

CG EI-3127

FD 33407

CARH: Today & Tomorrow

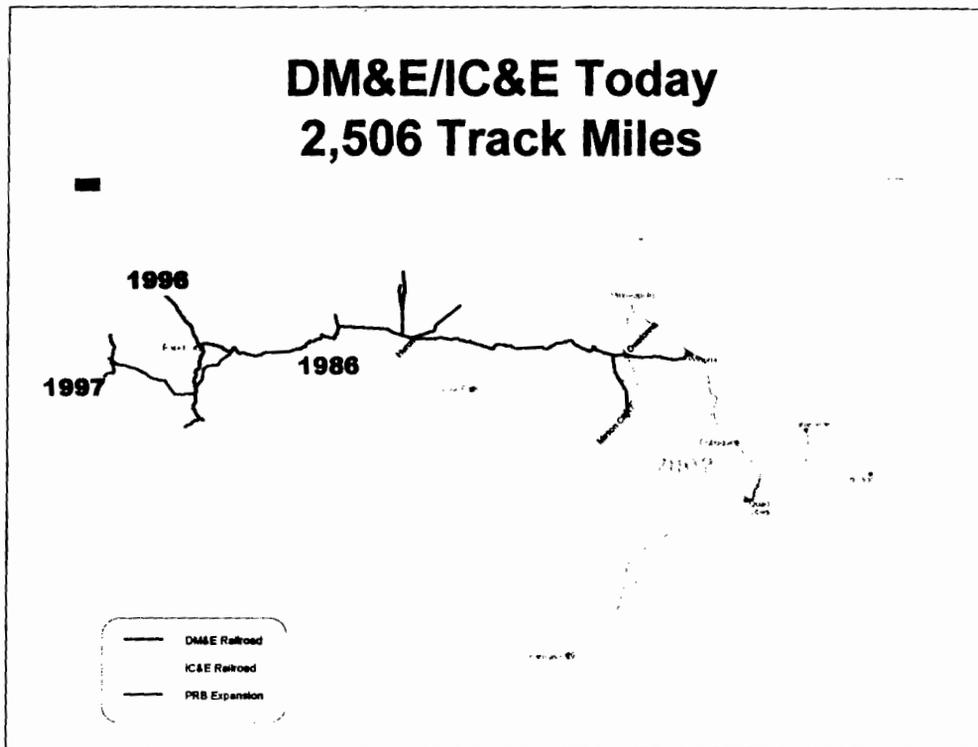


**DM&E Cultural Resources 2007 Field Season
Kick-Off Meeting
Thursday - May 17, 2007**

Outline

- Introduction
- CARH overview
- Current Capital Plan
- PRB Project overview
- Summary
- Questions / discussion

DM&E/IC&E Today 2,506 Track Miles



Dakota, Minnesota and Eastern Railroad (DM&E) (AAR reporting marks DME) is a Class II railroad operating across South Dakota and southern Minnesota in the northern plains of the United States. Portions of the railroad also extend into Wyoming, Nebraska and Iowa. DM&E and Iowa, Chicago and Eastern Railroad (IC&E) are both jointly managed by Cedar American Rail Holdings, making the combined system the largest Class II network in the US.[1] Although Cedar American Rail Holdings manages both railroads, in reality it is a subsidiary of Dakota Minnesota & Eastern Railroad Corporation, but Iowa, Chicago and Eastern Railroad is a subsidiary of Cedar American Rail Holdings.

DM&E began operations on September 5, 1986 over tracks that were spun off from Chicago and North Western Railway in South Dakota and Minnesota. Much of the negotiations were handled by the office of Senator Larry Pressler and his legal counsel Kevin V. Schieffer. After a successful decade of growth for DM&E, Schieffer succeeded J. C. McIntyre as president of the railroad on November 7, 1996.

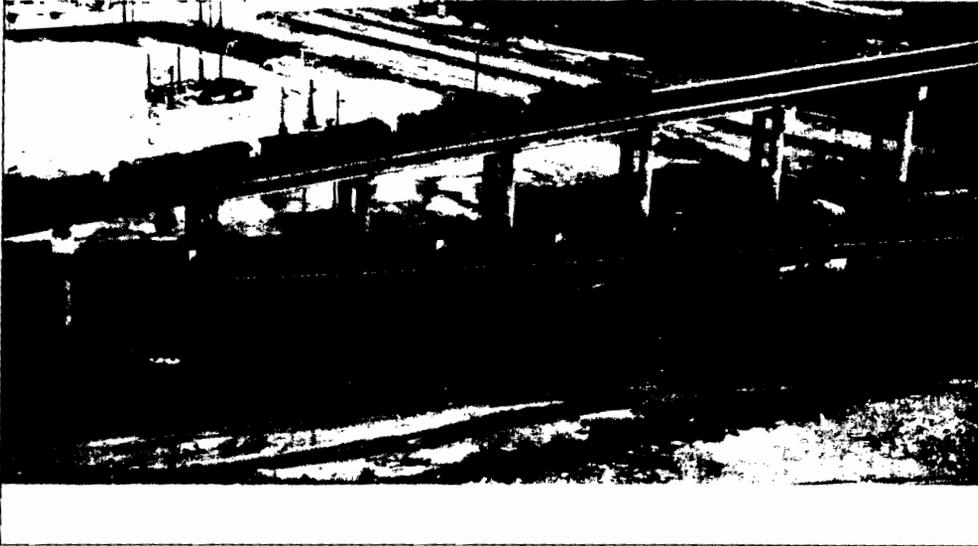
In 1997 DM&E announced plans to build into Wyoming's Powder River Basin to become the third railroad (after Burlington Northern and Santa Fe Railway and Union Pacific Railroad) to tap into the region's rich coal deposits. The Surface Transportation Board (STB) released the final Environmental Impact Statement (EIS) on November 19, 2001; with the final EIS in place and approval from the STB, as of 2004 DM&E is pursuing financing to undertake the expansion as proposed. The construction is planned to be completed in 2007 and the addition of the revenues gained from hauling coal along the new line has the potential of elevating the combined DM&E/IC&E system from AAR's Class II to Class I.

I&M Rail Link (Illinois-Iowa-Missouri-Minnesota)

DM&E purchased the assets of I&M Rail Link railroad in 2002, renaming it Iowa, Chicago and Eastern Railroad and combining its management and dispatching duties with those of DM&E under the holding company Cedar American Rail Holdings. Schieffer serves as president and CEO of Cedar as well as serving as president of DM&E. The combined system directly connects Chicago through Iowa to Kansas City, Minneapolis-St. Paul and continues as far west as Rapid City, South Dakota. Smaller branches extend into portions of Wisconsin, Wyoming and Nebraska.[2]

comp. 12/18

- 1. Size: Largest Contiguous Class II Railroad System**
- 2. Access: Competitive access to all Class Is**
- 3. Geography: Shortest line from PRB to Midwest**

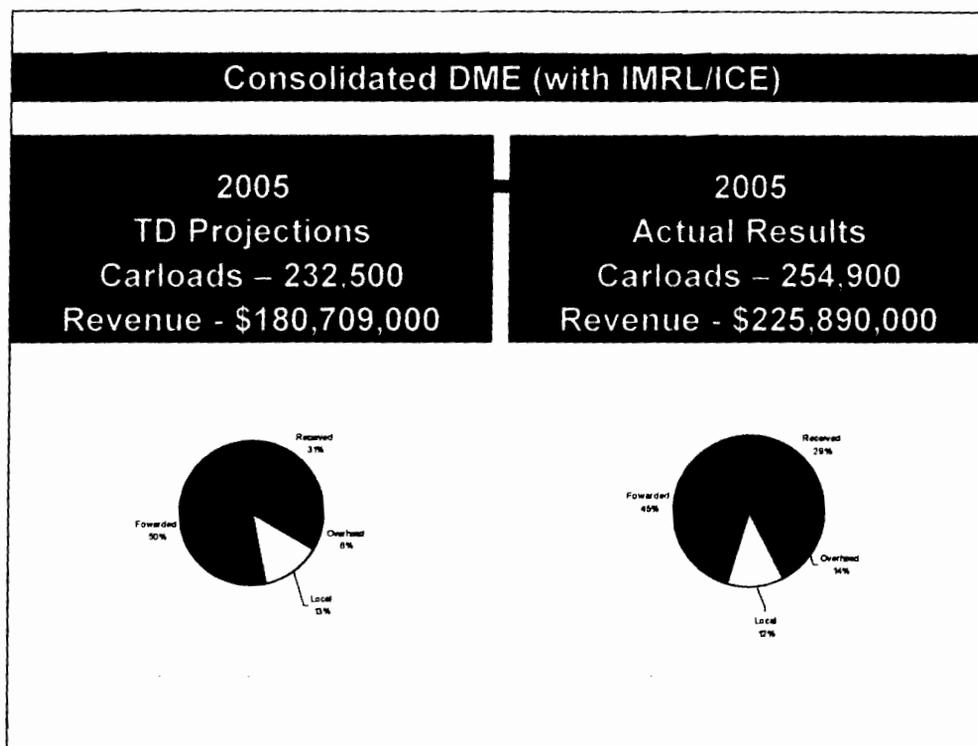


A Class II railroad in the United States is a mid-sized freight-hauling railroad, in terms of its operating revenue. As of 2006, a railroad with revenues greater than \$20.5 million but less than \$277.7 million for at least three consecutive years is considered a Class II railroad. Switching and terminal railroads are excluded from Class II status.

Railroads considered by the Association of American Railroads as "Regional Railroads" are typically Class II railroads.

As of 2005, a Class I railroad, as defined by the Association of American Railroads, has an operating revenue exceeding \$319.3 million. The exact setting of the cut-off figure has always been as much a political decision as anything else, as different rules apply to the different classes. For instance, in early 1991, Montana Rail Link and Wisconsin Central asked the Interstate Commerce Commission to raise the bar, then set at \$93.5 million, to avoid being redesignated as Class I, due to extra costs and paperwork.[1] The cutoff was raised at the end of 1992 to \$250 million, dropping the Florida East Coast Railway to Class II (the Class II/III line stayed at \$20 million).[2]

In Canada, a Class I railway is defined (as of 2004) as a company that has earned gross revenues exceeding \$250 million for each of the previous two years.



BROOKINGS, S.D. - August 19, 2002 - Dakota, Minnesota & Eastern Railroad Corporation ("DM&E" or "the Company") today announced a major rail acquisition involving the 1,100-mile DM&E and the assets of the 1,700-mile I&M Rail Link, LLC ("IMRL"). The rail lines, rolling stock and substantially all other assets of IMRL were acquired by the Iowa, Chicago & Eastern Railroad Corporation ("IC&E").

I&M Rail Link LLC was formed in April 1997 to acquire certain lines and assets of Soo Line Railroad Company, a subsidiary of Canadian Pacific. IMRL operated 1,717 miles of track, 1,403 miles of which were owned, in Illinois, Minnesota, Missouri, Iowa and Wisconsin, that incorporated two connected rail systems: (i) the "Main Line" that linked Chicago, Minneapolis/St. Paul and Kansas City, and (ii) the "Corn Lines" that served the farming communities of northern Iowa and southern Minnesota.

Key Growth Drivers

- Ethanol

- On-Line Customer Focus Results:
Expansion and New Facilities
 - Biodiesel (Various plants)
 - Archer Daniels Midland (Agricultural)
 - IPSCO (Steel Fabrication)
 - Pattison Sand Co (Fractured Sand)

- PRB Coal Transloads

DM&E hauled nearly 60,000 carloads of various freight shipments in fiscal year 2002, serving approximately 130 customers along the railroad's mainline. Of these shipments, 53% were grains or grain products, 24% were bentonite and kaolin clay, 7% were cement and 5% were wood and lumber products; the remaining 11% were split among all other types of freight.[5]

Three Year Outlook

- 2006- 15% Revenue growth

- 2007 – Forecast - Freight Revenue growth up 10%

- 2008 – 20+% growth based on announced plants

- 2009 – 15% growth

Engineering Capital Plan

- 2006 Accomplishments
 - \$50 Million
- Westend Project
 - \$48 Million (RRIF Loan)
- 2007 Plan without PRB
 - \$51 Million
- PRB plan
 - \$2.3 Billion

The Railroad Rehabilitation & Improvement Financing (RRIF) Program

Under this program the Administrator is authorized to provide direct loans and loan guarantees up to \$35.0 billion. Up to \$7.0 billion is reserved for projects benefiting freight railroads other than Class I carriers.

The funding may be used to:

Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops;

Refinance outstanding debt incurred for the purposes listed above; and

Develop or establish new intermodal or railroad facilities

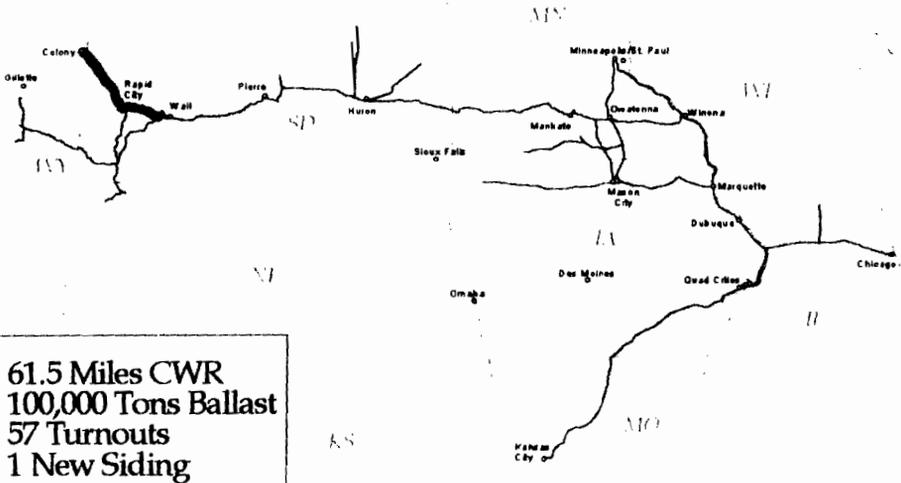
Direct loans can fund up to 100% of a railroad project with repayment periods of up to 25 years and interest rates equal to the cost of borrowing to the government.

Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, joint ventures that include at least one railroad, and limited option freight shippers who intend to construct a new rail connection.

"West End" Project

- Railroad Rehabilitation and Improvement Financing (RRIF) 48.3 million
- 61.5 miles CWR
- 89,000 Ties
- 57 Turn outs
- 1 New Siding

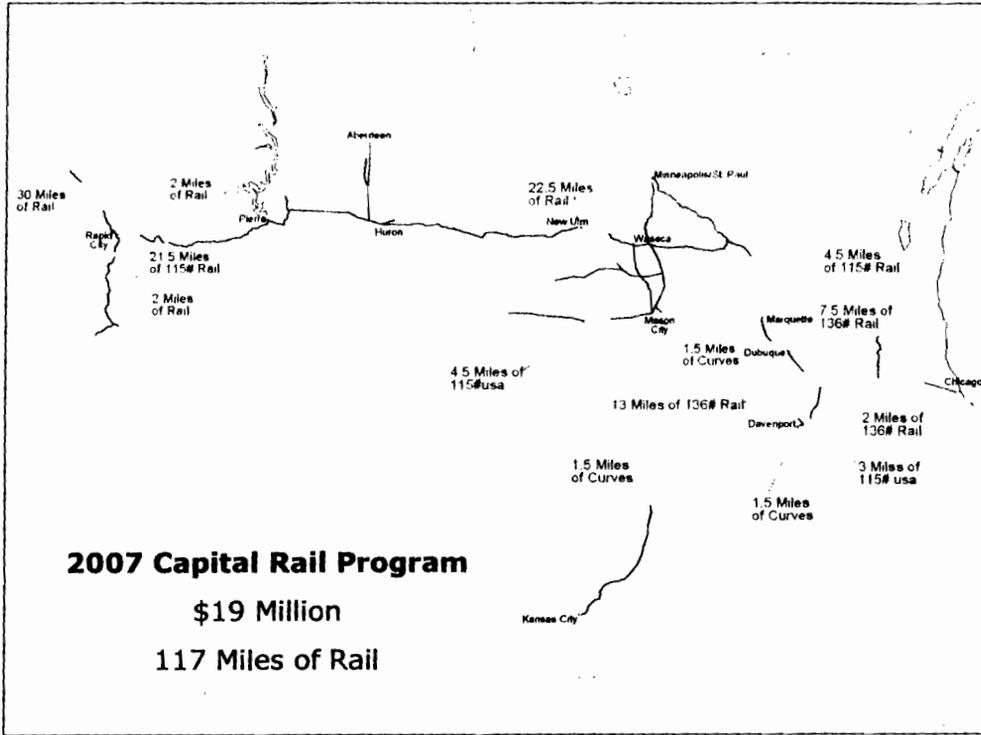
134.1 Total Miles
"West End" Project
DM&E/IC&E



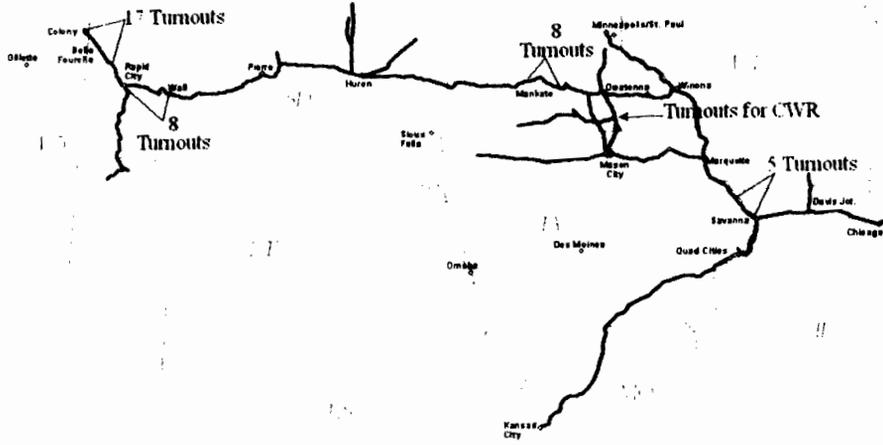
61.5 Miles CWR
100,000 Tons Ballast
57 Turnouts
1 New Siding

2007 without PRB

- 167,000 ties
- 117 miles CWR
- 38 New Turnouts
- Bridge replacement - \$1.9 million
- Approximately \$51 million
- Weed Control
- Rail Grinding
- Rail Testing



2007 Track work
38 New Turnouts



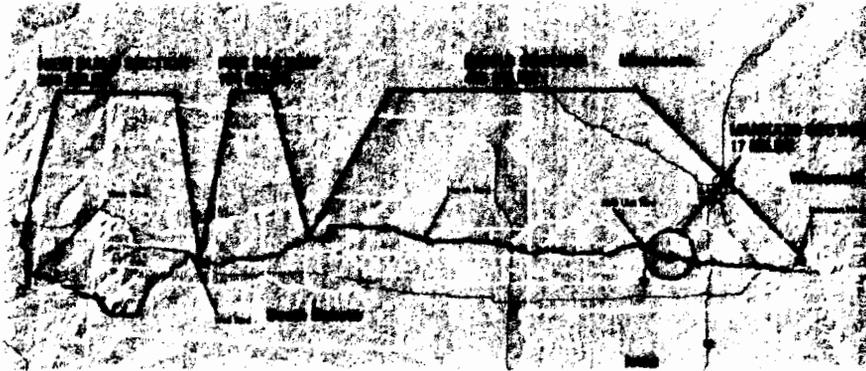
PRB Coal Project

- Don't ask me about the LOAN!!!
- FRA Record of Decision-
 - On February 26, 2007 rejected the \$2.3 Billion loan application.
 - Cited concerns about handling potential cost overruns or repayment after construction.
- DM&E currently seeking private financing
- Three year construction schedule
 - Earliest Completion End of 2010

In August 2006, the FRA announced that it would adopt the environmental impact statements previously issued by the STB. The FRA opened a public comment period ending on October 10, 2006, after which a decision on DM&E's application would be made within a period of 90 days. Also in August 2006, the STB approved the creation of a subsidiary company, Wyoming, Dakota Railroad Properties, whose purpose is to perform the construction work and operate into the Powder River Basin. DM&E hopes the new subsidiary will ease the way toward gaining \$4 billion in loan agreements and private investments toward the construction.[17]

On February 26, 2007, the FRA rejected the \$2.3 billion loan to DM&E.[18] In announcing the decision, Administrator Joseph H. Boardman noted that the project proposal met many federal requirements for the loan but cited concerns that the railroad might not be able to handle cost overruns during construction or to repay such a hefty amount after construction is completed.[19][20]

PRB Project- Overview



PRB Project- Overview

Seven very distinct projects

- New Build
- PRC
- Rehab
- Mankato
- Facilities and Yards
- Signals and Communications
- Mitigation

Questions/ Discussion



PRB Summary

- Three year schedule
- 200,000 tons rail
- Concrete ties -875,000 ties
- Wood ties
 - 1,140,000 ties
- Turnouts-450
- 360 Bridges

PRB-New Build Project

- RFP issued Sept. 8, 2006
- Bids received December
- Negotiations-Fluor/Ames

- 262 route miles
- 340 total miles
 - Yards
 - Sidings
 - Double Track



PRB-New Build Project

- Concrete ties
 - 875,000

- Bridges-72

- 94-Turnouts
 - 71-#15 or #20
 - 23-#10



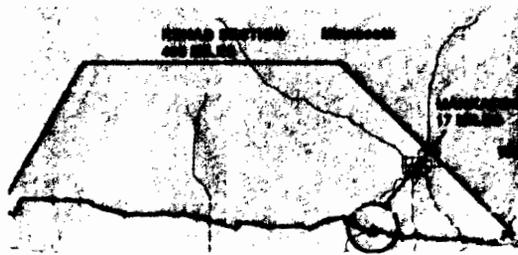
PRB-PRC Project

- Pierre Shale
- 104 total miles
- 70% offline
 - 25' offset
- 30% rehabilitation
 - Ties /Rail
 - Partial offset
- 6 new sidings



PRB-Rehab Project

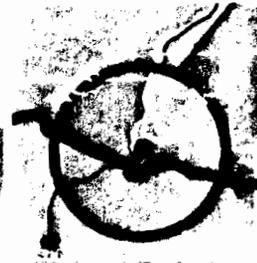
- 485 total miles
- 200 miles existing CWR
- New inspection yard Huron
- 36 new/extended sidings



PRB-Mankato Project

- Two options
 - Existing through town route (UPRR)
 - Southern route- 15 miles
- Construction type dependant upon which option chosen

**MANKATO SECTION
17 MILES**





Federal Railroad Administration



- About the FRA
- Safety
- Freight Railroading
- Passenger Rail
- Research & Development
- Press Room
- Legislation, Regulation, & Litigation

Railroad Rehabilitation & Improvement Financing (RRIF)

The Railroad Rehabilitation & Improvement Financing (RRIF) Program was established by the *Transportation Equity Act for the 21st Century* (TEA-21) and amended by the *Safe Accountable, Flexible and Efficient Equity Act: a Legacy for Users (SAFETEA-LU)*. Under this program the Administrator is authorized loans and loan guarantees up to \$35.0 billion. Up to \$7.0 billion is reserved for projects benefitting other than Class I carriers.

In this section...

[How To Apply](#)

[RRIF Credit Risk Premium Estimator](#)

DOT Site Search:



FRA-only

The funding may be used to:

- Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, bridges, yards, buildings and shops;
- Refinance outstanding debt incurred for the purposes listed above; and
- Develop or establish new intermodal or railroad facilities

Direct loans can fund up to 100% of a railroad project with repayment periods of up to 25 years at an interest rate equal to the cost of borrowing to the government.

Eligible borrowers include railroads, state and local governments, government-sponsored authorized corporations, joint ventures that include at least one railroad, and limited option freight shipper construct a new rail connection.

Loan agreements have been executed with the following railroads:

ORGANIZATION	YEAR	AMOUNT
Iowa Northern Railroad	2006	\$25.5 million
Wheeling & Lake Erie Railway	2006	\$14 million
Iowa Interstate Railroad	2006	\$9.35 million
Great Smoky Mountains Railroad	2005	\$7.5 million
Riverport Railroad	2005	\$5.5 million
The Montreal, Maine & Atlantic Railway	2005	\$34 million
Tex-Mex Railroad	2005	\$50 million
Iowa Interstate Railroad	2005	\$32.7 million
Stillwater Central Railroad	2004	\$4.6 million
Wheeling & Lake Erie Railway	2004	\$25 million
Arkansas & Missouri Railroad	2003	\$11 million
Nashville and Western Railroad	2003	\$2.3 million
Dakota, Minnesota & Eastern Railroad	2003	\$233 million

Amtrak	2002	\$100 million
Mount Hood Railroad	2002	\$2.07 million

PROCESSING GUIDELINES

The Federal Railroad Administration (FRA) will approve or disapprove a request for a loan within receipt of a complete application. Applications will be deemed complete after:

- (1) The FRA has fulfilled its obligations under the National Environmental Policy Act (NEP) related laws, regulations and orders. Compliance with NEP A may require preparation of environmental assessments, consultation with Federal and State authorities, publication documents, and public review and comment on these documents, and
- (2) The FRA has completed its initial review of the application (not to exceed 30 days) or additional information and/or clarification have been requested, the applicant has provided requested information.

Note: Since a great variety of projects are eligible to be funded under the RRIF Program, it is important to anticipate all the information that will be necessary to evaluate a project for which funding is requested. The level of detail that will be provided by an applicant. Therefore, a short period of time will be needed to review applications and determine if there is a need for additional information.

All federal financial assistance programs must pay for the cost to the government of providing that assistance. In most cases this is done with appropriations from Congress. Since the RRIF Program does not have an appropriation, this cost must be borne by the applicant, or another entity on behalf of the applicant through the payment of the Credit Risk Premium. The Administrator will calculate the amount of Credit Risk Premium that must be paid for each loan before it can be disbursed.

In addition to the Credit Risk Premium, which is paid only if a loan is approved, each applicant must pay an Investigation Fee regardless of whether the loan is approved. The Investigation Fee defrays costs of evaluating RRIF loan applications. The Investigation Fee may not exceed one half of one percent of the loan amount, but it is often substantially less.

If you have questions about the program, or if you wish to discuss the possibility of funding your project or a loan guarantee under the RRIF Program, you can call the [Office of Freight Programs](#) at 1-800-455-9247.

[Learn More](#)

[How to Apply](#)

[RRIF Credit Risk Premium Estimator](#)

[SAFETEA-LU](#)

[Criteria for Evaluation](#)

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Last Updated: Nov. 14, 2006

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