APPRAISAL REVIEW REPORT
and
APPRAISAL REVIEW CERTIFICATE

OF APPRAISALS AND RELATED VALUATION ANALYSES
FOR THE

~ SANTA CRUZ BRANCH LINE ~
of the
SANTA CRUZ SUBDIVISION
of the
UNION PACIFIC RAILROAD COMPANY

PREPARED FOR THE

SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION

Reviewed by:	**Tim Landes, SR/WA**
Date of Review Certificate:	**March 16, 2010**
Dates of Valuations of the:	
Colliers Pickard Appraisal Report:	**September 4, 2009**
Gimmy International Appraisal Report	**March 1, 2004**
Woodside Consulting Group OTM Report	**September 2004**
Wilber Smith Associates GCV Report	**March 2004**

March 16, 2010

Mr. George Dondero, Executive Director
Santa Cruz County Regional Transportation Commission
1523 Pacific Avenue
Santa Cruz, California 95060-3911

Re: Appraisal Review Report and Certification
Project: Santa Cruz Branch Line
Property of: Union Pacific Railroad Company
Counties of Santa Cruz and Monterey, California

Dear Mr. Dondero:

The subject of this review is a 32± mile long section of an operating freight line located between the communities of Watsonville in Monterey County and Davenport in Santa Cruz County. The line is known as the Santa Cruz Branch Line of the Union Pacific Railroad and is also referred to as the railroad's Santa Cruz Subdivision. The line travels near or along the Monterey Bay coastline and cuts through the coastal communities of Watsonville, Seascape, Aptos, Capitola and Santa Cruz before ending at its northern terminus at the Cemex Cement Company plant in Davenport. The railroad right of way varies in width from approximately 0 feet at some public crossings to 320 feet with an average width of 83 feet. It contains an estimated 301.53 acres.

The Santa Cruz County Regional Transportation Commission [SCCRTC] has been actively attempting to acquire the right of way since the mid-1990's and has been in the process of obtaining the requisite appraisal and valuation studies and reports necessary to acquire the Branch Line since 2003. The precise use of the corridor by SCCRTC is still under consideration but according to Luis Mendez, Deputy Director of the SCCRTC, might include passenger excursion travel and/or pedestrian and bike ways.

(continued)

Numerous appraisals, studies and valuations have been made during this period including but not limited to:

- “Preliminary Site Assessment of the Davenport and Santa Cruz Branch Lines” by Geomatrix Consultants (dated March 1997);
- A valuation study of the railroad improvements and materials by the Woodside Consulting Group (dated March 2004 and revised September 2004);
- Letter from Woodside Consulting dated October 13, 2005, relative to Abandonment of the Santa Cruz Subdivision;
- A Draft Going Concern Valuation by Wilbur Smith Associates (March 2004);
- An Appraisal report by Arthur Gimmy International (prepared under date of April 20, 2006 and with a value date of March 1, 2004);
- A Phase II Environmental Study by AMEC Geomatrix, Inc. (dated August 2009);
- An Appraisal report by Colliers Pinkard Group (prepared October 19, 2009 with a value date of September 4, 2009);
- A Lease Analysis by Colliers Pinkard Group (dated September 9, 2009); and
- A “Draft Structural Assessment Report of the Santa Cruz Branch Line” by Biggs Cordosa, Associates dated July 2005 and the “Supplemental Structural Assessment Report of the Santa Cruz Industrial Lead” by HNTB dated June 23, 2006.
- Memorandum from Kevin Sheys to Kirk Trost dated October 13, 2005 regarding abandonment of the Santa Cruz Branch Line;
- Memorandum from Kirk Trost, with Miller, Owen & Trost, dated May 11, 2005 regarding title issues in the Santa Cruz Branch Line.

These reports and other data have been reviewed by the undersigned and are a part of the review appraisal file retained in the offices of Sierra West Valuation. These reports and studies are addressed in this appraisal review report as to their contributions and relevance to the ultimate determination of the estimated “fair and reasonable price” of the real property rights to be obtained in the Santa Cruz Branch Line.

A great deal of additional effort has been devoted by this review appraiser and his associates in: researching via the internet for real estate market and demographic information on the Santa Cruz area; gathering archived and recent articles from local area newspapers and national publications; reviewing the regulations and standards which comprise the requirements for appraising and reviewing railroad rights of way in California and per Surface Transportation Board standards, and; in communications with other Santa Cruz and West Bay appraisers, brokers, investors, Caltrans’ representatives and others considered to be knowledgeable in the various railroad valuation concentrations.

(continued)

The conclusion of my appraisal review process is that I cannot approve either of the submitted Net Liquidation Valuations by Colliers Pinkard or Gimmy International. The Colliers report is flawed in its lack of descriptions and location of the parcels that can be legally transferred (considered as legally "insurable" by a title company) by the UPRR to a hypothetical investor/buyer in the marketplace. The Gimmy report is the superior of the two appraisals due to its attempt to identify marketable parcels in the rail corridor. Unfortunately, it is so out of date (a March 2004 value date) as to make its value conclusions irrelevant. The Gimmy report approaches the valuation problem from a very conservative position whereby the appraisers give no value to parcels encumbered with easements or questionable title when *some* value would logically have to exist.

Realizing that your time frame is short in the matter of obtaining State funding for the purchase of the Santa Cruz Branch Line, I have gone beyond my contracted scope of review appraisal work and have attempted to create from the valid information available in the Colliers and Gimmy reports a net liquidation estimation for the value of lands available for sale in the subject rail right of way. Hopefully, this "reconciled valuation" will help your agency and the railroad arrive at something realistically close to a "fair and reasonable" price for the property.

An important consideration to be remembered throughout this evaluative and bureaucratic exercise is that the liquidation of the subject rail line is merely *hypothetical* and that, in fact, the rail "corridor" is not to be broken apart but to be maintained as a transportation/recreation corridor in the public interest. This invaluable public resource, serving the same communities as the Branch Line now does, could never be recreated and the very real potential of it serving as a link in a larger inter-regional transportation system would be lost. The real cost in terms of public loss far transcends the regulatory methods required to value the real estate involved. The caveat of "fair and reasonable price" should include some allowance for the price to be paid for the possible loss of this invaluable coast-oriented resource.

The following report describes the details of my review work and summarizes the conclusions of the other valuation experts retained by the SCCRTC. Thank you for considering me for these review appraisal services.

Very truly yours,

Tim Landes, SR/WA
Sierra West Valuation, Inc.
CA Certified Real Estate Appraiser #AG005980

~ REVIEW APPRAISAL REPORT ~
SANTA CRUZ BRANCH LINE
OF THE
SANTA CRUZ SUBDIVISION
OF THE
UNION PACIFIC RAILROAD COMPANY

APPRAISAL REVIEW REPORT

Project:	**Santa Cruz Branch Rail Line**
	Counties of Santa Cruz and Monterey, California
***Property Owner*:**	**Union Pacific Railroad Company**
***Address of property*:**	**Active freight rail line running from Watsonville Junction to Davenport, California.**

Dates of Review: November 18, 2009 through March 16, 2010

Review Appraiser: Tim Landes, SR/WA

Real Estate Appraisers: Gary Anglemyer, MAI (Colliers Pinkard)
Arthur Gimmy, MAI (Gimmy International)

Dates of Appraisals: October 19, 2009 (Colliers)
April 20, 2006 (Gimmy)

Dates of Valuations: September 4, 2009 (Colliers)
March 1, 2004 (Gimmy)

Type of appraisal report: Summary Appraisal Report (Colliers)
Self-Contained Appraisal Report (Gimmy)

Client: Santa Cruz County Regional Transportation Commission

Intended users of the Review Appraisal report: SCCRTC; the California Transportation Commission, and; the California Department of Transportation

Purpose of the appraisal reports: To estimate the "fair and reasonable price" of the Santa Cruz Branch Rail Line, an operating freight line, for negotiations to purchase saleable fee area in that line between the Sellers (the Union Pacific Railroad Company) and the Buyers (the Santa Cruz County Regional Transportation Commission).

Intended use of the report: For use in negotiations between the UPRR and the SCCRTC. The report is also for use by the California Transportation Commission and the California Department of Transportation for their decision making process in making a determination for funding of the Branch Line purchase. If negotiations between the Railroad and the SCCRTC are unsuccessful, the reconciliation appraisal by the Review Appraiser, Tim Landes, SR/WA, *may not* be used in litigation proceedings unless previous arrangements have been made between the client and the Review Appraiser.

Purpose of this appraisal review: Provide the client with a technical appraisal review of the above referenced appraisals and other railroad-related reports. This review includes:

1. Review of the appraisal reports for Going Concern Value (Wilber Smith Associates) and Net Liquidation Value (by Gary Anglemyer, MAI, Colliers Pinkard, and; Arthur Gimmy, MAI, Gimmy International) for compliance with Caltrans' Appraisal Standards, the *Guidelines for Public Acquisition of Railroad Rights of Way,* Federal acquisition guidelines ("Uniform Act"), and Uniform Standards of Professional Appraisal Practice (USPAP) guidelines.
2. Field review of the subject property and the most appropriate comparable sales available to the real estate appraisers.
3. Approval, if possible, of the appraisal report(s) relative to the subject rail right of way known as the Santa Cruz Branch Rail Line for an estimate of "fair and reasonable price."
4. Development of a Reconciliation Valuation by Tim Landes, SR/WA, Review Appraiser.

Conclusions of "Fair and Reasonable Price":

- **$14,300,000 (Colliers) – *not approved by this reviewer.***
- **$ 6,500,000 (Gimmy) – *not approved by this reviewer.***
- **$12,275,000 (reconciliation value by Landes) – *recommended as "fair and reasonable" compensation.***

THIS APPRAISAL REVIEW REPORT CONTAINS THE FOLLOWING:

1. Scope of the Review Assignment
2. Salient Facts of the Appraisal Reports
3. Certificate of Review Appraiser
4. Statement of Assumptions and Limiting Conditions
5. Addenda
   - Title Report and Supplements
   - Letters and E-Mails from Trost Relating to Title
   - Going Concern Valuation by Wilbur Smith
   - Woodside Consulting – Abandonment Opinion
   - Draft Purchase and Sale Agreement (12/3/09)
   - *Santa Cruz Sentinel* Article Re: Cemex Closure
   - Summary Results of Korpacz 4th Qtr. 2009 Investor Survey
   - Qualification of the Review Appraiser
   - Copy of California Certified General Appraiser Certificate

Scope of the Review Assignment:

The appraisal review process involved the following steps:

- A thorough review of the appraisal reports by Gimmy International dated April 20th, 2006, and by Colliers Pinkard dated October 19th, 2009. These reports were reviewed for their conformance with contemporary appraisal methodology and railroad valuation regulations and methodologies; for conformance with the *Guidelines for Public Acquisitions of Railroad Rights of Way*; the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, and; with the Code of Professional Ethics and Professional Practice of the Appraisal Institute. The reports have also been reviewed for compliance with California eminent domain law and the Federal Standards in the Uniform Act for Relocation Assistance and Real Property Acquisition.
- A physical inspection of the subject rail corridor and its surrounding neighborhoods has been made by the review appraiser. Representatives of the Union Pacific Railroad Company were not contacted by the review appraiser in the course of this assignment.
- An offsite inspection of the most pertinent sales used by the Colliers Pinkard appraiser was made by this writer.
- The reviewer has collected information from secondary sources regarding the subject rail lines and the comparable sales used in the ATF valuations through such research tools as Real Quest, numerous web sources, local real estate brokers, agents and appraisers and applicable deeds and other official records.
- I have discussed the appraisal and the appraisal methodology used with the appraiser for Gimmy International, Mr. Arthur Gimmy, and with Gary Anglemyer with Colliers Pinkard.
- Matters regarding legal descriptions, insurable parcels, title exceptions, easements and right of way descriptions within the confines of the subject branch line owned by UPRR have been discussed with Gary Anglemyer, MAI, Arthur Gimmy, MAI, Kirk Trost (Miller, Owen & Trost) and Luis Mendez (SCCRTC).
- The review appraiser has reviewed the title policy produced by First American Title Company and dated January 9, 2005, along with a supplement dated the same date and one dated March 25, 2005 and the memorandums relative to title from Kirk Trost dated May 11, 2005 and September 29, 2005; and have received the latest 2009 update, Amendment IV, with a explanatory summary from Paul Chrisman.
- Land use and zoning designations for the subject property were reported to have been researched by the fee appraisers with representatives of the County of Santa Cruz, County of Monterey and the City of Santa Cruz. This information was not re-verified by the review appraiser.

- I have conducted a review of the appropriateness of the appraisal methodology and the reasonableness of the conclusions of the Net Liquidation Value and Across-the-Fence Value of the Gimmy and Colliers Pinkard fee appraisers.
- I have reviewed: the Woodside Consulting report of the Valuation Study of the Track, Signals, Structures and other Railroad Improvements; the Draft Going Concern Valuation by Wilber Smith Associates, and; the Woodside Consulting Group letter opinion of the "Potential for Abandonment of the Santa Cruz Subdivision" dated October 13, 2005.
- I have researched rail right of way abandonment issues and procedures in relation to requirements of the Surface Transportation Board and issues specific to the abandonment of the Santa Cruz Branch Line.
- I have reviewed the Draft and Supplemental Structural Assessment Reports prepared by Biggs Cordosa Associates, Inc. and by HNTB dated July 2005 and June 23, 2006, respectively.
- The reviewer has made use of Sierra West Valuation file data for past railroad corridor appraisal and review assignments completed by this reviewer as a source of information for valuation methodology in the analysis of the subject rail line right of way.
- A reconciliation analysis has been performed by this reviewer in an attempt to further refine the valuation procedure of the Colliers Pinkard appraisal and to update the values in the Gimmy appraisal so that a more supportable conclusion of Net Liquidation Value can be presented to the California Transportation Commission for approval of funding for the SCCRTC's attempt to purchase this railroad right of way.
- A written review appraisal report has been completed outlining the salient features of the appraisals reviewed and recommending an amount to be offered to the Union Pacific Railroad Company as "Fair and Reasonable" compensation for the insurable and legally held rights in the Santa Cruz Branch Line to be purchase by the SCCRTC.
- The reviewer will be available to answer questions, to add to the content of the narrative herein presented, or to appear at hearings as requested by the client.

Santa Cruz Branch Line – Physical Description:

The branch line under appraisal runs north from the east side of Salinas Road in Watsonville to the Cemex Cement Plant, a distance of 32.13 gross track miles (29.80 track miles net of street crossings bridges/trestles.) The area occupied by the corridor right of way is approximately 301.53 acres.[1] The region over which the rail line runs is from generally flat flood plains at its southern terminus; from rolling agricultural fields to sloping seaside cliffs and beaches; bridges and trestles over deep arroyos, rivers and streams; and traversing through suburban and urban population centers as found in Capitola and Santa Cruz.

Property types lying adjacent to the railroad run the gamut of land uses including commercial agricultural fields, single family residential neighborhoods, multi-family complexes, commercial and industrial properties, neighborhood parks and open space areas. The line passes through numerous public parks in Capitola and Santa Cruz and in the section of track from Santa Cruz to Davenport it crosses extensively through the Wilder Ranch State Park. (Please note that the spur line known as the "Big Trees Rail Line" used for occasional excursion travel leading north from Santa Cruz from the "Wye" at West Cliff Drive/Center Street is *not* part of this valuation.)

The subject rail corridor is a single track line that has been used for the hauling of slow speed, low traffic volume freight from eight shippers along the line, the largest shipper being the Cemex Cement Company located just north of Davenport, which accounted for approximately 90% of the total freight on the line. The Cemex Company had indefinitely shut down the plant in the spring of 2009 due to the deep economic recession and the corresponding near stoppage in the California building industry. Then, on January 22nd, 2010 Cemex officials announced that the Mexico based-company would be shutting down for good. In one corporate form or another, the plant had been an economic staple of the County's north coast for over 100 years.[2] The closure has ramifications on the valuation of the subject rail line under the Going Concern Value method to be discussed later in this report, as well as on the already depressed local economy.

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[1] Note: The length and area covered by the of branch line right of way varies slightly between the Gimmy and Colliers reports. The Collier's appraiser adopts the areas and distance calculations generated by the Gimmy appraiser, the latter appraiser having taken great pains to locate and calculate these areas in the valuation process. The Gimmy figures are used as the basis for value conclusions produced in this report.
[2] The *Santa Cruz Sentinel*, online web source, www.santacruzsentinel.com, January 23, 2010; "Davenport Cemex Plant to Shut Down for Good".

Interest Appraised:

The main objective of the railroad branch line real estate appraisals is to estimate a *"fair and reasonable price"* for the fee simple interest in the property rights to be acquired from the UPRR. Fee simple is defined in the *Appraisal of Real Estate* as:

> Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.[3]

Except for the right to maintain a single freight track from Watsonville to the Davenport Cemex plant, the subject line is *not a continuous corridor* in the legal sense due to title defects, intermittent sales by the railroad and its predecessors in title (including the Southern Pacific Transportation Company), various waterway crossings, numerous public street crossings, easements and mapping problems. As per the Gimmy report, "Some track is placed on easements and some in public ways. Much lacks insurable title."[4] The fee right of way width varies from 0 feet in public streets and crossings to over 100 feet in several places along the line. Additionally, there are several "out parcels" – parcels that serve or once served an ancillary use to the rail line and which are now technically outside the operating right of way. These "out parcels" have been included in the valuation if title is insurable. The average width of right of way is approximately 83 feet, as per both Gary Anglemyer (Colliers) and Arthur Gimmy (Gimmy International).

Much of the present right of way corridor is encumbered by easements, public crossings, bridges and trestles over waterways or ravines, or other impediments to fee simple transfer of ownership from the railroad to another party or parties. Establishing what is *transferable and insurable title* has proven to be the most difficult obstacle in the valuation problem. Of the Colliers and the Gimmy report, Gimmy goes into by far the most detail in trying to decipher what parts of the rail right of way can be included in the net liquidation value. Gimmy concluded, after much obvious effort, that only 93.09 acres of the 301.53 gross acres (31%) is qualified for title insurance and is, therefore, transferable. Both appraisers agree on this number although Gimmy likely is the source of these totals. Gimmy takes pains to locate these portions of the corridor from railroad Val maps, assessor parcels maps, information gleaned in the revised title reports by First American Title[5] and from the legal opinions composed by SCCRTC attorney Kirk Trost with Miller, Owen & Trost.

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3 *The Dictionary of Real Estate Appraisal,* 5th ed. (Chicago: Appraisal Institute, 2010), 78.

4 Final Report by Gimmy International, Volume 1, dated April 20, 2006, page 11.

5 The Gimmy report indicates that areas they used were based on the First American Title report of January 9, 2005 and supplements dated January 9, 2005 and March 25, 2005 and a legal analysis by SCCRTC's attorneys from 2005. These documents are included in the Addenda of this review report.

I have attempted to verify and locate the saleable areas in the course of this review assignment in order to identify the adjacent property land uses to the railroad right of way (the equivalent of "across the fence" in railroad valuation parlance). It is assumed that the adjacent property owners would be the primary buyers of most of the fee areas in the event the corridor was liquidated. Other parcels within the rail corridor may have access and other physical characteristics that make them candidates for independent use and sale. This is the basic premise of the Net Liquidation Value (NLV) process, where the rail right of way is purchased by one party who then segments and markets parcels for sale in a reasonable time frame at prices that reflect the risks inherent to the buyer in surveying, plotting, permitting or in altering the physical characteristic of the individual parcel to make it usable under its highest and best use.

Both the Gimmy and Colliers appraisers conclude that the highest and best use of the subject rail right of way is *not* for use as a "corridor". This is due to the lack of continuity in title to the fee ownership in the right of way, where long and frequent gaps occur. Another significant factor eliminating its highest and best use as a corridor on which both fee appraisers concur is the fact that there is no market demand for its continuance as an economically viable rail corridor other than that shown by the public agency (SCCRTC) whose desired utility must, by law, be ignored. I concur with their conclusions on this subject.

Highest and Best Use Analysis & Valuation Methodology:

"Highest and Best Use" is defined as:

> The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property – specific with respect to the user and timing of the use – that is adequately supported and results in the highest present value. [6]

Fair market value is the standard for measuring value in the state of California. Fair market value is defined in Section 1263.320 of the California Code of Civil Procedures as:

> a) the *highest price* on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor being obliged to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for so doing, each dealing with the other with

[6] *The Dictionary of Real Estate Appraisal,* 5th ed. (Chicago: Appraisal Institute, 2010), 93.

full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

b) The fair market value of property taken for which there is no relevant comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable.

The above differs from the standard definition of "Market Value" as defined in *The Appraisal of Real Estate*, Thirteenth Edition, which states:

> The *most probable price*, as of a specific date, in cash, or terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller acting prudently, knowledgeably, and for self interest, and assuming that neither is under undue duress.

As per the *Valuation Procedures and Guidelines for Public Acquisition of Railroad Rights of Way"* ["Guidelines"], "The Evidence Code provides that, regardless of whether there is a relevant market for the property, its fair market value may be determined by reference to matters of type that reasonably may be relied upon by an expert in forming an opinion of value of the property including where appropriate, but not limited to, 1) the market data (or comparable sales) approach, 2) the income or capitalization method, and 3) the cost analysis (or reproduction less depreciation) formula. Congress has mandated the Surface Transportation Board (STB) to require that the 'constitutional minimum value' (CMV) of a particular railroad line be given to the railroad title holder and that such value 'not be less than the net liquidation value (NLV) of such line or the going concern value (GCV) of such line, which ever the greater.' "[7]

Only the federal STB can approve or deny an application to abandon an operating rail line. If a line has already been abandoned, it is valued on its highest and best use of its *land* and is subject to state law requirements. There may be an identifiable market for use of the rail corridor but such a market *<u>cannot include the uses to which the acquiring agency intends to put the land.</u>*

A technical administrative interpretation of this requirement appears to be against the spirit of the law and the public interest. If the acquiring agency has no immediate plans to utilize the line in question, it may serve the public's long-term interest to acquire and preserve a corridor for some as yet unknown utility. Where replacement lands are available and economically affordable to assemble a replacement corridor connecting principal terminal points, the cost approach may be appropriately

[7] Ref. 49 USC, Section 10910 (b) (2). See also *Guidelines*, January 28, 1994, page 2.

employed. However, this is rarely the case unless the corridor is for some utility pipeline or cable use over long distances over less valuable land in rural areas. Rarely are corridor sales truly “market driven” and able to be compared to another corridor for use in a sales comparison analysis.

Going Concern Value (GCV) vs Net Liquidation Value (NLV):

Valuation of the subject branch rail line as a “corridor”, with or without “enhancement” features, is a dead issue as it has been shown that the “corridor” for railroad valuation purposes does not exist due to gaps in underlying fee ownership and inconsistent right of way widths.

Next in the valuation process is the consideration of valuation methodologies between GCV and NLV. Although the *Guidelines* establish no “rigid rules” in valuation procedures for railroad rights of way, it states:

> Nevertheless, it appears that in many cases either the Net Liquidation Value (NLV) or the Going Concern Value (GCV) will usually apply.
>
> 1. If the NLV is higher than the GCV, and *abandonment is reasonably probable in the near future* it would be proper to value the right of way on the NLV basis. *[reviewer's emphasis]*
>
> 2. Where the going concern (GCV) is higher than that realized were rail operations ceased (NLV), the owner can be presumed to continue the rail business.
>
> 3. If GCV and NLV were found to be essentially equal, than a distinction may not be important, but the one with that is consistent with the prospect of abandonment is appropriate.

Which brings us to one of the major hurdles in the subject appraisal problem – is there sufficient “going concern value” in the present or foreseeable operations of the freight line to warrant an investment in the branch line. The Wilbur Smith Associates “Draft Going Concern Valuation” report of March 2004 identifies eight (8) shippers on this branch line. As of January 2004 the UP operated the line only three days a week – Mondays, Wednesdays and Fridays, generating about 4,700 cars a year. Of the eight customers, six were in Watsonville, one in Santa Cruz and the other the Cemex plant in Davenport.

By far the biggest shipper on the route was the cement plant, but that plant is permanently closed with little prospect of a new owner-operator reopening the business within the foreseeable future. Even when the cement plant was operational, the Smith Associates report concluded that, “UP is making little if any real income from the Santa Cruz branch." The report goes on to conclude that there is little chance that any new rail shippers will locate along the branch and that the alternative of shipping by truck has become more attractive to the shippers than use of rail.

The Smith report then valued the going concern interest in the branch line by three scenarios of future income – "pessimistic", "most likely" and "optimistic" Their conclusion at the time was that a mid-range estimate based on the "most-likely" scenario was the most appropriate, indicating a present value of short line earnings at the $845,000 level. The Smith appraiser goes on to state that, "a key assumption [of the report] is … the continuance of traffic to the line's major shipper, RMC Pacific [now Cemex]", and, "if the cement plant were to cease operations, the branch line beyond Watsonville would likely be abandoned." Given the Cemex closure and the state of the national economy, the GCV estimate today would likely be at or below the Smith's projected most "pessimistic earnings forecast" figure of $363,930.

(I see no reason to ask for an update of the 2004 Smith Associates' Draft Going Concern Value Report at this point. The economic feasibility of continuing the rail freight service on this line has become even worse since the 2004 draft report, and any expenditure made updating its results is considered a waste of taxpayers' money.)

Abandonment of the Railroad Right of Way:

As per a memorandum from Kevin Sheys, an expert on STB matters, to Kirk Trost[8] dated Oct 13, 2005, "a petition for exemption to the STB permits a common carrier to seek abandonment through a streamlined process. Even then, the STB still often takes three-to-six months to issue a decision and sometimes longer. However, a party may petition the STB for expedited consideration of the petition for exemption."

John Williams of the Woodside Consulting Group concluded in a memorandum dated October 13, 2005 that, "there is no chance that the STB would deny an application by SCCRTC and its short line operator for abandonment of the Santa Cruz Subdivision." This was based on the premise that the cement plant would continue operations into at least the foreseeable future. Mr. Williams goes on to say:

> Further, it is Woodside's opinion that none of the rail customers, including Cemex and the connecting railroad, the Santa Cruz, Big Trees and Pacific Railway ("Big Trees"), would be willing to provide the amount of financial assistance required by the STB in order to either continue operations of the SCS or to purchase it, subsequent to a STB grant of authority to abandon the line."

[8] See page 356 of the Addenda to the Gimmy International appraisal dated April 20, 2006 for a copy of this memorandum.

According to the Woodside study, the RR would show a net operating loss of $1,800,000/year from operations if freight service continued. With Cemex now closed and the line threatened with abandonment, the other rail customers could and would use other means of transporting goods and materials.

As per terms of the Draft Purchase and Sale Agreement of the Santa Cruz Branch Line between the SCCRTC and UPRR dated December 3, 2009, a Short Line Operator (SLO) was to have taken over the management and maintenance of the freight line operations. However, in light of the permanent closure of the Cemex plant, it is my opinion that:

- *there is no likelihood that the freight operations can profitably continue; and*
- *the railroad will seek immediate abandonment of the branch line through an expedited application procedure with the STB.*

Conclusion of Highest and Best Use:

I have been asked by the client to discuss both real estate appraisals (Colliers and Gimmy) on the Santa Cruz Branch line and advise the clients as to my opinion of the appropriateness of the valuation methodology, the highest and best use conclusion and the value conclusions.

Colliers: Gary Anglemyer with Colliers concludes that:

> Physically the corridor use is clearly an ideal use for this special purpose asset but it could be absorbed into the adjoining land ownership. Legally, the corridor has significant title deficiencies, which affects the marketability and value of the underlying land if sold for an alternative use. *The right of way has a much higher value if liquidated than if operated as a freight line.* According to John Williams of the Woodside Consulting Group, who has extensive abandonment experience, *"there is no chance that the STB would deny an application by SCCRTC and its short line operator for abandonment of the Santa Cruz Subdivision."* [reviewer's emphasis added] … Therefore, the highest and best use of the property is for liquidation. This use is physically possible, legally permissible, financially feasible and the maximally productive use of the land.

Gimmy: Art Gimmy, appraiser for Gimmy International, concludes that the branch line is technically a "corridor" in that it has a limited amount of freight hauling capacity over a continuous single track. He points out, however, that the line has: a declining demand for freight with economic alternatives to rail; poor condition of track improvements showing a need to improve/maintain rail service and maintain safety minimums without a viable means of obtaining the necessary return on operations; a lack of alternative uses for a corridor such as passenger service, and; an uncertainty of title encumbrances and missing evidence of title. His conclusion was:

In summary, the highest and best use of this property is a technical corridor with very limited long-term economic potential as a corridor in accord with USPAP principals of economics which exclude public interest value (PIV). Potential future transportation planning on a regular basis would have no effect currently on this issue.

Thus we conclude that net liquidation value (NLV) will provide the primary basis for analysis and… will produce the "Fair and Reasonable Price" defined by the "Red Book."

Conclusion of Highest and Best Use of the Santa Cruz Branch Line:
The reviewer agrees with the conclusions of both fee appraisers that the highest and best use of the branch line right of way is for sale through liquidation of assets using the NLV approach. This is even truer today than at the time the fee reports were written as the primary shipper on the line, Cemex, has closed its plant permanently as of the end of January 2010. There was little doubt that the STB would grant abandonment prior to this occurrence; there is *no doubt* that this would be the case today given the plant's closure. While the branch line corridor undeniably has great social value and likely unforeseen economic value to the general public, appraisal regulations and requirements insist the appraiser to ignore the obvious public value of this corridor. Therefore, the conclusion of the Gimmy and Colliers appraisers is soundly based and accepted as to the highest and best use of the subject right of way. The branch line should be valued based on Net Liquidation Value.

Valuation Methodology:

Net liquidation value [NLV] assumes that the line is not a viable railroad operation as it is and that the highest and best use of the property that comprises the right of way would be a non-rail utility as of the date of value. NLV is comprised of two components: 1) the sell-off (liquidation) value of the underlying land, and; 2) the net salvage value ,“NSV”, (i.e. gross salvage value less costs related to their removal) of the physical components of the rail operations such as track, ties, crossing equipment and associated materials. The reports by Gary Anglemyer, MAI [Collier Pinkard] and by Arthur Gimmy, MAI [Gimmy International] both estimate the NLV of the subject branch line. A separate report by the Woodside Consulting Group values the Net Salvage Value (NSV) of the associated materials.

The Woodside Consulting Group valued the net salvage value of the railroad related improvements with bridges and trestles left in place at $419,000; if the bridges and trestles are razed the additional cost to demolish and remove materials would result in a negative NSV of <$217,000>.

Several cost studies over the last several years were last updated in April 2008 wherein a cost for structural repairs of the crossings and retaining walls along the branch line were estimated at between $3.9 million and $5.4 million. Now that the line is likely to be abandoned with no prospect of future freight traffic, it is not known what the minimal maintenance costs would be to keep the structures in tact and in at least a safe condition for pedestrian and/or bicycle traffic. The trestles and bridges would likely be left in place, but the salvage value of the other track materials and associated non-real estate railroad property would probably be expended in routine maintenace and safety precautious even absent the rail freight traffic. *Therefore, no supplemental value is added to the NLV for salvage value of improvements.*

Marketable Area of the Right of Way:

As per the *Guidelines*,

> While it will not ensure future value for non-rail purposes, a warranty by the railroad that the rights transferred to the public agency are good and sufficient for railroad uses, should be an absolute minimum condition.

While the gross area of the Santa Cruz Branch Line has been estimated at 301.53 acres, the marketable area which could be transferred in fee simple is much less. The Gimmy appraiser went to considerable effort to ascertain what areas could be sold by the railroad as “insurable” by a title company. Minus bridges, waterways, easements, licenses, public streets and crossings, past sales by Southern Pacific and UPRR, and subject to reversionary interests and other areas that just could not be properly mapped, the net saleable (“insurable”) area is reduced to 93.09 acres, or

31% of the gross right of way area. This figure has been developed by the Gimmy appraisers and is based on exclusions reported in the January 9, 2005 title report, the January 9, 2005 supplement to that report, another supplement dated March 25, 2005 and a legal analysis by SCCRTC's attorney transmitted to Gimmy in late 2005. The title was most recently updated in 2009 but the findings indicated no significant changes in the marketable parcels in the line. *This reviewer accepts the Gimmy insurable areas as the most reliable basis for a starting point of the valuation process, as does the Collier appraiser who used the exact same figure referencing the Gimmy appraisal.*

Gimmy attempted, when all else failed, to scale some areas off of the railroad maps which, for the most part, appear not to reflect the latest transfers of rights and, in the case of some maps, were barely legible. I have tried to locate the saleable parcels on railroad Val Maps and the "Informational Right of Way Maps" provided by the SCCRTC while at the same time trying to consolidate the line segments described by the Collier and Gimmy appraisers. However, and as both the Gimmy and Colliers appraisers state repeatedly throughout their reports, *I am not a licensed surveyor or engineer and therefore no guarantee can be made for the accuracy of the areas so calculated and used in this review reconciliation.*

It is important at this juncture to point out that Gimmy takes the most conservative approach in calculating those areas encumbered by easements. When there was doubt as to an easement's location or if there were known easements upon a parcel, Gimmy concluded no value attributable to that parcel. In realty, the presence of easements will often negatively impact value but certainly not completely devalue them. Attorney Kirk Trost points out that some easements could be eliminated by the railroad or the agency by condemning for the underlying fee, an action that is relatively simple and cost effective depending on the highest and best use of the parcel(s) in question. Both appraisers also indicate that the fee parcels are likely to increase in number as title refinements are made and actual surveys are completed.

These considerations of partial valuation of easement areas or unaccounted fee parcel contributions will likely add an additional value component to the NLV at a level of 10% or greater. Such a supplemental accounting is not uncommon in railroad corridor valuation but is often the case when dealing with less than perfect records maintained by the railroads which may handle hundreds of transactions, fee and easement, along the corridor over its lifetime.

"*As Is" Valuation – Environmental Considerations:*

The property under appraisal is being valued "as is" without consideration for environmental clean-up, if needed. The draft "Purchase and Sale Agreement" between the Union Pacific Railroad and the SCCRTC calls for the SCCRTC to accept the property "as is" subject to any environmental deficiencies, clean-up, or future liability; all such responsibility falls to the buyer.[1]

The reviewer was provided a copy of the *Preliminary Site Assessment* by Geomatrix Consultants dated March 1997 and the *Phase II Investigations and Human Health Risk Assessment for Arsenic* submitted by AMEX Geomatrix, Inc., dated August 2009. The 2009 study examined soil samples for hydro-petroleum contamination, chemical treatment to rail ties, the presence of heavy metals and, specifically, for arsenic which was detected in a 2005 survey by the same company. Arsenic is a natural occurring mineral often found in non-toxic amounts; however, it is also used in man-made chemicals (fertilizers, herbicides and pesticides) which could have been applied to the farm fields adjacent to the branch line up and down its length from Watsonville to Davenport, or used by the railroad for the control of weeds along the trackage. Arsenic is often found within a rail right of way but its presence seldom leads to significant expenditures beyond a soils management plan, if warranted.

The conclusions of the Phase II report indicate several relatively minor environmental concerns: future testing of ground water for hydrocarbons should be conducted at the Granite Construction facility near Watsonville, and; soils with higher than acceptable levels of arsenic were detected along some track locations and may require special handling, stockpiling and disposal procedures when removed. No costs have been provided for these curative items as yet. The UPRR and Granite Construction are currently working to resolve the issue which was caused by an offsite source and was not the fault of the railroad. Cleanup costs should be the responsibility of Granite Construction. As the railroad is proposing to sell the rail line "as is", these costs could become the responsibility of SCCRTC and, if so, such costs should be deducted from the final estimate of "fair and reasonable price" to be paid for the right of way.

Longitudinal and Transverse Encumbrances:

As per Attorney Kirk Trost and Luis Mendez, Deputy Director at SCCRTC, there are no significant longitudinal easements in the corridor which would affect value in use as a transportation corridor or in liquidity as independent or assembled parcels.

[1] See draft "Purchase and Sale Agreement" dated 12/3/09, Article IV, Sections 4.1 and 4.2. A copy is located in the Addenda of this review report.

These easements, if any, would be extremely difficult to identify due to the poor quality of the VAL Maps and the reluctance of the UPRR to give much assistance to the fee appraisers during the course of their assignments. Neither appraiser recognizes individual easements or deducts from value for either longitudinal or transverse easements (other than street crossings, bridges, trestles and waterways.) The Collier's report mentions the right of way as being encumbered by "various easements and utility lines" but goes no further.

The Gimmy report has a section devoted to 'Longitudinal Encumbrances' and states, "to our knowledge the Property is not uniformly encumbered with any exclusive easements, licenses or leases of this type. However … there are physical signs of farm roads and public uses at many places along the right of way. Many parts are regularly used as pedestrian thoroughfares, both longitudinally and transversely." Gimmy divides transverse easements into two categories: one being public roads and waterways *which are excluded from valuation* and are listed on page 14 of the report; the other category includes encumbrances for private crossings, rights, drainage, and pipeline easements. In the latter class Gimmy states that he has attempted to account for known or obvious easements with discounts to the segments in the valuation/liquidation process (page 15 of that report).

As per Kirk Trost, attorney acting on behalf of SCCRTC, easements over the right of way are confined mainly to the public crossings and would continue in the future under any transfer of ownership. The major transverse encumbrance is an easement for a pipeline for a national company which would be economically infeasible to relocate. As related earlier, this type of area was not included in the Gimmy valuation methodology when *some value* would still be attributable to the remaining underlying fee.

As per an e-mail from Mr. Paul Chrisman dated March 11, 2010, the Union Pacific will

> "reserve a freight easement out of the rights conveyed to the RTC in the quitclaim deed. Concurrently with the closing of the UP-RTC transaction, UP will quitclaim the freight easement to Sierra [the SLO]. Following the closing, UP will retain no rights in the corridor, except for four transverse pipeline easements. The easement will remain on the title until it is abandoned."

There seems little likelihood that there will be a SLO due to the closure of the Cemex plant.

In conclusion, it can only be said that the appraisers and this reviewer recognize that several easements and other encumbrances do exist in the corridor and that they are accounted for in the evaluative process.

Net Liquidation Valuation of the Subject Santa Cruz Branch Line:

As described previously, the valuation of the Santa Cruz Branch Rail Line is accomplished by use of the Net Liquidation Value methodology. The rail line is not a "corridor" in the legal sense and, therefore, the ATF and Corridor enhancement methods are inappropriate, although the ATF technique is a starting point for the NLV calculations.

By all logical indications, the Going Concern Valuation, at less than $1,000,000, is obviously well below that to be found through the NLV approach.

Both Gimmy and Colliers NLV estimates are based on the theory that the rail line could be legally abandoned and that a single buyer would purchase the subject right of way as of the valuation date and sell off multiple parcels in an effort to generate maximum return in a reasonable period. In this methodology, adjustments to the ATF corridor values are made based on contours, access, and other physical and political characteristics that would be considered by buyers in the non-corridor marketplace. The two appraisers adjusted each defined segment of the subject according to its own characteristics and then totaled them into a "gross liquidation value".

As multiple sales by one seller would likely not be accomplished in a short time frame, discounts are made taking into account the original buyer's need to accomplish the task of sell-off over a longer time period as well as factoring in carrying costs for those unsold parcels during the sell-off period. Both appraisers account for sales over a projected three-year sell-off period, with 50% of the parcels being sold the first year, 30% the second and the remaining 20% in the third. Both appraisers estimate that 5% of the parcels would never find buyers.

Mr. Anglemyer (Colliers Pinkard) accounts for expenses at 11% of gross sales and arrives at a figure for total gross receipts of sale of $23,318,000. Upon discounting those cash flows over a three year period at a discount rate, including profit, of 17.25%,[10] he obtains a net liquidation value as of December 12, 2007 of $17,900,000. Finally, to account for the declines in the overall real estate market in the last two years from the December 2007 valuation date, Mr. Anglemyer reduces that figure by 20% to arrive at his final NLV conclusion at **$14,300,000** as of September 4, 2009.

Mr. Gimmy (Gimmy International) accounts for expenses at 16% plus 1% for property taxes applied to the average remaining yearly inventory. He deducts 10% for liquidation profit as a line item expense while Anglemyer includes this category in his

[10] The "discount rate" is equivalent to an Internal Rate of Return, or IRR, for the investor.

17.25% discount rate.[1] Gimmy then reduces his total of three year's sales receipts to present value by use of 9.5% discount rate to arrive at his conclusion of a net liquidation value of **$6,710,000**. [2]

Significantly, Mr. Gimmy's value is based on an appraisal dated April 20, 2006 but with an even older date of valuation of March 1, 2004. Apparently Mr. Gimmy had valued the branch rail line right of way in 2004 but at that time had no definitive area as to legally saleable portions of the line. The title search finally was completed in January 2005 with several supplements and Mr. Trost's letter covering fee and non-fee parcels in May 2005 and September 2005. The Gimmy appraiser subsequently went through an arduous process of trying to decipher what was and what was not "insurable" by the title company (and thereby "saleable") which ended up in his appraisal report of April 2006.

<u>Changes in the Real Estate Market:</u>

The Gimmy report was ultimately never revised to bring the NLV up to "current" (2009) date due to a disagreement between Gimmy International and the SCCRTC relating to the appraiser's compensation for updating the 2006 report. Subsequently, Colliers Pinkard was retained to prepare the appraisal that was to have been the major focus of this review, wherein Anglemyer concluded a NLV of $14,300,000.

Consequently, the Gimmy 2004 value is now "stale" and does not reflect the wide swings in the real estate market that have occurred since 2003-2004. Gimmy's sales are dated from late 1998 (there is one agricultural sale dated July 1987) through February 2004. These sales do not reflect the rapid rise in prices in *all* sectors of the real estate marketplace (especially the Bay Area and the local Santa Cruz market) and in particular the residential market (single family and multi-family). Residential prices began to increase dramatically through 2003, 2004, 2005 and early 2006, then

[1] Note that Gimmy's annual sales are more properly based on his projected "marketability" category for the individual sub-segments; his results for annual sales percentages are, therefore, slightly different at 48%, 35% and 17%, than Anglemyer's. The 50%-30%-20% "standard" seems to have been unintentionally set by Tom Ryland's example for calculating net liquidation value in the "Blue Book", *Railroad Valuation Procedures – Examples of Applications,* July 1994, p 11.)

[2] It is noted that the 10% line item expense for profit and a 9.5% discount rate used by Gimmy is the equivalent of a 17.25% IRR, or the same as used by Anglemyer.

stabilized, and started to fall in early 2007 and have continued to do so through 2009. Commercial prices appear to have softened in 2007 but it was not until 2008-2009 that they, too, fell. Industrial land was never as volatile in this area but has also significantly declined over the last two years. Agricultural land appears to have remained relatively stable over the period.

Few land sales of any type usage exist over the period from mid-2008 through 2009. This is due to in part to the glut of properties for sale at dropping prices causing a "buyer's market". Unfortunately, at the same time financing is extremely tight and with so many improved properties on the market it is economically impractical for the typical investor (unless he/she is an owner-occupant with special requirements) to be able to buy the land, permit and pay fees for the building, build that building and not be far in excess of what it would take to buy a substitute improved parcel for sale on the open market.

Acceptability of the Fee Reports for a Determination of Fair and Reasonable Compensation:

In spite of the obvious efforts of the SCCRTC and their legal counsels to meet the requirements of the oversight agencies which will ultimately decide to fund or not fund the proposed acquisition of this branch line, I cannot approve either of the real estate appraisal reports by Colliers or Gimmy for the following reasons.

Colliers Pinkard Report:

This appraisal is flawed by its brevity and lack of detail to major value considerations. Mr. Anglemyer told this reviewer that he and an assistant spent many hours trying to decipher what parcels were insurable and marketable in the Branch Line right of way. Their conclusion was that without a complete engineering survey there was no way to accurately arrive at a definitive conclusion of insurable parcels or locate easements on those parcels supposedly encumbered. Mr. Anglemyer recognized, also, that the Gimmy figures, which he adopted for sake of uniformity among the appraisals, *definitely undervalues the saleable areas by allotting no value at all to parcels with easements*.

Mr. Anglemyer's remedy to the identification of marketable parcels was to use the area that Gimmy concluded as saleable (93.09 acres) as a ratio of the total right of way acreage (301.53 acres), or 31% rounded to 30%. He then applies this ratio to the total gross ATF value of the rail right of way as representing the gross liquidation value of the holdings. His rationale was that the conventional method of identifying those parcels capable of sale could not be performed in this case and that an unconventional approach was necessary. He chose the "ratio" methodology as a viable alternative, albeit a less accurate means of identification. This is the greatest weakness of the Anglemyer appraisal and it significantly clouds his value conclusions.

The Anglemyer appraisal claims to be a "self-contained" appraisal but that is hardly the case as much essential information is lacking in the report. It does not contain essential detail and analysis into market factors; hypotheses of potential uses of the individual areas to be sold and their potential assemblage value to the adjacent owners. Whereas, Gimmy references those parcels eliminated from consideration as fee owned parcels in the right of way, there is no such reference in the Anglemyer report.

The Anglemyer report states that only the industrial and residential markets have declined in value in the Santa Cruz area with the commercial and agricultural sectors of the market having retained their value since the earlier market analysis by them in 2007. It is my opinion based on numerous conversations with brokers and appraisers in the Santa Cruz area and from parallel markets in similar California areas that the commercial market has also slipped from 2006 levels. However, his appraisal makes note that the Santa Cruz and beach oriented communities "continue to see highly desirable sites retain their value." I agree with the latter statement, especially in the more urban/suburban areas of Aptos, Capitola and Santa Cruz where land is at a premium and if vacant land were available it would still command high prices.

The Anglemyer conclusion of net liquidation value as of September 2009 is $14,300,000. My opinion, after the all the research and analysis I have completed during this assignment, is that Mr. Anglemyer is "in the ballpark" with his value estimate conclusion but that it is not supportable as a "stand-alone" work.

Gimmy Report:

The Gimmy appraisal, on the other hand, is more technically correct and detailed, and progresses to a conclusion of NLV in a logical and more industry-accepted manner. Much evidence is presented regarding selections of segments, identifying individual parcels in fee ownership and their potential in either assemblage or independent sale, describing attributes and problems for potential sale areas along the right of way and in developing a net worth of future liquidation disposals.

It is evident that Gimmy took a great deal of time and effort trying to evaluate what was insurable and saleable in the rail line right of way and what was not. He has included several lists in the report that detail which RR parcels were excluded from valuation through information obtained from: the January title search or its two supplements; information obtained from the attorneys at Miller, Owen & Trost, and; information provided by SCCRTC. What areas the Gimmy appraisers could not decipher from the spotty information provided by the railroad, they attempted to scale from the Val Maps as best they could.

The greatest problem with the Gimmy report is that it is not current. It was completed in April 2006 but with values concluded with market data obtained in chiefly the 2000 to 2003 time frame. The Gimmy report has a value date of March 2004. The market has undergone dramatic fluctuations, both up and down, since early 2004. Gimmy does not explain how he accounted for changing market conditions during this period, if he did.

The Gimmy report is very conservative in its approach to recognizing marketable parcels in the rail right of way. The appraiser eliminates from valuation those parcels encumbered by easements and those that have any question as to title. (See pages 49 through 54 in the Gimmy report for lists of those parcels not included in the valuation calculations.) On page 53 and 54 is a list of parcels that he excludes from valuation for "lack of <u>recorded</u> title evidence or other ambiguity about nature of title, if any". Clearly, a substantial portion of these parcels would ultimately be found to have saleable title.

Another objection I have with the Gimmy report is that the values assigned to some of the insurable commercial, residential and industrial land parcels are substantially understated. Contrarily, Gimmy appears to overvalue some agricultural land. Also, Gimmy indicates that saleable land adjacent to public parks and preserves has only a nominal or dedication value while I believe it should be appraised at its higher "alternative highest and best use", i.e. not just defaulting to public use or park lands.

The Gimmy conclusion of net liquidation value was $6,500,000 after subtracting $200,000± for the additional cost above NSV to remove the bridges and trestles.

The Gimmy report is the best appraisal from a methodology and factual informational standpoint, but it cannot be approved for an estimate of compensation due to its out-of-date valuation, if for no other reason.

<u>Reconciliation of Values – Reviewer's Opinion:</u>

In that there is need to resolve the valuation issue within an relatively narrow time frame, and there does not appear to be time to seek revisions or updates from the Colliers or Gimmy appraisers, I have attempted to create an alternative reconciliation of values from the supportable information provided in the Gimmy and Anglemyer reports. This product is outside of my scope of work for this assignment but hopefully it will lend enough credibility to the valuation process so that it can be used by the California Transportation Commission as a basis for the consideration of funding for the purchase of Santa Cruz Branch Line.

I have accepted the Gimmy area calculations as being as close to an accurate accounting of areas to be conveyed as "insurable" as can be obtained without a comprehensive costly engineering study/survey of the entire corridor. Also, I have relied heavily on Gimmy's descriptions of liquidation parcels, their attributes and failings as useable parcels, and his NLV methodology as being dependable and accurate. From the Anglemyer report I have gleaned the land sales and employ them as being the most representative of the land uses and values next to or near the rail line right of way without an independent up-to-date market data retrieval by this reviewer. (Mr. Anglemyer told me that he employed a local commercial real estate firm for assistance in gathering his market data and he used them for a "sanity test" on his final across-the-fence values.)

I attempted to plot the segments and sub-segments used by each appraiser along the rail line and to reconcile them into a comparison that could be visually displayed. This was extremely difficult to do as the sub-segments used by the appraisers (32 by Gimmy and 35 by Anglemyer) varied so widely in linear distances and often in potential use descriptions that comparison between the two became irrelevant. In the end, I defaulted to Gimmy's segment and sub-segment descriptions as they, at least for the most part, identified the saleable parcels by either Station number or Val Map parcel.

With the aid of the aerial right of way maps provided by SCCRTC superimposed on the rail line right of way outline, together with reproductions of the RR VAL Maps superimposed over the aerials, it was possible to relate the rail parcels to adjacent land uses and visualize significant advantages of some of their physical and legal characteristics, such as accessibility and possible assemblage value to the neighboring properties.

The values I felt were appropriate for the sub-segments, determined chiefly from comparison to the Anglemyer sales and supplemented by information obtained from local realtors, appraisers and on-line web sources such as commercial brokerages and the County Economic Development department, were substituted into the Gimmy NLV model. Most of the adjustments that I applied as to: marketability; problems with parcel certification and lot line adjustments; remnant discounts; risk stemming from access issues, and; risk related to planning, permits, and politics are similar to Gimmy's figures with some quantification changes based on my knowledge and opinions.

The final step in estimating the net liquidation cash flows is by discounting those future flows into present day dollars *as of the date of valuation*. This is done by using a discount factor which takes into account the investor's risk in the project in the form of consideration of "profit" for the investor's risk and return on his/her expended capital. (In the case of my analysis and that of Colliers, "profit" is included in the discount rate; Gimmy adds "profit" as a separate line item cost at 10% and then discounts the net sales at 9.5%. For purposes of this analysis I have used a discount rate of 20%. (Please see the conclusions of the "Summary of the Korpacz Study, 4th Qtr. 2010 Survey" in the Addenda.)

My calculations are shown on following pages. I concluded a total of gross project revenues from sale of the insurable parcels of $17,976,576. Subtracting a nominal amount for what will likely be odd-shaped, small-sized remnant parcels, typical expenses in the liquidation process were deducted to arrive at gross liquidation cash flows, before accounting for time-value of money, of $14,983,420. Like both Anglemyer and Gimmy, I am assuming sell-out over three years with a ratio of sales of 50% sold off in year one, 30% in year two and the remaining 20% in year three.[13]

The abandonment process is estimated to take from three to six months during which time it is assumed the prospective purchaser of the entire saleable right of way could be initiating the liquidation effort with relatively low risk in regard to the question of abandonment. Obviously, that investor would not spend a great deal of funds until the transfer is complete and title transferred to his/her name, but organization for liquidation could be initiated. *With this premise, no additional discount would be necessary to allow for time beyond the date of value to the end of the first year sales.* This is an admittedly optimistic forecast but we are dealing with hypothetical sales from a property that will likely never be disposed of and will remain in some form as a "corridor" in spite of the regulatory nature of the appraisal process. Gimmy also assumed a 6-month "set-up time" for initiation of sales within year 1; Anglemyer does not appear to broach the subject.

The results of the my reconciled net liquidation analysis indicates a net present value of the liquidation of the insurable real estate assets of the Santa Cruz Branch Rail Line to be **$11,100,000®.**

[13] Note that Gimmy more accurately assigns the sale parcel with its projected sale price to one of the three years based on its estimated "marketability", thus his annual percentage of gross sale revenue is 48%, 35% and 17%. Anglemyer's and mine are strictly 50-30-20. The differences in allocation makes for a very small value disparity between his present worth dollars and mine.

CHART OF SITE-SPECIFIC CHANGES AND DISCOUNTS

			Variable Site-specific Changes				
Segment Sheet	**Rounded Preliminary Value**	**Market-ability**	**Parcel Cert. & Lotline Adjust.**	**Remnant and/or Reluctances**	**Risk Re: Access Assumption**	**Risk Re: Plan/Permits & Politics**	**Result**
1	$ 327,500	2				10%	$ 294,750
							$ -
2A	$ 20,000	3		50%			$ 10,000
B	$ -						$ -
3A	$ -						$ -
B	$ 850,000	1 & 2 equally	5%				$ 807,500
C	$ -						$ -
D	$ 300,000	1	5%		10%	10%	$ 225,000
E	$ -						$ -
F	$ -						$ -
4A	$ -						$ -
B	$ -						$ -
C	$ -						$ -
D	$ -						$ -
E	$ 2,247,910	2				40%	$ 1,348,746
F	$ -						$ -
G	$ -						$ -
H	$ -						$ -
I	$ -	1					$ -
J	$ 300,000	2	15%			40%	$ 135,000
Subtotal	$ 4,045,410						$ 2,820,996

Segment Sheet	Rounded Preliminary Value	Marketability	*Variable Site-specific Changes* Parcel Cert. & Lotline Adjust.	Remnant and/or Reluctances	Risk Re: Access Assumption	Risk Re: Plan/Permits & Politics		Result
5A	$ 1,408,700	2	5%			40%		$ 774,785
B	$ 1,500,000	1	5%			40%		$ 825,000
C	$ 712,000	2	10%	25%				$ 462,800
6	$ 2,673,500	1 & 2	10%			40%		$ 1,336,750
7A	$ 529,200	2				40%		$ 317,520
B	$ 629,500	1 & 2	5%		50%			$ 283,275
C	$ 2,418,500	2	5%			40%		$ 1,330,175
	$ 2,150,000	1	5%			25%		$ 1,505,000
D	$ 660,500	1, 2, 3				25%		$ 495,375
	$ 5,212,500	1, 2, 3				10%		$ 4,691,250
8A	$ 2,452,500	1, 2, 3				10%		$ 2,207,250
B	$ 300,000	1	5%			40%		$ 165,000
C	$ 846,000	1, 2	5%					$ 761,400
D	$ -							$ -
Subtotal	$ 21,492,900							$ 15,155,580
Subtotal P. 1	$ 4,045,410						#	$ 2,820,996
Total	$ 25,538,310						#	$ 17,976,576

SUMMARY OF DISCOUNTED CASH FLOW
WITH LIQUIDATION PROFIT

PROJECT REVENUES

		Year 1	Year 2	Year 3	Total
		$ 8,988,000	$ 5,393,000	$ 3,596,000	$ 17,977,000
Less Remnant Discount	5%	$ 449,000	$ 270,000	$ 180,000	
Net Adj. Revenues		$ 8,539,000	$ 5,123,000	$ 3,416,000	

PROJECTED COSTS

Adm/Legal, etc.	3%	$ 256,170	$ 153,690	$ 102,480
Commissions & Mktg.	5%	$ 426,950	$ 256,150	$ 170,800
Overhead	3%	$ 256,170	$ 153,690	$ 102,480
Property Taxes		$ 135,000	$ 63,000	$ 18,000
Total Projected Costs		$ 1,074,290	$ 626,530	$ 393,760
Liquidition Profit	0%	$ -	$ -	$ -
Total Costs Plus Liquidation		$ 1,074,290	$ 626,530	$ 393,760
Net Cash Flows		$ 7,464,710	$ 4,496,470	$ 3,022,240
NPV	20.0%	$ 11,092,122		
Rounded NPV		$ 11,090,000		

TAX CALCULATION

Beginning Inventory		$ 18,000,000	$ 9,000,000	$ 3,600,000
Sales (Gross)		$ 9,000,000	$ 5,400,000	$ 3,600,000
Average Inventory		$ 13,500,000	$ 6,300,000	$ 1,800,000
Tax	1.0%	$ 135,000	$ 63,000	$ 18,000

Additions to the Discounted Cash Flow Calculations:

QUESTIONABLE TITLED PARCELS:

Largely unaccounted for in the above analysis is the previously stated assumption that some additional value to the buyer lies in the ultimate liquidity of parcels that Gimmy assigns no value. A prudent buyer would take this into account in his investment analysis. While there is no way to account accurately for the specific parcels and their land use classifications until a survey or effort to clear title is made on individual parcels, the reviewer is of the opinion that such unaccounted land would contribute, at a minimum, another 10% to the total net liquidation amount.

LEASED LAND:

Another source of potential revenue for the potential buyer is a short term cash flow from the existing leases on portions of the rail corridor. Mr. Anglemyer has had first hand experience with leases relating to a rail corridor purchased by the Transportation Agency for Monterey County (TAMC) known as the Monterey Branch Line. In that instance, the land leased was far below market and when later leased at economic rent cash flows increased substantially. Mr. Anglemyer calculates the current existing cash flow from lease income on the subject branch line at $61,314, which is largely based on NNN leases where little or no expenses are paid by the land owner. Mr. Anglemyer estimates that the existing leases could be increased to $273,759 and another $296,204 could be generated by leasing other areas in the corridor currently not leased.

This information is significant when considering other income sources if the rail line were to stay in existence as a corridor and not be liquidated. The reality is that the rail line *will remain a corridor* as the SCCRTC has no intention of liquidating this valuable resource but is purchasing the Branch Line to keep it together as "transportation corridor". As was done on the Monterey Branch Line, existing leases could be brought up to market levels and unleased areas with potential for non-railroad use could be rented thus providing the agency with substantial additional cash flow.

However, as the mandated appraisal procedure requires use of the net liquidation methodology, the hypothetical condition for valuation is that liquidation will occur as the highest and best use of the real estate. Under the cash flow discounting premise, it is assumed that the first liquidation sales of the right of way will take place at the end of year one; the assumption is that they will likely be of those more urban parcels which account for most of the present lease income. It is doubtful if it would be economically feasible to re-lease these parcels to numerous tenants for a period of a year or less and it should be assumed that most of the leased property is the most desirable and would sell in the first year of marketing the property. Therefore the investor could expect the receipt of $61,000 for leased land in the first year and a much smaller percentage for the second and third year if no effort is made to bring the leases up to market. This consideration would logically lead a prudent investor to attribute *something* to this potential source of revenue. For purposes of this reconciliation, a figure of $75,000, total, from leased property is estimated.

Net Salvage Value of Railroad Improvements:

Typically the net salvage value from the sale (less disposal and removal costs) of the railroad track and other improvements are discounted from the date of valuation to the initiation of the sale of real estate through the liquidation process. As the time difference is considered to be minimal (six months to one year) and as cash flows are assumed to be at year's end in the income discounting process, no discount is considered appropriate is this instance.

The NSV of the rail associated improvements estimated in the Woodside Consulting Group report is indicated at $417,000, assuming the bridges and trestles on the line do not have to be removed. Realistically, the trestles and bridges on the abandoned line would likely remain in place as they exist along most other abandoned lines throughout the United States. The Capitola trestles and the trestles/bridge over the San Lorenzo River in Santa Cruz will likely remain in place due to their historic significance and the use of the Capitola trestle as an icon for that community. Some maintenance will have to be performed to insure that these structures are not a danger to public safety, and that public pedestrian/bicycle traffic (which is likely to begin/continue) after purchase, is adequate. Some form of insurance for liability purposes and possible earthquake damages will have to be considered as well. *However, from a valuation perspective the bridges and trestles are not part of the fee land to be transferred to an investor/liquidator and, therefore, are outside of the NLV process and should be accounted for by other means.*

Conclusion of Net Liquidation Value with Additions:

▪ Net Liquidation Value from Property Sell-off Over 3 Years	$11,100,000
▪ Additional Saleable Parcels - @ 10% of NLV	$ 1,100,000
▪ Lease Income over Liquidation Period	$ 75,000
Total Reconciled Liquidation Estimate	***$12,275,000***

As an aside by this reviewer, an important consideration to be remembered throughout this evaluative and bureaucratic exercise is that the liquidation of the subject rail line is merely *hypothetical* and that, in fact, the rail "corridor" is not to be broken apart but to be maintained as a transportation/recreation corridor in the public interest. This invaluable public resource, serving the same communities as the Branch Line now does, could never be recreated and the very real potential of it serving as a link in a larger inter-regional transportation system would be lost. The real cost in terms of public loss far transcends the regulatory methods of "bean counting" required to value the real estate involved. The caveat of "fair and reasonable price" should include some allowance for the price to be paid for the possible loss of this wonderful coast-oriented resource.

In the world of railroad corridor valuations, the across-the-fence valuation approach and the inclusion of enhancement factors for rail corridors is a recognized part of the railroad valuation industry. Whether ATF methodology and enhancement factors are considered supportable or an accurate method of valuing a rail right of way's worth is open to debate. The fact is, however, that as one half of the participants in the transfers of corridors, i.e. the railroads, use this methodology extensively and we see most all corridor sales fall within a range of price-to-across-the-fence ratios of from 0.25 to as high as 2.5 or higher. A line's position within the range is dependent on numerous factors but primarily considers density of adjacent development, lack of available substitute corridors, importance of terminal points and availability of usable right of way within the corridor.

As mentioned in Mr. Anglemyer's report and as reiterated to me in a subsequent conversation, he estimates the total ATF value of the Santa Cruz Branch Line at $144,700,000. His concluded net liquidation value of $14,300,000 represents 9.9% of his ATF value; my reconciliation figure of $12,275,000 is the equivalent of 8.5% of his ATF value. These percentages are far below what he and I have seen rail corridors sell for and further substantiates our opinion that at either $14,300,000 or $12,275,000 the Santa Cruz Branch Line is a bargain for the general public while meeting the requirement of "fair and reasonable price" to be paid the railroad.

CERTIFICATE OF REVIEW APPRAISER

Project:	Santa Cruz Branch Rail Line, Santa Cruz and Monterey Counties, California
Owner:	Union Pacific Railroad Company
Review Certificate Date:	February 19, 2010

I hereby certify that:

1. I have completed the reviews of the appraisal reports prepared by Gary Anglemyer, MAI (with Colliers Pinkard as to NLV); Arthur Gimmy, MAI, (with Gimmy International as to NLV); Wilber Smith & Associates (as to GCV), and; John Williams (with the Woodside Consulting Group as to Abandonment Potential) on the property identified above. I approve only those values indicated at the end of this certificate.

2. The facts and data reported by the review appraiser and used in the review process are subject to all of the assumptions and limiting conditions stated in the attached Appraisal Review Statement of Assumptions and Limiting Conditions.

3. The liability of Tim Landes, SR/WA, is limited to the client only and to the amount of the fee actually paid to Tim Landes for the appraisal review services rendered as liquidated damages if any related disputes arise. If this report is placed in the hands of anyone but the client, client shall make such party aware of all of the assumptions, limiting conditions, restrictions and caveats of the assignment and related discussions. The reviewer is in no way to be responsible for any costs to discover or correct any deficiencies of any type present in the property, physically, financially and/or legally.

4. The appraisal reports have been reviewed in accordance with contemporary appraisal review standards, the requirements outlined in USPAP and in the *Guidelines for Public Acquisition of Railroad Rights of Way.* I am NOT satisfied with the completeness and consistency of the NLV reports by either Colliers or Gimmy or with the inadequacy [Colliers] and relevance of the data [Colliers and Gimmy] contained in those reports and I question the propriety of adjustments to the data. Neither am I satisfied with the appropriateness of the appraisal methods and techniques used and/or the appropriateness and reasonableness of the analyses, opinions and conclusions presented in the NLV reports [Colliers and Gimmy]. The Draft Going Concern Valuation report by Wilber Smith Associates is dated but the conclusions of GCV as being significantly less than NLV are adequate to conclude the obvious and, in my opinion, needs no further updating or clarification.

(continued)

5. I have personally inspected the subject property from both offsite and onsite. I did not contact representatives of the Union Pacific Railroad Company during the performance of this review. I have made a field inspection of the appropriate sales used by Mr. Anglemyer, MAI, in his report.

6. Such appraisal review has been made in conformity with the appropriate State laws, Title VI of the 1964 Civil Rights Act, regulations and policies and procedures applicable to eminent domain real estate appraisals and, that to the best of my knowledge, no portion of the value assigned to this property consists of items which are non-compensable under law of California.

7. Neither my employment nor my compensation for making this report is in any way contingent upon the values reported herein.

8. The analysis, opinions, and conclusions in this appraisal review report were developed, and this review report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Professional Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. The use of this review report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

9. I have no direct or indirect present or contemplated future personal interest in the property under appraisal or in any benefit from the acquisition of such property appraised.

10. That the undersigned Appraiser has the necessary appraisal education and experience to competently complete the assignment[14].

11. The appraised values in the attached review certificate documentation are based on fee simple valuation of the property under appraisal. It is assumed that any easements or encroachments that may be in existence as of the value date other than those mentioned in the reports will not significantly effect the projected highest and best use of the subject property.

[14] The "Competency Provision" of the Uniform Standards of Professional Appraisal Practice requires that the review appraiser have the knowledge and experience to complete the specific assignment or he/she must: 1) disclose the lack of experience and/or knowledge to the client before taking the assignment; and 2) take all steps to complete the assignment appropriately; and 3) describe in the report the steps taken to complete the assignment competently.

CERTIFICATE OF REVIEW APPRAISER (con't)

12. That I have not revealed the findings and/or results of this appraisal to anyone other than the proper officials of the Santa Cruz County Regional Transportation Commission or the attorneys at Miller, Owen & Trost and I will not do so until authorized by the client, or until I am required to do so by due process of law, or until I am relieved of this obligation by having publicly testified as to such findings.

13. That no one provided significant professional assistance to the person signing this report.

14. That, in my professional opinion, the "Fair and Reasonable" market value of the described Santa Cruz Rail Line of the UPRR railroad corridor, net of as yet unspecified environmental remediation costs, is, as December 10, 2009;

TWELVE MILLION TWO HUNDRED SEVENTY FIVE THOUSAND DOLLARS
($12,275,000)

Tim Landes — MARCH 16, 2010

Tim Landes, SR/WA — Date
Sierra West Valuation, Inc.
CA Certified General Real Estate Appraiser #AG005980

ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal review has been made with the following general assumptions:

1. This appraisal review has been prepared for the use of the addressee only. No responsibility is assumed for its possession, use, or reliance upon factual data, or conclusions contained herein by anyone other than the addressee. The appraisal review is intended solely for the purpose stated herein.

2. The Review Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Review Appraiser render any opinion as to the title, which is assumed to be good and marketable.

3. Responsible ownership and competent property management are assumed.

4. The Review Appraiser has made no survey of the property under appraisal and assumes no responsibility in connection with such matters.

5. The Review Appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The Review Appraiser assumes no responsibility for such conditions, or for engineering studies that might be required to discover such factors.

6. The information identified in the appraisal report as being gathered from other sources is believed to be reliable, but no responsibility for its accuracy is assumed.

7. The estimate of "Fair and Reasonable Price" in this appraisal review is not based in whole or in part upon the race, color, or national origin of the prospective owners or occupants of the property appraised, or upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the fee appraisal reports.

9. A Remediation Cost Estimate, if available, has not been provided the reviewer. The review appraiser has reviewed the Phase I and Phase II environmental reports by AMEC Geomatrix, Inc. which identifies concerns regarding the presence of arsenic within and along the rail line and a possible hydro-petroleum contamination in a drainage ditch at the Granite Rock facility site in Watsonville. As the subject property has been an active freight line for many years, the passage over the line of hazardous or toxic materials was likely to have occurred although no record of spills or releases of such materials has been recorded. Arsenic has likely been used on adjacent agricultural properties in the form of fertilizers, pesticides and/or herbicides and may have been used for weed control by the railroad owners within or adjacent to the rail right of way itself.

ASSUMPTIONS AND LIMITING CONDITIONS (con't)

The conclusions of NLV are based on the assumption that any contaminants on this property are included in the Phase II study by AMEC Geomatrix, Inc. and an estimate for testing and/or removal of containments will be forthcoming. It is also assumed that these environmental conditions, if found in the corridor to be acquired, will not result in a decrease in market value beyond the cost for removal and/or cure of these elements and that no "stigma" to property value would result.

The appraisers and the review appraiser are not experts in the field of toxic or hazardous material recognition or identification. If subsequent field surveys and/or reports determine the presence of hazardous or toxic elements or molds, the cost of the associated clean-up should be subtracted from the just compensation estimate. The client should be aware that environmental contamination may have a significant affect on real property value and that liability for clean-up passes with the chain of title.

10. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.

11. It is assumed that the property conforms to all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been, or can be, obtained or renewed for any use on which the value estimate contained in the appraisal report is based.

12. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is not encroachment or trespass unless otherwise noted in the appraisal report.

EXTRAORDINARY ASSUMPTIONS:

This review is subject to the following extraordinary assumptions:

13. The reviewer assumes no responsibility for area calculations of the railroad corridor, its segments, or parcels within those segments. The information used for area calculation or the "net insurable area" in the rail corridor and for each individual segment and sub-segment used in the reconciliation analysis by this Reviewer has been gleaned from the appraisal report by Arthur Gimmy, MAI with Gimmy International and, where possible from UPRR Val Maps. References from the title report by First American Title, the two supplements to title and the memorandums produced by the offices of Miller, Owen & Trost have been used to substantiate the areas used by Gimmy.

14. The reviewer assumes the existence of any easement or encumbrance within the subject right of way not included in the appraisal reports by Gary Anglemyer, MAI with Colliers Pinkard and Arthur Gimmy, MAI with Gimmy International will not significantly impact the concluded values of the corridor or its utility under the concluded highest and best use.

EXTRAORDINARY ASSUMPTIONS (cont'd):

15. This Reviewer is not a licensed surveyor or engineer. There are numerous areas in and surrounding the subject rail corroder that may be included or may be excluded in insurable transfer areas that cannot be identified and quantitatively measured without professional engineering assistance. Such is beyond the scope of the Reviewer's expertise and the clients are urged to retain the services of a professional engineer if questions arise as to ownership or sizes of parcels or remnant areas.

16. It is an extraordinary assumption of this report that the STB would grant an expedited abandonment application from UPRR within a six-month time frame from the date of value.

17. It is assumed that the "license" to haul freight over the subject line mentioned in the Purchase and Sales Agreement will not be granted as the premise of this review value reconciliation is that an expedited abandonment of the corridor by the STB will be granted.

18. It is assumed by the reviewer that the sales information in the Colliers report upon which the reviewer heavily relied for the reconciled estimate of value is accurate and reliable.

ADDENDA ONE
(following in this volume)

Santa Cruz Sentinel **Article Re: Cemex Closure**
Summary Results of the Korpacz 4th Qtr. 2009 Survey
Qualifications of Review Appraiser
CA Certification of Appraiser

ADDENDA – TWO
(See Separate Volume)

Title Report and Supplements
Letters and E-Mails from Trost Relating to Title
Going Concern Valuation by Wilbur Smith
Woodside Consulting – Abandonment Opinion
Draft Purchase and Sale Agreement (12/3/09)

Santa Cruz Sentinel.com

Davenport Cemex plant to shut down for good

By Kurtis Alexander

Posted: 01/23/2010 01:30:36 AM PST

DAVENPORT -- One of the county's oldest businesses and a monumental chapter in the region's economic history closed Friday.

Manufacturing giant Cemex announced that its Santa Cruz County cement plant, opened in 1906 to help build a state hungry for growth and responsible for such construction feats as the Golden Gate Bridge and California Aqueduct, would cease operation.

Cemex officials had closed the plant temporarily last year, citing the weak economy, but only on Friday did they completely surrender to it.

"It's a business decision, but it's a tough one," said Cemex spokeswoman Jennifer Borgen. "We've been in this community for over a century. It's a sad day."

The announcement comes just before the release of the Mexico-based company's fourth-quarter earnings report, which analysts expect will show disappointing losses for the international heavyweight. Borgen didn't tie Friday's closure to the financial forecast, but acknowledged the company's recent money problems as the driver.

"I don't think it's any secret about the economy and what the industry is going through now," she said.

The Davenport plant, with its tower and stacks defining the North Coast skyline, employed roughly 120 people. Most of those employees had been out of work since the factory suspended operations in March, but many had not expected the closure to become permanent.

"The news was a bombshell," said Manuel Rodriguez, who worked for 10 years at the plant, where he drove a water truck. "I'm wondering what the hell I'm going to do now. I've got a mortgage to pay. I'm 50 years old, going on 51, and there's no jobs out there."

Rodriguez, like most plant employees, learned of the closure through a letter that was mailed to his Watsonville home Friday.

"It's like a death. We're feeling it," said Eric Karo, an electrician who had worked at the plant for three years.

Cemex officials met with county officials Friday morning to deliver the news.

"I'm not surprised by it but it's too bad," said county Supervisor Neal Coonerty, who represents Davenport. "It's a closing of a 100-year history on the North Coast."

In addition to being one of the area's largest employers, Cemex is the biggest contributor to

Santa Cruz Sentinel.com

the county's property tax roll. The tax money will still come in as long as Cemex owns the land, but the water and sewage services the company provides for the community of Davenport will have to be worked out through other means, county officials said.

The company also gave generously to community groups.

Cemex officials said Friday they haven't figured out what they'll do with the property. In addition to the cement plant, the company owns nearby quarries and timberlands, totaling nearly 10,000 acres.

By law, once the business ceases, Cemex must remove hazardous materials from the property and return its mines to their natural state, which company officials said Friday they would begin to do.

Beyond the weak demand for cement, company officials had been wrestling with a number of challenges locally.

For years, Cemex had been trying to expand its mining of limestone, which provided the raw materials for the Davenport plant, but environmental issues had held up the bid. County officials said the company withdrew that proposal Friday.

In 2008, cancer-causing chromium 6 was discovered in the air around the plant, which promoted a temporary shutdown of the facility and a big cleanup bill of $488,232, for which Cemex never reimbursed the county.

The plant also faced pending federal regulations that would have been costly to meet. According to the Environmental Protection Agency, the plant was one of the nation's largest mercury-polluting cement plants and was a major emitter of carbon dioxide, a greenhouse gas.

Borgen said the environmental regulations and permitting constraints, as well as the cost of the plant's unionized work force, played a role in the decision to close.

The Davenport facility was the most expensive of Cemex's 14 plants in the United States to operate, Borgen said.

Cemex took over the plant in 2005, when it acquired British cement producer RMC Group and its worldwide properties.

During the past decade, Cemex also bought U.S. cement producer Southdown Inc. and Australian-based Rinker Materials, an expansion many analysts say was too ambitious given the downturn in construction.

A recent Reuters poll suggests the company will report next week a loss of $519 million for the October-to-December period last year, its second quarterly loss in two years.

Summary Results of the 4th Quarter 2009 Korpacz "Real Estate Investor Survey"

The subject rail line liquidation project as an investment category is most similar to the results and expectations reported by Korpacz for the "National Land Development Market". (Article is on page 57 of the report and the breakdown of survey responses is on page 88).

Discount Rate

Free & clear discount rates (including developer's profit) range from 12% to 30% and averaged 19.67% the 4th quarter. This average is up from the 12% - 25% range and 17.21% average cited in the Colliers Pinkard report for 4th Qtr 2007.

Absorption Period Estimate

The absorption estimates for various property types are summarized below. It is difficult to equate the rail right of way liquidation with anything else but, in general, if a longer sell-out period is anticipated (i.e. a higher risk property) the discount rate would be higher; if the anticipated sell-out period is shorter, the discount rate would be lower. As indicated by the responses from developers who deal with wetland mitigation property, some odd property types would tend to have a higher risk – therefore require a higher IRR.

Breakdown per survey participant / property type:

Industrial Developer Broker:	12% discount rate/IRR / 1 - 5 year sell-out)
Private Investment Co (master planned SFR):	20% discount rate/IRR / 6 – 10 year sell-out)
Developer (industrial & commercial)	15% - 30% discount rate/ IRR (over 20 yr sell-out)
Developer (SFR / wetlands mitigation)	18% -24% discount rate/IRR (1 – 5 yr sell-out)
Developer (residential)	20% discount rate /IRR (1 – 5 yr sell-out)
Developer (residential)	20% - 25% discount rate /IRR (6 – 10 yr sell-out)

APPRAISAL QUALIFICATIONS
OF
TIM LANDES, SR/WA

General Experience

Entered the real estate field in 1970, with specialization in eminent domain real estate appraising since 1971. Employed with the Maryland Department of Transportation as: Negotiator; Relocation Officer; Appraiser (eight years), and; Senior Review Appraiser (seven years). Independent appraiser, review appraiser and consultant in California since 1986.

Types of Property Appraised

Commercial retail/office, medical office, industrial, multi-family residential, single-family residential, subdivisions, agricultural, recreational and various special purpose properties. Experienced in eminent domain appraising, partial acquisitions, leasehold interests, easements, toxic contamination, railroad rights of way valuation. Appraisal review services for governmentally funded projects involving all property types.

Formal Education

- Master of Business Administration (MBA), 1982
  Frostburg University, Frostburg, Maryland
- Bachelor of Arts, 1970
  Virginia Polytechnic Institute, Blacksburg, Virginia

Specialized Education

Appraisal Institute Courses & Seminars

Standards & Ethics (USPAP)	January 2009, On-line Class
Condemnation Appraising: Advanced	March, 2008; Tucson, Arizona
Standards & Ethics (USPAP)	December 2006, On-line Class
Standards & Ethics (USPAP)	2005, Sacramento, CA
Support for Capitalization Rates	2004, Lake Tahoe, Nevada
Land Valuation Adjustments	2003, Lake Tahoe, Nevada
Appraisal Consulting	2002, Reno, Nevada
Corridors and Rights of Way	2002, Washington, DC
Valuation of Detrimental Conditions	2002, Jacksonville, Florida
Law & Value – Telecommunications & Corridor Valuation	2001, Sacramento, CA
Standards and Ethics	2001, Sacramento, CA
"The Master's Class"	2000, Sacramento, CA
Report Writing	1989, Sacramento, CA
Case Studies	1989, Tempe, Arizona
Capitalization Theory (I-B)	1988, Sacramento, CA
Industrial Valuation	1984, Columbus, Ohio
Investment Analysis	1983, Chapel Hill, NC
Condemnation Appraising	1975, Chicago, Illinois
Urban Properties Valuation	1974, Charlottesville, VA
Capitalization Theory (I-B)	1973, Baltimore, Maryland
Residential Appraising	1973, College Park, Maryland

QUALIFICATIONS OF TIM LANDES (continued)

Other Related Specialized Education:

- "Eminent Domain (#A-250)"; American Society of Farm Managers and Rural Appraisers; Sacramento, May 2008.
- "Law of Easements", Lorman Education Services, Sacramento; October 2005
- San Joaquin and Stanislaus County Real Estate Update; sponsored by Appraisal Institute, Modesto; August 2004.
- Various Appraisal Related Seminars attended at the 2003 IR/WA Educational Conference, Kansas City, Missouri.
- "Steering Through the Obstacles of a R/W Project"; IR/WA; Ventura, March 2003.
- Various Appraisal Related Seminars attended at the 2002 IR/WA Educational Conference, Mobile, Alabama.
- Review of Eminent Domain Appraisals – IR/WA, Vancouver, BC, June, 2001
- Various Seminars attended at the IR/WA Educational Conference, Vancouver, BC, June, 2001
- CLE (Continuing Legal Education) – 3rd Annual Eminent Domain Conference, San Francisco, California, November, 2000.
- Valuation of Transportation Corridors, Sacramento, CA. (American Institute & IR/WA Seminar). Sept. 1999;
- Internet Search Strategies for Real Estate Appraising (sponsored by the Appraisal Institute), Sacramento, California, July, 1998
- Annual Educational Conference, International Right of way Association, Minneapolis, Minnesota, June 1998.
- The Internet and Appraising (sponsored by the Appraisal Institute), Pleasantown, CA, May 22, 1997.
- Easement Valuation, International Right of Way Association (IR/WA), Hayward, CA, September, 1996.
- Business Valuation, Appraisal Institute, Reno, Nevada, February, 1996.
- Ethics, Course 103, IR/WA, Reno, February 1995
- Partial Acquisitions, Course 401, IR/WA Alameda, California; October, 1994.
- Legal Aspects of Easements, IR/WA, Reno, Nevada; April, 1994.
- Commercial Construction Seminar, Appraisal Institute, San Mateo, June, 1993.
- Subdivision Analysis Seminar, Appraisal Institute, Sacramento, February, 1993.
- California Appraiser Certification Seminar, Appraisal Institute Seminar, Sacramento, August, 1991.
- Federal Appraisal Requirements Seminar, Sacramento February, 1991.
- Federal/State Acquisition Procedures Seminar, IR/WA, May, 1988.
- Income Approach to Right of Way, IR/WA, Feb., 1988.
- Easement Valuation, IR/WA, Feb., 1988.
- Expert Testimony Seminar, IR/WA, December, 1987.

Professional Affiliations and Licenses

- "Certified General" Appraiser, State of California; #AG005980
- Senior Member (SR/WA), International Right of Way Association (IR/WA), Sacramento Chapter #27
- General Member of the Appraisal Institute.

Other:

- Qualified as an Expert Witness in the Superior Court of California for Sacramento, Tuolumne, Placer and Amador Counties.
- Instructor for appraisal courses (401- Partial Acquisitions, and 403 - Easement Valuation) for the International Right of Way Association.
- 2003 President, Chapter 27, International Right of Way Association.
- Instructor – Public Real Estate Transactions, U.C. Davis Extension; 2002-2005.
- Member, REAMUG (Real Estate Appraisers Microprocessors User Group.)

QUALIFICATIONS OF TIM LANDES (continued)

Partial List of Clients Served

The following is a partial list of clients that have had appraisal reports prepared by Tim Landes, SR/WA, as the principal appraiser:

Santa Cruz County Regional Transportation Commission, Santa Cruz County, CA
Hansen's Truck Stop, Inc., Fortuna, CA
Freeman, D'Aiuto, Pierce, Gurev, Keeling & Wolf, Stockton, CA
San Joaquin Regional Transit District, Stockton, CA
Sacramento Regional County Sanitary District
Yuba County Public Works Department
South Placer Municipal Utility District
City of Paso Robles, California
Teichert Land Company, Sacramento, CA
City of Folsom, California
Sacramento Housing and Redevelopment Agency
City of Elk Grove, California
San Joaquin Council of Governments, Stockton, CA
City of Lincoln, California
McDonough, Holland & Allen, Inc., Sacramento, CA
City of Chico, California
County of Butte, Public Works
Desmond, Nolan, Livaich & Cunningham, Sacramento, CA
Hyde, Miller, Owen & Trost, Sacramento, CA
State of California, Department of Justice
State of California, Department of Fish and Game
Sacramento Municipal Utility District (SMUD)
O'Brien & Brown, LLP, Sacramento, CA
Grupe Company, Sacramento, CA
Placer County Water Agency (PCWA)
City of Newman, California
Placer Savings Bank, Auburn, CA
Natomas (Sacramento) Unified School District
City of Citrus Heights, California
City of Modesto, California
County of Glenn, California
Wells Fargo Bank, Sacramento, California
U.S. Army Corps of Engineers
County of El Dorado, California
U.S. Bank, Sacramento, California
County of Placer, California
El Dorado County Transit Authority
Sacramento Regional Transit District
City of Manteca, California
California Department of Water Resources
City of West Sacramento, California
East Bay Municipal Utilities District, Oakland, California
The Spink Corporation, Sacramento, California
Whitney Development Company, Sacramento, California
City of Sonora, Tuolumne County, California
Willdan Associates, Sacramento, California
County of Amador, California
City of Sacramento, California
County of Sacramento, California
Morse Laboratories, Inc., California
Mariposa County, California
Aba Daba Rental Company, Sacramento, California
J.J. Re-Bar Corporation, Sacramento, California
City of Roseville, California
California Department of Transportation
County of Tuolumne, CA, Dept. of Transportation
City of Vacaville, CA, Public Works Department
City of Woodland, CA, Public Works Department
Yolo County, California, Board of Education
City of Woodland Parks and Recreation Department
Maryland Dept. of Trans., State Highway Admin; Dept. of General Services
Chesapeake and Potomac Telephone Company, Inc., Maryland
First Federal Savings of Western Maryland, Cumberland, Maryland

STATE OF CALIFORNIA

Business, Transportation & Housing Agency

OFFICE OF REAL ESTATE APPRAISERS

REAL ESTATE APPRAISER LICENSE

OREA APPRAISER IDENTIFICATION NUMBER AG005980

COPY

WARREN T. LANDES

has successfully met the requirements for a license as a general real estate appraiser in the State of California and is, therefore, entitled to use the title "Certified General Real Estate Appraiser".

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

OFFICE OF REAL ESTATE APPRAISERS

Bob Clark

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