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Project Copper

Discussion Materials

July 26, 2021

Overview of NS Proposal

Option #1 – Purchase

- Norfolk Southern will purchase the line and all other rights associated with the line
- Payment in the form of a lump sum of \$865 million
 - Another \$50 million provided over 1-4 years to be available for the City’s general fund or special fund
 - Bonus paid in 1-4 payments over 1-4 years

Option #2: Structured Purchase

- Norfolk Southern will provide the CSR a secured, 50-year \$865 million principal note in exchange for the line and all other rights associated with the line
 - Note will carry 3.5% coupon rate
 - Each year for purposes of calculating the interest payment the value of the line will increase on a compound basis by the percentage change in the Gross National Product: Implicit Price Deflator (Published by the US Bureau of Economic Analysis) subject to a 3% cap each year
- At the end of the 50-year period, Norfolk Southern will pay off the note with a \$865 million balloon payment to the CSR
- Example proceeds analysis below:

Option 2: \$865M (proposed by Norfolk Southern)

(\$ in millions)	Years 1 - 10										Terminal Yr
Year	1	2	3	4	5	6	7	8	9	10	50
Value of Line	\$865	\$891	\$913	\$931	\$950	\$969	\$989	\$1,008	\$1,028	\$1,049	\$2,316
Coupon Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payment	\$30.3	\$31.2	\$32.0	\$32.6	\$33.3	\$33.9	\$34.6	\$35.3	\$36.0	\$36.7	\$81.1
Balloon Payment											\$865
Total Payments	\$30.3	\$31.2	\$32.0	\$32.6	\$33.3	\$33.9	\$34.6	\$35.3	\$36.0	\$36.7	\$946.1

- \$865 million principle note
- Assumes coupon rate of 3.5%
- 3.0% Inflation (2.0% floor)
- Balloon payment made in year 50

Option 2: \$1,200M (Illustrative)

(\$ in millions)	Years 1 - 10										Terminal Yr
Year	1	2	3	4	5	6	7	8	9	10	50
Value of Line	\$1,200	\$1,236	\$1,267	\$1,292	\$1,318	\$1,344	\$1,371	\$1,399	\$1,427	\$1,455	\$3,213
Coupon Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Payment	\$42.0	\$43.3	\$44.3	\$45.2	\$46.1	\$47.1	\$48.0	\$49.0	\$49.9	\$50.9	\$112.5
Balloon Payment											\$1,200
Total Payments	\$42.0	\$43.3	\$44.3	\$45.2	\$46.1	\$47.1	\$48.0	\$49.0	\$49.9	\$50.9	\$1,312.5

- Illustrative \$1,200 million principle note
- Assumes coupon rate of 3.5%
- 3.0% Inflation (2.0% floor)
- Balloon payment made in year 50

Weighting the Pros and Cons of a Lease vs Sale

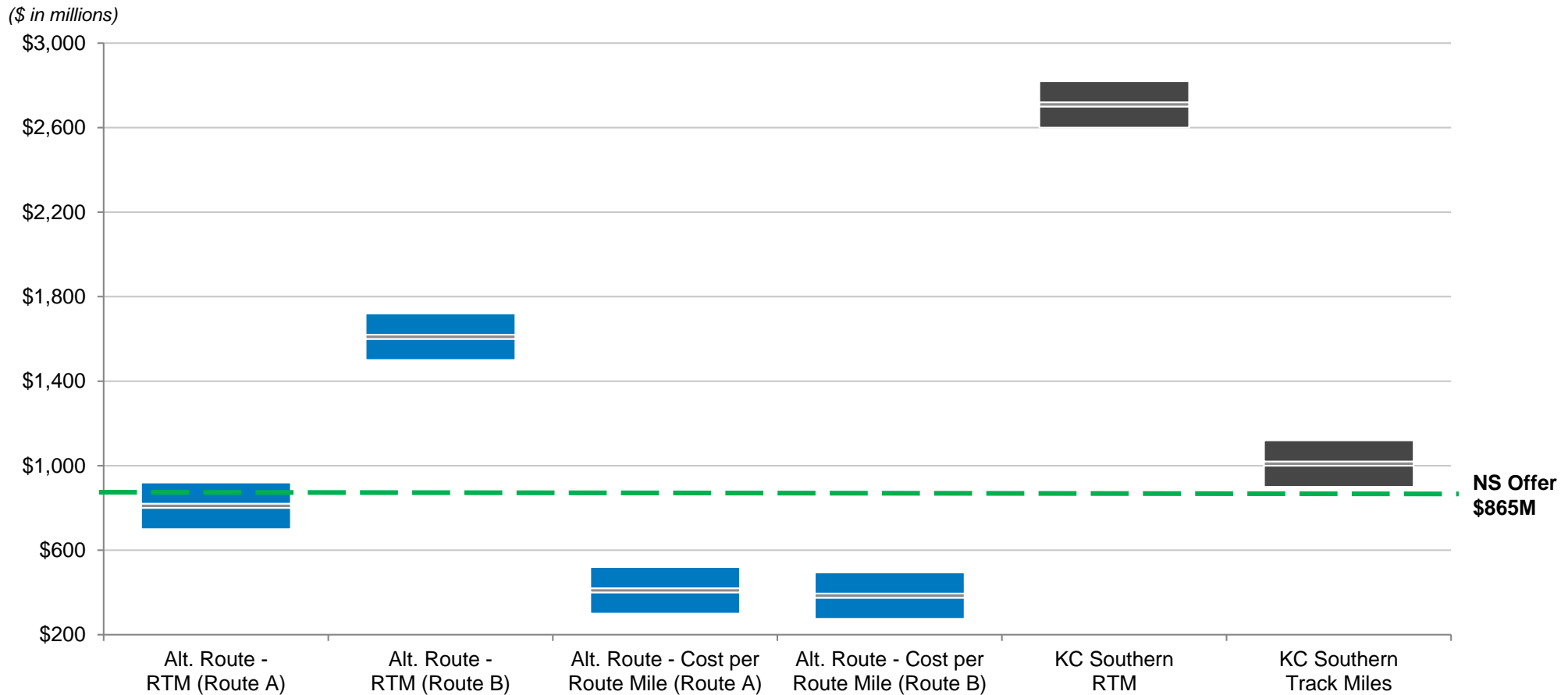
	Sale	Lease
Pros	<ul style="list-style-type: none"> In theory, valuation should include a control premium, which could result in a higher annual payment Because this is the preferred structure for NS, it may shorten the time to reach an agreement. Also may reduce the chance of arbitration Reduces operational involvement of the city going forward May have the most flexibility to increase the purchase price/annual payment 	<ul style="list-style-type: none"> CSR would retain control of the asset and the surrounding rights, which preserves the ability to monetize right-of-way cash flow streams in the future (e.g. transmission) Preserves the cashflow stream Can be structured without a council or resident vote Considerably less complicated than a sale
Cons	<ul style="list-style-type: none"> Approval of the sale will require a vote of constituents – leaving the relatively complicated matter in the hands of the voting public. Would likely require a “plan B” in the even the proposal is rejected Timeline to approval is long CSR would give up control and management of the railroad Proposed note has a finite life that will eliminate payments after specified period (current proposal is 50 years) No ability to renegotiate if the economic situation changes after a period of time Inability to monetize any future revenue streams (transmission, pipeline, etc) 	<ul style="list-style-type: none"> Valuation might be lower than a full sale, with some risk that the annual payment may not improve materially Increases the likelihood of arbitration, which involves risk Potential delay of revenue increase until the entire current lease term expires (2026) NS signal that they will push for an “asset based” approach in negotiations/arbitration

Preliminary Valuation Perspectives

Preliminary Valuation Perspectives

- The below outlines Norfolk Southern’s \$865 million offer relative to several valuation alternatives including (i) next-best route option A and option B as well as (ii) implied valuations based on CN Rail’s pending acquisition of Kansas City Southern
- Supporting valuation work found in the following slides of this presentation

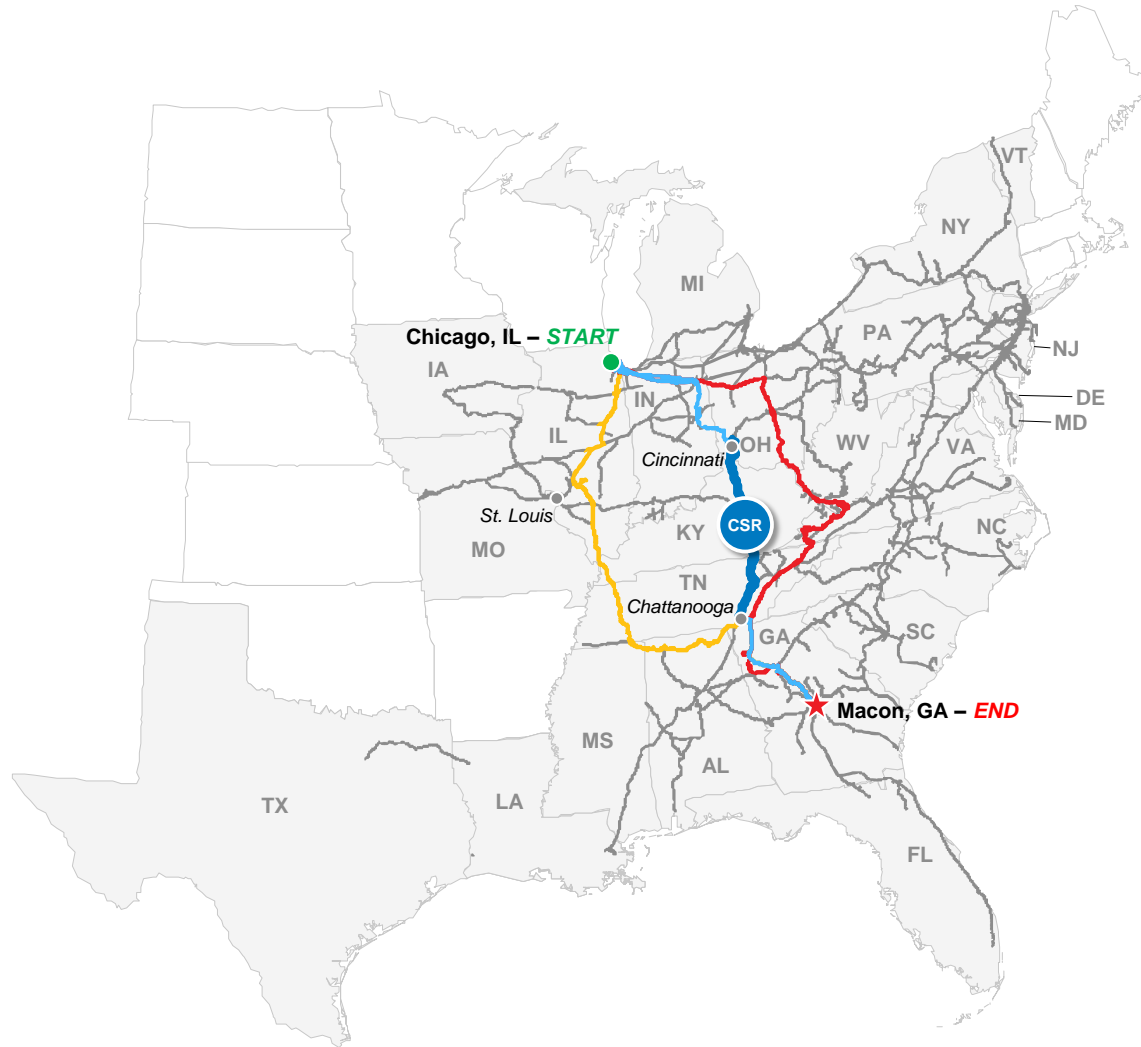
Valuation Analysis Comparison



The CSR is a Vital Component of Norfolk Southern's Network

Few Efficient Alternative Routes Exist...

...And Each is Cost-Prohibitive



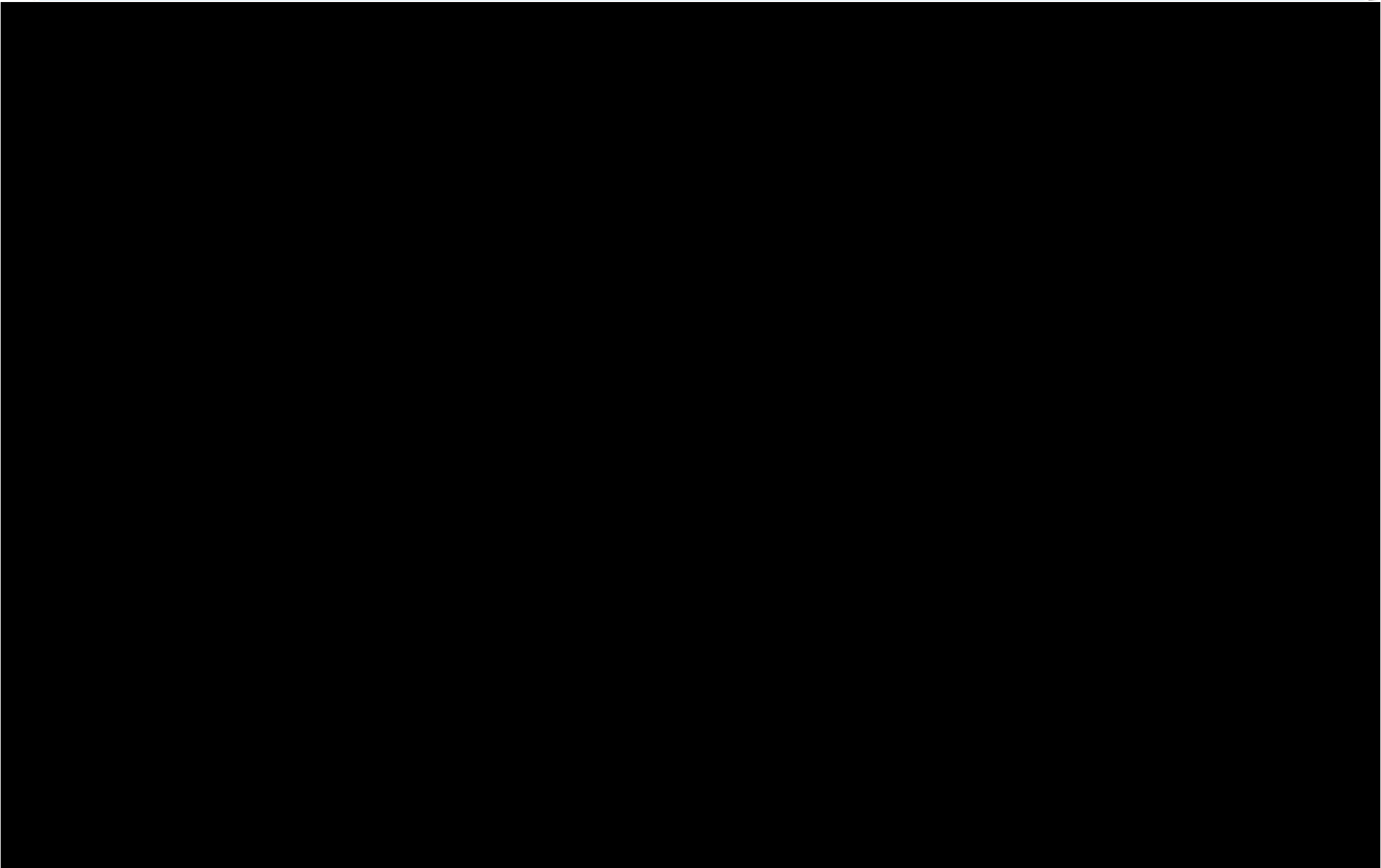
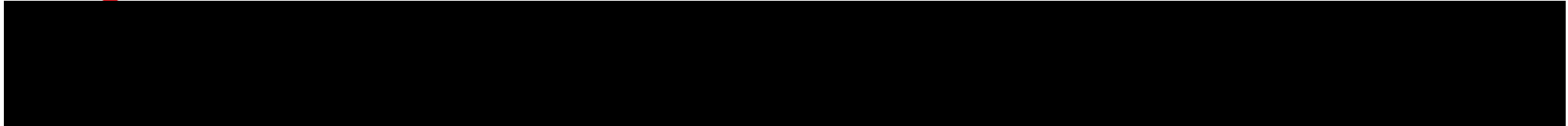
Route	Miles	Implied Valuation to NS
CSR	~895	--
A	~990 ~90 Miles Longer	~\$400 - \$800mm
B	~1,180 ~290 Miles Longer	~\$400 - \$1,600mm

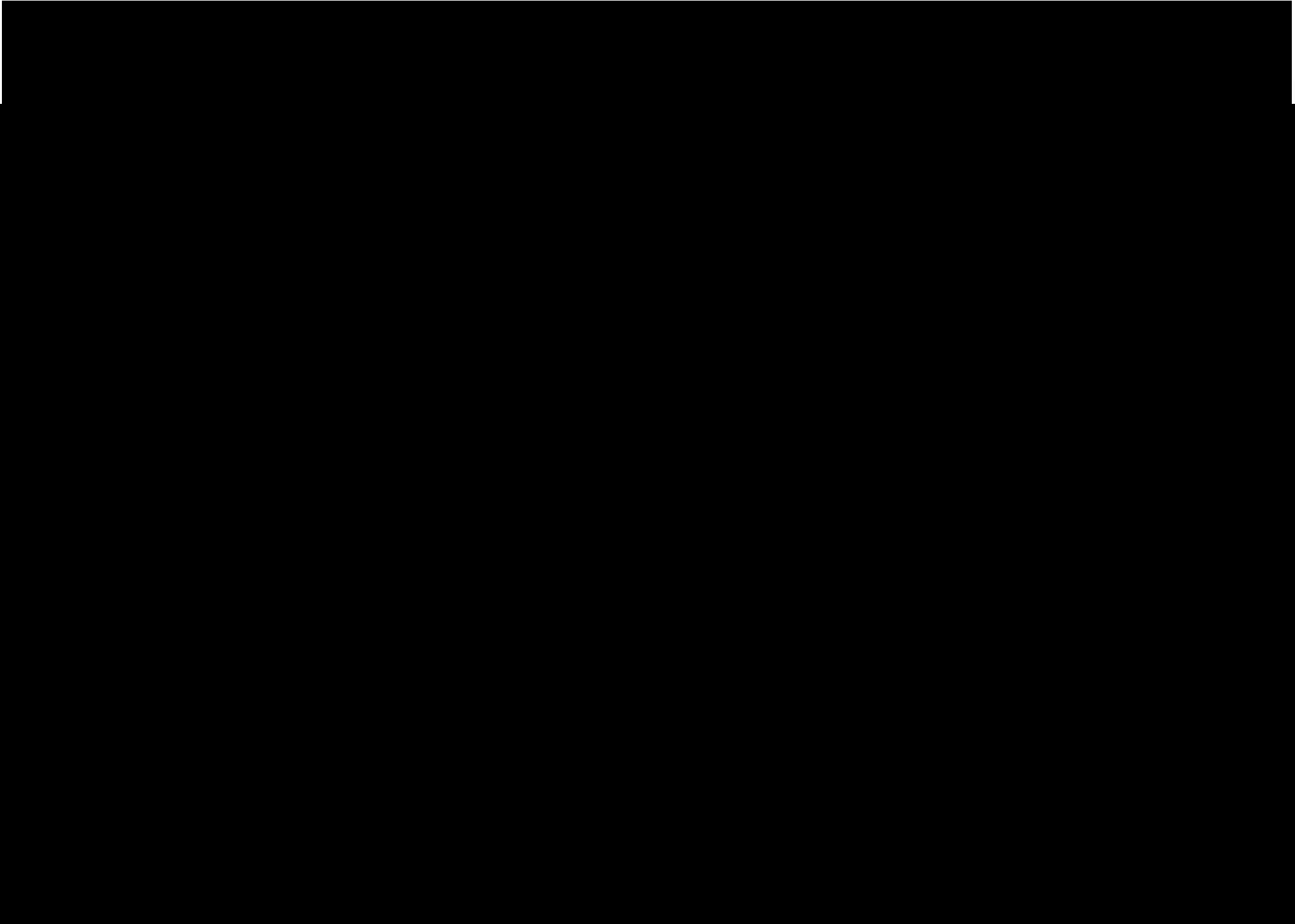
• **Alternative Route A**

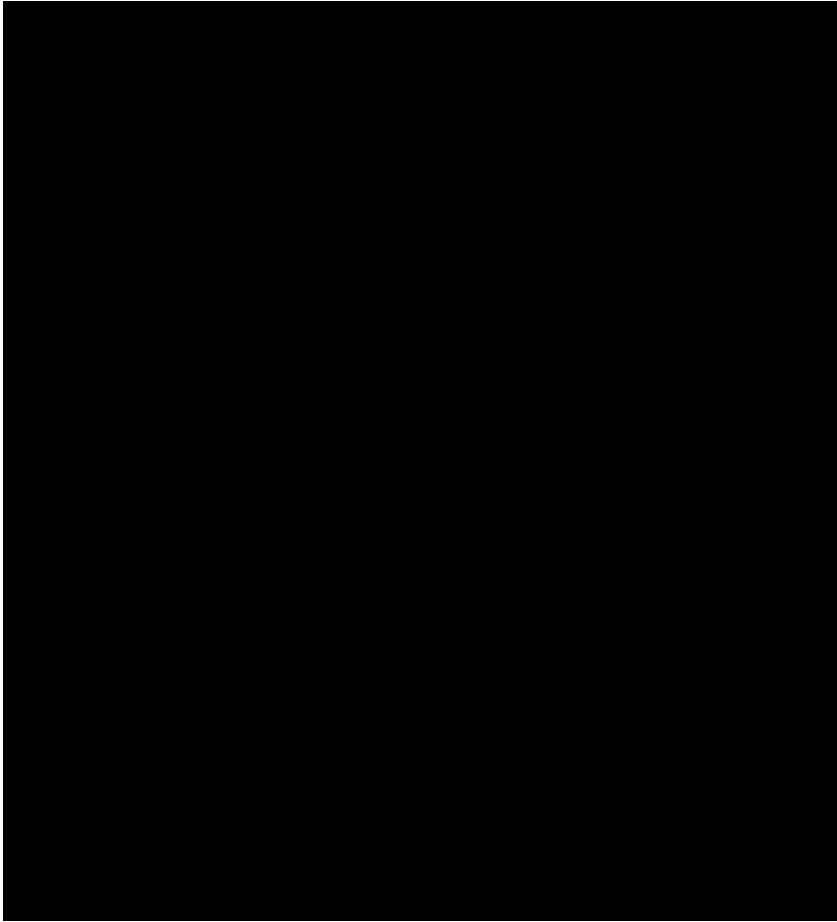
- ~90 incremental miles implies a valuation of ~\$400 - \$800mm based on illustrative analysis
 - Relies on trackage / haulage rights with CN and WTNN in IL and MS, resulting in the need for revenue sharing
- Likely requires substantial investment in additional track capacity, especially on the WTNN

• **Alternative Route B**

- ~290 incremental miles implies a valuation of ~\$400 - \$1,600mm based on illustrative analysis
- Likely requires substantial investment in additional track capacity







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