NCRA September 2006 Strategic Plan
September 15, 2006

This document serves as the first refinement (update) of the NCRA Strategic Plan dated February 23, 2006.

I. Northwestern Pacific Railroad Reopening

NCRA has adopted a policy of reopening the entire Northwestern Pacific Railroad Line from Lombard to Arcata/Samoa. Reopening the entire line is currently estimated to cost $150.6 million.

The first phase of construction has been identified as the Russian River Division Phase 1 from Lombard to Windsor based on the market demand for rail service, the existing condition of the line, the ability to team with SMART, and the ability to work within NCRA's right-of-way to restore a prior-existing service.

Future construction phasing will be based on several factors including market demand for rail, environmental clearance, and availability of funding. However, the current plan, once the Russian River Division Phase 1 is completed, is to move forward with the Russian River Division Phase 2, then the Canyon, and finally the North-End. Exhibit A provides a map of the NWP line, and Exhibit B includes an estimated schedule for completing rehabilitation.

The following funding table shows the funding sources by project phases: Environmental/Studies, Plans, Specifications and Estimates, Right-of-way, and Construction.

Source	Type		Env/Stdy	PS&E	ROW	Constr'n	Total
TCRP 32.9	State		$ 5,429	$2,433	$ 0	$ 23,138	$ 31,000
TCRP 32.3	State		$ 600	$ 0			$ 600
TCRP 32.4	State		$ 390	$ 261		$ 4,249	$ 4,900
TCRP 32.7	State					$ 1,800	$ 1,800
Demonstration Funds/ISTEA	Federal					$ 8,600	$ 8,600
FEMA 1203-DR-CA[1]	Federal					$ 695	$ 695
Operator[2]	Private		$ 1.028	$ 4,346		$ 47,832	$ 53,206
Other[3] - Future	Misc.		$ 2,719	$ 3,106		$ 43,998	$ 49,823
Project Totals:			**$10,166**	**$10,146**	**$ 0**	**$130,312**	**$150,624**

[1] Funds from the FEMA Alternate Project were used to purchase signal equipment to be used in the Russian River Division Phase 1 and Phase 2 construction.

[2] The Operator has committed to contributing $100,000 toward the Canyon EIR/EIS, and plans to pursue other financing alternatives as appropriate.

[3] Future sources include Railroad Rehabilitation and Improvement Funding through the FRA, future grant opportunities for Goods Movement projects, and the Governor's proposed infrastructure bond.

II. Russian River Division Phase 1 (Lombard to Windsor)

NCRA proposes to use TCRP funds to open Phase 1 of the Russian River Division, Lombard to Windsor, to class 3. This would allow NCRA's operator the ability to serve several shippers that have expressed interest in using rail and provide Sonoma County with an economical out-haul alternative for their waste.

The items listed below summarize the major work elements required for the Phase I Project. These items are further described in the 2005 CAR and rehabilitation plans.

- Replacement or repair of 53 railroad grade crossing warning systems. This work is specifically required to address FRA's Emergency Order 21.
- Repair of 32 timber bridges, 4 steel bridges, and 2 concrete bridges. All of these repairs consist of replacement of in-kind members like the replacement of cap beams, stringers, and walkway and railing planks.
- Rehabilitation of three movable bridges including structural, mechanical, and electrical repairs.
- Replacement of approximately 50,000 ties to upgrade the line to Class 3.
- Placement of approximately 62,000 tons of ballast.
- Repair and surfacing of 62 miles of track.

All of the proposed work can be characterized as repair or replacement and will be completed within the railroad's right-of-way. In the case of the signal work, several of the signals would be upgraded to meet both freight and future SMART passenger service. Part of the cost associated with the signal upgrades would be offset by SCTA Measure M funds.

The first phase is estimated to cost approximately $25 million. The proposed breakdown of the funding for this project is:

TCRP 32.9	22,167,000
TCRP 32.4	3,000,000
Total	25,167,000

It is currently proposed that the Russian River Division Phase 1 Reopening be completed through the letting of two or possibly three separate construction contracts. The first would be to complete all the signal work. This would provide for the safe use of track equipment and possible work trains to complete all subsequent track and bridge repairs. Several of the bridges in their present condition would restrict the use of work trains and these could be repaired at the same time the signals are being constructed. This would allow for an efficient use of track equipment to complete the remaining track work and bridge work requiring rail access.

The project will require compliance with CEQA and NEPA. An Initial Study will be completed by Kleinfelder to determine the level of environmental review required, ranging from a categorical exemption to a full EIR/EIS. In addition, it is anticipated that the following agencies will be contacted for permits:

- Bay Conservation and Development Commission (BCDC)
- US Army Corp of Engineers
- California Department of Fish and Game
- Regional Water Quality Control Board
- Local Cities and Counties

The Russian River Division Phase 1 plans have been reviewed with NWP Co. who has provided recommendations for: the reopening sequence, the phase termini, the rehabilitation scope, and rehabilitation costs.

III. Canyon EIR/EIS

The processing of the EIR/EIS document and associated preliminary engineering is the critical path to reopening NCRA's rail line from Willits north. Due primarily to the nature of the project, the complexities of the processes, and the extent of public disagreements as to the physical effects of the proposed project, NCRA, as lead agency for NEPA and CEQA, proposes to prepare and process a combined document (CEQA/NEPA) that involves facility upgrades, landslide stabilization and reopening of the line from Willits to South Fork. In order to prepare an EIR/EIS, several items must be defined: project scope, design features, and costs including mitigation. Therefore, NCRA proposes to begin this work immediately to allow ample time to address issues, yet be consistent with its obligation to rehabilitate the line in a timely manner for its Operator.

IV. Operator Lease Status

The Operator Lease was forwarded to Caltrans for review and comment on September 5. The NCRA Board approved the Lease Agreement with NWP Company at its September 13, 2006 Board meeting.

NWP Co. supports the NCRA’s decision to reopen the Phase 1 of the Russian River Division, and believes a modest profit will result with or without the Sonoma County waste haul. Both NWP Co. and NCRA agree that the $25 million plan will provide a fully operational and dependable freight railroad to Windsor, and that the Russian River Division Phase 1 will be a stepping stone to successfully and profitably reopening the full Russian River Division and the entire line once the cumulative affects are investigated and the canyon is environmentally cleared.

EXHIBIT A

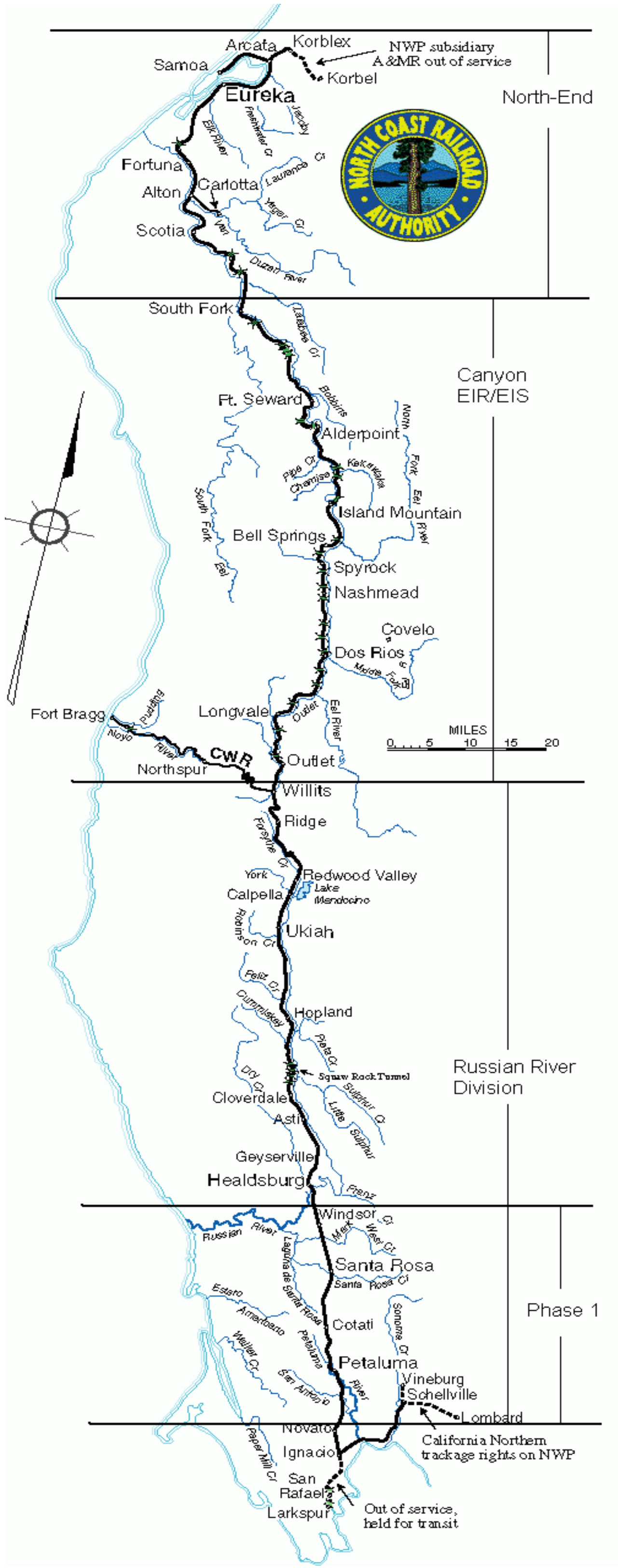
Arcata
Korblex
NWP subsidiary A&MR out of service
Samoa
Korbel
Eureka
North-End
NORTH COAST RAILROAD AUTHORITY
Fortuna
Carlotta
Alton
Scotia
South Fork
Canyon EIR/EIS
Ft. Seward
Alderpoint
Island Mountain
Bell Springs
Spyrock
Nashmead
Covelo
Dos Rios
Fort Bragg
Longvale
MILES
0 5 10 15 20
CWR
Northspur
Outlet
Willits
Ridge
Redwood Valley
Lake Mendocino
Calpella
Ukiah
Hopland
Squaw Rock Tunnel
Russian River Division
Cloverdale
Asti
Geyserville
Healdsburg
Windsor
Santa Rosa
Phase 1
Cotati
Petaluma
Vineburg
Schellville
Lombard
Novato
Ignacio
California Northern trackage rights on NWP
San Rafael
Larkspur
Out of service, held for transit

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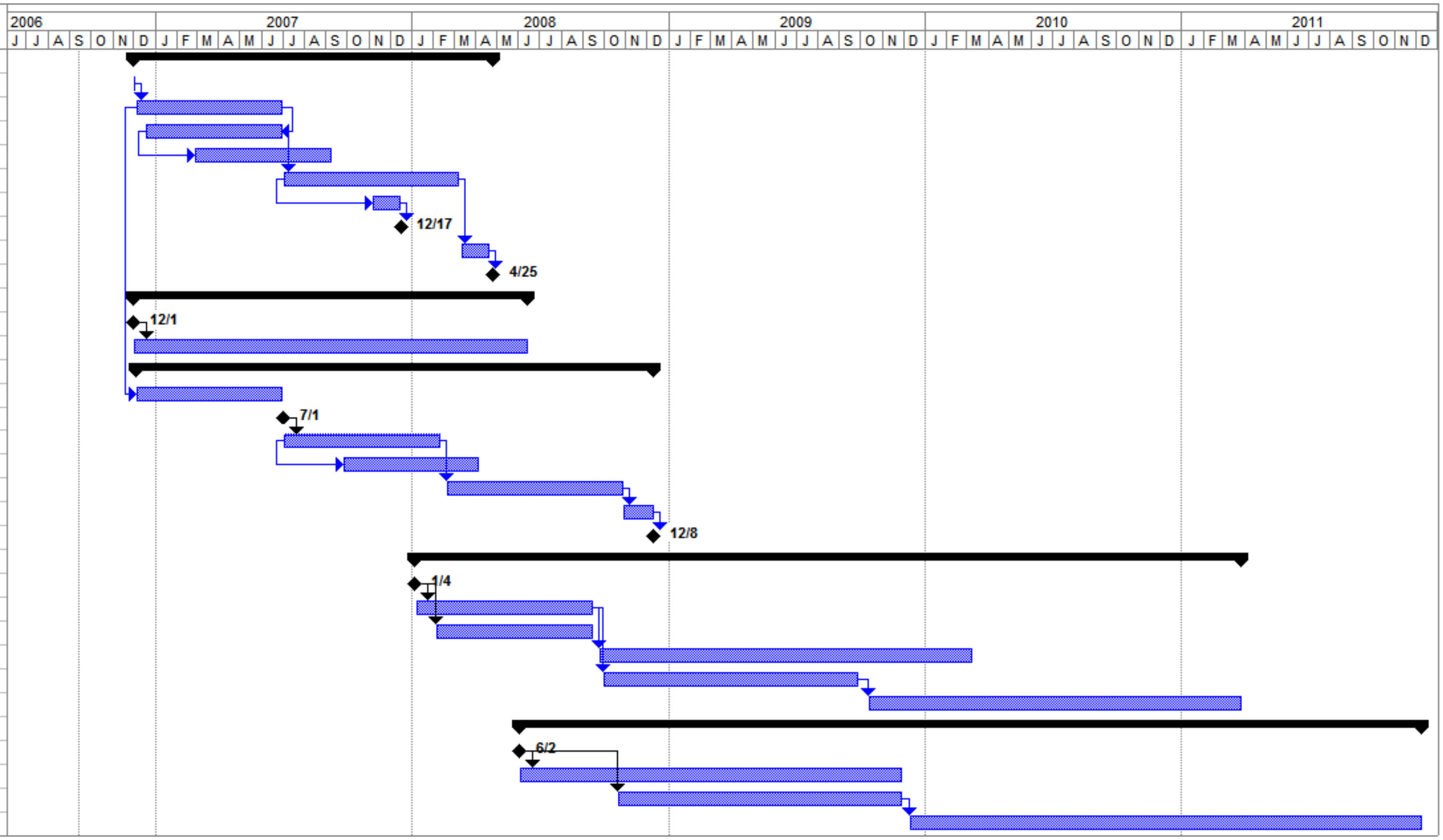
EXHIBIT B
PROJECT SCHEDULE

ID	Task Name
1	**Russian River Division Phase 1**
2	Notice to Proceed
3	Env/Prelim Eng/Permitting
4	PS&E
5	Construction - Signals
6	Construction-Rem Rehab
7	FRA Inspection #1
8	Reopening #1
9	FRA Inspection #2
10	Reopening #2
11	**Canyon EIR/EIS**
12	Notice to Proceed
13	Env/Prelim Eng
14	**Russian River Division Ph 2**
15	Env/Prelim Eng/Permitting
16	Notice to Proceed w/Reopening
17	PS&E
18	Construction - Signals
19	Construction - Rem Rehab
20	FRA Inspection
21	Reopening
22	**Canyon Reopening**
23	Notice to Proceed
24	PS&E - Phase 1
25	Permitting
26	Construction - Phase 1
27	PS&E - Phase 2
28	Construction - Phase 2
29	**North-End Reopening**
30	Notice to Proceed
31	Env/Prelim Eng/Permitting
32	PS&E
33	Construction



NCRA October 2006 CTC Presentation
Progress Report and Response to CTC Questions
September 15, 2006

Since the NCRA last reported to the California Transportation Commission (CTC) in March 2006, the following has occurred:

1. NCRA approved a contract with a new Operator: NWP Company at its Board Meeting held September 13, 2006. The agreement as approved by NCRA's Operating Committee and presented to the Board for approval, was submitted to Caltrans District 1 on September 5.

2. NCRA's on-call engineer is finalizing the plans for the first of two contracts associated with the Project 32.4 Urgent Repairs that were allocated at the April 2006 CTC meeting. The environmental resource agencies have been contacted and a Notice of Exemption has been filed for the work to be performed. The plans will advertised for bid on September 20, 2006, and a contract will be awarded contingent on the CTC approval of the Project 32.4 construction allocation on the October agenda.

3. Caltrans audits completed a pre-award audit of NCRA on June 28, 2006, and NCRA responded to the audit with a corrective action plan and management implementation plan on July 25, 2006. NCRA received the final audit on August 23, 2006. Work continues toward eliminating NCRA's status as a high-risk agency.

4. NCRA has held meetings with the Environmental Consent Decree agencies to finalize the scope of the allocation awarded to NCRA in April 2006. A notice to proceed for the site characterization plans has been issued by the Consent Decree Agencies and the fully-executed Program Supplement, as of the time of this document, is imminent.

5. On July 12, 2006 NCRA staff met with David Hull, Port Director of the Port of Humboldt Bay and Wilson Lacy, Maritime Director of the Port of Oakland to discuss teaming opportunities. The Port of Oakland wants to continue to expand its operations, and sees teaming with Northern California ports as a critical component to accomplishing this end. Mr. Lacy was clear that he believed that the port without a dependable rail system will not succeed.

6. NCRA has incorporated SMART's comments into its project scope, funding plan, and operation plan for the reopening of the South-End of the line in phases. It is important to note that SMART and NCRA have overlapping interests and both have the common goal of opening segments of the NWP, with SMART as owner of the line from Lombard to Healdsburg, and NCRA having maintenance responsibilities over the same segment. SMART and NCRA intend to step up discussions after SMART's November sales tax election.

7. The final project costs associated with the Federal Emergency Management Agency (FEMA) proceeds of $7.9 million have been approved by OES and

FEMA, and the final payment request is expected to be forwarded to the State Controller after OES completes their final closeout report this month.

8. SMART released its Final Environmental Impact Report in July 2006 to provide passenger rail service on approximately 60 miles of the Russian River Division (Ignacio to Cloverdale).

9. NCRA continues to negotiate its debts and settlements. Settlement discussions are ongoing with Union Pacific with a settlement proposal being reviewed internally by Union Pacific. Discussion has been initiated with PALCO but there are no offers presently pending. A settlement has been completed and paid to Mass Electric. NCRA has no debts to either John Darling or to NWPY, however, NWPY has requested arbitration of its claims against NCRA, which NCRA believes will be favorably resolved. Although NCRA holds a number of counter-claims against NWPY, it suspects that the counter-claims are not likely to result in recovery and are useful only for the purpose of offsetting any legitimate claims of NWPY.

10. The lease agreement with the Operator outlines a plan for the Operator to provide funding to NCRA, in addition to NCRA's current property and equipment lease income.

11. For the October CTC Meeting, NCRA has submitted a TCRP application for Project 32.4 requesting construction funds for previously programmed Urgent Repairs in the amount of $1.475 million.

12. NCRA intends to come back to the CTC in November to request funds to: Reopen the Russian River Division Phase 1 of the NWP Line (Lombard to Windsor) and Initiate an EIR/EIS for the Canyon Division of the NWP Line (Willits to South Fork).

RESPONSE TO CTC QUESTIONS

In April 2004 the CTC requested that NCRA respond to several ongoing concerns regarding the viability of the railroad and NCRA as a public agency.

1. Completion of the amended TCRP application for project 32.5 – Environmental Remediation.

   Response: NCRA has continued to work closely with the State Agencies, both in completing the work funded so far through prior TCRP commitments and in preparing new applications for the remainder of the 32.5 funds. NCRA and the State Agencies are working steadily towards compliance with the Environmental Consent Decree.

2. A Funding Plan to address the negative funding for FY 2004-05 through 2008-09, for administrative function, outstanding debt, and other pertinent issues.

   The Lease Agreement between NCRA and NWP Co. provides that the Lease Payment Fund will make maximum annual Administrative Payments to NCRA of $1.0 million per year, adjusted for inflation. The maximum annual Administrative Payment to be paid to NCRA shall be reduced by the total of all of NCRA's income from other sources, including but not limited to its income from real estate leases and fees, easements, crossing fees and charges, proceeds from the sale of its assets, and its boxcar lease, which the parties calculate at this time to total about $500,000.

   However, unbudgeted administration fees funded by FEMA or the Governor's Office of Emergency Services, or any other source dedicated for administration of specific projects, shall not cause reduction of the maximum annual Administrative Payment. At this time, management of NCRA's real estate and crossing leases and fees, its leased box cars, and other sources will be performed by NCRA.

   Until such time as the trigger of $5 million net profit is reached, NWP Co. may make advance Lease Payments in any amount to the Fund in any year. All such advance Lease Payments shall be credited so as to reduce NWP's required annual Lease Payments in future years, on a dollar-for-dollar basis. Either a portion or all of such advance Lease Payments may be paid to NCRA as Administrative Payments. Prior to the commencement of operations that produce net income of $5.0 million or more per year, the Operator has agreed to provide a funding supplement of $20,000 per month, contingent upon the CTC's allocation of the requested allocation for the rehabilitation and reopening of the line between Lombard and Windsor. The funding supplement from the Operator will commence in September 2006, and such payments effectively remove the negative administrative function funding for FY 06-07 and forward.

It is the intent of NCRA and NWP Co. that the increment of funds required to establish a $1.0 million annual Administrative budget for NCRA, adjusted for inflation, will have first claim on all of the available monies in the Lease Payment Fund. Thus, if the Lease Payment Fund is inadequate to fund both the required Administrative Payments and repairs, the amount of funds available for repairs will be reduced.

The Operator has also committed to provide a Bridge Loan to NCRA in an amount not to exceed $500,000 for the sole purpose of permitting NCRA to pay approved vendor invoices that are reimbursable from TCRP or ISTEA funding. Interest will be charged on the outstanding balance in the amount paid by NWP Co. and interest in addition to any disallowed invoices, in whole or in part, shall be credited as Advance Lease Payments made by NWP Co.

NWP Co., as shown in the response to item #6 below, is estimating a profitable position within two years after rail service resumes. This takes into consideration the Operator's commitment to supplement NCRA's administrative funds as discussed above. Both NCRA and NWP have agreed to make a concerted effort to finish construction of the Russian River Division Phase 1 so that trains are running by 2007. By the end of 2009, the Operator is projecting a modest profit.

This year NCRA will be finalizing its Indirect Cost Allocation Plan as well as other policies and procedures to work toward eliminating its status as a high-risk grantee. It is expected that a follow-up pre-award audit will be scheduled in December 2006. The Executive Director has successfully worked toward the forgiveness of certain debts and has initiated negotiations to restructure other debts listed on NCRA's financial statements. With legal counsel, steps are being taken to restructure outstanding notes, such as the Harbor loan and PALCO loan, and move forward with the disposition of the SMART loan.

Discussions have been initiated with the Public Works departments, Councils of Governments and Work Force Investment Boards to explore the possibility of securing in-kind contributions of labor and equipment by individual Public Works Departments in the counties where urgent repair work is being performed.

3. Progress in remediating the environmental hazards and achieving consensus with the ECD agencies to move forward with the clean-up. A joint written statement from the ECD agencies and NCRA is requested.

   Response: As part of the Project 32.5 application approved by the CTC at its April 2006 meeting, the ECD agencies prepared a joint written statement supporting NCRA's request for funds. The program supplement for these funds has been submitted to Caltrans Headquarters for signature. ECD concurred with the site characterization final scope of work on September 14, 2006 and the planning effort is expected to be underway by September 18.

4. Progress in hiring a short-line operator and actual funding it would generate.

   Response: The NCRA Board approved an agreement with NWP Company at its September 13, 2006 meeting, subject to the following: CEQA compliance, receipt of any necessary approvals and appropriate notifications concerning the Private Activity Tax Rules relating to property acquired with Prop 116 funds, and consent from SMART.

   The operator has begun marketing efforts, and will be available at the October CTC meeting to discuss findings. Operating revenue opportunities are discussed in the response to question #6 below.

5. Strategic plan for re-opening the entire line north of Willits. Address the impact on NCRA's ability to comply with the ECD, if the line is not reopened north of Willits.

   Response: NCRA's strategic plan includes reopening the line north of Willits, but the plan is dependent on marketing results and the timing of the Canyon environmental document. See the Strategic Plan Update for additional information regarding funding and timing of improvements.

   The Operator intends to market the entire line in the next several months with the intent of identifying the demand for rail. This information as well as the CTC's willingness to fund NCRA's initial reopening and the Canyon EIR will be used to develop a plan that optimizes funds with demand.

   NCRA intends to comply with the ECD and maintain its right-of-way in accordance with its legislated mandate to maintain the transportation corridor for future use. Certain ECD issues in the Canyon area north of Willits have been agreed to be delayed until reasonable access is provided via rail improvements. Without these improvements the costs related to access will be greatly increased. Without the rail it would be doubtful that NCRA would ever have the financial means to address the ECD through the Canyon area.

6. Estimates of the revenues and the number of clientele that would use the line south of Willits, as well as north when the entire line is open.

   Response: The Operator's assessment of the half dozen former rail shippers who remain on the Russian River Division of the NWP Line is that they will produce some 1,800-2,000 carloads annually in a full year of normal operations, after those rail customers' confidence in the continuing service of NWP Co. has been restored. The Operator projects that this volume of traffic would generate annual revenue in Year 2, the second full year of operations, of $1,134,000, and that a modest profit would result.

It is the Operator's experience that the start-up of a new rail carrier is both slow and costly. Because re-starting operations on the NWP Line will be occurring for the second time with the third operator in a decade, the Operator expects that volume and revenues will increase slowly until NWP Co. gains credibility as an effective Operator that will stay in business. For this reason, the Operator estimates that in the first year of operations, NWP Co. will achieve a total carload volume of only about one-half of the 1,800-2,000 potential carloads that will be realized in Year 2; that volume of 900-1,000 carloads is projected to generate estimated revenue of only $579,000 in Year 1, and would produce an operating loss for NWP Co.

It is the Operator's opinion that the most likely near-term addition to the traffic base of the Russian River Division is the movement of Sonoma County solid waste. The Operator's assessment of the Sonoma County Report on the volume and revenue potential of that traffic is that its projections of about 4,056 carloads generating revenue of $2,023,000 annually are reasonable. When that amount of additional revenue is included with the traditional rail customers' revenue, the Operator projects total revenue of $3,157,000 in Year 3, and a profit that is large enough to assure the financial viability of the Russian River Division from Windsor to Lombard.

So far as the Eel River Division's traditional rail traffic base and revenues are concerned, the extent and permanency of traffic erosion away from the NWP Line during the decade that it has been closed is unknown to all parties. However, what is known is that some important shippers on the NWP Line north of Willits are no longer in business and that others have substituted truck or barge service for rail service or concentrated their marketing efforts toward geographic areas that are not well suited to rail transportation.

It is the Operator's opinion that the best near-term prospect for additional traffic located on the Eel River Division is the Island Mountain aggregate. As demonstrated by its inclusion in NWP Co.'s management structure, Evergreen Natural Resources (ENR) will be a full participant in NWP's efforts to attract that traffic. At present, ENR is actively involved in the permitting process for developing a prime-grade aggregate quarry that would have a minimum production rate of six million tons per year, although that rate would be substantially increased in order to provide aggregate for the large highway and levee construction projects contemplated by the proposed "Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006." Clearly, the movement of Island Mountain aggregate, which NWP Co. and ENR are both committed to achieve, would generate a substantial annual traffic volume with railroad revenues that the Operator has estimated would be at last $30 million per year.

A second potential rail market located on the Eel River Division would be from the development and use of the Port of Humboldt Bay's capacity for handling both bulk commodities and containers in order to provide relief to other, increasingly congested California ports. Because of the large traffic volumes that would be generated by the

Port, the availability of continuing rail service over the entire NWP Line would be required for the realization of the increased traffic volume and revenues. NCRA has estimated that this increased traffic could be as much as $130 million per year, if the NWP Line were rebuilt to Class 2/3 standards and is operating efficiently.

It is the Operator's opinion that the realization of either or both of these traffic opportunities on the Eel River Division would enable NWP Co. to operate the entire NWP Line efficiently, profitably, reliably and safely thereby ensuring its long term financial stability and viability.

7. A final proposal to CTC and Department District staff regarding the repayment of the $166K in disallowed Proposition 116 costs.

   Response: NCRA has been making progress in repayment of the disallowed Proposition 116 costs in accordance with NCRA Resolution No. 2004-06 approved August 18, 2004 and subsequently accepted 7-0 at the September 15, 2004 CTC Meeting. The FY 2005-06 payment was made August 29, 2006.

8. Develop a proposal for use of the balance of funds in the Q-Fund account should forgiveness of the federal loan be included as part of the approved Federal reauthorization bill.

   Response: NCRA has submitted a letter to CTC staff under separate cover requesting the CTC approve payment to NCRA of all of the interest funds remaining in the forgiven Q-Fund account. The proceeds would be used to repay the Harbor District loan and the Proposition 116 disallowance discussed in #7.