

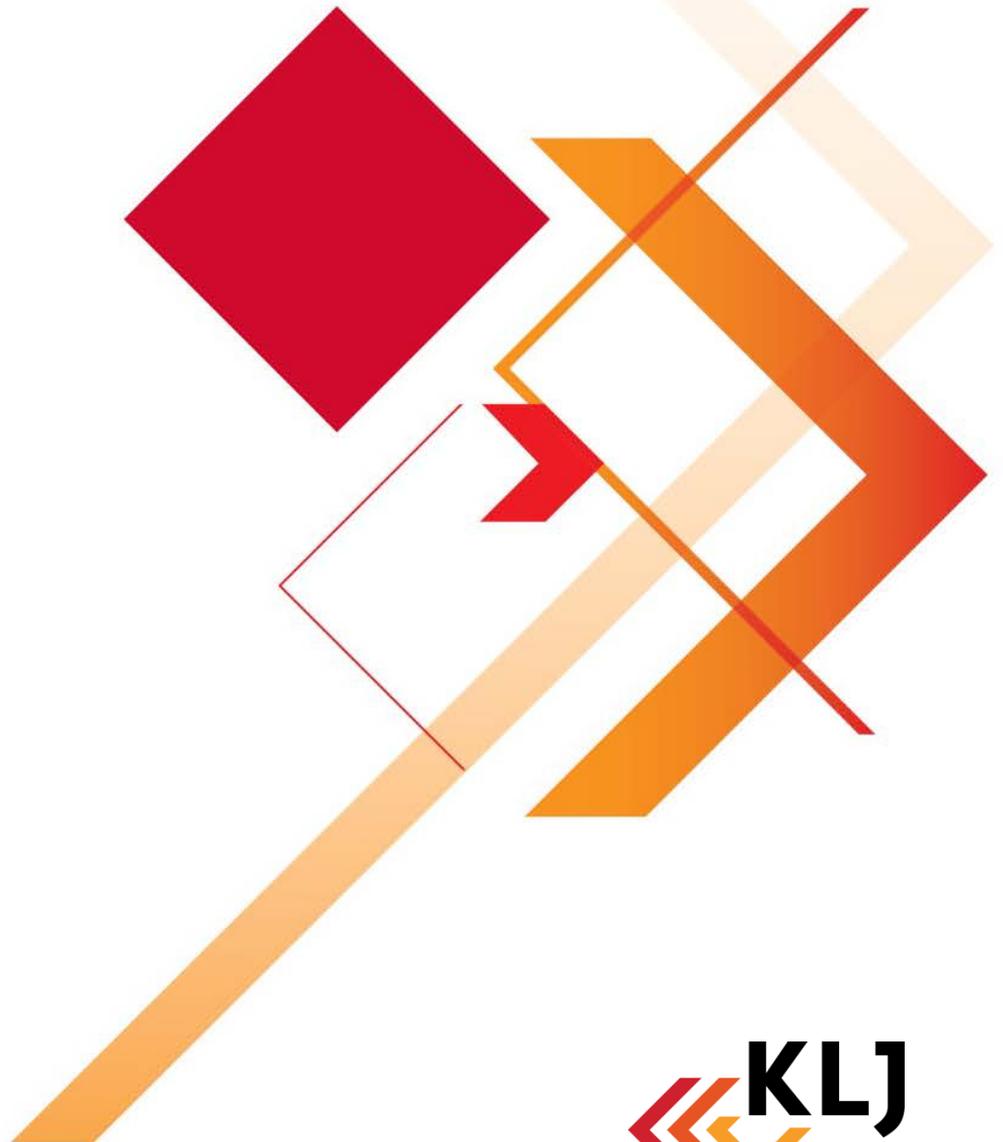
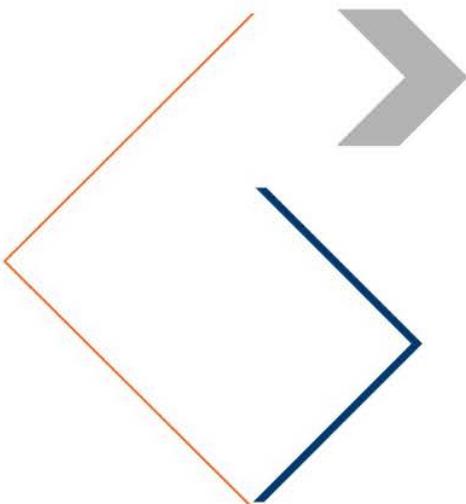
INDUSTRIAL RAIL PARK MARKET ANALYSIS

*Flathead County Economic Development Authority
Kalispell, MT*

Prepared for:
FCEDA
Kalispell, MT

May 2013

Project # 4612020



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Staff from Montana West Economic Development (MWED), board members from Flathead County Economic Development Authority (FCEDA) and the City of Kalispell have provided critical information and input throughout the market analysis. Their assistance was instrumental in completing this project. In addition, BNSF and Mission Mountain rail companies have been willing, supportive partners of the project and will continue to be a valuable resource moving forward.

OVERVIEW

FCEDA is assessing the potential to develop a rail-served industrial park to enhance the long-term vision for economic and job growth in Flathead County. The potential industrial park will serve as a place for manufacturers to produce and distribute goods via rail. Currently, FCEDA owns a 40 acre parcel, Figure 1, which is located on the east side of Kalispell and west of Highway 2, east of Whitefish Stage Road and south of the Stillwater/Flathead Rivers. In addition, BNSF owns approximately 55 acres of land adjacent to the FCEDA property that will be used in conjunction with FCEDA's parcel to create a larger rail park and thus a more feasible site to attract new businesses and relocate existing businesses out of downtown Kalispell.

A feasibility analysis will also be provided as an addendum to this report. The feasibility analysis will provide information about infrastructure and rail costs needed to improve the site as well as map and rail-park layouts for site specific properties.

COMPETITIVE ASSESSMENT

FCEDA's site contains approximately 40 acres of industrial zoned land, which is located in Flathead County, and shown in Figure 1. The site is not located in Kalispell city boundaries; although preliminary annexation discussions are occurring between the City and FCEDA representatives.

The property is the former McElroy and Wilken Gravel pit that has been reclaimed. The property sits adjacent to a State Super Fund site designated as the KRY Site and 0.7 acres of the property in the northeast corner is fenced and controlled by MT DEQ for use of their Land Treatment Plant in the ongoing cleanup process for the KRY Site. Remediation for environmental impacts is not required for the property other than the 0.7 acres previously identified.

BNSF's property contains approximately 32 acres directly north and adjacent to the FCEDA parcel. BNSF is currently remediating some site specific contaminants on their property. The existing rail has been removed to help with cleanup and this opportunity presents a unique prospect to combine both properties into one site consisting of 72 acres for rail-served industries. The advantage of moving forward as a combined site may allow BNSF to restructure their rail layout to accommodate a joint park.



An additional six acres may be available within the BNSF property depending upon the current owners (Glacier Stone, Klinger Lumber and David Wilkins) potential lease/ownership agreement with BNSF. If the six acres become viable, the total rail park acreage could increase to nearly 80 acres. Acquiring or involving other potential parcels within the same land area as FCEDA and BNSF could increase the park's total acreage to more than 92 acres. Table 1 displays a summary of site specific information.

TABLE 1: RAIL PARK SITE INFORMATION

Acreage	40 - FCEDA 32 - BNSF <u>20 - Other</u> 92 - Total	Environmental Concerns	0.7 acres (KYR site); no environmental impact to FCEDA site
Zoning	Industrial	Water Availability	Yes
Transportation Access	Yes	Sewer Availability	Yes

Transportation Connections

Transportation routes include Oregon Lane to the south, Montclair Drive to the east and Whitefish Stage to the west. Whitefish Stage is classified as a minor arterial and could support truck traffic; however, a more viable truck route into the site is US Highway 2, which is 1/10 miles southeast of the site via Montclair Drive and provides access to Kalispell's and Flathead County's truck freight network. US Highway 93 is approximately one mile west of the site via Oregon Lane. Both highways provide truck freight access making it a viable location for a transload facility.

Interstate 90 is approximately 110 miles south of the site by automobile. Interstate 15 is approximately 160 miles east of the site by automobile. BNSF and Mission Mountain service the site with rail and have long-term plans to improve the functionality of the site.

A separate traffic impact analysis (TIA) will need to be conducted to determine improvements to the transportation network surrounding the site. The improvements should be coordinated with the Montana Department of Transportation (MDT) to ensure all state and federal regulations pertaining to access on US Highway 2 are implemented efficiently.

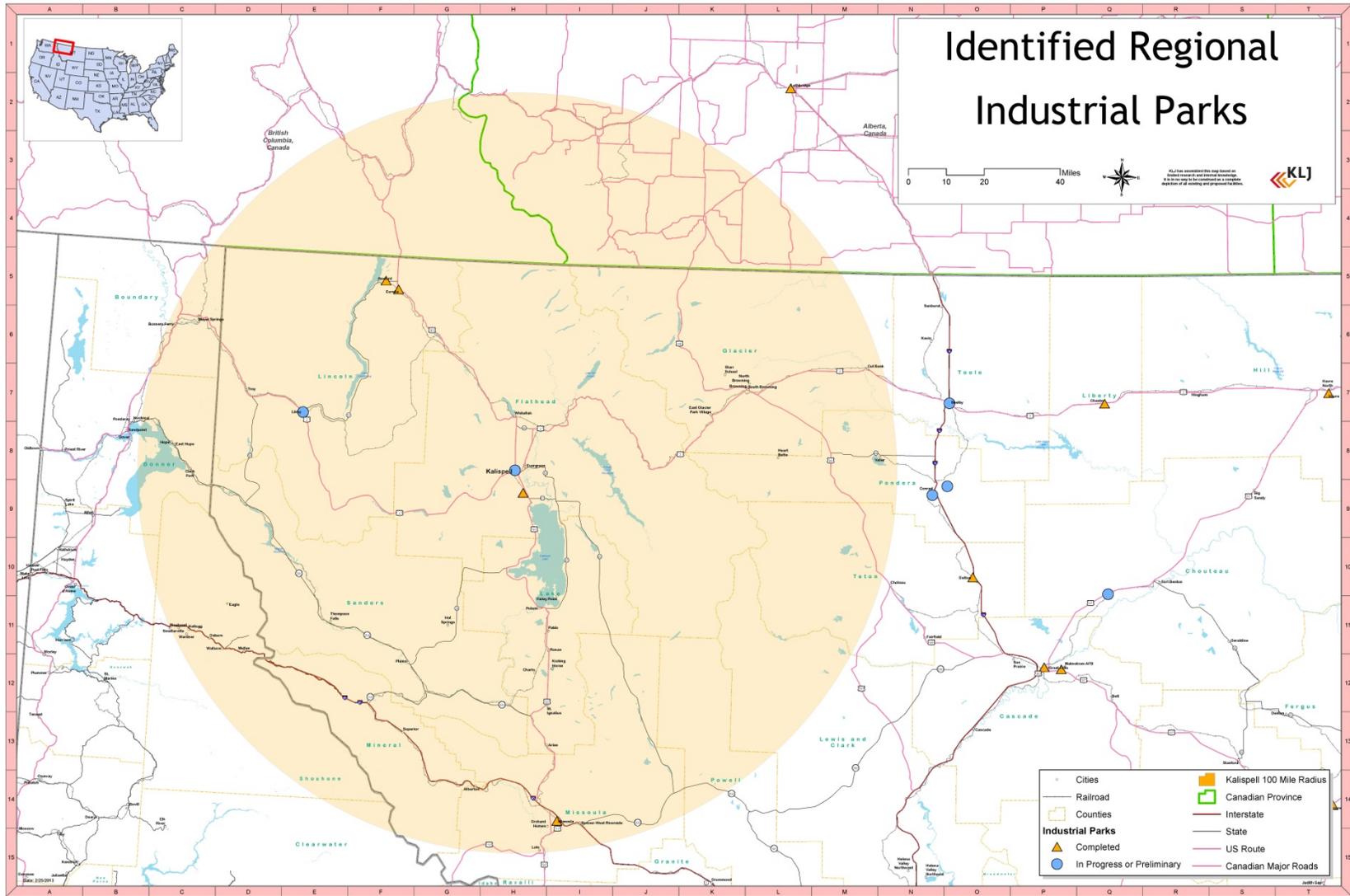
Similar Industrial Parks

FCEDA's industrial park is one of four industrial parks located within a 100-mile radius of Kalispell. Figure 2 shows known industrial parks in Montana and Idaho; however, this may not be a comprehensive list as some industrial parks may not have been identified.

FCEDA's site has the potential to service the entire Flathead Valley and could become one of only two ports to ship items via rail into Canada; the Port of Northern Montana in Shelby currently ships to Lethbridge, Canada. Because FCEDA's site will be reserved for rail-served only customers, it increases the marketing viability for potential BNSF and Mission Mountain customers.



FIGURE 2: IDENTIFIED REGIONAL INDUSTRIAL PARKS



Economic Trends

Table 2 displays the economic trends for Flathead County. The trends indicate that the while unemployment remains high at 9.2 percent and has not changed significantly since 2010; the labor force and annual employment continue to increase or remain steady. The 12.1 percent increase in labor force and 5.0 percent increase in annual employment during the past decade indicate businesses are hiring and that the Flathead Valley business climate is improving. Moreover, the number of people unemployed has decreased nearly 19 percent and the unemployment rate has decreased 2 percent since 2010.

Based on recent trends, the potential is increasing for the industrial rail park to create jobs and support new industries especially as manufacturing and other rail-oriented industries continue to recover from the recession and expand operations. Table 3 shows the top private employers by employees, indicating that service-oriented professions continue to be the largest employers. However, Plum Creek and Applied Materials are large scale lumber and manufacturing companies that lend credence that these industry types can thrive in the Valley.

TABLE 2: ECONOMIC TRENDS FOR FLATHEAD COUNTY

	2000	2010	2012	Percent Change (2000-2010)	Percent Change (2010-2012)
Population	74,741	90,928	92,867	21.7	2.1
Median Household Income	\$34,466	\$44,998	N/A	30.6†	N/A
Labor Force	39,328	44,086	43,897	12.1	-0.4
Annual Employment	37,264	39,127	39,873	5.0	1.9
Unemployment	2,064	4,959	4,024	140.3	-18.9
Unemployment Rate (%)	5.2	11.2	9.2	6.0	-2.0

Sources: 2000 US Census; 2010 ACS 5-year estimates; Montana Department of Labor and Industry, Research and Analysis Bureau; Development Alliance

†Not adjusted for inflation



TABLE 3: TOP 20 PRIVATE EMPLOYERS, 2012

Business	Employees
Kalispell Regional Medical Center	2,282
Plum Creek	685
Teletech	550
Whitefish Mountain Resort	525*/80
LC Staffing Service	450
National Flood Services	437
Applied Materials	400
Wal-Mart	390
Burlington Northern	375
North Valley Hospital	348
Immanuel Lutheran Home	267
Glacier Bancorp, Inc.	252
The Lodge at Whitefish Lake	235*/120
Costco	232
Western Building Center	180
Flathead Electric Co-op	159
Lowes	145*/135

Source: Montana West Economic Development

Table 4 identifies the top 10 Associate of Applied Science (AAS) degrees and the top 5 Certificate of Applied Science (CAS) degrees with from Flathead Valley Community College (FVCC) for year 2011-2012. Data indicates that degree earners such as Welding and Inspection Technology (19), Heavy Equipment Operator (17), Electrical Technology (9) Small Business Management (6), HVAC (5) and Cabinet and Furniture Technology (3) are graduates that can support manufacturing and industries associated with rail.

Moreover, Table 4 indicates that more than 50 percent of all AAS graduates and CAS graduates have a degree that could service manufacturing, agricultural/forestry and rail-oriented industries. Should potential businesses want to relocate or start-up in the rail park, they would have a ready and available pool of human capital to meet and expand business needs.

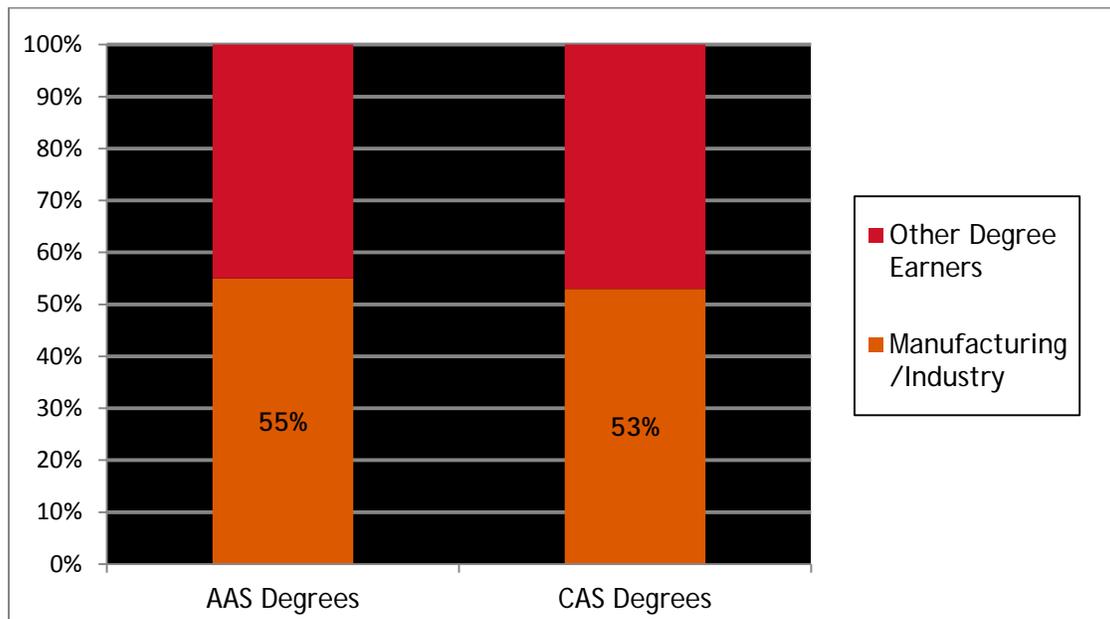


TABLE 4: FVCC ACADEMIC YEAR 2011-2012 GRADUATES (TOP DEGREE EARNERS)

Major	Graduates
Associate of Arts	102
Associate of Science	96
Associate of Applied Science (AAS)	
Practical Nursing AAS	27
Welding and Inspection Technology AAS	19
Culinary Arts AAS	12
Medical Assistant AAS	11
Electrical Technology AAS	9
Natural Resources Conservation & Management AAS	8
Graphic Design AAS	7
Information Technology AAS	7
Substance Abuse Counseling AA	7
Accounting Technology AAS	6
Medical Administrative Assistant AAS	6
Small Business Management AAS	6
Surgical Technology AAS	6
Certificate of Applied Science (CAS)	
Heavy Equipment Operator CAS	17
Medical Coding CAS	9
Heating, Ventilation, & Air Conditioning (HVAC) CAS	5
3D Jewelry Design and Production CAS	4
Cabinet and Furniture Technology CAS	3

Source: Flathead Valley Community College

FIGURE 3: PERCENT OF DEGREE EARNERS SUPPORTING MANUFACTURING/INDUSTRY



Source: Flathead Valley Community College



FINANCIAL FEASIBILITY

The financial feasibility aspect of the rail park is currently being studied in conjunction with the City of Kalispell, who is conducting a separate study regarding the costs associated with relocating businesses out of downtown and into the industrial park. These two efforts will be combined to produce a detailed financial feasibility report outlining the funds needed to improve and relocate businesses to the rail park. However, a planning-level cost estimate that outlines site improvements has been created and is outlined in Table 5. The total project cost is estimated to be \$14,500,000 (in 2013 dollars).

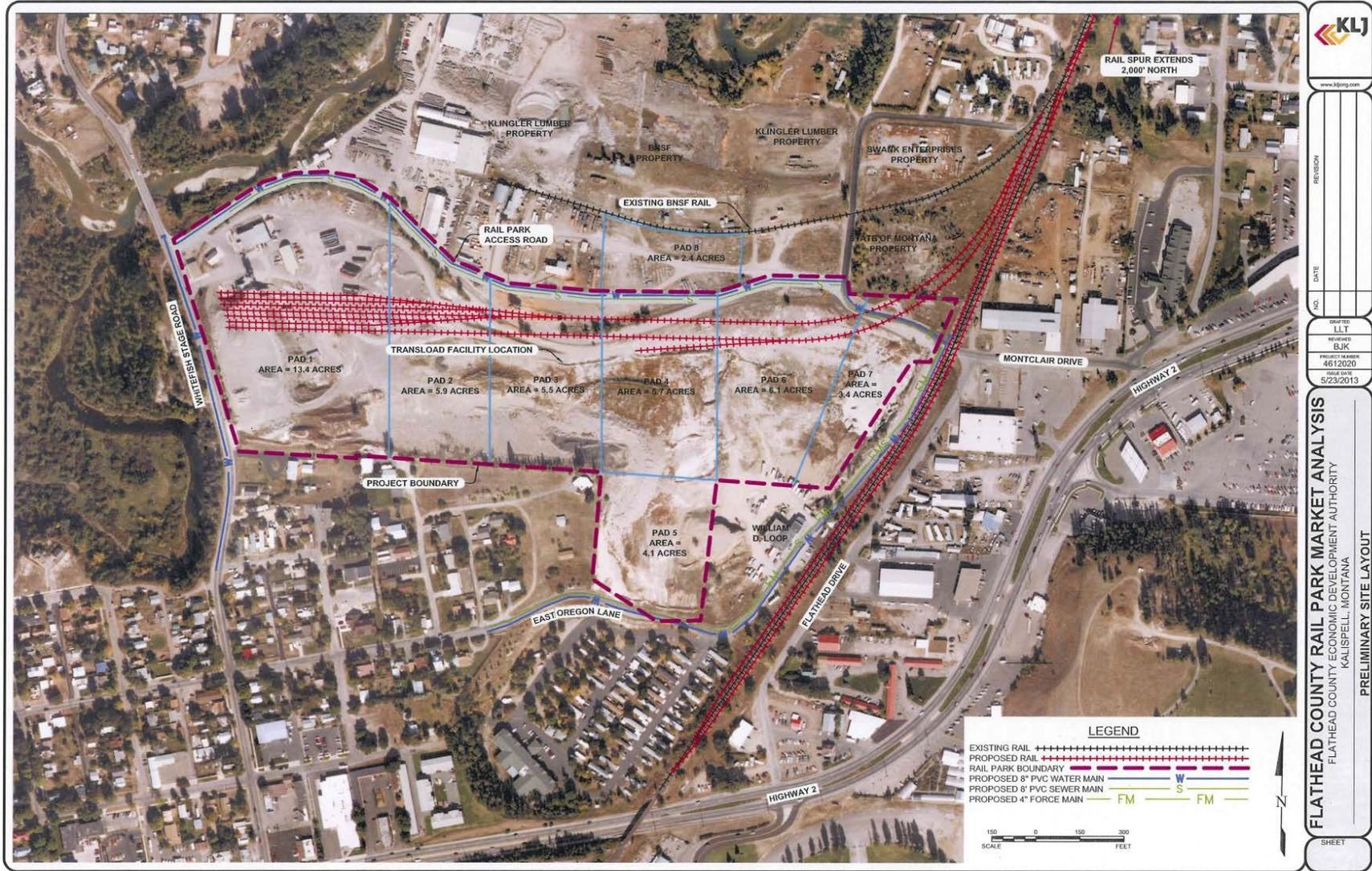
A preliminary site layout map is displayed in Figure 4 and includes preliminary track layouts as shown on site. The map also includes eight (8) site pads for future development; however, the site layout may change depending upon business and industry preferences and layout requirements. The pads range in size from 13.4 acres to 2.4 acres.

TABLE 5: ESTIMATED PROJECT COSTS (PLANNING-LEVEL ONLY)

Item Description	Information	Unit	Cost
Railroad	16,800 Feet of New Rail	I.S.	\$8,450,000
Roadway and Traffic Improvements	4,200 Feet of Roadway, Traffic Signal	I.S.	\$3,050,000
Electric and Gas	Electric and Gas Service to Facility	I.S.	\$450,000
Wastewater	Wastewater Service to Facility	I.S.	\$1,400,000
Water	Water Service to Facility	I.S.	\$1,150,000
Total Estimated Cost	-	-	\$14,500,000



FIGURE 4: PRELIMINARY SITE LAYOUT



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Comparative Sites

However, several industrial and warehouse sites throughout the Flathead Valley were researched as a comparative. Table 6 displays the comparative sites that would be similar to the sites at FCEDA's rail park. However, FCEDA's sites will have direct access to rail siding, which will likely be a significant advantage as compared to some sites listed below.

Building sale prices range from \$37.00 - \$106.48 per square foot, while acreage sale prices range from \$95,000 - \$522,727 per acre. Lease prices for buildings range from \$0.001 - \$0.397 per square foot of building space. The lease prices do not necessarily reflect market prices for buildings nor are they an accurate representation of land lease prices. Rather, the lease rates indicate a market that is waiting to rebound by offering low rates to attract potential businesses.

FCEDA should not necessarily be concerned with the low lease rates because most industries targeted for the rail park will need access to rail; therefore, FCEDA's site offers a service not available to other properties. The sale prices do suggest a competitive market for industrial uses; FCEDA's pricing needs to account for current market rates.

TABLE 6: COMPARATIVE INDUSTRIAL AND WAREHOUSE SITES

Site Type	Sale Price	Lease Rate	Building Square Feet (SF)	Price per SF/Acre	Address (Zip Code 59901)
Industrial	\$950,000.00	-	10,000	\$95.00 (SF)	75 Alder Drive
Industrial	-	\$1,250.00	3,150	\$0.397 (SF)	56 3rd Avenue West North
Warehouse	\$595,000.00	-	N/A	N/A	2155 US-2 East
Warehouse	\$575,000.00	-	> 5400	\$106.48 (SF)	525 8th Street East
Industrial	-	\$6.00	6,000	\$0.001 (SF)	460 Ash Road
Industrial	-	\$6.00	6,000	\$0.001 (SF)	980 Demersville Road
Industrial	-	\$5.75	1,200	\$0.005 (SF)	426 Snowline Lane
Industrial	-	\$6.00	2,500	\$0.002 (SF)	430 Snowline Lane
Warehouse	\$475,000.00	-	N/A	N/A	55 4th Avenue West North
Warehouse	\$750,000.00	-	20,000 2 (acres)	\$37.50 (SF) \$375,000 (acre)	2741 Us Highway 93 South
Warehouse	\$349,000.00	-	4,000	\$87.25 (SF)	19 6th Avenue West
Warehouse	\$295,000.00	-	1.74 (acres)	\$169,540.23 (acre)	66 & 68 8th Avenue West North
Warehouse	\$345,000.00	-	0.66 (acres)	\$522,727.27 (acre)	707 West Center Street
Warehouse	\$190,000.00	-	2 (acres)	\$95,000.00 (acre)	1900 Mt Highway 35
Industrial	\$950,000.00	-	10,000	\$95.00 (SF)	75 Alder Drive

Source: Montana Site Selector (<http://www.montanasiteselector.com/northwestmontana>)



CULTIVATION OF PARTNERSHIPS

Currently, MWED and FCEDA have been cultivating partnerships with BNSF, Mission Mountain, and the City of Kalispell to create a viable industrials park. However, additional groups such as Flathead Valley Community College, Kalispell Chamber of Commerce and Flathead Regional Business Center, Gallatin County Planning Department, MDT, should be brought into the process as the park develops into a feasible site plan. Including these groups and establishing partnerships not only extends MWED's and FCEDA's marketing outreach for potential businesses, but it opens new avenues for site development options and funding.

The Chamber of Commerce's new Manufacturing Alliance is a resource that should be utilized as this project moves forward. The Alliance will likely involve key members of the manufacturing and agricultural/forestry industries that could benefit from the new rail industrial park. MWED and FCEDA should develop contacts within the Alliance to help attract businesses and explain the benefits of expanding or relocating to the park.

TARGET INDUSTRY IDENTIFICATION

Identifying suitable employers to locate to the rail industrial park is critical to the park's success. Employers and businesses must recognize the importance of rail service to their business plan; however, MWED and FCEDA also recognize that job creation is the highest priority for creating the industrial park. Therefore, a balance of rail-oriented businesses that can create jobs will be the target industry. Depending upon the site layout, a business that does not require rail may be suitable to locate within the park as long as the site does not have rail siding.

Table 7 displays the change in employment for the top ten industries in Flathead County. The data indicates that while manufacturing declined 39 percent during the past decade, growth in employment suggests that manufacturing may experience the largest employment gains. While the fastest growing sectors are service oriented - Health Care; Arts, Entertainment and Recreation; Finance and Insurance; and Administrative and Waste Services - manufacturing and agricultural/forestry businesses should still be targeted for the park.

Most, if not all, service-oriented businesses do not have an operating model that requires rail or service to rail whereas manufacturing and agricultural/forestry businesses depend upon rail to move goods. Therefore, MWED and FCEDA should focus their efforts on attracting those industries as well as emerging industries such as health care and pharmaceuticals, which are estimated to need future rail service to ship goods cross-country.



TABLE 7: INDUSTRY EMPLOYMENT CHANGES (2000 - 2010)

NAICS Code	Industry	Average Annual Employment (2000)	Average Annual Employment (2010)	# Change	% Change
44	Retail Trade	4,678	5,504	826	17.7
62	Health Care and Social Assistance	3,229	5,125	1,896	58.7
72	Accommodation and Food Services	4,062	4,830	768	18.9
31	Manufacturing	3,880	2,366	-1,514	-39.0
23	Construction	2,144	2,364	220	10.3
56	Administrative and Waste Services	1,712	2,275	563	32.9
52	Finance and Insurance	1,100	1,596	496	45.1
81	Other Services (ex. Public admin)	1,209	1,450	241	19.9
54	Professional and Technical Services	1,172	1,345	173	14.8
71	Arts, Entertainment, and Recreation	857	1,279	422	49.2

Source: Quarterly Census of Employment and Wages; MT Dept of Labor and Industry, Research and Analysis Bureau

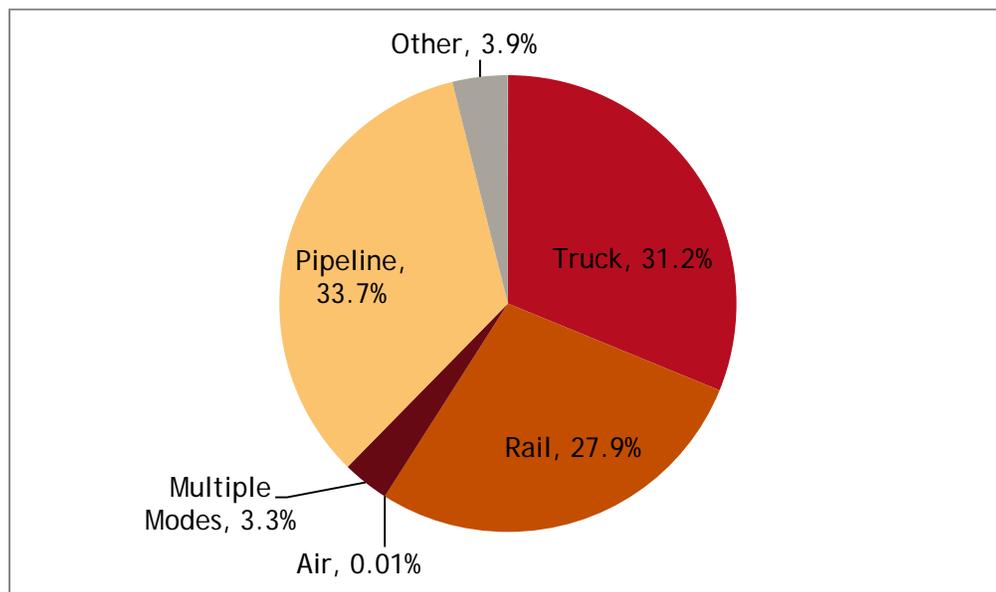
Freight Flow Analysis

National rail freight trends were studied to determine target industries for the rail park. Freight analysis data from the Freight Analysis Framework (FAF) were used to track and identify future shipping trends. The FAF integrates data from a variety of sources to create a comprehensive picture of freight movement among states and major metropolitan areas by all modes of transportation.

Figure 5 shows freight shipped by mode. Data was reviewed geographically to determine which freight movements might use rail lines in Kalispell. In 2011 Montana ranked 31st of the 50 states in total freight shipped with more than 215,000,000 tons; 28 percent (60,000,000 tons) was shipped via rail. Most of the tonnage was shipped to neighboring states in the northern US.



FIGURE 5: FREIGHT TONNAGE SHIPPED FROM MONTANA BY MODE (2011)



Montana Rail Exports

Table 8 and Figure 6, Figure 7, Figure 8 and Figure 9 show rail freight tonnage exports from Montana from year 2011 to year 2040. States were clustered and others ignore in order to group freight movements more efficiently. Note that some intrastate shipments stay within Montana. All values are measured in 1,000 tons of freight annually. For example, a value of 4,567 is equal to 4,567,000 tons per year. The following maps show rail freight flows over time that impact Kalispell; again values show total tons of freight annually. All the maps show the United States with major rail lines.

The general conclusion is that rail freight shipments to the west will grow as fast as rail freight toward the upper Midwest. However freight movements to the west will remain relatively unchanged while freight movements toward the upper Midwest peak in 2020 and decline through 2040. FCEDA should use this information when marketing to industries to determine if their commodities and goods can be exported to the west as well as to the upper Midwest.

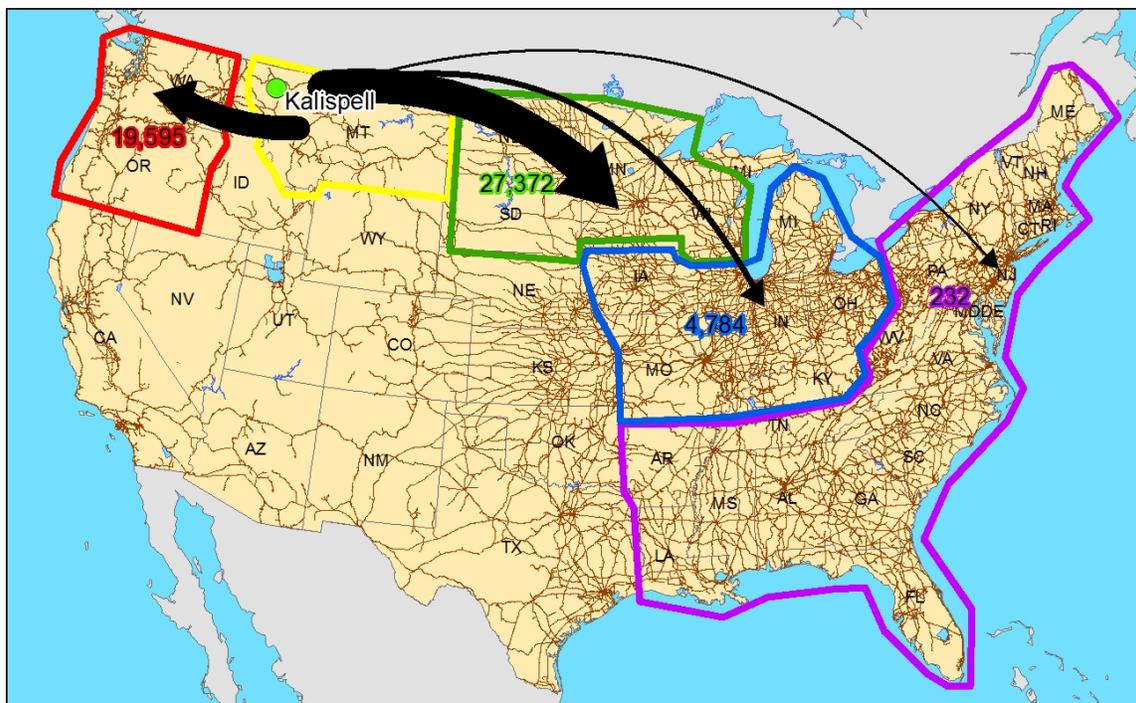


TABLE 8: MONTANA RAIL FREIGHT MOVEMENTS (2011 - 2040)

Year	Area 1	Area 2	Area 3	Area 4	Area 5	Area 6
	Montana Intrastate	Minnesota North Dakota South Dakota Wisconsin	Illinois Indiana Iowa Kentucky Michigan Missouri Ohio	Oregon Washington	Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Louisiana, Maine, Massachusetts, Mississippi, New Hampshire, New Jersey, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia	Arkansas California Colorado Kansas Nebraska Nevada New Mexico Oklahoma Texas Utah Idaho Wyoming
2011	3,232	27,372	4,784	19,595	232	4,938
2020	4,697	31,250	4,130	21,552	351	5,461
2030	6,133	25,455	3,213	18,821	430	5,910
2040	7,918	21,616	3,057	18,515	525	6,757

Source: Freight Analysis Framework Version 3 (FAF3); unit of measure for weight is thousand tons

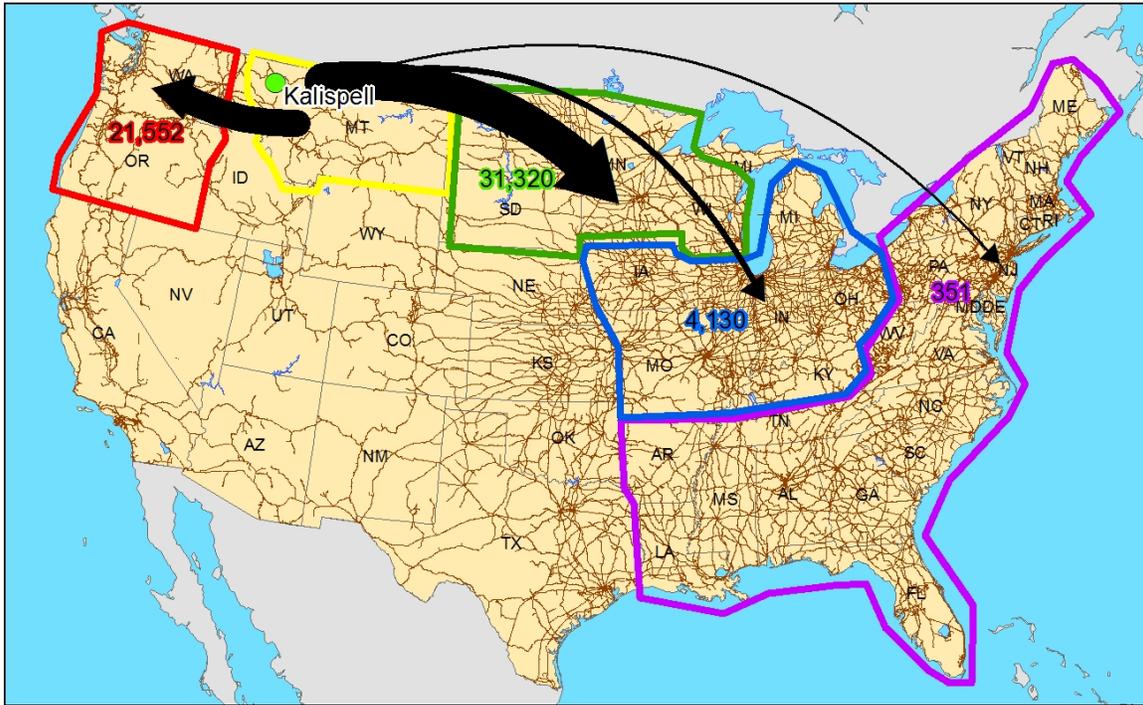
FIGURE 6: MONTANA RAIL EXPORTS (2011)



Source: Freight Analysis Framework Version 3 (FAF3)

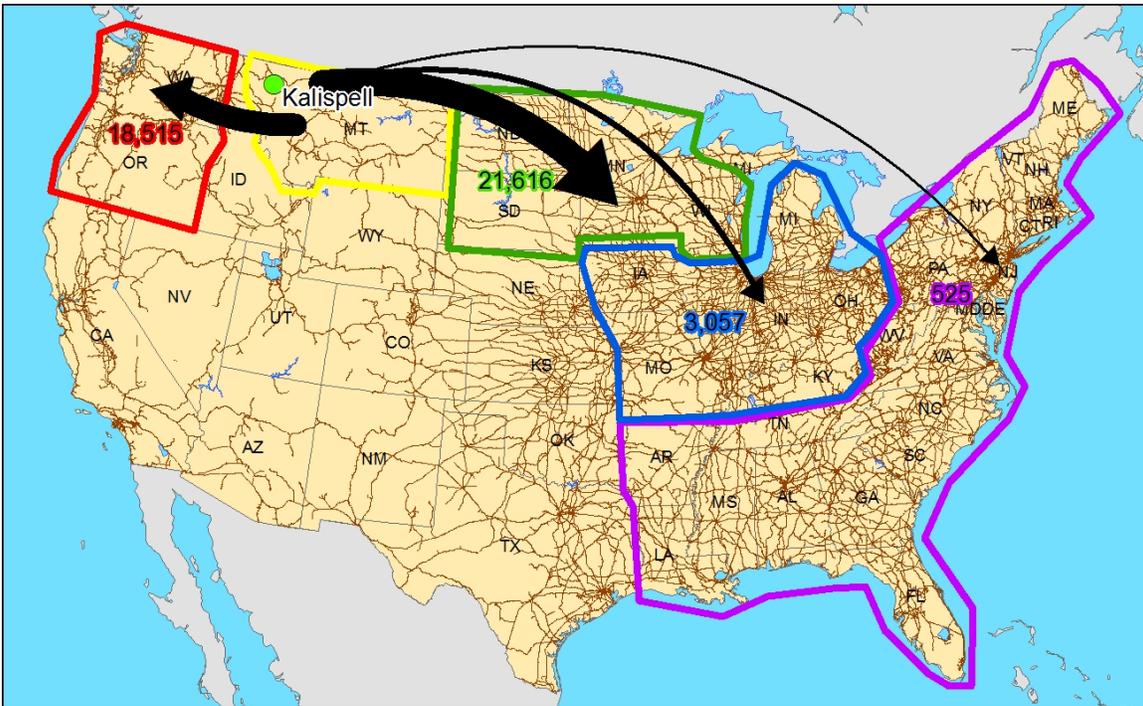


FIGURE 7: MONTANA RAIL EXPORTS (2020)



Source: Freight Analysis Framework Version 3 (FAF3)

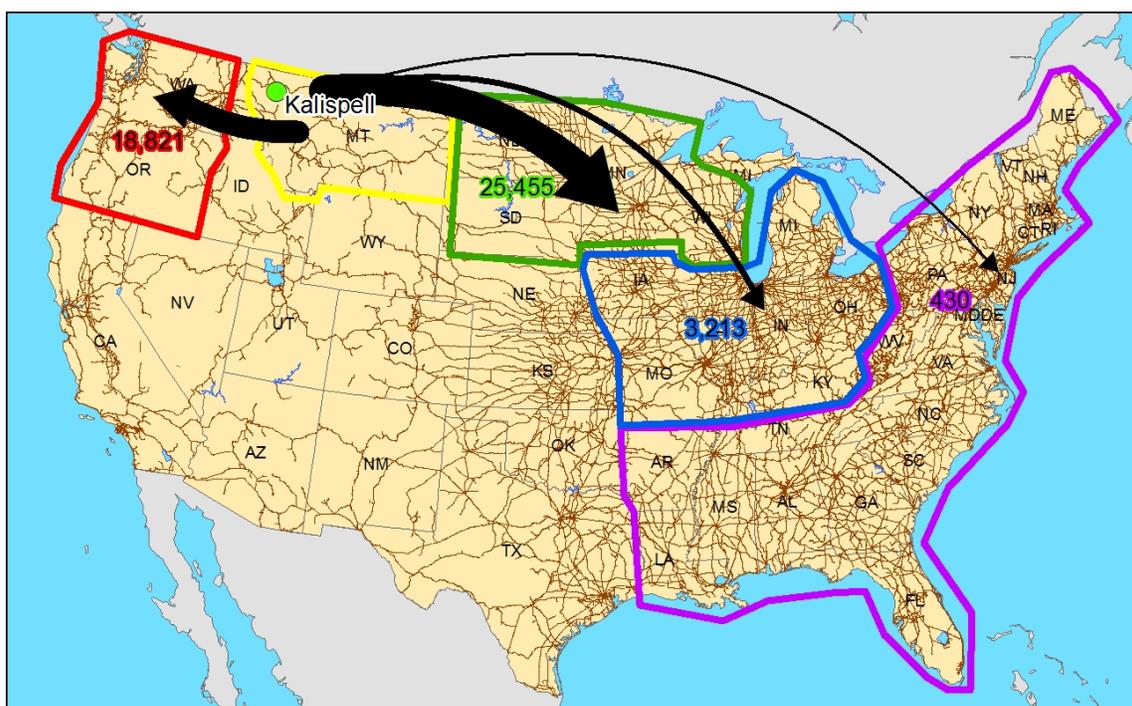
FIGURE 8: MONTANA RAIL EXPORTS (2030)



Source: Freight Analysis Framework Version 3 (FAF3)



FIGURE 9: MONTANA RAIL EXPORTS (2040)



Source: Freight Analysis Framework Version 3 (FAF3)

Montana Commodity Exports

The top commodities shipped within Montana as well as the top commodities shipped out of the state are listed in Table 9. The FAF data does not drill down into specific regions or cities across the state; data is only collected for the entire State of Montana. Therefore, while wood products, metallic ores and miscellaneous manufactured products are not within the top five commodities for the state, they are likely the top export commodities for the Flathead Valley based on the region's economic and natural resources.

Commodities such as electronics and pharmaceuticals were not identified as a top rail shipment in year 2011, but are projected to be the fifth and seventh largest freight commodities shipped within Montana in year 2040. Machinery will continue to be a top export commodity within and from Montana and should continue to spur manufacturing in the Valley. Moreover, shipment of live animals/fish, precision instruments (firearms), mixed freight and articles-base metal may provide additional growth for transload operations at the park.



TABLE 9: COMMODITY EXPORTS WITHIN AND OUT OF MONTANA (2011 - 2040)

Intrastate Exports within Montana			Exports from Montana to Other States		
Commodity	2011	2040	Commodity	2011	2040
Coal-n.e.c.	\$8,645	\$20,984	Coal-n.e.c.	\$9,827	\$8,965
Machinery	\$3,485	\$9,045	Crude petroleum	\$7,773	\$10,793
Gasoline	\$2,959	\$3,293	Live animals/fish	\$5,782	\$12,029
Fuel oils	\$2,338	\$2,490	Cereal grains	\$4,037	\$5,942
Mixed freight	\$1,034	\$2,245	Machinery	\$3,697	\$14,844
Crude petroleum	\$768	--	Mixed freight	\$1,357	\$2,774
Unknown	\$783	\$1,984	Metallic ores	\$972	--
Motorized vehicles	\$638	--	Wood prods.	\$787	--
Wood prods.	\$425	--	Articles-base metal	\$644	--
Other foodstuffs	\$780	\$1,352	Misc. mfg. prods.	\$463	--
Electronics	--	\$2,316	Precision Instruments		\$3,845
Pharmaceuticals	--	\$2,114	Electronics		\$2,246
Live animals/fish	--	\$1,286	Articles-base metal		\$2,085
			Meat/seafood		\$1,955
All Commodities	\$29,150	\$61,289	All Commodities	\$43,252	\$79,891

Source: Freight Analysis Framework Version 3 (FAF3); unit of measure for value is million U.S. dollars (current \$)

A summary of the top five commodity exports within and out of Montana are listed below for years 2011 and 2040.

Within Montana

<u>2011</u>	<u>2040</u>
1. Coal-n.e.c.	1. Coal-n.e.c.
2. Machinery	2. Machinery
3. Gasoline	3. Gasoline
4. Fuel oils	4. Fuel oils
5. Mixed freight	5. Electronics

Out of Montana

<u>2011</u>	<u>2040</u>
1. Coal-n.e.c.	1. Machinery
2. Crude petroleum	2. Live animals/fish
3. Live animals/fish	3. Crude petroleum
4. Cereal grains	4. Coal-n.e.c.
5. Machinery	5. Cereal grains



Freight Shipment through Montana

The largest freight movement that has the potential to directly impact Kalispell is the transportation between the northern central states of Minnesota, North Dakota, South Dakota, and Wisconsin and the northwestern states of Oregon and Washington. Rail traffic from the central states to the west coast is expected to grow dramatically. By 2040, more than 75 million tons of freight per year is expected to be transported by rail from the northern central states through Montana to the northwest as shown in Figure 10, Figure 11, Figure 12 and Figure 13.

The largest freight movement impacting Kalispell is from the northern central states to the west coast. A summary of the top five commodities making this trip for years 2011 and 2040 are listed below.

Commodity Exports through Montana

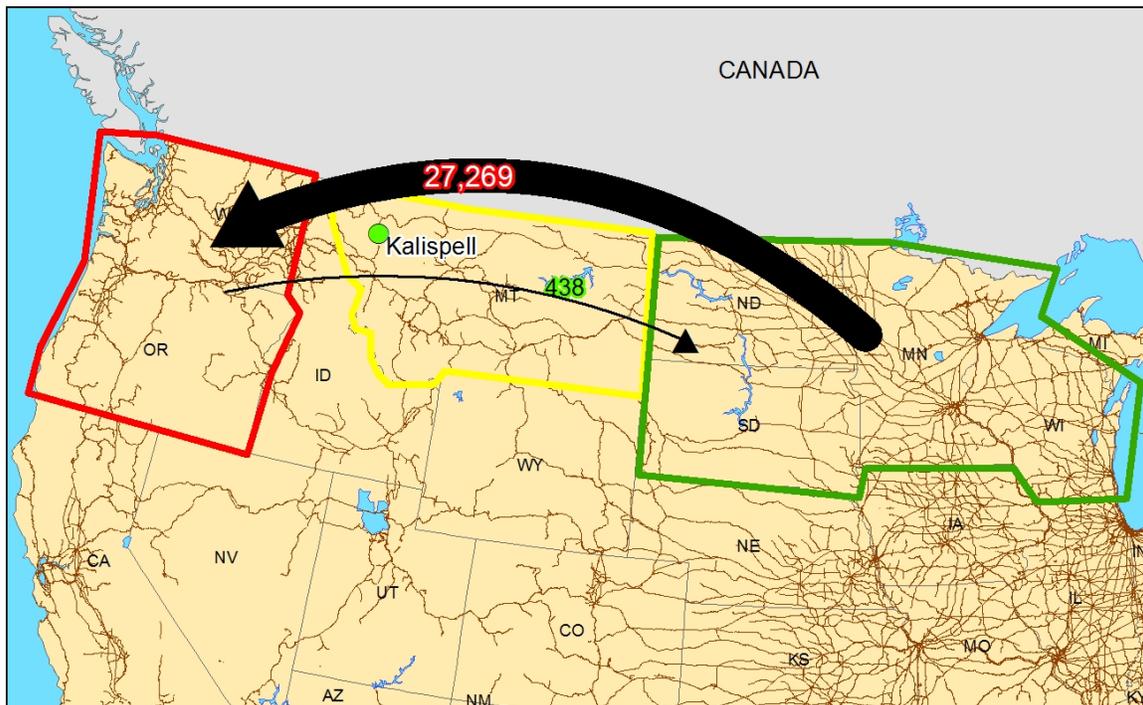
2011

1. Cereal grains
2. Other ag products
3. Gravel
4. Animal feed
5. Other food stuffs

2040

1. Cereal grains
2. Other ag products
3. Gravel
4. Animal feed
5. Alcoholic beverages

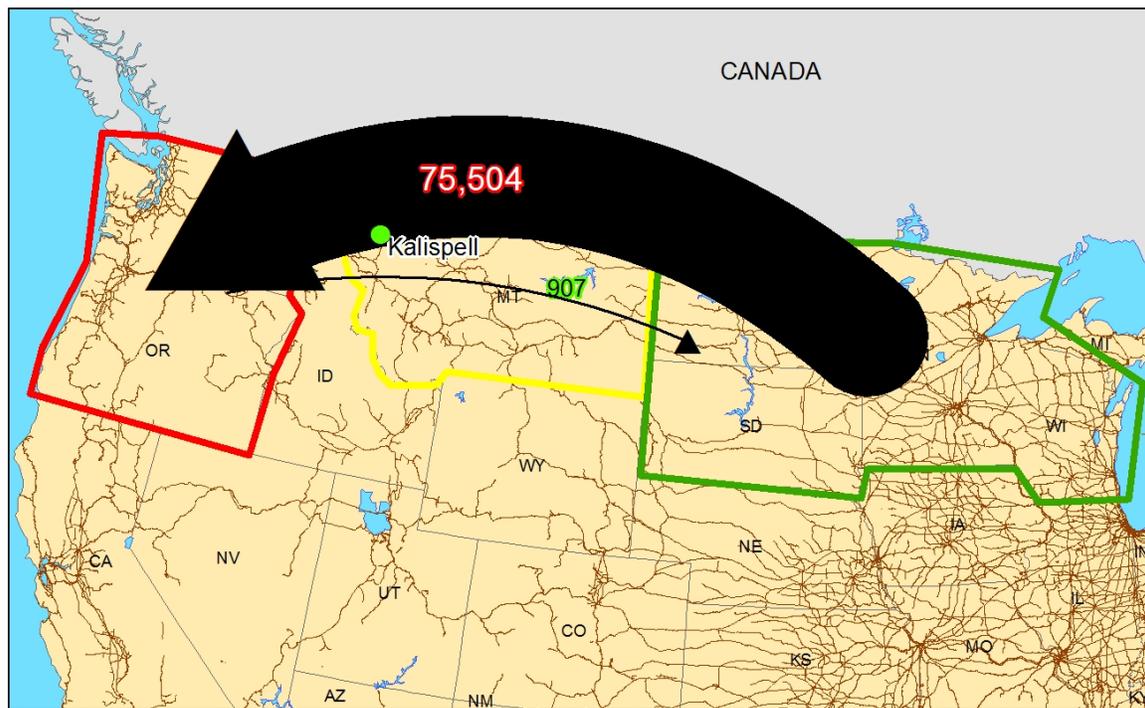
FIGURE 10: RAIL SHIPMENTS THROUGH KALISPELL, MONTANA (2011)



Source: Freight Analysis Framework Version 3 (FAF3)



FIGURE 13: RAIL SHIPMENTS THROUGH KALISPELL, MONTANA (2040)



Source: Freight Analysis Framework Version 3 (FAF3)

Canadian Imports & Exports

There is a growing amount of freight that is moved on rail between the United State and Canada through Montana. Below are maps showing the amount of freight that is imported and exported on rail between Montana and Canada. All measures are in 1000 tons of freight annually. These figures represent rail freight shipped through Montana, even though Montana might not be the point of origin. It includes products loaded on trains in other states that cross the border into Montana.

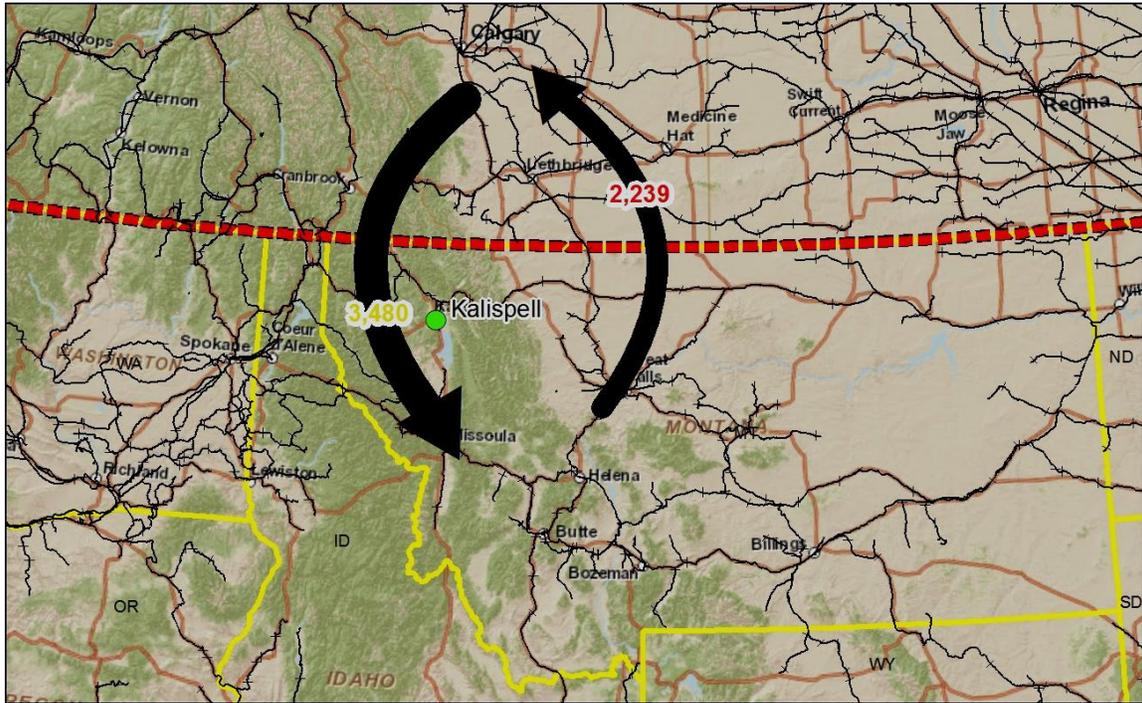
The US imports about 1,200,000 more tons annually than it exports, however the trend is expected to change in the future as shown in Figure 14, Figure 15, Figure 16, and Figure 17. By 2040, the US is expected to have larger rail exports to Canada than rail imports. Again all measures include only freight entering and exiting the US on rail through the State of Montana.

Exports are expected to almost quadruple in the next 30 years as trade increases dramatically. Imports grow almost as rapidly, while only a handful of products are shipped through Montana.

The top six commodities exported and imported are displayed in Figure 18 and Figure 19. A significant break was evident in the tonnage shipped for the top six commodities. Coal imports are expected to grow significantly more than the other top commodities over the next 30 years. Two export commodities, non-metallic minerals (sand, gravel, cement, stone, clay) and metallic ores (aluminum, copper, gold, iron) comprise the majority of exports. However, in year 2040 they are projected to represent 94 percent of all rail exports through Montana. FCEDA should focus on industries as potential tenants that could mine/create the commodities.

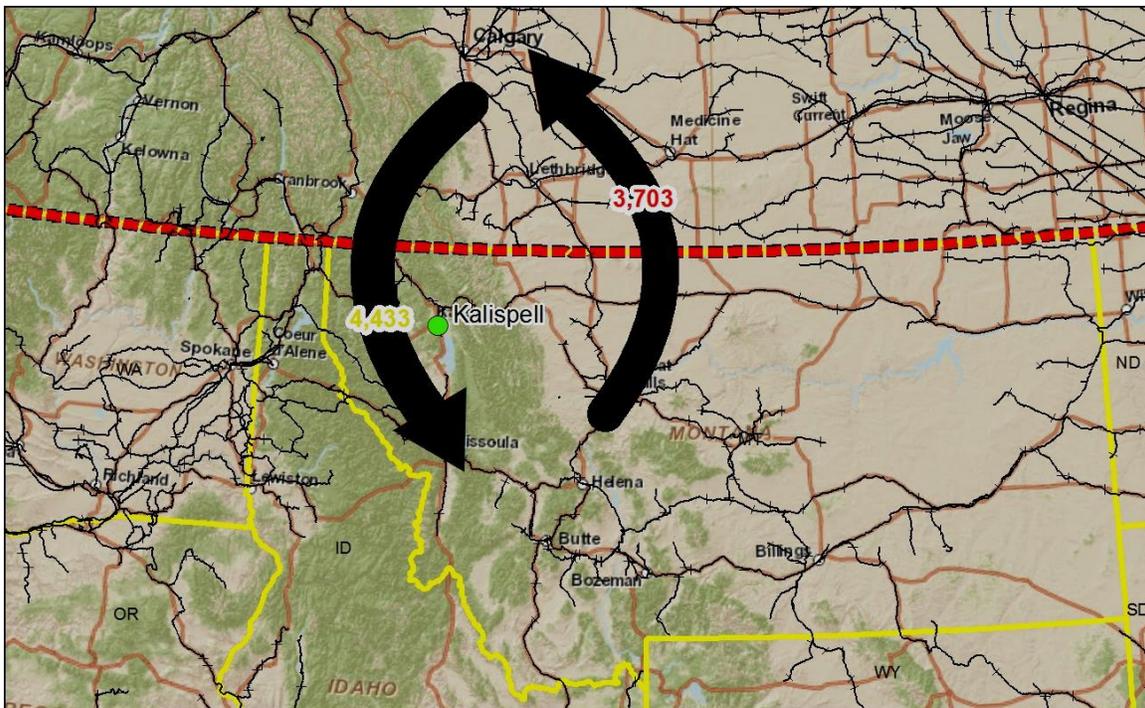


FIGURE 14: RAIL IMPORTS AND EXPORTS TO CANADA (2011)



Source: Freight Analysis Framework Version 3 (FAF3)

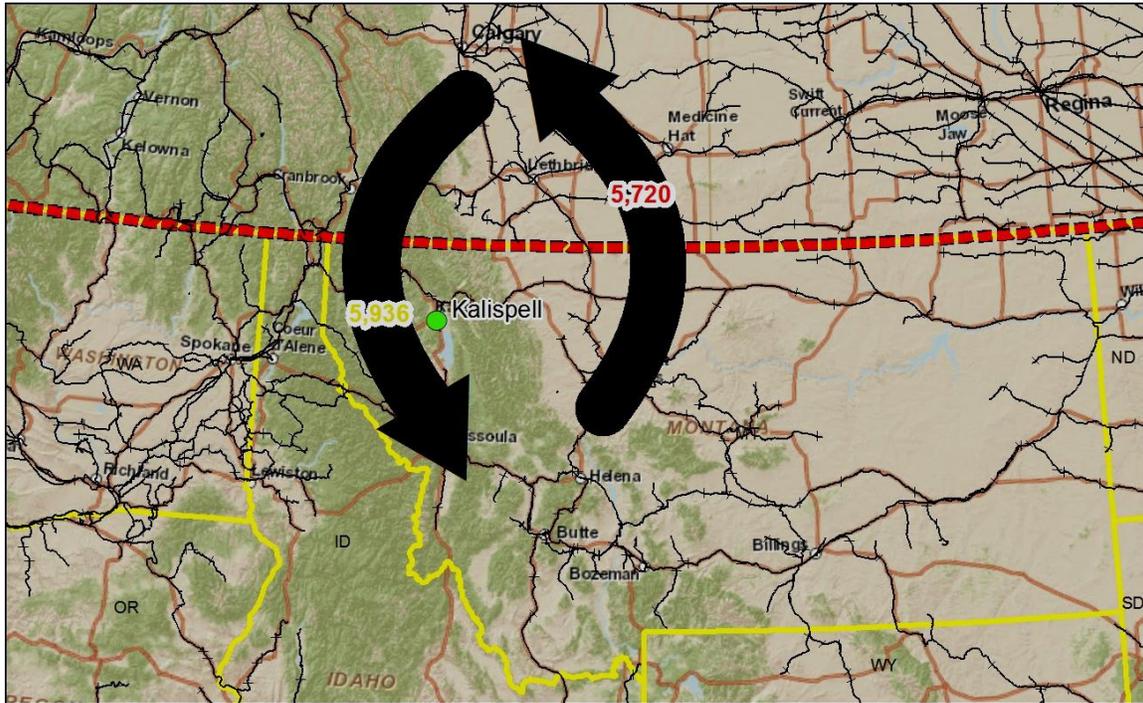
FIGURE 15: RAIL IMPORTS AND EXPORTS TO CANADA (2020)



Source: Freight Analysis Framework Version 3 (FAF3)

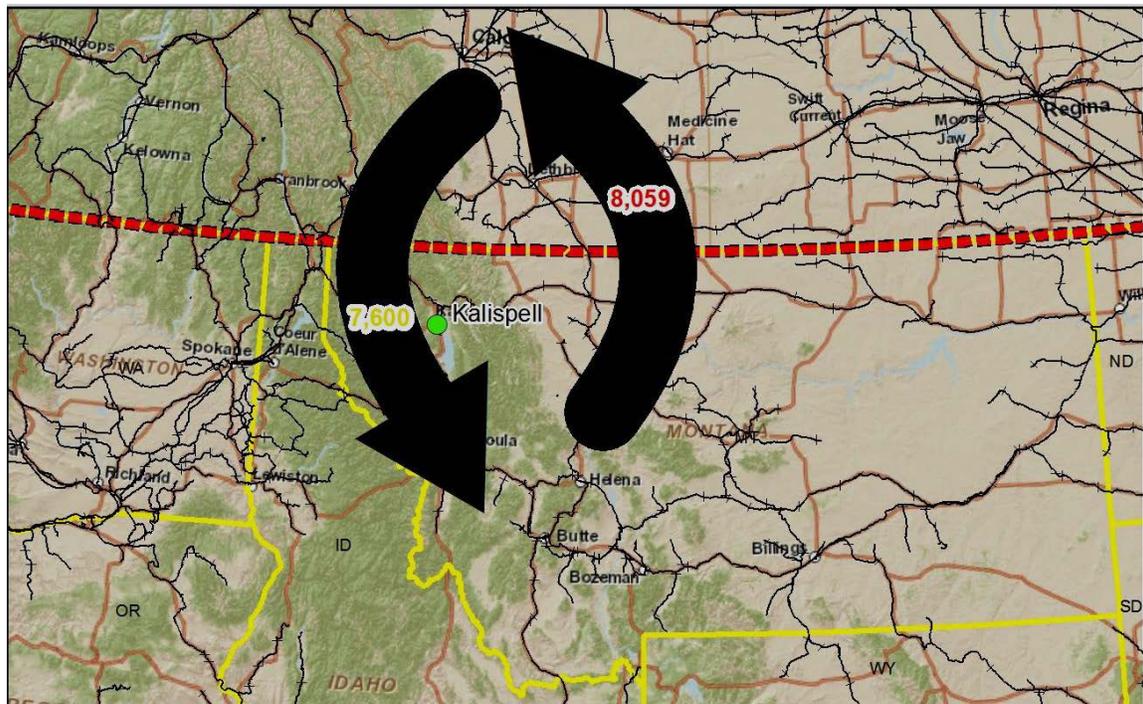


FIGURE 16: RAIL IMPORTS AND EXPORTS TO CANADA (2030)



Source: Freight Analysis Framework Version 3 (FAF3)

FIGURE 17: RAIL IMPORTS AND EXPORTS TO CANADA (2040)



Source: Freight Analysis Framework Version 3 (FAF3)



FIGURE 18: TOP SIX RAIL EXPORTS FROM MONTANA TO CANADA

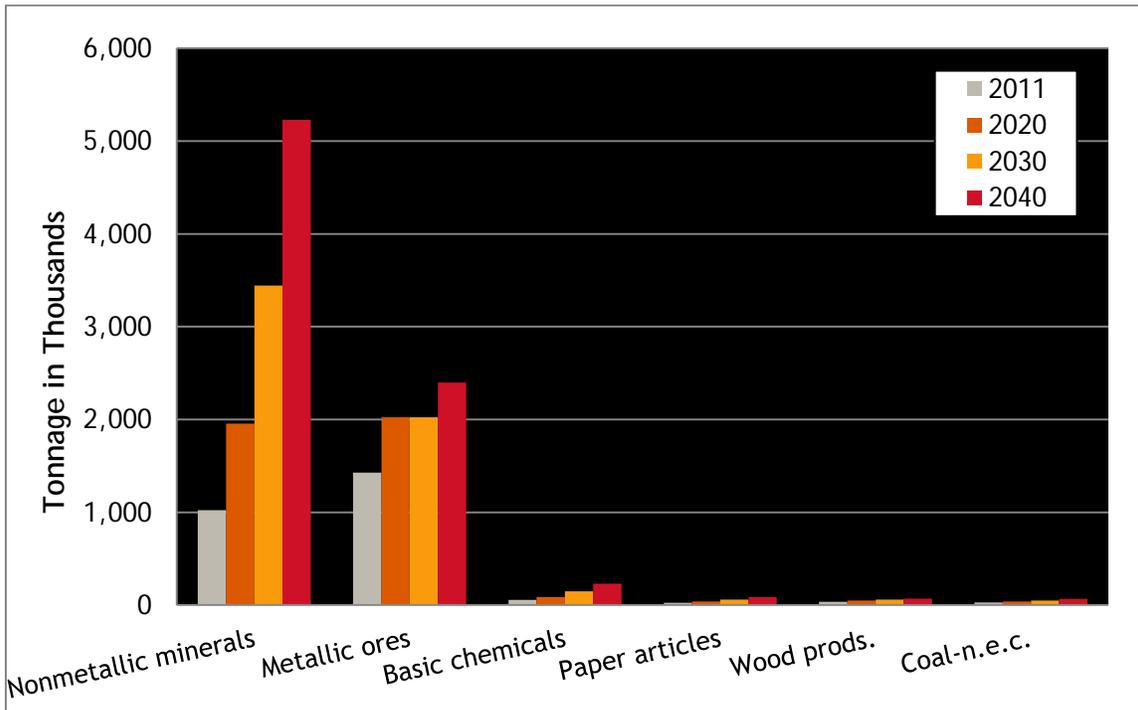
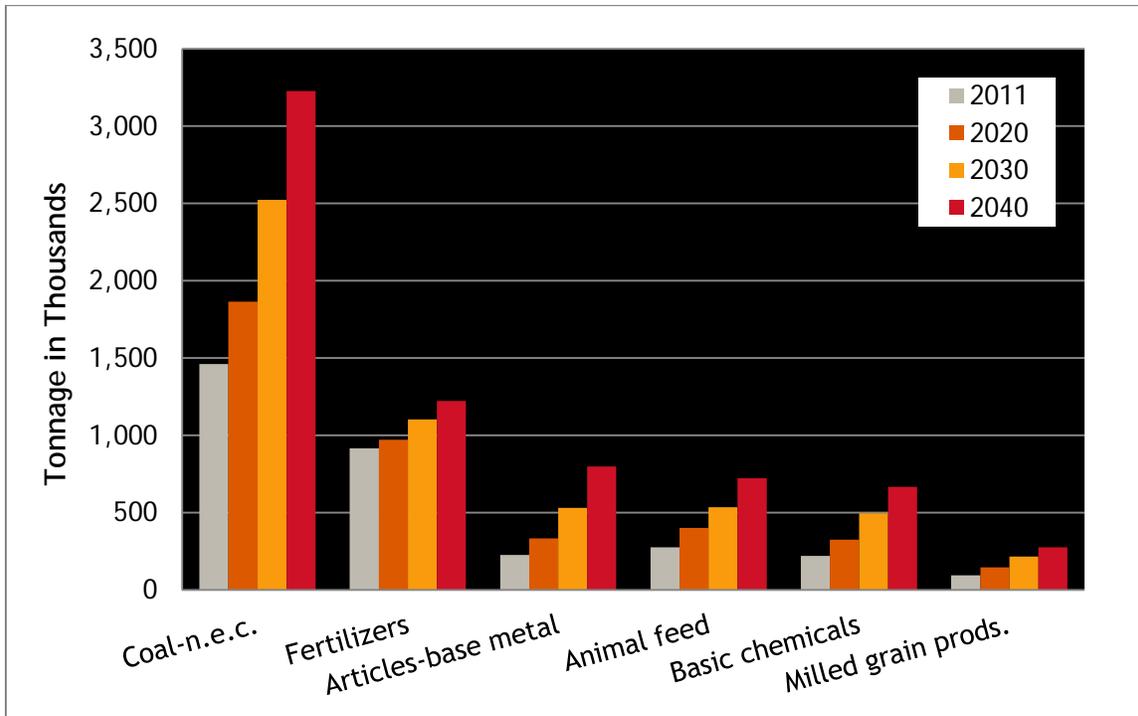


FIGURE 19: TOP SIX RAIL IMPORTS TO MONTANA FROM CANADA



IDENTIFICATION OF SPECIFIC LEADS FOR RECRUITMENT

Specific leads for recruitment are summarized in Table 10. The preliminary list is a starting point to begin marketing to businesses in target industries. As the project progresses, potential tenants will be identified and analyzed per available site and business requirements. Specific industries should only include those that require rail service or service rail-oriented businesses. The industrial park is not intended for businesses or commercial enterprises that ship via truck only.

TABLE 10: LEADS FOR RAIL INDUSTRIAL PARK

Business	Industry Type	Potential for Relocation/Expansion
Blackwell Enterprises	Construction/Trusses	Medium
Cenex Harvest States	Agriculture/Fertilizer	High
Cold Front Cabins	Housing	Low
Countryside Welding	Oil Tank Construction	Low
Fastenal	Construction	Medium
Glacier Stone	Landscaping Stone	Medium
Great Northern Ag	Agriculture/Pulses	Medium
HE Simpson	Lumber	High
Northwest Drywall	Construction/Drywall	High

PROJECT FUNDING DEVELOPMENT

Several options including private and public funding mechanisms exist for site improvements to the rail-served industrial park. A combination of both private and public options should be implemented to ensure the success and viability of the park. If only one option is implemented, the success of the park hinges on that entity making investment decisions; however, combining public and private funds ensures all parties are interested and vested in the park's success.

MWED has a detailed outline of public grants, loan programs and other assistance opportunities, which are listed below, to help bring new industries or relocate existing businesses to the park. Private options are also included and should be utilized whenever feasible.

Tax increment finance (TIF) districts are likely to be the most economical funding mechanism to develop the rail park's basic infrastructure (roads, water, sewer). However, KLJ recommends waiting until the State Legislature convenes in April 2013 before moving forward with implementing a TIF district as state laws regarding TIF application are currently being changed.



EDA grants for public infrastructure and economic development facilities are another option to finance improvement costs. Currently, the funding request deadlines are June 13, 2013 for funding cycle 4 of FY 2013; and September 13, 2013 for funding cycle 1 of FY 2014. Should MWED and FCEDA choose to pursue EDA assistance the Feasibility Analysis with improvement costs will be critical to the grant application and solicitation.

Public Option Funding

- Workforce Training Grant Programs
- Relocation Grant Programs
- Montana Board of Investment Finance and Loan Programs
- Tradeshow Assistance
- Tax Credits, Abatements and Exemptions
- Federal Loan and Grant Sources (EDA)
- Tax Increment Finance Districts (TIF)
- Transportation Investment Generating Economic Recovery (TIGER) Grants

Private Option Funding

- Land-Owner Investment
- Rail Company Investment
- Lease-to-Own Programs

IDENTIFICATION OF APPROPRIATE OPERATING MODEL

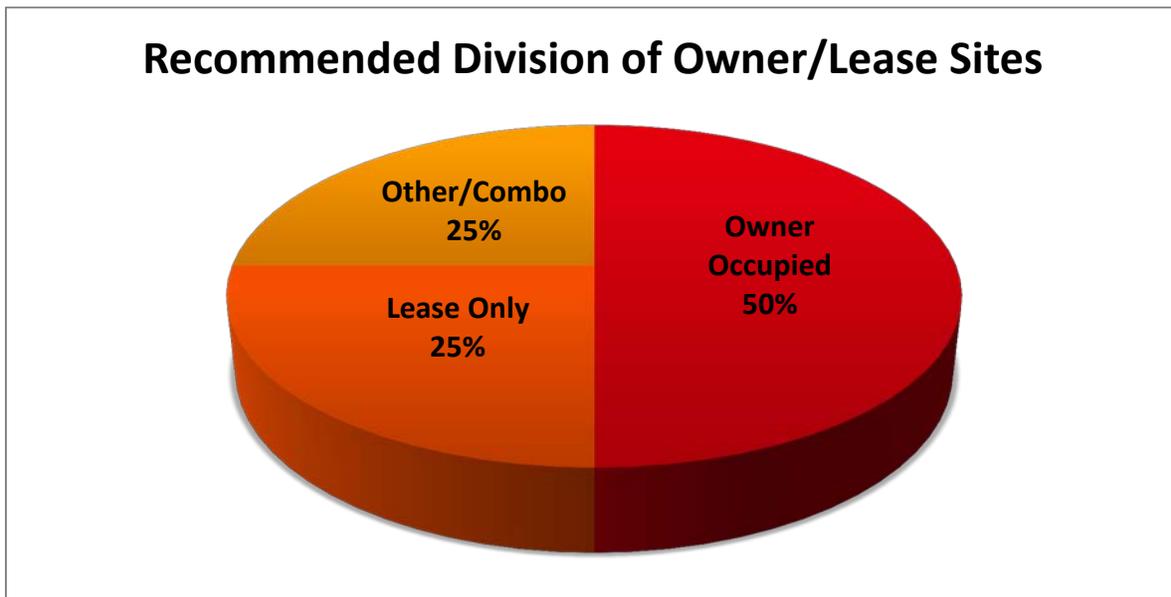
The operating model, which is shown in Figure 20, should include a mix of both lease and owner-occupied units to provide a flexible environment for changing economies. The ability to lease property allows FCEDA to adapt to businesses that may leave or change when new technologies become available or when new businesses relocate to the Flathead Valley. While no specific formula of what percentage of sites should be owned versus leased, FCEDA should consider the dynamics of what the organization wants to accomplish.

KLJ recommends as least 25 percent of the sites or acreage should be reserved for leases. This provides businesses and industries, which do not want to own land, the ability to locate within the park without having to worry about land costs and associated taxes. Lease-only sites also provide potential start-up businesses with an opportunity to that would not be afforded to them if the business had to purchase land. Because FCEDA wants to encourage job creation, lease-only sites offer an excellent avenue to spur new businesses associated with rail.

KLJ recommends at least 50 percent of the sites or acreage should be reserved for owner occupied sites. This provides FCEDA and the City of Kalispell with an increased tax base, but also provides future businesses the long-term commitment of staying with the park. Additionally, industries that own land are more likely to see that the park succeeds as they have invested their own time and money. In turn, these businesses tend to be engaged with marketing and recruiting other potential businesses that will enhance the long-term viability of the park.



FIGURE 20: OPERATING MODEL FOR LEASE OR SALE SITES



All sites should be reserved for rail-only businesses; the exception may be for one or two parcels that don't have access to rail siding or a need for large shipments. However, FCEDA should be aware that selling or leasing non-rail-served industries may compromise the intent of the park and the future operability of sites should businesses relocate or close. The issue arises when owner-occupied sites sell property or when lease-only sites remain unused for an extended period. It is not a problem when the park first opens, but occurs 5, 10 or 20 years after the industrial park first opened its doors.

Several options exist for ensuring the intent of the park specifically targets and retains rail-served industries well into the future.

Deed Restrictions and Development Agreements

FCEDA can place restrictions on the sale of land that only allow rail-oriented businesses to locate in the park thus preserving the intent of the rail park should future sales occur between multiple owners. FCEDA can also create specific language using a development agreement between a future property owner and the City of Kalispell specifying rail-served industries only be allowed to operate within the park. The development agreement could require future businesses to produce documents showing the number of potential rail carload shipments or an agreement with BNSF or Mission Mountain to ship materials. Failure to produce such information would allow FCEDA to deny the sale/lease of the property to a business.



Owner/Lease Agreements

Owner and lease agreements are similar to development agreements, which specify what businesses can locate within the rail park. However, the owner and lease agreements should also include a right of first refusal (ROFR) and right of first offer (ROFO). These two mechanisms allow rail-served industries or railroad companies to be given preferential treatment should land become available.

A ROFR would specify that a land owner be required to offer to sell the land at a fixed price to FCEDA or BNSF before he/she sells the land to another business or property owner. If FCEDA declined to buy the land, the current owner could sell to any entity for the same fixed price.

A ROFO would require a property owner to negotiate a deal with FCEDA or BNSF; should the deal collapse, the property owner would be free to begin negotiations with another entity without price restrictions.

Zoning Requirements

The City of Kalispell could delineate through its zoning code two options to encourage and/or restrict uses to rail-served industries only. The first option would be to zone the land as I-2 Heavy Industrial with a planned unit development (PUD) overlay. The PUD would specify terms and conditions that must be met before building in the park; this is usually done in conjunction with a development agreement.

The second option is to create a rail-only industrial zone that would apply to FCEDA's and BNSF's property. This option may be more cumbersome and time-consuming than the first option, but it could specify that specific uses only be allowed to operate while prohibiting other non-rail-served businesses from operating.

Community Rail Spur

A community rail spur should be developed within the park for sites that do not have direct access to rail siding. The spur could also service businesses and industries located throughout the Flathead Valley, but do not have access to rail. Preliminary site drawings will include a community spur; although if BNSF and Mission Mountain provide overwhelming evidence to the contrary then a community spur may not be needed.

Transload Operator

Transloading is the transfer of goods and commodities via different transportation modes such as truck to rail, rail to truck, truck to barge or a combination of any mode. A qualified transloader at the park has the potential to improve revenue for FCEDA as FCEDA should lease out operations on a term-limit (i.e. five years). This provides FCEDA and BNSF to find a new transloader should the current operator fail to provide quality and efficient service. Additionally, a transloader that has previous experience tends to have a comprehensive understanding of what is needed to service an industrial park that has on-site shipping as well as off-site (community spur) needs. Transload operations also allow businesses without direct access to rail to ship goods via multiple modes.



RECOMMENDATIONS

MWED and FCEDA should pursue industries such as lumber companies, scrap steel, and other grain elevators/agricultural uses. In addition, industries related to creating machinery and other precision instruments should be targeted for the rail park.

Emerging technologies such as electronics and pharmaceuticals and metallic ores/non-metallic minerals may be viable industries to locate within the park as long as they can prove a need for rail shipments. If they cannot prove a need for rail service, the business should not be allowed.

Businesses that would utilize transload facilities are important to target because of their need to ship materials via truck and rail. Example industries that could utilize transload facilities are big box retailers, large good producers (recreational toys such as ATVs, boats, snowmobiles), and liquid/petroleum products. Creating a rail park with a transload operator will help stimulate rail freight movements for the Flathead County and thus improve economic development potential for the entire Flathead Valley. More importantly, the transload operator will market freight shipments to potential businesses as a viable and economical option.

For sale and for lease I sites should be created to foster a mix of relocation or expansion options for potential businesses. While no “one size fits all” financial model can be established in terms of the number of sale versus lease sites, FCEDA should reserve at least 25 percent of the sites for each option.

FCEDA should work with the City of Kalispell and BNSF to create development agreements, deed restrictions or similar owner/lease agreements to foster rail-only industry development within the park. Should a site become available that does not have access to rail siding, a potential non-rail oriented business could occupy the site. However, the site may provide a rail-oriented business, may only need rail service a couple times a year, a perfect opportunity without having to pay a premium for rail siding.

A community spur should be created for industries throughout the Flathead Valley. While not all businesses may be able to locate within the park, they may need rail service. In addition, as the Valley continues to grow, some industries may only have a need for shipping rail without having to have direct access to rail siding on a daily, weekly or monthly schedule.

FCEDA should lease out transload operations to a qualified transloader that has previous experience loading and unloading rail cars as well as loading truck shipments onto rail and vice versa. A qualified transloader will improve efficiency at the park, thus improving relations with businesses in the park as well as businesses throughout the area. Because FCEDA owns the property, a lease with a potential transloader is the preferred operating model as it will allow multimodal shipments throughout the Flathead Valley thus providing service to businesses that would otherwise not have access to rail.

