



NORTH COAST RAILROAD AUTHORITY

April 13, 2001

STRATEGIC PLAN FOR RESUMPTION OF VIABLE RAIL SERVICE FOR CALIFORNIA'S NORTH COAST

PURPOSE

To restore the railroad to FRA Class 1 service as soon as possible, upgrade to the historic FRA Class 2 and 3 service, and stabilize landslides to improve service viability.

HISTORY

Rail service on the North coast dates well back into the 19th century. Completion of the connection between Eureka and San Francisco was attained in 1914. Designated the Northwestern Pacific Railroad (NWP), it was jointly owned by Santa Fe and Southern Pacific and operated independently until 1929 when it became exclusively part of Southern Pacific.

The NWP was the only means of transportation within the corridor prior to completion of highway 101 and remained the sole means of substantial freight movement for decades. It is worthy of note that the railroad has survived many natural disasters and was restored much sooner than State Highway 101 after the devastating and record setting storm of Dec 1964.

Southern Pacific sold the portion north of Willits in 1984. Called the Eureka Southern, it operated until December 1986 when it declared bankruptcy. A Federally appointed bankruptcy trustee managed the railroad until 1992. Southern Pacific continued to operate the NWP south of Willits through an operating agreement with the California Northern Railroad.

In 1989 the California Legislature created the North Coast Railroad Authority (NCRA). Utilizing State provided funding this new authority acquired the former Eureka Southern out of bankruptcy in 1992. The NCRA acquired that portion of the NWP between Willits and Healdsburg from Southern Pacific in 1996.

The remaining portion of the NWP south of Healdsburg is now owned by the Northwestern Pacific Railroad Authority (NWPRA), a joint powers agency comprised of NCRA, the Golden Gate Bridge, Highway, and Transportation District, and the County of Marin. Freight service and

related maintenance of this portion of the railroad is the responsibility of NCRA under an agreement with NWPRA.

In 1997 the NCRA Board chose to seek a private sector agreement to provide the operation of freight service and maintenance of the railroad. Proposals were received and Rail-Ways, Inc. of Elgin, IL was chosen to negotiate for the operator. Within weeks of reaching this agreement the El Nino storms of 1998 closed the railroad north of Willits with a series of major landslides. Decades of deferred maintenance left the railroad in a serious state of disrepair. Rail-Ways operated freight service south of Willits until FRA Emergency Order 21 closed the entire railroad in November 1998.

Due to a number of administrative and accounting issues the storm damage funding from both State and Federal sources was both delayed and diverted to satisfy past obligations. Without operating revenues and the anticipated disaster relief funding NCRA was left with a tremendous accumulation of debt.

AB 2782 in 1998 provided \$2 million that allowed NCRA to implement an appropriate accounting system that properly tracks project costs, provide for administration of the Authority (including the recruitment of an Executive Director), begin to address environmental concerns raised by several State agencies, satisfy employee claims for unpaid compensation, pay past claims for payroll tax deposits, partially address general creditors, begin to address FRA emergency order 21 repairs, and reimburse legal counsel for fees and expert witness costs relating to FEMA appeals and the environmental litigation.

An agreement was reached with FEMA and State OES in June of 1999 that allowed storm damage funding to proceed for the 1998 storms. Unfortunately the first allocations of these funds were recaptured by FEMA and OES to satisfy outstanding obligations from past disasters. That left the 1998 storm contractors without payment and increased NCRA's outstanding debt. These contractors continued to make repairs to the south end in spite of this debt and did receive payment for subsequent activities. The initial work remained unpaid. Eventually NCRA's ability to provide payment forced a discontinuance of repair work in late 1999.

The Traffic Congestion Relief Program established with the adoption of AB 2928 in 2000 provides a total of \$60 million to NCRA to address immediate and long term needs related to Administrative expenditures, repayment of the Q-Fund loan, environmental remediation, debt reduction, and repair and stabilization of the track and its associated facilities.

In December, 1999, Rail-Ways, Inc sold its investments and interests in the NWP to the chosen operator, Northwestern Pacific Railway Co., LLC (NWPY) and the common carrier freight operations and maintenance responsibilities are now held by NWPY.

Using its own money, NWPY has completed the work necessary to reopen the railroad from Lombard to Mile Post 43 near Penngrove. FRA approval to resume service was granted on February 1, 2001 for this 40.8 mile portion of the railroad. Freight service was resumed on this portion of the railroad February 14, 2001.

The Surface Transportation Board has approved the transfer of the railroad's common carrier certificate of public convenience and necessity to the NWPY.

NWPY continues to use its own funding to address reopening between MP 43 and MP 63 at Windsor.

NCRA intends to contract for the continued reopening between MP 63 and Willits with completion expected in the summer of 2001.

AGENCY ISSUES

Assessment of Need

The first order of business for NCRA's engineering consultant will be to provide a comprehensive assessment of the overall needs of the railroad. This assessment will consider the effort needed to re-establish initial service to the entire line, upgrade where feasible to historic FRA Class 2 and 3, and to complete cost effective stabilization strategies that will provide viable service and restore disaster eligibility to existing landslide areas. This assessment is required to clarify and quantify the scope of work for the various tasks to be accomplished, the respective relationship between the tasks with respect to schedule and location, the anticipated cost for each task, and the various funding sources available to address the effort required. The assessment of need will form the basis for all subsequent activity.

NCRA will provide the consultant with existing information from all available sources to assist with the preparation of this assessment. The current FEMA Environmental Assessment and all of its technical backup, the Shannon-Wilson geotechnical evaluation, California Department of Fish and Game "Eel River Action Plan", and the Consent Decree are examples of the information available. Videotapes and aerial photos from various sources will be utilized as well.

Field reconnaissance of the entire line will be required to verify current condition and update and supplement the information available from existing documents. Some sort of fly over via helicopter that will permit on the ground access at critical locations will be necessary to fully assess the intended scope of work for the inaccessible areas.

Overlapping Tasks

There will be substantial opportunity to accomplish many of the tasks concurrently due to proximity of the work, similar kinds of activities, and overlapping schedules. It will be important to take advantage of economies of scale in development of specific projects. The engineering consultant will be charged with strategizing the overall scope of work to accomplish the maximum effort in the minimum time frame in order to provide the most cost effective result.

Where feasible Consent Decree items and upgrading activities will be incorporated into all project elements.

Environmental Remediation and the Consent Decree

A Consent Decree and Stipulated Judgment was filed with the Mendocino County Superior Court on July 14, 1999. That document concluded litigation between the State and NCRA regarding a complaint filed by several State Agencies citing violations of the Fish and Game Code, Health and Safety Code, and Water Code.

The Consent Decree lists Corrective Actions, Actions to Eliminate Barriers to Fish, Site Investigation and Remediation, Compliance Monitor, Payment of administrative and Enforcement Costs, and General Provisions that NCRA must satisfy in order to resolve the claims in the original complaint.

Included are items requiring short and long term studies, plans, and courses of action to provide a complex series of remediation activities. NCRA and its contractors are required to make specific improvements and operate in accordance with all applicable rules and regulations.

NCRA proposes to utilize an environmental consultant to address all the activities required by the Consent Decree. A draft Request for Proposals (RFP) has been distributed to the Consent Decree parties and to Caltrans for review and comments. As soon as a final RFP can be produced it will be distributed and a consultant will be procured. The consultant will review all available information and develop a scope of work for addressing the compliance issues. The consultant will determine all tasks needed to comply with the consent decree and work with the parties to the consent decree to prioritize projects to provide the most cost effective utilization of the available funding.

TCRP includes a total of \$4.1 million identified for Environmental Remediation. Of that amount the CTC has allocated \$100,000 for the initial consultant studies to review the Consent Decree and other available information and develop a preliminary scope of work for addressing all of NCRA's Environmental Compliance issues.

Upon completion of this study NCRA will utilize the remainder of the TCRP funds to address the scope of work identified and to reimburse the State agencies for their costs as directed by the Consent Decree. A timetable for these activities will be developed as part of the scope of work.

This activity is distinctly separate from the environmental clearance activity that will be part of the development of the capital projects described below.

Debt Reduction

\$9.23 million has been received from TCRP funds and distributed to NCRA creditors. An additional invoice for \$539,046.48 was sent to Caltrans on April 2, 2001. A final invoice will be submitted to Caltrans in late April or early May for any remaining identified debt. There will be the following obligations remaining upon completion to the debt reduction with the \$10 million available to TCRP:

Redwood Region Economic Development Council note (\$114,120.14)--TCRP brings NCRA current. Monthly payments of \$2256.67 will be made from property revenues through the retirement date of August 2005.

PALCO notes (\$169,036.52)—This obligation becomes due in November 2006. It can potentially be retired earlier through the extraction on NCRA owned gravel by PALCO. Any required payments will be made from property revenues.

Meecham note (\$124,000)—This obligation will be satisfied by the sale of passenger cars owned by NCRA.

Christopher Neary, NCRA's attorney (\$124,652 in fees and \$10,052.36 in costs advanced)--To avoid any appearance of impropriety, the Board and Mr. Neary agreed that he would not participate in the TCRP funded debt reduction program and would not be paid until the debt reduction program was completed. Mr. Neary will be paid from other funding sources such as property revenue, and unencumbered interest.

Q-Fund Status

Unallocated prior year TCI funds (\$811,000) and funds remaining in escrow from the Cloverdale Bypass eminent domain action (\$90,000) will be combined with the funding allocated from TCRP (\$5.5 million) and held in a trust fund in the State Treasury to accrue sufficient interest to satisfy the \$12 million Q-Fund loan repayment when to becomes due in 2013.

A Memorandum of Understanding has been developed and is awaiting signature by NCRA and CTC to address the details of this arrangement. Attached as Exhibit II is a copy of the current draft of this MOU.

Improvements like those currently under consideration by SMART for commuter rail service have the potential for triggering early repayment of the Q-Fund. NCRA and SMART will need to address this consideration throughout the development of the commuter rail project and not later than the commencement of construction by SMART that is anticipated in July of 2005.

Freight Service

Some of the information provided in this section is based on the current NCRA 5-Year Plan adopted September 15, 1999. NCRA acknowledges the need to update this plan and will be discussing this issue at the next Board of Directors meeting in Willits on April 18, 2001. Delay in re-opening the railroad will move the projected revenues to subsequent fiscal years based on actual resumption of service, but anticipated revenue is still expected to be within the order of magnitude originally projected. Harbor improvements recently completed at Humboldt Bay provide the opportunity for movement of cargo not originally anticipated. Restoration of service over the entire line is needed to take advantage of this additional source of revenue.

The NCRA has a Lease and Operating Agreement with Northwestern Pacific Railway Co., L.L.C. (NWPY). Via this agreement NCRA transfers its common carrier obligations of providing rail freight service, formerly assumed by the NCRA, to NWPY. This agreement has a ten-year term and is contingent on the Lessee commencing freight rail operations for its own account. Freight service commenced on the Southerly 40.8 miles with the partial lifting of FRA Emergency Order 21 on February 1, 2001. The next 20 miles of track are expected to be re-opened to freight service by May 1, 2001 and service to Willits provided by late Summer 2001.

The lease has two payment components – Rent and Participation Fee. The Rent portion is based on payment by NWPY of 4.2% of the adjusted net depreciated book value of all depreciable track, track support structures, and improvements owned or leased by NCRA & NWPRA. Rental payments are subject to potential reduction based on the portion of track remains subject to embargo. The Participation Fee is based on Rail-Ways' pre-tax net income at rates of 25% on the first \$62,500/year, 15% on pre-tax net income between \$62,500 and \$125,000, and 5% on pre-tax net income over \$125,000.

The NWPY forecast estimates the following carloads, Net Income, and NCRA Participation Fees:

NWPY Participation Fee

<u>Fiscal Year</u>	<u>Carloads</u>	<u>NWPY Net Income</u> (in thousands)	<u>Participation Fee</u> (in thousands)
98/99	1,000	\$ 36.2	\$ 0
99/00	6,891	457.7	102.7
00/01	9,078	780.5	114.0
01/02	10,635	879.1	119.0
02/03	11,166	912.7	120.6
Five Year Total		\$3,066.2	\$456.3

The first year's participation fee is based on two months' operation and is deferred until year two.

NWPY has also forecast the investment base used to calculate the Lease payment, the depreciation in that base, the additions, and depreciation on the additions to be as follows:

NWPY Lease

<u>Fiscal Year</u>	<u>Depreciation Base</u>	<u>Additions</u>				<u>Adjusted Base</u>	<u>Lease Payment @ 4.2%</u>
		<u>98/99</u>	<u>99/00</u>	<u>00/01</u>	<u>01/02</u>		
98/99	\$5,460.8	\$381.5				\$5,842.3	\$
99/00	5,091.5	763.1	\$2,595.8			8,450.4	416.3
00/01	4,722.3	711.5	5,191.6	\$2,121.9		12,747.3	535.4
01/02	4,353.1	659.9	4,840.6	4,243.9	\$ 515.2	14,612.6	613.7
02/03	3,983.8	608.3	4,489.5	3,956.9	1,030.3	14,068.9	590.9
Five Year Total							\$2,156.3

Depreciation is based on 15-year group life, straight line, half-year convention with 5% residual. In addition, it should be noted that the first year's rental is for two months only, and will be deferred until the North End reopens, which is anticipated in fiscal year 1999/2000.

Current Information

NWPY projects the following net income from freight revenues for the current and two following calendar years:

2001	\$196,800
2002	\$1,059,000
2003	\$1,928,000

These numbers are projections based on the anticipated revenue from current and former shippers as determined from contacts made by the NWPY Chief Marketing Officer. They do not include potential growth opportunities that have been identified.

From this projection it appears that the revenue potential for NCRA from freight revenue will at least that envisioned in the 5-Year Plan.

Passenger Service

Some of the information provided in this section is based on the current NCRA 5-Year Plan adopted September 15, 1999. NCRA acknowledges the need to update this plan and will be discussing this issue at the next Board of Directors meeting in Willits on April 18, 2001. Delay in re-opening the railroad will move the projected revenues to subsequent fiscal years based on actual resumption of service, but anticipated revenue is still expected to be within the order of magnitude originally projected.

The Proceeds received by NCRA from its Contract with passenger service operator, California Redwood Coast Co. (CRC), a California Limited Liability Company, derive from a flat percentage for Net Passenger Fares and a flat percentage of CRC’s net income. NWPY will provide the train and engine crews. The Passenger Operator will provide the locomotives and cars. For trips when NCRA rolling stock is utilized by CRC, additional fees are to be paid. The CRC Contract is for service between Healdsburg and Willits.

The passenger excursion service operator, California Redwood Coast Co., has developed its forecast based on historical passenger counts and surveys and advertising/marketing research prepared internally, as well as by consultants. The base level in the forecast reflects operation at 67% of capacity. Seasonal maintenance shutdowns in the Eel River Canyon affect this forecast minimally.

The CRC’s analysis reflects the demographics of the region:

- 12 million people live within a 2 ½ hour drive, supporting weekend and 3-day travel opportunities.
- It is located only 1 ½ hours from San Francisco, with its 60 million annual visitors.
- There are phenomenal winery and vineyard tourist draw to Sonoma and Mendocino Counties, accompanied by the opportunity to visit the redwood forests, coastal rivers, magnificent coastline, and quaint villages.

With fares comparable to those of other excursion rail trips, and the offer of trips of varying length, a long tourism season, and the potential for “special event” and special service offerings, the likelihood of seeing return customers is significant.

The California Redwood Coast Company forecast estimates the following trips and NCRA proceeds:

California Redwood Coast Contract

<u>Fiscal Year</u>	<u>Trips</u>	<u>NCRA Proceeds</u> (in thousands)
98/99	0	\$ 0
99/00	91	118.9
00/01	274	363.6
01/02	521	705.7
02/03	837	<u>1,174.3</u>
Five Year Total		<u>\$2,362.5</u>

Additional interest has been expressed by other potential excursion passenger providers. NCRA is currently developing criteria for the selection of future passenger operators. A policy has been adopted to sell all passenger rolling stock with preference to operators that will provide service on NCRA track.

Current Information

The passenger service operator has not provided upgraded information. It is, however, expected that the revenue projections remain valid when adjusted for a startup in FY 01/02 instead of the originally anticipated 99/00. There has been interest in providing excursion passenger service around Humboldt Bay by other providers. The revenue from this operation is not included in the projections presented in the 5-Year Plan.

SMART

In the fall of 1998, the Counties of Sonoma and Marin formed the Sonoma Marin Area Rail Transit Commission (SMART) to develop an implementation plan for a start-up level of commuter rail service for the two counties. This service will utilize track owned by NCRA as well as portions owned by NWPRRA, the Golden Gate Bridge District, and Marin County.

The Commission was made up of two Supervisors and three City Council Members from each county. The lead agency for the management and administration of the project was the Sonoma County Transportation Authority (SCTA). SCTA was responsible for hiring the railroad operations and engineering experts to develop the implementation plan.

Over the subsequent 18-month period, the Commission, administrative staff and consultants explored numerous options for initiating commuter rail service. Options included variations on route, schedules, types of commuter rolling stock (cars and locomotives), funding alternatives, and potential environmental impact mitigation. Their work resulted in a recommendation for a preferred alternative for the initial service, consisting of the following elements.

1. The route would run 68 miles from Cloverdale in the north to downtown San Rafael in the south. There would be 11 stations along the route.
2. The service would begin with 45-minute peak period headways (the time intervals between trains). Headways would shorten to 30 minutes after six years of operation.
3. Though primarily a commuter service, it would offer limited mid-day trains as well.
4. The service would employ one of three rolling stock types. This could either be traditional diesel electric locomotives hauling coaches (locomotive-hauled equipment), self-propelled diesel cars known as Diesel Multiple Units (DMUs), or rebuilt self-propelled Rail Diesel Cars (RDC) or "Budd cars".
5. The service would be funded through a combination of sources. These would include contributions from a ½ cent sales tax in both counties, Proposition 116 rail bond funds designated for the service, existing federal and proposed state earmarks, and fare revenue. Neither County has yet approved the ½ cent sales tax.

A draft plan was presented to the SMART Commission in May 2000. Subsequently, comments were received from public agencies, interest groups, and individuals. Based on these comments, the project consultants made revisions to the draft plan. The focus of the revisions was on items that were material and within the scope of the project. These revisions are included in this final report.

The following information was provided by SMART and provides scope, schedule, and cost for their Phase 1 effort:

Phase of work	Scope	Schedule (month/year)		Cost
		Start	End	
1. Studies, environmental review, and permits	Project management/Community Outreach/Systems Planning	01/15/00	01/01/05	\$2.6 mm
	DEIR/DEIS	04/01/01	01/01/05	\$3.6 mm
	Preliminary engineering	10/01/02	10/01/03	\$1.5 mm
2. Preparation of project plans and specifications.	Project plans and specifications	11/01/03	01/01/04	\$6.1 mm
3. Right of Way acquisition	Station land acquisition	06/02/02	07/01/05	\$7.0 mm
4. Construction or procurement	Construction: track, bridges, signals, sound walls, maintenance facility, and stations	07/02/05	01/01/12	\$96.3 mm
	Rolling stock acquisition	01/02/05	01/01/12	\$59.5 mm
			Total:	\$176.6 mm

Funding Information for the Total Project

Source	Type		Phase 1	Phase 2	Phase 3	Phase 4	Total
TCRP	State	Committed	\$7.7 mm	\$6.1 mm	\$7.0 mm	\$16.2 mm	\$37.0 mm
		Proposed					
Prop. 116	State	Committed				\$28.0 mm	\$28.0 mm
		Proposed					
New Starts	Fed.	Committed					
		Proposed				\$30.0 mm	\$30.0 mm
TEA-21	Fed.	Committed					
		Proposed				\$5.0 mm	\$5.0 mm
Sales tax and infrastructure loan	Local	Committed					
		Proposed				\$76.6 mm	\$76.6 mm
Infrastructure Capital Loan		Committed					
		Proposed					
		Committed					
		Proposed					
Total:		Committed	\$7.7 mm	\$6.1 mm	\$7.0 mm	\$44.2 mm	\$65.0 mm
		Proposed				\$111.6 mm	\$111.6 mm
Project Totals:			\$7.7 mm	\$6.1 mm	\$7.0 mm	\$155.8 mm	\$176.6 mm

NCRA, NWPR, and SMART will need to negotiate an agreement or multiple agreements addressing the shared use of the railroad. Maintenance, capital improvements, dispatching, scheduling of operations, environmental liability, and other matters concerning the joint use of the property will be addressed in these agreements.

Maintenance

Normal maintenance is the responsibility of the freight operator. With the resumption of service, NCRA will receive lease payments from both freight and passenger providers. These funds will be utilized to produce a reserve that will be available to address major storm damage in excess of that covered by FEMA/OES. Future disaster assistance eligibility will only be restored by re-opening the entire railroad to FRA Class 1 or better.

The NCRA Business Plan envisioned the operating revenues satisfying the outstanding debt over several years. With the debt reduction funding provided by TCRP, the operating revenues are now available for almost immediately for non-debt activities. Revenues derived from property management will also be available for this purpose.

Until full landslide stabilization is provided the freight operator will actively pursue maintenance strategies to address the critical locations. As done in the past, there will be times when the track will require restoration after storm events.

Funding Sources

The North Coast Railroad Authority proposes to use the following funding to accomplish the purpose identified in this strategic plan: Please refer to Exhibit 2, "Combined Scope of Work Summary" for the relationship between the tasks, phases and funding sources.

- 1994-95 TRANSIT CAPITAL IMPROVEMENT FUNDS (TCI)
Residual amounts from the approved 1994-95 TCI funds programmed by the CTC. Currently proposed for reimbursement of some of the completed but still unfunded costs for re-opening South of Willits. May need to be re-programmed for later projects as permitted by AB 2908.
- 1995-96 TCI FUNDS
Total funds from the approved the 1995-96 TCI funds programmed by the CTC. Currently proposed for reimbursement of some of the completed but still unfunded costs for re-opening South of Willits. May need to be re-programmed for later Projects as permitted by AB 2908. There is a total of \$959,370 remaining from 1994-95 and 1995-96 TCI funds.
- UNALLOCATED TCI FUNDS
A total of \$811,000 in TCI funds designated for NCRA remains unallocated. This scope of work and the Business Plan assume that all of these funds will be allocated to Q-Fund debt service.
- PROPOSITION 116
Residual Proposition 116 funds are being utilized on the railroad south of Willits to assist with the opening anticipated in late 1999. Much of this work has been accomplished and invoiced. Caltrans has performed an initial audit of NCRA and is currently auditing the contractors that performed the work. There will be no Proposition 116 funds remaining for future projects.

- INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA)
The \$8.6 million allocated to NCRA as a demonstration project in ISTEA. These funds cannot be utilized until NCRA has an approved DBE Plan.
- PROPERTY REVENUES
Funds remaining from the Cloverdale purchase by Caltrans (\$90,000) will be allocated for Q-Fund debt service and additional funds will be utilized to match the TCI.
- NWPRA
An initial allocation of \$250,000 in property income was received from the Northwestern Pacific Railroad Authority and expended in 1999 as part of the reOpening South of Willits. It is eligible for TCI match.
- FEMA/OES
\$2.4 million has been expended for reopening work on the south end and an additional \$8.3 million is allocated for reopening north of Willits. It will become available upon completion of the environmental process by FEMA.
- OTHER FUNDS
Other sources of funding includes the following:
AB 2782 for Project 1--\$165,000. It was used for reopening the South end
FHWA Section 130 for Project 1--\$89,000. It was used for reopening the South end.
- TRAFFIC CONGESTION RELIEF PROGRAM (TCRP)
AB 2928 identifies a total of \$60 million for the following purposes:
Administrative costs of the Authority through FY 2002--\$1,000,000
Reopening from Lombard to Willits--\$600,000 (Reopening south of Willits)
Reopening from Willits to Arcata--\$1,000,000 (Reopening North of Willits)
Upgrade to Class 2 or 3--\$5,000,000 (Upgrade and Stabilization South and North of Willits)
Environmental Remediation--\$4,100,000
Debt Reduction--\$10,000,000
Local Match--\$1,800,000 (20% of ISTEA in Projects 2 and 3)
Federal Loan Obligations--\$5,500,000 (Q-Fund Loan Repayment)
Long Term Stabilization--\$31,000,000 (Upgrade and Stabilization South and North of Willits)
- FUTURE FEDERAL FUNDING
Efforts are currently underway to identify and obtain additional Federal funding to supplement the State funds from the TCRP. Habitat enhancement funds to stabilize landslides thus reducing the flow of sediment into the streams appear to be a likely source as well as the traditional transportation related sources. There may also be opportunity for forgiveness of the Q-fund loan. Members of the California Congressional Delegation have indicated a willingness to help obtain this funding. CTC staff advises that legislation would be required in order to reprogram the TCRP funds identified for Q-Fund repayment to other NCRA projects.

Funding Shortfall

As indicated in the preceding section, additional funding will be required in order to complete the landslide stabilization effort. Additional on site investigation is required to adequately identify the scope of work and associated cost. Once access to the entire line is re-established the engineering and geotechnical work can be completed and the magnitude of the funding shortfall can be determined.

Quarterly Reporting

With the assistance of Caltrans staff NCRA has been able to meet quarterly with most of the state and Federal agencies that are involved with the restoration of the railroad and the regulatory compliance that must be provided for the development of capital projects and environmental compliance under the Consent Decree. There have been two of these meetings thus far and the third is scheduled for April 25, 2001, in Healdsburg.

The first quarterly meeting (Santa Rosa, October 30, 2000) had 26 participants representing Caltrans, NCRA, Attorney General's Office, Department of Fish and Game, California Public Utilities Commission, Federal Railroad Administration, California Office of Emergency Services, Federal Emergency Management Agency, Department of Toxic Substances Control, Water Quality Control Board, Federal Highway Administration, and the Mendocino Council of Governments. Caltrans provided an overview of its role as a funding agency with project oversight responsibilities, and how this role will merge with the new TCRP requirements. Funds managed by Caltrans also include activities which are the responsibility of other state and federal agencies. It was mutually agreed that giving all the stakeholders have the opportunity to hear or discuss NCRA issues at the comprehensive quarterly review meetings was of great benefit to all.

The second meeting was in Eureka on January 24, 2001. There were 16 participants representing most of those agencies present at the first meeting plus the Humboldt County Association of Governments and the Humboldt Bay Harbor District.

The topics covered at these meetings have included agency audit issues dealing with single-year audits, project cost accounting system, internal controls, indirect and fringe benefit costs, and the Q-fund; state and federal funding issues dealing with TCRP, debt reduction, future release of funds, Proposition 116, and TCI/ISTEA; contract issues; environmental issues; FRA issues; FEMA/OES issues; FHWA issues; Humboldt Bay Harbor District issues; and the long range study of the rail corridor.

PROJECT SPECIFIC ISSUES

Geographical Segments

Lombard (MP AA62.4) to Penngrove (MP 43.0):

This portion of the line owned by NWPRA is very near sea level and has been subject to storm damage due to runoff from adjacent properties and tidal influence. Land use changes have adversely affected the railroad in several locations. It includes the three bridges that must be moved to permit navigable traffic on the Napa River and Petaluma

Creek. These ancient structures represent significant maintenance liabilities and must be considered for replacement in the future. Freight service was restored by the freight operator, NWPY, in February 2001 with the major customers being the grain distributors in Petaluma. The City of Petaluma has plans for a transit mall at the historic downtown depot site. Replacement of the facilities required for continued freight and maintenance of way activities will be necessary in near proximity to their current location. There are drainage and structure improvements needed, tie replacement, and crossing protection improvements needed to restore the historic FRA Class 3 track status. SMART is considering commuter rail service that will require additional upgrades that will be of benefit to freight service and maintenance of way activities.

Penngrove (MP 43.0) to Windsor (MP 63.0):

This section includes several industrial customers and is also owned by NWPRA. NWPY is currently completing the restoration to FRA Class 1 and expects re-opening by May 1, 2001. There are numerous public road crossings, adjacent residential properties, and considerable pedestrian traffic. Future work consists of drainage, structure, tie replacement, and crossing protection to restore historic FRA Class 3 service. SMART is also considering commuter rail for this segment.

Windsor (MP 63.0) to Willits (MP 139.5):

At Healdsburg the railroad crosses the Russian River for the first time and will follow the Russian River for the next 50 miles. At MP 68.22 in Healdsburg ownership changes from NWPRA to NCRA. South of Cloverdale SMART is considering commuter rail improvements. North of Cloverdale the river canyon narrows and stabilization is recommended in at least one location. There are several tunnels in this segment and one of them (Squaw Rock) requires work to enable the passage of double-stacked container loads. There are stability issues on the grade north of Redwood Valley and repair from damage due to a private dam failure is currently underway in this vicinity as well. A project for re-opening to FRA Class 1 is expected to go to bid in April 2001 with completion by late summer 2001. Future activity will address tie replacement, crossing protection, and stabilization required to provide FRA Class 3 from Redwood Valley south and FRA Class 2 north of Redwood Valley.

Willits (MP 139.5) to Nashmead (MP 175.5):

The railroad entered the Eel River watershed when crossing the ridge between Redwood Valley and Willits. Connection to the California Western Railroad takes place in Willits. The Caltrans Willits Bypass project will potentially impact the railroad depending on the alignment chosen. North of Willits the railroad follows Outlet Creek and leaves US 101 at Longvale. Between Longvale and Dos Rios the railroad meets the Eel River and closely follows the river to near Loleta. The public road crossing in Dos Rios is the last one for more than 40 miles. At MP 162 the railroad is closed by a slide. There are numerous slide, drainage, and stability problems to correct at the north end of this segment. A commercial aggregate source exists at Nashmead. Potential freight revenue could generate interest in re-establishing service prior to addressing the entire "Canyon". Initial activity will be to clear debris, replace ties, repair crossing protection, and reconstruct the track structure. Subsequent upgrading and stabilization will be required to provide historic FRA Class 2.

Nashmead (MP 175.5) to South Fork (MP 237.3):

This is the railroad's most damaged and remote segment. Track is covered by slide debris and/or damaged by slope failure in many locations. Access by other than the railroad is very limited and subject to the approval of the owners of adjacent private properties. On site review of the current condition will be required to adequately address repair strategies. Initial reopening will consist of debris removal, reconstruction of track structure, and repair of drainage facilities. Subsequent upgrading and stabilization will be conducted after detailed engineering and geotechnical analysis to determine appropriate strategies at each location. Among the strategies that will be considered for landfill stabilization are methods for reducing the driving force by improving drainage and reducing weight; increasing resisting forces by installation of buttresses; increasing internal forces by placing reinforced backfill, installation of in situ reinforcement; use of bio-technical methods; and mitigate against landfill triggering processes by installing toe protection (riprap and walls), energy dissipators, and diversion ditches.

South Fork (MP 237.3) to Samoa (MP 301.9):

This most northerly segment has current potential for both passenger and freight service and will likely be re-opened prior to the previous portion as there are no significant landslide stabilization efforts required. The track follows the river to approximately MP 270 before turning north, passing through a tunnel, and eventually traversing around Humboldt Bay. Many industrial sites are served, including several with access to the port. Recent dredging activity has increased the size of vessel that can be utilized and rail connection is vital to full utilization of the port and the economic benefit to the area from increased freight traffic. Initial work consists of vegetation removal, track repair and crossing protection. Upgrading activities will address drainage improvements and tie replacement. The Loleta tunnel will need improvement to provide adequate height for double-stacked container loads.

Environmental Review and Clearance

Each specific project will require compliance with the applicable state and federal environmental review regulations. Where federal money is utilized, the National Environmental Policy Act (NEPA) will be the responsibility of the lead federal agency. FEMA has already addressed NEPA and NCRA has addressed CEQA for the re-opening south of Willits. FEMA is currently working on an environmental assessment for the re-opening north of Willits.

FHWA will be the NEPA lead agency for the upgrading activity that will incorporate the ISTEA funding. The federal agencies are working on an MOU that will specify how the process will be handled. NCRA projects are also subject to the requirements of the California Environmental Quality Act (CEQA). The lead agency for CEQA will be NCRA. An initial study will be conducted that will determine the areas of environmental concern and the type of documentation required. Caltrans, Department of Fish and Game, Regional Water Quality Control Board, and other state agencies will participate in the process as responsible agencies. It is anticipated that the FEMA environmental assessment will form the basis for NCRA's CEQA documentation and consulting services will be utilized to prepare the required documents.

NCRA will acquire consulting expertise where necessary for compliance with all environmental requirements. The scope of work for engineering consultant will include assistance with CEQA and NEPA.

Fund Matching Requirements

The ISTEA funds that will be utilized for upgrading to FRA Class 2 and 3 require a 20% local match. The TCRP "Local Match" funds were specifically provided to address this requirement and will be applied accordingly.

TCI funds require local matching equivalent to their use. The \$250,000 received from NWPR is eligible to meet this requirement other matching funds will need to come from property revenues and/or other discretionary revenues available to NCRA.

Disadvantaged Business Enterprise (DBE) Requirements

The federal ISTEA funding requires NCRA to include DBE goals for the portion of the project utilizing that funding source. NCRA has a conditionally approved DBE Program, but has not yet developed the specific goal for DBE participation as there is no use of federal funding requiring DBE participation identified in the current fiscal year. The DBE goals will be developed prior to use of the ISTEA funds and included in any contracts for improvements utilizing ISTEA funds. Caltrans has provided training to NCRA staff in the establishment of appropriate DBE participation goals. The ISTEA funding will be utilized for upgrading to Class 2 and 3 both North and South of Willits.

SPECIFIC TASKS

Assessment of Entire Line

North of Willits

This will be the first item of work for the TCRP funding for Opening Willits to Arcata, project (c). It is scheduled to begin in June 2001 and be completed by August 2001 and will be the basis for refining the scopes of work for all other activities north of Willits. Funding has been requested in the amount of \$400,000.

South of Willits

To be conducted concurrently with the Assessment north of Willits, this task will be funded from the TCRP funds identified for Upgrade to Class II or III, project (d). It will be the basis for refining the scope of work for the remaining activities south of Willits. Funding in the amount of \$100,000 has been requested

Reopening South of Willits to FRA Class 1 Standards

Service has been restored to MP 43 and work is nearly complete to MP 63, with service expected to resume by May 1, 2001

Only construction phase work between Windsor (MP 63) and Willits remains from an activity that was initiated in 1998 with FEMA/OES funding. \$600,000 from TCRP funds identified for Opening Lombard to Willits, project (b), will be utilized. The funding sources that are expected to be utilized for this task are:

- FEMA/OES \$2.4 M
- Prop. 116 \$0.8 M
- NWPRA \$0.2 M
- TCI \$1.0 M
- Property Revenues \$0.6 M
- FHWA Section 130 \$0.1 M
- AB 2782 \$0.2 M
- TCRP (b) \$0.6 M

Total \$5.9 M

Bids are scheduled to be let for the remaining work under this task in April 2001 with completion expected in late summer 2001.

Reopening Willits to Arcata to FRA Class 1 Standards

This task is identified for funding from TCRP project (c) in addition to the funding available for disaster recovery from FEMA and OES. The task schedule and cost is as follows:

Phase of work	Scope	Schedule (month/year)		Cost
		Start	End	
Proposed/Approved				
1. Studies, environmental review, and permits	Prepare Preliminary Assessment, environmental review, and acquire permits	underway	08/01	\$0.4 M TCRP <u>\$0.1 M FEMA/OES</u> \$0.5 M total (plus an unknown amount from FEMA for environmental review and clearance)
Current/Actual				
Proposed/Approved				
2. Preparation of project plans and specifications.	Prepare project Plans, Specifications, and Bid Documents	06/01	10/01	\$0.6 M TCRP <u>\$1.5 M FEMA/OES</u> \$2.1 M total
Current/Actual				
Proposed/Approved				
3. Right of Way acquisition	None needed for this project			
Current/Actual				
Proposed/Approved				
4. Construction or procurement	Construct project	10/01	12/01	\$6.7 M FEMA/OES
Current/Actual				
Proposed/Approved				
4. Construction or procurement				
Proposed/Approved TOTAL:				\$1.0 M TCRP <u>\$8.3 M FEMA/OES</u> \$9.3 M total
Current/Actual TOTAL:				

Upgrade to FRA Class 2 and 3 and stabilization South of Willits

Funding will be combined from TCRP projects (d), (g), (i), and ISTEA to complete this task. TCRP project (g) is specifically for the purpose of providing the local match required for the ISTEA funds. The task schedule and cost is as follows:

Phase of work	Scope	Schedule (month/year)		Cost
		Start	End	
Proposed/Approved				
1. Studies, environmental review, and permits	Environmental review and acquire project permits	05/01	05/02	\$0.1 M TCRP project (d)
Current/Actual				
1. Studies, environmental review, and permits				
Proposed/Approved				
2. Preparation of project plans and specifications.	Provide plans, specifications, and bid documents	05/01	05/02	\$0.5 M TCRP project (d) \$0.1 M TCRP project (i) \$0.6 M total
Current/Actual				
2. Preparation of project plans and specifications.				
Proposed/Approved				
3. Right of Way acquisition	None required for this task			
Current/Actual				
3. Right of Way acquisition				
Proposed/Approved				
4. Construction or procurement	Construct project	07/01	10/02	\$4.3 M TCRP project (d) \$0.4 M TCRP project (g) \$0.4 M TCRP project (i) <u>\$2.0 M ISTEA</u> \$7.1 M total
Current/Actual				
4. Construction or procurement				
Proposed/Approved TOTAL:				\$4.9 M TCRP project (d) \$0.4 M TCRP project (g) \$0.5M TCRP project (i) <u>\$2.0 M ISTEA</u> \$7.8 M total
Current/Actual TOTAL:				

Upgrade to FRA Class 2 and 3 and stabilization North of Willits

Funding will be combined from TCRP projects (g), (i), and ISTEA to complete this task. TCRP project (g) is specifically for the purpose of providing the local match required for the ISTEA funds. The task schedule and cost is as follows:

Phase of work	Scope	Schedule (month/year)		Cost
		Start	End	
Proposed/Approved				
1. Studies, environmental review, and permits	Provide preliminary assessment, environmental review and acquire project permits	05/01	05/02	\$0.8 M TCRP project (i)
Current/Actual				
1. Studies, environmental review, and permits				
Proposed/Approved				
2. Preparation of project plans and specifications.	Provide plans, specifications, and bid documents	05/01	05/02	\$5.0 M TCRP project (i)
Current/Actual				
2. Preparation of project plans and specifications.				
Proposed/Approved				
3. Right of Way acquisition	Acquire R/W	01/02	06/02	\$0.1 M TCRP project (i)
Current/Actual				
3. Right of Way acquisition				
Proposed/Approved				
4. Construction or procurement	Construct project	07/01	11/04	\$1.4 M TCRP project (g) \$24.6M TCRP project (i) <u>\$6.6 M ISTEA</u> \$32.6 M total
Current/Actual				
4. Construction or procurement				
Proposed/Approved TOTAL:				\$1.4 M TCRP other proj. (g) \$30.5 M TCRP other proj. (i) <u>\$6.6 M ISTEA</u> \$38.5 M total
Current/Actual TOTAL:				

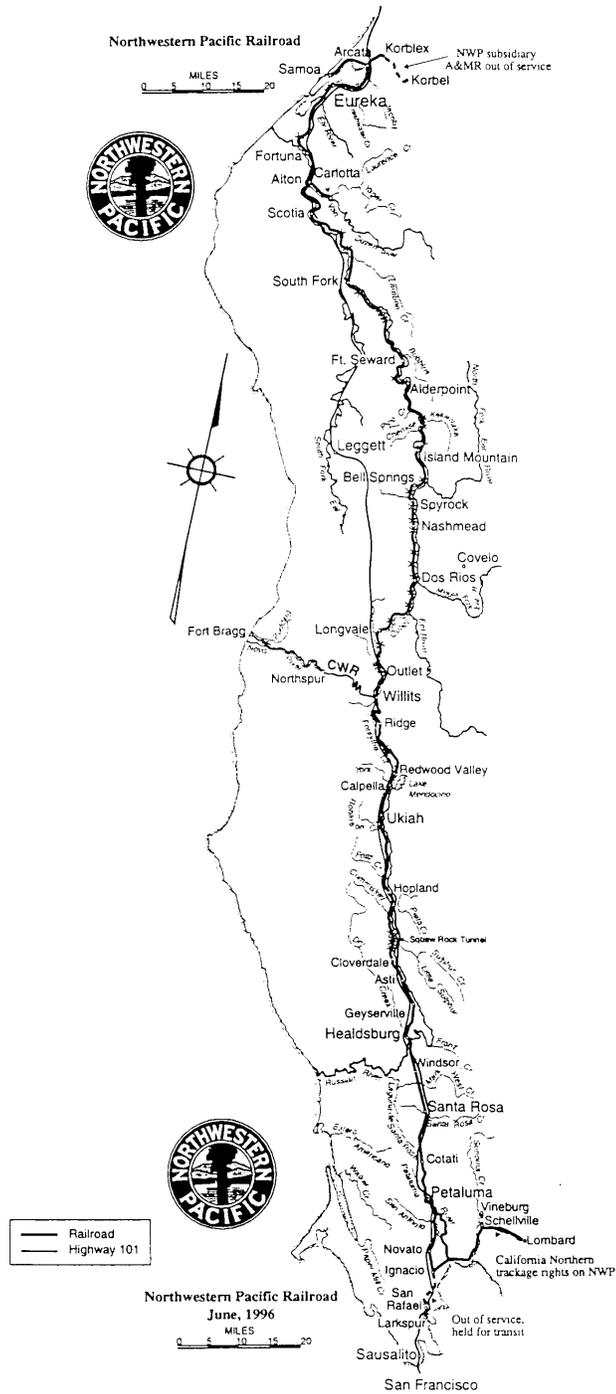
Future additional stabilization

This task will complete the stabilization required to restore disaster eligibility for the entire line and will require the acquisition of additional funding. The scope and schedule will be determined in the future. The following is the current estimated cost based on the information available:

Environmental/Permits	\$1.0 M
Preliminary Engineering	\$6.0 M
Right of Way	\$0.2 M
Construction	<u>\$21.8 M</u>
 Total	 \$29.0 M

EXHIBIT 1

NORTH COAST RAILROAD AUTHORITY



Map of the Northwestern Pacific Railroad

EXHIBIT 2

COMBINED SCOPE OF WORK SUMMARY

April 13, 2001

EXHIBIT 2

**NCRA STRATEGIC PLAN
Combined Scope of Work**

APRIL 13, 2001

FUND SOURCE	94-95/95-06 TCI	UNAL TCI	PROP 116*	NWPRA*	FEMA/IOES*	FEMA/IOES	ISTEA	TCRP NO OPEN (c)	TCRP SO OPEN (b)	TCRP CL 2/3 (d)	TCRP LOC MAT (g)	TCRP STAB (i)	TCRP OTHER	PROP. REV.	FUTURE FED.	SECTION 139*	AB 2782*	Total
Total Available	959,370	811,000	756,795	250,000	2,400,000	8,300,000	8,600,000	1,000,000	600,000	5,000,000	1,800,000	31,000,000	20,600,000	799,370	29,000,000	89,000	165,000	112,130,535
Q-Fund Repayment-- Project (h)		811,000											5,500,000	90,000				6,401,000
Debt Reduction--Project (f)													10,000,000					10,000,000
Environmental Remediation--Project (e)													4,100,000					4,100,000
Administrative Needs FY 00/01 thru 01/02--Project (a)													1,000,000					1,000,000
PRELIMINARY ASSESSMENT OF ENTIRE LINE																		
North of Willits 06/01 to 08/01								400,000										400,000
South of Willits 06/01 to 08/01										100,000								100,000
SUBTOTAL								400,000		100,000								500,000
REOPENING SOUTH OF WILLITS TO FRA CLASS 1																		
Environmental/Permits completed																		
Preliminary Engineering completed																		
Right of Way																		
Construction 04/01 to 09/01	959,370		756,795	250,000	2,400,000				600,000					709,370		89,000	165,000	5,929,535
SUBTOTAL	959,370		756,795	250,000	2,400,000				600,000					709,370		89,000	165,000	5,929,535
REOPENING WILLITS TO ARCATA TO FRA CLASS 1																		
Environmental/Permits underway with completion in 08/01						116,080												116,080
Preliminary Engineering 06/01 to 10/01						1,530,400		600,000										2,130,400
Right of way																		
Construction 10/01 to 12/01						6,653,520												6,653,520
SUBTOTAL						8,300,000		600,000										8,900,000
UPGRADE (CLASS 2/3) AND STABILIZATION SOUTH OF WILLITS																		
Environmental/Permits 05/01 to 05/02										100,000		20,000						120,000
Preliminary Engineering 05/01 to 05/02										500,000		100,000						600,000
Right of Way												10,000						10,000
Construction 07/01 to 10/02							2,000,000			4,300,000	400,000	370,000						7,070,000
SUBTOTAL							2,000,000			4,900,000	400,000	500,000						7,800,000
UPGRADE (Class 2/3) AND STABILIZATION NORTH OF WILLITS																		
Environmental/Permits 05/01 to 05/02												800,000						800,000
Preliminary Engineering 05/01 to 05/02												5,000,000						5,000,000
Right of Way 01/02 to 06/06												100,000						100,000
Construction 07/01 to 11/04						6,600,000					1,400,000	2,460,000						32,600,000
SUBTOTAL						6,600,000					1,400,000	30,500,000						38,500,000
FUTURE ADDITIONAL STABILIZATION																		
Environmental/Permits															1,000,000			1,000,000
Preliminary Engineering														6,000,000				6,000,000
Right of way														200,000				200,000
Construction														21,800,000				21,800,000
SUBTOTAL															29,000,000			29,000,000
TOTAL PROJECT COST	959,370	811,000	756,795	250,000	2,400,000	8,300,000	8,600,000	1,000,000	600,000	5,000,000	1,800,000	31,000,000	20,600,000	799,370	29,000,000	89,000	165,000	112,130,535
% OF TOTAL PROJECT	0.86%	0.72%	0.67%	0.22%	2.14%	7.40%	7.67%	0.01	0.54%	4.46%	1.61%	27.65%	18.37%	0.71%	25.86%	0.08%	0.15%	100.00%

* Represents funding that has already been expended for Project 1 south end repairs

Columns I through N represent TCRP and total \$60 million

Sources for future Federal funding include habitat enhancement, transportation, and cancellation of loan obligations.

EXHIBIT 3

PROPOSED Q-FUND MOU

April 13, 2001

CALIFORNIA TRANSPORTATION COMMISSION

Memorandum Of Understanding
Between The
California Transportation Commission
And The
North Coast Railroad Authority (NCRA)
Establishing A Trust Account
To Retire NCRA's Federal Q-Fund Loan
By September 30, 2013

Resolution G-00-27

- 1.1 WHEREAS, this Memorandum of Understanding (MOU) is entered into between the California Transportation Commission (Commission) and the North Coast Railroad Authority (NCRA) to ensure that the NCRA retires a \$12 million federal loan made to the NCRA, which in conjunction with other funds was used to acquire approximately 140 miles of rail right-of-way between Willits—Healdsburg—Novato—Lombard; and
- 1.2 WHEREAS, the Intermodal Surface Transportation Efficiency Act of 1991, as amended, contains provisions establishing a revolving account for acquisition of rights-of-way for highway and rail transit purposes; and
- 1.3 WHEREAS, \$12,000,000 is available as a zero-interest loan from the Federal Highway Administration (FHWA) Right-of-Way Revolving Fund; and
- 1.4 WHEREAS, the Commission approved at its February 7, 1996 meeting NCRA's plan for repayment in full of the Q-Fund Loan by September 30, 2013.
- 1.5 WHEREAS, on April 22, 1996, the California Department of Transportation (Caltrans) entered into a Federal-Aid Project agreement with FHWA, allowing the NCRA to receive \$12,000,000 in federal aid from the FHWA Right-of-way Revolving Fund, hereafter referred to as the Q-Fund Loan; and
- 1.6 WHEREAS, Caltrans and NCRA signed and executed on April 24, 1996 an Agreement (Program Supplement No. M001) which stipulated, in part, the following:
 - The \$12,000,000 from the Q-fund shall be used by NCRA and the Northwestern Pacific Railroad Authority to purchase sections of the Northwestern Pacific Railroad corridor right-of-way beginning at Willits, south to Ignacio, and inland to Lombard.
 - The Q-Fund Loan shall be repaid in its entirety in a single lump sum to the State no later than September 30, 2013.

- The NCRA shall establish a trust fund and make incremental payments to ensure repayment of the Q-Fund Loan.
- 1.7 WHEREAS, NCRA was unable to establish and maintain its repayment plan; and
- 1.8 WHEREAS, AB 2928 (Torlakson, 2000) provides \$60,000,000 to NCRA for specified purposes, including \$5,500,000 to fund, in part, repayment of NCRA's federal loan obligations; and
- 1.9 WHEREAS, NCRA desires to establish a Trust Account with the State to rectify NCRA's previous inability to establish on its own a trust account or deposit funds in accordance with their own Resolution 96-4; and
- 1.10 WHEREAS, the Commission recognizes, based on current interest rates, that the initial principal of \$6,400,550, to be placed into the state-managed trust account, is projected to generate more than the needed \$12,000,000 by September 30, 2013; and
- 1.11 WHEREAS, the Commission also recognizes that the Pooled Money Investment Account (PMIA) interest rates may change over the next 12 years and is taking a prudent conservative course of action to ensure in the early years that sufficient funds are available to achieve the \$12,000,000 goal by September 30, 2013; and
- 1.12 WHEREAS, the NCRA Board of Directors acted at its August 2000 meeting to approve submittal of an application for \$5,500,000 in Traffic Congestion Relief Act funds to be used for meeting NCRA's federal loan obligations.
- 1.13 WHEREAS, the Commission acted on September 30, 2000 to approve NCRA's application for \$5,500,000 in Traffic Congestion Relief Act funds to be used for meeting NCRA's federal loan obligations.
- 2.1 NOW, THEREFORE, BE IT RESOLVED, that this MOU between the Commission and NCRA establishes a State-managed trust account and that the \$12,000,000 resulting from the principal and interest in this trust account be used by NCRA to repay its federal loan obligations via the State of California (Caltrans); and
- 2.2 BE IT FURTHER RESOLVED, that NCRA shall:
- establish a Q-Fund Trust Account, hereafter referred to as the TRUST ACCOUNT, with the State Treasurer's Office. Said TRUST ACCOUNT shall earn interest at the Pooled Money Investment Account (PMIA) Rate. The TRUST ACCOUNT shall be established within 90 days after this Agreement is executed and remain in effect until September 30, 2013 or until the Q-Fund Loan is repaid, whichever occurs first.
 - provide reports quarterly to Caltrans regarding deposits to, withdrawals from, balances of, and performance (rate of return) of the TRUST ACCOUNT, as well as actions taken by NCRA to adhere to a payment schedule, should one be established.

- 2.3 BE IT FURTHER RESOLVED, that the Commission directs Caltrans:
- As the Commission's grants administrator to assist NCRA in establishing a Q-Fund Trust Account.
 - To place in the TRUST ACCOUNT \$5,500,000 allocated to NCRA from a Commission-approved application for AB 2928 Traffic Congestion Relief Funds, as well as \$810,550 in previously allocated Transit Capital Improvement Funds in the amounts of \$376,930 for Fiscal Year (FY) 1995/96, \$86,620 for FY 1996/97 and \$347,000 for FY 1998/99.
 - To place in the TRUST ACCOUNT \$90,000 from NCRA, which NCRA had received as a property settlement from Caltrans as part of the Cloverdale Bypass project; and
- 2.4 BE IT FURTHER RESOLVED, that the Commission shall review periodically with NCRA the amount of funding needed to achieve the \$12,000,000 goal:
- Should projections indicate that more funding is required, the Commission shall establish a payment schedule for NCRA to keep or bring the TRUST ACCOUNT up to the level necessary to meet the \$12,000,000 goal by September 30, 2013.
 - Should projections indicate that the TRUST ACCOUNT is sufficiently funded to achieve the \$12,000,000 goal by 2013 and that surplus revenue may be generated, NCRA may request by resolution that funds not needed to generate the projected \$12,000,000 by 2013 be withdrawn and used for purposes determined by the Commission. The Commission will consider NCRA's request and determine how much of the funds, if any, may prudently be withdrawn.
 - Should funds be withdrawn from the TRUST ACCOUNT, the following priority will be used: 1) principal from the Cloverdale Bypass property settlement funds, and 2) principal from the Transit Capital Improvement Program funds. (The \$5,500,000 in Traffic Congestion Relief funds is designated in AB 2928 to repay NCRA's federal loan obligations. Legislative action would be needed to change the use of these funds before the Commission could consider re-directing them.)
 - Funds withdrawn from the TRUST ACCOUNT may only be used by NCRA as directed by the Commission.
- 2.5 BE IT FURTHER RESOLVED, that NCRA agrees to:
- Deposit of \$6,400,550 to the TRUST ACCOUNT after the execution of this MOU and within 30 days after the establishment of the TRUST ACCOUNT:
 - \$5,500,000 in Traffic Congestion Relief Funds as allocated by the Commission to NCRA.

