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January 3, 2018

Luis Mendez
Santa Cruz County Regional Transportation Commission
1523 Pacific Avenue
Santa Cruz, CA 95060

Subject: Proposal for Operator of Rail Service

Enclosed is our proposal to take over the License Agreement for overall management of the railroad operations from Watsonville to Davenport along the Santa Cruz Branchline (Corridor). Trail Now will maintain railroad operations throughout the duration of the License Agreement that comply with all federal and state regulations for such operations. Trail Now proposal includes plans to evaluate the best use of the corridor for improve transportation across the county. Trail Now is proposing a partnership with Santa Cruz County Regional Transportation Commission (SCCRTC) with a commitment of investing \$2.3M to improve transportation along the corridor.

The current rail operator (Iowa Pacific) is having financial issues and will not continue to support freight operations in Watsonville. We have spoken to the various stakeholders (Iowa Pacific, former Iowa Pacific employees, Surface Transportation Board, Federal Railroad Administration, Union Pacific, Argon Bioenergy, San Lorenzo Lumber) to gain a clear understanding of the situation related to maintaining freight operations in Watsonville. The primary customer with any reasonable volume is Agron Bioenergy and they only receive supplies through rail. Transitioning to trucks for supplies is possible and not significantly more expensive than rail. There is a limited number of customers for rail and the volume of freight makes it difficult for a shortline operator to be profitable. If Iowa Pacific ends service and no other operator agrees to provide freight service, FRA/STB would ask Union Pacific to provide the service. Union Pacific stated they would not provide this service and if required to by FRA/STB, they would triple the cost of freight services. This could result in Argon Bioenergy changing their delivery practice from rail delivery to truck delivery. The result of this change would be that no rail operations would continue and the entire Branch railline could be at risk of abandonment. This would end any future plans to connect the Santa Cruz Branchline to the California Rail Plan.

We believe it is important to maintain the railroad system that connects to California Rail Plan. Trail Now proposal helps mitigate financial issues with the freight services, ensuring continued long-term existence of the rail system. Keeping the railroad as a viable resource ensures Santa Cruz County will have the ability to connect with the California Rail Plan.

Finally, the use of the corridor has been a very contentious debate for the community. With this agreement, the relationship between SCCRTC, Passenger Rail and Trail Only advocacy groups will transform to a teaming effort. This partnership will ensure our community works together to achieve a single goal of using the corridor as a transportation resource and maintaining it for future generations.

Best regards,


Brian Peoples

Executive Director

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Trail Now

Proposal for Operator of Rail Service

INTRODUCTION:

Our community is in a transportation crisis, which will get worst during the widening of Highway 1. The Santa Cruz Branchline (corridor) that goes from Watsonville to Davenport is a valuable transportation resource that is critical to help solve this crisis. Trail Now proposal is intended to help initiate the use of the corridor in the most cost-effective manner, allow for SCCRTC to study other transportation options for the corridor and ensure the corridor remains connected to the California Rail Plan for future generations.

Trail Now proposal is to take over the License Agreement for overall management of the railroad operations from Watsonville to Davenport and overall management of the corridor (vegetation control, stormwater drainage, security). Trail Now will maintain railroad operations throughout the duration of the License Agreement that comply with all federal and state regulations for such operations for the entire 32-mile corridor. Trail Now proposal includes plans to evaluate the best use of the corridor for improved transportation across the county. Trail Now is proposing a partnership with Santa Cruz County Regional Transportation Commission (SCCRTC) with a commitment of investing \$2.3M to improve transportation along the corridor.

QUALIFIED RAIL OPERATOR:

Trail Now will obtain authority from the Surface Transportation Board to be the exclusive common carrier from Watsonville to Davenport. Trail Now will maintain the right of way and infrastructure and will operate the rail services in accordance with applicable Federal Railroad Administration (FRA) and California Public Utilities Commission (CPUC) regulations. Trail Now will meet all regulatory administrative requirements and provide a maintenance plan for the corridor. Trail Now will subcontract with a qualified rail operator (operator) that will operate the rail freight operations in Watsonville (up to Lee Road). Operator will comply with the requirements of CPUC, FRA and all other regulatory agencies that govern freight rail services on the Branch Line. Operator will have references for similar rail operations experience and will provide audit records from past Federal Railroad Administration reports. Operator will provide three references from past rail operations, including the contact's name, title, address and phone numbers, and include an explanation of the services provided, in addition to the years in which they were provided. Operator will have a service plan that provides optimal service to freight customers, and addresses operator ability to ensure consistency of freight rail service, and return service to the Branch Line after unplanned outages such as derailments. The maintenance facility will be located in Watsonville. Freight operations along Watsonville section of Branch Line will continue according to current demand from customers. Operator will enter into a railroad interchange agreement with Union Pacific Railroad and accept and assume assignment of industry track agreements and contract rate agreements as related to freight customers on the corridor.

Trail Now agrees to comply with the provisions of the trackage rights agreement with the Santa Cruz, Big Trees & Pacific Railway Co.(SCBTPR). SCBTPR will continue to have access rights to Santa Cruz Boardwalk as it is currently operating. SCBTPR interchanges freight cars on the Santa Cruz wye track and has operating rights to move excursion passenger trains to the Santa Cruz Boardwalk (i.e., Casino) along the beach in Santa Cruz. Purpose and pursuant to the trackage rights agreement with SCBT&P, SCBT&P will be responsible for maintaining the track between MP 19.3 and MP 20.8, as FRA Class 1. SCBTPR will not be allowed to claim access rights to main railroad that connects to Watsonville.

PROPERTY MANAGEMENT:

Trail Now proposes to provide overall property management of the right-of-way / corridor from Watsonville to Davenport, including security, vegetation control, infrastructure, trestle and trackage improvements. Trail Now will maintain railroad operations throughout the duration of the License Agreement that comply with all federal and state regulations for such operations for the entire 32-mile corridor. The trestles, trackage and entire corridor from Watsonville (Lee Road) to Davenport requires extensive maintenance and repair. As part of this License Agreement, the rails and ties from Watsonville (Lee Road) to Santa Cruz Boardwalk Trestle will be removed for purposes of improving railroad operations, vegetation control work, "hi-risk" tree removal, storm-water drainage improvements and transportation system evaluations. This section of the corridor will continue to be considered a railroad operation with the CPUC, STB and FRA; but will be classified as "out-of-service" (OOS) for maintenance repair and upgrades.

RISK REDUCTION:

The 2017 Winter Storms demonstrated how vulnerable the corridor is to fallen trees and soil wash-out. To ensure the infrastructure of the corridor remains in good operating condition, trees that could fall and damage a trestle, trees impacting rail operators or risk to neighbor properties will be removed. Culverts and storm drains along the corridor will be cleared and repaired. Collaboration with adjacent property-owners will be done to upgrade fencing and bushes & tree control.

In addition to risk to the corridor trestles and infrastructure, freight rail operations are at risk of being outmoded. There is a limited number of customers for rail freight and the volume of freight makes it difficult for a shortline operator to be profitable. If License Agreement continues with Iowa Pacific because there is no other rail operator, Iowa Pacific will likely impose additional fees to SCCRTC and require a major buyout of contract if SCCRTC decides to use corridor for alternative transportation in the future. Ending License Agreement with Iowa Pacific is critical for Santa Cruz County. This proposal will help reduce risk to losing the Right-of-Way and future rail services that connect to Pajaro / Salinas by maintaining freight operations in Watsonville.

As part of this License Agreement, SCCRTC and Trail Now agree that any future passenger rail along corridor would require replacement of rails and ties with more modern rail system. Removal of the existing rails and ties by a private rail operator is the most cost-effective approach for any future transit operations.

PROJECTED COST & PROFIT:

Overhead operating cost (insurance, security, admin) for the duration of the License Agreement (57 months) is estimated to be \$500,000. Rail and tie removal from Watsonville to Boardwalk is estimated to be \$650,000, excluding cost associated with hazardous waste disposal. Trestle upgrades will include installation of guard-rails and surface platform. Upgrades to trestles are estimated to be \$235,000. Upgrades to corridor from Watsonville to Boardwalk is estimated to be \$600,000. Estimates on trestle upgrades performed by registered civil engineer. Total investment by Trail Now will be \$2.3M for upgrades to the corridor, management of rail operations, bushes/tree management and transit analysis. Implementation schedule of corridor upgrades and transit evaluation is provided within the enclosed "Proposed Schedule". Estimated revenue from operations will be \$2.5M with a target profit margin of 5% to 10%.

TRANSPORTATION EVALUATIONS:

During the time that railroad infrastructure is under maintenance work from Watsonville (Lee Road) to Santa Cruz Boardwalk, multiple transportation studies will be conducted for best use of the corridor. These studies include:

- Active Transportation Analysis - Perform an active transportation analysis on the corridor, identifying actual use of corridor and estimated impact on vehicle traffic on highway and surface-streets.
- Transit Analysis - Perform a transit analysis on the corridor using rubber-wheeled vehicles.
- Corridor / Cross-Street Analysis - Perform an analysis on impact on surface-street traffic with active use of corridor. Determine likelihood of under / overpass at key trail / surface-street intersections.
- Neighbor Analysis & Legal - Outreach to adjacent property owners to determine concerns and issues with corridor activity. Determine property legal rights and agreements with adjacent properties.
- ADA / Disadvantage Access Analysis - Develop map of key access locations where disable and ADA requirements need to be expanded to improve access to future rail-trail. Develop creative approaches to create a more inclusive environment for all users.
- School Rideshare Program – Partner with local schools to develop student / teacher rideshare program using corridor.

PROJECTED REVENUE:

Revenue generating activities along the corridor will be from partnership with SCCRTC for transportation evaluations (Active Transportation Analysis, Transit Analysis, Corridor / Cross-Street, Neighbor Outreach, ADA / Disadvantage Access, School Ridershare) and the following public activities:

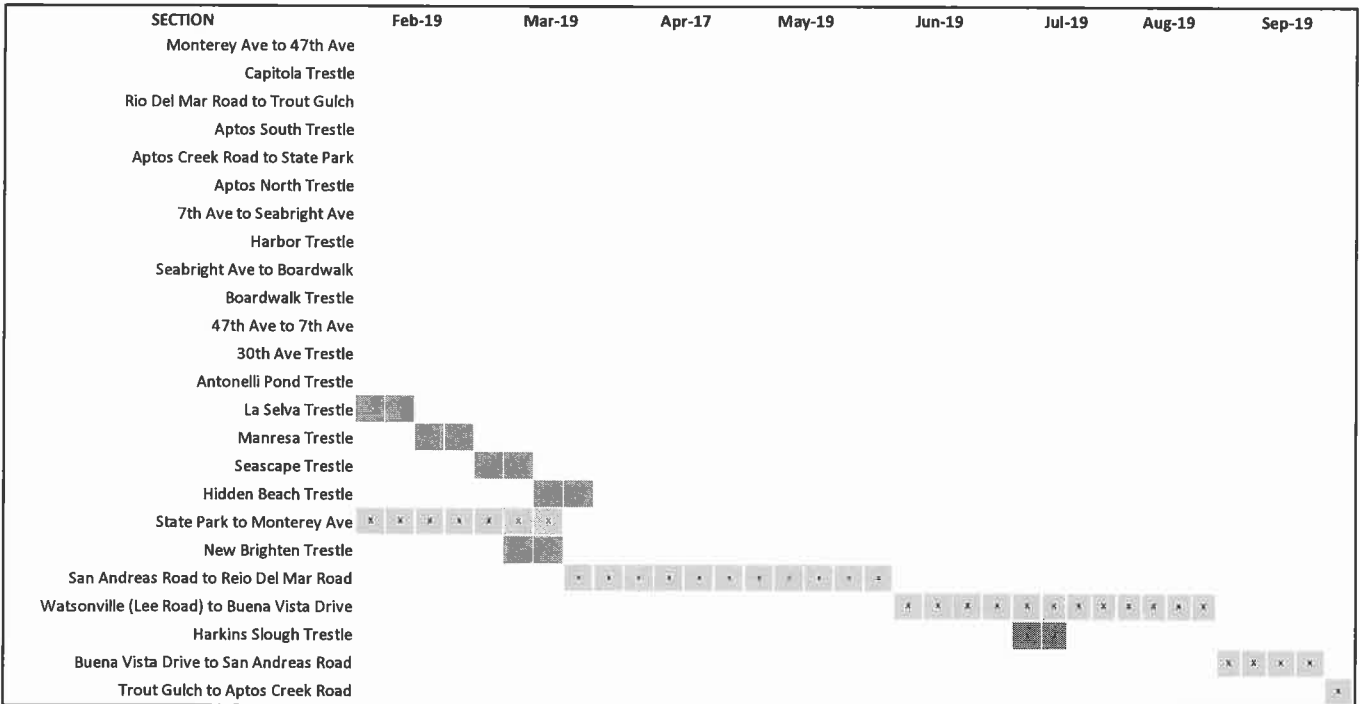
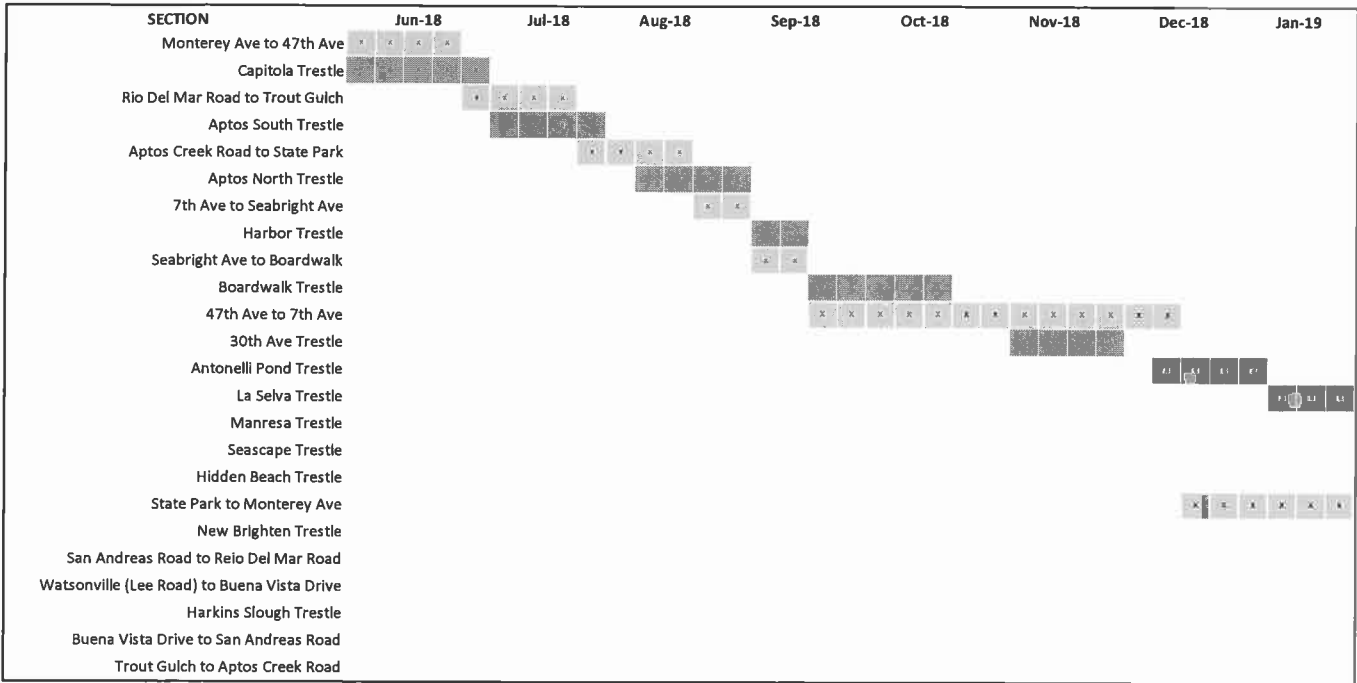
- Events - Conduct special events (races, ceremonies, tours, community events) in key locations of corridor.
- Pedi-Cab Service - Provide Pedi-Cab service along corridor.
- Storage - Provide storage facilities in designated (SCCRTC approved) locations.
- Promotions - Promotions on corridor for local businesses and directions.
- Recycle Rails & Ties - Recycle old rails and ties.

Revenue from freight rail operations will be exclusive to the operator. Trail Now will not impose any additional fee or cost to that operation to help ensure freight rail operator success. As part of this License Agreement, SCCRTC and Trail Now agree that any future passenger rail along corridor would require replacement of rails and ties. Therefore, with removal of existing rails and ties for transit evaluation, Trail Now is not obligated to replace the rails and ties for modern passenger rail. Removal of the rails and ties while rail operations exist is the most cost effective approach to corridor upgrades for any future transit operations. Reimbursement for corridor upgrades will be provided by SCCRTC at completion of License Agreement, less the revenue generated from other revenue sources.

PROPOSED REVENUE:

Title	Description	Partner Organization	Revenue Source	Contract Type	Estimated Revenue	Estimated Timeline	Duration (Mths)
Active Transportation Analysis	Perform an active transportation analysis on the corridor, identifying actual use of corridor and estimated impact on vehicle traffic on highway and surface-streets.	SCCRTC	SCCRTC	CPFF	\$ 5,000	Jan/20 to Dec/20	12
Transit Analysis	Perform a transit analysis on the corridor using rubber-wheeled vehicles.	SCCRTC / Metro	SCCRTC	CPFF	\$ 15,000	Jan/22 to Dec/22	12
Neighbor Analysis & Legal	Outreach to adjacent property owners to determine concerns and issues with corridor activity. Determine property legal rights and help establish agreements with adjacent properties	SCCRTC / Neighbors	SCCRTC	CPFF	\$ 35,000	Jan/20 to Dec/22	36
Corridor / Cross-Street Analysis & Plan	Perform an analysis on impact on surface-street traffic with active use of corridor and provide recommendations to SCCRTC.	SCCRTC	SCCRTC	CPFF	\$ 10,000	Jan/20 to Dec/21	24
ADA / Disadvantage Access	Develop map of key access locations where disable and ADA requirements need to be expanded to improve access to future rail-trail. Develop creative approaches to create a more inclusive environment for all users.	SCCRTC	SCCRTC	CPFF	\$ 5,000	Jan/22 to Dec/22	12
School Use Analysis	Partner with local schools located within 1 mile of corridor and develop student / teacher ride program.	SCCRTC	SCCRTC	CPFF	\$ 5,000	Jan/20 to Dec/20	12
Events	Conduct specials events (races, ceremonies, lunches, corridor tours, community events) in key locations of corridor.	Private	Private	FFP	\$ 880,000	Jan/19 to Dec/22	48
Pedi-Cab service	Provide Pedi-Cab service along corridor.	Private	Private	FFP	\$ 200,000	Jan/19 to Dec/22	48
Storage	Provide storage facilities in designated (RTC approved) locations.	Private	Private	FFP	\$ 36,000	Jan/19 to Dec/22	48
Promotions	Promotions on corridor for local businesses and directions	Private	Private	FFP	\$ 54,000	Jan/19 to Dec/22	48
Recycle	Recycle old rails and ties.	Private	Private	FFP	\$ 750,000	Aug/18 to Dec/19	12
Reimbursement for corridor upgrades	Upon completion of License Agreement, if SCCRTC changes use of the corridor to alternative to railroad operations, SCCRTC will make reimburse balance of cost for upgrades made to corridor	SCCRTC	SCCRTC	FFP	\$ 515,896	December-22	1
*CPFF - Cost Reimbursement Plus Fixed Fee; FFP - Firm Fixed Price							

PROPOSED SCHEDULE:



ORGANIZATIONAL STRUCTURE:

Trail Now is incorporated and is considered a “Community Shareholder Ownership Plan (CSOP)”, meaning individuals from Santa Cruz County own shares in Trail Now. Letters of commitment from funding sources will be provided in negotiations with SCCRTC on the License Agreement. Organization structure will be a small staff with a Board of Directors elected by shareholders. Trail Now will furnish property and liability insurance, board member liability insurance, an environmental protection program designed to prevent and control environmental accidents, a safety program, corridor security and an employee certification program.

SUMMARY:

The primary goal of Trail Now proposal is to ensure the sustainment of the right-of-way from Davenport to Watsonville while supporting SCCRTC’s analysis of transportation solutions. Trail Now proposal is the most expeditious approach to using the corridor now for alternative transportation modes and the only solution that ensures the railline will remain connected to California Rail Plan for future generations.

The central section of the corridor (La Selva to Santa Cruz) has many property-owners, businesses, homeowners and homeowner associations who are actively researching how this property will be used and their legal rights. Discussions we have had with these stakeholders show that any future mass transportation solution will be met with legal challenges. Over two-thirds of the corridor traverses through farmland and each section has had legal challenges by these stakeholders. Trail Now has established strong relationships with local farmers, property-owners, businesses, homeowners and homeowner-associations. These partnerships help reduce risk to SCCRTC and taxpayers in using the corridor for transportation solutions.

At one point, it was assumed that Iowa Pacific would have to be bought out of their contract to allow for the use of the corridor for mass transit solutions. With Iowa Pacific requesting closure of the License Agreement, this gives our community a great opportunity to reduce additional cost for utilizing the corridor for improving transportation. The more pressing concern is the loss of the right-of-way connecting to California Rail Plan. Without a legitimate freight operation in Watsonville, the railline will not be needed and maintaining it will be costly to Santa Cruz taxpayers.

Similar to the Green Bay Packers football team, the License Agreement will be owned by the community through a Community Shareholder Ownership Plan (CSOP). All Santa Cruz County residence can participate in the CSOP and will have voting rights in the election of Trail Now board members. The goal of the CSOP is enabling the community to participate in the development of the rail-trail. Trail Now is not a non-profit and is intended to be a profitable business, but the return on investment is primarily focused on building a world-class rail-trail and allowing the community to be owners of it.

The corridor is a valuable transportation resource for our community, but it is only valuable if it is used. Performing transit analysis and community outreach efforts while the railline is still considered to be a railroad will lower the cost and shorten the timeline for using the property to benefit the community. The only way that SCCRTC will be able to use the property for transportation is to establish partnerships with the local community. As a partner with SCCRTC, we can enable the use of the corridor for transportation solutions.