Montana Branch Line Study

Phase I

Plentywood-Scobey
And
Glendive-Circle

A Report Prepared For

Montana Department of Transportation
Montana Department of Agriculture
And
Montana Department of Commerce

Submitted By

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Montana Branch Line Study
Phase I
Plentywood-Scobey and Glendive-Circle

Table of Contents

Page

Requirements ---------- 1
Executive Summary ---------- 1
Introduction ---------- 9
Purpose of Study ---------- 9
Conduct of Study ---------- 10
Background Context ---------- 11
Discussion and Findings ---------- 11
Condition and Status of Branch Lines ---------- 11
Plentywood-Scobey ---------- 11
Glendive-Circle ---------- 12
Westby-Whitetail ---------- 13
Impacts of Proposed Abandonments on Shippers, Communities and Highways ---------- 14
Interviews of County Officials and Grain Producers ---------- 15
Elevator Operators' Perspective ---------- 18
Discussion of Specific Impacts ---------- 19
Shippers ---------- 19
Communities and Grain Producers ---------- 20
Highways ---------- 27
Summary of Impacts Quantified in This Study ---------- 31
Possible Mitigation of Plentywood-Scobey Impacts ---------- 31
What Other States Are Doing ---------- 31
Iowa ---------- 31
Kansas ---------- 32
Minnesota ---------- 32
North Dakota ---------- 33
Oklahoma ---------- 33
South Dakota ---------- 34
Washington ---------- 34
Summary of What Other States Are Doing ---------- 34

Montana Branch Line Study
Phase I
Plentywood-Scobey and Glendive-Circle

Table of Contents
(Concluded)

Page

Options Available to Montana and Its Local Governments ---- 35
(1) Oppose the Abandonments ---- 35
(2) Work with BNSF to Mitigate Impacts of Abandonments ---- 36
(3) Make Offers of Financial Assistance ---- 37
(4) Subsidize Operation of the Lines ---- 37
(5) Improve Rail-Rail Competition ---- 39
(6) Seek New Federal Legislation ---- 40
(7) Political Action and Advocacy ---- 41
(8) Develop Counter-Incentives ---- 41
(9) Other ---- 42
Conclusions ---- 42

Maps

1 Plentywood-Scobey ---- 2
2 Glendive-Circle ---- 3

Figures

1 Profile, Plentywood-Scobey ---- 4
2 Profile, Glendive-Circle ---- 5

Appendices

A Persons Contacted
B Bibliography
C Settlement Sheet
D Plentywood-Scobey Financial, Marketing & Operating Analysis
E Glendive-Circle Financial, Marketing & Operating Analysis

Montana Branch Line Study

Phase I: Plentywood-Scobey and Glendive-Circle

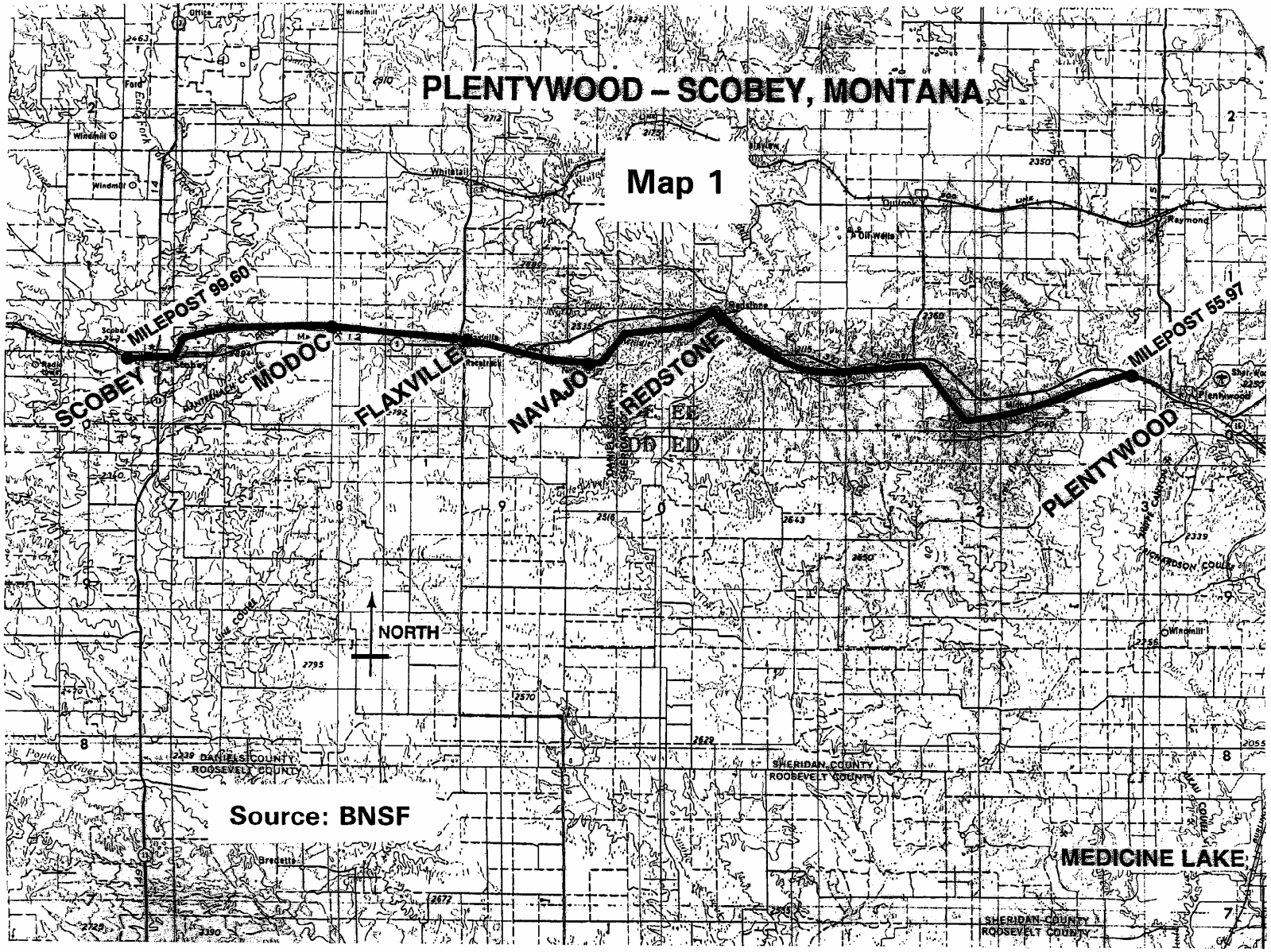
> Scobey once was the largest single primary wheat loading center in North America. 2,750,000 bushels of wheat were shipped in 1924.
>
> Joseph Kinsey Howard. *Montana High, Wide, and Handsome*. 1943.

Requirements

Summarize condition/status of Plentywood-Scobey and Glendive-Circle branch lines; determine impacts of proposed abandonments on shippers, communities and highways; assist in development of letters and other materials to communicate Montana's position; review what other states are doing concerning abandonments; and develop a list of options available to state and local governments to retain rail service on the two branch lines.

Executive Summary

Burlington Northern Santa Fe (BNSF) has publicized its plan to file with the Surface Transportation Board (STB) a Notice of Exemption seeking authority to abandon 43.63 route-miles of railroad between Plentywood and Scobey (see Map 1), and 43.41 route-miles of railroad between Milepost 7.0 near Glendive, and Circle (see Map 2). Profiles of the two lines are shown in Figures 1 and 2.


PLENTYWOOD – SCOBEY, MONTANA
Map 1
MILEPOST 99.60
MILEPOST 55.97
SCOBEY
MODOC
FLAXVILLE
NAVAJO
REDSTONE
PLENTYWOOD
NORTH
DANIELS COUNTY
ROOSEVELT COUNTY
SHERIDAN COUNTY
ROOSEVELT COUNTY
MEDICINE LAKE
Source: BNSF

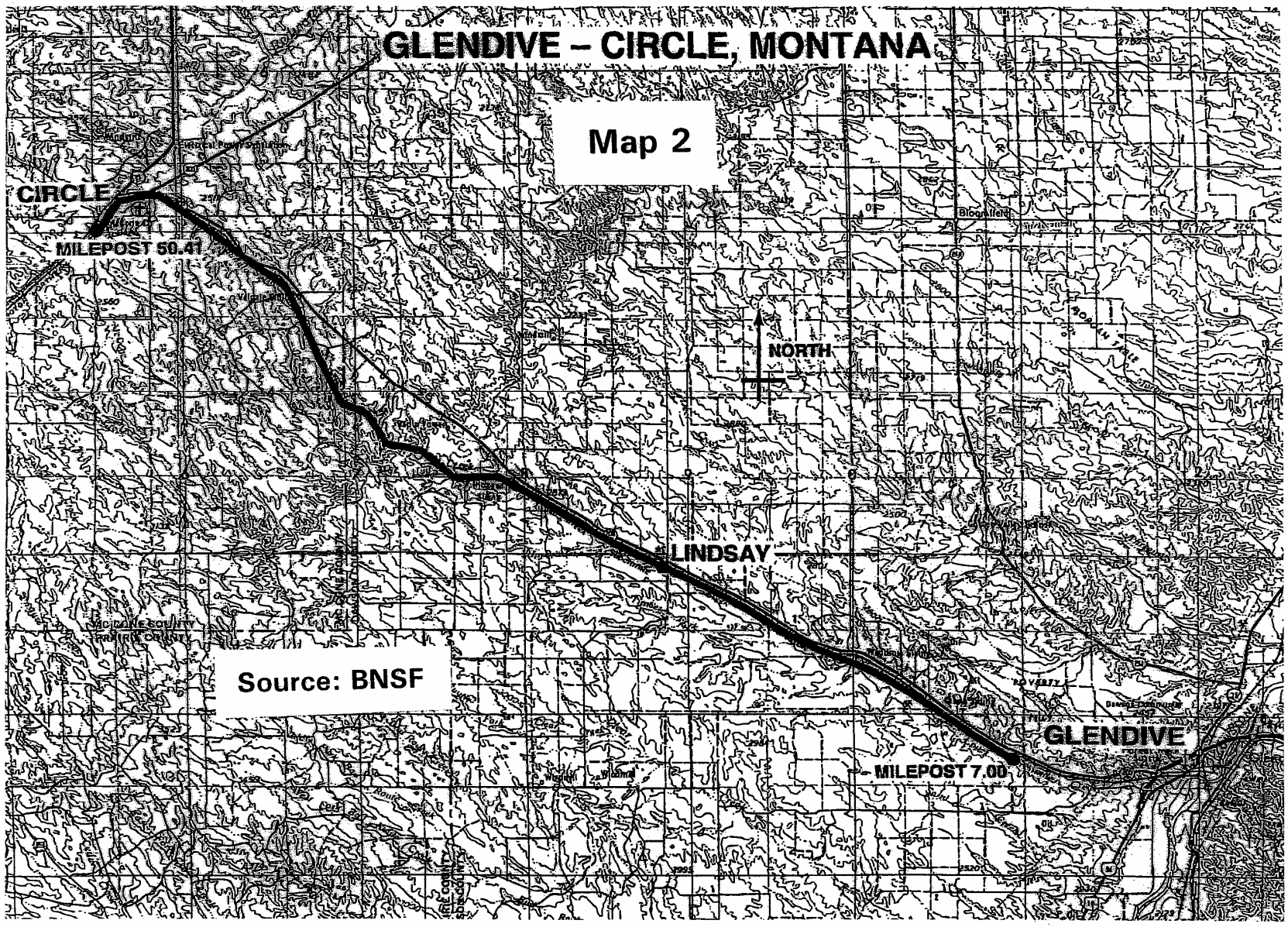
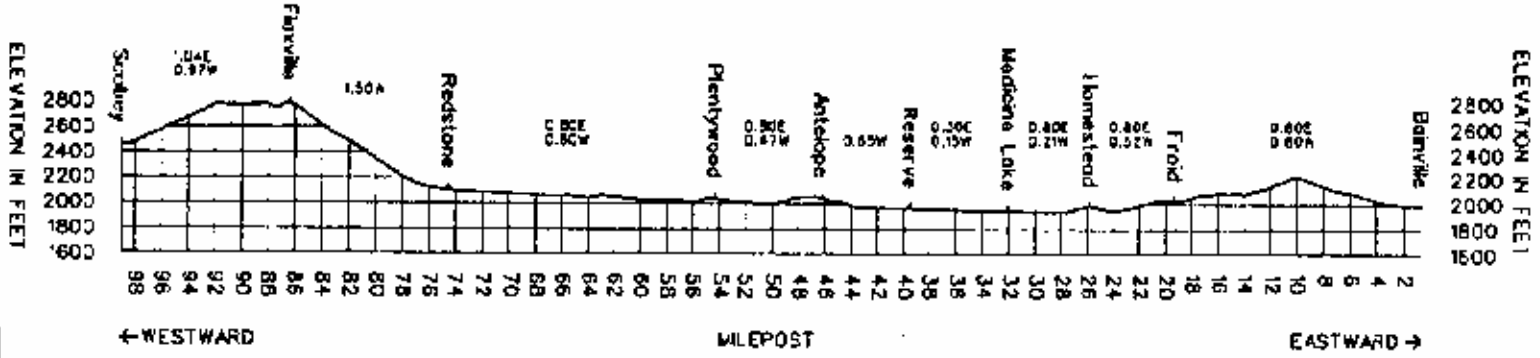
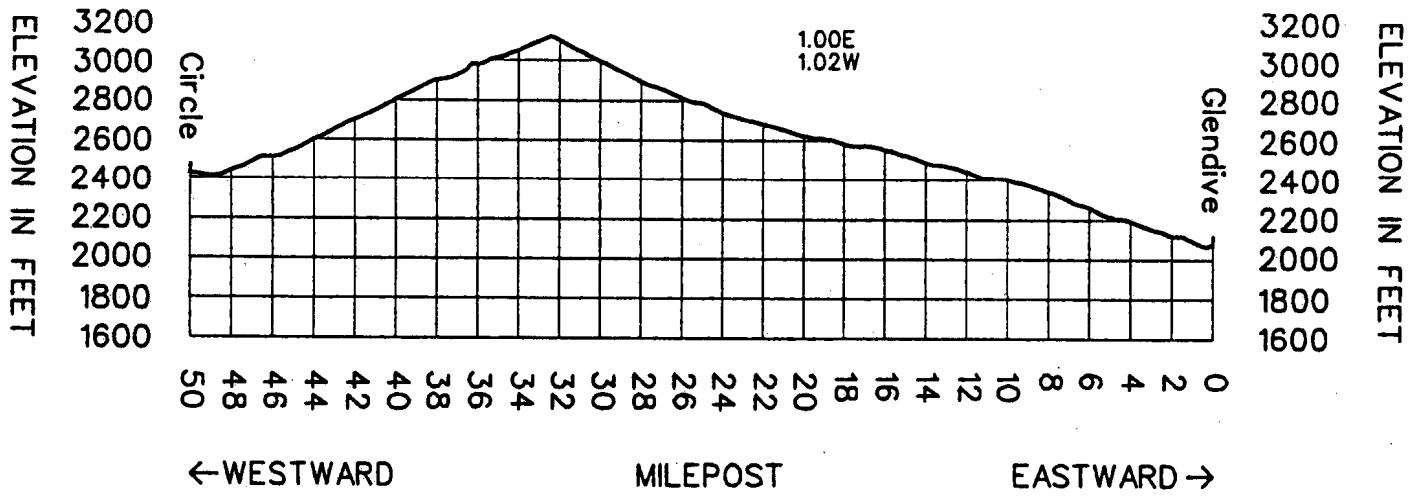

GLENDIVE – CIRCLE, MONTANA
Map 2
CIRCLE
MILEPOST 50.41
NORTH
LINDSAY
GLENDIVE
MILEPOST 7.00
Source: BNSF

Figure 1
Profile, Plentywood-Scobey



Source: BNSF

Figure 2
Profile, Glendive-Circle



Source: BNSF

This study describes these rail lines, determines the impacts of abandonments, and presents a list of options available in response to the proposed abandonments.

Condition and Status of Rail Lines

Maintenance effort has not been lavished on either line. Both are restricted to 10 mph train operations. Between Plentywood and Scobey, train length is limited to 30 loaded cars. The rail on both lines is relatively light weight, is old in manufacture and therefore is subject to fracture. Traffic between Lindsay and Circle (25 miles) has been embargoed since March 2000 for unspecified track conditions. The embargo means that no traffic is permitted until the condition causing the embargo is corrected.

Operations ceased on the Plentywood-Scobey line in 2002, and on the Glendive-Circle line, in 2001. Traffic on both lines has been virtually all outbound wheat. 1999 traffic was almost the same on both lines: 679 carloads originating at Scobey, 680 at Circle. Traffic on both lines was considerably higher in earlier years.

On both lines, the maximum gross car weight is limited to 134 tons; therefore neither line can safely accommodate the 143-ton current interline standard, which condition reduces the value of the line because of inability to carry the more efficient (larger) covered hopper cars.

Impacts on Shippers, Communities and Highways

In meetings with County Commissioners and others, a number of concerns and perceptions were expressed:

- inability of grain producers to carry grain to nearby elevators
- necessity of acquiring a “semi” or paying someone else to move grain to a main line elevator
- consolidation of grain elevators on the main line and corresponding decline of local elevators and loss of jobs
- loss of tax revenue
- impact of increased truck traffic on highways
- goal to keep open the rail line (do not abandon)
- question of who will pay for continued operation of the rail line

In addition, and from many, frustration was expressed that the railroad and at least one major grain company can do what many parties believe they are doing – conspire to move rail traffic (grain) off branch lines and consolidate train-loading operations on the BNSF main lines. Many Montanans believe this to be unfair.

Elevator operators (the shippers) expressed somewhat different perspectives:

- “if trains go back to Scobey and Circle, we’re doomed”

- "there are unfair trade practices"; BNSF pays incentives so that grain is moved to main line elevators
- "there will be impacts, but it has to be done"
- "this (shift to loading wheat on the main line) is putting money in the pockets of the wheat producers"
- "BNSF's high-handed attitude has got to stop"

Shipper impacts include closing of local elevators, reduced value of local elevators because of cancellation of rail service, requirement to build unit train loading facilities on the main lines, and, for some, the loss of rail service and inability to bring in fertilizer, farm implements, etc., by rail.

Impacts on communities and grain producers include increased transportation costs to deliver grain to an elevator, decreased value of farmland, decreased opportunities for economic development (because of cessation of rail service), loss of tax revenue, and the secondary impacts or loss of re-spending: the downturn in business activity owing to reduction in spending.

Highway impacts include increased damage caused by the increased truck traffic, increased vehicle collisions resulting from the same, and safety at the highway-rail crossings.

Conservatively estimated, the annual quantifiable aggregate impacts of the cessation of rail service on the two rail lines, Plentywood-Scobey and Glendive-Circle, are:

Loss of grain elevator jobs	$160,000
Increased transportation costs, grain producers	452,000
Reduced tax revenue to counties	406,000
Additional highway maintenance cost	54,000
Reduced grade crossing accidents (benefit)	(6,000)
Increased highway accidents	56,000
Respending impacts	320,000
Total	$1,442,000

It is estimated that these impacts represent a loss to Montana of between 18 and 30 jobs.

There are also impacts related to incentives (1) paid to grain producers in Scobey and Circle, to bring their grain to 110-car shuttle train loading facilities, instead of to local elevators, and (2) allowed by BNSF as a $100 per car rate reduction at the same loading facilities. Both impacts are deemed short-lived (lifespan not to exceed final abandonment actions), and, in addition, the 12 to 15 cents a bushel incentive paid to Scobey and Circle grain producers is offset, more or less, by the cost of transporting grain to the shuttle train loading facility.

What Other States Are Doing About Abandonments

It is pertinent to review what other states are doing in response to rail line abandonments. A brief survey was made, including Iowa, Kansas, Minnesota, North Dakota, Oklahoma, South Dakota and Washington. All seven grain-growing states provide some form of funding assistance to small railroads, and all but one have authorized some form of rail line acquisition for continued operation or preservation.

Options Available to Retain Service

The options available to Montana or local government in Montana include the following actions:

- Oppose the abandonments through legal means
- Work with BNSF to mitigate impacts to Montana
- Make Offers of Financial Assistance to BNSF
- Subsidize operation of the lines by BNSF, or acquire the lines and seek new operator(s)
- Improve rail-rail competition
- Seek new federal legislation
- Political action
- Develop counter-incentives (incentives to use branch lines and local elevators)

Inasmuch as no traffic has been carried on the two lines for over two years, there does not appear to be a case for opposing the abandonments successfully before the STB. There is the view that BNSF has driven the traffic off the branch lines, and that the railroad has the obligation to continue to serve customers on the Plentywood-Scobey and Glendive-Circle lines. It is a fact that the Staggers Rail Act of 1980 made it easier for railroads to abandon branch lines. It is believed that the STB will consider the thrust of Staggers to encourage increased financial viability of railroads more important than the traditional common carrier obligation.

Staggers promotes the importance of negotiation between a railroad and its customers, and Montana may find this an avenue to keeping the two rail lines in existence. A part of the abandonment procedure is the provision in the Code of Federal Regulations (49 CFR 1152) for Offers of Financial Assistance (OFA) through which a party may pay a railroad to continue operating a line proposed for abandonment, lease the line from the railroad, or acquire the line.

Two important points must be considered with regard to restoring the two rail lines to operation: (1) the cooperation of BNSF would be necessary, and (2) financial assistance must be provided to operate and maintain the lines.

The “improve rail-rail competition” is listed among the options because absence of rail-rail competition is a factor in many abandonments including the two which are the subject of this study. This issue is addressed by inclusion of a discussion of the affect

of the Dakota, Missouri Valley & Western Railroad, Inc. (DMVW) rail line, just a few miles north of the Plentywood-Scobey line.

There are some in Montana who see no relief from abandonments and other rail issues important to Montana short of new federal legislation. This option does not solve the immediate problem, since, at best, it would be a long-range remedy.

Political action is directly related to seeking new federal legislation, or at least using that threat as a lever, and is also considered necessary in any resolution of BNSF issues in Montana.

Conclusions

Conclusions reached in this study:

- BNSF wishes to abandon the Plentywood-Scobey and Glendive-Circle rail lines in order to improve BNSF efficiency.

- Montana has several options, including four which can be considered and timely applied to the impending abandonments. Restoration of rail operations on the two lines would require BNSF's cooperation and Montana's financial assistance.

- Montana may wish to consider doing what many other states do: assist small railroads where they provide benefits to the state.

- Montana should develop an overall strategy for dealing with its rail issues.

Introduction

Purpose of Study

In late 2003, the Burlington Northern Santa Fe Railroad (BNSF) notified Montana of its intention to submit applications to the U.S. Surface Transportation Board to abandon two railroad segments in Montana:

Plentywood-Scobey
Glendive-Circle

Following a meeting in Scobey on December 9, 2003, the Montana Departments of Transportation, Agriculture and Commerce agreed to sponsor a study to determine the impacts of BNSF's intended action, and consider the options available to Montana.

On December 17, 2003, Governor Judy Martz signed a letter to BNSF Chairman Matt Rose asking that BNSF delay its filing, in order to allow state and local government officials time to study the impacts and explore ways to maintain rail service.

On December 22, 2003, the Montana Department of Transportation authorized R.L. Banks & Associates, Inc., to proceed with this study, to be performed in two phases:

Phase I	Plentywood-Scobey and Glendive-Circle
Phase II	Other At-Risk Lines in Montana

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Originally, Phase I was scheduled for completion by February 12, 2004, assuming no BNSF delay in its abandonment plans. Phase II was scheduled for completion by May 28, 2004. (Phase II completion was later re-scheduled for completion by July 30, 2004.)

In response to Governor Martz's letter, a BNSF letter dated January 9, 2004, signed by Matthew K. Rose, its Chairman, states that BNSF will postpone formal filing of abandonment exemptions until after June 30, 2004, and will assist in Montana's Branch Line Study. The Phase I completion date was changed to March 25, and later, to June 15. BNSF assisted in this study by providing data concerning its rail lines in Montana.

Conduct of Study

This study was initiated by a series of interviews, including on-site interviews of County Commissioners, grain producers, elevator operators and others. Appendix A contains the names of those contacted by phone or in person.

Another important starting endeavor was to determine what previous studies, reports, investigations, etc., are pertinent to this study, so that advantage could be taken of research already performed. A listing of the most pertinent previous studies is in Appendix B. Please note that this bibliography has been annotated to indicate the pertinence of each reference to this study, and to articulate important conclusions. This body of information represents the experience of others in dealing with similar issues, and is deemed an important component of this study.

Another important aspect of this study is the determination of what other states, faced with similar rail line abandonments, are doing about it. Summaries of other state actions are contained in the "What Other States Are Doing" section of this report.

Information on the condition of the rail lines which are the subject of this study, and relevant nearby lines, was obtained from the 2000 Montana State Rail Plan Update and brought up-to-date from several sources including the railroads (BNSF and DMVW).

Background Context

Among other things, the Staggers Rail Act (1980) made it easier for railroads to abandon unprofitable branch lines. A result has been the creation of hundreds of short line railroads nationwide. Another result has been the abandonment of numerous branch lines deemed to be relatively unproductive. But beyond Staggers, nationwide trends over the past century have included development of highways, growth of trucking, and shrinkage of the rail network. Large railroads have responded to Staggers, transportation trends, and market pressures by emphasizing long hauls, and, especially in recent years, intermodal service (transportation of containers and highway trailers) and increasing emphasis on shuttle trains (complete trains carrying but one commodity – such as coal or wheat – from a single origin to destination).

The above paragraph is provided not as *the reason* for abandonments of Montana branch lines, but rather to put the Montana branches in the context of what is happening nationally. It appears that BNSF's plan to abandon Plentywood-Scobey and Glendive Circle is predicated on avoiding the expense of operating two relatively low-volume rail lines.

Discussion and Findings

Condition and Status of Branch Lines

Plentywood-Scobey

A letter dated November 20, 2003, from Freeborn & Peters LLP (attorney acting for BNSF) advises Sheridan County that BNSF plans to file with the Surface Transportation Board (STB) seeking authority to abandon 43.63 miles of track between Milepost 55.97 near Plentywood and Milepost 99.60 near Scobey. A similar letter with the same date was sent to Daniels County.

Data provided February 2004 by BNSF states that the rail line between Plentywood and Scobey has a track speed restriction of 10 mph, and a maximum gross weight of car (load limit) restriction of 134 tons. Additional special conditions require that only 30 carloads may be handled between Scobey and Plentywood. These were the same restrictions reported by BNSF in 1999. Rail between Plentywood and Scobey is 91 percent 100 pounds or less and was manufactured in 1950 or before. The BNSF track chart shows that most of the rail between Plentywood and Scobey is 77-pound rail manufactured in 1925. Rail weight is normally expressed in "pounds", which means pounds per yard length. Rail manufactured in 1950 and earlier was not "control cooled", and is more likely to fracture than control cooled rail. Light rail (100 pounds or less) implies the requirement to reduce track speed and to reduce train length, especially where heavier railcars are used. 286,000-pound cars are the current interline standard for large (Class I) railroads and are utilized in the case of BNSF shuttle trains. A large issue regarding many branch lines and short line railroads throughout the United States

is their inability to handle 286,000-pound railcars, which adversely affects the economic viability of those branch lines and short lines. (There is at present a big push by the American Short Line and Regional Railroad Association to seek new federal legislation authorizing assistance to short line and regional railroads, to improve the ability of small railroads to correct this problem.)

Virtually all traffic on this rail segment was outbound grain (wheat). 1999 traffic (originating at Scobey) was 679 carloads.

Carloads summary:

1999	679
2000	756
2001	303
2002	0
2003	0

The 1979 Montana State Rail Plan indicates that the Bainville-Opheim line carried 2,400 carloads in 1977 (no breakdown is given with regard to the various stations along the line). The 1984 Montana Rail Plan Update shows 920 carloads (year 1983) between Scobey and Opheim, plus another 603 carloads (same year) between Plentywood and Scobey. The 1993 Montana State Rail Plan Update shows 1991 traffic as 1,685 carloads between Scobey and Bainville. These figures indicate that the historical level of business on the line is greater than it has been in the last few years.

Glendive-Circle

A letter dated December 9, 2003, from Freeborn & Peters LLP advises the McCone County Commissioners that BNSF plans to file with the Surface Transportation Board (STB) seeking authority to abandon 43.41 miles of track between Milepost 7.00 near Glendive and Milepost 50.41 near Circle. A similar letter was sent to Dawson County.

Data received in February 2004 from BNSF show that the entire branch line is now restricted to a maximum speed of 10 mph. These data also show the same maximum gross weight of railcar (134 tons) and six-axle locomotive restrictions as existed five years earlier. The BNSF track chart shows that rail between Glendive and Circle is virtually all 90-pound, manufactured in 1927.

The BNSF website states that “BNSF Embargo No. 5-00 covering all traffic destined to, consigned to, or intended for the following stations in Montana: Circle, MT, Lindsay, MT” because of “track conditions is effective March 6, 2000 with no exceptions.” This means that the current condition of the branch line will not permit train operations until the condition which caused the embargo is addressed.

The 1993 Montana State Rail Plan Update shows 1991 traffic on the line as 1,135 carloads, the 2000 Montana State Rail Plan Update shows 1999 traffic as 680 carloads.

The latter document reports that Farmers Elevator at Circle, the predominant or sole rail shipper on the line, hasn't used rail service since February 2000 but, rather, uses trucks to haul grain to Macon where the freight rate is less at the new 110-car unit grain train loading facility.

Carloads summary:

1991	1,135
1999	680
2000	205
2001	0
2002	0
2003	0

Like Plentywood-Scobey, the history of this line is linked virtually entirely to the shipment of outbound wheat.

A question has arisen as to whether abandonment of this line will result in cessation of rail service to Fisher Sand and Gravel, a business located approximately seven miles from the Glendive end of the line. A follow-up check with the Dawson County Commissioners indicates that assurances have been given that BNSF intends to continue rail service to Fisher Sand and Gravel.

Westby-Whitetail

RLBA includes mention of this railroad segment, operated by the Dakota, Missouri Valley & Western Railroad, Inc., (DMVW) and owned by Canadian Pacific Railway (CP), in Phase I of this study because of its proximity to the Plentywood-Scobey line. Since the Westby-Whitetail line is about seven miles north of and parallel to the Plentywood-Scobey line, the presence of the DMVW line has an influence on and will be affected by abandonment of the Plentywood-Scobey line.

In 2000, the DMVW line in Montana was classified as FRA Excepted Track. Rail was mostly 60 pound at the west end, 72 pound in the middle (approximately 50 percent of the line in Montana) and 80 pound on the east end in Montana. Restrictions preclude six-axle locomotives, and impose a maximum train length of 100 cars, and a car gross weight limit (load limit) of 268,000 pounds.

The Montana Department of Transportation has directed federal Local Rail Freight Assistance (LRFA) funding to this line. A 21-mile segment of the DMVW line in Montana was reported recently rehabilitated in the 2001 Montana State Rail Plan Amendment, which analyzed the DMVW line for yet another rehabilitation project, the purpose of which was to expand track capacity at Whitetail to allow handling of 50-car and later, 75-car, grain shipments.

The 28-mile segment between Westby (Milepost (MP) 620) and Outlook (MP 649) was the subject of restoration work (ties, ballast and surfacing) following which it was inspected in June 2003. Although the track remains excepted in accord with FRA track classification standards, it "could easily be brought in to FRA Class 1 or 2 track standards" according to J.W. Southworth, FRA Track Safety Inspector, in a June 19, 2003, memorandum.

The 2000 Montana State Rail Plan Update shows the following carload history on the DMVW rail line in Montana:

Year Ending	Total Montana Carloads
1993	2,395
1994	1,617
1995	2,003
1996	1,307
1997	1,406
1998	856
1999	1,264

In January 2004, DMVW states that the 60 pound rail has been replaced by 100 pound (other light weight rail remains), that $1.6 million of CP and DMVW money was put into the line in 2003, and that the line can be considered Class 1. DMVW carloads since 1999 totalled:

Year	Whitetail	Westby	Total
2000	582	1,170	1,752
2001	950	1,278	2,228
2002	1,619	1,126	2,745
2003	1,228	1,921	3,149

The recent-year Whitetail and Westby figures suggest that there has been an appreciable increase in Montana grain shipments over the DMVW. Whitetail carloads are virtually all outgoing spring wheat. Westby shipments are likewise outgoing grain, split roughly 50-50 between wheat and durum. The proportion of wheat shipped from Westby has been growing. DMVW states that the 2003 outbound carloads would have been even higher, perhaps by 300-400 carloads, were it not for congestion problems experienced by CP.

Impacts of Proposed Abandonments on Shippers, Communities and Highways

In general, impacts related to abandonment of the Plentywood-Scobey and Glendive-Circle rail lines may include the following:

- Loss of jobs, loss of business at end-of-branch-line elevators

- Increased transportation cost for grain producers
- Reduction in transportation options
- Latent economic potential of infrastructure/rail right of way
- Decreased value of farmland
- Reduced income to businesses in local communities (secondary impacts)
- Loss of property tax revenue from BNSF
- Increased use, and therefore damage, to highways, plus safety impact
- Loss of railroad jobs in Montana
- Loss of "way of life", rural depopulation

Interviews of County Officials and Grain Producers

To assist in identifying and assessing the impacts, RLBA visited the counties of Sheridan, Daniels, Roosevelt, McCone and Dawson and met County Commissioners, grain producers, elevator operators and other interested parties. RLBA also met officials of the Montana Grain Growers Association and the Montana Wheat & Barley Committee. Additionally, many officials, grain producers elevator operators and others were interviewed by phone.

The visits and interviews were most helpful in identifying and assessing the impacts. From County Commissioners, grain producers and others, the following concerns and perceptions were expressed. The indented portion following represents in some cases quotations and in others paraphrasing of comments stated by County Commissioners, grain producers and others, with respect to the prospective abandonments:

> The farmer can no longer use his truck to haul grain to the local elevator. Instead, he must acquire a "semi" (large tractor-trailer) or pay someone else to haul his grain 50 miles to the BNSF main line.
>
> The farmer is not getting his fair share of the economy. The price of wheat is declining. Americans spend proportionately less on food. Farm size is increasing, and farmers must increasingly mechanize to become more productive, and diversify (operate businesses additional to farming) in order to make a living.
>
> Small elevators are losing out. When the railroad required 26 and 52 car loading facilities (in order to reduce transportation cost) that had an impact. Small elevators went broke. The trend is toward large elevators and large loading facilities on railroad main lines. It is a tough, competitive environment. Jobs are lost because of buy-outs of co-ops and elevator consolidations.
>
> Twenty years ago, almost every elevator could ship a single carload. Then the railroad said we would have to pay a premium to ship from the smaller facilities. The railroad was encouraging 52-car trains, or even 26-car trains. Now, BNSF has made a deal with CHS (Cenex Harvest

States). BNSF reimburses CHS with regard to wheat delivered from the Scobey area.

There are fewer elevators, fewer jobs. We'll be down to a few terminals in the state. I don't know if the state has looked into the ramifications.

Rural America is shrinking. If you take out the cities, there are fewer people here (in rural Montana) than there were in 1890 when they closed the frontier.

Impacts of the proposed abandonments include loss of tax revenue, highway damage and change to our way of life.

The impact on the highway system is important.

Rail lines are being abandoned because of the construction of (110-car) shuttle facilities.

Cenex Harvest States owns most of the 110-car facilities and is working with BNSF.

BNSF paid CHS to build the Macon 110-car loading facility. Similarly, BNSF helped build the 110-car loading facility at Glendive. CHS and BNSF are business partners.

When someone builds a shuttle facility (110-car loading facility), BNSF makes a five-year deal with them.

"BNSF paid for the loop track at Glendive."

BNSF has allowed only certain elevators to have shuttle trains. So competition between elevators is lost.

There is a 13-cent per bushel incentive offered to the farmer to bring his grain from the Scobey area to the main line 110-car loading facility.

A 15-cent incentive is paid to farmers in the Scobey area for bringing their grain to (the 110-car facility at) Wolf Point (Macon) and this shows up on the settlement sheet. (The settlement sheet is the record which shows the price of grain in Portland, the price of transportation to Portland, etc.).

If BNSF is going to incentivize non-use of the rail line and then abandon it because of no traffic, I have a hard time with that.

BNSF is subsidizing its operation at the expense of the grain producer.

The farmer in Nebraska can move grain (to northwest Pacific ports) for 80 cents (a bushel); I pay $1.10-1.15 and it's only two-thirds the distance!

"We did McCarty Farms, and nothing came of it."

"The railroad can do anything it wants to."

The railroads aren't dumb, and they aren't villains. They're doing what they're allowed to do.

There is frustration that BNSF is the reason (for the rail transportation problems).

BNSF must get realistic with rates and service. Grain from Nebraska, and from Minnesota is shipped to the West Coast cheaper than from Montana.

It costs $1.10 a bushel to move grain from Wolf Point to the West Coast.

The option of operating a short line railroad may not be very feasible. Who will pay?

"Our ultimate goal is to keep the rail line."

There is the possible future use of the line to consider. For example, at one time someone was interested in mining potash in the Scobey area.

The Scobey-Opheim right of way, abandoned ten years ago, is still owned by BNSF.

Roosevelt County has no impacts (related to the two proposed abandonments).

There are no short term impacts but there will be long term impacts such as loss of jobs as small, off-main-line elevators are forced out of business.

Elevators without shuttles are going under. In 15-20 years we'll have only shuttle facilities, and we'll have a lot more truck traffic.

"General Mills, Cargill pulled out. When there's less elevator competition, watch out!"

The cost of grain transportation in Montana is very high, so the farmer gets less for his grain.

Some rail users can move their businesses. I can't move my farm.

> "BNSF is holding all the cards."
>
> "The Scobey and Circle elevators will close."
>
> BNSF won't abandon the rail line connecting Bainville and Plentywood because CP is just a few miles away (referring to track leased by CP to the DMVW line, which connects Westby and Whitetail in Montana).

As may be seen from the above comments, BNSF is seen as using its dominant position to manipulate the grain transportation business in Montana so as to reduce BNSF costs and increase BNSF revenues. There is little sympathy for the view that BNSF is a private company, operating in the interests of its shareholders. Some feel that there isn't much hope.

Elevator Operators' Perspective. Again, the indented portion following represents actual or paraphrased comments by elevator operators, with regard to the impending abandonments:

> The farmers now truck their grain (from Scobey area) to Wolf Point (including Macon).
>
> Elevators have been closed (because rail service stopped). We got out of the elevator business and are now a lumber yard.
>
> "There is a great effect on a small town. When an elevator closes, two to four jobs are lost right off the bat. Plus railroad jobs, to maintain the line."
>
> It takes 12 hours to load 110 cars. Fifteen hours is the BNSF standard; above that, there are demurrage charges. 410,000 bushels go into one 110-car train, 3,750 bushels of wheat per railcar. Grain is trucked from as far away as 50 to 100 miles.
>
> "If trains go back to Scobey or Circle, we're doomed!" (this comment from elevator operator on the BNSF main line) We need the abandonments. On the other hand, there are unfair trade practices. BNSF pays 15 cents per bushel incentive (for wheat) at the 110-car loading facilities and the trucker or farmer gets 13 cents.
>
> "BNSF worked a deal with CHS at Circle and Scobey, and offered money. The elevators ordered no more trains."
>
> The freight rate (for wheat) from Wolf Point to Portland is $1.10 a bushel. From Scobey or Plentywood, $1.35 a bushel.
>
> Wolf Point can support two shuttles. No other place can. Wheat is trucked from 75 – 100 miles away.

> (One elevator operator on the BNSF main line, asked why farmers bring grain to him when they can obtain a better price at the 110-car loading facility, responded,) "They don't like CHS. It's a matter of principle. We run a fair operation. Customer loyalty."
>
> The Macon facility cannot continue without getting wheat from Scobey and Circle.
>
> "There will be impacts on the highways but from an ag standpoint it has to be done."
>
> "Whether the wheat producers will admit it or not, this (changed system) is putting more in their pockets."
>
> "We are a captive state, and must therefore pay higher freight rates. The freight rate is 300-400 percent of the railroad's variable cost. The 'We do it because we can' BNSF attitude has got to stop."
>
> "It infuriates me and my customers that BNSF was 65 days behind in delivery of requested cars and on top of that they raise their freight rates."

The elevator operator comments indicate beliefs that BNSF and CHS are working together, the transportation market is working more efficiently, there is still competition among elevators on the main line even though many do not have 110-car loading capability, and BNSF acts in a "high-handed manner".

Discussion of Specific Impacts

Shippers

In the interview process, when impacts were solicited, operators of small elevators at or near the end of the line stated that farmers are trucking their grain to Wolf Point (and Macon), and that small elevators are losing business and closing. Elevator operators on the BNSF main line observed that business is competitive and that a consolidation of elevators is occurring.

It is a fact that small elevators have closed since abandonment of the Scobey-Opheim line about 10 years ago, and since implementation of the Burlington Northern policy, effective December 1980, promoting and incentivizing use of 26- and 52-car loading facilities. Small elevators failed. On the other hand, some elevators, e.g., Lindsay (on the Glendive-Circle branch line), which used to load single railcars, have continued in operation as trans-load operations despite not using rail service.

Even if an elevator which no longer uses rail service is not shut down, the absence of rail service (and abandonment of the rail line, when that occurs) tends to reduce the value of the elevator.

Abandonment of the two rail lines will formalize the reduced economic viability of elevators located at Scobey and Circle. Scobey may remain as a local collecting and trans-load facility for a while, and the Circle elevator may continue as a truck-served feed grain facility. This change in use, from rail-served grain elevators, will result in the loss of an estimated six and ten jobs that will not be recaptured by other local elevators. The estimated annual dollar impact, using the midpoint (8 jobs), is $160,000 (8 jobs x $20,000 approximate salary).

Communities and Grain Producers

Economic Impacts

The economic impacts of prospective abandonment of the Plentywood-Scobey and Glendive-Circle lines are not separable from the impacts of events preceding the cessation of rail operations, i.e., physical deterioration of the lines, reduction of service and introduction of shuttle-train services at railroad main line locations. The impending abandonment, in this context, will be the formal recognition that a further stage in the rationalization of the grain-gathering network has occurred. Thus, in measuring impacts, a simple “before” and “after” comparison may be misleading, since what has been and is being experienced by producers is a continuum of increasing impacts.

However, it is necessary and appropriate to simplify assumptions within reason. In this case, it is assumed that year 1999 rail carloads transported from Scobey and Circle (679 and 680, respectively) may be taken as a reasonable “before” measure, even though it may be argued that these figures may understate the long-term decline of rail service on these rail lines. In addition to rail service, there are no doubt more economic, agricultural and other trends influencing wheat production and transportation. In any event, the assumption is deemed conservative, since earlier grain shipments from Circle and Scobey were higher.

Using 1999 as representative, 135,900 tons of grain ((679 +680) x 100 tons per railcar) have been transported by truck annually since cessation of rail service. Elevator operators and grain producers state that driving 50 to 80 miles one way to sell wheat is not uncommon. For purposes of this analysis, a 50-mile one-way transportation distance is assumed, and this distance is approximately equal to the distance of both Scobey and Circle from Macon, and of Circle from the 110-car facility at Glendive. A substantial portion of the truck movements involves reloading grain at Scobey or Circle and trucking it to Macon or Glendive. Local grain growers confirm that most utilize combination tractor trailers which can carry 80,000 pounds of grain per load, more if combined with “pups” (second trailers). For purposes of this study, a figure of 33 tons per combination truck load is used. Return empty trips generate equivalent ownership and operating costs to grain producers, but in assessing highway damage are not

considered because of their relatively much lower impact on roads. Given the above assumptions, an additional 4,118 loaded truck trips (135,900 tons/33 tons per truck = 4,118 trucks) would be required to transport the farmer's grain to a rail terminal.

With these assumptions, identifiable impacts to communities and wheat producers exist in the following categories.

Increased Transportation Costs

Producers face higher transportation costs to reach more distant elevators. These costs should ultimately be equivalent if farmers choose to purchase trucking services or acquire semi trailers of their own. Benefits to producers of decreased rail line-haul costs is somewhat less clear, as the ultimate beneficiaries of lower rail costs include elevator operators, grain consumers and the railroads themselves. The proportion of savings that in the long term is passed along to grain producers, especially those captive to a single rail carrier, as are those in most of Montana, is likely to be quite small.

Moving 4,118 additional trucks over the assumed 50 mile one-way distance results in 205,900 truck-miles, and 411,800 round-trip truck-miles. The estimated variable costs of farmer-owned semi trailers is 67 cents per truck-mile (Gervais and Baumel, "The Iowa Grain Flow Survey: Where and How Iowa Grain Producers Ship Corn and Soybeans", *Journal of Transportation Research Forum*, 1998) and this generates a total variable cost of about $276,000 annually. Fixed costs (acquisition, insurance, etc.) would average another $170,000 using other factors from Gervais[1], for an estimated total additional transportation cost impact to the grain producers of $446,000 per year.

Other items formerly moved by rail now must be moved by truck, at greater expense, for example farm machinery and fertilizer. With regard to Circle, it is estimated that an average of 6 units per year, at an additional $600 per unit cost of movement by truck, results in an annual additional transportation cost of about $3,600. There would be additional costs related to highway damage and safety, but the amounts are deemed relatively small.

Fertilizer probably was moved by rail on both rail lines at some time in the past, but checks with local businesses which sell fertilizer in Scobey and Circle produced responses that perhaps 400 to 600 tons of fertilizer were moved by rail to Scobey in the last few years of rail operation and that, in Circle, the price was the same whether shipped by rail or truck (from Idaho). In any event, the increased transportation cost appears to be relatively low, compared with other economic impacts. Even if the difference were $400 per 100-ton railcar shipment, the annual impact would be only $2,400 at Scobey.

[1] Gervais provides estimated variable transport costs by vehicle type including farmers' owned trucks and commercial semi's. Assuming that the difference between these two would approximate fixed cost to the farmer, and converting bushels to tons and using factors described earlier in the text, annual fixed costs are estimated at $170,000.

Adding the estimates for farm machinery and fertilizer, the total additional annual transportation cost is about $6,000.

Decreased Value of Farmland

Changes in operating costs occasioned by rail line abandonments will be reflected in corresponding changes in property values. To the extent that a specific operating cost change is incorporated in land values, consideration of both is a double count of impacts. Nevertheless, it is useful to illustrate the equivalence of one form of impact with another. For example, additional transportation costs of $446,000 are about 2.6 percent of the sale price the grain producer gets for his wheat (sale price being approximately 4.6 million bushels (135,900 tons x 2000 pounds/ton x 59 pounds/bushel) multiplied by $3.75 per bushel, or about $17 million). Assuming average land value of $375 per un-irrigated acre, transportation costs would result in a long-term reduction in land values of about $10 per acre.

Similar effects on land values would be expected to reflect increased taxes resulting from higher roadway repair costs, or, in the event that roadway repair is inadequate, higher motor vehicle operating costs resulting from damage to vehicles from rutted roads and slower transit times.

Indirect Impacts

Branch line abandonment is both a cause and a symptom of rural depopulation; to the extent that businesses close because of lack of rail service, other businesses that supply the directly-affected facilities will suffer a downturn in income. The regional economic multiplier for this area of eastern Montana is approximately two, reflecting the respending impacts of a downturn in business activity at the elevators: reduction in employee spending, and reduced spending by the elevators on support services will reduce the money that would otherwise be spent on other local businesses. The multiplier reflects the magnitudes of reduced income to other local businesses and residents, lowered local employment, lower local property values and the resultant lower tax base. Total indirect impacts equate to 12 to 20 jobs, or approximately $240,000 to $400,000 annually, assuming $20,000 salary per job. Estimated average impact is $320,000 annually.

Decreased Opportunities for Economic Development

Non-quantified effects include decreased opportunity for economic development, or growth or simply continuation of business activity that would be expected to occur in the absence of the closure of businesses and the decline in spending ability by regional farmers. The Circle and Scobey elevators, amongst the largest elevators in the region, with total capacity of nearly 1.2 million bushels, are commercial centers of their respective counties. Their presence also serves as a focal point of social life in their vicinities, supporting the businesses of local restaurants and other activities. With the

decline in the activity formerly generated by these elevators, not only will existing businesses suffer decreased volume, but the opportunities for any new businesses to be established will be diminished.

There is a latent economic potential of infrastructure, in this case railroad, which may be lost if the track is abandoned, the rails are taken up and the right of way is turned over to another use. Communities will lose economic development opportunities now existent, related to availability of railroad transportation.

Taxes

One specific impact of the intended BNSF abandonments, articulated in many interviews, is loss to the affected counties of tax revenue paid by the railroad. A number of officials and others stressed the importance of this tax revenue as a significant portion of the county budget.

Annual tax figures received from the counties contained unexplainable inconsistencies; therefore help was requested from the Montana Department of Revenue. The Department provided estimates as follows:

County	Estimated Annual Tax Revenue Related to Prospective Abandonments
Sheridan	$103,000
Daniels	98,000
McCone	58,000
Dawson	147,000
Total	$406,000

To determine net impact, one must deduct from these figures the expected tax revenue assessed after the line has been abandoned. It turns out that the amount to be deducted, for the expected lower rate for low quality pastureland, results in a figure which is on the order of one percent, and this deduction is therefore ignored.

Incentives Not To Use Branch Lines

BNSF is said to use incentives to induce grain companies and wheat producers to truck wheat to the large elevator and shuttle train loading facilities on BNSF's main line, as opposed to delivering wheat to smaller elevators on the branch lines. It is also said that BNSF and Harvest States have a business arrangement in this regard. These stories appear to be true, although there is no readily available, tangible, and explicit evidence.

There has been abundant "spoken word" evidence. One person in a position to know stated that "incentives are there, … they are in place, in contract form, at BNSF and at the grain companies" and that they are of two types: those that induce trucking of grain to the 110-car shuttle train loading facilities, and those which assist with track

construction cost at those same loading facilities. In turn, the grain company agrees not to request rail cars on the branch line. This person admitted that he could not back up his comments and that he never saw one of the contracts. Another person, likewise in a position to know, referred to the Cenex Harvest States (CHS)-BNSF arrangement as a "sweetheart deal", in which BNSF is compensating CHS 15 cents a bushel in return for CHS not contesting the abandonments.

Further confirmation of incentives is found in the testimony of Gene Griffin, Director of the Upper Great Plains Transportation Institute, before the United States Senate Committee on Commerce, Science and Transportation, March 27, 2002, at Bismarck, North Dakota. After describing the 110-car shuttle train program developed by BNSF and alluding to hearsay evidence of special contract rate agreements between BNSF and shuttle facilities "giving them an advantage over others in developing a 110 car facility", Griffin stated that rate incentives exist "at only some elevator facilities, provided by the railroad".[2]

The purpose of this section of this report is to identify, analyze and evaluate the financial impact of these incentives which BNSF is said to have given to grain companies (and passed on to grain producers in the Scobey and Circle areas) in return for not using the railroad's branch lines.

In explaining why there are no more railcar orders on a branch line, one elevator operator spoke of "the deal" between his grain company and the railroad, and stated his concern about what this would mean to his elevator and his community. Another referred to the railroad as "our valued business partner" and asked that his remarks not be attributed.

Another elevator operator stated that BNSF pays 15 cents per bushel incentive to the main line shuttle train elevator and the trucker or farmer gets 13 cents of that. Another elevator operator also talked about the 15 cent incentive.

One knowledgeable elevator operator said that no one would provide the paperwork showing the incentive because they don't want to lose the incentive.

In interviews conducted with grain producers in the Scobey and Circle areas, several stated that a 12, 13 or 15 cents per bushel incentive was paid to those who trucked grain to the 110-car shuttle facility at Macon. (This may be the case also with respect to Glendive; however, Glendive was not mentioned as paying incentives, while Macon was. Questions to those in the Big Sandy area, where the elevator stopped requesting railcars last year, resulted in responses that there are no indications of incentives paid to those who truck grain from the Big Sandy area to the shuttle train facility at Havre.)

[2] Gene Griffin, Director, Upper Great Plains Transportation Institute, North Dakota State University, Testimony before the United States Senate Committee on Commerce, Science and Transportation, Hearing on Rail Freight Transportation in North Dakota, Senator Byron Dorgan Presiding, March 27, 2002, Bismarck, North Dakota.

Several grain producers expressed their opinions that their fellow grain producers would be unwilling to provide settlement sheets because of concern that they would lose the incentives they are getting. Also, there is concern that some grain producers are receiving the incentive (those who traded with the Harvest States 110-car loading facility at Macon) while others do not (those who traded with other elevators). It appears from many interviews that the older settlement sheets – those provided at the 110-car shuttle train elevator when it first opened – show the incentive, while the more recent settlement sheets do not explicitly show it, but rather indicate a "trucking fee", or provide no indication at all. Some say that the incentive has been disguised so it doesn't appear to be an incentive anymore. Others say they have seen no indication at all of an incentive on settlement sheets.

Some grain producers belittle the incentive, saying that it costs about the same amount as the incentive to truck grain to the elevator offering the incentive. Many predict the end of incentives as soon as the rail line is abandoned. At a meeting last fall in Circle, one grain producer said that a Harvest States manager "leaked out" the fact of incentives by mistake and then was subjected to a series of questions to which he provided no answers. This grain producer stated his opinion that BNSF and Harvest States are in "cahoots", with perhaps both firms absorbing the cost. Yet another grain producer said that Scobey is the only place where incentives are offered (and now Opheim also, according a recent report).

One grain producer said that he could not produce documentation showing that an incentive was paid. He receives a check from Harvest States for his wheat and a *separate check* in the amount of 13 cents a bushel for hauling the wheat to the Harvest States elevator near Wolf Point. This grain producer said that it costs him 15 cents a bushel to haul wheat from northeast of Scobey to Wolf Point.

A grain producer from the Scobey area, asked about incentives paid for hauling wheat to the 110-car facility at Macon, replied, "That's a crock!" He said that the 52-car loading facility at Wolf Point is paying the same amount as the 110-car facility. Also, he said that the price at Whitetail is 8 to 10 to 12 cents per bushel better than the price at Scobey, which is 12 cents per bushel less than Macon. Truckers will haul grain from Scobey to Macon/Wolf Point for 12 cents a bushel. This grain producer stated his opinion that "BNSF and Cenex Harvest States have crawled into bed together" and that the government should be involved and should regulate the railroads because of lack of competition.

Another grain producer provided a copy of a settlement sheet (see Appendix C); however it shows no information explicitly indicating that an incentive was paid. The settlement sheet shows that delivery was made to "FARMERS ELEV. CO. –WOLF POINT". According to the grain producer, the words "Scobey Trans" are written on the paper to let the elevator know that this producer will receive additional compensation for bypassing the Scobey elevator and hauling directly to Wolf Point.

The economic impact on Montana associated with these incentives is associated with their permanence and their value net of trucking costs.

The incentives almost certainly exist, although the responsibility for offering them is probably divided between railroad and elevator. The elevator operator, having negotiated with BNSF for a substantial reduction in transportation rates in exchange for agreeing to invest in expanded facilities in order to accommodate 110-car shuttle trains, must usually generate a substantial increase in throughput in order to make the arrangement financially feasible. The figure of six million bushels annually (or about 16 110-car trains) has often been alluded to as the break-even volume for shuttle-train elevator operators. Feasibility thus requires, for most operators, an expansion of their hinterland, necessitating incentives to draw traffic from a wider area. Evidence exists that the incentives offered by Macon are marginally above the costs of trucking grain from Scobey. That is, Macon will offer a payment of about 13 cents per bushel above what is offered at Scobey, just exceeding the estimated 12 cents per bushel it costs to truck the grain over that distance.

The concern raised by the incentives is this: once a branch line is closed will the incentive be eliminated, raising the costs to producers that originally transacted with the no-longer-served elevators and creating an additional negative impact on Montana? In one sense, the answer may be no. Given that BNSF already exercises monopoly power and that it already is pricing so as to maximize its profit, any increase in rates would reduce demand, that is, would force grain producers either out of business or compel them to find alternative uses for their product, such as feed or local processing. BNSF's current rates to local elevators already may be at the optimal level for BNSF's purposes ("what the market will bear"), and elimination of the "incentives," which would decrease farmer receipts by about 13 cents per bushel, may reduce BNSF revenue. The same logic argues that, if the elevator is the entity offering the incentives, it would suffer a reduction in throughput which would endanger its ability to break even on the investment.

This being said, it is known that BNSF has in the past turned its back on elevators which have constructed loading tracks to accommodate 52-car blocks, asserting that such facilities were guilty of "poor planning" when they became non-competitive with shuttle facilities. But in these instances, BNSF did not face the risk of reduced volume; grain was merely transferred from large capacity elevators to larger ones. Shuttle facilities, once they become "the only game in town" may no longer have any reason to offer incentives that result in a marginally higher net payout to grain producers and, where incremental cost of trucking equals 12 cents per bushel, 13-cent per bushel incentives may logically be cut by one cent, or more if the elevator believes that it can get away with it. But in such instances, the negative impacts on Montana will be as much a function of the exercise of monopoly power by elevator operators as it is a function of railroad market power.

Available evidence suggests that the Macon 110-car shuttle train loading facility is the only elevator offering incentives. Assuming that the 679 carloads of wheat moved from

Scobey in 1999 represents the wheat for which the Macon elevator now pays incentives and assuming an incentive at Macon of 13 cents a bushel, the annual impact on Scobey wheat producers is about $300,000 per year ((679 carloads) x (100 T/car) x (2000 pounds/T) x (1 bushel/59 pounds) x ($0.13/bushel)). An equivalent impact would pertain to grain shipments formerly made via Circle. On the other hand, the wheat producer must truck his grain to Macon and, as indicated above, at least in the opinion of some, the cost of trucking approximates the incentive payment. Perhaps some grain producers do not in their minds subtract the cost of trucking. In any event, because the incentive may vanish at some future date (bumper crop, BNSF unable to keep up with the transportation demand, other changed economic conditions, etc.), this economic impact is considered transitory and speculative and therefore is not included in the listing of quantified impacts.

There is another, closely-related and publicly-advertised (on the BNSF tariff rates website) incentive to draw grain traffic off the branch lines: the lower shipping rates at 110-car loading facilities. All ten Montana shuttle train loading facilities are listed as qualifying for this incentive (in addition to similar facilities in other states). The BNSF website states, "In order to promote efficient car utilization and quality accounting, shipments meeting all the following provisions listed below will be paid a $100.00 per car incentive allowance." The "provisions listed" include unit train, 15-hour loading time and application only to certain commodities, including wheat.

BNSF spokesman Gus Melonas is quoted as saying, "'The incentive is to use shuttle facilities.'" In the same news story, it is reported that Melonas "said BNSF does offer incentive rates for 110-car trains at all 10 high-speed shuttle loading elevators in Montana and in other states."[3]

Applying this $100 a car incentive to wheat delivered to the shuttle train loading facilities from Scobey, there is an additional $67,900 economic impact (679 cars x $100/car). If it may be assumed that all Circle wheat which moved on the branch line in 1999 is also delivered to a shuttle train loading facility, there is an additional $68,000 (680 cars x $100/car) economic impact related to the Scobey area.

Again, these impacts are speculative and transitory, and are not included in the overall listing of quantified impacts.

Highways

Increased Highway Maintenance and Repair

The state of Kansas estimates its annual pavement maintenance program would increase $50 million were there no short line railroads in the state.[4]

[3] Tim Leeds, "Big Sandy farmers worry about rail service", Havre Daily News, January 7, 2004 Online Edition, www.havredailynews.com/articles/2004/01/07/local_headlines/bigsfarmers.
[4] Mark W. Hemphill, "The Plight of the Short Line Railroad", TRAINS, March 2004, page 39.

The figure is probably not this high for Montana but this impact is nonetheless cited by many in Montana as already resulting from increased truck traffic over the past two years during which there has been no rail traffic on the Plentywood-Scobey and Glendive-Circle rail lines.

Cessation of rail service on the Plentywood-Scobey and Glendive-Circle rail lines has resulted in truck transport of grain over longer distances, in particular to large elevators and shuttle train loading facilities located on BNSF main lines. Some grain from Daniels and Sheridan Counties is trucked to Whitetail and Westby rail loading points on the DMVW railroad but the increased amount has not been appreciable. The grain producer makes the decision where to transport his grain based upon grain prices, location of the farm and personal preference. In most cases, price of grain will be the determining factor. Transportation of grain that previously had been shipped via rail using local elevators must now be trucked to alternative elevators utilizing county and state roads. This additional heavy truck traffic has an adverse impact on these roads, resulting in an increased cost to maintain them. It is assumed that this truck traffic would use county roads to approximately the same extent as before, when local grain was moved to local elevators (at Scobey or Circle). Thus only affects to state roads are considered in this study.

A number of studies (for example, in Kansas, North Dakota, Washington and California) have been performed to estimate impacts associated with truck transportation of additional grain volumes where rail lines are abandoned. Average pavement damage cost factors in dollars per truck-mile vary from $0.10 (Washington State) to $7.15 (Kansas). Highway damage impacts are related to factors such as pavement layer thickness and related coefficients (surface, base and subbase), axle loading and configurations, number of axle passes before pavement failure (theoretical life of pavement), deterioration indexes and rates, and other factors. Another very important factor is the method of pavement maintenance employed by the state. Some states actively preserve their pavement through routine and periodic maintenance, while others may allow deterioration of pavement to the point where total reconstruction is required.

Montana State University performed a Montana Cost Allocation Study in year 2000 which evaluated Montana's highway service expenditures. Professor Jerry Stephens of that institution provided a figure of $0.24, representing damage costs per 5 axle truck mile on non-interstate national highway system (NHS) and primary Montana highways, which are the highways deemed most impacted by cessation of rail service on branch lines. This is a year 2001 value, so an inflation adjustment is made to provide a year 2003 factor of $0.26.

Utilizing the same 4,118 trucks (used previously, representing the increased grain truck traffic following cessation of rail service) and 50 mile one-way trip for heavy-loaded trucks, we arrive at about $54,000 (4,118 x 50 x $0.26 = $53,534) for additional annual highway maintenance costs that have occurred since termination of rail service.

It would be appropriate and pertinent to perform a "reality check" regarding the results of increased grain traffic in Montana; however, this is not possible within the scope of this study. Officials of the Montana Department of Transportation in Helena, and at field offices in Glendive and Wolf Point, were queried at the beginning of this study regarding highway impacts. None of the officials questioned had data regarding damage occasioned by additional grain trucks, or the cost to repair same.

Safety Impacts

Two additional impacts, one positive and the other negative, are reduction of highway-rail crossing collisions and increased vehicle collisions on state highways. These impacts are estimated utilizing data obtained from Montana Department of Transportation (MDT), Federal Railroad Administration Office of Safety Analysis (OSA), the U.S. Department of Transportation (DOT) Bureau of Transportation Statistics and other sources.

The two prospective branch line abandonments relate to rail service in four counties (Sheridan, Daniels, Dawson and McCone) and affect other counties where there are grade crossings (also called highway-rail crossings) or where there may be increased truck traffic.

Elimination of rail service has a positive impact on highway-rail crossing collisions; that is, where there are no more trains, there are no more collisions at highway-rail crossings.

FRA highway-rail crossing collision statistics show that in the four directly-affected counties, only four crossing collisions involving large trucks occurred during the time period January 1997 to November 2003, the latter being the most recent safety statistics available. The FRA Railroad Safety Statistics 2000 Annual Report shows 210 highway-rail incidents resulting in $14,777,314 reportable damage. This averages $70,400 per incident, which becomes $74,000 when adjusted for consumer price increase.

The same FRA statistics also show motor vehicle incident rates at public highway crossings by state. Montana shows 0.99 highway-rail crossing collisions per 100,000 AADT (annual average daily traffic).

The FRA crossing inventory databank (on FRA website) shows AADT information specific to at-grade public highway rail crossings. AADT for all public highway-rail crossings on the Plentywood-Scobey segment is 2,473 vehicles. On the Glendive-Circle branch line, the corresponding figure is 5,291 vehicles. At this volume of traffic, a highway-rail crossing accident would be statistically expected to occur on average once every 41 years on the Plentywood-Scobey line ((100,000/0.99)/2,473 = 40.8), and once every 19 years on the Glendive-Circle branch ((100,000/0.99)/5,291 = 19.1). Thus the annual impact (positive, in this case) of terminating rail service on the Plentywood-Scobey line is about $1,800 ($74,000/41 = $1,805), and on the Glendive-Circle branch

line about $3,900 ($74,000/19 = $3,895). Thus there is a total benefit of about $5,700 resulting from cessation of rail service.

Vehicle Collisions on State and Rural Roads

On the adverse impact side, the increased number trucks, 4,118, results in an additional 411,800 (4,118 x 100) truck-miles on state highways. 100 miles is used in this case, since the highway safety impacts result whether the truck is loaded or not.

The same 2003 Kansas study lists the National Safety Council's year 2000 report *Estimating the Costs of Unintentional Injuries* as a source of estimated costs related to motor-vehicle collisions. Contained with the report are estimated comprehensive costs of motor-vehicle crashes as follows:

Crash involving death	$3,214,290
Crash involving incapacitating injury	159,449
Crash involving non-incapacitating injury	41,027
Crash with no injury (property damage only)	1,861

Averaging the two figures involving injuries only results in a figure of $100,238, and adjusting all figures for changes in the consumer price index yields:

Crash involving death	$3,405,000
Crash involving injury	106,000
Crash with no injury (property damage only)	2,000

The Federal Highway Administration website shows the following accident statistics regarding large trucks per 100 million vehicle miles traveled:

- 2.4 fatal truck crashes
- 48.8 injury crashes
- 170.6 property-damage-only crashes

With these data, one may determine the following estimated costs of highway accidents resulting from no rail service on the Plentywood-Scobey and Glendive-Circle lines. For example, the increased impact of accidents involving death would be (411,800/100,000,000) x 2.4 x 3,405,000 = $33,652. In summary, annual costs of increased accidents are expected to be:

Death	$33,652
Injury	21,302
Property damage	1,405
Total	$56,359, say $56,000

Summary of Impacts Quantified in This Study

Following is a summary of the annual impacts of cessation of rail service on the Plentywood-Scobey and Glendive Circle lines:

Loss of grain elevator jobs	$160,000
Increased transportation costs, grain producers	452,000
Reduced tax revenue to counties	406,000
Additional highway maintenance cost	54,000
Reduced grade crossing accidents (benefit)	(6,000)
Increased highway accidents	56,000
Respending impacts	320,000
Total	$1,442,000

Possible Mitigation of Plentywood-Scobey Impacts

The Plentywood-Scobey impacts would seem to be somewhat mitigated by the existence of the parallel DMVW rail line approximately six or seven miles to the north. DMVW hauls export grain which moves by CP to Eastport, Idaho, and is from that point moved by UP to ship-loading terminals in Oregon and Washington. Recent traffic activity on the DMVW line over the past two years (that is, since rail service between Plentywood and Scobey stopped) has shown significant growth, and may constitute an incipient competitive trend. If so, this bodes well for grain producers and communities in northeast Montana.

What Other States Are Doing

Iowa

Iowa ships corn and beans, little wheat. Most Iowa abandonments occurred 1980-1990, but track has been abandoned in the 1990s also. When there is an abandonment, Iowa holds a public meeting. Iowa generally has not intervened in branch line abandonments. Shuttle trains on main lines are more and more a presence in Iowa. Elevators are being consolidated. This hurts small rural communities. Farmers buy their own trucks and truck their produce to the next county. They get a better price that way, and the railroads operate more efficiently.

Iowa does not acquire abandoned branch lines, and does not own any railroad. Iowa's policy has been to help someone else operate a railroad, as opposed to the state getting into the railroad business. Iowa has provided assistance to railroads – funding acquisitions, for example. The Iowa Legislature created the Rail Assistance Program in 1974 and has provided $28 million in assistance, matched by federal Local Rail Freight Assistance funding.

In 1980 the Legislature created the Iowa Railway Finance Authority (Iowa Code 327 (i)) to address funding needs related to Rock Island and Milwaukee Road mass abandonments. IRFA has funded projects and enables the state to acquire, own and operate rail lines. This authority was used by Iowa to help the Iowa Interstate Railroad.

Recently Iowa has been asking itself the question, should the state at least save the railroad rights of way being abandoned? Iowa is considering preservation of railroad rights of way and using them as trails in the interim, while retaining the option of using them for railroad purposes in the future. This subject is now being debated.

Kansas

Kansas cannot acquire rail lines, but allows the formation of port authorities, which were used to purchase a portion of the bankrupt Rock Island with federal funds. In 1981 the state began using the federal LRFA program to make grants, to keep branch lines operating where there is an agri-business need. Beginning in 1991 the state legislature authorized using the money to make loans, and this created a revolving loan fund with the interest earned. Since 1999 the legislature has appropriated $3 million annually in state funds for this program. This legislation will expire in 2006 unless it is extended.

The LRFA-funded program has made grants and loans totaling about $9.2 million since 1981. The state program has made loans totaling about $9.5 million since 1999. The two programs have assisted over 1200 miles of rail line and six new loans are about to be approved. Most are for tie and ballast replacement. Shipper loading facilities are eligible, but none thus far has shown the necessary cost/benefit ratio.

Kansas DOT has been very active in working with the large railroads to turn most of their branch lines into short line railroads (as opposed to abandonment of service). Kansas has used LRFA funds for loans to short line railroads.

Professor Michael W. Babcock at Kansas State University has published a study of the benefits of the program; he found that the program saved the state $51 million on highway maintenance.

Minnesota

Minnesota cannot own operating rail lines, but has acquired 359 miles of abandoned lines for rail-banking and trail use. One such line was studied for possible commuter rail use. Minnesota has a state revolving loan program with only state funds. This program is in four parts:

> Capital Improvements, for loans to shippers to improve rail facilities. This part is rarely used for rolling stock. Repayment is required over ten years.

Rehabilitation Program, for short lines and regional railroads, with a 15 year repayment requirement. The railroad, shippers and the state participate, usually with 70-80/10/10 percent contributions.

Purchase Assistance Loans, to local authorities who wish to own and operate or contract for operation of branch lines, with a 15 year repayment requirement.

Rail User Guaranteed Loans, to assist shippers to make improvements, so as to increase rail use, with a 15 year repayment requirement.

All loans are subject to cost-benefit analysis. The total program since its inception in 1976 has loaned about $35 million from a combination of state general funds and state bond money.

North Dakota

North Dakota has not acquired any branch lines, and has a policy against doing so. The state does have revolving loan funds which are used to assist shippers or short lines in making rail improvements. The funds were created from the original federal Local Rail Freight Assistance (LRFA) program. The Federal Railroad Administration allowed the state to use the interest from the federally funded loans to create a state revolving loan fund, the Freight Railroad Improvement Program (FRIP), so now North Dakota has two revolving funds, one with federal funds, LRFA, and one with state funds, FRIP. The state does not make outright grants, only loans. FRIP low-interest loans are made to railroads and other entities wishing to establish or improve rail service to promote the public interest and local economic development.

The rules governing issuance of state-funded loans are generally based on LRFA rules, but the North Dakota DOT director has discretion in emergency situations. The state prepares a benefit-cost analysis for each loan and the ratio of benefits to costs must be at least one. North Dakota has made perhaps two dozen loans totaling over $20 million and covering 470 miles of rail line, in addition to a number of grain loading facility improvements. Each fund currently has a balance of about $3 million. The state normally does not make loans for lines which carry five million gross tons a year or more, but exceptions in the public interest may be made. The program has enabled the state to develop a good relationship with its short lines and elevator operators.

Oklahoma

Oklahoma owns about 850 miles of former branch lines, most of it acquired following the Rock Island bankruptcy. The legislature created the Oklahoma Railroad Maintenance Authority to manage these lines and the Oklahoma Railroad Maintenance Revolving Fund to maintain the rights of way. Ninety-five percent of these state-owned lines are leased out to short line operators; the state receives a percentage of the

revenue. All of the funds are appropriated by the legislature with no federal or local funding.

The state has not paid more than net liquidated value, usually after an abandonment application, but sometimes through negotiation beforehand. Oklahoma DOT considers the program very successful because it has kept grain elevators competitive in parts of the state without other rail services.

South Dakota

South Dakota owns some 800 miles of railroad, some of which is rail-banked. Of the 800 miles, BNSF leases and operates 375 miles. The state has a Revolving Trust Fund which grants or loans money for rehabilitation or new construction on these lines. It has been deemed adequate for South Dakota needs.

110-car loading facilities have caused the shut down of a short line railroad in South Dakota. Rates are structured to make the 110-car facilities an attractive destination for the farmers' grain.

Washington

Concerned about rail line abandonment, the state legislature in 1983 established the Essential Rail Assistance Account in the state general fund and authorized formation of county rail districts. Funds are available as low interest loans to counties, to acquire and maintain branch lines and operate essential rail service. The state also authorizes rail banking – state or local purchase of abandoned rail rights of way.

Summary of What Other States Are Doing

Of seven grain-growing states contacted, all provide some form of funding assistance to small railroads and all but one have authorized some form of rail line acquisition:

	IA	KS	MN	ND	OK	SD	WA
Authority to acquire/own railroads	X	(1)	(2)		X	X	X
Funding Assistance	X	X	X	X	X	X	X

Notes:
(1) Kansas authorizes port authorities to acquire rail lines.
(2) Minnesota can acquire abandoned lines for rail banking and recreational use.

Options Available to Montana and Its Local Governments

As discussed above, corporate decisions such as rail line abandonment, which may be perfectly rational from the perspective of privately owned railroads, can lead to uneconomic results and severe local impacts when costs borne by the public at large are considered. Studies from other states – notably Kansas – indicate that the highway maintenance impacts alone are substantial. Add loss of tax revenue (an important part of the budget of some rural counties) and impacts to wheat producers (increased trucking costs), and the long-term impacts to small rural communities (loss of elevators, loss of other business, and loss of the availability of railroad transportation), and the impacts may be considerable.

It is therefore appropriate to examine the options available, to Montana and Montana local governments, to mitigate harm sustained as a consequence of railroad policies to rationalize their services and to abandon lines.

The following options are discussed in this section:

- Oppose the abandonments through legal means
- Work with BNSF to mitigate impacts to Montana
- Make Offers of Financial Assistance
- Subsidize operation of the lines
- Improve rail-rail competition
- Seek new federal legislation
- Political action
- Develop counter-incentives
- Other

These options are not mutually exclusive. It may be in Montana's best interests to pursue several in combination. Following is a discussion of each option.

(1) Oppose the Abandonments

BNSF plans to file abandonment exemptions with the Surface Transportation Board (STB), with regard to the Plentywood-Scobey and Glendive-Circle lines, after June 30, 2004. Inasmuch as no traffic has passed on these lines over a two-year period, it appears likely that the abandonment exemptions will be approved within approximately 60 days following filing, unless the BNSF applications contain incorrect information.

It has been suggested by some that Montana should argue against the proposed abandonments before the STB, on the basis that BNSF provided the incentives which took the traffic off the lines. Such an argument is unlikely to be persuasive since implicit in the argument is the fact that a superior cost/service package has been offered by BNSF resulting in the defection of traffic. (However, to the extent that BNSF engineered the diversion of traffic by purposefully degrading service is a stronger, but likely still insufficient argument that may be constructed.)

The Staggers Rail Act liberalized procedures for branch line abandonment, and the Interstate Commerce Commission (ICC) Termination Act of 1995 resulted in further revisions. It is possible for a railroad to file an application with the Surface Transportation Board (STB) and obtain authorization to abandon a line of railroad within a 110-day period, or less. Where there has been no traffic on the line for two years, this period is reduced to 60 days in the so-called "exempt" application.

The Plentywood-Scobey and Glendive-Circle lines appear to meet the "no traffic on the line for two years" criterion. Thus if it chooses to contest the impending BNSF application, or take advantage of the "Offer of Financial Assistance" provisions of 49 CFR 1152, the State of Montana should be prepared to act expeditiously.

In the case of an exempt abandonment, the STB is required to publish a notice in the Federal Register within 20 days after the filing the notice of exemption. If the State of Montana chooses to contest the abandonment, it must act within ten days of publication of that notice if it wishes to stay the effective date of the notice. Petitions to stay the notice on environmental or historic preservation grounds must be filed sufficiently in advance of the effective date to allow the STB to consider the petition and act.

If the railroad's notice of exemption contains false or misleading information, the use of the exemption is void *ab initio* and the STB will reject the exemption notice summarily.

The foregoing is a brief summary of the abandonment procedures, which are described in detail in 49 CFR 1152.

Resources to Oppose Abandonments

What would be required, in compensation for attorneys, to oppose the prospective BNSF abandonments? Five attorneys, all expert in railroad regulation, were asked. In each case, the situation facing Montana was explained. The attorneys provided estimates ranging from $1,000 to $75,000, depending on extent of the effort.

(2) Work with BNSF to Mitigate Impacts of Abandonments

Railroads, BNSF included, generally attempt to array support for their regulatory initiatives by "signing up" affected shippers and local governments to endorse their petitions. BNSF may be willing to provide a *quid pro quo* for such endorsement. Negotiations could focus on supporting the abandonment petitions in exchange for BNSF promising to rectify other deficiencies in railroad service, for example, cooperation in any Montana plans to institute short line service on the lines being abandoned, agreement that co-loading (allowing two or more elevators to contribute loaded cars to a train) will be permitted on BNSF lines, etc. There are any number of railroad service deficiencies that offer opportunities here.

It has been reported that at one point in the contentious abandonment of the Scobey-Opheim line about ten years ago, BNSF offered the rail segment to the State for one dollar. It may be that BNSF is willing to negotiate an arrangement in which the Plentywood-Scobey and/or Glendive-Circle rail lines are donated to the State, perhaps in an arrangement to continue operation of the lines utilizing a short line railroad, or to preserve the rail lines for future rail use, or alternative use. The "rails to trails" program is based upon use of abandoned rail lines for recreational trails pending potential future rail use.

It has been suggested that the Glendive-Circle right of way may have alternative uses, for example: rail car storage; other rail-related use, such as rail car/locomotive repair facility; or utility corridor (oil/gas pipeline, electrical line). It is understood that the rail line was at one point considered for use in transporting materials to a new electrical power generating plant in the Circle area.

(3) Make Offers of Financial Assistance

Upon the filing of an abandonment application, the Interstate Commerce Act provides for Offers of Financial Assistance (OFA), a mechanism which allows an entity to continue rail service on a line to be abandoned by funding continuation of service. In the normal abandonment procedure, an OFA must be made within 120 days after an abandonment application is filed with the STB, or 10 days after service of the STB decision, whichever is sooner. In the case of the Exempt Abandonment Procedure (see in particular 49 CFR 1152.50 and 1152.60), the OFA is due no later than 10 days after service of a decision granting the petition for exemption. BNSF has already indicated that it plans to file a Notice of Exemption; therefore, in order to make an OFA, Montana must be ready to do this within 10 days after the STB decision, that is, within a period of approximately 60 days (maybe fewer than 60 days) following the BNSF application/filing.

49 CFR 1152 requires that the OFA "set forth its offer in detail", including demonstration of financial responsibility, and explain any disparity between the offerer's purchase price or subsidy if it is less than the carrier's estimate.

(4) Subsidize Operation of the Lines

The Montana Code Annotated (MCA) authorizes two or more counties by joint resolution to create a regional rail authority (MCA 7-14-1621). A county for which an authority has been created may lend or donate money to the authority, furnish facilities or improvements, convey property and in general do all things necessary to construct or operate a railroad (MCA 7-14-1623).

Sheridan, Daniels and Roosevelt Counties formed the Northeastern Montana Rail Authority in 1995, and the Commissioners of those counties are considering establishment of a short line railroad between Scobey and Plentywood. By letter of January 8, 2004, the Authority Chairman, Gerald Kohler, has asked BNSF if it would

cooperate in the implementation of a short line. A BNSF response dated April 26, 2004, signed by Jerome M. Johnson, BNSF Assistant Vice President Network Rationalization, outlines the options (10901 acquisition (negotiation of a voluntary agreement by the parties), and Offer of Financial Assistance) and states that BNSF "would continue to provide a connection to and interchange with the new shortline" but cautions that, "given the low rail traffic density and demand for rail service … we believe it would be extremely difficult to justify a return on investment …."

Within this option are several courses of action:

- Pay BNSF to operate the lines
- Lease the lines from BNSF and contract the operation
- Acquire the lines from BNSF and operate with a short line operator

These options could be effectuated with the OFA option discussed in (3) above.

Financial, marketing and operating analyses have been prepared with regard to the two segments which BNSF intends to abandon. See Appendix D (Plentywood-Scobey) and Appendix E (Glendive-Circle). These analyses show that both segments would require annual subsidies ($133,000 for Plentywood-Scobey and $235,000 for Glendive-Circle) in order to continue in operation at recent (three-four years ago) carload levels. These subsidies are based upon estimated carloadings of 600-610 and 180-190, respectively, from Scobey and Circle, based upon interviews with elevator operators at those locations. In order to break even (no subsidy), carloadings of 1,330 and 1,800, respectively, from Scobey and Circle, are estimated to be required. Additionally, the Glendive-Circle line would require rehabilitation to restore the line to acceptable operating condition. Without assurance of subsidy, it would be difficult to attract a short line operator.

It must be pointed out that the maximum car weight permitted on either line, Plentywood-Scobey and Glendive-Circle, is 134 tons. The current interchange standard on Class I railroads, since 1994, is 143 tons, and this is the size of virtually all modern grain hoppers produced. 143 tons is the size of railcars in the shuttle trains which service the 110-car loading facilities on the BNSF main lines in Montana. In 1999, these cars comprised 23 percent of the BNSF fleet of hopper cars; now the figure has risen to 38 percent.[5] The figure will go higher; BNSF has ordered 6,000 high-cube grain cars over a four year period.[6] Thus the branch lines would be at a disadvantage if they remained weight-restricted, and there would be an appreciable capital outlay required to raise them to the new 143-ton standard.

Montana law provides for loans and grants for railroads and intermodal transportation facilities. MCA 60-11-120 states that money appropriated by the legislature may be used to provide loans and grants for the preservation and continued operation of railroad branch lines. Additionally, there is the potential to qualify for federal programs.

[5] Jim Gransbery, "Grain car scarcity less here than in Midwest", *Billings Gazette*, December 6, 2003.
[6] Anthony Kruglinski, "Turnaround? Absolutely!", *Railway Age*, May 2004, page 9.

It must be stated that viability of this option, or any option that envisions resumption of rail operations on the two prospective abandonments, must be considered carefully in the context of trends not only in Montana but also in other wheat-producing states, not to mention the more specific directions BNSF appears to be taking in Montana, i.e., encouragement of main-line-originating shuttle trains. Given the absence of rail carrier alternatives to BNSF (except for the DMVW in the northeast corner and Union Pacific in the southwest corner of Montana) and trucking distances involved, BNSF enjoys the dominant market position in the regions surrounding the two prospective abandonments, as well as more generally in Montana wheat-growing regions. Before embracing any option which seeks resumption of rail service on the Plentywood-Scobey or Glendive-Circle lines, the degree to which BNSF will cooperate with or indeed, allow, continuation of that rail service must be considered, including revenue divisions supportive of short line operation. It is believed that BNSF cooperation is required to continue operation of the two rail lines.

The viability of this option is also dependent upon Montana's ability to provide (or obtain) financial assistance to assure continued operation of the line, which BNSF wishes to abandon because revenues do not exceed costs. It is important to review carefully the financial, marketing and operating analyses contained in Appendices D and E, respectively, with regard to the Plentywood-Scobey and Glendive-Circle lines. As stated above, both lines would require annual subsidies (or increased carloads) to support rail operations, at least $131,000 with regard to the Plentywood-Scobey segment, and at least $235,000 for the Glendive-Circle line.

It may be possible to obtain federal assistance, for example, from the U.S. Department of Commerce Economic Development Administration.

(5) Improve Rail-Rail Competition

Under current law, as implemented through the Surface Transportation Board, rail-rail competition may be improved through:

- consent of the monopoly railroad (e.g., for competitive access over its line)
- "build-outs" (new construction rail line connecting a captive shipper with a second Class I railroad)
- use of the terminal access provision of the Interstate Commerce Act[7]

Recent history suggests that consent comes at too high a price; the dominant or monopoly railroad does not encourage giving away business. Build-outs also are not cheap; depending upon the terrain, their cost is usually in the neighborhood of several

[7] The Terminal Access provision of the Interstate Commerce Act provides the authority under which the STB may grant to a rail carrier access rights to terminal facilities and related main line trackage of another carrier. Prerequisites include showing that access is in the public interest, is practical, and will not substantively impair operations of the carrier providing the access. Satisfaction of these prerequisites is not necessarily determinative, as the provision is permissive and not mandatory.

million dollars a mile. The STB and its predecessor, the Interstate Commerce Commission, have weakened the Terminal Access provision by requiring a showing of abuse of monopoly power by the incumbent carrier, and the provision does not have a glowing record of resolving competition problems. The fact is that railroads own their property and generally are allowed under Staggers to use it for their commercial purposes without interference. Of the three options, build-outs appear to have been used most frequently to obtain competitive access in recent years.

This option does not solve the immediate abandonment issue, but is advanced for its relevance over the long term. Where there is a market and rail competition, lines are not abandoned. It may be that there is an insufficiently-sized market for this option to be practical even in the long term, and this option is probably better as a rail competition option than as an abandonment mitigation option.

(6) Seek New Federal Legislation

This option does not solve the immediate problem of the proposed abandonments, but is a longer-term approach which by legislating increased competition among large railroads may tend to reduce abandonments. As mentioned earlier, there is some support for the belief in Montana that legislation is the ultimate answer to Montana's several rail issues. Keeping support of this option on the table also would improve Montana's negotiating position with BNSF.

There have been a number of proposals to improve rail-rail competition. The most current one is S. 919, "Railroad Competition Act of 2003", introduced in the 108th Congress, 1st Session, by Senator Burns, Senator Baucus and others (H.R. 2924 is the same bill, introduced in the House of Representatives).

The objectives of S. 919 and H.R. 2924 are to:

- promote effective competition among rail carriers at origins and destinations
- maintain reasonable rates in the absence of effective competition
- maintain consistent and efficient rail transportation service for shippers
- ensure that smaller carload and intermodal shippers are not precluded from accessing rail systems due to volume requirements

The bills seek to attain these objectives through establishment of arbitration procedures, elimination of "paper barriers" (restrictions which limit the ability of a Class II or Class III rail carrier (regional and short line railroads) from interchanging traffic with Class I carriers other than the one with which it has an agreement -- the "paper barrier"), stronger provision for competitive rail service in terminal areas, requirement that railroads establish a rate upon request, review of rates for reasonableness, and periodic study of competition by the Secretary of Transportation.

The railroad industry – or at least the large railroad (Class I) part of it -- strongly opposes these bills.

(7) Political Action and Advocacy

As in the case of the previous two options, this one probably is not the answer to the immediate abandonment issue. Several sources have suggested that high level political action is a necessary ingredient to any plan to resolve Montana's rail issues.

Use of publicity as a tool. BNSF is somewhat sensitive to public relations. BNSF wants to be seen as a good neighbor. BNSF wants to avoid bad publicity. Ultimately political action may be required to get the railroad's attention. The governor might issue a press release to "tell the story". Also, publicity may be tied to concessions of the type discussed under (2) above, "Work with BNSF …". An example of combining publicity with railroad concessions occurred in the Conrail acquisition proceedings, when the State of Maryland staged a "photo op" with the governor and officials of Norfolk Southern and CSX railroads after the state agreed to support the proposed acquisition; this occurred just weeks after CSX consented to extend commuter railroad services in Maryland, something CSX had strongly opposed the previous year.

Publicity would be a logical part of a larger strategy of political action aimed at all Montana's issues with the railroad (rail competition, abandonment of branch lines, car supply, service) which holds Montana as a "captive state".

There is strength in numbers, and growth in membership is an important issue for any political advocacy organization. North Dakota is currently studying whether to bring a rate case against BNSF. North Dakota and some other states have rail issues in common with Montana. The governors of five states, including Montana, signed a letter to BNSF in May 2002 urging that railroad to "find an equitable solution to its preferential grain shipping rates policy." BNSF would be more impressed with half a dozen (or more) governors working together than with individual governors pursuing individual agendas. Note also that a number other states, and not just Great Plains states, have similar interests in curbing railroad monopoly power or market dominance. A significant coalition of states extending throughout the United States, involving multiple commodities and issues, may take some time to build, but also may lead to solutions.

(8) Develop Counter-Incentives

There may be other practicable measures which Montana might employ to assist in restoration of rail service to the two out-of-service lines. Just as some farmers are given an incentive (e.g. 13 cents a bushel) to truck their grain to the BNSF main line 110-car loading facilities, Montana could provide an incentive not to do this. Obviously, such a reaction by Montana could be countered by yet another action by BNSF; it would be important to consider the range of measures and countermeasures, and to have an agreement with BNSF to cooperate.

(9) Other

There are no doubt other options which may be considered, or which may be added to an overall strategy by Montana to reduce the prospective future abandonments and to mitigate other rail issues.

One item perhaps worth following is STB action on a proceeding, Ex Parte 647, instituted in fall 2003 to consider simplification of abandonment procedures, which would give local shippers and communities enhanced opportunity to preserve lines approved for abandonment. Potential buyers would receive commercial data, and selling carriers would assure a buyer continued access under haulage agreements or trackage rights (*Railway Age* October 2003 page 6). There has been no further STB action on this.

Finally, any lasting solution to branch line abandonment and other BNSF issues probably must result from some fundamental change in the relationship between Montana and the railroad, brought about by mutual agreement, STB action, or new federal legislation. In this regard, and as already mentioned above, North Dakota is currently studying whether to bring a rate case against BNSF. A decision is to be made on or about July 1, 2004. Montana may wish to include "cooperation with North Dakota" in developing and executing its strategy of how to deal with BNSF.

Conclusions

It appears that BNSF is executing a strategy which seeks removal of traffic from relatively unprofitable branch lines and the transfer of that traffic to the railroad's main lines, which, in any event, will likely remain in service. Even if this were not the BNSF strategy, it does improve the BNSF "bottom line" – profits to shareholders – by reducing costs. Costs in the current context are reduced in two ways: elimination of branch line service, and, by virtue of increasing use of 110-car loading facilities, more efficient handling of grain through use of shuttle trains. The January 9, 2004, BNSF letter responding to Governor Martz's request for a postponement in the filing of abandonment exemptions for the Plentywood-Scobey and Glendive-Circle rail lines, states that BNSF "has found more efficient ways" to move Montana commodities to the market, and states a desire to place available capital and resources in other more critical transportation infrastructure. In fairness to BNSF, all major railroads have been active in maximizing revenues and minimizing costs ever since the Staggers Rail Act of 1980, which made it easier for railroads to abandon relatively low business density lines.

Montana may consider the options described in this study. Options (1) through (4) are directly related to the prospective abandonments; options (5) through (9) are broader, more long-range, and perhaps more related to the several rail issues in Montana.

It is emphasized that any effort to restore rail operations to the two lines must be accompanied by BNSF cooperation and public financial assistance.

It is suggested that Montana consider, given the state's desire to remain competitive economically, the actions of other states which assist small railroads and acquire abandoned rail lines.

Perhaps the most important conclusion is that Montana should develop an overall strategy to resolve its problematic railroad issues. Abandonments are but one issue; rates and service, including car supply, are others. Attempting to deal piecemeal with a large railroad, one item at a time, is not likely to lead to satisfactory solutions. Montana's strategy should include coordination with other states, since there is strength in numbers. The strategy should cover a full range of potential actions including new federal legislation.

Appendix A

Persons Contacted

Appendix A

Persons Contacted

A large number of persons was contacted in pursuance of this study, and many of those contacted were interviewed either in person or by telephone. For example, County Commissioners, State Legislators, grain producers, elevator operators were contacted, as well as officials in the Montana Departments of Transportation, Agriculture and Commerce.

The following persons were interviewed in person or contacted by phone, or participated in meetings of RLBA with the County Commissioners.

County Commissioners

Sheridan County
Gerald Kohler
Robert Nikolaisen
William Nyby

Daniels County
Lalon Trang
C. William Tande
Betty Hagfeldt

Roosevelt County
Ferris Toavs
Gary Macdonald

McCone County
Kent Larson
Connie Eissinger
Robert Kluth

Dawson County
James Deckert
Bill LaBree

Grain Producers

Bob Brown, Roosevelt County
Doug Campbell, Miles City
Steve Carney, Daniels County
Lochiel Edwards, Big Sandy
Dan Fast, Valley County
Bob Fouhy, Peerless
Dave Hanrahan, Scobey
Dean Harmon, Bainville
Dave Henlen, Circle
Ralph Jensen, Plentywood
Tom Lofpsgaard, Peerless
Ben Logan, Circle
Lanny Marlenee, Scobey
Ron Marlenee
Willard “Woody” Michels

Kim Murray, Froid
Romaine Ryder, Froid
Jerry Schillinger, Circle
Leonard Schock, Vida
Merlin Shennem, McCone County
Alan Stempel, McCone County
Marvin Tade, Daniels County
Ron Tade, Daniels County
Aldo "Jiggs" Wolff, Circle
Grant Zerbe, Frazer

Elevator Operators

Over 18 elevator operators were contacted, and many provided information important to this study. Inasmuch as some of the operators requested their names not be used, no names are shown here.

Others

Michael W. Babcock, Kansas State University
Loren Boese, Fisher Industries, Glendive
Margaret Brinkley, Ranger Review, Glendive
Michael Bugenstein, Glendive
Jim Christianson, Montana Wheat and Barley Committee
John Craig, formerly with Montana Department of Transportation
Lochiel Edwards, Montana Grain Growers Association (MGGA)
Barry Green, Glendive
Pam Langley, Montana Grain Elevator Association
Les Kolste, Plentywood
F. Larry Leistritz, North Dakota State University
George Luther, Real Estate Appraiser, Miles City
John McCormick, Lindsay
Ron Ostberg, Nemont Telephone Cooperative, Inc., Scobey
Richard Owen, Montana Grain Growers Association
Paul Polzin, Director, Bureau of Business and Economic Research, Montana State University
Olie Rolandson, Farm Machinery Dealer
Nancy Schlepp, Montana Farm Bureau
Mike Stebleton, Daniels County Leader
Sue Ann Streufert, Montana Farm Bureau
John Youngberg, Montana Farm Bureau
Mike Weeks, Culbertson Implement (farm machinery), Culbertson
Darren Weinberger, Agland Co-op (fertilizer), Wolf Point
Terry Whiteside, Consultant, Billings Montana

BNSF

Pete Rickershauser, Vice President-Network Development

State-Level Elected and Other Officials, U.S. Government Officials

Linda Nelson, Montana State Senate
David Kasten, Montana State House of Representatives
Ron Marlenee, former U.S. Congressman

Dave Galt, Director, Montana Department of Transportation
Ralph Peck, Director, Montana Department of Agriculture

Bill Barr, U.S. Department of Agriculture
Wayne Budt, Montana Public Service Commission
Bill Juve, Maintenance Chief, MDT Wolf Point Maintenance Area
Tod Kasten, Montana Department of Commerce
Kris Larson, Montana Department of Commerce
Matt McKamey, Montana Department of Agriculture
Dave Martin, Research Census & Economic, Dep't of Commerce
Clyde Mitchell, MDT Glendive Maintenance Office
Brent Poppe, Montana Department of Agriculture
Marvin Prater, U.S. Department of Agriculture
Tom Steyaert, Montana Department of Transportation
Dick Turner, Montana Department of Transportation
Gene Walborn, Montana Department of Revenue
Jon Watson, MDT Pavement Management Office
Ron Zeller, Montana Department of Agriculture

Officials in Other States

Ray Allred, Washington State DOT
Pat Beaudette, South Dakota DOT
Jannette Collier, Minnesota DOT
Steve Cunningham, North Dakota DOT
John Hey, Iowa DOT
Bob Johnston, Rail Planner, North Dakota DOT
Joe Kyle, Oklahoma DOT
Larry Mesenbrink, Iowa DOT
Jack Olson, North Dakota DOT
John Rosacker, Kansas DOT

Appendix B

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Appendix B

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Babcock, Michael W., James L. Bunch, James Sanderson, and James Witt, Kansas State University. "Economic Impacts of Railroad Abandonment on Rural Kansas Communities". July 2003, Kansas Department of Transportation.

Measures quantifiable impacts of short line railroad abandonment in western two-thirds of Kansas as it relates to changes in the grain transportation system. Looks at changes in wheat handling and transportation costs, computes increase in truck-attributable road damage costs to Kansas county and state roads, and calculates highway accident benefits and costs attributable to resulting incremental truck traffic. If four Kansas short line railroads were abandoned, transportation and handling costs of grain would increase by $0.056 per bushel. The short line railroad system in the western two-thirds of Kansas annually saves the state $57.8 million in road damage costs. The average annual pavement damage cost per truck mile was estimated at $7.15, and the average annual pavement damage cost per mile of abandoned short line was estimated at $32,811 (page 119). Suggests changes to rail service improvement funding programs.

Babcock, Michael W., and James L. Bunch. "Impact of Kansas Grain Transportation on Kansas Highway Damage Costs" Kansas Department of Transportation, Kansas State University and University of Kansas. March 2002.

Describes changes in Kansas grain transportation system that have increased trucking of grain. Class I railroads have encouraged construction of unit train (100 cars or more) loading facilities on their main lines. Kansas grain farmers truck their grain a much longer distance in order to get higher prices at the unit train loading facilities, resulting in increased road damage costs. The increased size of railroad graincars threatens to reduce short line grain traffic and increase grain trucking. As the percentage of the grain car fleet that can move on short line railroads decreases, grain producers will have no alternative but to truck their grain

to terminal markets. Estimates average damage cost of incremental truck traffic of approximately $0.17 per mile in the study area, the western two-thirds of Kansas.

Babcock, Michael W., and James Lee Bunch. *Structural Change in Grain Transportation: A Kansas Case Study*. Transportation Quarterly, Volume 57, Number 1, Winter 2003.

Structural changes have occurred in the Great Plains which have had the effect of increasing the amount of grain trucking, and these changes could have negative effects on rural communities and short line railroads. This paper identifies changes in Kansas grain transportation that are diverting grain traffic to trucking, identifies the reasons for increased trucking, and measures the effect of the changes.

Babcock, Michael W., Marvin Prater and Eugene R. Russell. "Long-Term Profitability of Grain Dependent Short-Line Railroads in the Midwest". Mid-America Transportation Center, University of Nebraska-Lincoln, sponsored by the Kansas Department of Transportation, August 1997.

In Midwestern states short line railroads are operating thousands of miles of rural rail branch lines that might otherwise have been abandoned. Abandonment's negative impacts include lower grain prices received by farmers, higher transportation costs and lower profits for rail shippers, loss of market options for shippers, lost economic development opportunities for rural communities, and higher road maintenance costs. Thus, the question of long term economic viability of short line railroads is important to rural areas. In order to properly evaluate the question of financial assistance to short lines, state governments need to know if these short line railroads offer a economically viable mode of transportation. This study develops predictive models of long-term profitability of grain-dependent short line railroads in Midwestern states. The study recommends that state governments consider financial assistance programs (grants, low interest loans, or loan guarantees) for short line railroads. Also, states should consider assistance for specific maintenance activities, such as state's assumption of responsibility for maintaining highway crossings (a cost which is particularly onerous on low density rail lines). Another recommendation is that the state consider a state railcar pool which would lease hopper cars from car leasing companies and sublease these railcars on a short term basis to short line railroads. Authors state that the benefits of government assistance to short line railroads will often exceed the costs of allowing the track to be abandoned.

Bangsund, Dean A., F. Larry Leistritz and Joel S. Honeyman. "Assessing Economic Impacts of Railroad Abandonments in Rural Communities" *Impact Assessment*, Volume 15, March 1997.

Demonstrates methods for quantifying economic impacts of railroad abandonment on rural economies: change in transportation cost for shippers, property tax implications, increased traffic on rural roads.

Berwick, Mark, and John Bitzan, Brenda Lantz, Denver Tolliver and Kimberly Vachal. "North Dakota Strategic Freight Analysis: Agricultural Sector: Summary Report" Upper Great Plains Transportation Institute, North Dakota State University, October 2001.

Concludes that North Dakota state policymakers should consider location of shuttle train facilities and location of less-that-90-pound rail lines in making future highway investment decisions, since highway maintenance costs will increase, that state should work with the grain industry regarding shuttle facility location decisions, and that draw area for shuttle facilities is estimated to be a 60-mile radius. Other conclusions relate to subsidizing the upgrading of rail lines, intermodal facilities, and new value-added processing facilities.

Casavant, Kenneth L. and J.S. Lenzi. "Procedure for Predicting and Estimating the Impact of Rail Line Abandonments on Washington Roads", Washington State Department of Transportation, November 1989.

Describes four case studies of rail line abandonment in Washington which were used to test a conceptual approach in predicting road damage caused by rail line abandonment. Increased road cost estimates average $0.05 per ton-mile on state highways, $0.075 per ton-mile on county roads.

Casavant, Kenneth L. and Richard Mack. *An Economic Evaluation of the Performance of the Washington State Department of Transportation Grain Train Project*. Prepared for Washington State Department of Transportation, February 1996.

Faced with chronic rail car shortages which affected the economy of eastern Washington, and potential abandonment of light density lines generating insufficient revenue for maintenance of infrastructure, the State of Washington purchased 29 covered hopper rail cars to be utilized by the Palouse Blue Mountain Shippers Association. The project is credited with preserving rail service in eastern Washington, avoiding road damage to the extent of $188,727 in 1995, improving the economy of eastern Washington through lower rail rates, and safety and energy savings.

Drabenstott, Mark. "A New Era for Rural Policy", *Economic Review*, Federal Reserve Bank of Kansas City, Volume 88, Number 4, Fourth Quarter 2003, pages 81-98.

> Among other things, states that farms are growing bigger and more productive, and at the same time fewer rural residents are making it their living. "In 1972, agriculture was the leading source of income for roughly one in every four rural counties"; in 2003, "it is one in every *ten*. Today's farm-dependent counties are heavily concentrated in the Great Plains states. … Only 6.3 percent of rural Americans now live on farms, and most farm families get most of their income *off the farm*."

Gervais, Jean-Philippe and C. Phillip Baumel. "The Iowa Grain Flow Survey: Where and How Iowa Grain Producers Ship Corn and Soybeans". Journal of Transportation Research Forum, 37-1, 1998.

> Surveys Iowa grain producers to obtain information on corn and soybean flows, and provides information on ownership and utilization of semi tractor trailer trucks, which account for over 37 percent of the delivery of these grains off Iowa farms. Probability of farmers owning at least one semi truck increases as haul distance to elevator increases. Increased transportation mobility of farmers enable them to bypass grain elevators and railroad branch lines, portending a major restructuring of the grain elevator industry and rural branch railroad systems.

"Grain Subterminal Study" Prepared by Roger Creighton Associates, Inc. for Montana Departments of Agriculture, Highways, and Commerce, August 1981.

> An outgrowth of the original Montana Rail Plan, this study refers to BN's decision to introduce volume rates on 26 and 52 car units effective December 1980, at which time Montana elevators did not have the capability of loading unit trains. Thus BN's pricing strategy was expected over time to force greater centralization of grain collecting and marketing, and increase profitability of grain traffic. States that the grower may, over the short term, benefit from higher prices for his product, but that ultimately, with concentrated subterminals, the options of the grower will erode. Predicts the overbuilding of grain subterminals, as a result of competition among elevator companies.
>
> This study focuses on determining the economic feasibility of the grain subterminal concept, applied to Montana, and states that feasibility depends upon whether proposed subterminals develop sufficient benefits for grain growers and elevator operators "to overcome the inherent fear and distrust of a major change in the collection and marketing of grain." Study focused on (1) continuing single car service, (2) adding subterminals but keeping public warehouses as local collection and

marketing points, and (3) adding subterminals by phasing out public warehouses. Study concludes that grain subterminals are coming, that Montana no longer has the choice of retaining its previous system, and that it would not be in the state's interest to do so. Another conclusion is that the underlying motivation of subterminal construction is to capitalize on "the economies of scale achievable with subterminals and unit trains." Also the study states that "there is no guarantee that the grower will benefit to any significant degree" from the construction of subterminals. (page S-27) Yet another conclusion is that "Montana today is appreciably behind the other wheat-producing states in developing modern grain collection facilities and supporting unit train service." The study refers to increasing grain exports to Pacific-rim countries and the economics of scale requiring changes in port facilities (grain "bulkers", increased vessel drafts, automation), predicts that these and unit train movements will become highly integrated, and suggests that "Montana must design and build its subterminal facilities as an integral component of an evolving future grain delivery system" in order to maintain a strong competitive position (page S-28). The study discusses areas of concern (lack of rail competition in transport of grain; lack of competition in marketing grain; location of terminals, farm-to-elevator distances, and impact on growers; subterminal ownership and who gets the benefit of transport cost savings; and financing required highway improvements as a result of increased truck movements) (pages S-29 and S-30). Finally, study comments on choice between Montana action (state intervention) or a laissez faire approach (leave it to private enterprise). Consultant recommended the former.

Honeyman, Joel S., Dean A. Bangsund, and F. Larry Leistritz. *Economic Impact of Railroad Abandonment: Carrington-to-Turtle Lake Rail Line*. Department of Agricultural Economics, North Dakota State University, 1996.

Annual economic losses for the region estimated at $1 million, including increased transportation costs for shippers, loss of tax revenue, and costs to repair and maintain state roads impacted from increased truck traffic.

"Montana Agricultural Statistics 2003 (2001-2002 County Estimates)" compiled by Montana Agricultural Statistics Service, October 2003.

Provides an array of Montana agricultural statistics, by county.

Prater, Marvin E. *The Implications for U.S. Agriculture of Long-Term Trends in Railroad Service*. Journal of the Transportation Research Forum, Vol. 40, No. 4, Fall 2001, pages 121-132.

States that for agricultural shippers, the future of availability of railroad services and capacity is not promising. This is attributed to the shrinking

rural railroad network, the trend toward trainload shipping, and the decreasing significance of agricultural traffic to railroads.

Prater, Marvin Eugene. "Long Term Profitability of Grain Dependent Short Line Railroads in the Midwest." Doctoral Dissertation, Kansas State University, 1997.

Discusses growth in short line railroads since deregulation in 1980, negative effects of railroad abandonments. Study develops predictive models of profitability for grain dependent short line railroads in Midwestern states, for purpose of aiding state policymakers in allocating financial resources among potential short line railroads.

Prater, Marvin and Michael W. Babcock. "Grain Dependent Short Line Railroad Profitability" Transportation Research Forum, Vol. 37 No. 2 1998.

Empirical analysis of short line railroad profitability using primary cost and revenue data. Key factors influencing short line profitability are identified. The most important profitability determinant is the number of carloads per mile of main line track.

Prater, Marvin and Keith Klindworth. "Long-Term Trends in Railroad Service and Capacity for U.S. Agriculture." U.S. Department of Agriculture, Agriculture Marketing Service, November 2000.

Identifies and describes long term trends in railroad services and capacity for U.S. agriculture, in terms of what trends portend for agricultural shippers absent any change of the economically deregulated environment which has characterized the railroad industry over the past 20 years. Critical importance lies in the fact that rail is the only cost-effective transportation mode available for many agricultural shippers. Points at shrinkage of the rail network in the Great Plains states, and notes that abandonment of branch lines has been encouraged by unit-train loading incentives and increased utilization of 286,000-pound railcars. Suggests that long-term implications include decreased railroad market share, higher railroad rates for agricultural shippers, increased costs to access rail service, fewer shipper options, and an uncertain future for small railroads. States that agricultural shippers are being faced with an increased burden of responsibilities and charges to ship by rail. Stresses the importance of short line railroads, and states that it is in the mutual interests of the rail industry and agriculture that railroads remain an important and vital shipping option.

Russell, Eugene R., Sr., Michael Babcock and Curtis E. Mauler. "Study of Impact of Rail Abandonment on Local Roads and Streets" Sixth International Conference on Low-Volume Roads. (1993 or later)

Measures public costs of rail abandonment in south central Kansas: the increased road maintenance expenditures caused by larger truck volumes. The truck-attributable road damage costs resulting from abandonment of three Santa Fe branchlines (placed in Category 1 abandonment status in June 1990) were slightly more than one million dollars in the study area, which encompassed portions of 10 counties in south central Kansas.

Scheib, John M. "Government and Industry Partnership to Develop Rail Infrastructure in the United States" *Transportation Quarterly*, Vol. 56, No. 3, Summer 2002.

Railroads cannot afford to expand their infrastructure to keep pace with traffic growth because their revenues remain inadequate to do this. Government policy can help railroads by providing resources to them to expand infrastructure, and in return avoid additional highway congestion and reduce pollution, fuel consumption and highway damage.

Strege, Steve (Executive Vice President, North Dakota Grain Dealers Association). Testimony Presented to Senate Commerce Committee, Subcommittee on Surface Transportation and Merchant Marine, July 31, 2002.

Testimony on rail transportation of grain, covering imbalance of market power between large railroads and grain shippers, treatment of shippers including captive shippers, adequacy of oversight, and possible remedies. Testimony avers that BNSF market dominance and game plan in the grain business go beyond what would occur in a competitive environment, and result in: unreasonable terms and charges to grain companies, exorbitant rates to captive grain shippers, devaluation of shipper investments through changes in rates and service offerings, determination by BNSF which grain industry participants will survive, making and breaking of markets, and in general, taking advantage of farmers, agribusiness and the general public with little fear that someone will step in and stop them. Strege states that there is at present no effective remedy. Testimony also states that revenue-to-cost ratios are in the range 250 to 400 percent range, and that these ratios are documented (in testimony presented by the Upper Great Plains Transportation Institute to a hearing chaired by Senator Dorgan in Bismarck, North Dakota on March 27, 2002). Strege states that BNSF's "game plan in the grain business is promotion of a few big shippers primarily on its mainlines, with much less regard for the rest of its shipping and receiving customers who have made substantial investments to meet the railroad's previous demands." BNSF policies are shifting grain gathering costs to the public sector. Inverse rate structure (shorter haul pays a higher rate) is discussed, as is the May 10, 2002, letter to BNSF signed by five governors (urging BNSF to find an equitable solution to its preferential grain shipping rates policy). Strege reviews McCarty Farms

and other examples of attempts to redress the issue, concludes that government oversight is ineffective, and suggests remedies for action by Congress.

Strege, Steven D., Executive Vice President, North Dakota Grain Dealers Association. Testimony of North Dakota Grain Dealers Association and Alliance to Keep America on Track to the United States Senate, Committee on Commerce, Science and Transportation, Hearing on Railroad Issues, Senator Byron L. Dorgan Presiding, March 27, 2002, State Capitol Building, Bismarck, North Dakota.

Focuses on BNSF inverse rates, the "concept that elevators and farmers who ship their grain a shorter distance should pay more than those who ship a longer distance." States belief that BNSF motive is to artificially promote building of shuttle train loading facilities in parts "on this state and western Minnesota, with the eventual goal of closing other grain elevators in those areas and abandoning branch lines and short lines." [In effect, it appears that Strege is also describing the situation now occurring in Montana and resulting in abandonments.] Strege also discusses demurrage, co-loading, rail rates, Scoots (car supply program), circumvention of market forces, and endorses a bill introduced in the U.S. Senate, the Railroad Competition Act of 2001.

Tolliver, Denver. "Local Rural Roads: Changing Agricultural Traffic Demands and Infrastructure Investment Needs", presentation at Agriculture Transportation for the 21st Century conference, August 27, 1998.

Describes changes in the farm-to-market transportation system related to railroad system changes (abandonments, unit train rates) and broader economic changes (such as value-added processing). Discusses types of trucks used, and structural characteristics of the highways (arterials, and major and minor collectors). Provides statistics on railroad line abandonments in the Great Plains (33 percent loss of rail lines in Montana, 1965 – 1995). Provides marginal pavement cost indexes for 80,000-pound combination trucks on arterials, and major and minor connectors, showing the pavement cost differences (greatest for minor, next greatest for major connectors). Provides example potential impacts on minor arterial highways and major collector highways. Concludes that traffic diversion from rail lines to trucks will impact highway costs, that more funds will be needed for local rural highways, and that rail system changes will shift mode use and traffic patterns as rail abandonments continue and railcar gross weights increase.

Vachal, Kimberly and John Bitzan. "The Long-Term Availability of Railroads Services for U.S. Agriculture" Upper Great Plains Transportation Institute, North Dakota State University, prepared for U.S. Department of Agriculture, June 2000.

Delphi survey of grain market experts concludes there will be (1) further consolidation of the rail and elevator industries, (2) increasing prominence of heavy axle railcars in grain service, (3) increase in rail rates one to four percent annually over the next decade, (4) expanded use of shuttle/efficiency rail programs for major grains, (5) increased use of market-based car ordering systems, (6) growth of short line rail network, and (7) small market-scale, but large volume, increases in share of grain market via containers.

Vachal, Kimberly, John Bitzan and Bridget Baldwin. "Implications of a North American Grain Marketing System for Prairie Transportation & Elevators", Mountain Plains Consortium Report No. 97-84, September 1997.

Compares U.S. and Canadian grain procurement and transportation. Notes that U.S. upper great plains is moving to unit train rail shipments, rationalization of elevator and rail systems, and the emergence of the short line rail industry. States that Canadian practice has begun to position itself to recognize these efficiencies. Concludes that grain procurement and transportation in north central U.S. has experienced considerable rationalization over two decades, and that deregulation of the rail industry has been a major thrust in this streamlining. States that deregulation allows differential pricing, rewards for procurement efficiencies, and flexibility to respond in responding to market pressures. States that the government-sanctioned Canadian Wheat Board, the sole marketer of wheat produced in the Prairie Provinces, will continue to play a dominant role. A Delphi survey indicates continuation of "grain procurement system characterized by high throughput elevators, rationalized rail line operations, and expansion of short-line track miles."

Vachal, Kimberly, Denver Tolliver, John Bitzan, and Bridget Baldwin. *Marketing Hard Red Spring Wheat in 100-Car Trains*. Mountain Plains Consortium Report No. 98-93, August 1998.

This study, conducted in cooperation with the North Dakota Wheat Commission, Canadian Pacific Railway, the South Dakota Wheat Commission and others, provides informational base that hard red spring wheat market participants can use in assessing the value of a 100-car marketing option for their business. Includes estimates of rail efficiency gains and returns on investment for elevator upgrades. The advent of larger trains will likely contribute to further rationalization of the grain procurement system: fewer elevators, additional rail line abandonments and longer producer deliveries.

Wilson, William W. *U.S. Grain Handling and Transportation System: Factors Contributing to the Dynamic Changes in the 1980s and 1990s*. Department of

Agriculture Economics, Agricultural Experiment Station, North Dakota State University, Fargo, North Dakota, November 1998.

Explains evolution of changes in U.S. grain handling industry following deregulation in 1980. Provides a summary of the Staggers Rail Act. Deregulation and competitive pressures have induced investment to improve efficiency, including rate discounts to induce more efficient movements for origins. Railroads have adopted car allocation systems which facilitate more efficient allocation of cars among shippers.

This study discusses effects of Staggers (rates, contracts, branch line abandonment), rail incentive mechanisms (unit train rates, shuttles, 286,000-pound railcars), car allocation systems (including that of BNSF) and implications, and the factors contributing to rationalization and efficiency of the U.S. grain handling and transportation system.

Wilson, Wesley W. and William W. Wilson. "Deregulation and Innovation in Railroad Shipping of Agricultural Commodities: 1972-1995" December 1998.

Describes changes in grain handling system in period following deregulation in 1980, the effect of which has been to induce efficiency investments. Rate discounts, car allocation systems, implications for the Canadian industry are discussed.

Appendix C

Settlement Sheet

UNITED STATES WAREHOUSE ACT
GRAIN INSPECTON & WEIGHT CERTIFCATE
Inspection not valid for purpose of the United States GrainStandards Act

TICKET #[redacted]

INBOUND TRUCK
ELEVATOR #: 2764

FARMERS ELEV. CO.-WOLF POINT,M LICENSE #:
CUSTOMER
SPLITS

[redacted]

Scobey Trans

,0.0 [illegible] 1014.67[redacted] Hold-NotApplied

COMMODITY: SPRING WHEAT VEHICLE ID: BL#:
DRIVER ON?: Y FREIGHT RATE: 0.00

DOCKAGE	0.8			
TEST WEIGHT	60.0	11/11/03 10:08	[illegible]2040 Lbs	GROSS
MOISTURE	11.1	11/11/03 10:26	[illegible]1160 Lbs	TARE
PROTEIN	11.4		[illegible]0880 Lbs	NET

		GROSS UNITS	1014.67
DOCKAGE $$ D	0.80	SHRINK	8.12
DRYING CHARG	1.10	NET UNITS	1006.55

I hereby certify that I hold a license under the United States Warehouse Act, and the regulations for grain warehouses thereunder, to inspect, grade and weigh the kind of grain covered by this certificate, that on the above date and at the above place I inspected, graded and weighed the grain [illegible] regulations, and that the grade of said grain according to the official grain standards of the United States and the net weight thereof following lot or parcel of grain stored or to be stored in the Farmers Elevator, Eastern Montana Operations/CHS Inc., named above, a warehouse licensed under said Act, including dockage, if any, were as stated above. THIS IS A MEMORANDUM, not negotiable, possession of which does not signify that settlement has or has not been consummated.

[illegible]

THARIN SCHUMACHER

Appendix D

Plentywood-Scobey
Financial, Marketing & Operating Analysis

Appendix D
Financial, Marketing & Operating Analysis
Plentywood-Scobey Line

Table of Contents

Executive Summary…… 2

Introduction…… 3

- Marketing …….. 4
- Carload and Revenue Statistics…… 7
- Operations …… 8
- Maintenance of Way…… 11
- Maintenance of Equipment……. 12
- General & Administration……. 13
- Break Even Analysis …… 14

Financial Statements…… 15

Executive Summary

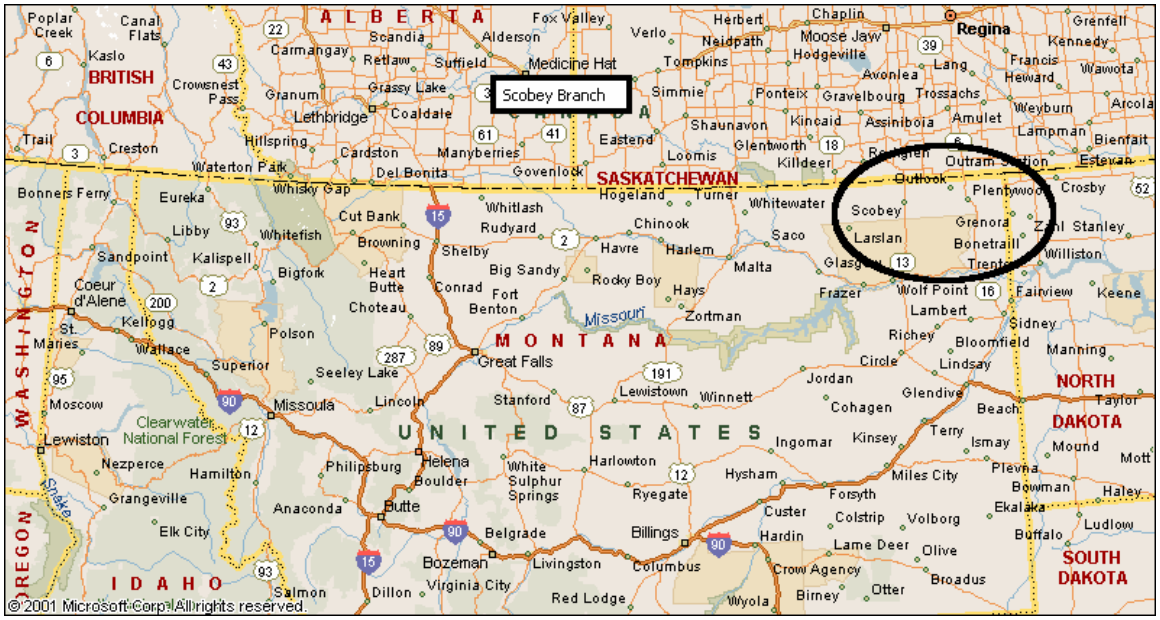
Assuming minimal rail operations, the Plentywood-Scobey Line cannot cover ongoing operating costs. This branch will require at least $131,000 in annual subsidies or a minimum of 1,330 carloads per year in order to break even. This line has not been operational since 2001.

Introduction

This is a marketing, financial and operational analysis of the Plentywood-Scobey Line located in Montana and currently owned by the BNSF.

The analysis of the 43.6-mile branch between Plentywood and Scobey is based on the normal operations of a railroad of a similar size and type of operation. At this time the rail line has had no traffic operating on the railroad since Year 2001 implying there is currently no Going Concern Value for this branch.

For the Marketing Analysis, phone interviews were conducted with shippers currently on the branch to determine the future business potential of rail. For the Operating Analysis, an operating plan was developed that would represent the potential rail market for this branch. Based on the marketing and operating plans, the economics of the branch were developed.



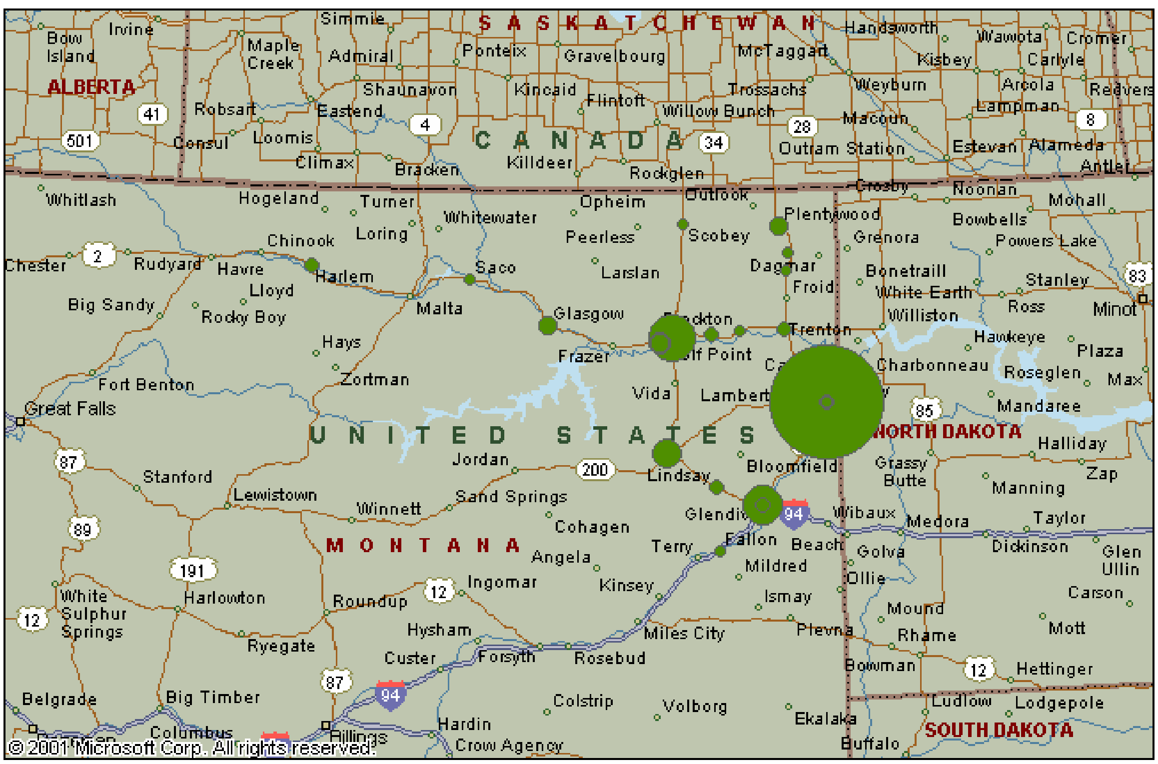
The Plentywood-Scobey Line is located in northeastern portion of Montana. The line operates between Plentywood and Scobey.

Marketing

Overview

The Plentywood-Scobey Line is not directly located in areas of large grain elevator facilities served by the BNSF. There are grain elevators in both Plentywood and Scobey, but the combined storage capacity of the two areas is 459,000 bushels (Plentywood-409,000 bushels and Scobey-50,000 bushels). The map below illustrates the large BNSF loading faculties in the eastern portion of Montana. The size of the circle represents the storage capacity at each site.

BNSF Elevator Capacity
Montana



Due to the current BNSF rail rate structure, the larger facilities (110- car loading sites) are able to offer lower transportation rates to the Pacific Northwest and beyond.

Customer Interviews

This is a marketing analysis of the Plentywood-Scobey Line. Phone interviews were conducted with three shippers on the line: Farmers Elevator, located in Scobey, MT, Four Buttes Farmers Elevator, nine miles outside of Scobey, MT and Nash Brothers in Scobey, MT. Prairie States Co-op Terminal is out of business.

Farmers Elevator
Mr. Mark Dressen
406-485-3313

The Farmers Elevator in Scobey also owns the Farmers Elevator located at Circle, MT. The Scobey elevator produces 2,000,000 bushels of wheat annually, or approximately 600-610 rail car equivalents. The elevator can load up to 52 cars for a unit train. At this time the elevator only ships wheat by truck to the BNSF Macon 110-car unit train loading facilities. The truck costs average between $0.10 and $0.12 per bushel or $333 to $399 rail car equivalent).

The company is interested in moving by rail direct if the economics are favorable. Their primary concern is service levels and car supply.

Estimated Car Loads: 600-610 per year

Four Buttes Farmers Elevator
Mr. Dennis Delagrave
406-783-5519

The Four Buttes Farmers Elevator is located nine miles west of Scobey and does not have direct rail service. The elevator produces 100,000 bushels of wheat annually, or approximately 30 rail car equivalents. The elevator only ships wheat by truck to the BNSF's Macon 110-car unit train loading facilities or to Whitetail on the CP loading

facility. The truck costs average between $0.15 to $0.18 bushel or $500 - $600 rail car equivalent) to unit train facilities at Macon or CP facilities at Whitetail. Mr. Delagrave indicated that the lower truck rates experienced by the other elevators located on the BNSF line are subsidized by the BNSF in order to encourage the elevators to use the larger loading facilities. If the branch is abandoned, there will be no reason for the BNSF to continue with the trucking subsidy.

Estimated Car Loads: 30 per year

Farmers Union Grain
406-762-3227

The Farmers Union Grain is located forty miles west of Scobey and does not have direct rail service. The company now trucks direct to the BNSF Macon facility.

Estimated Car Loads: none

Nash Brothers
Mr. John Darseth
406-487-5354

The switch at the Nash Brothers facility was removed 13 years ago, but the track is still in place. The company handles local feed pellets at their mill and uses only truck. The company moves no wheat shipments. The company also handles lumber products in trucks from Billings and Great Falls, Montana.

Estimated Car Loads: none

Revenue & Carload Statistics

Freight Traffic

Volume

The Plentywood-Scobey Line has handled between 260 and 680 carloads of outbound grain prior to the Year 2001. No traffic currently moves by rail on the branch. There are two shippers located on the line, but the switch to one of the customers has been removed. All other nearby shippers use truck. All grain currently moves by truck to the large BNSF 110-car loading facilities at Macon. Some grain moves locally.

If Farmers Elevator in Scobey began to move rail direct from their facilities, annual volumes are estimated to be between 600-610 carloads.

Freight Rate

In general the freight rate for grain for a short line of this size (Plentywood-Scobey) ranges between $250 and $350 per carload. But for this particular analysis, the rail rate must be competitive with the large BNSF grain loading facilities at Macon in order for the grain shipper to ship direct by rail from their facility versus truck to the large BNSF facilities. Using incremental analysis, it was determined that this freight rate for the Plentywood-Scobey portion of the rail route must be in the range of $200 per rail car in order to provide an incentive for the shipper to use rail direct. This low per car rate will not cover ongoing operating costs of the branch.

Operations

In general the objective of an operating analysis is to establish a train schedule, which will move both loads and empties to the customers in an efficient and cost effective manner. Assuming a short line operator services the branch, an operating plan has been developed to serve the traffic.

Scobey –Plentywood Line

Proposed Operations

Plentywood Turn

The Plentywood-Scobey Line connects with the BNSF at Plentywood, MT. The rail line operations will begin at 8:00 am at Scobey, MT one day per week. The crew will

operate between Scobey and Plentywood delivering cars to the BNSF at Plentywood and providing switching, as needed. The crew will return to Scobey with the empty cars.

Assignment

- Handle all traffic on branch
- Switch the customers on line as needed
- On Duty: 12 hours

Schedule:

One day per week

8:00 am:	on duty at Scobey, switch cars, train inspection and air test
8:30 am:	depart for Plentywood
8:30 –1:30 pm:	pick up loads and switch industries as needed.
2:30 pm:	return to Scobey
7:30 pm:	arrive at Scobey
8:00 pm:	tie up locomotives

The General Manager will conduct track inspection one day a week.

Locomotives

Service, as planned, assumes the use of one to two locomotives, which will be leased.

Car Supply

Car Supply could possibly be an issue for the outbound traffic. The railroad will need to address the equipment supply issues. The analysis assumes 120 hours of free car hire time.

Connecting Carrier: BNSF

The line connects directly with the BNSF at Plentywood, MT. The railroad is required to negotiate with the BNSF to establish rates for the customers on line.

Maintenance of Way

The Plentywood-Scobey Line is classified as Class 1 track. No traffic has moved on the line since 2001.

Maintenance of Track & Structures

There is no traffic on the line at this time. Due to the condition of the line, it will be necessary to invest in fixed plant to make the line operational, but at this time only a minimal amount is anticipated. Line condition is based upon information received from the railroad. A full inspection of the line will be required to determine the level of investment required. After completion of this initial analysis only minimal work is recommended on the track in order to maintain a safe railroad that is in full compliance with the FRA. For this analysis, it has been assumed the rail line will be put into operating condition prior to disposal and at this point will require only $3,200 per year in maintenance.

Maintenance of Equipment

The Plentywood-Scobey Line requires minimum equipment to operate the line. Leasing two locomotives for six months of the year for this operation is recommended. The lease rate is estimated to range between $75 to $100 per day.

Maintenance of Equipment

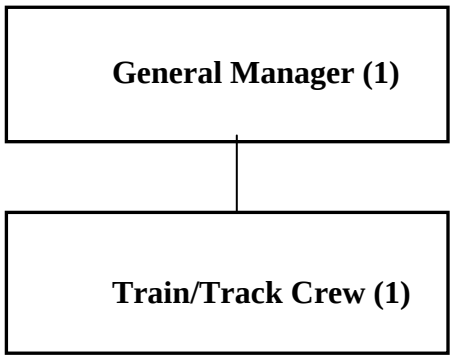
It is recommended that an outside contractor maintain the locomotive used on the Plentywood-Scobey Line. As the current rail schedule assumes the locomotive will be in use one day per week, the contractor will have ample time to do inspections and repairs on days of no service. Estimated expenses for parts and labor for this analysis is $40,250 per year.

General & Administration

All of the General & Administrative functions will be performed by the General Manager. The railroad will require one other employee to operate the train. Both positions will be part time (six months per year, three to four days per week) with no benefits and non-union.

Personnel Requirements

Plentywood-Scobey Line
Staff Chart



Administrative Expenses

The Railroad will incur approximately $41,000 in General & Administrative fees. This expense will cover the utilities, legal/accounting services, insurance, property tax, etc.

Break Even Analysis

The break even analysis for the Plentywood-Scobey Line indicates that only if rail traffic exceeded 1,330 cars per year, in order to cover all expenses if a short line operator operated the branch. This is based on a freight rate of $200 to Plentywood to Scobey.

Based on an estimated annual volume of 630 rail cars, the additional subsidy required to support this line is $425 per rail car or a total of $131,000 per year.

Financial Statements

Income Statement	……..	Page 1
Balance Sheet	……..	Page 2
Cash Flow	……..	Page 3
Detail Operating Expenses	…….	Pages 4-10

Plentywood-Scobey

PROJECTED INCOME STATEMENT

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
AQUISITION PRICE:	$ -										
PROJECTED CARLOADS:		$ 630	$ 630	$ 630	$ 630	$ 630	$ 630	$ 630	$ 630	$ 630	$ 630
REVENUE PER CARLOAD:		$ 200									
OPERATING REVENUES:											
FREIGHT REVENUE:		$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000
MAINTENANCE FEES:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AAR BILLINGS:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
DEMURRAGE:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL		$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000
OPERATING EXPENSES											
MAINTENANCE OF WAY		$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825
MAINTENANCE OF EQUIPMENT		$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625
TRANSPORTATION		$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890
GENERAL AND ADMINISTRATIVE		$ 54,900	$ 54,900	$ 54,900	$ 54,900	$ 52,300	$ 52,300	$ 52,300	$ 52,300	$ 52,300	$ 52,300
TOTAL		$ 260,240	$ 260,240	$ 260,240	$ 260,240	$ 257,640	$ 257,640	$ 257,640	$ 257,640	$ 257,640	$ 257,640
INCOME FROM OPERATIONS		$ (134,240)	$ (134,240)	$ (134,240)	$ (134,240)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
OTHER INCOME:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ONE-TIME EXPENSES:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCOME AVAILABLE FOR FIXED CHARGES:		$ (134,240)	$ (134,240)	$ (134,240)	$ (134,240)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
INTEREST ON DEBT/CAPITAL LEASES:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AMORTIZATION OF ACQUISITION:		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
PRE-TAX INCOME		$ (134,240)	$ (134,240)	$ (134,240)	$ (134,240)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
INCOME TAXES		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NET INCOME AFTER TAXES:		$ (134,240)	$ (134,240)	$ (134,240)	$ (134,240)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
EBITDA		$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)

Plentywood-Scobey

PROJECTED BALANCE SHEET

ASSETS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
CASH	$ (120,453)	$ (252,093)	$ (383,733)	$ (515,373)	$ (647,230)	$ (778,870)	$ (910,510)	$(1,042,150)	$(1,173,790)	$(1,305,430)
SHORT-TERM INVESTMENTS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ACCOUNTS RECEIVABLES	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500	$ 10,500
PROPERTY AND PLANT	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000
ACCUMULATED DEPRECIATION	$ 2,600	$ 5,200	$ 7,800	$ 10,400	$ 10,400	$ 10,400	$ 10,400	$ 10,400	$ 10,400	$ 10,400
NET PROPERTY AND PLANT	$ 10,400	$ 7,800	$ 5,200	$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ 2,600
OTHER ASSETS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL ASSETS	$ (99,553)	$ (233,793)	$ (368,033)	$ (502,273)	$ (634,130)	$ (765,770)	$ (897,410)	$(1,029,050)	$(1,160,690)	$(1,292,330)
LIABILITIES AND EQUITY										
ACCOUNTS PAYABLE	$ 21,687	$ 21,687	$ 21,687	$ 21,687	$ 21,470	$ 21,470	$ 21,470	$ 21,470	$ 21,470	$ 21,470
SHORT TERM DEBT										
LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
OTHER LIABILITIES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL LIABILITIES:	$ 21,687	$ 21,687	$ 21,687	$ 21,687	$ 21,470	$ 21,470	$ 21,470	$ 21,470	$ 21,470	$ 21,470
STOCKHOLDERS EQUITY:	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000	$ 13,000
RETAINED EARNINGS	$ (134,240)	$ (268,480)	$ (402,720)	$ (536,960)	$ (668,600)	$ (800,240)	$ (931,880)	$(1,063,520)	$(1,195,160)	$(1,326,800)
TOTAL LIABILITES AND EQUITY:	$ (99,553)	$ (233,793)	$ (368,033)	$ (502,273)	$ (634,130)	$ (765,770)	$ (897,410)	$(1,029,050)	$(1,160,690)	$(1,292,330)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Debt to Equity Ratio:	-18%	-8%	-6%	-4%	-3%	-3%	-2%	-2%	-2%	-2%

Plentywood-Scobey

PROJECTED CASH FLOW:

CASH PROVIDED FROM OPERATIONS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
NET INCOME	$ (134,240)	$ (134,240)	$ (134,240)	$ (134,240)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
DEPRECIATION	$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ -	$ -	$ -	$ -	$ -	$ -
OTHER	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SUB-TOTAL	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
DECREASE (INC.) IN WORKING CAPITAL										
RECEIVABLES	$ (10,500)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
PAYABLES	$ 21,687	$ -	$ -	$ -	$ (217)	$ -	$ -	$ -	$ -	$ -
OTHER CURRENT ASSETS/LIAB:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SUB-TOTAL	$ 11,187	$ -	$ -	$ -	$ (217)	$ -	$ -	$ -	$ -	$ -
CASH PROVIDED FROM OPERATIONS:	$ (120,453)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,857)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
EXPENDITURE FOR PROPERTY:	$ (13,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCREASE IN STOCKHOLDER EQUITY:	$ 13,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
REDUCTION IN LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCREASE IN LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INC/DEC IN CASH: $ (13,000)	$ (120,453)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,857)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)	$ (131,640)
CASH- BEGINNING OF THE YEAR:	$ -	$ (120,453)	$ (252,093)	$ (383,733)	$ (515,373)	$ (647,230)	$ (778,870)	$ (910,510)	$(1,042,150)	$(1,173,790)
CASH- END OF THE YEAR:	$ (120,453)	$ (252,093)	$ (383,733)	$ (515,373)	$ (647,230)	$ (778,870)	$ (910,510)	$(1,042,150)	$(1,173,790)	$(1,305,430)

NPV OF OPERATIONS: 10 YEARS	$ (746,930)	Cash from Operations
@ 12% Discount Rate:	$ (666,902)	Inc/Dec Cash
IRR after 10 years:		

ACQUISTION PRICE:	$ -	
Projected Carloads	$ 630	
Ave Revenue/Car:	$ 200	
Net Liquidation Value (yr 1):	$ -	
Value of Railroad Year 10:	$ -	

Plentywood-Scobey

MAINTENANCE OF WAY	# of empl.	Base Salary	$ OT	Benefits	Total $(yr1)	Total $(yr2)	Total $(yr3)	Total $(yr4)	Total $(yr5)
MANAGER- M OF W	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ROADMASTER- M OF W	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CREW	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
MACHINE OPERATORS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TRACK INSPECTORS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SIGNAL MAINTAINERS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

MATERIALS AND OTHER EXPENSES	Growth Rate:	0%						
LAYOVER AND SUBSISTENCE		based on crew layovers	$ -	$ -	$ -	$ -	$ -	
MAINTENANCE VEHICLES		$4000 per M of W crew	$ -	$ -	$ -	$ -	$ -	
MAINTENANCE MACHINERY		as required	$ -	$ -	$ -	$ -	$ -	
TIES		see below	$ 83,125	$ 83,125	$ 83,125	$ 83,125	$ 83,125	
RAIL			$ -	$ -	$ -	$ -	$ -	
BALLAST			$ 15,200	$ 15,200	$ 15,200	$ 15,200	$ 15,200	
BRIDGES			$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	
CULVERTS			$ 13,500	$ 13,500	$ 13,500	$ 13,500	$ 13,500	
OTHER MATERIAL		as needed	$ -	$ -	$ -	$ -	$ -	
CROSSINGS			$ 2,250	$ 2,250	$ 2,250	$ 2,250	$ 2,250	
SIGNALS			$ 4,500	$ 4,500	$ 4,500	$ 4,500	$ 4,500	
VEGETATION CONTROL		$350 per mile	$ 15,750	$ 15,750	$ 15,750	$ 15,750	$ 15,750	
DEPRECIATION		based on capital exp. program	$ -	$ -	$ -	$ -	$ -	
CONTRACT LABOR		as required	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	
TOTAL MATERIAL EXPENSES:			$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	
TOTAL MAINTENANCE OF WAY EXPENSE:			$ 145,825	$ 145,825	$ 145,825	$ 145,825	$ 145,825	
		Track Miles Maintained:	$ 45	$ 45	$ 45	$ 45	$ 45	
		M OF W / Mile:	$ 3,241	$ 3,241	$ 3,241	$ 3,241	$ 3,241	

Detail of Maintenance of Way:	(Unit)	($/unit)	$	
Track (miles/wt)	0	$ 116,000	$ -	cost per mile
Ties (number)	2500	$ 33	$ 83,125	ave. 3000 ties/mile, tie: $25,spikes: $1.25/tie,equipment: $7/tie
Ballast (tons)	1000	$ 11	$ 11,000	ave. 250 tons per mile
(equipment hours)	56	$ 75	$ 4,200	equipment, tamper and regulator, at 40 hours/mile
Bridges (Feet)	100	$ 15	$ 1,500	costs to repair and replace material on bridges
Culverts (#/30 years)	3	$ 4,500	$ 13,500	estimate
Crossings (# pvt)	3	$ 250	$ 750	estimate
Crossing (# pub)	3	$ 500	$ 1,500	estimate
Signals (# of protected)	3	$ 1,500	$ 4,500	based on number of protected crossings
Vegetation Control:	45	$ 350	$ 15,750	

Plentywood-Scobey

MAINTENANCE OF EQUIPMENT

Growth Rate: $ -

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
MANAGER- M OF E	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN- LOCO	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN- CAR	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CREW	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

OTHER EXPENSES								
CONTRACT SERVICES	$5,625 per locomotive(225 hours @ $25/hr)	$ 5,625	$ 5,625	$ 5,625	$ 5,625	$ 5,625	$ 5,625	$ 5,625
LOCO PARTS AND REPAIRS	$12,000 per locomotive	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
CAR PARTS AND REPAIRS		$ -	$ -	$ -	$ -	$ -	$ -	$ -
VEHICLE,EQUIPMENT REPAIRS	based $250/month per vehicle	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
TOOLS AND SUPPLIES	estimate	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
OTHER		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000

TOTAL OTHER EXPENSES		$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625
TOTAL MAINTENANCE OF EQUIPMENT:		$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625

Plentywood-Scobey

TRANSPORTATION EXPENSE

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
SUPERINTENDENT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ASST. MANAGER-OPERATIONS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TRAINMEN	1	$ 9,000	$ -	$ -	$ 9,000	$ 9,000	$ 9,000	$ 9,000	$ 9,000
TOTAL	1				$ 9,000	$ 9,000	$ 9,000	$ 9,000	$ 9,000

Growth Rate: 0%

OTHER EXPENSES

		Year 1	Year 2	Year 3	Year 4	Year 5
TRAVEL AND SUBSISTENCE	none	$ -	$ -	$ -	$ -	$ -
TRACKAGE FEES		$ -	$ -	$ -	$ -	$ -
LOCO/FRT CAR DEPRECIATION	based on capital exp. program	$ -	$ -	$ -	$ -	$ -
LOCO/FRT CAR RENT	based on $100 per day	$ 5,200	$ 5,200	$ 5,200	$ 5,200	$ 5,200
FUEL, OIL AND LUBE	based on locomotive miles	$ 21,060	$ 21,060	$ 21,060	$ 21,060	$ 21,060
VEHICLES/RADIO M & R		$ -	$ -	$ -	$ -	$ -
INSURANCE	5% of value of locomotives	$ -	$ -	$ -	$ -	$ -
CAR HIRE		$ -	$ -	$ -	$ -	$ -
TARIFFS AND SUPPL		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
CASUALTY LOSSES	1/2% of freight revenue	$ 630	$ 630	$ 630	$ 630	$ 630
TOTAL OTHER EXPENSES:		$ 27,890	$ 27,890	$ 27,890	$ 27,890	$ 27,890
TOTAL TRANSPORTATION EXPENSES:		$ 36,890	$ 36,890	$ 36,890	$ 36,890	$ 36,890

Plentywood-Scobey

GENERAL AND ADMINISTRATIVE EXPENSE

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
PRESIDENT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
GENERAL MANAGER	1	$ 14,000	$ -	$ -	$ 14,000	$ 14,000	$ 14,000	$ 14,000	$ 14,000
MARKETING & SALES	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CONSULTANT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ACCOUNTANT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AGENT /ADMIN AIDE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CLERK	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SECRETARY	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ADMINISTRATIVE AIDE	0	$ -		$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	1	$ 14,000	$ -	$ -	$ 14,000	$ 14,000	$ 14,000	$ 14,000	$ 14,000

NON-LABOR EXPENSES	Growth Rate:	0%						
OFFICE RENT				$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
OFFICE SUPPLIES			flat fee + $1000/staff	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600
UTILITIES			flat fee + $1500/staff	$ 2,100	$ 2,100	$ 2,100	$ 2,100	$ 2,100
TELEPHONE			flat fee + $1200/staff	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
TRAVEL AND ENTERTAINMENT			flat fee + $1200/staff	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
DUES/SUBSCRIPTION				$ -	$ -	$ -	$ -	$ -
ADVERTISING				$ -	$ -	$ -	$ -	$ -
ACCOUNTING/TAX/AUDITING				$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
ASLRA FEES				$ -	$ -	$ -	$ -	$ -
LEGAL/STB FEES				$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
INSURANCE/PAYROLL			estimate	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000
PROPERTY TAXES			estimate	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
DEPRECIATION			based on capital exp. program	$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ -
TOTAL NON-LABOR EXPENSES:				$ 40,900	$ 40,900	$ 40,900	$ 40,900	$ 38,300
TOTAL GENERAL AND ADMINISTRATION:				$ 54,900	$ 54,900	$ 54,900	$ 54,900	$ 52,300

Plentywood-Scobey

		# of Employees	Base Salary	Salary with Benefits
MAINTENANCE OF WAY				
MANAGER- M OF W		0	$ -	
ROADMASTER- M OF W		0	$ -	
FOREMAN		0	$ -	
CREW		0	$ -	
MACHINE OPERATORS		0	$ -	
TRACK INSPECTORS		0	$ -	
SIGNAL MAINTAINERS		0	$ -	
	sub-total	0		$ -
MAINTENANCE OF EQUIPMENT				
MANAGER- M OF E		0	$ -	
FOREMAN- LOCO		0	$ -	
FOREMAN- CAR		0	$ -	
CREW		0	$ -	
		0	$ -	
	sub-total	0		$ -
TRANSPORTATION				
SUPERINTENDENT		0	$ -	
ASST. MANAGER-OPERATIONS		0	$ -	
TRAINMEN		1	$ 9,000	
	sub-total	1		$ 9,000
GENERAL AND ADMINISTRATION				
PRESIDENT		0	$ -	
GENERAL MANAGER		1	$ 14,000	
MARKETING & SALES		0	$ -	
CONSULTANT		0	$ -	
ACCOUNTANT		0	$ -	
AGENT /ADMIN AIDE		0	$ -	
CLERK		0	$ -	
SECRETARY		0	$ -	
ADMINISTRATIVE AIDE		0	$ -	
	sub-total	1		$ 14,000
TOTAL		2		$ 23,000

NOTE:
1. OVERTIME IS ESTIMATED AT 8% OF REGULAR SALARY
2. BENEFITS ARE ESTIMATED AT 44% OF REGULAR SALARY

Plentywood-Scobey

SUMMARY OF REVENUE

											TOTAL
FREIGHT REVENUE											
CARLOADS	$ 630	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 630
RATE/CARLOAD:	$ 200	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
SUB-TOTAL:	$ 126,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$126,000
Freight Revenue Growth Rate:	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Projected Growth Rate (for Other Revenues)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
MAINTENANCE FEES:		$ -	$ -	$ -	$ -	$ -
AAR BILLINGS:		$ -	$ -	$ -	$ -	$ -
(# of Freight Cars)	0					
($/Freight Car)	20					
OTHER INCOME:		$ -	$ -	$ -	$ -	$ -
		$ -	$ -	$ -	$ -	$ -
	sub-total	$ -	$ -	$ -	$ -	$ -
DEMURRAGE:						
(# of Freight Cars)	630	$ -				
($/Day)	$ 20					
(# of Days)	-					
CAR HIRE EXPENSE:						
(# of Freight Cars)	630	$ -				
($/Day)	$ 12					
(# of Days)	-					

Plentywood-Scobey

SCHEDULE OF CAPITAL EXPENDITURES:

		#	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
30 yrs	TRACK AND STRUCTURE:		$ -	$ -	$ -	$ -	$ -
5 yrs	TRACK EQUIPMENT:		$ -	$ -	$ -	$ -	$ -
5 yrs	M OF W VEHICLES:	0	$ -	$ -	$ -	$ -	$ -
5 yrs	COMMUNICATION:		$ 3,000	$ -	$ -	$ -	$ -
15 yrs	LOCOMOTIVES:						
	GP-9	2	$ -	$ -	$ -	$ -	$ -
		0	$ -	$ -	$ -	$ -	$ -
15 yrs	FREIGHT CARS:	0	$ -	$ -	$ -	$ -	$ -
5 yrs	AUTOMOBILES	1	$ 10,000	$ -	$ -	$ -	$ -
15 yrs	INSPECT & MOVE LOCO		$ -				
	TOTAL CAPITAL EXPENDITURES:		$ 13,000	$ -	$ -	$ -	$ -

Value of Locomotive:

GP-9	$ -
xxx	$125,000
inspect & move locos	$ -

Value of Freight Cars: $ 10,000

Value of Track Equipment:

xxx	$ -
xxx	$ -
xxx	$ -
xxx	$ -

Value of Automobiles: $ 10,000

Value of M of W Autos: $ 10,000

Value of Communication Equipment:

radios	$ 1,500
office equipment	$ 1,500
xxx	

Track Structure:

rail	$ -
ties	$ -
other	$ -

One Time Expenditures:

			Year 1	Year 2	Year 3	Year 4
Employee Training	$ -	based on 120 hours + expenses				
Employee Hiring	$ -	based on 20 hours + expenses	Total One Time Exp	$ -	$ -	$ -	$ -
Initial Marketing	$ -	based on 15 hours + expenses				

Appendix E

Glendive-Circle
Financial, Marketing & Operating Analysis

Appendix E
Glendive-Circle
Financial, Marketing & Operating Analysis

Table of Contents

Executive Summary…… 2

Introduction…… 3

- Marketing …….. 4
- Carload and Revenue Statistics…… 6
- Operations …… 7
- Maintenance of Way…… 10
- Maintenance of Equipment……. 11
- General & Administration……. 12
- Break Even Analysis …… 13

Financial Statements…… 14

Executive Summary

Assuming minimal rail operations, the Glendive-Circle Line cannot cover ongoing operating costs. This branch will require at least $235,000 in annual subsidies or a minimum of 1,800 carloads per year in order to break even over and above the required rehabilitation costs to restore the line to operating condition. The line has been out of service since 2001.

Introduction

This is a marketing, financial and operational analysis of the Glendive-Circle Line located in Montana and currently owned by the BNSF.

The analysis of the 50-mile branch between Glendive and Circle, which connects with the BNSF mainline at Glendive, is based on the normal operations of railroad of a similar size and type of operation. At this time the rail line has had no traffic operating on the railroad since Year 2000 implying there is currently no Going Concern Value for this branch.

For the Marketing Analysis, phone interviews were conducted with shippers currently on the branch to determine the future business potential for rail traffic. For the Operating Analysis, an operating plan was developed that would represent the operation by a short line operator. Based on the marketing and operating plans, the economics of the branch were developed.

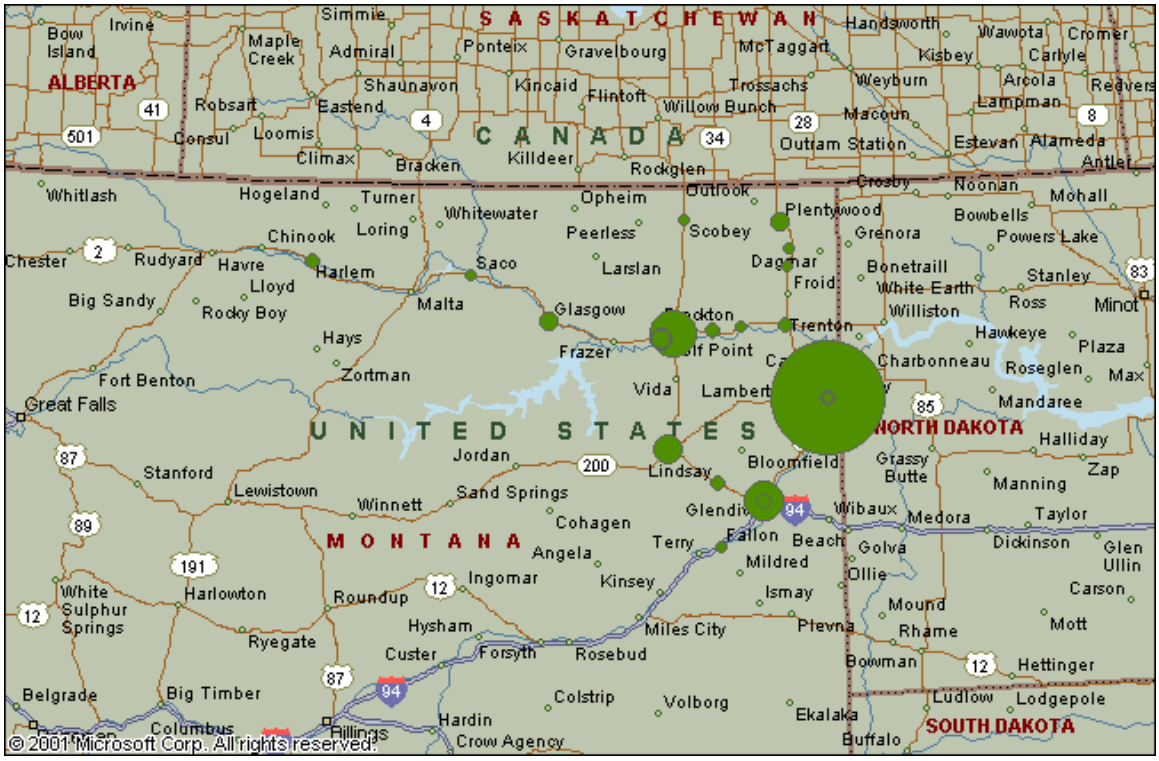
The Glendive-Circle Branch is located in eastern central portion of Montana.

Marketing

Overview

The Glendive-Circle Branch is located near large grain elevator facilities served by the BNSF. The map below illustrates the large grain elevators in the eastern portion of Montana. The relative size represents the storage capacity at the elevator site.

BNSF Elevator Capacity
Montana



Due to the current BNSF rail rate structure, the larger facilities at Macon and Glendive (110-unit car loading sites) are able to offer lower transportation rates to the Pacific Northwest and beyond. Though the elevator located in Circle has the capacity to handle 52 car unit trains, volumes at the site are not considered sufficient to warrant operating a significant number of trains from the branch. The low volume also does not provide an incentive for the BNSF to keep the maintenance on the line at an operational level. These combining issues have resulted in cessation of rail service to this facility.

Customer Interviews

As a basis for this marketing analysis of the Glendive-Circle Branch, phone interviews were conducted with the only shipper on the line: Farmers Elevator, located in Circle, MT.

Farmers Elevator
Mr. Glenn Burbidge
406-485-3313

Farmers Elevator has an elevator located at Circle at the end of the line. The elevator produces 600,000 bushels of wheat annually, or approximately 180 to 190 rail car equivalents. The company rehabilitated the elevator to allow for 52 car loading capabilities. Approximately 75% of the grain from Farmers Elevator moves by truck ($333 to $567 rail car equivalent) to unit train facilities in Macon or Glendive. The remaining 25% are shipped to local feed mills.

The combined affects of low volume and little or no maintenance by the BNSF over the past years have created no economic incentive to get this branch operational.

Estimated Car Loads: 180 to 190 per year

Revenue & Carload Statistics

Freight Traffic

Volume

The Glendive-Circle Branch has handled between 200 and 1,100 carloads of outbound grain prior to the Year 2000. No traffic currently moves by rail on the branch at this time. There is one grain shipper located at the end of the line, but the shipper does not move grain by rail as the BNSF does not provide rail service. All grain moves by truck to Glendive, Macon or locally.

If Farmers Elevator began to move rail direct from their facilities, annual volumes are estimated to be between 180 to 190 carloads.

Freight Rate

In general the freight rate for grain for a short line of this size (Glendive-Circle) ranges between $250 and $350 per carload. But for this particular analysis, the rail rate must be competitive with the large BNSF grain loading facilities at Macon and Glendive in order for the grain shipper to ship direct by rail from their facility versus truck to the large BNSF facilities. Using incremental analysis, it has been determined that this freight rate for the Glendive-Circle portion of the rail route must be in the range of $150 per rail car in order to provide an incentive for the shipper to use rail direct. This low per car rate will not cover ongoing operating costs of the branch.

Operations

In general the objective of an operating analysis is to establish a train schedule which will move both loads and empties to the customers in an efficient and cost effective manner. Following is an operating plan that could be used by a short line operator for this line.

Glendive-Circle Branch

Proposed Operations

Glendive Turn

The Glendive-Circle Branch connects with the BNSF main line at Glendive, MT. Rail operations will begin at 8:00 am at Circle, MT one day per week. The crew will operate between Circle and Glendive delivering loaded cars to BNSF at Glendive and providing switching, as needed. The crew will return to Circle with the empty cars.

Assignment

- Handle all traffic on branch (Glendive-Circle, MT)
- Switch the customer on line as needed
- On Duty: 12 hours

Schedule:

One day per week

8:00 am:	on duty at Circle, switch cars, train inspection and air test
8:30 am:	depart for Glendive
8:30 –1:30 pm:	pick up loads and switch industries as needed.
2:30 pm:	return to Circle
7:30 pm:	arrive at Circle
8:00 pm:	tie up locomotives

* This schedule can be met assuming that the track is at a condition to operate at between 10 and 24 mph.

The General Manager will conduct track inspection one day a week.

Locomotives

Service, as planned, assumes the use of one to two locomotives, which will be leased.

Car Supply

Car Supply could possibly be an issue for the outbound traffic. The railroad will need to address the equipment supply issues. The analysis assumes 120 hours of free car hire time.

Connecting Carrier: BNSF

The branch line will connect directly with the BNSF at Glendive, MT. The branch line is required to negotiate with the BNSF to establish rates for the customers on line.

Maintenance of Way

The Glendive-Circle Branch is embargoed due to the condition of the track. No traffic has moved on the line since 2000.

Maintenance of Track & Structures

There is no traffic on the line at this time. Due to the condition of the line, capital investment will be necessary to make the line operational. After completion of this initial analysis it is recommended that only minimal work be performed on the track – just enough to maintain a safe railroad that is in full compliance with the FRA. This analysis is based upon information furnished by BNSF. For this analysis, it has been assumed the rail line will be put into operating condition prior to disposal and at this point will require only $3,300 per mile per year in maintenance.

Rehabilitation Costs

This is an estimate of the costs to put this branch back in operation, based upon information provided by the railroad. Assuming the line is classified as Class 1 and 2, approximately $700,000 in ties will be required. Should this line be considered for operation, a full engineering estimate will be required.

Maintenance of Equipment

The Glendive-Circle Branch requires minimum equipment to operate the line. It is recommended that two locomotives be leased for six months of the year for this operation. The lease rate is estimated to range between $75 to $100 per day.

Maintenance of Equipment

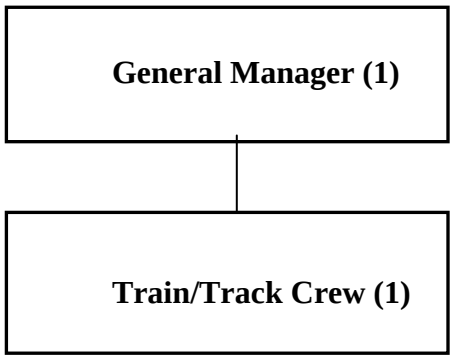
It is recommended that an outside contractor maintain the locomotive used by the Glendive-Circle Branch. As the current rail schedule assumes the locomotive will be in use one day per week, the contractor will have ample time to do inspections and repairs on days of no service. Estimated expenses for parts and labor for this analysis is $40,250 per year.

General & Administration

All of the General & Administrative functions will be performed by the General Manager. The railroad will require one other employee to operate the train. Both positions will be part time (six months per year, three to four days per week) with no benefits and non-union.

Personnel Requirements

Circle-Glendive Branch
Staff Chart



Administrative Expenses

The Railroad will incur approximately $41,000 in General & Administrative fees. This expense will cover the utilities, legal/accounting services, insurance, property tax, etc.

Break Even Analysis

The break even analysis for the Glendive-Circle Branch indicates that rail traffic must exceed 1,800 cars per year, in order to cover all expenses assuming a short line operator operates the branch. This is based on a freight rate of $150 to Glendive from Circle. Or in other terms, based on an estimated annual volume of 200 rail cars, the additional subsidy required to support this line is $1,400 per rail car or a total of $235,000 per year.

In order to cover the estimated $700,000 in rehabilitation costs for the branch, at least 2,090 carloads would need to handled at a rate of $150 per car.

Financial Statements

Income Statement	……..	Page 1
Balance Sheet	……..	Page 2
Cash Flow	……..	Page 3
Detail Operating Expenses	…….	Pages 4-10

Glendive-Circle Branch

PROJECTED INCOME STATEMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
AQUISITION PRICE: $ -										
PROJECTED CARLOADS:	$ 190	$ 190	$ 190	$ 190	$ 190	$ 190	$ 190	$ 190	$ 190	$ 190
REVENUE PER CARLOAD:	$ 150									
OPERATING REVENUES:										
FREIGHT REVENUE:	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500
MAINTENANCE FEES:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AAR BILLINGS:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
DEMURRAGE:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500	$ 28,500
OPERATING EXPENSES										
MAINTENANCE OF WAY	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507
MAINTENANCE OF EQUIPMENT	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625
TRANSPORTATION	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679
GENERAL AND ADMINISTRATIVE	$ 54,900	$ 54,900	$ 54,900	$ 54,900	$ 52,300	$ 52,300	$ 52,300	$ 52,300	$ 52,300	$ 52,300
TOTAL	$ 288,711	$ 288,711	$ 288,711	$ 288,711	$ 286,111	$ 286,111	$ 286,111	$ 286,111	$ 286,111	$ 286,111
INCOME FROM OPERATIONS	$ (260,211)	$ (260,211)	$ (260,211)	$ (260,211)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)
OTHER INCOME:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ONE-TIME EXPENSES:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCOME AVAILABLE FOR FIXED CHARGE	$ (260,211)	$ (260,211)	$ (260,211)	$ (260,211)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)
INTEREST ON DEBT/CAPITAL LEASES:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AMORTIZATION OF ACQUISITION:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
PRE-TAX INCOME	$ (260,211)	$ (260,211)	$ (260,211)	$ (260,211)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)
INCOME TAXES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NET INCOME AFTER TAXES:	$ (260,211)	$ (260,211)	$ (260,211)	$ (260,211)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)
EBITDA	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)

Glendive-Circle Branch

PROJECTED BALANCE SHEET

ASSETS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
CASH	$ (212,694)	$ (447,073)	$ (681,451)	$ (915,830)	$ (1,150,425)	$ (1,384,803)	$ (1,619,182)	$ (1,853,560)	$ (2,087,939)	$ (2,322,317)
SHORT-TERM INVESTMENTS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ACCOUNTS RECEIVABLES	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375	$ 2,375
PROPERTY AND PLANT	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960
ACCUMULATED DEPRECIATION	$ 25,832	$ 51,664	$ 77,496	$ 103,328	$ 126,560	$ 149,792	$ 173,024	$ 196,256	$ 219,488	$ 242,720
NET PROPERTY AND PLANT	$ 684,128	$ 658,296	$ 632,464	$ 606,632	$ 583,400	$ 560,168	$ 536,936	$ 513,704	$ 490,472	$ 467,240
OTHER ASSETS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL ASSETS	$ 473,809	$ 213,598	$ (46,612)	$ (306,823)	$ (564,650)	$ (822,260)	$ (1,079,871)	$ (1,337,481)	$ (1,595,092)	$ (1,852,702)
LIABILITIES AND EQUITY										
ACCOUNTS PAYABLE	$ 24,059	$ 24,059	$ 24,059	$ 24,059	$ 23,843	$ 23,843	$ 23,843	$ 23,843	$ 23,843	$ 23,843
SHORT TERM DEBT										
LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
OTHER LIABILITIES	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL LIABILITIES:	$ 24,059	$ 24,059	$ 24,059	$ 24,059	$ 23,843	$ 23,843	$ 23,843	$ 23,843	$ 23,843	$ 23,843
STOCKHOLDERS EQUITY:	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960	$ 709,960
RETAINED EARNINGS	$ (260,211)	$ (520,421)	$ (780,632)	$ (1,040,842)	$ (1,298,453)	$ (1,556,063)	$ (1,813,674)	$ (2,071,284)	$ (2,328,895)	$ (2,586,505)
TOTAL LIABILITES AND EQUITY:	$ 473,809	$ 213,598	$ (46,612)	$ (306,823)	$ (564,650)	$ (822,260)	$ (1,079,871)	$ (1,337,481)	$ (1,595,092)	$ (1,852,702)
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Debt to Equity Ratio:	5%	13%	-34%	-7%	-4%	-3%	-2%	-2%	-1%	-1%

Glendive-Circle Branch

PROJECTED CASH FLOW:

CASH PROVIDED FROM OPERATIONS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
NET INCOME	$ (260,211)	$ (260,211)	$ (260,211)	$ (260,211)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)	$ (257,611)
DEPRECIATION	$ 25,832	$ 25,832	$ 25,832	$ 25,832	$ 23,232	$ 23,232	$ 23,232	$ 23,232	$ 23,232	$ 23,232
OTHER	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SUB-TOTAL	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)
DECREASE (INC.) IN WORKING CAPITAL										
RECEIVABLES	$ (2,375)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
PAYABLES	$ 24,059	$ -	$ -	$ -	$ (217)	$ -	$ -	$ -	$ -	$ -
OTHER CURRENT ASSETS/LIAB:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SUB-TOTAL	$ 21,684	$ -	$ -	$ -	$ (217)	$ -	$ -	$ -	$ -	$ -
CASH PROVIDED FROM OPERATIONS:	$ (212,694)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,595)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)
EXPENDITURE FOR PROPERTY:	$ (709,960)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCREASE IN STOCKHOLDER EQUITY:	$ 709,960	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
REDUCTION IN LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INCREASE IN LONG-TERM DEBT:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
INC/DEC IN CASH: $ (709,960)	$ (212,694)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,595)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)	$ (234,379)
CASH- BEGINNING OF THE YEAR:	$ -	$ (212,694)	$ (447,073)	$ (681,451)	$ (915,830)	$ (1,150,425)	$ (1,384,803)	$ (1,619,182)	$ (1,853,560)	$ (2,087,939)
CASH- END OF THE YEAR:	$ (212,694)	$ (447,073)	$ (681,451)	$ (915,830)	$ (1,150,425)	$ (1,384,803)	$ (1,619,182)	$ (1,853,560)	$ (2,087,939)	$ (2,322,317)

NPV OF OPERATIONS: 10 Y	$ (2,015,013)	Cash from Operations
@ 12% Discount R	$ (1,799,119)	Inc/Dec Cash
IRR after 10 years:		

ACQUISTION PRICE:	$	-
Projected Carloads		190
Ave Revenue/Car:	$	150
Net Liquidation Value (yr 1):	$	-
Value of Railroad Year 10:	$	-

Glendive-Circle Branch

MAINTENANCE OF WAY	# of empl.	Base Salary	$ OT	Benefits	Total $(yr1)	Total $(yr2)	Total $(yr3)	Total $(yr4)	Total $(yr5)
MANAGER- M OF W	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ROADMASTER- M OF W	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CREW	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
MACHINE OPERATORS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TRACK INSPECTORS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SIGNAL MAINTAINERS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

MATERIALS AND OTHER EXPENSES	Growth Rate	$ -						
LAYOVER AND SUBSISTENCE		based on crew layovers	$ -	$ -	$ -	$ -	$ -	
MAINTENANCE VEHICLES		$4000 per M of W crew	$ -	$ -	$ -	$ -	$ -	
MAINTENANCE MACHINERY		as required	$ -	$ -	$ -	$ -	$ -	
TIES		see below	$ 83,125	$ 83,125	$ 83,125	$ 83,125	$ 83,125	
RAIL			$ -	$ -	$ -	$ -	$ -	
BALLAST			$ 15,200	$ 15,200	$ 15,200	$ 15,200	$ 15,200	
BRIDGES			$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500	
CULVERTS			$ 13,500	$ 13,500	$ 13,500	$ 13,500	$ 13,500	
OTHER MATERIAL		as needed	$ -	$ -	$ -	$ -	$ -	
CROSSINGS			$ 2,250	$ 2,250	$ 2,250	$ 2,250	$ 2,250	
SIGNALS			$ 4,500	$ 4,500	$ 4,500	$ 4,500	$ 4,500	
VEGETATION CONTROL		$350 per mile	$ 18,200	$ 18,200	$ 18,200	$ 18,200	$ 18,200	
DEPRECIATION		based on capital exp. program	$ 23,232	$ 23,232	$ 23,232	$ 23,232	$ 23,232	
CONTRACT LABOR		as required	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	
TOTAL MATERIAL EXPENSES:			$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	
TOTAL MAINTENANCE OF WAY EXPENSE:			$ 171,507	$ 171,507	$ 171,507	$ 171,507	$ 171,507	
		Track Miles Maintained:	$ 52	$ 52	$ 52	$ 52	$ 52	
Detail of Maintenance of Way:		M OF W / Mile:	$ 3,298	$ 3,298	$ 3,298	$ 3,298	$ 3,298	

(Unit)		($/unit)	$	
Track (miles/wt)	-	116000	$ -	cost per mile
Ties (number)	2,500	33.25	$ 83,125	ave. 3000 ties/mile, tie: $25,spikes: $1.25/tie,equipment: $7/tie
Ballast (tons)	1,000	11	$ 11,000	ave. 250 tons per mile
(equipment hours)	56	75	$ 4,200	equipment, tamper and regulator, at 40 hours/mile
Bridges (Feet)	100	15	$ 1,500	costs to repair and replace material on bridges
Culverts (#/30 years)	3	4500	$ 13,500	estimate
Crossings (# pvt)	3	250	$ 750	estimate
Crossing (# pub)	3	500	$ 1,500	estimate
Signals (# of protected)	3	1500	$ 4,500	based on number of protected crossings
Vegetation Control:	52	350	$ 18,200	

Glendive-Circle Branch

MAINTENANCE OF EQUIPMENT

Growth Rate $ -

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
MANAGER- M OF E	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN- LOCO	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FOREMAN- CAR	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CREW	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

OTHER EXPENSES

CONTRACT SERVICES	$5,625 per locomotive(225 hours @ $25/hr)	$ 5,625	$ 5,625	$ 5,625	$ 5,625	$ 5,625
LOCO PARTS AND REPAIRS	$12,000 per locomotive	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
CAR PARTS AND REPAIRS		$ -	$ -	$ -	$ -	$ -
VEHICLE,EQUIPMENT REPAIRS	based $250/month per vehicle	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
TOOLS AND SUPPLIES	estimate	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
OTHER		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000

TOTAL OTHER EXPENSES	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625
TOTAL MAINTENANCE OF EQUIPMENT:	$ 22,625	$ 22,625	$ 22,625	$ 22,625	$ 22,625

Glendive-Circle Branch

TRANSPORTATION EXPENSE

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
SUPERINTENDENT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ASST. MANAGER-OPERATIONS	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TRAINMEN	1	$ 9,000	$ -	$ -	$ 9,000	$ 9,000	$ 9,000	$ 9,000	$ 9,000
TOTAL	1				$ 9,000	$ 9,000	$ 9,000	$ 9,000	$ 9,000

Growth Rate: 0%

OTHER EXPENSES

		Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
TRAVEL AND SUBSISTENCE	none	$ -	$ -	$ -	$ -	$ -
TRACKAGE FEES		$ -	$ -	$ -	$ -	$ -
LOCO/FRT CAR DEPRECIATION	based on capital exp. program	$ -	$ -	$ -	$ -	$ -
LOCO/FRT CAR RENT	based on $100 per day	$ 5,200	$ 5,200	$ 5,200	$ 5,200	$ 5,200
FUEL, OIL AND LUBE	based on locomotive miles	$ 24,336	$ 24,336	$ 24,336	$ 24,336	$ 24,336
VEHICLES/RADIO M & R		$ -	$ -	$ -	$ -	$ -
INSURANCE	5% of value of locomotives	$ -	$ -	$ -	$ -	$ -
CAR HIRE		$ -	$ -	$ -	$ -	$ -
TARIFFS AND SUPPL		$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
CASUALTY LOSSES	1/2% of freight revenue	$ 143	$ 143	$ 143	$ 143	$ 143
TOTAL OTHER EXPENSES:		$ 30,679	$ 30,679	$ 30,679	$ 30,679	$ 30,679
TOTAL TRANSPORTATION EXPENSES:		$ 39,679	$ 39,679	$ 39,679	$ 39,679	$ 39,679

Glendive-Circle Branch

GENERAL AND ADMINISTRATIVE EXPENSE

	# of empl.	Base Salary	$ OT	Benefits	Year 1 Total $	Year 2 Total $	Year 3 Total $	Year 4 Total $	Year 5 Total $
PRESIDENT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
GENERAL MANAGER	1	$ 14,000	$ -	$ -	$ 14,000	$ 14,000	$ 14,000	$ 14,000	$ 14,000
MARKETING & SALES	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CONSULTANT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ACCOUNTANT	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AGENT /ADMIN AIDE	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
CLERK	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SECRETARY	0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
ADMINISTRATIVE AIDE	0	$ -		$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	1	$ 14,000	$ -	$ -	$ 14,000	$ 14,000	$ 14,000	$ 14,000	$ 14,000

NON-LABOR EXPENSES	Growth Rate:	0%							
OFFICE RENT					$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
OFFICE SUPPLIES				flat fee + $1000/staff	$ 1,600	$ 1,600	$ 1,600	$ 1,600	$ 1,600
UTILITIES				flat fee + $1500/staff	$ 2,100	$ 2,100	$ 2,100	$ 2,100	$ 2,100
TELEPHONE				flat fee + $1200/staff	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
TRAVEL AND ENTERTAINMENT				flat fee + $1200/staff	$ 1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
DUES/SUBSCRIPTION					$ -	$ -	$ -	$ -	$ -
ADVERTISING					$ -	$ -	$ -	$ -	$ -
ACCOUNTING/TAX/AUDITING					$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
ASLRA FEES					$ -	$ -	$ -	$ -	$ -
LEGAL/STB FEES					$ 1,500	$ 1,500	$ 1,500	$ 1,500	$ 1,500
INSURANCE/PAYROLL				estimate	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000
PROPERTY TAXES				estimate	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
DEPRECIATION			based on capital exp. program		$ 2,600	$ 2,600	$ 2,600	$ 2,600	$ -
TOTAL NON-LABOR EXPENSES:					$ 40,900	$ 40,900	$ 40,900	$ 40,900	$ 38,300
TOTAL GENERAL AND ADMINISTRATION:					$ 54,900	$ 54,900	$ 54,900	$ 54,900	$ 52,300

Glendive-Circle Branch

SUMMARY OF EMPLOYEES

		# of Employees	Base Salary	Year 1 Salary with Benefits
MAINTENANCE OF WAY				
MANAGER- M OF W		0	$ -	
ROADMASTER- M OF W		0	$ -	
FOREMAN		0	$ -	
CREW		0	$ -	
MACHINE OPERATORS		0	$ -	
TRACK INSPECTORS		0	$ -	
SIGNAL MAINTAINERS		0	$ -	
	sub-total	0		$ -
MAINTENANCE OF EQUIPMENT				
MANAGER- M OF E		0	$ -	
FOREMAN- LOCO		0	$ -	
FOREMAN- CAR		0	$ -	
CREW		0	$ -	
		0	$ -	
	sub-total	0		$ -
TRANSPORTATION				
SUPERINTENDENT		0	$ -	
ASST. MANAGER-OPERATIONS		0	$ -	
TRAINMEN		1	$ 9,000	
	sub-total	1		$ 9,000
GENERAL AND ADMINISTRATION				
PRESIDENT		0	$ -	
GENERAL MANAGER		1	$ 14,000	
MARKETING & SALES		0	$ -	
CONSULTANT		0	$ -	
ACCOUNTANT		0	$ -	
AGENT /ADMIN AIDE		0	$ -	
CLERK		0	$ -	
SECRETARY		0	$ -	
ADMINISTRATIVE AIDE		0	$ -	
	sub-total	1		$ 14,000
TOTAL		2		$ 23,000

NOTE:
1. OVERTIME IS ESTIMATED AT 8% OF REGULAR SALARY
2. BENEFITS ARE ESTIMATED AT 44% OF REGULAR SALARY

Glendive-Circle Branch

SUMMARY OF REVENUE

												TOTAL
FREIGHT REVENUE												
CARLOADS		$ 190	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 190
RATE/CARLOAD:		$ 150	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
SUB-TOTAL:		$ 28,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 28,500
Freight Revenue Growth Rate:		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Projected Growth Rate (for Other Revenues)		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

			YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
MAINTENANCE FEES:			$ -	$ -	$ -	$ -	$ -
AAR BILLINGS:			$ -	$ -	$ -	$ -	$ -
(# of Freight Cars)		0					
($/Freight Car)	$	20					
OTHER INCOME:			$ -	$ -	$ -	$ -	$ -
			$ -	$ -	$ -	$ -	$ -
	sub-total		$ -	$ -	$ -	$ -	$ -
DEMURRAGE:			$ -				
(# of Freight Cars)		190					
($/Day)	$	20					
(# of Days)		0					
CAR HIRE EXPENSE:			$ -				
(# of Freight Cars)		190					
($/Day)	$	12					
(# of Days)		0					

Glendive-Circle Branch

SCHEDULE OF CAPITAL EXPENDITURES:

		#	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
30 yrs	TRACK AND STRUCTURE:		$ 696,960	$ -	$ -	$ -	$ -
5 yrs	TRACK EQUIPMENT:		$ -	$ -	$ -	$ -	$ -
5 yrs	M OF W VEHICLES:	0	$ -	$ -	$ -	$ -	$ -
5 yrs	COMMUNICATION:		$ 3,000	$ -	$ -	$ -	$ -
15 yrs	LOCOMOTIVES:						
	GP-9	2	$ -	$ -	$ -	$ -	$ -
		0	$ -	$ -	$ -	$ -	$ -
15 yrs	FREIGHT CARS:	0	$ -	$ -	$ -	$ -	$ -
5 yrs	AUTOMOBILES	1	$ 10,000	$ -	$ -	$ -	$ -
15 yrs	INSPECT & MOVE LOCO		$ -				
	TOTAL CAPITAL EXPENDITURES:		$ 709,960	$ -	$ -	$ -	$ -

Value of Locomotive:

	GP-9	$ -
	xxx	$ 125,000
inspect & move locos		$ -
Value of Freight Cars:		$ 10,000

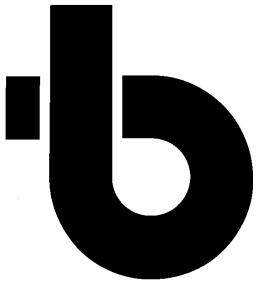
Value of Track Equipment:

	xxx	$ -
	xxx	$ -
	xxx	$ -
	xxx	$ -

Value of Automobiles:		$ 10,000
Value of M of W Autos:		$ 10,000
Value of Communication Equipment:		
radios		$ 1,500
office equipment		$ 1,500
	xxx	
Track Structure:	rail	$ -
	ties	$ 696,960
	other	$ -

One Time Expenditures:

				YEAR 1	YEAR 2	YEAR 3	YEAR 4
Employee Training	$ -	based on 120 hours + expenses					
Employee Hiring	$ -	based on 20 hours + expenses	Total One Time Exp	$ -	$ -	$ -	$ -
Initial Marketing	$ -	based on 15 hours + expenses					



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