

PURPOSE AND SCOPE OF THE ASSIGNMENT:

Pomeroy Appraisal Associates, Inc. was retained to determine the current Net Liquidation Value of the Milwaukee Railroad Net Operating Property from Miles City, Montana west through the states of Montana, Idaho and Washington.

Net Operating Property (N.O.P.) is defined as: that real property used and required for rail service.

For the purpose of this study, Net Liquidation Value is defined as:

- "The anticipated price in terms of dollars which the real property assets would bring if exposed for sale in the open and competitive market under all conditions prerequisite to a fair sale considering a use other than for rail transportation the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus."

This definition of value recognizes Interstate Commerce Regulation 49 CFR 1121.43 (c).

The value estimate of the N.O.P. includes only real estate and assumes the land is cleared to ballast. It does not include rails, rolling stock or other items not considered real property. The buildings in N.O.P. in most cases are for a specialized use and contribute very little under a non-railroad scenario. For the purpose of this valuation study, the buildings are estimated to enhance the land value by 1 million dollars.

PART I: (cont)

### Net Property Value

Milwaukee Railroad which summarizes acreage map. We have made no attempt to calculate inventory. To calculate N.O.P. we have deducted the Milwaukee estimate of surplus property not needed for the operation of the railroad from total inventory.

For the purpose of this value estimate we have assumed marketable title. An analysis of sales of railroad property, including the Milwaukee Railroad show that the sales studies have the same general title deficiencies found in the Milwaukee Railroad property being valued.

Other assumptions and limiting conditions are found as part of this report.

The Railroad Property (N.O.P.) was viewed by air between August 19 and 23, 1979. The high value areas of Seattle, Tacoma, and Spokane, Washington were also viewed in June, 1979.

The line under analysis begins at Miles City, Montana in Custer County at Mile Post 1122 and proceeds west. It includes lines in Montana, Idaho and Washington (see attached map).

Description: Beginning in the Town of Miles City, Montana the general topography and abutting land will be described as follows:

Generally from Miles City to Forsythe the land is level, irrigated and set to farmland along the Yellowstone River. West of Forsythe to Cold Springs and Melstone, and eventually Harlowton, the line follows the Mussellshell River Valley which again is irrigated farmland.

PART I: (cont'd)

Backtracking slightly to the line between Harlowton to the Giengarr-Wildfire area and westerly from Lewistown to Great Falls at Agawan the area is generally rolling and hilly. Scattered areas along this line are irrigated.

Along the line from Harlowton to Ringling, the abutting topography begins to get hilly ascending a small range of mountains.

From Ringling to Three Forks, the line runs along parts of the Missouri River in an area known as "16 Mile Canyon". There is some copper mining in the adjacent areas.

Northward from Piedmont to Butte the line crosses the Rocky Mountains, as it descends through the foothills through Dawson, Finlen and Morel the area known as Silver Bow Canyon, the land becomes more level along the Clark Fork River and is generally cropland (potatoes, wheat) with some ranching, from Deer Lodge to Drummond, Missoula and Alberton.

West of Alberton the line passes through the foothills of the Bitter Root Mountains and crosses the River into St. Regis Canyon and then the East Portal Tunnel into Idaho. Much of this area is hilly and lumbering is the primary land resource between St. Regis and St. Maries. Avery along the St. Joseph River was an important transfer yard during the steam and electric era of the railroad.

The area of St. Maries to Plummer again is primarily hilly and offers excellent timber and recreational amenities along Lake Coeur D'Alene.

The line south from St. Maries to Palouse is primarily farmland and timber.

From Spokane south to Plummer and west to Beverly the adjoining land is flat, originally arid land part of which has been irrigated and now is farmed, with the remainder dry farm and range land.

PART I: (cont'd)

The northern line from Moses Lake is level and has been irrigated and is now prime farmland.

West of Beverly to Ellensburg passes through the Rattlesnake Hills. The Yakima River Valley around Ellensburg is prime irrigated farmland.

From Thorp west of Ellensburg to Easton the line rises through the foothills of the Cascades with logging again being the primary industry, to the Tanner-Cedar Falls area. This area is also extensively used for recreational purposes especially ski slopes.

West of Cedar Falls to Maple Valley there is a "restricted area" which is the watershed for the City of Seattle. Seattle to Limestone Junction is comprised of mixed topography, interspersed with lumbering operations. There is some mining in the more mountainous areas of Limestone Junction.

The line to Seattle, Tacoma south to Morton is again hilly. Timber and logging again are the prime industries, except for the industrial areas in and around Seattle and Tacoma.

The line from Frederickson to Hoquiam to the west follows the Hoquiam River and adjoining valley.

The line south of Maytown and west has mixed topography with industry and logging being of prime importance.

The line from Port Angeles to Port Townsend, northwest of Seattle, follows the Strait of Juan De Fuca and has a mixture of uses such as recreational, residential, lumbering and waterfront industrial. The line from Bellingham to Limestone Junction and Lyndon, passes through agricultural and timberland.

The N.O.P. under analysis contains 1,780.2 miles owned in fee and 126.9± miles under joint ownership. The entire N.O.P. contains 35,124.15± A.

PART II (cont'd)

The inventory of the net ownership by valuation section and Parcel Number was transferred to computer readable form. The inventory was checked and keyed to the Valuation Section by State. Where the net operating right-of-way was owned with other carriers, the value estimate reported reflects this partial interest.

All sales, contracts, options, negotiated price levels, and appraisal indicators were located on the Valuation Maps.

Factors which were considered in Pomeroy Appraisal Associates' estimate of value included, but were not necessarily limited to, the following:

- (1) Location
- (2) Supply of available and competitive sites.
- (3) Demand for industrial, recreational, residential multi-family developments, governmental, public and/or institutional uses, as well as limited or virtually unusable parcels.
- (4) Topography - cuts and fills.
- (5) Bridges and tunnels.
- (6) Shape, floodplain, and interests in water rights.
- (7) Sales, contracts, options.
- (8) Lands within, over or under public rights-of-way subject to ordinances, snow easements, and trackage rights were not considered in our analysis.
- (9) Highest and best uses.
- (10) Environmental constraints

Specific attention was given to the adjacent land uses along the proposed abandonment.

PART II:

Valuation Methodology

Our investigation included conversations with representatives of the Milwaukee Railroad to review value indicators for the area under analysis. In addition, outside market value appraisals, where available, were given consideration in this value estimate.

In this phase of the assignment, information was gathered concerning real estate activity, supply and demand, highest and best uses, environmental constraints, quality of the land, abutting land uses, and other factors that affect value.

Sales activity of the Milwaukee Railroad between 1975 and July of 1979 was reviewed by State and Valuation Section. The Road has consummated about 300 sales, which are the basis of this valuation study. Sales activity of the Milwaukee Land Company, predominantly in the State of Washington, were reviewed to provide benchmark price levels to estimate present net liquidation value. Negotiated per-acre prices between the Union Pacific and the Milwaukee Railroad on portions of the N.O.P. were also given consideration. We have studied the Milwaukee Railroad's sales of abandoned railroad property, as well as those of other railroads. We have used these studies in estimating the ratio of developable parcels to abutter purchasers, both for discount and percentage of total value, as well as estimating the time it will take to market the inventory.

PART II: CONT'D

The above parcels potential are either for their development or in conjunction with abutting property parcels referred to as "Developable" or "Abutter" parcels.

A developable parcel is defined as having physical and economic characteristics which allow it to be developed or subdivided for conventional uses as related in the market place.

An abutter parcel is defined as a parcel of real property that by reason of shape, size, topography, access, or other physical characteristics has no significant use except to abutting property owner(s).

The inventory which was used made no distinction between the net ownership and those properties classified as surplus to N.O.P. Therefore, the 1977 Milwaukee Company's value estimate of the Surplus Properties (trended to August 1979) was used. In trending this value estimate, consideration was given to the Consumer Price Index and the percent change in average value of real estate per acre from December 1977. We have trended the Milwaukee Railroad Company estimate by 10% per year. This results in an estimate of \$18 million as the present worth of the Surplus Real Estate within the net ownership. This estimate, in our opinion, is sound and has been adopted.

The value of this Surplus Property will be deducted from the gross estimate of value of the total net ownership.

PART II: (cont'd)

It is my judgment that a reasonable time to sell the real estate without a discounting procedure is two years. Any property that will not sell within two years I will not discount, because in my judgment appreciation of values in the strong markets of the Northwest Region will offset any discount for time to sell.



## CERTIFICATION

1. I, the

I have personally inspected the property appraised herein;

I personally prepared the analyses, conclusions and opinions concerning real estate that are set forth in this appraisal unless otherwise stated;

The statements contained in this report and upon which the opinions are based are true and correct to the best of my knowledge and belief;

All limiting conditions imposed by the terms of my assignment or by the undersigned which affect the analyses, opinions, and conclusions in this report are contained herein;

Employment in and compensation for making this appraisal are in no way contingent upon the value reported;

I have no interest, either present or contemplated, in the subject property;

I have no personal bias with respect to the subject matter of this appraisal report or the parties involved;

This report has been made in conformity with and is subject to the requirements of the Code of Ethics and Standards of Professional Conduct of the American Institute of Real Estate Appraisers of the National Association of Realtors.

It is my judgment that as of AUGUST 24, 1979 the  
Net Liquidation Value of the subject property under appraisal is:

THIRTY-TWO MILLION DOLLARS  
(\$32,000,000.00)

*Richard C. Allen* M.A.I., S.R.P.A.  
RICHARD C. ALLEN, VICE PRESIDENT  
POMEROY APPRAISAL ASSOCIATES, INC.

For their help in the development of the factual material and their collaboration in the conclusions of this report, I do hereby acknowledge the assistance of Leslie B. Gray, President, and David F. Peatfield.

V E R I F I C A T I O N

STATE OF NEW YORK

COUNTY OF ONONDAGA

Richard C. Allen, duly sworn, deposes, and says that  
the foregoing statement is true and correct.

Richard C. Allen  
Richard C. Allen, M.A.I., S.R.P.A.  
Vice President  
POMEROY APPRAISAL ASSOCIATES, INC.

SWORN TO BEFORE ME THIS 29th day of AUGUST, 1979

*Sherry L. Shanty*  
SHERRY L. SHANTY  
Notary Public in the State of New York  
Qualified in Onon. Co. No. 34-8996500  
My Commission Expires March 30, 1982

**QUALIFICATIONS of  
RICHARD C. ALLEN, M.A.I., S.R.P.A.**

**EDUCATION AND TRAINING:**

Case Western Reserve University, Cleveland, Ohio  
Canton Agricultural Technical Institute  
International Correspondence School on Highway Engineering (3 yrs.)  
Real Estate Appraisal Course - Bureau of R.E.A., Department of Transportation, Trenton, N.J.; Real Estate Appraisal Course I, Chicago (1965); Real Estate Appraisal Course II, Georgia (1966); Economics and Advanced Real Estate Techniques Course, Syracuse; Residential Appraisal Course, American Savings & Loan Institute.

Member of American Institute of Real Estate Appraisers (M.A.I.)  
Professional Recognition Award - A.I.R.E.A. (1977-1979)  
Member - American Society of Residential Appraisers (S.R.P.A.)  
Licensed by New York State, Dept. of State, as real estate salesman  
Director - Chapter #30 - American Institute of Real Estate Appraisers (1972-1974)  
Treasurer - A.I.R.E.A., Chapter #30 (1976-1977)  
Director - N.Y.S. Society of Real Estate Appraisers  
N.Y.S. Chapter #146 (1973-1977)  
Chairman - National Candidates Guidance Committee, A.I.R.E.A. (1976)  
Member - National Admissions Committee (1976-1977)  
Chairman - Town of Salina Zoning Board of Appeals (1976-1977)  
Approved faculty member of N.Y.S. Education Department  
Certified Instructor - A.I.R.E.A., Course I-A and VIII

**EXPERIENCE:**

Marketing Vice President - Pomeroy Appraisal Associates, Inc.  
7 years Civil Engineering (inspection-design-survey) of bridges and highways for N.Y.S. Department of Transportation  
3 years Assistant Soils Engineer (supervisory class), N.Y.S. Department of Transportation  
Qualified real estate fee appraiser - Vermont Highway Department  
Qualified real estate fee appraiser - N.Y.S. Departments of: Transportation, Environmental Conservation, & Urban Development Corporation; General Services Administration, and M.G.I.C.  
Associated with Martin Allard, M.A.I. of South Burlington, Vermont as Staff Appraiser (1964-1966)

**COURT EXPERIENCE:**

Testified as an expert on real estate values before the New York State Court of Claims, Supreme Court, and Urban Renewal Commissions throughout New York State

**APPRAISALS MADE FOR:**

U.S. Government (Post Office Department); General Services Admin.; New England Telephone Co.; Aluminum Co. of America; Hornell Housing Authority, Potsdam Housing Authority; Urban Renewal Agencies: (Potsdam, Ilion, Rome, Palmyra, Hornell, Binghamton, Syracuse, Corning, Painted Post, Elmira, Fulton, Elmira Heights); New York State Depts. of: Transportation, Mental Hygiene, Environmental Conservation, and Urban Development Corporation; other corporations, banks, attorneys, investors, and private individuals.

Consultant to United States Railway Association; consultant to Ford Bacon & Davis for Net Liquidation Valuation of the real property assets of The Milwaukee Railroad and The Milwaukee Land Company.

## UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been made with the following assumptions and limiting conditions:

1. No responsibility is assumed for matters legal in nature and title to the property is assumed to be good and marketable unless otherwise stated.
2. Unless otherwise stated, the property is appraised free and clear of any or all liens or encumbrances.
3. The information furnished by others is believed to be reliable but I assume no responsibility for its accuracy. Responsible ownership and competent property management is assumed.
4. The plot plans and exhibits in this report are included only to assist the reader in visualizing the property. I have made no engineering survey of the property.
5. Possession of this report or a copy thereof does not carry with it the right of publication nor may it be used for any purpose by any but the client without the previous written consent of the appraiser and the client and then only with proper qualification.
6. The appraiser herein by reason of this appraisal is not required to give future consultation, testimony, or be in attendance in Court with reference to the property in question unless arrangements have been previously made therefor.
7. Unless otherwise stated, personal property has not been included in this report.
8. Disclosure of the contents of this report is governed by the Bylaws and Regulations of the American Institute of Real Estate Appraisers. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which he is connected, or any reference to the American Institute of Real Estate Appraisers or to the M.A.I. designation) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the author. All appraisals are subject to review by A.R.C. of A.I.R.E.A.