

Establishment of the Rushmore Regional Rail Authority

The purpose of the Authority is to create a legal entity to lend state rail trust funds authorized by the Governor that would fund the construction of a rail spur to export wood pellets produced in Rapid City from waste ponderosa pine

Once established, the Authority can facilitate future rail projects in the region

June 19, 2012

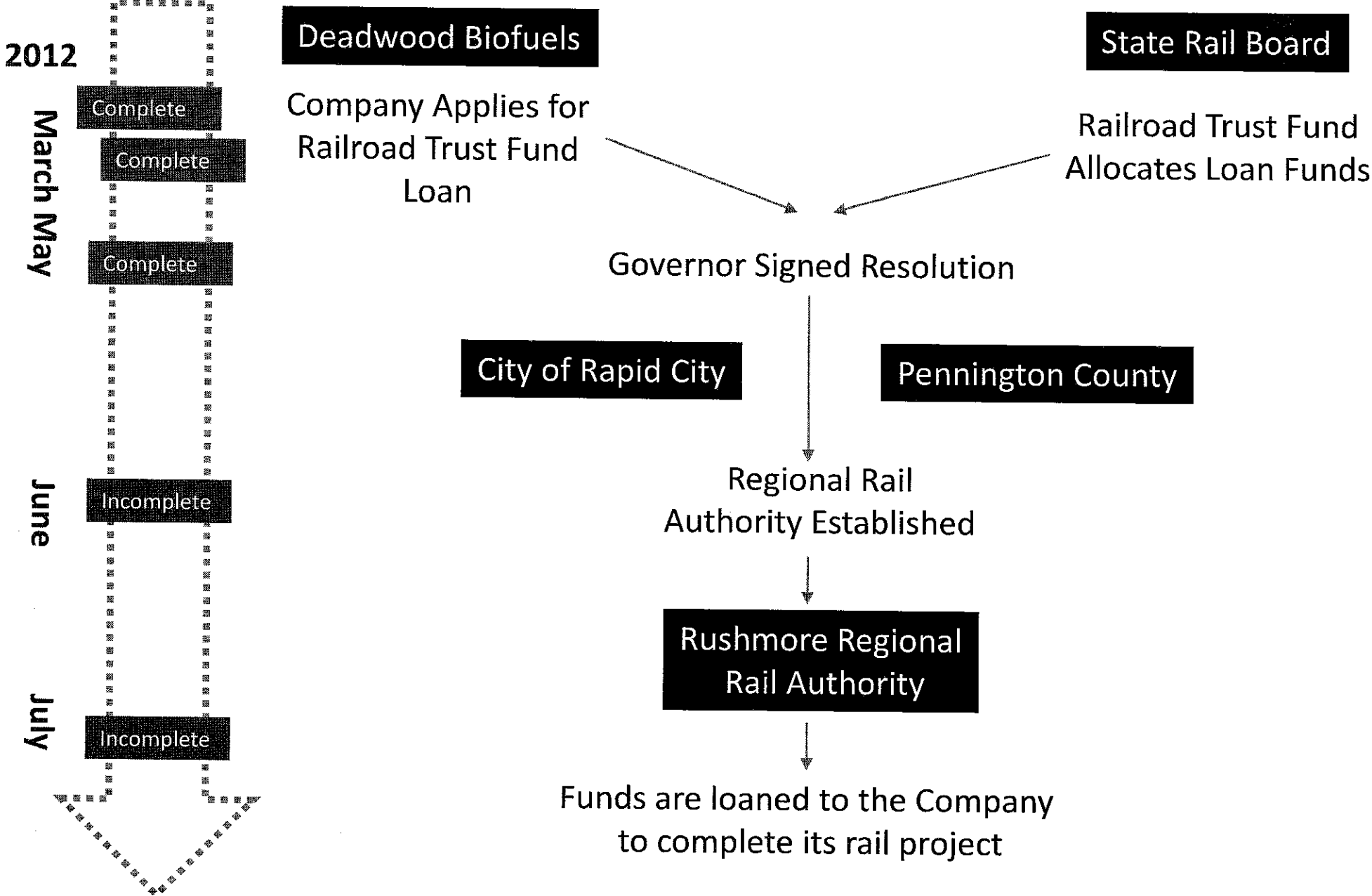
Precedence

- There are 27 rail authorities previously established in South Dakota
- The rail authorities are pass-through taxing entities organized for the express purpose of lending State Rail Trust Funds to develop rail infrastructure within their tax district. Two or more taxing political – sub-divisions (in this case Rapid City and Pennington County) are necessary to form a rail authority
- The authority has the option of levying tax from either one of the political sub-divisions in the event of loan default
- No rail authority has exercised its taxing authority to recover a delinquent loan
- All of the authorities have spurred economic development in the form of security for low-interest loans provided by the South Dakota Department of Transportation and State Rail Board
- The loans benefit rail infrastructure associated with projects that export goods manufactured in South Dakota

Initial Purpose of the Loan and Rail Authority

- The purpose of this loan is to finance a rail spur for Deadwood Biofuels, LLC, a business developed to produce wood pellets for intrastate and interstate sales. Construction of the plant at the former Dakota Craft site was completed in February 2012 and the company began shipping wood pellets in palletized 40 pound bags via truck transport in March 2012.
- As the summer nears, Deadwood Biofuels has switched packaging methods from 40 pound bags to shipping bulk pellets at a rate of 100 tons per railcar. The plant began filling its 700 ton bulk storage bin on March 21, 2012 and is building inventory to fill contractual requirements to be shipped out of state via the Canadian Pacific (CP) rail.
- Currently, there is no rail siding at the plant site. The only method for shipping bulk pellets to meet rail transported contractual obligations is to convey pellets from on-site storage into a truck, truck the pellets to downtown Rapid City, then unload the pellets on the ground and convey the pellet into a railcar.
- The temporary solution to moving pellets away from the plant by truck to load the railcars at another location has cost the company time and money as it pays for added freight and handling along with equipment necessary to meet the transload requirements. Moreover, the pellet quality will decline and cost the company in docking fees based on increased fines and dust from double handling. **The funds now being expended to truck pellets to the rails siding exceed the amount necessary to cover the annual debt service on this loan from the State Rail Trust Fund.**
- In March 2012, Deadwood Biofuels applied for and received an allocation of \$375,600 to construct its own permanent rail spur. The railroad trust funds were allocated by the South Dakota State Railroad Board and Governor Dugaard in Resolution No. 2012-B7 dated May 9th, 2012

Establishing a Regional Rail Authority and Timeline



Loan Terms and Structure

- Loan Amount: \$375,600
- Terms: 15 years at 2.0%
- Annual payments of \$29,500
- Loan Structure:
 - 1) SD Railroad Board funds the Rushmore Regional Rail Authority *(Funding already allocated by Governor Daugaard on May 9th, 2012)*
 - 2) Deadwood Biofuels co-signs on the Loan Agreement between SD Railroad Board and Rushmore Regional Rail Authority
 - 3) The Rushmore Regional Rail Authority loans the funds directly to Deadwood Biofuels to complete the rail siding project

Repayment of the Loan

- Deadwood Biofuels is currently contracted for 6 railcars per week
- Each railcar holds 100 tons of ponderosa pine wood pellets
- With the recent purchase of the DM&E and despite the extremely low rail traffic south of Rapid City, the Canadian Pacific (CP) no longer allows loading railcars on the mainline
- Currently there is no rail siding at the Deadwood Biofuels pellet plant
- To fulfill the bulk pellet contract throughout the summer while the spur is being built, Deadwood Biofuels is loading railcars at a location 5 miles from the plant.
- At four truckloads per railcar, the added cost per car is \$5.57 per ton or \$557 per car. At six cars per week, the added cost is \$3,342, per month is \$13,368 and per year, the trucking cost to the rail load site is \$160,416
- The annual debt service on this loan is \$29,500

Organization and Governance of the Rushmore Regional Railroad Authority

- **Two Political Sub-Divisions**
 - Pennington County
 - City of Rapid City
- **Governance**
 - 5 Member Board of Commissioners
 - County Commissioners designate 2 persons
 - City Council designate 3 persons
 - Liability of the Individuals on the Board of Commissioners: None
 - Meet once per year to provide oversight of the loan
 - Receives and reviews information submitted by Deadwood Biofuels
- **Rushmore Regional Rail Authority will register and with the South Dakota Secretary of State as South Dakota Legal Entity**
 - The Authority's Agent will be from Deadwood Biofuels
 - Office is at Deadwood Biofuels: 5406 Old Folsom Road, Rapid City, SD 57703
 - Annual registration reports and fees to be files and paid by Deadwood Biofuels

Rail Trust Fund Authority

SDCL 49-16C-3. Loans to regional railroad authorities:

“The South Dakota State Railroad Board may upon the written approval of the Governor make loans from the railroad trust fund to regional railroad authorities upon such terms and conditions as the State Railroad Board may determine”

Authority for the Establishment of a Rail Road Regional Rail Authority

SDCL 49-17A-Creation of a Regional Rail Authority:

“The railroad authority is created and incorporated under the provisions of this chapter as a political subdivision of this state, to exercise thereunder a part of the sovereign power of the state.”

Conclusion

- Given the existing export of ponderosa pine wood pellets, a regional rail authority will provide for immediate increased economic development in the Black Hills
- The proposed Rushmore Regional Rail Authority can provide the platform to finance future rail development in western South Dakota
- Rail spur expansion in the region could increase the potential for transload of materials used in oil production and other industries planning development in the region