



August 6, 2010

Bimla G. Rhinehart, Executive Director  
California Transportation Commission  
1120 N Street, MS-52  
Sacramento, CA 94273

RE: Santa Cruz Branch Rail Line Acquisition Project CTC Conditions

Dear Ms. Rhinehart,

I am pleased to inform you that the Santa Cruz County Regional Transportation Commission (SCCRTC) has met most of the conditions established by the California Transportation Commission (CTC) for the purchase of the Santa Cruz Branch Rail Line (Branch Line).

Enclosed are two resolutions in which the SCCRTC makes the commitments desired by the CTC. The resolution adopted on August 5, 2010 makes the commitments desired by the CTC (Resolution PA-10-06) to (i) initiate recreational passenger rail service (Condition 2.1.3), (ii) be responsible for continuing freight rail service as long as required by the Surface Transportation Board (STB) (Condition 2.1.4) and (iii) reimburse the state if the SCCRTC ceases to utilize the Branch Line for the original purpose approved by the CTC (Condition 2.2). The resolution adopted by the SCCRTC on May 6, 2010 indemnifies the state for any hazardous waste clean-up liabilities and commits SCCRTC to take responsibility for such clean-up (Condition 2.1.5).

Regarding CTC Condition 2.1.2 of the Proposition 116 application approval, yesterday afternoon, SCCRTC staff and consultants held a conference call with staff from the Caltrans Division of Right-of-Way to discuss the appraisals of the Branch Line. Caltrans Division of Right-of-Way staff stated that based on all of the information provided by SCCRTC staff and consultants, including a letter from Eric Hocky of Thorp Reed and Armstrong dated June 2, 2010, they now agree that Net Liquidation Value (NLV) is the appropriate methodology for arriving at a fair market value for the Branch Line.<sup>1</sup> Enclosed is previous correspondence explaining the NLV methodology and appraisals.

The appraisers hired by the SCCRTC have extensive experience appraising the value of property including railroad rights-of-way. The appraisers exercised due diligence in the performance of their work and, where information was unavailable or incomplete, took that into account very conservatively to reduce the value of the property. This includes:

1. Assigning no value whatsoever to over two thirds of the property due to incomplete, inexistent, inconclusive or otherwise problematic title issues. Of the 301.53 acres composing this property only 93.09 acres were assigned any value.

<sup>1</sup> Caltrans staff still has questions concerning the conclusions of the appraisals, but the valuation methodology is no longer in dispute

2. The value of the parcels which were assigned some value was then reduced for a variety of reasons including access, drainage, shape, planning risks, topography and land use restrictions.
3. After arriving at a gross NLV the appraisers further reduced the value of the property by taking into consideration the cost and time required to sell the individual parcels including administrative and overhead, taxes, settlement and closing, legal, accounting and marketing. These also include discounts for cost of capital and net present value.

The appraisers also considered the rights retained by Union Pacific for four transverse easements for sewage, water and drain pipes and the conclusions of the hazardous materials assessment. The retained rights are very limited and do not impact the use of the property and therefore, did not require a discount in value. This was discussed with the Caltrans Division of Right-of-Way staff during yesterday's teleconference. The only location requiring clean-up for hazardous materials is being addressed by the responsible party, Granite Construction, and the current owner, Union Pacific. Regulatory agencies are also involved to ensure that the required clean-up is completed; therefore, a discount for hazardous materials clean-up is not necessary.

After the conservative approach to value for the Branch Line, the final review appraisal arrived at a range in value for the Branch Line of \$9,095,000 to \$16,630,000 with a reconciliated value of \$12,275,000 and the following conclusion:

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

With the attached resolution and the explanations of the net liquidation value methodology approach to this project and the resulting value, the SCCRTC is very pleased to meet all but one of the CTC conditions. The SCCRTC has not yet finalized negotiations and executed an agreement with the operator (CTC Condition 2.1.1), due to an additional piece of due diligence work required by Caltrans, a bond counsel opinion which could affect that agreement. The SCCRTC did not learn of this requirement until June 30, 2010, following the CTC's conditional approval of the rail line purchase. The SCCRTC anticipates receiving the opinion very soon and can then proceed with completion and execution of the agreement with the operator.

As expressed before, this is a very important project to the Santa Cruz County community and the SCCRTC very much appreciates the CTC's conditional approval and the assistance of CTC staff in ensuring complete due diligence for the project. The SCCRTC requests that with this additional information and conditions met, the CTC allocate the Proposition 116 and State

Transportation Improvement Program (STIP) funds programmed to this project at its September meeting. If you need additional information, please contact me at 831-460-3202 or [gedondero@sccrtc.org](mailto:gedondero@sccrtc.org) or Luis Mendez at 831-460-3212 or [lmendez@sccrtc.org](mailto:lmendez@sccrtc.org).

Sincerely,



George Dondero  
Executive Director

enclosures

cc: Senator Joe Simitian  
Commissioner Carl Guardino  
Commissioner Jim Ghilmetti  
Tony Tavares, Chief, Division of Right of Way and Land Surveys

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Meeting Handout



**SANTA CRUZ COUNTY REGIONAL TRANSPORTATION COMMISSION**

1523 Pacific Ave., Santa Cruz, CA 95060-3911 • [831] 460-3200 FAX [831] 460-3215 EMAIL [info@sccrtc.org](mailto:info@sccrtc.org)

November 1, 2010

Bimla G. Rhinehart, Executive Director  
California Transportation Commission (CTC)  
1120 N Street, MS-52  
Sacramento, CA 94273

RE: Santa Cruz Branch Rail Line Acquisition Project CTC Condition 2

Dear Ms. Rhinehart,

As we discussed by phone on October 28, 2010, the memorandum to the CTC for their November 3-4, 2010 meeting seems to state that the Santa Cruz County Regional Transportation Commission (RTC) has not provided information to explain the use of Net Liquidation Value (NLV) as the methodology for appraisal valuation to support the funding request for the Santa Cruz Branch Rail Line Acquisition Project. In actuality, RTC and its consultants have provided several pieces of written correspondence to CTC staff explaining the NLV methodology and addressing questions and concerns raised by Caltrans and CTC staff regarding the methodology and the appraisal conclusions.

Attached are the most recent pieces of correspondence regarding this CTC condition - a letter from me dated August 6, 2010 and a letter from appraisal consultant Tim Landes dated August 13, 2010. These letters reference and/or attach appraisals and prior communication provided to the State.

The RTC appreciates the assistance of CTC staff in getting this very important Santa Cruz County project to this point in the process and your offer to clarify at the November 3-4, 2010 CTC meeting that indeed the RTC has been providing requested information in an effort to meet all requirements and conditions. The RTC also appreciates your suggestion for a workshop with your staff and RTC appraisal consultants to review appraisal information.

The RTC eagerly looks forward to the completion of all CTC conditions and the CTC's consideration of the funding allocation for this project. Please feel free to contact me at 831-460-3202 or [gdondero@sccrtc.org](mailto:gdondero@sccrtc.org) or Luis Mendez at 831-460-3212 or [lmendez@sccrtc.org](mailto:lmendez@sccrtc.org) if you have any questions or require additional information regarding this project.

Sincerely,

George Dondero  
Executive Director

enclosures

cc: Senator Joe Simitian  
Commissioner Jim Earp, Chair  
Commissioner Carl Guardino  
Commissioner Jim Ghilmetti

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Meeting  
Handout

# Sierra West Valuation Inc.

629 Sutter Street, 2nd Floor  
Folsom, California 95630  
www.swvalue.com

August 13, 2010

Mr. Tony Tavares, Chief  
Division of Right of Way and Land Surveys  
California Department of Transportation  
1120 N Street  
Sacramento, CA 95814

Dear Mr. Tavares:

During our phone conference on August 5<sup>th</sup> I was in the car driving back from Manteca (on a job for Caltrans, actually) and was unable to consult my file or my review report during the call. One of the main concerns expressed seemed to be that the appraisers and I did not account for the time and costs for the political and regulatory processes in those areas where control over development is heavily scrutinized. In retrospect, I don't believe I mentioned several important factors that I covered in my reconciliation report. There is so much data in the two appraisal reports (especially that of Arthur Gimmy International) and my reconciliation report that I know it is possible to miss these deductions.

- 1) As I said last Thursday, the discount rate used (which varied between 18% to 22% depending on the risk of the scenarios) reflects some risks that are typically present in a developer's process to subdivide, gain approvals, construct and sell.
- 2) Significantly, in the Gimmy International report and in my NLV reconciliation report are two further accountings for legal and administrative costs and the risk in the political/ governmental/social approval process which have been taken into account by the appraisers. The major accounting is in my "Chart of Site-Specific Changes and Discounts" for each scenario. The next to the last column addresses "Risk Re: Plan/Permit/ & Politics". (Please see that attachments.) You will note that most all of the segments that have a value assigned for marketable parcels have a deduction applied to the across-the-fence value for this consideration. These deductions are quite site-specific and take into account the political entity in which they are located. Note that these segments are discounted in value from 10% to 40% due to this consideration – many are discounted in value 25% - 40% in areas where it is assumed that approvals would be difficult to achieve.

Mr. Tony Tavares  
August 13, 2010  
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- 3) Finally, expenses anticipated during the liquidation process are shown on the "Summary of Discounted Cash Flow with Liquidation Profit" pages and reflected as "Administrative/ Legal, Misc." and "Commissions and Mtkg." in my follow-up report to Ms. Downer dated May 3, 2010. These two expense categories also include costs associated with dealing with political/social elements for approvals for lot splits, new parcel creation and lot line adjustments. (Please see the attachments.)

I'm sorry I did not bring these items to your attention more clearly during our conversation, but hopefully you will review both the Arthur Gimmy International report and my follow-up report and reconsider the valuation methodologies used in a more favorable light.

Sincerely,



Tim Landes, SRWA  
*Sierra West Valuation, Inc.*  
CA Certified Real Estate Appraiser AG #005980

cc: Carl Guardino, CTC Commissioner  
Bimla Rhinehart, CTC Executive Director  
Judy Downer, Caltrans Senior Right of Way Agent  
Juan Guzman, CTC Associate Deputy Director  
George Dondero, SCCRTC Executive Director

Attachments

**CHART OF SITE-SPECIFIC CHANGES AND DISCOUNTS**

5/1/2010

Page 1 of 2

**Tim's Reconciliation**

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

8/13/2010

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Tim Landes, SR/WA

Variable Site-specific Changes

| Segment Sheet | Rounded Preliminary Value | Marketability | Parcel Cert. & Lotline Adjust. | Remnant and/or Reluctances | Risk Re: Access Assumption | Risk Re: Plan/Permits & Politics | Result        |
|---------------|---------------------------|---------------|--------------------------------|----------------------------|----------------------------|----------------------------------|---------------|
| 5A            | \$ 1,408,700              | 2             | 5%                             |                            |                            | 40%                              | \$ 774,785    |
| B             | \$ 1,500,000              | 1             | 5%                             |                            |                            | 40%                              | \$ 825,000    |
| C             | \$ 712,000                | 2             | 10%                            | 25%                        |                            | 40%                              | \$ 462,800    |
| 6             | \$ 2,673,500              | 1 & 2         | 10%                            |                            |                            | 40%                              | \$ 1,336,750  |
| 7A            | \$ 529,200                | 2             |                                |                            |                            | 40%                              | \$ 317,520    |
| B             | \$ 629,500                | 1 & 2         | 5%                             |                            | 50%                        |                                  | \$ 283,275    |
| C             | \$ 2,418,500              | 2             | 5%                             |                            |                            | 40%                              | \$ 1,330,175  |
|               | \$ 2,150,000              | 1             | 5%                             |                            |                            | 25%                              | \$ 1,505,000  |
| D             | \$ 665,000                | 1, 2, 3       |                                |                            |                            | 25%                              | \$ 498,750    |
|               | \$ 5,212,500              | 1, 2, 3       |                                |                            |                            | 10%                              | \$ 4,691,250  |
| 8A            | \$ 2,452,500              | 1, 2, 3       |                                |                            |                            | 10%                              | \$ 2,207,250  |
| B             | \$ 300,000                | 1             | 5%                             |                            |                            | 40%                              | \$ 165,000    |
| C             | \$ 846,000                | 1, 2          | 10%                            |                            |                            |                                  | \$ 761,400    |
| D             | \$ -                      |               |                                |                            |                            |                                  | \$ -          |
| Subtotal      | \$ 21,497,400             |               |                                |                            |                            |                                  | \$ 15,158,955 |
| Subtotal P. 1 | \$ 4,045,410              |               |                                |                            |                            |                                  | \$ 2,820,996  |
| Total         | \$ 25,542,810             |               |                                |                            |                            |                                  | \$ 17,979,951 |

**SUMMARY OF DISCOUNTED CASH FLOW  
WITH LIQUIDATION PROFIT**

**Tim's Projection**

**PROJECT REVENUES**

|                       |    | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Total</u>  |
|-----------------------|----|---------------|---------------|---------------|---------------|
|                       |    | \$ 8,997,500  | \$ 5,398,500  | \$ 3,599,000  | \$ 17,995,000 |
| Less Remnant Discount | 5% | \$ 450,000    | \$ 270,000    | \$ 180,000    |               |
| Net Adj. Revenues     |    | \$ 8,547,500  | \$ 5,128,500  | \$ 3,419,000  |               |

**PROJECTED COSTS**

|                       |    |              |            |            |
|-----------------------|----|--------------|------------|------------|
| Adm/Legal, etc.       | 3% | \$ 256,425   | \$ 153,855 | \$ 102,570 |
| Commissions & Mktg.   | 5% | \$ 427,375   | \$ 256,425 | \$ 170,950 |
| Overhead              | 3% | \$ 256,425   | \$ 153,855 | \$ 102,570 |
| Property Taxes        |    | \$ 135,000   | \$ 63,000  | \$ 18,000  |
| Total Projected Costs |    | \$ 1,075,225 | \$ 627,135 | \$ 394,090 |

|                              |    |              |            |            |
|------------------------------|----|--------------|------------|------------|
| Liquidation Profit           | 0% | \$ -         | \$ -       | \$ -       |
| Total Costs Plus Liquidation |    | \$ 1,075,225 | \$ 627,135 | \$ 394,090 |

|                |  |              |              |              |
|----------------|--|--------------|--------------|--------------|
| Net Cash Flows |  | \$ 7,472,275 | \$ 4,501,365 | \$ 3,024,910 |
|----------------|--|--------------|--------------|--------------|

|             |       |               |
|-------------|-------|---------------|
| NPV         | 20.0% | \$ 11,103,370 |
| Rounded NPV |       | \$ 11,100,000 |

**TAX CALCULATION**

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