



# SCCRTC Rail Line Ownership



Business and Management Plan Analysis

# SCCRTC Rail Line Ownership - *Introduction*

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Santa Cruz County Regional Transportation Commission (RTC) is analyzing four (4) Business and Management Scenarios to better understand the economics surrounding RTC ownership of the Watsonville – Davenport Rail Line corridor, with Freight Rail and potential Passenger Rail operations conducted in the corridor by private entities.

The purpose of the analysis of each Business and Management Scenario is to identify:

Economic impact  
of each Scenario  
on the RTC

Economic impact  
of each Scenario  
on Shortline  
Railroad  
operator

Economic impact  
of each Scenario  
on Passenger  
Operations

# SCCRTC Rail Line Ownership - *Introduction*

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The four Scenarios chosen for analysis are:

## Scenario 1

Cement plant in Davenport is not operational. A private shortline railroad provides freight rail service to all customers in the corridor and develops seasonal passenger services over selected portions of the corridor (Santa Cruz – Davenport).

## Scenario 2

Cement plant in Davenport is not operational. Rail line is rail-banked past Milepost 3. A private shortline railroad provides freight rail service to Watsonville customers. A private entity separately develops seasonal passenger rail service between Santa Cruz and Davenport.

# SCCRTC Rail Line Ownership - *Introduction*

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## Scenario 3

Cement plant in Davenport remains in continued operation at historical traffic volumes. A private shortline railroad provides freight rail services to all customers in the corridor.

## Scenario 4

Cement plant in Davenport remains in continued operation at historical traffic volumes. A private shortline railroad provides freight rail service at all customers in the corridor and develops seasonal passenger services over selected portions of the corridor (Santa Cruz – Davenport).

# SCCRTC Rail Line Ownership – *Business and Management Plan Reconciliation*

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A full Business and Management Plan Report (the “Plan”) was completed for the SCCRTC in December 2008, providing a complete descriptive narrative of the operational and maintenance requirements of, and potential opportunities in the corridor from Watsonville to Davenport.

While the Plan provides an accurate overview of the property, the Financial Analysis contained in this document differs in some respects from that contained in the Plan. Primary areas of difference include:

1. Costs for Bridge Maintenance and Track Maintenance (ties, rail and ballast) were included in the original Plan. In this document, Bridge Maintenance is assumed minimal for first 5 years due to repairs done by SCCRTC and Track Maintenance (ties, rail and ballast) are assumed to be funded from excess cash flow, should such excess exist.
  2. Revenue per car figures have been refined in this document vs. the Plan.
  3. General refinement in overall operating costs attributable to updated information based on recent developments in the corridor.
  4. Refinement in revenues and costs for the SCCRTC.
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# Scenario 1

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Cement plant in Davenport is not operational. A private shortline railroad provides freight rail service to all customers in the corridor and develops seasonal passenger services over selected portions of the corridor (Santa Cruz – Davenport).

# SCCRTC Rail Line Ownership - *Scenario 1 Operating Assumptions - RTC*

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The following Assumptions are used in analyzing the economic impact of Scenario 1 on the RTC:

1. RTC purchase the rail line and improves the bridges
2. RTC covers portion of maintenance expenses incurred outside the 20 foot Freight Easement
3. RTC receives an annual revenue share payment equivalent to 5% of the revenue received by the shortline on every carload after 2000 carloads are achieved each year
4. RTC receives \$1.00 per passenger on Excursion Service
5. RTC receives \$1.00 / day / car for cars stored on the line
6. RTC keeps lease revenue and manages the property:
  - Assumes initial lease revenue of \$60,000, growing to \$200,000 by Year 5
  - RTC carries General Liability insurance – assumes \$60,000 in annual premium
  - Property management will require ½ FTE Senior Planner position at an assumed annual fully-burden pay of \$120,000
  - RTC hires a consultant to manage Freight and Passenger services operators at an assumed 10 hours per month at \$150 / hour

# SCCRTC Rail Line Ownership - Scenario 1 Operating Results - RTC

| Santa Cruz Rail Line - Scenario 1                 |                   |                   |                   |                  |                  |
|---|-------------------|-------------------|-------------------|------------------|------------------|
| SCCRTC Income Statement                           |                   |                   |                   |                  |                  |
|   | Year 1            | Year 2            | Year 3            | Year 4           | Year 5           |
| <b>Headcount</b>                                  | <b>0.50</b>       | <b>0.50</b>       | <b>0.50</b>       | <b>0.50</b>      | <b>0.50</b>      |
| <b>Revenue:</b>                                   |                   |                   |                   |                  |                  |
| Revenue Share From Freight                        | \$-               | \$-               | \$-               | \$-              | \$-              |
| Revenue Share from Passenger / Tourist Operations | \$-               | \$-               | \$15,000          | \$23,000         | \$30,000         |
| Revenue Share from Car Storage                    | \$18,250          | \$18,250          |                   |                  |                  |
| Lease Revenue                                     | \$60,000          | \$95,000          | \$130,000         | \$165,000        | \$200,000        |
| <b>Total Revenues</b>                             | <b>\$78,250</b>   | <b>\$113,250</b>  | <b>\$145,000</b>  | <b>\$188,000</b> | <b>\$230,000</b> |
| <b>Operating Expenses:</b>                        |                   |                   |                   |                  |                  |
| Personnel   | \$60,000          | \$61,200          | \$62,424          | \$63,672         | \$64,946         |
| Insurance   | \$60,000          | \$61,800          | \$63,654          | \$65,564         | \$67,531         |
| Track and Bridge Maintenance                      | \$23,780          | \$24,493          | \$25,228          | \$25,985         | \$26,765         |
| Contracted Services for Oversight                 | \$18,000          | \$18,000          | \$18,000          | \$18,000         | \$18,000         |
| <b>Operating Expenses</b>                         | <b>\$161,780</b>  | <b>\$165,493</b>  | <b>\$169,306</b>  | <b>\$173,221</b> | <b>\$177,241</b> |
| <b>Net Income</b>                                 | <b>\$(83,530)</b> | <b>\$(52,243)</b> | <b>\$(24,306)</b> | <b>\$14,779</b>  | <b>\$52,759</b>  |

- Additional property Lease revenues may be derived over and above those used for modeling purposes.
- Track and Bridge Maintenance figures cover primarily weed control (spraying and brushing)
- Insurance premium amounts are estimated



# SCCRTC Rail Line Ownership - *Scenario 1 Operating Assumptions - Shortline*

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The following Assumptions are used in analyzing the economic impact of Scenario 1 on the Shortline operator:

1. Purchases one locomotive vs. leasing
2. Provides 2 day / week operation
3. Maintains Right of Way to Excepted Class standards to Milepost 18.7; Class I standards beyond
  - Maintenance of Right of Way does not include tie or rail replacement.
  - Maintenance of Right of Way costs are approximately 20% below costs developed by HDR for line maintenance. This captures the likely lower cost options that may be available and realistic for a shortline
  - Maintenance of Right of Way costs assume minimal Bridge maintenance for first 5 years as Bridges are improved by RTC
4. No growth in freight traffic volumes is projected
5. Freight operations also owns Passenger operations, but is compensated by Passenger for pro rata share of current Right of Way maintenance requirements
6. Net income from Passenger operations is add “below the line”
7. Freight operations also provides car storage in Years 1 and 2 with an ongoing daily average of 50 cars stored per day throughout a full year

# SCCRTC Rail Line Ownership - Scenario 1 Operating Results - Shortline

| <b>Santa Cruz Rail Line - Scenario 1</b>             |                    |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Freight Railroad Income Statement</b>             |                    |                    |                    |                    |                    |
|  | Year 1             | Year 2             | Year 3             | Year 4             | Year 5             |
| <b>Headcount</b>                                     | <b>3.00</b>        | <b>3.00</b>        | <b>3.00</b>        | <b>3.00</b>        | <b>3.00</b>        |
| <b>Carloads</b>                                      | <b>456</b>         | <b>456</b>         | <b>456</b>         | <b>456</b>         | <b>456</b>         |
| <b>Revenue:</b>                                      |                    |                    |                    |                    |                    |
| <b>Linehaul Revenue</b>                              | \$148,100          | \$151,787          | \$157,157          | \$161,913          | \$166,813          |
| <b>Non-Linehaul Revenue</b>                          |                    |                    |                    |                    |                    |
| Car Storage Income                                   | 45,625             | 45,625             |                    |                    |                    |
| Car Storage Switching Income                         | 12,500             | 12,500             |                    |                    |                    |
| Maintenance Reimbursement                            |                    |                    | 143,512            | 147,817            | 152,252            |
| Income from Passenger                                |                    |                    |                    |                    |                    |
| <b>Total Revenues</b>                                | <b>\$206,225</b>   | <b>\$209,912</b>   | <b>\$300,670</b>   | <b>\$309,730</b>   | <b>\$319,065</b>   |
| <b>Operating Expenses:</b>                           |                    |                    |                    |                    |                    |
| <b>Transportation</b>                                | \$103,720          | \$106,382          | \$109,123          | \$111,947          | \$114,855          |
| <b>Roadway Maintenance</b>                           |                    |                    |                    |                    |                    |
| Signals / Crossings                                  | \$103,625          | \$106,734          | \$109,936          | \$113,234          | \$116,631          |
| Structures / Track                                   | \$35,675           | \$36,745           | \$37,848           | \$38,983           | \$40,153           |
| Vegetation   | \$75,560           | \$77,827           | \$80,162           | \$82,566           | \$85,043           |
| Other (including Labor)                              | \$104,000          | \$107,120          | \$110,334          | \$113,644          | \$117,053          |
| <b>Equipment Maintenance</b>                         | \$30,000           | \$31,125           | \$32,681           | \$34,315           | \$36,031           |
| <b>General &amp; Administrative</b>                  | \$152,300          | \$157,109          | \$162,074          | \$167,201          | \$172,495          |
| <b>Operating Expenses Before Deprec. &amp; Amtz.</b> | <b>\$604,880</b>   | <b>\$623,041</b>   | <b>\$642,157</b>   | <b>\$661,890</b>   | <b>\$682,261</b>   |
| <b>EBITDA</b>  | <b>\$(398,655)</b> | <b>\$(413,129)</b> | <b>\$(341,488)</b> | <b>\$(352,160)</b> | <b>\$(363,196)</b> |
| <b>Net Income from Passenger / Tourist</b>           | \$-                | \$-                | \$(48,608)         | \$(160,217)        | \$(269,338)        |
| <b>Interest Expense</b>                              | \$(2,385)          | \$-                | \$-                | \$-                | \$-                |
| <b>Depreciation and Amortization Expense</b>         | 37,000             | 37,000             | 37,000             | 37,000             | 37,000             |
| <b>Total Operating Expenses</b>                      | <b>\$639,495</b>   | <b>\$660,041</b>   | <b>\$630,549</b>   | <b>\$538,673</b>   | <b>\$449,923</b>   |
| <b>Net Income</b>                                    | <b>\$(433,270)</b> | <b>\$(450,129)</b> | <b>\$(329,880)</b> | <b>\$(228,943)</b> | <b>\$(130,858)</b> |

•An additional \$107,000 of "Tax Credit" opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.

•Car Storage Storage and Switching Income could be higher if average number of cars stored is higher (50 cars have been assumed while up to 100 cars may be stored at any one time) and /or Storage periods are shorter terms and a higher turnover exists. This has not been modeled and is subject to many factors.

•Additional income may be derived for Signal Maintenance Income from the California Public Utilities Commission. This has not been modeled.

# SCCRTC Rail Line Ownership - *Scenario 1 Operating Assumptions – Passenger*

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The following Assumptions are used in analyzing the economic impact of Scenario 1 on the Passenger operator:

1. Begins in Year 3
2. May – September operating schedule
3. Reimburses Freight operations for representative share of current Maintenance of Way costs. Reimbursement is based on proportionate share of Passenger Train Mile operated vs. Freight Train Miles operated.
4. Owned by Freight operator and Net Income is imputed to Freight Operations “below the line”

# SCCRTC Rail Line Ownership - Scenario 1 Operating Results – Passenger

| Santa Cruz Rail Line Scenario 1                           |            |            |                  |                    |                    |
|---|------------|------------|------------------|--------------------|--------------------|
| Tourist Operations  |            |            |                  |                    |                    |
| Tourist Train Passenger Volumes                           | Year 1     | Year 2     | Year 3           | Year 4             | Year 5             |
| Dinner Trains   |            |            | 5,000            | 8,000              | 11,000             |
| Excursion Trains  |            |            | 10,000           | 15,000             | 19,000             |
| <b>Total Tourist Train Passenger Volumes</b>              |            |            | <b>15,000</b>    | <b>23,000</b>      | <b>30,000</b>      |
| Tourist Train Operations Revenues                         |            |            |                  |                    |                    |
| Revenue per Passenger - Dinner                            |            |            | \$71.42          | \$73.56            | \$75.77            |
| Revenue Per Passenger - Tourist                           |            |            | \$33.33          | \$34.33            | \$35.36            |
| <b>Dinner Trains</b>                                      | \$-        | \$-        | <b>\$357,100</b> | <b>\$588,501</b>   | <b>\$833,464</b>   |
| <b>Excursion Trains</b>                                   | -          | -          | <b>333,300</b>   | <b>514,949</b>     | <b>671,836</b>     |
| <b>Total Tourist Train Revenues</b>                       | <b>\$-</b> | <b>\$-</b> | <b>\$690,400</b> | <b>\$1,103,449</b> | <b>\$1,505,300</b> |
| Tourist Train Operating Expenses                          |            |            |                  |                    |                    |
| Operating Expenses  | \$-        | \$-        | \$483,280        | \$772,415          | \$1,053,710        |
| Track Usage Fees to Freight Railroad (for Maintenance)    | -          | -          | 143,512          | 147,817            | 152,252            |
| Revenue Share with SCCRTC                                 | -          | -          | 15,000           | 23,000             | 30,000             |
| <b>Total Operating Expenses</b>                           |            |            | <b>641,792</b>   | <b>943,232</b>     | <b>1,235,962</b>   |
| <b>Net Income</b>   | <b>\$-</b> | <b>\$-</b> | <b>\$48,608</b>  | <b>\$160,217</b>   | <b>\$269,338</b>   |
| <b>Train Starts - Dinner Train</b>                        |            |            | <b>50</b>        | <b>80</b>          | <b>110</b>         |
| <b>Train Starts - Excursion Train</b>                     |            |            | <b>100</b>       | <b>150</b>         | <b>190</b>         |
| <b>Annual Train Miles Dinner Train</b>                    |            |            | <b>1200</b>      | <b>1920</b>        | <b>2640</b>        |
| <b>Annual Train Miles Excursion Train</b>                 |            |            | <b>3500</b>      | <b>5250</b>        | <b>6650</b>        |
| <b>Total Train Miles</b>                                  |            |            | <b>4700</b>      | <b>7170</b>        | <b>9290</b>        |
| <b>Percentage of Maintenance Expense borne by Tourist</b> |            |            | <b>39%</b>       | <b>39%</b>         | <b>39%</b>         |

•An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.

•Additional income may be derived for Signal Maintenance Income from the California Public Utilities Commission. This has not been modeled.

## Scenario 2

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Cement plant in Davenport is not operational. Rail line is rail-banked past Milepost 3. A private shortline railroad provides freight rail service to Watsonville customers. A private entity separately develops seasonal passenger rail service between Santa Cruz and Davenport.

# SCCRTC Rail Line Ownership - *Scenario 2 Operating Assumptions - RTC*

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The following Assumptions are used in analyzing the economic impact of Scenario 2 on the RTC:

1. RTC purchase the rail line and improves the bridges. Line is embargoed from 3 miles outside of Watsonville to end of line in Davenport
2. RTC covers subsistence maintenance expenses (weed control, etc..) incurred on out-of-service portions.
3. RTC receives an annual revenue share payment equivalent to 5% of the revenue received by the shortline on every carload after 300 carloads are achieved each year
4. RTC receives \$1.00 per passenger on Excursion Service
5. RTC receives \$1.00 / day / car for cars stored on the line
6. RTC keeps lease revenue and manages the property:
  - Assumes initial lease revenue of \$60,000, growing to \$200,000 by Year 5
  - RTC carries General Liability insurance – assumes \$60,000 in annual premium
  - Property management will require ½ FTE Senior Planner position at an assumed annual fully-burden pay of \$120,000
  - RTC hires a consultant to manage Freight and Passenger services operators at an assumed 10 hours per month at \$150 / hour

# SCCRTC Rail Line Ownership - Scenario 2 Operating Results - RTC

| Santa Cruz Rail Line - Scenario 2                 |                |                    |                   |                   |                  |                  |
|---|----------------|--------------------|-------------------|-------------------|------------------|------------------|
| SCCRTC Income Statement                           |                |                    |                   |                   |                  |                  |
|   |                | Year 1             | Year 2            | Year 3            | Year 4           | Year 5           |
| <b>Headcount</b>                                  |                | <b>0.50</b>        | <b>0.50</b>       | <b>0.50</b>       | <b>0.50</b>      | <b>0.50</b>      |
| Revenue:  |                |                    |                   |                   |                  |                  |
| Revenue Share From Freight                        |                | \$2,533            | \$2,596           | \$2,690           | \$2,772          | \$2,858          |
| Revenue Share from Passenger / Tourist Operations |                | \$-                | \$-               | \$15,000          | \$23,000         | \$30,000         |
| Revenue Share from Car Storage                    |                | \$-                | \$-               |                   |                  |                  |
| Lease Revenue                                     |                | \$60,000           | \$95,000          | \$130,000         | \$165,000        | \$200,000        |
| <b>Total Revenues</b>                             |                | <b>\$62,533</b>    | <b>\$97,596</b>   | <b>\$147,690</b>  | <b>\$190,772</b> | <b>\$232,858</b> |
| Operating Expenses:                               |                |                    |                   |                   |                  |                  |
| Personnel   | 95.9%          | \$60,000           | \$61,200          | \$62,424          | \$63,672         | \$64,946         |
| Insurance   | 95.9%          | \$60,000           | \$61,800          | \$63,654          | \$65,564         | \$67,531         |
| Track and Bridge Maintenance                      | 76.1%          | \$47,560           | \$48,987          | \$25,228          | \$25,985         | \$26,765         |
| Contracted Services for Oversight                 | 28.8%          | \$18,000           | \$18,000          | \$18,000          | \$18,000         | \$18,000         |
| <b>Operating Expenses</b>                         | <b>296.7%</b>  | <b>\$185,560</b>   | <b>\$189,987</b>  | <b>\$169,306</b>  | <b>\$173,221</b> | <b>\$177,241</b> |
| <b>Net Income</b>                                 | <b>-196.7%</b> | <b>\$(123,027)</b> | <b>\$(92,390)</b> | <b>\$(21,617)</b> | <b>\$17,551</b>  | <b>\$55,617</b>  |

- Additional property Lease revenues may be derived over and above those used for modeling purposes.
- Track and Bridge Maintenance figures cover primarily weed control (spraying and brushing)
- Insurance premium amounts are estimated

# SCCRTC Rail Line Ownership - *Scenario 2 Operating Assumptions - Shortline*

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The following Assumptions are used in analyzing the economic impact of Scenario 2 on the Shortline operator:

1. Purchases one locomotive vs. leasing
2. Provides 2 day / week operation over three (3) miles of track in Watsonville
3. Freight traffic currently moving to Santa Cruz is assumed to be handled at Watsonville and transloaded to truck for final delivery to Santa Cruz
4. Maintains Right of Way to Excepted Class standards to Milepost 3
  - Maintenance of Right of Way does not include tie or rail replacement. These items are assumed to be funded out of Net Cash Flows or other sources
  - Maintenance of Right of Way costs are approximately 20% below costs developed by HDR for line maintenance. This captures the likely lower cost options that may be available and realistic for a shortline
  - Maintenance of Right of Way costs assume minimal Bridge maintenance for first 5 years as Bridges are improved by RTC
5. No growth in freight traffic volumes is projected
6. Freight revenue per car assumed to grow by 3% / year
7. Freight operations does not own Passenger operations



# SCCRTC Rail Line Ownership - Scenario 2 Operating Results - Shortline

| Santa Cruz Rail Line - Scenario 2                    |                    |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Freight Railroad Income Statement                    |                    |                    |                    |                    |                    |
|  | Year 1             | Year 2             | Year 3             | Year 4             | Year 5             |
| <b>Headcount</b>                                     | <b>1.50</b>        | <b>1.50</b>        | <b>3.00</b>        | <b>3.00</b>        | <b>3.00</b>        |
| <b>Carloads</b>                                      | <b>456</b>         | <b>456</b>         | <b>456</b>         | <b>456</b>         | <b>456</b>         |
| <b>Revenue:</b>                                      |                    |                    |                    |                    |                    |
| <b>Linehaul Revenue</b>                              | \$148,100          | \$151,787          | \$157,157          | \$161,913          | \$166,813          |
| <b>Non-Linehaul Revenue</b>                          |                    |                    |                    |                    |                    |
| Car Storage Income                                   |                    |                    |                    |                    |                    |
| Car Storage Switching Income                         |                    |                    |                    |                    |                    |
| Maintenance Reimbursement Income from Passenger      |                    |                    |                    |                    |                    |
| <b>Total Revenues</b>                                | <b>\$148,100</b>   | <b>\$151,787</b>   | <b>\$157,157</b>   | <b>\$161,913</b>   | <b>\$166,813</b>   |
| <b>Operating Expenses:</b>                           |                    |                    |                    |                    |                    |
| Transportation                                       | \$97,480           | \$99,954           | \$102,503          | \$105,128          | \$107,832          |
| Roadway Maintenance                                  | \$55,740           | \$57,412           | \$59,135           | \$60,909           | \$62,736           |
| Equipment Maintenance                                | \$30,000           | \$31,125           | \$32,681           | \$34,315           | \$36,031           |
| General & Administrative                             | \$65,300           | \$67,359           | \$69,485           | \$71,680           | \$73,946           |
| <b>Operating Expenses Before Deprec. &amp; Amtz.</b> | <b>\$248,520</b>   | <b>\$255,851</b>   | <b>\$263,804</b>   | <b>\$272,032</b>   | <b>\$280,545</b>   |
| <b>EBITDA</b>  | <b>\$(100,420)</b> | <b>\$(104,064)</b> | <b>\$(106,646)</b> | <b>\$(110,119)</b> | <b>\$(113,732)</b> |
| Net Income from Passenger / Tourist                  | \$-                | \$-                | \$-                | \$-                | \$-                |
| Interest Expense                                     | \$(10,856)         | \$-                | \$-                | \$-                | \$-                |
| Depreciation and Amortization Expense                | 37,000             | 37,000             | 37,000             | 37,000             | 37,000             |
| <b>Total Operating Expenses</b>                      | <b>\$274,664</b>   | <b>\$292,851</b>   | <b>\$300,804</b>   | <b>\$309,032</b>   | <b>\$317,545</b>   |
| <b>Net Income</b>                                    | <b>\$(126,564)</b> | <b>\$(141,064)</b> | <b>\$(143,646)</b> | <b>\$(147,119)</b> | <b>\$(150,732)</b> |

- An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.
- Additional income may be derived for Signal Maintenance Income from the California Public Utilities Commission. This has not been modeled.

# SCCRTC Rail Line Ownership - *Scenario 2 Operating Assumptions – Passenger*

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The following Assumptions are used in analyzing the economic impact of Scenario 2 on the Passenger operator:

1. Begins in Year 3
2. May – September operating schedule
3. Responsible for Maintenance of Way costs between Milepost 18.7 and 31 at Class I maintenance standards
4. Freight Operator provides Maintenance Crews and Passenger Operations absorbs portion of those costs
5. Independent from Freight Operator

# SCCRTC Rail Line Ownership - Scenario 2 Operating Results – Passenger

| Santa Cruz Rail Line - Scenario 2                         |            |            |                  |                    |                    |
|---|------------|------------|------------------|--------------------|--------------------|
| Tourist Operations  |            |            |                  |                    |                    |
| Tourist Train Passenger Volumes                           | Year 1     | Year 2     | Year 3           | Year 4             | Year 5             |
| Dinner Trains   |            |            | 5,000            | 8,000              | 11,000             |
| Excursion Trains  |            |            | 10,000           | 15,000             | 19,000             |
| <b>Total Tourist Train Passenger Volumes</b>              |            |            | <b>15,000</b>    | <b>23,000</b>      | <b>30,000</b>      |
| Tourist Train Operations Revenues                         |            |            |                  |                    |                    |
| Revenue per Passenger - Dinner                            |            |            | \$71.42          | \$73.56            | \$75.77            |
| Revenue Per Passenger - Tourist                           |            |            | \$33.33          | \$34.33            | \$35.36            |
| <b>Dinner Trains</b>                                      | \$-        | \$-        | <b>\$357,100</b> | <b>\$588,501</b>   | <b>\$833,464</b>   |
| <b>Excursion Trains</b>                                   | -          | -          | <b>333,300</b>   | <b>514,949</b>     | <b>671,836</b>     |
| <b>Total Tourist Train Revenues</b>                       | <b>\$-</b> | <b>\$-</b> | <b>\$690,400</b> | <b>\$1,103,449</b> | <b>\$1,505,300</b> |
| Tourist Train Operating Expenses                          |            |            |                  |                    |                    |
| Operating Expenses  | \$-        | \$-        | \$483,280        | \$744,828          | \$1,016,078        |
| Maintenance of Way Expense                                | -          | -          | 191,658          | 197,407            | 203,330            |
| Revenue Share with SCCRTC                                 | -          | -          | 15,000           | 23,000             | 30,000             |
| <b>Total Operating Expenses</b>                           |            |            |                  |                    |                    |
| <b>Net Income</b>   | <b>\$-</b> | <b>\$-</b> | <b>\$462</b>     | <b>\$138,214</b>   | <b>\$255,893</b>   |
| <b>Train Starts - Dinner Train</b>                        |            |            | <b>50</b>        | <b>80</b>          | <b>110</b>         |
| <b>Train Starts - Excursion Train</b>                     |            |            | <b>100</b>       | <b>150</b>         | <b>190</b>         |
| <b>Annual Train Miles Dinner Train</b>                    |            |            | <b>1200</b>      | <b>1920</b>        | <b>2640</b>        |
| <b>Annual Train Miles Excursion Train</b>                 |            |            | <b>3500</b>      | <b>5250</b>        | <b>6650</b>        |
| <b>Total Train Miles</b>                                  |            |            | <b>4700</b>      | <b>7170</b>        | <b>9290</b>        |
| <b>Percentage of Maintenance Expense borne by Tourist</b> |            |            | <b>69%</b>       | <b>69%</b>         | <b>69%</b>         |

•An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.

## Scenario 3

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Cement plant in Davenport remains in continued operation at historical traffic volumes. A private shortline railroad provides freight rail services to all customers in the corridor.

# SCCRTC Rail Line Ownership - *Scenario 3 Operating Assumptions - RTC*

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The following Assumptions are used in analyzing the economic impact of Scenario 3 on the RTC:

1. RTC purchase the rail line and improves the bridges
2. RTC receives an annual revenue share payment equivalent to 5% of the revenue received by the shortline on every carload after 2000 carloads are achieved each year
3. RTC keeps lease revenue and manages the property:
  - Assumes initial lease revenue of \$60,000, growing to \$200,000 by Year 5
  - RTC carries General Liability insurance – assumes \$60,000 in annual premium
  - Property management will require 1/2 FTE Senior Planner position at an assumed annual fully-burden pay of \$120,000
  - RTC hires a consultant to manage Freight and Passenger services operators at an assumed 10 hours per month at \$150 / hour

# SCCRTC Rail Line Ownership - Scenario 3 Operating Results - RTC

| Santa Cruz Rail Line - Scenario 3                 |                   |                   |                  |                  |                  |
|---|-------------------|-------------------|------------------|------------------|------------------|
| SCCRTC Income Statement                           |                   |                   |                  |                  |                  |
|   | Year 1            | Year 2            | Year 3           | Year 4           | Year 5           |
| <b>Headcount</b>                                  | <b>0.50</b>       | <b>0.50</b>       | <b>0.50</b>      | <b>0.50</b>      | <b>0.50</b>      |
| <b>Revenue:</b>                                   |                   |                   |                  |                  |                  |
| Revenue Share From Freight                        | \$20,870          | \$21,481          | \$22,143         | \$22,810         | \$23,496         |
| Revenue Share from Passenger / Tourist Operations | \$-               | \$-               | \$-              | \$-              | \$-              |
| Revenue Share from Car Storage                    |                   |                   |                  |                  |                  |
| Lease Revenue                                     | \$60,000          | \$95,000          | \$130,000        | \$165,000        | \$200,000        |
| <b>Total Revenues</b>                             | <b>\$80,870</b>   | <b>\$116,481</b>  | <b>\$152,143</b> | <b>\$187,810</b> | <b>\$223,496</b> |
| <b>Operating Expenses:</b>                        |                   |                   |                  |                  |                  |
| Personnel   | \$60,000          | \$61,200          | \$62,424         | \$63,672         | \$64,946         |
| Insurance   | \$60,000          | \$61,800          | \$63,654         | \$65,564         | \$67,531         |
| Maintenance                                       | \$-               | \$-               | \$-              | \$-              | \$-              |
| Contracted Services for Oversight                 | \$18,000          | \$18,000          | \$18,000         | \$18,000         | \$18,000         |
| <b>Operating Expenses</b>                         | <b>\$138,000</b>  | <b>\$141,000</b>  | <b>\$144,078</b> | <b>\$147,236</b> | <b>\$150,476</b> |
| <b>Net Income</b>                                 | <b>\$(57,130)</b> | <b>\$(24,519)</b> | <b>\$8,065</b>   | <b>\$40,573</b>  | <b>\$73,020</b>  |

- Additional property Lease revenues may be derived over and above those used for modeling purposes.
- Insurance premium amounts are estimated

# SCCRTC Rail Line Ownership - *Scenario 3 Operating Assumptions - Shortline*

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The following Assumptions are used in analyzing the economic impact of Scenario 3 on the Shortline operator:

1. Purchases two locomotives vs. leasing
2. Provides 4 day / week operation to all customers in the corridor
3. Maintains Right of Way to Excepted Class standards to Milepost 18.7 and Class I standards beyond
  - Maintenance of Right of Way does not include tie or rail replacement. These items are assumed to be funded out of Net Cash Flows or other sources
  - Maintenance of Right of Way costs are approximately 20% below costs developed by HDR for line maintenance. This captures the likely lower cost options that may be available and realistic for a shortline
  - Maintenance of Right of Way costs assume minimal Bridge maintenance for first 5 years as Bridges are improved by RTC
4. No growth in freight traffic volumes is projected
5. Freight revenue / car assumed to grow by 3% / year

# SCCRTC Rail Line Ownership - Scenario 3 Operating Results - Shortline

| Santa Cruz Rail Line - Scenario 3                    |              |                    |                    |                    |                    |                    |
|--|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Freight Railroad Income Statement                    |              |                    |                    |                    |                    |                    |
|  |              | Year 1             | Year 2             | Year 3             | Year 4             | Year 5             |
| <b>Headcount</b>                                     |              | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        |
| <b>Carloads</b>                                      |              | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       |
| <b>Revenue:</b>                                      |              |                    |                    |                    |                    |                    |
| <b>Linehaul Revenue</b>                              |              | \$1,024,100        | \$1,054,067        | \$1,086,506        | \$1,119,142        | \$1,152,759        |
| <b>Non-Linehaul Revenue</b>                          |              |                    |                    |                    |                    |                    |
| Car Storage Income                                   |              |                    |                    |                    |                    |                    |
| Car Storage Switching Income                         |              |                    |                    |                    |                    |                    |
| Maintenance Reimbursement Income from Passenger      |              |                    |                    |                    |                    |                    |
| <b>Total Revenues</b>                                |              | <b>\$1,024,100</b> | <b>\$1,054,067</b> | <b>\$1,086,506</b> | <b>\$1,119,142</b> | <b>\$1,152,759</b> |
| <b>Operating Expenses:</b>                           |              |                    |                    |                    |                    |                    |
| <b>Transportation</b>                                |              | \$264,840          | \$272,335          | \$280,055          | \$288,007          | \$296,197          |
| <b>Roadway Maintenance</b>                           |              |                    |                    |                    |                    |                    |
| Signals / Crossings                                  |              | \$103,625          | \$106,734          | \$109,936          | \$113,234          | \$116,631          |
| Structures / Track                                   |              | \$35,675           | \$36,745           | \$37,848           | \$38,983           | \$40,153           |
| Vegetation   |              | \$75,560           | \$77,827           | \$80,162           | \$82,566           | \$85,043           |
| Other (including Labor)                              |              | \$104,000          | \$107,120          | \$110,334          | \$113,644          | \$117,053          |
| <b>Equipment Maintenance</b>                         |              | \$70,000           | \$72,400           | \$75,660           | \$79,071           | \$82,642           |
| <b>General &amp; Administrative</b>                  |              | \$191,870          | \$197,851          | \$204,056          | \$210,445          | \$217,038          |
| <b>Operating Expenses Before Deprec. &amp; Amtz.</b> |              | <b>\$845,570</b>   | <b>\$871,012</b>   | <b>\$898,050</b>   | <b>\$925,950</b>   | <b>\$954,757</b>   |
| <b>EBITDA</b>  | <b>17.4%</b> | <b>\$178,530</b>   | <b>\$183,055</b>   | <b>\$188,456</b>   | <b>\$193,192</b>   | <b>\$198,002</b>   |
| Interest Expense                                     | 0.3%         | \$2,681            | \$-                | \$-                | \$-                | \$-                |
| Depreciation and Amortization Expense                | 4.5%         | 46,000             | 46,000             | 46,000             | 46,000             | 46,000             |
| <b>Total Operating Expenses</b>                      | <b>87.3%</b> | <b>\$894,252</b>   | <b>\$917,012</b>   | <b>\$944,050</b>   | <b>\$971,950</b>   | <b>\$1,000,757</b> |
| <b>Net Income</b>                                    | <b>12.7%</b> | <b>\$129,848</b>   | <b>\$137,055</b>   | <b>\$142,456</b>   | <b>\$147,192</b>   | <b>\$152,002</b>   |

•An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.



## Scenario 4

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Cement plant in Davenport remains in continued operation at historical traffic volumes. A private shortline railroad provides freight rail service at all customers in the corridor and develops seasonal passenger services over selected portions of the corridor (Santa Cruz – Davenport).

# SCCRTC Rail Line Ownership - *Scenario 4 Operating Assumptions - RTC*

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The following Assumptions are used in analyzing the economic impact of Scenario 4 on the RTC:

1. RTC purchase the rail line and improves the bridges
2. RTC receives an annual revenue share payment equivalent to 5% of the revenue received by the shortline on every carload after 2000 carloads are achieved each year
3. RTC receives \$1.00 per passenger on Excursion Service
4. RTC keeps lease revenue and manages the property:
  - Assumes initial lease revenue of \$60,000, growing to \$200,000 by Year 5
  - RTC carries General Liability insurance – assumes \$60,000 in annual premium
  - Property management will require ½ FTE Senior Planner position at an assumed annual fully-burden pay of \$120,000
  - RTC hires a consultant to manage Freight and Passenger services operators at an assumed 10 hours per month at \$150 / hour

# SCCRTC Rail Line Ownership - Scenario 4 Operating Results - RTC

| Santa Cruz Rail Line - Scenario 4                 |               |                   |                   |                  |                  |                  |
|---|---------------|-------------------|-------------------|------------------|------------------|------------------|
| SCCRTC Income Statement                           |               |                   |                   |                  |                  |                  |
|   |               | Year 1            | Year 2            | Year 3           | Year 4           | Year 5           |
| <b>Headcount</b>                                  |               | <b>0.50</b>       | <b>0.50</b>       | <b>0.50</b>      | <b>0.50</b>      | <b>0.50</b>      |
| <b>Revenue:</b>                                   |               |                   |                   |                  |                  |                  |
| Revenue Share From Freight                        |               | \$20,870          | \$21,481          | \$22,143         | \$22,810         | \$23,496         |
| Revenue Share from Passenger / Tourist Operations |               | \$-               | \$-               | \$15,000         | \$23,000         | \$30,000         |
| Revenue Share from Car Storage                    |               | \$-               | \$-               |                  |                  |                  |
| Lease Revenue                                     |               | \$60,000          | \$95,000          | \$130,000        | \$165,000        | \$200,000        |
| <b>Total Revenues</b>                             |               | <b>\$80,870</b>   | <b>\$116,481</b>  | <b>\$167,143</b> | <b>\$210,810</b> | <b>\$253,496</b> |
| <b>Operating Expenses:</b>                        |               |                   |                   |                  |                  |                  |
| Personnel   | 74.2%         | \$60,000          | \$61,200          | \$62,424         | \$63,672         | \$64,946         |
| Insurance   | 74.2%         | \$60,000          | \$61,800          | \$63,654         | \$65,564         | \$67,531         |
| Track and Bridge Maintenance                      | 0.0%          | \$-               | \$-               | \$-              | \$-              | \$-              |
| Contracted Services for Oversight                 | 22.3%         | \$18,000          | \$18,000          | \$18,000         | \$18,000         | \$18,000         |
| <b>Operating Expenses</b>                         | <b>170.6%</b> | <b>\$138,000</b>  | <b>\$141,000</b>  | <b>\$144,078</b> | <b>\$147,236</b> | <b>\$150,476</b> |
| <b>Net Income</b>                                 | <b>-70.6%</b> | <b>\$(57,130)</b> | <b>\$(24,519)</b> | <b>\$23,065</b>  | <b>\$63,573</b>  | <b>\$103,020</b> |

- Additional property Lease revenues may be derived over and above those used for modeling purposes.
- Insurance premium amounts are estimated

# SCCRTC Rail Line Ownership - *Scenario 4 Operating Assumptions - Shortline*

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The following Assumptions are used in analyzing the economic impact of Scenario 4 on the Shortline operator:

1. Purchases two locomotives vs. leasing
2. Provides 4 day / week operation to all customers in the corridor
3. Maintains Right of Way to Excepted Class standards to Milepost 18.7 and Class I standards beyond
  - Maintenance of Right of Way does not include tie or rail replacement. These items are assumed to be funded out of Net Cash Flows or other sources. Tie and rail replacement are a necessary and integral part of any railroad operation
  - Maintenance of Right of Way costs are approximately 20% below costs developed by HDR for line maintenance. This captures the likely lower cost options that may be available and realistic for a shortline
  - Maintenance of Right of Way costs assume minimal Bridge maintenance for first 5 years as Bridges are improved by RTC
4. No growth in freight traffic volumes is projected
5. Freight revenue / car assumed to grow by 3% / year

# SCCRTC Rail Line Ownership - Scenario 4 Operating Results - Shortline

| Santa Cruz Rail Line - Scenario 4                    |              |                    |                    |                    |                    |                    |
|--|--------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Freight Railroad Income Statement                    |              |                    |                    |                    |                    |                    |
|  |              | Year 1             | Year 2             | Year 3             | Year 4             | Year 5             |
| <b>Headcount</b>                                     |              | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        | <b>4.25</b>        |
| <b>Carloads</b>                                      |              | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       | <b>3,376</b>       |
| <b>Revenue:</b>                                      |              |                    |                    |                    |                    |                    |
| <b>Linehaul Revenue</b>                              |              | \$1,024,100        | \$1,054,067        | \$1,086,506        | \$1,119,142        | \$1,152,759        |
| <b>Non-Linehaul Revenue</b>                          |              |                    |                    |                    |                    |                    |
| Car Storage Income                                   |              |                    |                    |                    |                    |                    |
| Car Storage Switching Income                         |              |                    |                    |                    |                    |                    |
| Maintenance Reimbursement Income from Passenger      |              |                    |                    | 152,771            | 157,354            | 162,075            |
| <b>Total Revenues</b>                                |              | <b>\$1,024,100</b> | <b>\$1,054,067</b> | <b>\$1,239,277</b> | <b>\$1,276,496</b> | <b>\$1,314,834</b> |
| <b>Operating Expenses:</b>                           |              |                    |                    |                    |                    |                    |
| <b>Transportation</b>                                | 25.9%        | \$264,840          | \$195,209          | \$200,615          | \$206,184          | \$211,919          |
| <b>Roadway Maintenance</b>                           |              |                    |                    |                    |                    |                    |
| Signals / Crossings                                  |              | \$103,625          | \$106,734          | \$109,936          | \$113,234          | \$116,631          |
| Structures / Track                                   |              | \$35,675           | \$36,745           | \$37,848           | \$38,983           | \$40,153           |
| Vegetation   |              | \$75,560           | \$77,827           | \$80,162           | \$82,566           | \$85,043           |
| Other (including Labor)                              |              | \$104,000          | \$107,120          | \$110,334          | \$113,644          | \$117,053          |
| <b>Equipment Maintenance</b>                         |              | \$70,000           | \$72,400           | \$75,660           | \$79,071           | \$82,642           |
| <b>General &amp; Administrative</b>                  | 18.7%        | \$191,870          | \$197,851          | \$204,056          | \$210,445          | \$217,038          |
| <b>Operating Expenses Before Deprec. &amp; Amtz.</b> | <b>82.6%</b> | <b>\$845,570</b>   | <b>\$793,886</b>   | <b>\$818,609</b>   | <b>\$844,126</b>   | <b>\$870,479</b>   |
| <b>EBITDA</b>  | <b>17.4%</b> | <b>\$178,530</b>   | <b>\$260,181</b>   | <b>\$420,667</b>   | <b>\$432,369</b>   | <b>\$444,355</b>   |
| Net Income from Passenger / Tourist                  |              | \$-                | \$-                | \$(39,349)         | \$(150,681)        | \$(259,515)        |
| Interest Expense                                     | 0.3%         | \$3,581            | \$-                | \$-                | \$-                | \$-                |
| Depreciation and Amortization Expense                | 4.6%         | 47,000             | 47,000             | 47,000             | 47,000             | 47,000             |
| <b>Total Operating Expenses</b>                      | <b>87.5%</b> | <b>\$896,152</b>   | <b>\$840,886</b>   | <b>\$826,260</b>   | <b>\$740,446</b>   | <b>\$657,964</b>   |
| <b>Net Income</b>                                    | <b>12.5%</b> | <b>\$127,948</b>   | <b>\$213,181</b>   | <b>\$413,016</b>   | <b>\$536,050</b>   | <b>\$656,870</b>   |

•An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.

# SCCRTC Rail Line Ownership - *Scenario 4 Operating Assumptions – Passenger*

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The following Assumptions are used in analyzing the economic impact of Scenario 4 on the Passenger operator:

1. Begins in Year 3
2. May – September operating schedule
3. Reimburses Freight Operations for pro rata share of current Maintenance of Way cost. Reimbursement based on proportionate share of Excursion Train Miles operated vs. Freight Train Miles operated
4. Owned by Freight Operator and Net Income is imputed to Freight Operator “below the line”

# SCCRTC Rail Line Ownership - Scenario 4 Operating Results – Passenger

| Santa Cruz Rail Line Scenario 4                           |            |            |                  |                    |                    |
|---|------------|------------|------------------|--------------------|--------------------|
| Tourist Operations  |            |            |                  |                    |                    |
| Tourist Train Passenger Volumes                           | Year 1     | Year 2     | Year 3           | Year 4             | Year 5             |
| Dinner Trains   |            |            | 5,000            | 8,000              | 11,000             |
| Excursion Trains  |            |            | 10,000           | 15,000             | 19,000             |
| <b>Total Tourist Train Passenger Volumes</b>              |            |            | <b>15,000</b>    | <b>23,000</b>      | <b>30,000</b>      |
| Tourist Train Operations Revenues                         |            |            |                  |                    |                    |
| Revenue per Passenger - Dinner                            |            |            | \$71.42          | \$73.56            | \$75.77            |
| Revenue Per Passenger - Tourist                           |            |            | \$33.33          | \$34.33            | \$35.36            |
| <b>Dinner Trains</b>                                      | <b>\$-</b> | <b>\$-</b> | <b>\$357,100</b> | <b>\$588,501</b>   | <b>\$833,464</b>   |
| <b>Excursion Trains</b>                                   | <b>-</b>   | <b>-</b>   | <b>333,300</b>   | <b>514,949</b>     | <b>671,836</b>     |
| <b>Total Tourist Train Revenues</b>                       | <b>\$-</b> | <b>\$-</b> | <b>\$690,400</b> | <b>\$1,103,449</b> | <b>\$1,505,300</b> |
| Tourist Train Operating Expenses                          |            |            |                  |                    |                    |
| Operating Expenses  | \$-        | \$-        | \$483,280        | \$772,415          | \$1,053,710        |
| Track Usage Fees to Freight Railroad (for Maintenance)    | -          | -          | 152,771          | 157,354            | 162,075            |
| Revenue Share with SCCRTC                                 | -          | -          | 15,000           | 23,000             | 30,000             |
| <b>Total Operating Expenses</b>                           |            |            |                  |                    |                    |
| <b>Net Income</b>   | <b>\$-</b> | <b>\$-</b> | <b>\$39,349</b>  | <b>\$150,681</b>   | <b>\$259,515</b>   |
| <b>Train Starts - Dinner Train</b>                        |            |            | <b>50</b>        | <b>80</b>          | <b>110</b>         |
| <b>Train Starts - Excursion Train</b>                     |            |            | <b>100</b>       | <b>150</b>         | <b>190</b>         |
| <b>Annual Train Miles Dinner Train</b>                    |            |            | <b>1200</b>      | <b>1920</b>        | <b>2640</b>        |
| <b>Annual Train Miles Excursion Train</b>                 |            |            | <b>3500</b>      | <b>5250</b>        | <b>6650</b>        |
| <b>Total Train Miles</b>                                  |            |            | <b>4700</b>      | <b>7170</b>        | <b>9290</b>        |
| <b>Percentage of Maintenance Expense borne by Tourist</b> |            |            | <b>45%</b>       | <b>45%</b>         | <b>45%</b>         |

•An additional \$107,000 of “Tax Credit” opportunity could be available to the shortline, either as an offset to any tax liability, or as an asset that could be sold to an entity that could utilize the tax credit to offset tax liability. This has not been modeled and is subject to government reauthorization each year.