 terminals in the US. The company is recognized for buying and developing lines with little or no business and creating economic growth.

Projected economic impact

As the rail lines grow and businesses develop, more revenues are generated for the state and more job opportunities are created for the local people.

Long-term maintenance plan

The company currently maintains 1000 miles of its own track and provides maintenance on numerous short line railroads throughout the U.S. Track inspections and repairs are done daily to keep in compliance with the Federal Railroad Administration.

Trackage Rights, Haulage Rights, and Interchange Rights

As the current operator of the line, SDR Holding Company will continue to use the existing agreements in place with BNSF Railway.

Current Grant Commitments

SDR Holding Company will always be compliant with any type of grants associated with the line, and reporting requirements for such.

Future Grant Commitments

SDR Holding company will pursue future grants for the development and improvement of the line.

Lease and Sub-lease Agreements

The company currently holds the Napa-Platte line lease.

Permits, Licenses, Excess Property Leases, and other Land Use Agreements

SDR Holding Company acknowledges that the Department reserves the right to exclude any excess property from the sale of the Lines at any time prior to execution of a Line purchase agreement.

Approval of Sale

Upon approval of Sale, SDR Holding Company will file all legal notices required by the STB and other regulatory agencies. Estimated time 60-90 days.

Environmental Liabilities

At our expense, SDR Holding Company may elect to perform a Phase I Environmental study based on banking requirements.

Conditions of Sale

SDR Holding Company acknowledges and agrees to comply with all terms of the IFP conditions outlined in the Conditions of Sale listed in Section 4. SDR Holding Company is prepared to address any other contingencies required by the Board.

1. SDR Holding Company understands the SDDOT ability to re-purchase the Lines in an abandonment proceeding or if the purchaser were to discontinue service for any reason.
2. SDR Holding Company agrees that the SDDOT has preferred re-purchase rights if a sale is contemplated to another buyer.
3. SDR Holding Company understands the SDDOT requirement that any assignee or successor to the purchaser abide by the terms of the sale agreement.
4. SDR Holding Company understands the SDDOT requirement that the sale of the line be considered "AS IS, WHERE IS", as allowed by law.
5. SDR Holding Company agrees with the provision requiring the purchaser to indemnify the SDDOT and hold the SDDOT harmless for any claims related to any acts or omissions after the closing of the sale.
6. SDR Holding Company agrees to the provisions requiring the purchaser to fully protect any haulage, trackage, and interchange rights that apply to the line as a result of the SDDOT's settlement with BNSF, and to fully comply with any other obligations that apply to the purchaser pursuant to that settlement agreement.
7. SDR Holding Company understands the SDDOT will retain mineral rights as required by South Dakota law.
8. SDR Holding Company agrees that 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.
9. SDR Holding Company understands that the SDDOT will reserve a right to crossings that have not yet been constructed but are identified in the SDDOT's current Statewide Transportation Improvement Plan.

10. SDR Holding Company agrees that the lines will be conveyed by quit claim deed and the purchaser will waive any title defects.

SDR Holding Company appreciates the opportunity to submit the proposal for the rehabilitation and development on the Napa-Platte line and will implement the same business model that created the success of the major development on the MRC line with over \$100 million in unit loader facilities and \$10 million in yard and terminal tracks.