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Project Copper Discussion Materials

September 14, 2021

Agenda

- Update on Recent Developments
- Discuss Options for Use of Proceeds
- Discuss Counter Proposal
- Discuss Next Steps

Recent Updates

Summary of Recent Developments

- On August 16, 2021, NS transmitted to the city an “option three” proposal which provided for, among other things:
 - Purchase option from now until 2026
 - Base purchase price of \$915 million in 2022, increasing based on inflation
 - Additional cash incentives (up to \$50 million) if the sale is completed sooner
 - Lease Payment set at \$28.9 million, beginning in 2027 and increasing based on inflation
 - 40 year lease term
- On August 24, 2021, CSR acknowledged receipt of the proposal and further highlighted to NS that any sale of the railroad would require a change to State Law and an affirmative vote from the residents
- Representatives of the City have continued to diligence the specifics of law changes which may be required
 - In addition, representatives of the City have initiated a preliminary dialogue with certain members of its employee retirement system
- BMO is investigating potential annual returns on the sale proceeds based on various levels of risk (details follow)
- On September 11, BMO transmitted to NS a letter clarifying that NS has not formally initiated its renewal request, and that the Board would follow-up with a revised proposal in due course
- During a subsequent discussion, NS indicated that they believe the parties have “until the end of the year” to negotiate a deal

Use of Proceeds

Illustrative Annual Recurring Payments

- The following tables highlight annual recurring payments based on rates of return and expected inflation:

Base Rate: \$1,000

		Returns					
		3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Inflation	1.0%	\$25	\$30	\$35	\$40	\$45	\$50
	1.5%	\$20	\$25	\$30	\$35	\$40	\$45
	2.0%	\$15	\$20	\$25	\$30	\$35	\$40
	2.5%	\$10	\$15	\$20	\$25	\$30	\$35
	3.0%	\$5	\$10	\$15	\$20	\$25	\$30
	3.5%	--	\$5	\$10	\$15	\$20	\$25

Base Rate: \$1,500

		Returns					
		3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Inflation	1.0%	\$38	\$45	\$53	\$60	\$68	\$75
	1.5%	\$30	\$38	\$45	\$53	\$60	\$68
	2.0%	\$23	\$30	\$38	\$45	\$53	\$60
	2.5%	\$15	\$23	\$30	\$38	\$45	\$53
	3.0%	\$8	\$15	\$23	\$30	\$38	\$45
	3.5%	--	\$8	\$15	\$23	\$30	\$38

Summary of Risk Assessment

- The following summarizes potential portfolio composition and risk assessment:

Returns	Std Dev	REITs & Fixed			U.S. Large Cap (S&P 500)	U.S. Low Volatility	EAFE	Emerging Markets	Global REITs	Global Infrastructure	U.S.			
		Equities	Infrastructure	Income							Treasuries	Investment Grade Corporates	U.S. High Yield Corporates	U.S. TIPS
2.8	3.2	10%	2%	89%	2.2%	5%	2%	0%	0%	2%	58%	14%	7%	10%
3.0	3.3	13%	2%	85%	3.0%	7%	3%	0%	0%	1%	57%	12%	7%	8%
3.2	3.4	17%	2%	82%	3.8%	9%	4%	0%	1%	1%	57%	11%	7%	7%
3.5	3.6	20%	2%	78%	4.7%	11%	5%	0%	1%	1%	56%	9%	7%	5%
3.7	3.8	24%	2%	74%	5.5%	13%	6%	0%	2%	0%	55%	7%	8%	3%
4.0	4.1	27%	3%	70%	6.4%	14%	7%	0%	3%	0%	55%	6%	8%	1%
4.3	4.6	33%	3%	64%	7.6%	17%	8%	0%	3%	0%	53%	3%	8%	0%
4.7	5.1	38%	4%	58%	8.8%	20%	9%	0%	4%	0%	50%	0%	8%	0%
4.9	5.4	41%	5%	55%	9.5%	21%	10%	0%	5%	0%	47%	0%	8%	0%
5.1	5.8	44%	5%	51%	10.1%	23%	11%	0%	5%	0%	43%	0%	8%	0%

Note: Tables are illustrative for discussion purposes. Annual recurring payments do not include items such as fees / expenses, etc.

Discuss Counter Proposal

Summary of Counter Proposal – Key Terms

- The following is a straw man counter proposal, which includes terms for a sale as well as terms for a lease rate, in the event a sale is not or cannot be consummated:
 - **Sale Scenario:**
 - Base Price of \$[1.5] billion
 - \$50 million payment to CSR upon signing of the PSA&L (credited against the Purchase Price)
 - Need for approval from city members and change of state law
 - Base Price adjusted by CPI-W on January 1, 2023 and on each January 1 thereafter
 - **Lease Scenario:**
 - 40-year lease beginning January 1, 2022
 - Current lease provisions will continue through December 31, 2026, increasing to \$65 million through December 31, 2061
- Other considerations:
 - i. How can incentives be aligned to close the transaction?
 - ii. Should there be any lease reduction if law cannot be changed or the residents vote no?
 - iii. How do we best position for potential arbitration?

Next Steps Discussion

Summary of Next Steps

- Refine potential use of proceeds and structure
- Determine if proposed “lock-box” mechanisms are sufficient
- Establish terms of counterproposal
- Determine ground rules under which the board would grant an audience to NS (if at all)
- Transmit response to NS
- Continue to develop case for potential arbitration

Appendix: Trustee Meeting 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

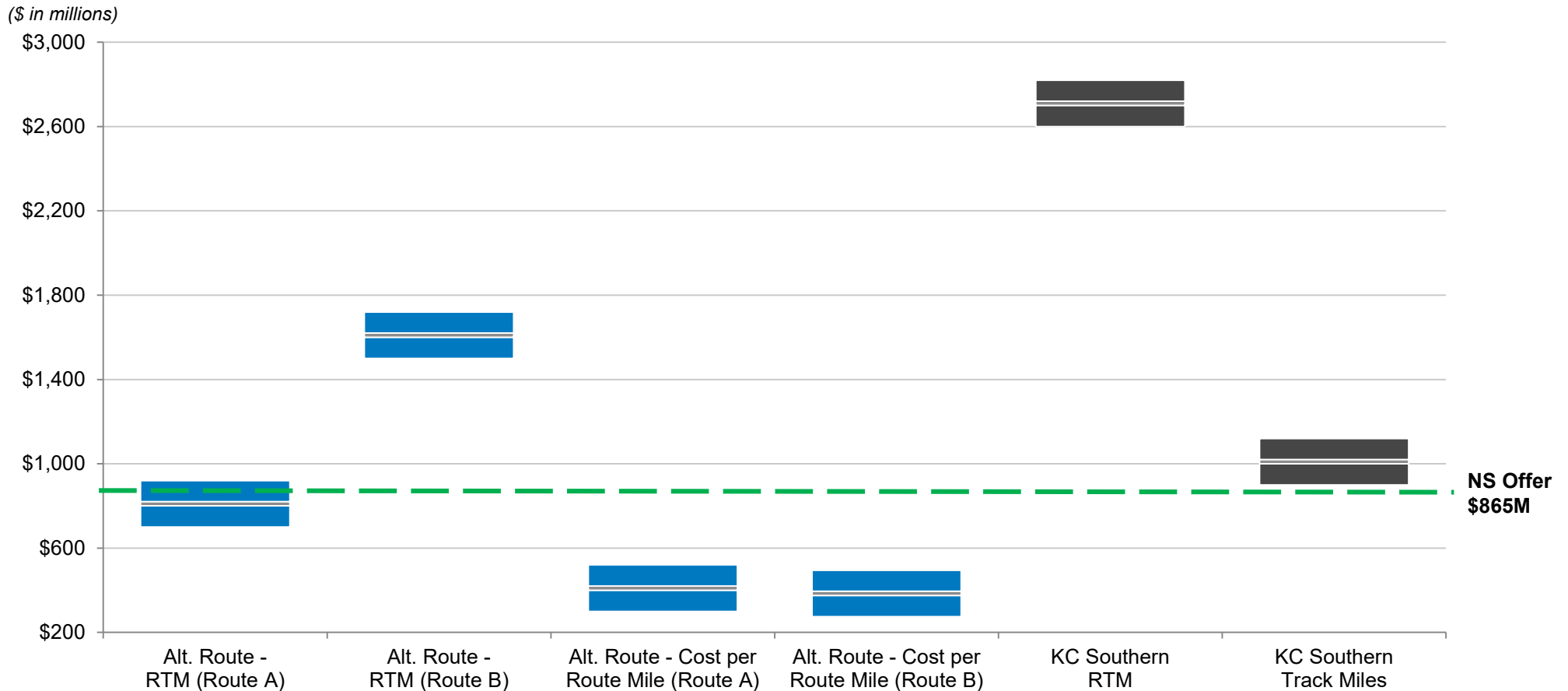
	Sale	Lease
Pros	<ul style="list-style-type: none"> • In theory, valuation should include a control premium, which could result in a higher annual payment • Because this is the preferred structure for NS, it may shorten the time to reach an agreement. Also may reduce the chance of arbitration • Reduces 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

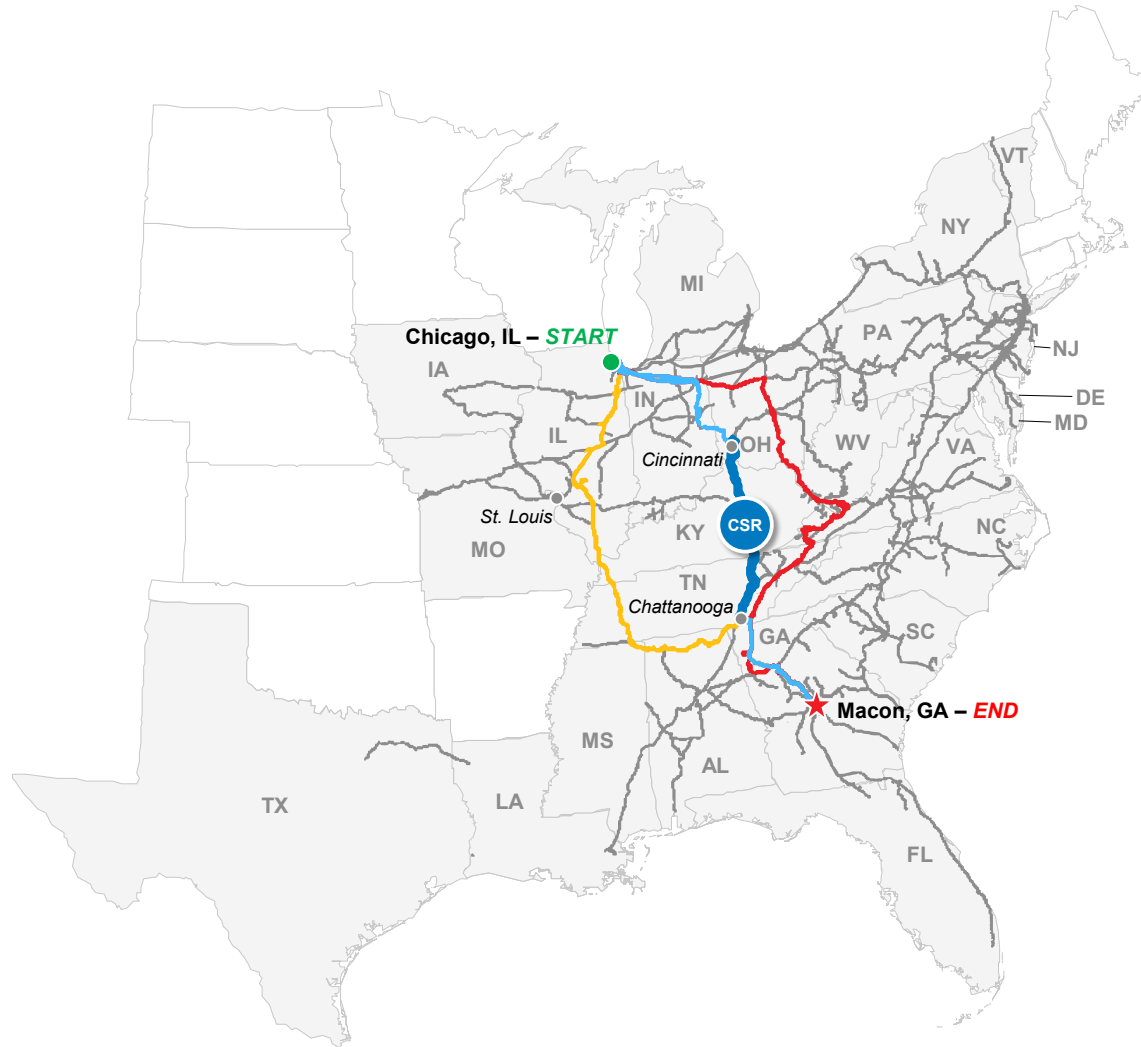
Valuation Analysis Comparison






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**

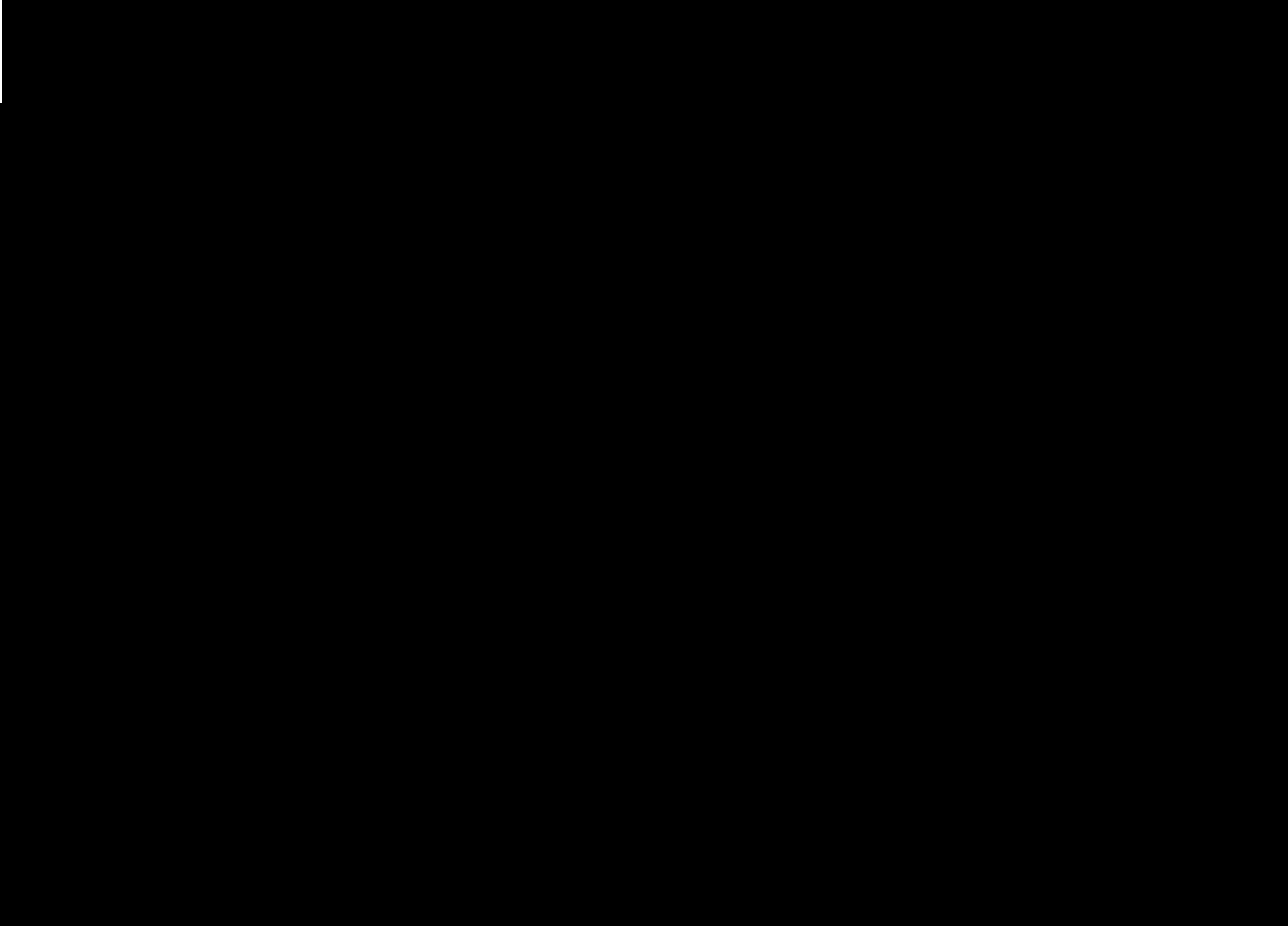
- ~90 incremental miles implies a valuation of ~\$400 - \$800mm based on illustrative analysis
 - Relies on trackage / haulage rights with CN and WTNN in IL and MS, resulting in the need for revenue sharing
- Likely requires substantial investment in additional track capacity, especially on the WTNN

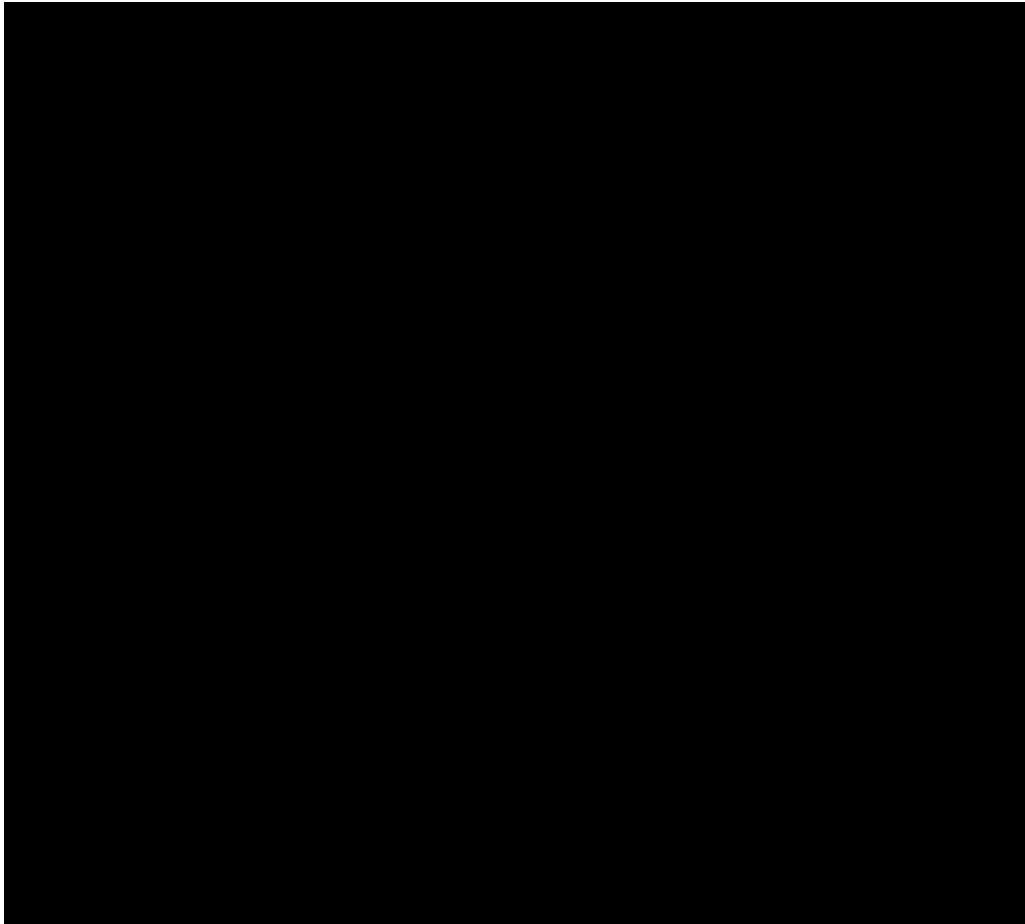
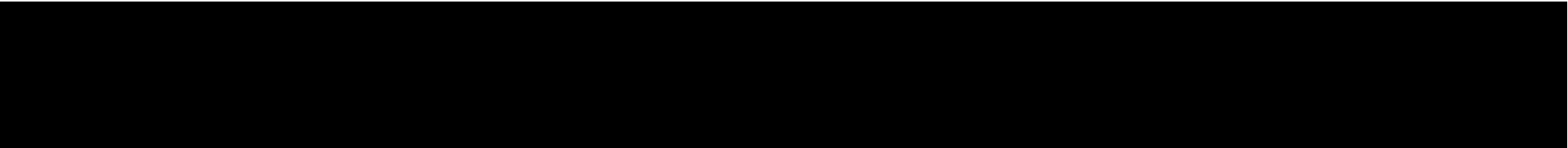
• **Alternative Route B**

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

[Redacted]

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