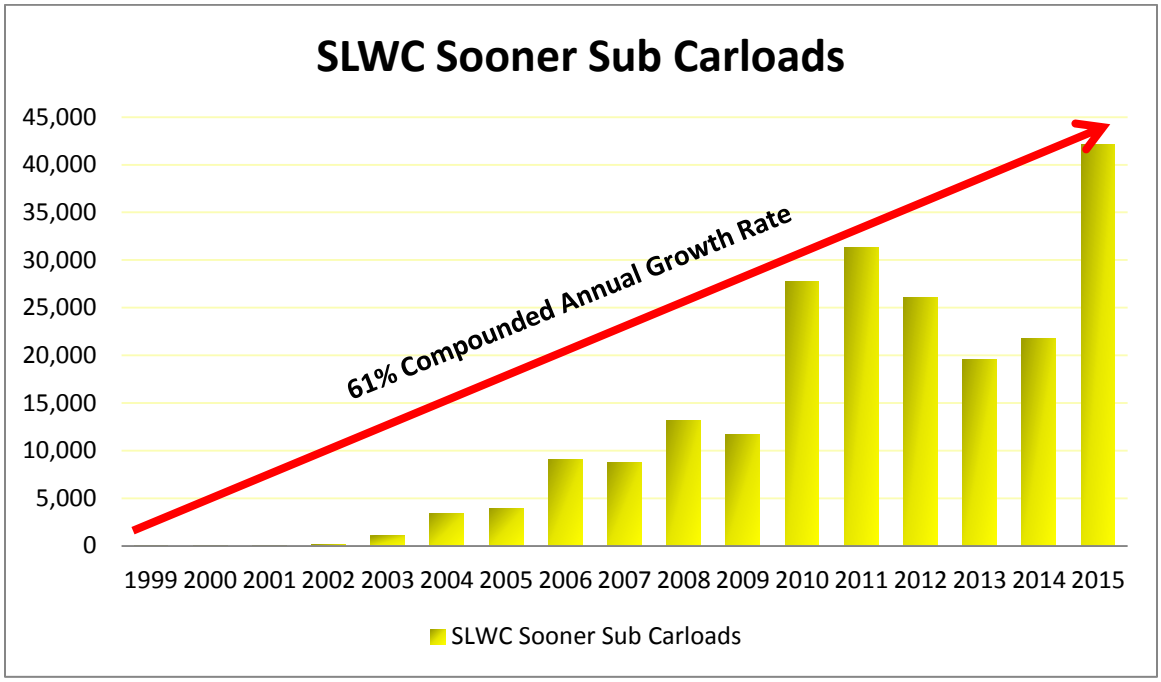
The Stillwater Central Railroad

Proudly Serving Oklahoma for 16 years and counting



Final and Binding Offer for Sooner Subdivision Railroad

April 21, 2014

Contact

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SLWC Commits to Meet or Exceed the Objectives of the Selection Committee

The Stillwater Central Railroad (SLWC) is pleased to respond to the State of Oklahoma's (State) Request for Final and Binding Offer of the Sooner Subdivision (Sooner Sub) Railroad. We believe the SLWC's proposal represents the best interests of the State and of the Sooner Sub Customers. We also believe our proposal demonstrates how we will meet or exceed every one of the Selection Committee's policy objectives in this Final and Binding Offer.

SLWC Commits to Maintain Competitive Access to other Rail Carriers

SLWC will continue to allow access as currently provided to all other rail carriers. Providing competitive rates and service options between the SLWC interchange partners will ensure that Sooner Sub Customers will have more economical access to ship their products by rail thus benefiting them and the State.

SLWC Commits to Provide Outstanding Service to the Sooner Sub Customers

SLWC will continue to serve its Customers, current and future, with the same level of service as we have provided over the past 16 years. That service is based on putting the Customers' needs first and delivering a value for both our Customers and the SLWC. This model has grown the Sooner Sub from a line with few Customers to a line with 27 Customers who ship upwards of 30,000 carloads per year.

SLWC Commits to improve the Sooner Sub to FRA Class III

SLWC is committed to bringing the Sooner Sub to FRA Class III track condition within the State's timeline.

SLWC Commits to Continuing its Efforts to Establish Passenger Rail on the Sooner Sub

SLWC has partnered with Iowa Pacific Holdings (IPH) to continue the renaissance of passenger rail between Oklahoma City and Tulsa. SLWC's proposal to establish a daily passenger service is at no cost to the State and will serve the citizens between Oklahoma City and Tulsa multiple times per day.

SLWC Commits to Allow the State to Reacquire the Sooner Sub

In the event of financial distress or proposed abandonment and discontinuance of service to the Sooner Sub Customers, the SLWC agrees to allow the State to reacquire the Sooner Sub in accordance to the final terms of the Sale Agreement.

SLWC Offer Price

The SLWC offers the State an unconditional cash offer of seventy-five million US dollars ($75,000,000) for purchase of the Sooner Sub on an as is, where is, with all faults condition. The offer price is also indicated on the Form of Offer and submitted as attachment 1 and is based on the Form of Sale Agreement submitted as attachment 2. This offer price is identical to the offer submitted in SLWC's initial proposal and will be paid in cash, in full at time of closing.

Business Plan and Projected Economic Activity

Proposed Plan and Spending Plan to Upgrade Sooner Sub to FRA Class III

SLWC's track structure plays an extremely important role in executing the Customer First Foundation Principles. By providing a durable, dependable and safe structure that ensures the ability of safe and timely train operations, SLWC can confidently execute a Customer service plan designed to meet the needs of our Customers. SLWC has served Customers on and over the Sooner Sub for almost 16 years and has invested millions of dollars to upgrade the Sooner Sub in order to grow the volumes to approximately 30,000 carloads per year. In order to continue to grow with the Sooner Sub Customers, the SLWC commits to bringing the Sooner Sub to FRA class III track within the State's timeline as proposed in the Form of Sale Agreement. **Estimated cost of FRA class III investment: $2.35 million.**

Proposed Capital Improvements to be made to the Sooner Sub

Planned Expansions to the Sooner Sub

Energy Customers Infrastructure Investment

SLWC is committed to expanding the Sooner Sub not only for the benefit of energy Customers, but for all Customers of the Sooner Sub by increasing the rail capacity of the line. This commitment includes building a railroad line into or near Cushing, OK, and or adding to the terminal and pipeline capacity for energy Customers on the Sooner Sub or on the new railroad line into or near Cushing, OK. SLWC will fund or cause these improvements to be funded with the benefits accruing to all Customers of the Sooner Sub, now and in the future. **Estimated cost of Energy Customers Infrastructure Investments: $101.8 million.**

Energy Customers Infrastructure Investment Timeline

SLWC commits to making the Energy Customers Infrastructure Investment within the State's timeline as proposed in the Form of Sale Agreement. SLWC will notify the State when construction begins and expects the process to take approximately 24 months to complete as described in the timeline below.

Energy Customer Infrastructure Timeline	
SLWC Financial Close of Sooner Sub	July 31, 2014
Construction Begins	
Agreement with Enbridge to load or unload 20,000 loads per year	Begin date plus 1 month
Final route design and selection	Begin date plus 2 months
Final right of way acquisition	Begin date plus 3 months
Construction begins	Begin date plus 6 months
Construction completed	Begin date plus 18 months
First train delivers oil into Cushing	Begin date plus 19 months
Potential delay	Begin date plus 24 months
Best case scenario completion date	January, 2016
Mandatory completion date	July 31, 2024

Non-Energy Customer Infrastructure Investment

The SLWC is working with several Customers who plan to locate and or expand on the Sooner Sub. These opportunities require significant investments which will be funded or caused to be funded by the SLWC to build the infrastructure necessary to ship additional volume by rail.

1. T&J Marketing is a propane company locating in Chandler, OK. T&J services propane Customers from Kansas, Arkansas, Texas and Oklahoma and is looking to expand their storage capacity. By having storage capacity and rail access, T&J will be able to work with refiners to move more propane from their facilities when they have a surplus and it will help keep transportation costs down when they have to go outside of Oklahoma to purchase propane. T&J Marketing is building a multiple rail connections to serve their propane storage tanks. **Estimated cost of T&J Marketing Infrastructure Investment: $0.694 million.**

T&J Marketing Timeline	
Propane storage tanks installed	March, 2014
State awards sale of Sooner Sub to SLWC	July 31, 2014
Spur completed	September, 2014
First Train delivering propane	October, 2014

2. Mid-Way Environmental Services is an Oklahoma based company currently in process of developing injection wells in Davenport, OK. Their state of the art facility will soon become the only Commercial non-Hazardous Class I Injection Well facility in the State employing approximately 50 personnel during the first phase of operations. Mid-Way Environmental Services is in the process of building a ladder track on the Sooner Sub near their injection well facility to handle waste water that is brought to Oklahoma from all over the country. Waste water will be transloaded on the new tracks and trucked across the street to the wells. **Estimated cost of Mid-Way Environmental Services Infrastructure Investment: $0.46 million.**

Mid-Way Environmental Services Timeline	
State awards sale of Sooner Sub to SLWC	July 31, 2014
Ladder Tracks Completed	September, 2014

3. Timco Blasting and Coatings began operations in Stroud in July of 2013 and is expanding by purchasing the land next to their current facility and renovating the buildings that were previously abandoned. Timco plans to increase the volume of hydrochloric acid they are moving, as well as bring in additional frac sand for transloading. The renovation of their new property has the potential to bring in additional Customers to assist in the renovation. Going forward, Timco has left room for four potential storage tracks. **Estimated cost of Timco Blasting and Coatings Infrastructure Investment: $0.700 million.**

Timco Expansion Timeline	
Purchase of adjacent land and buildings for new Customers	April, 2014
SLWC Financial Close of Sooner Sub	July 31, 2014
Runaround track construction begins	September 15, 2014
Runaround track construction complete	December, 2014
Transload track construction begins	January, 2015
Transload track construction complete	April, 2015

Upgrades to the Sooner Sub other than minimum required under the Sale Agreement

SLWC has invested $16 million in the Sooner Sub since 1998 and in partnership with the State, that investment helped move approximately 30,000 carloads annually on the Sooner Sub. As future business requirements demand additional investments, SLWC will continue to make the capital improvements necessary to serve our Customers. There currently are no additional upgrades to the Sooner Sub planned other than what is described in this document.

Capital Expenditures for Projects related to the Acquisition and Operations of the Sooner Sub

The SLWC plans for an aggressive capital and maintenance program and will spend between $2.4 and $2.6 million per year over the next ten years on the Sooner Sub. **Estimated cost of capital and maintenance expenditures for infrastructure investment over the next 10 years: $25 million**

Capital to Operate Passenger Rail in Excess of the Minimums in the Sale Agreement

SLWC has partnered with IPH to bring a daily passenger service between Del City and Sapulpa, eventually working to gain access to Tulsa and downtown Oklahoma City. **Estimated cost of Passenger Rail Investment: $2.185 million.**

Positive Train Control

Positive Train Control (PTC) is a federal mandate requiring certain railroad mainlines to implement technology that stops and slows trains to prevent collisions due to human error. Federal law requires this unfunded mandate be completed and in service by December 31, 2015 but the Class I and commuter rail carriers have testified before Congress that the deadline is unworkable due to technological challenges. As the Sooner Sub is currently operated, PTC will not be required, but with SLWC's desire and commitment to long-term, sustainable passenger rail service, a PTC system will be installed (when available) to support operation of passenger trains across the Sooner Sub, and to improve safety of freight operations. SLWC and IPH will be compliant with all PTC requirements as established by the U.S. Department of Transportation for whatever operations there are on the Sooner Sub. **Estimated cost of PTC Infrastructure Investment: unknown at this time.**

Selection Committee's Policy Objectives

Accessibility to other rail carriers

SLWC commits to operate the Sooner Sub the same way it is currently operated by providing competitive rates and options to all connecting class I carriers and short line carriers. This is demonstrated by the support letters we have received from UP, KCS and other short lines in the State which are provided as attachment 3.

The SLWC provides access to three Class I railroads which offers Customers on the Sooner Sub choices on how much to pay for their move. Competitive access and competitive rates have helped grow the traffic on the Sooner Sub from zero cars to 30,000 cars per year since 1998. ***The SLWC is not captive to a single Class I railroad which makes locating to central Oklahoma attractive for many businesses.*** Providing competitive rates between the SLWC interchange partners will ensure that Customers both inside and outside of Oklahoma will have more economical access to ship on the SLWC. This especially applies to the increase in crude oil shipments the SLWC anticipates for energy Customers who want to move their crude through Cushing.

SLWC works with its connecting partners the KCS, UP, BNSF, AOK, RGP, SKO and GNBC to identify rail rates for the Sooner Sub Customers so they have multiple choices for the same or similar move. Competitive pricing ensures that the Customer is offered the best rate and service.

As a penalty for failing to provide competitive access to all carriers, SLWC suggests to implement a mutually agreed upon audit system to determine whether SLWC has allowed competitive access to all carriers. Should the State determine that SLWC has not allowed competitive access, SLWC will sell the railroad back to the State at market value.

Continued Customer Service

A sale of the Sooner Sub to the SLWC will provide no negative impact on Customers on the Sooner Sub, or any railroad. SLWC will continue to serve its Customers regardless of change in traffic volumes, commodities, location, or facility designs. During SLWC's 16 year lease, the Sooner Sub has been operated and managed as though SLWC would own it for the next lifetime. SLWC has made sizable investments with Customers to grow their business. Customers on the SLWC will continue to receive the same rates and service if SLWC is awarded the Sooner Sub.

BNSF will continue to have overhead trackage rights to move trains between Sapulpa and Oklahoma City. Since SLWC took over operations of the line in 1998, the condition of the railroad has dramatically improved and today BNSF enjoys fair and efficient trackage rights.

As a penalty for failing to provide quality Customer service, SLWC suggests to implement a mutually agreed upon audit system to determine whether SLWC has provided quality Customer service. Should the State determine that SLWC has not provided quality Customer service SLWC will sell the railroad back to the State at market value.

FRA Class III

As stated previously, the SLWC commits to bringing the Sooner Sub to FRA Class III status within the State's timeline as proposed in the Form of Sale Agreement.

Passenger Operations

The SLWC is pleased to partner with IPH to develop Oklahoma's first daily passenger rail service in 40 years between Oklahoma City and Tulsa. In February of 2014, SLWC and IPH worked together to bring the beginning of passenger rail to Oklahoma by running three excursion trains on February 9, 15 and 23. All three trains sold out within 10 days which demonstrates the desire for a daily passenger service between Oklahoma's two largest cities.

<u>Cost to the State</u>

SLWC and IPH will used a phased approach to implement passenger service that could begin as early as November of 2014 with an inaugural run marking the return of daily passenger service between Oklahoma City and Tulsa. SLWC and IPH will assume the responsibility of establishing this service. SLWC and IPH will take all revenue risk for operation of these services, and there will be no purchase-of-service cost to the State. SLWC and IPH will be responsible for all costs to develop, operate and maintain trains stations along the route. The passenger service will be provided aboard IPH's fleet of

railcars that will match demand for service. The provision of robust passenger service on the Sooner Sub, as further described below, does not require a subsidy, unlike the service from Oklahoma City to Fort Worth, because IPH and SLWC are using a different model that attracts sufficient patronage at adequate prices to pay the entire cost of operation from the fare box. IPH presently operates trains on nine routes in locations across the U.S. without subsidy, and operated the Eastern Flyer demonstration trains at a profit, with no subsidy requirement. As a result of its positive experience over several years, SLWC and IPH are willing to take the financial risk.

Phased Approach

IPH and SLWC agree to operate a trial of service, in order that feasibility of regular passenger service can be evaluated. Whether service is deemed feasible after the trial phase will be determined by SLWC, based on the proposed sale agreement. Should passenger service not be implemented after the trial phase, SLWC will give the State a passenger rail easement to run over the Sooner Sub in the future. SLWC will share passenger information in an open and transparent manner to ensure that all involved in the development of daily passenger service will be involved in the process.

Phase I – Trial Phase

A proposed Phase I of the service will be a trial of service running for at least the required six months as stipulated in the Sale Agreement. This Phase will operate, at minimum, two daily round trips between Sapulpa and Midwest City, seven days per week, and serve as a trial period to determine average ridership and projected cost for further service. The initial approximate running time of the each train over the 97 mile segment will be two hours and fifty minutes. This initial phase of service will begin with rail service between Sapulpa and Midwest City, with dedicated shuttle service to transport passengers between designated locations in and around Tulsa and Oklahoma City until access can be secured into downtown Oklahoma City and downtown Tulsa. The train will make stops in Bristow and Stroud to load additional passengers on its way between Tulsa and Oklahoma City.

Eastern Flyer Schedule - Phase I

From Tulsa - Read Down				From OKC - Read Up	
1	3	Miles	Station	2	4
8:10 AM	3:10 PM	shuttle	**Tulsa**	3:10 PM	10:10 PM
8:10 AM	*3:10 PM*	*shuttle*	*Tulsa Univ*	*3:10 PM*	*10:10 PM*
8:10 AM	*3:10 PM*	*shuttle*	*Tulsa Int'l Airport*	*3:10 PM*	*10:10 PM*
7:20 AM	*2:20 PM*	*shuttle*	*Bartlesville*	*4:00 PM*	*11:00 PM*
8:30 AM	3:30 PM	0.00	**Sapulpa**	2:50 PM	9:50 PM
		20.00	**Bristow**		
		38.50	**Stroud**		
11:20 AM	6:20 PM	96.00	**Midwest City**	12:00 PM	7:00 PM
11:40 AM	*6:40 PM*	*shuttle*	*State Capitol*	*11:40 AM*	*6:40 PM*
11:40 AM	*6:40 PM*	*shuttle*	*Will Rogers Int'l Airport*	*11:40 AM*	*6:40 PM*
12:05 PM	*7:05 PM*	*shuttle*	*OU-Norman*	*11:20 AM*	*6:20 PM*
11:40 AM	6:40 PM	shuttle	**Oklahoma City**	11:40 AM	6:40 PM

Phase II

After the trial period, depending on the evaluation of the ability to successfully operate passenger service, SLWC and IPH will work to continue a daily passenger service based on the needs and desires of the people of Oklahoma who use the service. Data from the previous year's operation, including ridership and cost will be analyzed by SLWC and IPH to determine the feasibility of the service. This analysis will be used to determine future service levels. In Phase II SLWC and IPH reserve the right to run as little as zero trains per day to as many as eight trains per day, or as needed.

Phase II will continue to operate between Sapulpa and Midwest City until access can be gained to downtown Tulsa and Oklahoma City. All initial projections of passenger service are based on trains running between Sapulpa and Midwest City, on track that will be owned and controlled by SLWC during passenger service.

Access to downtown Tulsa and Oklahoma City

IPH and SLWC will work with BNSF to restore passenger service into downtown Tulsa as stipulated in the 1998 BNSF sale agreement to the State of Oklahoma. To gain access to downtown Tulsa, IPH as the designated passenger operator, must provide written notice to BNSF six months in advance of the proposed passenger operations. SLWC and IPH plan to

integrate the downtown portion of the passenger service during Phase II as described above if we get cooperation from BNSF.

But until trains can run into Tulsa, IPH will arrange committed connections from Sapulpa to key points within the Tulsa area, including downtown points and IPH will offer similar connections in Oklahoma City to downtown and other destinations such as the University of Oklahoma at Norman. IPH is familiar with offering these kinds of connections. IPH believes there is an excellent opportunity to develop ridership by offering these alternatives to customers. Additionally, IPH will work to ensure availability of taxis and rental cars.

IPH and SLWC will with work with the BNSF, Union Pacific and ODOT to establish a direct rail route into Oklahoma City's Santa Fe Depot which will eventually serve as the western termination point for passenger service between Oklahoma City and Tulsa. Although no agreements currently exist to gain access downtown over BNSF or BNSF and UP, SLWC and IPH plan to evaluate and vigorously pursue the best alternative into downtown while continuing service terminating in Midwest City.

Marketing

IPH is skilled at marketing to "discretionary travelers" which represent 90% of the market for short-haul train travel outside the Northeast Corridor. More than 90% of the Heartland Flyer riders are non-business, discretionary travelers for example.

IPH uses a number of tools to attract riders such as a focusing on the kinds of events that millenials (born after 1985) and seniors are likely to attend, if they can get there without using a car. With a combination of focused pricing, direct shuttles to college campuses, malls, museums and event centers, and on-board service that makes riders unconcerned about transit time, IPH has developed stable, long-term ridership on its rail lines.

And, IPH is effectively delivering a downtown-to-downtown service through the shuttles described earlier.

Binding Time Line for Restoration of Passenger Service

SLWC will abide by the State's timeline for passenger rail implementation and we will do our best to commence service by November, 2014.

Re-Acquisition from the State

SLWC has no plans to abandon the property as was almost done in 1998. However, should the SLWC have an unfortunate event of financial distress or proposed abandonment and discontinuance, SLWC will give the State first right of refusal to re-acquire the Sooner Sub in accordance with the final terms of the Form of Sale Agreement.

Projected Economic Activity

Jobs Created

Created Construction Jobs due to Cushing Build In					
Position	Number	Work task duration	Base Salary	Fully burdened	Total salary
Supervisors	2	11	$77,000	$103,950	$190,575
Labor	35	11	$60,500	$81,675	$2,620,406
Total jobs	**37**				**$2,810,981**

Created Construction Jobs due to New Terminal						
	Position	Number	Work Task Duration	Base Salary	Fully Burdened	Total Salary for Task Duration
Terminal site proposal	Supervisors	3	8	$77,000	$103,950	$207,900
	Lobor	45	8	$60,500	$81,675	$2,450,250
	Total Jobs	48				$2,658,150
Terminal mechanical, etc	Supervisors	10	11	$100,000	$135,000	$1,237,500
	Lobor	110	11	$76,445	$103,201	$10,406,076
	Total Jobs	120				$11,643,576
Local Pipeline	Supervisors	1	4	$95,000	$128,250	$42,750
	Lobor	6	4	$75,000	$101,250	$202,500
	Total Jobs	7				$245,250
	Total jobs	175				**$14,546,976**

Created Jobs due to New Oil Terminal				
Position	Number	Base Salary	Fully burdened	Total salary
Terminal Manager	1	$90,000	$126,000	$126,000
Supervisors	4	$75,000	$105,000	$420,000
Specialists	15	$45,760	$64,064	$960,960
Operators	40	$35,360	$49,504	$1,980,160
Total jobs	**60**			**$3,487,120**

Jobs Created on the Sooner Sub				
Position	**Number**	**Base Hourly**	**Fully burdened**	**Total yearly**
Operations (Cushing)	6	$17.50	$28.75	$358,800
Operations (Terminal)	10	$17.50	$28.75	$598,000
Maintenance	2	$14.75	$24.75	$103,000
Total jobs	**18**			**$1,059,800**

Jobs Retained on the Sooner Sub				
Position	**Number**	**Base Hourly**	**Fully burdened**	**Total yearly**
Operations (T&E)	15	$17.52	$24.88	$776,256
Operations (Mgr)	2	$35.59	$50.54	$210,246
Locomotive (Mech)	1	$15.33	$21.77	$45,282
Locomotive (Mgr)	1	$26.01	$36.93	$76,814
Track (Labor)	2	$14.29	$20.29	$84,406
Track (Foreman)	1	$18.00	$25.56	$53,165
Track (Inspec)	1	$20.63	$29.29	$60,923
Track (Mgr)	1	$30.05	$42.67	$88,754
Railcar (Carmen)	4	$16.22	$23.03	$191,610
Railcar (Leadman)	1	$23.00	$32.66	$67,933
Total jobs	**29**			**$1,655,389**

Jobs Created due to Passenger (Phase I)					
Position	Crews per day	Team Members per crew	Trains per year	Fully burdened per crew	Total yearly
Train Crew	2	2	730	$600	$438,000
OBS	2	3	730	$675	$492,750
Total jobs					**$930,750**

Annual Tax Revenue

The additional tax revenue that would accrue to government agencies as a result of a sale of the Sooner Sub to SLWC has been estimated using information generated in the SLWC and IMPLAN analyses. Two sets of tax revenue figures have been provided:

1. SLWC Analysis of Oklahoma tax receipts: An estimate of additional taxes that the State of Oklahoma would receive as a direct result of increased railroad and Customer activities following the SLWC purchase. This information was developed by SLWC based upon incremental traffic that it expects to generate in the future as well as construction of new facilities. Additional taxes payable to the State of Oklahoma over the full 15-year forecast period – above base-case amounts - are expected to total $19,213,592. See Attachment 5 for a detailed breakdown by category and annual period.
2. IMPLAN Analysis to the State of Oklahoma and municipalities: An estimate of additional taxes paid to all government entities within the State of Oklahoma (State, County & Local level) as a result of all SLWC and Customer activities. This includes taxes that would result directly from SLWC and Customer activities (direct impacts) as well as taxes generated by indirect and induced economic activities (known as "multiplier impacts"). This analysis differs from the SLWC analysis in several ways, most notably that the IMPLAN model does not estimate property taxes. Differences are explained in detail in Attachment notes and text. This information was developed using an IMPLAN economic modeling program as described previously. The economic model estimates that additional taxes payable to all government agencies within the State of Oklahoma over the full 15-year forecast period will total approximately $16,046,000. See Attachment 5 for a detailed breakdown by category and annual period.

Economic, service and access impact

Projected Economic Impact

The State of Oklahoma RFP requests a projection of the annual **economic, service** and **access** impact of a transaction to the local energy, agricultural and construction industries and other applicable business sectors. The projected service and access impacts of a transaction with the SLWC are described in detail in the prior sections of the Business Plan, describing a range of benefits brought to the State such as a focus on quality of service, particularly to smaller and developing shippers, and benefits such as competitive access to multiple common carriers that will keep rail logistics costs favorable for Customers. In this section we focus specifically on the quantification of economic impacts of the proposed investments and operations resulting from the State choosing to proceed in a transaction with SLWC. This impact analysis was conducted at the level of the State of Oklahoma. For more information, the entire Economic Impact Assessment is provided as attachment 4.

Economic Impacts

The Oklahoma Department of Commerce will prepare an economic impact study based on data provided in each Proposer's Business Plan. Given the significant scale of the proposed transaction SLWC has elected to provide a formal economic impact analysis (EIA) quantifying key benefits to accrue to the State from a transaction with the SLWC. This analysis includes transaction-dependent investment and development activities by the SLWC and development partners.

SLWC does not expect this to replace the analysis to be performed by the Department of Commerce. Rather it is expected to serve as a complement that demonstrates clearly our methodology to arrive at input numbers, resulting from comparison of a base case (status quo) with the proposed SLWC transaction scenario. Use of the widely accepted IMPLAN software also ensures that the expected key inputs are provided that the Department will need to perform its own internal model-supported analysis.

Inputs

As described previously the modeling effort is based on inputs representing the net values, or the difference, between investment and expenditures in the base case scenario versus the SLWC transaction case scenario. These direct expenditures are as follows:

Net Expenditures, Initial Phase (2014-15)

Sooner Sub Asset Purchase or Lease	$ 75,000,000
Cushing Line Build-in and Terminal Investments	
Engineering and Design	$ 3,100,000
Construction	$ 156,250,000
Total	$ 234,350,000

Net Expenditures, Operations Phase (Through 2028)

Railroad Operations and Maintenance	$ 103,242,000
Customer (Shipper) Facilities O&M	$ 92,519,000
Total	$ 195,761,000

Grand Total of Expenditure Inputs ..... $ 430,112,000

Outputs

Based on the input data economic impacts are calculated to include taxes paid, economic activity impacts and employment as full-time equivalent job years.

Combined Initial Investment (2-year) Period		
Impact Variable	***Direct* Effect**	***Total* Effect**
Employment	1,100	2,030
Tax	$ 1,924,000	$ 7,458,000
Economic Value Added	$ 60,601,000	$ 133,594,000

O&M + Customers (Cumulative Total)		
Impact Variable	***Direct* Effect**	***Total* Effect**
Employment	700	1,590
Tax	$ 3,519,000	$ 8,588,000
Economic Value Added	$ 97,024,000	$ 165,783,000

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model.

Combined total effects, the impacts are impressive, summarized as follows:

Employment Impacts, Full-Time Equivalent Job-Years

Construction, Total Effect	2,030
Operations Period, Total Effect	1,590
Total	**3,620**

Tax Impacts (Millions of Dollars)

Construction, Total Value	$ 7.4
Operations Period, Total Value	$ 8.6
Total	**$ 16.0**

Economic Value Added

Construction, Total Value	$ 133.6
Operations Period, Total Value	$ 165.8

Total..... $ 298.4

Correspondingly the allocation of the projected total economic activity impacts by industry through 2028 are as follows.

Agricultural	Utilities	Mining	Construction	Other Industries	Total
$ 246,000	$ 3,124,000	$ 41,440,000	$ 60,202,000	$ 194,365,000	**$299,337,000**
0.1%	1.0%	13.8%	20.1%	64.9%	**100%**

This economic analysis does not include the value of the proposed passenger opportunity which has a base value of $167,785,497.

SLWC's Proposed Investment in Oklahoma

Total Proposed Investment in the State of Oklahoma		
Offer Price		$75,000,000
Energy Customer Infrastructure		$101,800,000
FRA Class III Upgrade		$2,350,000
Non Energy Customer Infrastructure		$1,854,000
Passenger Rail Implementation		$2,185,000
Capital and Maintenance over 10 years		$25,000,000
	Total	$208,189,000

FINAL AND BINDING OFFER

The undersigned proposer (the **Proposer**) hereby unconditionally and irrevocably offers to enter into the Sooner Sub Sale Agreement (the **Agreement**) in the form identified in the Request for Final and Binding Offers delivered to the Proposer to which this Final and Binding Offer responds, and on the following terms and conditions (capitalized terms used herein and not otherwise defined shall have the same meanings as assigned to such terms in the Agreement):

1. **Proposer**: The Buyer will be the Proposer identified below.

2. **Final Agreement**: There will be no changes or modifications of any kind made to the Agreement, except for any modifications by mutual agreement that will not result in a reduction of the offer price, reduce the additional capital improvements offered by the Proposer or otherwise adversely impact the State's rights under the Sale Agreement.

3. **Purchase Price**: The amount of the Purchase Price will be be (seventy-five million **US Dollars [in words]** (US$ 75,000,000 **[in numbers]**), payable as set forth in the Agreement.

4. **Additional commitments:** This offer also includes the commitments set forth in the Business Plan and Projected Economic Activity appendix being submitted by Proposer together with this Form of Offer. Such commitments will be reflected in the final Agreement.

5. **Unconditional Offer**: This offer will be unconditional and irrevocable until 5:00 p.m. EST on May 6 2014, unless extended by mutual consent of both the State and the Proposer (the **Termination Time**). If the State does not give written notice to the Proposer on or prior to the Termination Time that the State is prepared to enter into the Agreement, this offer shall terminate at the Termination Time.

6. **Agreement Execution**: If at any time prior to the Termination Time the Authority gives written notice to the Proposer, at the address specified below, that the Authority is prepared to enter into the Agreement with the Proposer, the Proposer will, within ten (10) Business Days of its receipt of such notice begin working with the State to finalize the Agreement and the exhibits thereto, and deliver to the Authority the Cash Deposit and/or the Letter of Credit as set forth in paragraph 7 below.

7. **Deposit / Letter of Credit**: Within ten (10) Business Days after selection of this Offer by the State, Proposer shall provide either a cash deposit that can be applied to the Purchase Price at Closing, or provide a letter of credit in the amount of Two Million US Dollars (US $2,000,000). Such amount will be retained by the State if Proposer fails to close under the Agreement, unless the failure to close is the result of fault or failure of the State, the failure to obtain necessary governmental approvals, or otherwise as set forth in the Agreement.

8. **Proposer Authorization**: The Proposer represents and warrants further that (i) it has full power and authority to make this offer and it will have full power and authority to execute and deliver the Agreement pursuant to the terms thereof, (ii) such actions do not and will not violate the terms of any of the Proposer's organizational documents or any agreement binding upon it or the terms of any applicable Law, (iii) no further consent to this offer or to the execution of the Agreement

pursuant to the terms hereof is required to be obtained from any other Person or Governmental Authority, and (iv) this offer constitutes, and the Agreement, if executed pursuant to the terms hereof, will constitute duly authorized, valid and legally binding obligations of the Proposer, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, reorganization, insolvency, moratorium, fraudulent conveyance or transfers, or other laws affecting creditor's rights generally and subject to general principles of equity (regardless of whether in law or in equity).

NAME OF PROPOSER: Stillwater Central Railroad, L.L.C

By: R. B. Webb

Name: Richard B. Webb

Title: Chief Executive Officer

PROPOSER CONTACT

Name: Richard B. Webb

Title: Chief Executive Officer

Address: 315 W. 3rd Street, Pittsburg, KS 66762

Telephone (office): 620-231-2230

Telephone (cell): 620-249-6300

Email: rwebb@watcocompanies.com

IMPORTANT: For all signatories for the Proposer, please include (with the Form of Offer) evidence of the signatory's authority to sign on behalf of the Proposer.

SECRETARY'S CERTIFICATE

The undersigned, being the duly elected Secretary of Stillwater Central Railroad, L.L.C., an Oklahoma limited liability company (the "Company"), hereby certifies to the State of Oklahoma acting through its administrative agency, the Oklahoma Department of Transportation, pursuant to the Final and Binding Offer dated as of April 21, 2014 ("Offer"), and any person issuing a legal opinion in connection therewith, or party to any other documents required to be executed in connection therewith on behalf of the Company, that the following individuals are qualified and acting officers of the Company, have the requisite authority to execute the Offer, and hold as of the date hereof, the offices set forth in the right column opposite their respective names, and the signature appearing in the extreme right column opposite the name of each such officer is a true specimen of the genuine signature of such person:

Name	Title	Signature
Richard B. Webb	Chief Executive Officer	R. B. Webb
Craig R. Richey	Executive Vice-President General Counsel, Secretary	

WITNESS my hand this 21st day of April, 2014.

Craig R. Richey - Secretary

Dated: April 21, 2014

I, Rick D. Baden, President of Stillwater Central Railroad, L.L.C., do hereby certify that Craig R. Richey is duly elected and qualified as Secretary of Stillwater Central Railroad, L.L.C., as of the date hereof, and that the signature set forth above is such officer's genuine signature.

Rick D. Baden - President

Oklahoma Sooner Subdivision Rail – Economic Impact Assessment

Technical Memorandum

Prepared for: Seneca Group, LLC

Prepared by: CDM Smith, Inc.

January 2014

Table of Contents

1. Introduction

Presented herein are the projected economic impacts resulting from the proposed initial construction/capital investment activity, as well as the subsequently-recurring operating and maintenance (O&M) expenditures related to the proposed ownership sale/transfer of the Oklahoma Sooner Subdivision Railroad (OSSR), a rail line located between Oklahoma City and Tulsa. Economic impacts are presented for the Study Area[1] by impact variable and type, and between the initial investment and operating periods[2].

Capital infrastructure expenditures on transportation projects, such as for the proposed OSSR-related sale and improvements, support the creation of new (and retention of existing) jobs and contribute to economic activity within the impacted Study Area. Such infrastructure spending leads to direct construction-related jobs and, through economic interdependencies of various industries within the Study Area, the OSSR expenditures yield indirect jobs related to the suppliers of construction materials, equipment, and related services. In turn, these direct and indirect jobs, and associated earned income, support additional jobs (induced impacts), all of which in combination generate a boost to the State economy.

Similarly to the initial construction expenditures, O&M and customers' expenditures spread throughout the regional economy because of the economic interdependencies of those industries with others, and lead to total (including multiplier) impacts.

Based on estimated period-total construction- and operations-related expenditures, the incremental (i.e., relative to the No-Build/Status Quo scenario) total economic impacts, as measured in terms of employment, taxes, and value-added economic activity are derived through application of the economic impact assessment modeling program: IMPLAN® Professional 3.1.

[1] The State of Oklahoma
[2] All dollar amounts presented herein (both inputs and results) are expressed in constant 2013 dollars.

2. Methodology

Provided with inputs for projected OSSR initial and operating phases expenditures over the project time horizon[3], by expenditure type/category, resulting economic impacts are calculated utilizing the social accounting and impact analysis computer software, developed by the Minnesota IMPLAN Group, Inc.; the IMPLAN Professional 3.1 model (IMPLAN®) – a summary model description is provided in the subsection 2.2 below.

2.1. Expenditure Inputs

Economic impact results are a function of the magnitude of expenditure inputs – Construction and O&M costs, and additional customer facilities. Expenditure projections were provided as modeling inputs by the Study Team Engineers (see **Exhibit 1**)[4]. Following the purchase bid, the initial construction period consists of engineering design, right-of-way (RoW) acquisition, and construction totaling about $244 million (in 2013 dollars); with an assumed duration of around two-years, i.e.; from 2014 through 2015[5].

Some incremental ramp-up O&M expenditures are assumed to begin in the first year, with more significant increases following the construction completion, from 2016 onwards (see **Exhibit 1**), totaling about $103 million cumulatively through 2028, with additional $93 million spent on related customer facilities, for the operating period total of almost $196 million.

[3] The 15-year time horizon extends from 2014 through 2028.

[4] Source: Seneca Group, LLC.

[5] Initial investment expenditures applied include only a fraction of the total RoW purchase, reflective of the direct real estate transaction costs, e.g., legal fees, surveys, and appraisals, etc. Remaining dollar amount reflects only the value of the asset transfer and, resultantly, does not spur additional economic activity/employment by itself and thus, has no measureable economic impact. Similarly, the purchase bid itself amounts largely to an ownership transfer with only a small fraction (e.g., related to transaction/legal costs) resulting in additional economic activity/employment.

Exhibit 1: Expenditure Inputs by Category

Initial (2-year) Investment Phase					Operations (15-year) Phase		
Purchase Bid	RoW Purchase	Engineering/ Design	Construction	Initial TOTAL	O&M	Customer Facilities	Operations TOTAL
$75,000,000	$10,000,000	$3,100,000	$156,250,000	$244,350,000	$103,242,434	$ 92,519,388	$ 195,761,822

Source: Seneca Group, LLC.

Dollar values are in 2013 dollars, rounded to the nearest thousand dollars.

2.2. IMPLAN® Model Description

IMPLAN® Professional 3.1 is an economic modeling, input-output based, social account matrix software with the capability of estimating the economic impacts to a defined geography ensuing from expenditures in an industry or group of industries (or, commodity, or group of commodities). A social account matrix reflects the economic interrelationships between the various industries, households, and governments in an economy and reflects such interdependency through impact multipliers. Impact multipliers are internally developed within IMPLAN®, derived from the local purchase percentages, production functions, and socioeconomic data for the defined economy, for each of the economic impact measures and are geographically-specific.

IMPLAN® is a static model, with the economic impacts estimated only for a specific time period. It is incapable of estimating economic impacts beyond the duration of the (construction and operations) expenditure intervals. Additionally, as a static "snapshot" social accounting software, the model does not encapsulate dynamic feedbacks that may have additional iterative ripple effects beyond the statically-derived input-output based results. An underlying assumption of the model is that the economic impacts will occur only in the period in which the expenditures occur and would not carry over into subsequent years, which could occur in certain instances.

2.3. Terms and Definitions

Economic impacts calculated within IMPLAN® include employment, taxes, and economic activity impacts. All dollar-value economic impacts (i.e., economic activity/value-added and taxes) presented in the Exhibits below, are shown in constant year 2013 dollars.

Expenditures inputs are run through the internal social account matrix with the internally applied regional purchase coefficients (LPP)[6]. Industry-specific expenditures (model inputs), in whole or part, depending on LPP, are applied within the Study Area and are then circulated throughout based on industry interdependencies. Spending and the circulation of such expenditures result in *direct*, *indirect*, and *induced* economic impacts in terms of the following indicators: employment, taxes, and economic activity, which are defined below.

- ***Employment*** refers to the number of job-years created[7].
- ***Economic Activity/Value-Added*** is the net dollar value of the supplementary contribution to the intermediate production inputs of the final goods and services produced within the Study Area. In macroeconomics, value-added refers to the contribution of the factors of production, i.e., labor, and capital goods, to raising the value of a product. Value-added can be thought of as a measure comparable to the Gross Regional Product[8].
- ***Tax*** impact values show the amount of revenue generated for (state and municipal) governments from employee compensation, proprietor income, tax on production and imports, households, and corporations based on the modeled impact.

Direct impacts are impacts that affect only the specific industry in which expenditures are spent or job-years generated, e.g., the direct impacts resulting from construction

[6] Local purchase percentage (LPP) are percentages of how much an industry-specific expenditure is spent within a defined impact area, based on the geographically-constrained ability of the industry to supply the expenditure demand. A 100 percent LPP indicates that the entirety of the industry expenditure will remain within the analysis -defined impact area, while an LPP below 100 percent indicates that there are expenditure leakages from the defined impact area; that is, there is a portion of the expenditures that is exported to purchase goods and services from outside the impact region.

[7] Employment impacts are in *job-years*, and the cumulative total employment impact over the analysis period does not necessarily reflect the total number of employed *persons*. Because IMPLAN® is static, the impacts are a snapshot in time (i.e., one year snapshots) and thus, the model cannot identify which precise employment impacts carry from one year to the next. Consequently, the periodical employment impacts, measured in *job-years*, may be accounting for the same employed person over multiple years, or alternatively, the same job with personnel turnover.

[8] Gross Regional Product is a measure of economic activity that captures the dollar value of all goods and services produced in a local/regional economy. It is a local-level equivalent of the commonly-referred-to Gross Domestic Product (GDP) measure for national-level economic activity, or the Gross State Product (GSP) at the state level.

expenditures occur only within the construction industry. ***Indirect and induced impacts*** conjointly are commonly referred to as ***multiplier*** impacts, and occur in all other applicable industries within the defined impact area (via industry interdependencies). Purchases of goods and services by the construction industry from other industries and the purchases by those industries, in turn, of goods and services from other industries create the *indirect* impacts. *Induced* impacts are the result of the purchases by employees and proprietors with earned labor income received from the directly and indirectly impacted industries. ***Total*** economic impacts are the aggregated direct, indirect, and induced impacts.

3. Impacts Findings

IMPLAN® provides employment, taxes, and economic activity/value-added impacts resulting from the construction and operations investments. Such impacts are only expenditures-based (e.g., design/engineering, construction, and O&M), and do not include other impact types such as those related to travel efficiency savings or dynamic production effects related to the OSSR that would also be reasonably expected to occur for this type of transportation development.

Presented below are the expenditures-related impacts across multiple dimensions, which include impacts by expenditure type (i.e., engineering/construction/ROW during the initial investment period vs. O&M and customers), impact variable (i.e., job-years, taxes, and economic activity), and impact type (i.e., *direct*, and *total*), to Oklahoma. Impacts are separately shown as cumulative totals for the durations: the initial two-year investment period and the 15-year operating period, and are incremental (i.e., relative to the No-Build/Status Quo scenario).

3.1. Construction–Related Impacts

As presented in **Exhibit 2**, the projected expenditures on the initial OSSR investment (i.e., legal fees associated with the sale, engineering, applicable property transfer/ROW, and construction) is expected to yield a cumulative two-year period incremental impact of around 1,100 *direct* job-years, with the corresponding cumulative period *total* job-years impacts (i.e., with multiplier effects) in Oklahoma projected at around 2,030.

Tax impacts associated with the proposed expenditures are projected to be $1.9 million in *direct* terms, and $7.5 million in *total* impact.

Incremental economic activity linked to the construction expenditures are expected to amount to close to $61 million in *direct,* as measured in value-added/gross regional product, and around $134 million in *total* incremental value-added cumulatively over the entire construction period (see **Exhibit 2**).

Exhibit 2: *Construction*-Related Economic Impacts

Combined Initial Investment (2-year) Period		
Impact Variable	***Direct* Effect**	***Total* Effect**
Employment	1,100	2,030
Tax	$ 1,924,000	$ 7,458,000
Economic Value Added	$ 60,601,000	$ 133,594,000

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model.
Employment is measured in job-years, rounded to the nearest ten job-years. Monetary values are presented in 2013 dollars, rounded to the nearest thousand dollars.

3.2. Operations-Related Impacts

O&M expenditures are projected to partially commence during and also following the end of the construction period, and occur sustainably throughout the multi-year operations timeframe.

The cumulative operations-related economic impacts to Oklahoma are summarized in **Exhibit 3**. It is projected that the incremental cumulative employment to be generated in Oklahoma during operations will be around 700 *direct* job-years, with the corresponding *total* job-years at around 1,600. The tax impact is expected to be around $3.5 million from *direct* impacts, and $8.6 million in *total* terms. Economic value added from operations is forecasted to increase by $97 million in *direct* terms, and nearly $166 million in *total* to the Oklahoma economy.

Exhibit 3: *Operations*-Related Economic Impacts

O&M + Customers (Cumulative Total)		
Impact Variable	***Direct* Effect**	***Total* Effect**
Employment	700	1,590
Tax	$ 3,519,000	$ 8,588,000
Economic Value Added	$ 97,024,000	$ 165,783,000

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model. Employment is measured in job-years, rounded to the nearest ten job-years. Monetary values are presented in 2013 dollars, rounded to the nearest thousand dollars.

3.3. Annual Distribution of Impacts

In this subsection, the OSSR expenditures-related economic impacts projections are presented on an annual basis, derived based-on the annual allocation for the different categories of expenditures[9]. **Exhibit 4** below shows the projections of annual *total* impacts in terms of the employment, taxes, and economic value added variables. The increase in employment is expected to be about 120 *total* jobs sustained over the operations period from 2016 onwards, following the generation of about 170 *total* jobs in year 2014 and about 1,910 in year 2015 during which the bulk of the construction is envisioned to occur, with the cumulative total of about 3,620 job-years. Similar temporal distribution patterns are expected for impacts expressed in terms of taxes, and overall economic activity. Specifically, with the exception of the construction-heavy year 2015, during which incremental state and local taxes may amount to $7.1 million, annual taxes are projected to range between about $630 thousand and $674 thousand. Additional economic value added to Oklahoma is forecasted to be as much as $127 million in the peak year of construction, 2015, but is otherwise projected to range between $12.1 million and $12.6 million per year during the operations phase of the investment, for the cumulative total of close to $300 million (see **Exhibit 4**).

[9] Source: Seneca Group, LLC.

Exhibit 4: Annual Distribution of Economic Impacts, *Total* Effect

Year	Impact Variable		
	Employment	Taxes	Economic Value Added
2014	170	$ 674,000	$ 12,457,000
2015	1,910	$ 7,098,000	$ 127,167,000
2016	120	$ 632,000	$ 12,176,000
2017	120	$ 630,000	$ 12,146,000
2018	120	$ 631,000	$ 12,156,000
2019	120	$ 631,000	$ 12,151,000
2020	120	$ 630,000	$ 12,138,000
2021	120	$ 631,000	$ 12,150,000
2022	120	$ 634,000	$ 12,220,000
2023	120	$ 637,000	$ 12,292,000
2024	120	$ 638,000	$ 12,320,000
2025	120	$ 639,000	$ 12,357,000
2026	120	$ 643,000	$ 12,450,000
2027	120	$ 648,000	$ 12,559,000
2028	120	$ 652,000	$ 12,637,000
Cumulative Total*	**3,620**	**$ 16,046,000**	**$ 299,377,000**

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model. Employment is measured in job-years, rounded to the nearest ten job-years. Monetary values are presented in 2013 dollars, rounded to the nearest thousand dollars. *Cumulative totals may not exactly add up due to rounding.

3.4. Industry Impacts

In addition to the impact projections to Oklahoma, as presented in the preceding sections, select (i.e., construction, agricultural, and energy industries, with the latter consisting of mining and utilities) are also presented. **Exhibit 5** and **Exhibit 6** show the annual and cumulative *total* impacts in employment and economic value-added terms for each these selected industries, respectively.

Investment expenditures on the OSSR are expected to yield about 1,120 *total* construction industry job-years in Oklahoma over the 15-year analysis timeframe with close to 90 percent of that total occurring during the construction-heavy year 2015. The period cumulative *total* employment impact in the agricultural industries is forecast to fall under 10 job-years. The Oklahoma energy industries, comprised of mining and utilities, are expected to generate about 40 additional *total* jobs annually, mostly in mining,

amounting to the cumulative total of about 540 job-years over the 15-year timeframe (see **Exhibit 5**).

Exhibit 5: Annual Distribution of *Employment* Impacts by Industry, *Total* Effect

Year	Industry					
	Construction	Agricultural	Mining	Utilities	Other Industries	All Industries
2014	50	0	0	0	120	170
2015	1,000	0	30	0	880	1,910
2016	10	0	40	0	70	120
2017	10	0	40	0	70	120
2018	10	0	40	0	70	120
2019	10	0	40	0	70	120
2020	10	0	40	0	70	120
2021	10	0	40	0	70	120
2022	10	0	40	0	70	120
2023	10	0	40	0	70	120
2024	10	0	40	0	70	120
2025	10	0	40	0	70	120
2026	10	0	40	0	70	120
2027	10	0	40	0	70	120
2028	10	0	40	0	70	120
Cumulative Total*	**1,120**	**10**	**530**	**10**	**1,950**	**3,620**

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model.
Employment is measured in job-years, rounded to the nearest ten job-years. Fractional employment is not shown.
*Cumulative totals may not exactly add up due to rounding.

In terms of economic activity/value added, the proposed OSSR expenditures are forecast to boost Oklahoma construction industry by about $60 million over the 15 years, with the great majority of that total occurring in year 2015. The agricultural industries will likely generate only about $246 thousand in additional economic activity; while the incremental economic value added for Oklahoma utilities is forecasted to increase $3.1 million, and the corresponding increase for Statewide mining is expected to be about $41.4 million (see **Exhibit 6**).

Exhibit 6: Annual Distribution of *Economic Activity* Impacts by Industry, *Total* Effect

Year	Industry					
	Construction	Agricultural	Mining	Utilities	Other Industries	All Industries
2014	$ 2,676,000	$ 10,000	$ 91,000	$ 123,000	9,557,000	$ 12,457,000
2015	$ 53,754,000	$ 119,000	$ 3,068,000	$ 1,525,000	68,701,000	$ 127,167,000
2016	$ 286,000	$ 9,000	$ 2,944,000	$ 113,000	8,824,000	$ 12,176,000
2017	$ 285,000	$ 9,000	$ 2,944,000	$ 113,000	8,795,000	$ 12,146,000
2018	$ 285,000	$ 9,000	$ 2,944,000	$ 113,000	8,805,000	$ 12,156,000
2019	$ 285,000	$ 9,000	$ 2,944,000	$ 113,000	8,800,000	$ 12,151,000
2020	$ 285,000	$ 9,000	$ 2,944,000	$ 113,000	8,787,000	$ 12,138,000
2021	$ 285,000	$ 9,000	$ 2,944,000	$ 113,000	8,799,000	$ 12,150,000
2022	$ 288,000	$ 9,000	$ 2,944,000	$ 113,000	8,866,000	$ 12,220,000
2023	$ 290,000	$ 9,000	$ 2,945,000	$ 113,000	8,935,000	$ 12,292,000
2024	$ 291,000	$ 9,000	$ 2,945,000	$ 114,000	8,961,000	$ 12,320,000
2025	$ 293,000	$ 9,000	$ 2,945,000	$ 114,000	8,996,000	$ 12,357,000
2026	$ 296,000	$ 9,000	$ 2,946,000	$ 114,000	9,085,000	$ 12,450,000
2027	$ 300,000	$ 9,000	$ 2,946,000	$ 115,000	9,189,000	$ 12,559,000
2028	$ 302,000	$ 9,000	$ 2,947,000	$ 115,000	9,264,000	$ 12,637,000
Cumulative Total*	**$ 60,202,000**	**$ 246,000**	**$ 41,440,000**	**$ 3,124,000**	**194,365,000**	**$ 299,377,000**

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model.
Monetary values are presented in 2013 dollars, rounded to the nearest thousand dollars. *Cumulative totals may not exactly add up due to rounding.

4. Conclusion

In summary, the construction- and operations-related expenditures for the proposed Oklahoma Sooner Subdivision Railroad Sale Project will impact employment and overall economic activity in Oklahoma. The forecasted *cumulative* initial two-year construction period *total* employment impacts are about 2,030 job-years (Oklahoma Statewide). Tax impacts are expected to be about $7.5 million, with overall incremental economic activity impacts measuring about $134 million.

Operating (O&M and customer facilities combined) period expenditures are forecast to bring about additional *total* employment of 1,590 job-years cumulatively. Tax impacts tied to the incremental operating-period expenditures are projected to increase by about $8.6 million, while the economic value added is forecast to increase by about $166 million over the 15-year period.

The combined impacts related to expenditures during both the initial and operating phases of the OSSR investment can be expected to yield about additional 3,620 job-years, $16 million in taxes, and close to $300 million in economic activity in Oklahoma (see **Exhibit 7**) from 2014 through 2028.

Exhibit 7: Summary Total Impacts by Period and Impact Variable

Impact Variable	Initial Investment (2-year) Period	Operating (15-year) Period	Combined Initial and Operating Phases
Employment	2,030	1,590	3,620
Tax	$ 7,458,000	$ 8,588,000	16,046,000
Economic Value Added	$ 133,594,000	$ 165,783,000	299,377,000

Source: CDM Smith's application of the Minnesota IMPLAN Group, Inc. IMPLAN Pro 3.1 model.
Employment is measured in job-years, rounded to the nearest ten job-years. Monetary values are presented in 2013 dollars, rounded to the nearest thousand dollars.

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Summary of taxes		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Assets	State	210,855	3,652,894														3,863,749
	Subdivision	104,479	940,312														1,044,792
	Total	315,334	4,593,206														4,908,541
Operations	State	6,871	240,725	500,705	499,240	499,754	499,509	498,899	499,489	503,038	506,615	508,071	509,949	514,595	520,056	523,987	6,831,502
	Subdivision	6,130	114,798	246,200	244,953	245,430	245,250	244,752	245,299	248,425	251,576	252,883	254,558	258,645	263,443	266,911	3,389,253
	Total	13,001	355,522	746,905	744,193	745,184	744,759	743,651	744,788	751,462	758,191	760,954	764,507	773,240	783,499	790,898	10,220,755
Real estate-annual average (paid in arrears)																	
	Subdivision		72,379	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	308,609	4,084,296
Total taxes																	
	State	217,727	3,893,618	500,705	499,240	499,754	499,509	498,899	499,489	503,038	506,615	508,071	509,949	514,595	520,056	523,987	10,695,251
	Subdivision	110,609	1,127,489	554,809	553,562	554,040	553,859	553,361	553,908	557,034	560,185	561,492	563,167	567,254	572,052	575,520	8,518,341
	Total	328,336	5,021,107	1,055,514	1,052,802	1,053,793	1,053,368	1,052,260	1,053,397	1,060,071	1,066,800	1,069,563	1,073,116	1,081,849	1,092,108	1,099,507	19,213,592

Incremental Spending - Sooner Sub Traffic-TAXES
January 22, 2014

Category	Note	Forecast 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Locomotive Fuel																
Oil Trains - SLWC Operation	1	$ 2,841	$ 97,818	$ 209,938	$ 208,653	$ 208,653	$ 208,139	$ 207,369	$ 207,369	$ 209,295	$ 211,222	$ 211,736	$ 212,507	$ 215,076	$ 218,159	$ 220,214
Oil Trains - Class 1 Railroad Operation	2	$ 4,794	$ 128,105	$ 280,342	$ 278,174	$ 278,174	$ 277,307	$ 276,007	$ 276,007	$ 279,258	$ 282,509	$ 283,376	$ 284,677	$ 289,012	$ 294,214	$ 297,682
Manifest Trains - SLWC Operation	3	$ 4,789	$ 5,628	$ 6,507	$ 7,428	$ 8,394	$ 9,405	$ 10,464	$ 11,572	$ 12,731	$ 13,943	$ 15,210	$ 16,534	$ 17,917	$ 19,362	$ 20,871
Total Cost - Locomotive Fuel		**$ 12,424**	**$ 231,551**	**$ 496,787**	**$ 494,256**	**$ 495,222**	**$ 494,852**	**$ 493,839**	**$ 494,947**	**$ 501,284**	**$ 507,675**	**$ 510,322**	**$ 513,718**	**$ 522,006**	**$ 531,735**	**$ 538,768**
Direct Labor - Train Service																
Road Crews - SLWC	4	$ 111	$ 2,493	$ 5,546	$ 5,495	$ 5,495	$ 5,475	$ 5,445	$ 5,445	$ 5,521	$ 5,596	$ 5,616	$ 5,646	$ 5,747	$ 5,868	$ 5,948
Road Crews - Connecting Railroads	5	$ 155	$ 3,462	$ 7,702	$ 7,632	$ 7,632	$ 7,605	$ 7,563	$ 7,563	$ 7,667	$ 7,772	$ 7,800	$ 7,842	$ 7,982	$ 8,150	$ 8,262
Cushing Terminal Switcher	6	$ -	$ 4,502	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003
Stroud 2 Terminal Switcher	7	$ -	$ 4,502	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003	$ 9,003
Total Cost - Train Service Labor		**$ 266**	**$ 14,958**	**$ 31,255**	**$ 31,135**	**$ 31,135**	**$ 31,087**	**$ 31,015**	**$ 31,015**	**$ 31,195**	**$ 31,375**	**$ 31,423**	**$ 31,495**	**$ 31,736**	**$ 32,024**	**$ 32,217**
Crew Van Services	8	**$ 28**	**$ 623**	**$ 1,386**	**$ 1,373**	**$ 1,373**	**$ 1,368**	**$ 1,361**	**$ 1,361**	**$ 1,380**	**$ 1,399**	**$ 1,404**	**$ 1,411**	**$ 1,436**	**$ 1,467**	**$ 1,487**
Track Maintenance																
Maintenance - Labor Cost	9	$ -	$ 3,057	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118	$ 6,118
Capital Inv. - Labor Cost	10	$ -	$ 224	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452	$ 452
Maintenance - Cost of Materials	11	$ -	$ 1,378	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759	$ 2,759
Capital Inv. - Cost of Materials	12	$ -	$ 551	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110	$ 1,110
Total Spending - Track		**$ -**	**$ 5,210**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**	**$ 10,439**
Car Maintenance																
Materials	13	$ 165	$ 2,481	$ 5,390	$ 5,359	$ 5,372	$ 5,369	$ 5,357	$ 5,372	$ 5,455	$ 5,538	$ 5,574	$ 5,619	$ 5,727	$ 5,854	$ 5,946
Labor	14	$ 39	$ 589	$ 1,281	$ 1,273	$ 1,276	$ 1,276	$ 1,273	$ 1,276	$ 1,296	$ 1,316	$ 1,324	$ 1,335	$ 1,361	$ 1,391	$ 1,413
Total Spending - Car Maintenance		**$ 204**	**$ 3,070**	**$ 6,671**	**$ 6,632**	**$ 6,649**	**$ 6,644**	**$ 6,629**	**$ 6,648**	**$ 6,751**	**$ 6,854**	**$ 6,898**	**$ 6,954**	**$ 7,088**	**$ 7,244**	**$ 7,358**
Locomotive Maintenance																
Materials	15	$ 32	$ 388	$ 835	$ 832	$ 835	$ 836	$ 836	$ 840	$ 854	$ 868	$ 876	$ 884	$ 903	$ 924	$ 941
Labor	16	$ 48	$ 577	$ 1,241	$ 1,236	$ 1,241	$ 1,243	$ 1,242	$ 1,248	$ 1,269	$ 1,291	$ 1,302	$ 1,315	$ 1,342	$ 1,374	$ 1,398
Total Spending - Locom. Maintenance		**$ 80**	**$ 965**	**$ 2,077**	**$ 2,068**	**$ 2,076**	**$ 2,078**	**$ 2,078**	**$ 2,087**	**$ 2,123**	**$ 2,159**	**$ 2,177**	**$ 2,199**	**$ 2,245**	**$ 2,298**	**$ 2,339**
Direct Labor - Customer Facilities																
Cushing Terminal	17	$ -	$ 49,573	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145
Stroud 2 Terminal	18	$ -	$ 49,573	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145	$ 99,145
Total Direct Labor - Customer Facilities		**$ -**	**$ 99,145**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**	**$ 198,290**
Grand total		$ 13,001	$ 355,522	$ 746,905	$ 744,193	$ 745,184	$ 744,759	$ 743,651	$ 744,788	$ 751,462	$ 758,191	$ 760,954	$ 764,507	$ 773,240	$ 783,499	$ 790,898

Summary for operations

		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sales tax	Split	$ 12,424	$ 231,551	$ 496,787	$ 494,256	$ 495,222	$ 494,852	$ 493,839	$ 494,947	$ 501,284	$ 507,675	$ 510,322	$ 513,718	$ 522,006	$ 531,735	$ 538,768
Payroll tax	State	$ 353	$ 19,406	$ 40,347	$ 40,214	$ 40,222	$ 40,175	$ 40,099	$ 40,109	$ 40,330	$ 40,552	$ 40,619	$ 40,715	$ 41,009	$ 41,359	$ 41,598
Payroll tax	State	$ -	$ 99,145	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290	$ 198,290
Sales tax	Spilt	$ 197	$ 4,798	$ 10,095	$ 10,060	$ 10,077	$ 10,074	$ 10,061	$ 10,081	$ 10,178	$ 10,276	$ 10,319	$ 10,372	$ 10,499	$ 10,647	$ 10,756
Income and payroll tax	State	$ 28	$ 623	$ 1,386	$ 1,373	$ 1,373	$ 1,368	$ 1,361	$ 1,361	$ 1,380	$ 1,399	$ 1,404	$ 1,411	$ 1,436	$ 1,467	$ 1,487
		$ 13,001	$ 355,522	$ 746,905	$ 744,193	$ 745,184	$ 744,759	$ 743,651	$ 744,788	$ 751,462	$ 758,191	$ 760,954	$ 764,507	$ 773,240	$ 783,499	$ 790,898

Taxes by jurisdiction

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
State	6,871	240,725	500,705	499,240	499,754	499,509	498,899	499,489	503,038	506,615	508,071	509,949	514,595	520,056	523,987
Subdivision	6,130	114,798	246,200	244,953	245,430	245,250	244,752	245,299	248,425	251,576	252,883	254,558	258,645	263,443	266,911
Total	13,001	355,522	746,905	744,193	745,184	744,759	743,651	744,788	751,462	758,191	760,954	764,507	773,240	783,499	790,898

All figures shown are in constant base-year 2013 U.S. dollars.
Figures shown above were calculated based upon a comparison of traffic forecasts - they represent the *difference* between spending levels expected in the "WATCO Traffic Forecast" and those in the "Base-Case" forecast.
Figures are *incremental amounts above* spending that would occur in the base-case scenario each year.

Tax estimate based upon:
1. The cost each year to purchase fuel used to transport the additional oil traffic moving on SLWC; oil train gross ton-miles x SLWC fuel consumption rate x average fuel cost per gallon.
2. The cost each year to purchase fuel used to transport the additional oil traffic moving on Class 1 railroads in Oklahoma; oil train gross ton-miles on class 1 railroads in OK x average class 1 RR fuel consumption rate x average class 1 RR fuel cost per gallon.
3. For all other traffic moving on SLWC, the additional cost of fuel purchased each year; manifest train gross ton-miles x SLWC fuel consumption rate x average fuel cost per gallon.
4. The additional compensation earned by train service employees handling increased oil traffic on SLWC; additional trains/year x average employee hours/train x employees/train x SLWC hourly base pay + benefits costs.
5. The additional compensation earned by train service employees handling increased oil traffic on class 1 railroads in Oklahoma; additional trains/year x average employee hours/train x employees/train x class 1 hourly base pay + benefits costs.
6. Compensation earned by SLWC train service employees switching the Cushing Oil Terminal each year: additional switch jobs working/year x employees per job x average hours/employee x SLWC hourly base pay + benefits costs.
7. Compensation earned by SLWC train service employees switching the Stroud 2 Oil Terminal each year: additional switch jobs working/year x employees per job x average hours/employee x SLWC hourly base pay + benefits costs.
8. Additional amount paid each year for contracted crew van services, transporting employees between home terminal and work locations; additional trains operated/year x cost/trip for crew van service.
9. Incremental labor cost (gross compensation amount) for track maintenance work expected each year along SLWC mainline, Cushing Branch and in oil terminal trackage. Labor cost estimated at 70% of total maintenance spending.
10. Incremental labor cost (gross compensation amount) for track-related capital projects expected each year along SLWC mainline, Cushing Branch and in oil terminal trackage. Labor cost estimated at 30% of total capital project spend.
11. Expected incremental cost of materials to be used on track maintenance projects each year along SLWC mainline, Cushing Branch and in oil terminal trackage. Cost of materials estimated to be 30% of total maintenance spending.
12. Expected incremental cost of materials to be used on track-related capital projects each year along SLWC mainline, Cushing Branch and in oil terminal trackage. Cost of materials estimated to be 70% of total capital project spend.
13. Expected incremental cost of materials used to maintain rail cars due to extra mileage from increased shipping activity; material costs estimated at 80% of total car maintenance spending.
14. Expected incremental cost of labor devoted to rail car maintenance due to extra mileage from increased shipping activity; labor costs estimated at 20% of total car maintenance spending.
15. Expected incremental cost of materials used to maintain locomotives due to extra mileage from increased shipping activity; material costs estimated at 39% of total locomotive maintenance spending.
16. Expected incremental cost of labor devoted to locomotive maintenance due to extra mileage from increased shipping activity; labor costs estimated at 61% of total locomotive maintenance spending.
17. Incremental employee compensation anticipated annually at Cushing Terminal based upon: 1 manager, 4 shift supervisors, 16 specialized workers and 39 operators/laborers. Number of employees consistent with employment at similar rail facilities.
18. Same as 17, but applicable to Stroud 2 Terminal to be constructed west of Stroud, OK.

Property, Facilities & Infrastructure-Taxes

January 22, 2014

Asset or Project	Purchase of Property	Design & Engineering	Purchase of Materials	Direct Labor	Total Cost
Sooner Subdivision	*$ 18,750*	*$ -*	*$ -*	*$ -*	***$ 18,750***
Cushing Branch	*$ 7,500*	*$ 19,092*	*$ 408,333*	*$ 477,292*	**$ 912,217**
Cushing Terminal	*$ 4,500*	*$ 31,819*	*$ 583,333*	*$ 827,307*	**$ 1,446,960**
Stroud 2 Terminal	*$ 3,000*	*$ 31,819*	*$ 802,083*	*$ 938,675*	**$ 1,775,578**
Mainline Track Capacity	*$ -*	*$ 15,910*	*$ 357,292*	*$ 381,834*	**$ 755,035**
Total Cost	$ 33,750	$ 98,640	$ 2,151,041	$ 2,625,109	**$ 4,908,541**
Outlay in 2014:	$ 26,250	$ 73,980	$ 215,104	$ -	$ 315,334
in 2015:	$ 7,500	$ 24,660	$ 1,935,937	$ 2,625,109	$ 4,593,206
Grand total	$ 33,750	$ 98,640	$ 2,151,041	$ 2,625,109	$ 4,908,541

Summary total for assets		**2014**	**2015**	**Total**
Outside services (income/payroll tax)	State	$ 73,980	$ 2,649,769	$ 2,723,749
Conveyance tax (general revenue fund)	State	$ 26,250	$ 7,500	$ 33,750
Sales tax	Spilt	$ 215,104	$ 1,935,937	$ 2,151,041
Total by year		$ 315,334	$ 4,593,206	$ 4,908,541

Taxes by jurisdiction	**2014**	**2015**	**Total**
State	210,855	3,652,894	3,863,749
Subdivision	104,479	940,312	1,044,792
Total by year	315,334	4,593,206	4,908,541