

**ECONOMIC IMPACT OF
TC&W RAILROAD'S FREIGHT OPERATIONS**

GLENCOE, MINNESOTA

SEPTEMBER 2013



Mark Wegner
President
Twin Cities & Western Railroad Company
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Glencoe, Minnesota 55336

Mr. Wegner:

KlasRobinson Q.E.D. is pleased to present the accompanying report entitled: "Economic Impact of TC&W Railroad's Freight Operations," which has been prepared in accordance with our engagement letter dated February 15, 2013. The report presents an analysis of the economic impact of Twin Cities & Western Railroad's 20 largest freight customers, including the employment, wages, tax revenue and capital investment generated by these shippers, as well as the impact of TC&W itself.

Our analysis is based on the findings of a confidential survey of Twin Cities & Western Railroad Company clients, prepared by KlasRobinson Q.E.D. Supplemental data was provided by members of the project team, as well as figures provided by various state agencies. No effort has been made to obtain independent verification of the source data, which has been assumed to be accurate. Under the terms of our engagement we are under no obligation to revise this report to reflect events occurring after the completion date shown below.

Our report is intended for Twin Cities & Western Railroad Company and/or its designees for use in public relations and lobbying efforts. It may, therefore, be distributed to the press, to various interest groups and to governmental representatives. Under no circumstances can this report be used for financing. Publication of the report or any information contained therein in any manner must explicitly indicate that it was prepared by KlasRobinson Q.E.D.

September 15, 2013

KlasRobinson Q.E.D.



James M. Klas
Founder & Principal



Matthew S. Robinson
Founder & Principal

ECONOMIC IMPACT OF TC&W RAILROAD'S FREIGHT OPERATIONS

Letter of Transmittal

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INTRODUCTION

BACKGROUND

The Twin Cities & Western Railroad (TC&W) is a Class III rail carrier based in Glencoe, Minnesota. The railroad utilizes 294 miles of track in Minnesota and another 49 miles of track in South Dakota, hauling corn, soybeans, wheat, sugar, vegetables, ethanol, crushed rock, metals, plastics, fuel oil, machinery, lumber, manufactured goods, fertilizer and other commodities between South Dakota and rural Minnesota and the Twin Cities, six days per week from more than 50 shippers along the TC&W line. These shippers, the largest 20 of which employ almost 2,700 Minnesota and South Dakota residents, have made more than \$500.0 million in investment in production/processing/shipping facilities along the TC&W line over the past two decades.

TC&W is a key player in the economic health of western Minnesota and eastern South Dakota. TC&W provides its customers with vital connections to national and international markets, moving their products greater distances at less cost and using less fuel than would be the case using over-the-road trucks. Its customers recognize TC&W as their “Gateway to the World Markets.”

Federal rail policy requires that the interests of freight rail operators and shippers be considered in the development of passenger rail service. In order to provide elected officials, policy makers and members of the public with current, factual and supportable information about the impact of TC&W and its operations, TC&W has commissioned this study.

KlasRobinson Q.E.D. was selected to perform this study due to its experience in estimating the economic impact of individual projects and entire industries throughout the United States, including Minnesota. For additional information on KlasRobinson Q.E.D., please refer to the addendum.

OBJECTIVE

The purpose of this study is to quantify, to the extent possible, the economic impact of the Twin Cities & Western Railroad and its customers. Direct impacts are those generated directly, including employment, wages, new construction, as well as taxes paid to local, state and/or federal governments. The magnitude of the direct impacts of Twin Cities & Western Railroad and its customers provides compelling evidence of the importance of the freight rail carrier to Minnesota’s rural economy.

APPROACH & METHODOLOGY

The primary source material for this study was derived from a confidential survey of Twin Cities & Western Railroad’s 20 largest freight clients prepared and conducted by KlasRobinson Q.E.D. Supplemental data was provided by members of the project team, as well as figures provided by various state agencies.

EXECUTIVE SUMMARY

The following section presents a summary of the findings and conclusions from the September 2013 study entitled, ***“Economic Impact of TC&W Railroad’s Freight Operations”*** conducted by KlasRobinson Q.E.D. on behalf of Twin Cities & Western Railroad Company.

ECONOMIC IMPACT OF TC&W RAILROAD’S CURRENT FREIGHT OPERATIONS

- ∴ Annual sales for the 20 largest TC&W clients range from almost \$3.0 million to more than \$400.0 million with **estimated combined annual sales of almost \$4.0 billion**, more than 37.0 percent of which are shipped via Twin Cities & Western Railroad Company – which equates to **almost \$1.5 billion in client goods shipped via TC&W annually**.***
- ∴ **TC&W customers report investments of more than \$500.0 million** over the past two decades on building and/or upgrading production, processing and shipping facilities along the Twin Cities & Western Railroad line.***
- ∴ The 20 largest TC&W clients have an **estimated 2,660 employees** with **combined annual wages of over \$111.0 million**, with another **\$9.5 million for health care benefits** and **\$2.7 million for retirement and other benefits**.***
- ∴ On an annual basis, the 20 largest TC&W clients and their employees pay **more than \$37.0 million in payroll related taxes** including Federal and State Withholding, Social Security and Medicare.***
- ∴ In 2012, TC&W hauled **over 2.4 million net tons of goods**, traveling **more than 2.1 million net ton miles** on behalf of its customers.***

SOURCE: KlasRobinson Q.E.D.

**ECONOMIC IMPACT OF
TC&W RAILROAD'S
FREIGHT OPERATIONS**

GENERAL

Headquartered in Glencoe, Minnesota, Twin Cities & Western Railroad Company (TC&W) is a Class III carrier, utilizing 294 miles of track in Minnesota and 49 miles of track in South Dakota, providing Class I rail connections to **Canadian Pacific**, **Union Pacific**, **BNSF Railway** and **Canadian National**, reaching markets in 39 U.S. states, seven Canadian provinces and four Mexican states.

TC&W serves markets in Western and Central Minnesota, including Ortonville, Odessa, Appleton, Milan, North Watson, Montevideo, Wegdahl, Minnesota Falls, Sacred Heart, Renville, Ruebel, Danube, Granite Falls, Olivia, Bird Island, Hector, Buffalo Lake, Stewart, Brownton, Glencoe, Plato, Norwood Young America, Bongards, Cologne, Jonathan, Chanhassen, Hopkins, Minneapolis, St. Louis Park and St. Paul. TC&W also serves markets in South Dakota, including Sisseton, Peever, Wilmot and Corona. The map on the following page presents a summary of markets served along the TC&W rail line.

TC&W CLIENTS

TC&W provides rail service to numerous companies in Minnesota and neighboring South Dakota, hauling such diverse products as *corn, soybeans, wheat, sugar, vegetables, ethanol, crushed rock, metals, plastics, fuel oil, machinery, lumber, manufactured goods and fertilizer*. The following table presents a summary of TC&W Railroad's 20 largest freight clients.

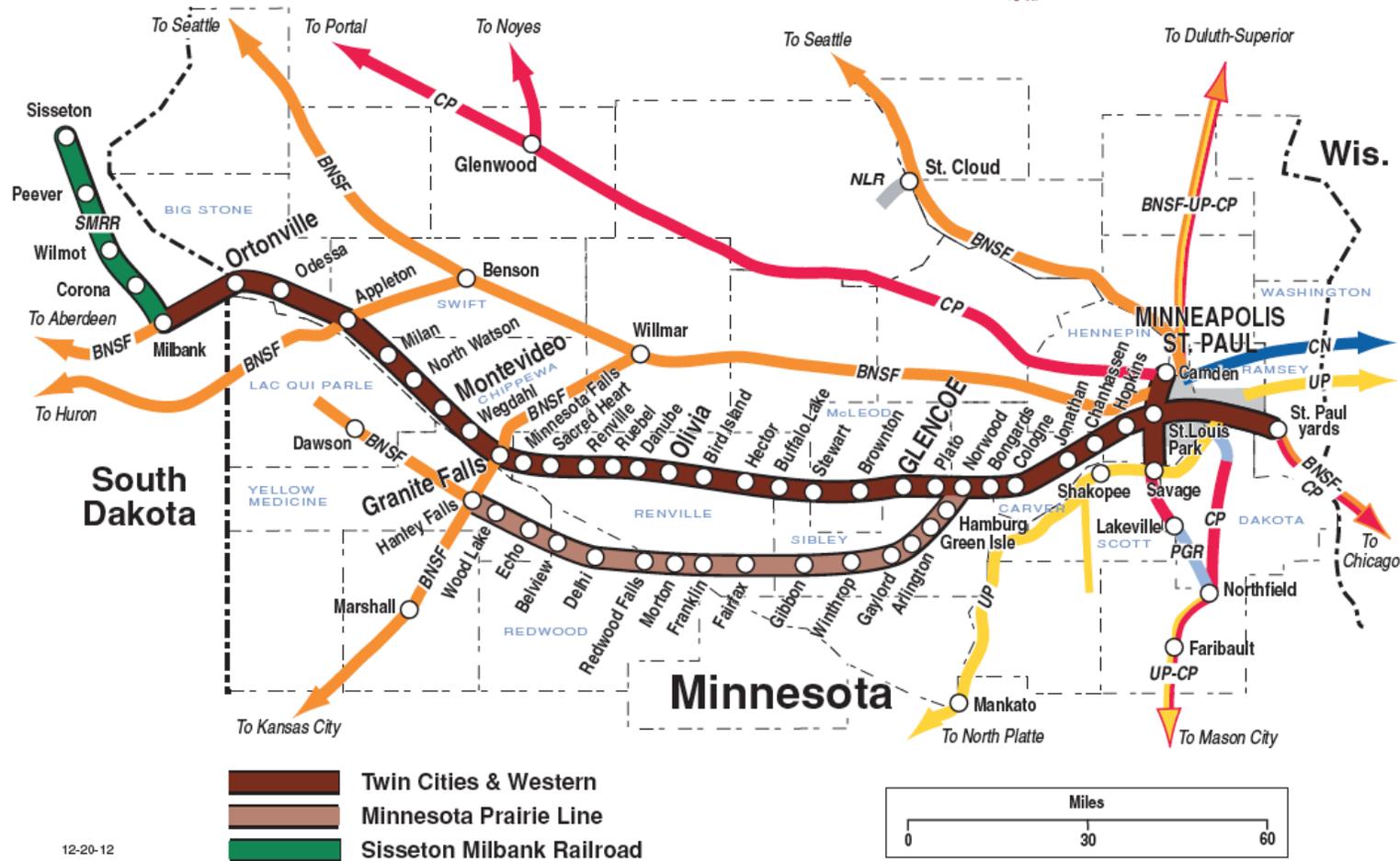
Twin Cities & Western Railroad Company Clients

<u>Name</u>	<u>Business / Service</u>	<u>City</u>	<u>State</u>
Agri Trading Corp.	Shipping of fats, Oils and feed stock	Hutchinson	MN
Co-op Country Farmers Elevator	Grain marketing and farm supply cooperative	Renville	MN
Envirotech Services	Storage for dust control and de-icing products	Randolph	MN
Farmers Co-op Elevator	Grain, Feed, Seed Cooperative	Hanley Falls	MN
Form-A-Feed	Livestock Feed & Fertilizer	Stewart	MN
Glacial Plains Elevator	Grain Cooperative	Murdock	MN
Granite Falls Energy LLC.	Ethanol Production	Granite Falls	MN
Heartland Corn Products	Ethanol Production	Winthrop	MN
Lyman Lumber	Building Material Distributor	Chanhassen	MN
Seneca Foods	Manufacturing - Seasonal Vegetables	Arlington	MN
Seneca Foods	Manufacturing - Seasonal Vegetables	Glencoe	MN
South Central Grain & Energy	Grain & Energy Cooperative	Fairfax	MN
Southern Minnesota Beet Sugar Cooperative	Sugar Beet processing facility	Renville	MN
Step Saver Inc.	Salt Delivery Service	Redwood Falls	MN
United Farmers Co-op/ United Grain Systems	Grain and Feed Cooperative	Winthrop	MN
Western Consolidated Co-op	Grain, Oilseed and Wheat Cooperative	Holloway	MN
Wheaton Dumont Co-op Elevator	Grain Cooperative	Wheaton	MN
Border States Cooperative	Farm Supply Cooperative	Wilmot	SD
Dakota Western Corp.	Blown Film and Can Liners/Trash Bags	Agency Village	SD
L. G. Everist	Stone, Sand and Gravel Products	Sioux Falls	SD

Source: TC&W and KlasRobinson Q.E.D.

Twin Cities & Western Railroad Company and Affiliates

TC&W



ANNUAL SALES

Annual sales for the 20 largest TC&W clients range from almost \$3.0 million to more than \$400.0 million with ***estimated combined annual sales of almost \$4.0 billion***, more than 37.0 percent of which are shipped via Twin Cities & Western Railroad Company – which equates to ***almost \$1.5 billion in client goods shipped via TC&W annually***.

CAPITAL IMPROVEMENTS & INVESTMENT

Over the past two decades, TC&W customers report investments of more than \$500.0 million on building and/or upgrading production, processing and shipping facilities along the Twin Cities & Western Railroad line.

EMPLOYMENT & WAGES

Total employment at the 20 largest TC&W clients ranges from 13 to 768 employees with ***estimated combined total employment of 2,660***. Total annual wages at the 20 largest TC&W clients ranges from \$440,000 to \$20,000,000 with ***estimated combined total wages of over \$111,000,000***.

In addition, Twin Cities & Western Railroad Company employs more than 70 people, with annual wages and incentive compensation of over \$4.7 million.

OTHER BENEFITS

In addition to wages, clients of Twin Cities & Western Railroad Company spend millions of dollars on health insurance, retirement accounts and other benefits on behalf of their employees. On an annual basis, the 20 largest TC&W clients combined are estimated to spend ***\$9.5 million on health care*** and another ***\$2.7 million on retirement and other benefits***.

On an annual basis, Twin Cities & Western Railroad Company spends an estimated \$1.3 million in benefits on its employees, as well as more than \$1.2 million in railroad retirement taxes. TC&W also contributes thousands of dollars annually to associations and memberships. In 2012, TC&W made almost \$25,000 in donations.

PAYROLL RELATED TAXES

Total combined annual payroll related taxes paid by the 20 largest TC&W clients and their employees are estimated to equal \$37,250,000. The following table presents a summary of estimated annual payroll related taxes paid by TC&W 20 largest clients and their employees by category.

<u>Estimated Annual Payroll Related Taxes</u>	
Federal Withholding	\$17,650,000
State Withholding (Minnesota)	2,740,000
Social Security - Employer Paid	6,770,000
Social Security - Employee Paid	6,770,000
Medicare - Employer Paid	1,660,000
Medicare - Employee Paid	<u>1,660,000</u>
Total	\$37,250,000

Source: KlasRobinson Q.E.D.

TC&W itself pays more than \$573,000 annually in federal withholding taxes and more than \$219,000 annually in Minnesota state withholding taxes.

UTILIZATION

During 2012, Twin Cities & Western Railroad Company hauled **over 2.4 million net tons of goods**, traveling **more than 2.1 million net ton miles** on behalf of its customers. The following presents a summary of annual utilization for TC&W for the past several years. This is followed by definitions for the various shipping metrics.

TC&W RAILROAD - ANNUAL UTILIZATION**

Period	2010	2011	2012	2013*
Net Ton Miles	218,807,403	233,644,824	211,573,167	133,694,930
Gross Ton Miles	392,543,421	385,235,855	351,503,888	184,907,446
Net Tons	2,358,755	2,508,453	2,440,980	1,399,714
Gross Tons	4,910,242	4,160,450	4,056,977	2,284,020
Loaded G-Tons	4,107,357	3,315,634	3,236,188	1,842,119
Loaded Miles	2,235,982	2,372,183	2,150,253	1,122,418
Empty G-Tons	800,430	835,750	813,198	437,747
Empty Miles	2,252,378	2,418,716	2,239,788	1,113,854

* 2013 figures are from 1/1/13 – 5/31/13

** The above figures include any cars traveling on TC&W and/or connecting short line railroad

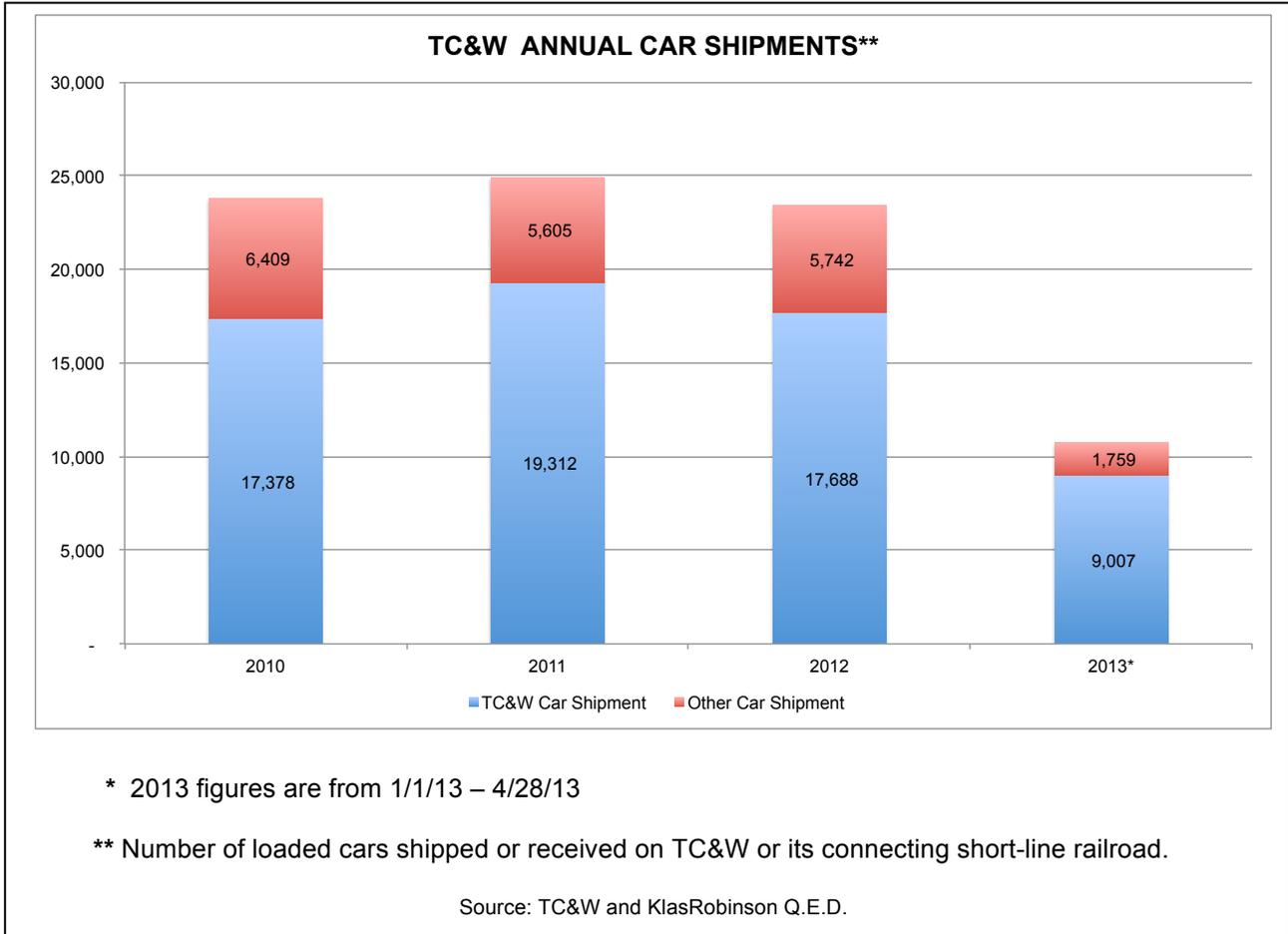
Source: TC&W and KlasRobinson Q.E.D.

DEFINITION OF SHIPPING METRICS

Net Ton Miles	=	Number of miles one net ton was moved
Gross Ton Miles	=	Number of miles one gross ton was moved
Net Tons	=	Number of tons moved, including product only
Gross Tons	=	Number of tons moved, including product plus weight of railcar
Loaded Gross Tons	=	Combined weight of cars and contents (freight) moving one mile
Loaded Miles	=	Number of miles one loaded freight car was moved
Empty Gross Tons	=	Weight of empty cars moving one mile
Empty Miles	=	Number of miles one empty freight car was moved

Source: TC&W

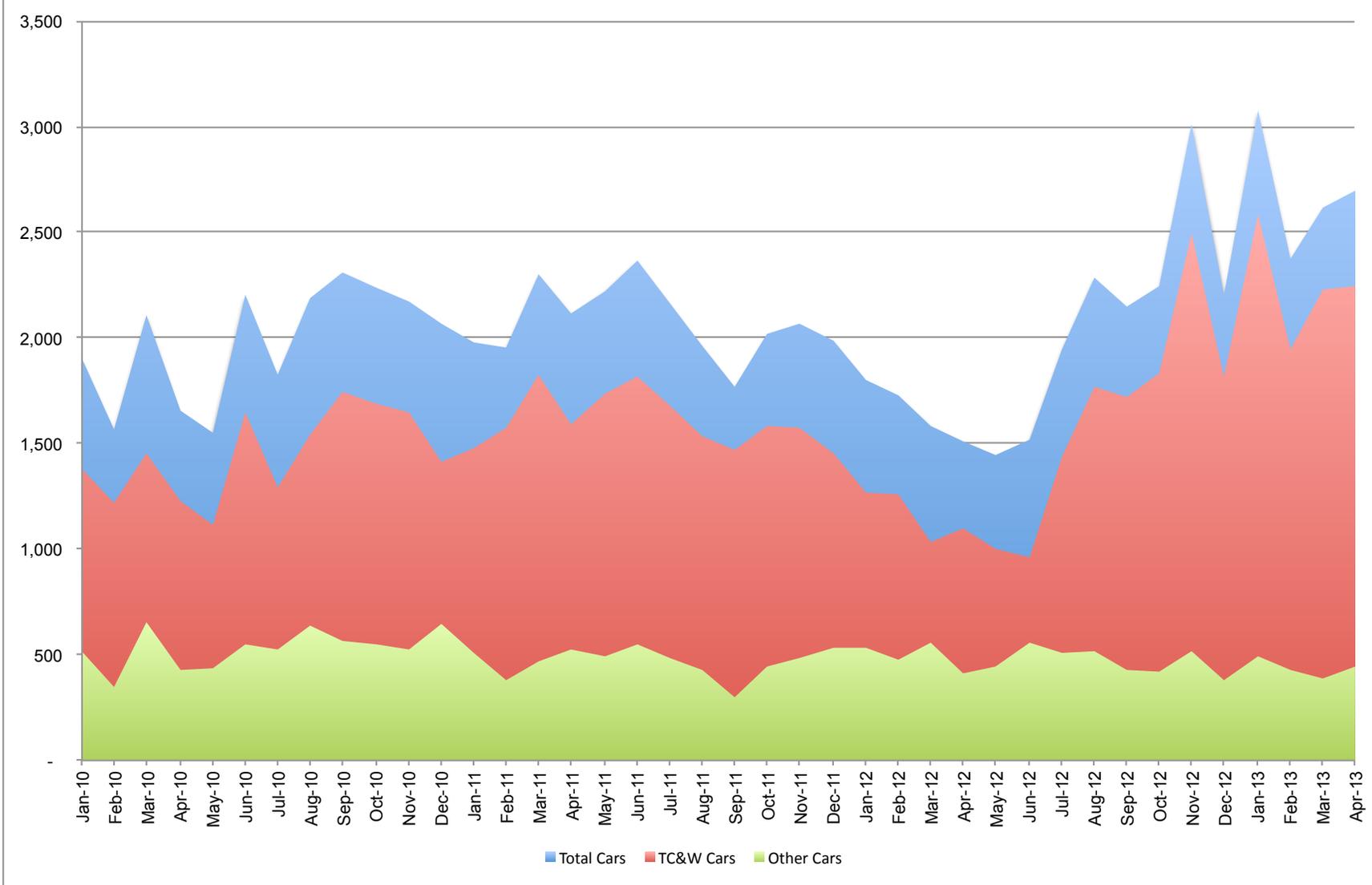
During 2012, customers of Twin Cities & Western Railroad Company and its affiliates shipped more than 23,400 cars, including almost 17,700 cars on TC&W and over another 5,700 cars on a short line railroad that uses TC&W to reach the Twin Cities.



Like any business, TC&W and its affiliates experience some seasonality throughout the year. The following table presents a summary of monthly cars for the past 40 months.

As presented in the following table, the number of monthly cars shipped on TC&W during the first four months of 2013 was significantly higher than for the same periods in each of the three prior years – **almost twice that of first quarter 2012 (94.0 percent greater)**, almost **40.0 percent higher than first quarter 2011** and **70.0 percent greater than first quarter 2010**.

TWIN CITIES & WESTERN RAILROAD COMPANY - MONTHLY CARS



ADDENDUM:

PROFILE OF



OUR COMPANY

KlasRobinson Q.E.D. provides market research, financial feasibility analysis, economic impact analysis, litigation support and other development consulting.

We perform comprehensive market research as a foundation for all of our feasibility studies, focusing on key demographic characteristics, tourism patterns, transportation infrastructure and other elements affecting the ability of a project to attract demand. We work in concert with the project team to develop facility recommendations that match the identified needs of the market and the goals of the project developers.

Our analyses of direct, indirect and induced economic impact provide not merely facts and figures, but the context necessary to make them real and understandable to the reader. The concepts of indirect and induced impact are among the most widely used and poorly understood tools in economic analysis. Fundamentally they are based upon an extension of the direct expenditures by a business or industry and its patrons. Money spent is redistributed back into the economy in the form of wages, taxes and expenditures for goods and services.

We use the IMPLAN (IMpact Analysis for PLANing) economic model originally developed for the USDA Forest Service in cooperation with the Federal Emergency Management Agency and the USDI Bureau of Land Management. The IMPLAN model was developed at the University of Minnesota and is maintained by Minnesota IMPLAN Group in Stillwater, Minnesota. The IMPLAN model has been in use since 1979. The IMPLAN model accounts closely follow the accounting conventions used in the "Input-Output Study of the U.S. Economy" by the Bureau of Economic Analysis and the rectangular format recommended by the United Nations.

Our comprehensive approach ensures accountability through the direct, absolute and exclusive involvement of the principals in each project, including meetings, market research, analysis, report writing and presentation.

Feasibility studies, business plans and other expert counseling provided by the principals of KlasRobinson Q.E.D. have been used to successfully attract over \$10.0 billion in financing and investment from bank financing, capital leases, private placements, registered securities and IPO's.

Summaries of the qualifications of our professional staff and a listing of recent engagements are provided on the following pages.

JAMES M. KLAS

FOUNDER & PRINCIPAL

Co-founder and Principal of KlasRobinson Q.E.D., Jim Klas has over twenty-five years of operational and consulting experience in the hospitality industry. Mr. Klas has provided development consulting to numerous hotel, resort, casino and convention center projects throughout the United States, as well as the provinces of Ontario, Quebec and British Columbia in Canada.

Mr. Klas is a nationally recognized expert in economic impact analysis for the hospitality industry. He has authored studies commissioned by the Minnesota Indian Gaming Association and by Sodak Gaming Supplies, Inc., of the economic benefits of Indian gaming in Minnesota, as well as studies of the economic benefits of Indian gaming in the states of Oregon and Kansas for the gaming tribes in those states. He has also performed economic and social impact studies for the Minnesota Restaurant Association, the Minneapolis Convention Center, the University of St. Thomas and for individual casinos and hotel projects in both the United States and Canada.

Mr. Klas is a frequent speaker at annual conventions of the National Indian Gaming Association, the NYU International Hospitality Industry Investment Conference, IGBE and the World Gaming Congress. He has been quoted in International Gaming & Wagering Business, Casino Executive, The New York Times, The Las Vegas Sun and several other local and regional newspapers and periodicals. He provided expert commentary in a National Public Television documentary on Indian gaming. He has also authored several articles for the Grogan Report, Minnesota Real Estate Journal, Casino Magazine, and Indian Gaming Magazine.

Mr. Klas has a Master's degree from the Cornell University School of Hotel Administration and a Bachelor's degree in Economics from the University of Minnesota. He is a past president of the Minnesota Association of Hospitality Accountants and past member of the Hospitality Education Committee of the Minnesota Hotel, Restaurant and Resort Associations. Mr. Klas has also taught Hospitality and Tourism Development and Marketing at Metropolitan State University in Minneapolis.

MATTHEW S. ROBINSON

FOUNDER & PRINCIPAL

Co-founder and Principal of KlasRobinson Q.E.D., Matt Robinson has been a consultant in the hospitality industry for more than 20 years, specializing in market research, feasibility analyses and economic impact studies. Mr. Robinson has consulted on numerous casino, hotel and other hospitality and leisure industry projects. With a background in planning and economic development, Mr. Robinson has specific expertise working in Indian Country on gaming and other tribal economic diversification projects. Mr. Robinson is currently serving his second consecutive on the Executive Board of the National Indian Gaming Association.

Mr. Robinson is a frequent speaker at national and regional conferences on issues related to feasibility, economic impact and planning. He is a guest lecturer at colleges and universities including his alma mater Macalester College. Mr. Robinson is also a featured contributor to a variety of national trade publications including *Indian Gaming Magazine* and *Casino Enterprise Management Magazine* and is often quoted in regional periodicals.

Mr. Robinson has a Masters degree in Planning with a secondary concentration in economic and community development from the Humphrey Institute at the University of Minnesota. While at the Humphrey Institute, Mr. Robinson conducted research at the Tourism Center of the University of Minnesota, specializing in rural tourism development. He is a graduate of Macalester College with a Bachelor of Arts degree in three majors: Economics, Spanish and International Studies. During the 1988-89 academic year, he attended the Universidad De Complutense and the Institute of European Studies in Madrid, Spain.

Mr. Robinson also has more than five years of operational and management experience working in various facets of the hospitality industry both at home and abroad. He is fluent in oral and written Spanish and is a member of La Sociedad Hispanica Sigma Delta of the National Spanish Honor Society. Mr. Robinson is also a member of Omicron Delta Epsilon of the National Economics Honor Society.

PARTIAL LISTING OF RELEVANT ENGAGEMENTS - MINNESOTA

GREATER MINNEAPOLIS CONVENTION & VISITORS BUREAU: Minneapolis, Minnesota: Analysis of state tax revenue increases generated by the **Minneapolis Convention Center** and related projects.

MILLE LACS BAND OF CHIPPEWA - Onamia, Minnesota: Impact study on behalf of the **Corporate Commission of the Mille Lacs Band of Ojibwe** for the potential business impact of a high-speed rail station at **Grand Casino Hinckley**.

MINNESOTA INDIAN GAMING ASSOCIATION (MIGA): Solicitation, survey, collection and analysis of data from participating Minnesota Tribes on behalf of the **Minnesota Indian Gaming Association** for an update of the economic impact of Indian gaming in the State of Minnesota for public relations and lobbying efforts.

MINNESOTA RESTAURANT ASSOCIATION - Saint Paul, Minnesota: Economic impact analysis on the food service in the State of Minnesota.

MINNESOTA STATE LOTTERY - Roseville, Minnesota: Impact study on the economic benefits of the **Minnesota State Lottery** in the State of Minnesota on local and state economies and tax revenue generated to the state and federal government.

PRAIRIE ISLAND INDIAN COMMUNITY - Welch, Minnesota: Economic impact analysis on behalf of the **Prairie Island Indian Community** examining the impact of the proposed Canterbury Park Casino on on-going operations at **Treasure Island Resort Casino**. Analysis included both the direct impact and multiplier effect on the **Prairie Island Indian Community** and its tribally-owned businesses, and the local and regional economies, as well as on local, state and national governments.

UNIVERSITY OF ST. THOMAS, St. Paul, Minnesota: Analysis of the economic impact of an expansion of the Minneapolis campus of the **University of St. Thomas** and construction of a multi-district K-12 magnet school.

ADDITIONAL LISTINGS OF ENGAGEMENTS UPON REQUEST