Assessment of the North Coast Railroad Authority and Viability of a Great Redwood Trail

Report to the Legislature
2020

California Natural Resources Agency

State of California
Department of Finance

DGS General Services
Facilities Management Division

California Department of Parks and Recreation

Caltrans

California State Transportation Agency

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EXECUTIVE SUMMARY

North Coast Railroad Authority (NCRA) was created in 1989 to maintain and operate freight rail service between the Bay Area and Humboldt Bay. Declining industry revenue, deferred maintenance, and catastrophic storm damage shut down rail operations north of Windsor, Sonoma County, in 1998. Operations south of Windsor resumed in 2011, and NCRA continued to strive to resume rail service in the north, only to fall deeper into debt each year. (Please see the map in Figure 1 for project locations.)

Senator Mike McGuire introduced the North Coast Railroad Authority Closure and Transition to Trails Act (SB 1029, Chapter 934 Statutes of 2018), which was signed into law by former Governor Edmund G. Brown Jr. in September 2018. The Act directs the California State Transportation Agency (CalSTA), in consultation with the Natural Resources Agency, to "conduct an assessment of the North Coast Railroad Authority to provide information necessary to determine the most appropriate way to dissolve North Coast Railroad Authority and dispense with its assets and liabilities," as well as "a preliminary assessment of the viability of constructing a trail on the entirety of, or a portion of, the property, rights-of-way, or easements owned by North Coast Railroad Authority, and recommendations relating to the possible construction of a trail." Finally, the statute requires "an assessment of the options for transferring the southern portion of the rail corridor to the Sonoma-Marin Area Rail Transit District and recommendations on the specific assets and liabilities that could be transferred, including rights or abilities to operate freight rail." See page 12 and Appendix A for additional detail.

CalSTA convened a multi-agency SB 1029 Task Force (Task Force) comprised of representatives from the California Department of Transportation (Caltrans), the Natural Resources Agency, the Department of Parks and Recreation (State Parks), the Department of Finance, and the Department of General Services (DGS). The Task Force agencies conducted independent studies in their respective areas of expertise and prepared individual assessment reports focused on their findings, included as Appendices C, D, and E. These appendices are available on the CalSTA website at: https://calsta.ca.gov/subject-areas/reports.

Figure 1. Current Ownership Map of the Historic Northwestern Pacific Rail Line

Report Organization

This report is presented in sections defined by the areas of concern described in SB 1029 and are an assimilation of findings from all Task Force assessment reports, which examined NCRA and the proposed Great Redwood Trail from unique perspectives.

Areas of concern discussed in this report include:

- Financial Assessment
- Successor Agency Governance Options
- Property Assessment
- Rail-Trail Constructability
- Railbanking Assessment
- Freight Rights in the Southern Section

Key Findings

The following items were identified during the assessment and have been highlighted here as significant considerations for the proposed dissolution of NCRA and development of a Great Redwood Trail.

Financial Assessment

The financial assessment was conducted by the Department of Finance, Office of State Audits and Evaluations (OSAE). Additional detail can be found starting on page 20 and in the full OSAE report (Appendix C).

Value of Assets - NCRA has a calculated value of net assets of (-) $7.2 million as of December 31, 2019.

Outstanding Debt - As of December 31, 2019, total known liabilities were $7.4 million. In addition, contingent liabilities are estimated to total at least $11 million, but many are unknown and could total additional millions of dollars. (See Appendix C for more detail.)

Contingent Liabilities – This assessment identified contingent liabilities with unknown but potentially significant costs that must be factored into any dissolution plan for NCRA. These include but are not limited to: staff pensions; unidentified environmental contamination; removal of abandoned rail equipment in the Eel River; levee repairs; stabilization or removal of structures; and possible future litigation.

Property Assessment

The property assessment was conducted by OSAE, DGS, and State Parks. Their findings are discussed in detail beginning on page 29 and in the agency's individual reports (see Appendices C, D, and E).

Pro Rata Share of Proceeds - NCRA's property, rights-of-way, and easements were purchased with state and federal funds totaling $141 million. In accordance with governing law, Funds Transfer Agreements between the State of California (State) and NCRA require that all rights-of-way and other property acquired with public funding must remain dedicated to public transportation uses *in perpetuity*. If property or equipment are declared excess, disposed of, or taken out of public transportation use, the State and Federal Highway Administration have options, including: taking title to the property; directing its *pro rata* share to other eligible public transportation projects (pending CTC approval for state funds); or requiring proceeds from the fair market sale be returned or credited to the State, in the proportionate funding participation by State and other non-recipient generated public funds. For the right-of-way from Willits, Mendocino County, to Humboldt Bay the proportionate share is 100-percent state funds, and Willits to Healdsburg, in Sonoma County, is 10-percent state, 90-percent federal. On a recent right-of-way sale in Ukiah, Mendocino County, NCRA retained the 90-percent federal share of proceeds. Additional study would be needed to determine if proceeds from liquidation would be enough to satisfy the outstanding debt while also allowing state and federal programs to recoup their investments.

Licenses and Permits - As an "active" railroad, NCRA is governed and regulated by the federal Surface Transportation Board (STB), the Federal Railroad Administration, the California Public Utilities Commission, and various resource-permitting agencies. For the rail line north of the Sonoma-Mendocino county line to be dismantled, all three government agencies must be consulted and involved in the process.

Title Searches, Reversionary Clauses, and Liens - Liquidation of the corridor will require a detailed examination of individual title reports. This assessment has identified more than 2,800 parcels that will need to be reviewed on a case–by–case basis for reversionary clauses and possible liens prior to disposition for a non-rail use.

Lease Agreements and Encroachments - Existing lease agreements must be assessed individually based on the underlying property status. These vary in conditions and length of the term.

Railbanking Assessment

The railbanking assessment was conducted by State Parks and is described in detail starting on page 24 and in Part II of Appendix D.

Legal Process - Railbanking is a legal process administered by the STB by which unprofitable or unused rail corridors can be converted to trails for recreational or transportation purposes. The process begins when a railroad company files legal notice it plans to abandon the line and a trail manager files a request to railbank it within 30 days. Due to the short timeframe a trail manager should to be identified prior to abandonment. Another railroad company could disrupt the railbanking process if it wishes to use the railroad corridor for trains.

Future Railroad – Railbanking preserves the corridor for future railroad use.

Reversionary Clauses – These clauses are commonly found in railroad easements and return ownership of abandoned railroad property to underlying property owners. These are generally not triggered by railbanking (which is a "rail" use) but must be reviewed on a case-by-case basis due to variations in language.

Successor Agency Governance Options

Six typical trail management governance structures were analyzed for potential trail governance. Of these six structures, four were considered options for the Great Redwood Trail and were analyzed in more detail. This assessment concluded that a central governance structure, as a successor agency, is best suited to most efficiently meet the railbanking requirements and to manage and maintain a trail that crosses multiple jurisdictions. This successor agency should own the entire corridor, have a clear reporting structure, and have access to a consistent, reliable funding stream. This organization/agency could either develop, manage, and maintain the entire length of the corridor, or partner with various public and private entities for these services at specific locations along the trail. A full discussion of the options and case studies begins on page 41 and is included in Part II of Appendix D.

Rail-Trail Constructability

The Rail-Trail Constructability and Feasibility assessment was conducted by State Parks and looked at physical conditions, cultural resources, historic structures, accessibility, constraints in the Eel River Canyon, active transportation route opportunities, and ease of construction. A full discussion of the issues can be found starting on page 54 and in Part I of Appendix D. Key highlights of these findings include the following:

Planning-level Cost Estimates - Trail development of the entire 252-mile corridor is estimated to cost nearly $750 million, or about $3.1 million per mile, in 2020 dollars, and in excess of $1 billion, or about $4.6 million per mile, in 2030 dollars. These costs are in addition to the known and contingent liabilities described above and would be incurred over many years based on project phasing and priorities. These cost estimates do not include unknown, but potentially significant, environmental remediation costs that may be required prior to project construction. The significant costs and long-term maintenance challenges are related mostly to major stabilization of slopes; rebuilding or replacement of deteriorated rail infrastructure; and potentially rerouting around major obstructions.

Physical Constraints - Throughout the entire rail corridor, but more concentrated in the Eel River Canyon, physical constraints that influence trail feasibility include: geomorphic challenges (landslides, high-risk slopes); large right-of-way encroachments (particularly if they are legally authorized); failing infrastructure (bridges, trestles, culverts, and tunnels); abandoned equipment; and previous contamination or hazardous materials sites that may require remediation. In addition, the presence of wetlands and special-status species; historic structures: areas of archaeological sensitivity; and tribal lands may present significant constraints to trail development.

Major Opportunities - Most of the corridor is conducive to trail construction and problem areas are in discreet, identifiable locations. In the Eel River Canyon, for example, it is estimated that 75 percent to 85 percent of the corridor is in good physical condition for trail construction. Trail design options could reduce construction and environmental mitigation costs; thereby improving feasibility. If fully developed, the Great Redwood Trail would provide a tourist attraction and active transportation commuter route. It is estimated to generate $24 million in annual local economic activity, reduce 1,580.43 metric tons of carbon dioxide, and increase walking and biking by 1,384,915 new trips annually.

Potential Environmental Remediation, Mitigation, and Liability

Environmental remediation, mitigation, and liability costs are estimated at $4 billion based on a precursory analysis of existing conditions visible in the corridor; prior environmental studies, databases, and consent decrees; cost comparisons; and knowledge of current regulation. It includes an assessment of project-level environmental studies and wetland mitigation, which will vary depending on the project design. It also estimates remediation of known hazardous waste contaminants as part of a larger trail project. A detailed discussion can be found starting on page 64 and in Appendix F.

NCRA has an outstanding consent decree requiring environmental remediation at station sites throughout the corridor. Cost for the remediation effort was estimated in 2002 at $4.3 million to $6.9 million. There are additional liabilities due to abandoned rail equipment, including rail cars, that are left along the line and in the Eel River. NCRA has received legal notice from at least one local jurisdiction that it must remove abandoned rail equipment, in the City of Eureka, but this effort was halted due to worker exposure to hazardous material. The equipment remains onsite. Finally, there are unconfirmed potential costs and obligations regarding the storage of liquefied petroleum gas in Schellville, Sonoma County, which is in the southern section proposed for transfer to Sonoma-Marin Area Rail Transit District (SMART).

If the Great Redwood Trail project moves forward and the railroad corridor is converted to a trail, wetland mitigation and hazardous waste remediation will be required. The level of effort and therefore, cost, varies greatly depending on the chosen project design and site-specific characteristics not yet identified through environmental studies. Based on the project phasing developed in State Parks' report (Appendix D), Caltrans' North Region Division of Environmental developed a cost estimate for environmental liability focused on these two aspects of the project, including some environmental studies. The planning-level estimate for wetland mitigation is $103 million. Hazardous waste was identified at 39 locations based on previously documented reports. The remediation estimate assumed that all ballast (gravel in railbed) would be required to be removed and cleaned off-site and that only 50 percent of the track would be easily accessible from the road, with a cost estimate of $3.9 billion to $4 billion for full remediation of the entire corridor. If the trail project does not move forward, or if the ballast does not require removal, this liability cost estimate will be reduced. (See Appendix F)

Freight Rights in the Southern Section

The highest and best use of the NCRA right-of-way and freight operations easement on the southern portion of the rail corridor (beginning with mile post 89 at the Sonoma-Mendocino county line) is a transfer to SMART for passenger and freight rail operations. It is also well suited to development of rail-with-trail segments as part of the Great Redwood Trail. Section 17 of SB 1029 appropriated the sum of $4 million to SMART for the acquisition of freight rights and equipment from North Western Pacific Railroad Company (NWPCo), NCRA's contracted freight operator, to ensure efficient provision of goods movement requirements in the corridor in the context of growing passenger service. In addition, the Budget Act of 2019 appropriated $2 million dollars to SMART for safety upgrades and maintenance upon acquisition of a freight contract. The Task Force acknowledges that SMART will need funding to adequately maintain

the additional right-of-way and freight operations. SMART, NWPCo, and NCRA have concurred with this arrangement and the agreements to execute the transfer are in progress. A detailed discussion of freight rights starts on page 71.

Scenario Analyses

Final Task Force recommendations distill findings from the individual Task Force assessments into five alternative scenarios. Scenarios 1, 2, and 5 consider the financial and policy implications of dissolving NCRA, while scenarios 3 and 4 leave NCRA intact. Scenarios 2 and 3 also explore the financial and policy implications of converting the former railroad to the Great Redwood Trail, a multi-use "active transportation" corridor, as proposed by SB 1029. Scenario 1 liquidates the right-of-way, scenario 4 maintains NCRA's *status quo*, and scenario 5 contemplates purchase of the right-of-way by another railroad company.

The five scenarios considered include:

Scenario 1: NCRA is dissolved, and its right-of-way is liquidated

Scenario 2: NCRA is dissolved, and its right-of-way is converted to a trail

Scenario 3: NCRA is not dissolved, and its mission is amended

Scenario 4: NCRA maintains *status quo*.

Scenario 5: A new railroad company buys out NCRA

Dissolution of NCRA

Dissolution of NCRA requires legislation because a dissolution plan was not included in its enabling legislation and a process has not been previously established. Scenarios 1, 2, and 5 include dissolution as part of the analysis. Dissolution considerations are discussed beginning on page 78 and include the following:

- NCRA's outstanding debt;
- Ongoing lease agreements, encroachments, licenses, and permits;
- Environmental remediation and potential ongoing liability; and
- NCRA's role in railbanking.

Scenario 1 includes liquidation of the right-of-way and must also consider the following:

- Liquidation of the corridor prevents future railroad use (pages 78 and 83);
- The cost of title reports must be planned for;

- Reversionary clauses will be triggered (see page 35);
- Existing lease agreements and contracts may interfere with liquidation plans; and
- If the State requires sale proceeds returned (see page 32) and additional costs to the seller are incurred by real estate due diligence environmental analyses (see page 81), liquidation may result in a negative net value.

Scenario 2 includes conversion of the right-of-way to a trail and must also consider the following, as discussed in detail starting on page 84:

- A trail manager must be identified, and effective trail governance established, before rail abandonment commences;
- Railbanking costs and timeframes per STB regulations must be planned for;
- A reliable funding source for trail development must be identified;
- Environmental mitigation costs will vary based on trail design and will need to be reassessed; and
- Effective stakeholder input must be incorporated into the process.

Scenario 5 includes the purchase of NCRA by a new railroad company and must include the identification of a railroad company with the resources to rehabilitate the railroad line. This is discussed in detail starting on page 89.

NCRA is not Dissolved

Scenarios 3 and 4 maintain NCRA's governance of the rail corridor.

Scenario 3 changes NCRA's mandate from owning and operating a railroad to owning, constructing, and maintaining a trail in the rail corridor. Repurposing NCRA by amending its mandate to focus on trails is discussed in more detail starting on page 86 and would need to consider the following issues:

- NCRA would be 1) the railroad owner and would need to file a notice of abandonment for the railroad with the STB, and 2) the trail management successor agency, which would need to apply to railbank the corridor with STB before proceeding with the trail development process.
- It would still need to address the issues discussed above, including outstanding debt; lease agreements and encroachments; licenses and permits; and environmental liability.
- A reliable source of revenue would be required to cover agency operations under the revised mandate, including additional staff expertise for a trail management agency would need to be identified.
- NCRA is a quasi-governmental entity which lacks formal public oversight, and has resulted in a lack of transparency, public mistrust and significant debt. Structural change to avoid repeating past problems is

recommended. Specifically, NCRA should be identified as a local agency, state agency, transportation district, or private organization and new reporting requirements with clear oversight responsibilities should be created.
- Staff with trail management experience would need to be hired.

Scenario 4 maintains the status quo and makes no changes to NCRA or the railroad corridor. Based on results of this assessment, key considerations are discussed in more detail starting on page 88 and include:

- It is anticipated that current conditions are not conducive to NCRA meeting its existing mandate to rehabilitate the railroad north of Windsor and its regular annual revenue cannot support agency operations combined with its current debt load.
- Liquidation of NCRA's assets is not likely to cover current outstanding debts, deferred maintenance, and continuing property management responsibilities, and NCRA may be forced into bankruptcy or immediate dissolution. In such an event, NCRA's right-of-way is likely to fall to the Department of General Services.
- Environmental liabilities may persist.

Next Steps

Statutory changes would be required to dissolve NCRA and set a clear path forward for the corridor. It would be beneficial for management of the corridor if follow-up legislation clarified whether the right-of-way should be liquidated, sold to another railroad company, or converted to the Great Redwood Trail. If the Great Redwood Trail option is preferred, the legislation should also identify or create a successor trail management agency (or amend NCRA's mandate) with a clearly defined governance structure and oversight mechanism, a reliable revenue source to support agency operations, and establish a process for public stakeholder engagement in the next phase of the project. Finally, resources to support NCRA agency operations through the dissolution process, with ongoing CalSTA oversight, should be considered.

SB 1029 requires NCRA to seek approval from the California Transportation Commission (CTC) for any sale, easement, or lease executed after August 1, 2018. Caltrans continues to monitor NCRA's contracts, activities, and provide technical assistance, including liaising with CTC as necessary.

Conclusion

NCRA's right-of-way includes significant and costly challenges. The agency's debts threaten its financial viability, and all options for resolution are expensive. The Legislature stepped in to protect the failing railroad in 1989 when it created NCRA and funded its right-of-way acquisitions. The CTC supported NCRA when it allocated transportation funds for rail rehabilitation. If NCRA is left to disband on its own, it is likely that NCRA's assets and liabilities will ultimately fall to DGS, which handles abandoned property. Railbanking the corridor would allow for interim trail use, preserve the corridor for future railroad use, and create an attractive tourist destination as well as a scenic non-motorized commuter route.

Acronyms

This assessment report uses the following abbreviations, acronyms, and common names.

- CalSTA, California State Transportation Agency
- Caltrans, California Department of Transportation
- CTC, California Transportation Commission
- DGS, Department of General Services
- NCRA, North Coast Rail Authority
- NWPCo, Northwestern Pacific Railroad Company
- NWPRA, Northwestern Pacific Railroad Authority
- OSAE, Department of Finance, Office of State Audits and Evaluations
- RRIF, Railroad Rehabilitation & Infrastructure Financing
- SMART, Sonoma Marin Area Regional Transit
- State, State of California
- State Parks, California Department of Parks and Recreation
- STB, Surface Transportation Board

Figure 2. NCRA Corridor, Southern Section

STATUTORY REFERENCE & PURPOSE

This assessment report is submitted to the California Legislature (Legislature) in compliance with Government Code section 13978.9, which requires the California State Transportation Agency (CalSTA), in consultation with the Natural Resources Agency, to conduct an assessment of North Coast Railroad Authority (NCRA) to provide information necessary to:

1) determine the most appropriate way to dissolve NCRA and dispense with its assets and liabilities including the debts, liabilities, contractual obligations, and litigation; assets, including property, rights-of-way, easements, and equipment; and freight contractor lease, including the contractor's assets and liabilities, to the extent that information is available;

2) assess the feasibility of converting the railroad corridor to a multi-use trail including an assessment of governance structure options for a successor agency that would assume ownership and management responsibilities from North Coast Railroad Authority;

3) assess options for railbanking portions of the railroad corridor, feasibility, and process of railbanking; and

4) assess the options for transferring the southern portion of the rail corridor to the SMART including material assets and liabilities, as well as rights and abilities to operate freight rail.

An excerpt of the applicable Legislation is included in this Assessment Report as Appendix A.

HISTORY OF NCRA AND THE STATE OF CALIFORNIA

The historic Northwestern Pacific Railroad begins at the Ferry Building in San Francisco, mile post 0.0, and runs north to Humboldt County where it splits, circling west around Humboldt Bay and east past the City of Blue Lake to Korbel, a small historic logging settlement in the Redwoods of Humboldt County — a total distance of approximately 316 miles. (See Figure 1, page 2) The Northwestern Pacific line was built in the late 1800s to haul redwood lumber and passengers between Humboldt County and the San Francisco Bay Area. It was in regular operation by a series of private owner-operators until the 1980s when the timber industry began to decline. In 1983, Eureka Southern Railroad, a private enterprise, which owned the northern section (Willits to Humboldt Bay) sought authority to abandon the rail line under 49 U.S.C. Section 10903 from the Interstate Commerce Commission[1]. The Commission denied the request in 1984, and Eureka Southern Railroad filed Chapter 11 Bankruptcy on December 15, 1986. The railroad, and liquidation of its assets, then fell under the jurisdiction of the US Bankruptcy Court and its trustee, Philip M. Arnot[2].

Figure 3. Section of the NCRA Railroad in the Eel River Canyon

To preserve the rail corridor, the California Legislature enacted the North Coast Railroad Authority Act, Government Code sections 93000, et seq. (Statutes of 1989, Chapter 1085). The Act authorized the newly created public entity to provide passenger and freight railroad service in Humboldt, Trinity, Mendocino, Sonoma, and Marin Counties with specific focus on the Eureka Southern Railroad in Humboldt and Mendocino Counties and the option of extending service into

[1] The Interstate Commerce Commission was abolished in 1995 and several of its functions, including the governance of railroads, were transferred to the Surface Transportation Board.
[2] In Re Eureka Southern Railroad Inc., 1987

Del Norte County. To facilitate this, the Legislature authorized the use of state and federal funds to begin purchasing the line, one segment at a time. The details of these purchases and types of funds can be found in Appendix B, *Public Investment in the NCRA Rail Corridor*.

The first purchase, which took place in 1992, included a portion of rail and all assets owned by Eureka Southern Railroad under the purview of the bankruptcy trustee. This section of rail, which extended from Willits north to Korbel and around Humboldt Bay, used state Proposition 116 funds (1990) exclusively for the right-of-way purchase and made NCRA the sole owner of freight and passenger rights. (See the map in Figure 1, Page 2)

Three additional right-of-way purchases were brokered in 1995 and 1996 on the southern portion of Northwestern Pacific line with ownership shared between NCRA and a Joint Powers Authority, North Western Pacific Railroad Authority (NWPRA), which would eventually transfer all its holdings to SMART. The "Willits," the "Healdsburg," and the "Lombard" Segments extended public ownership of the railroad from Willits, Mendocino County, south to Novato, Marin County, and from Ignacio, Marin County, east to Lombard near the Napa River in Napa County and national rail interchange. Figure 4 on page 16 depicts the right-of-way ownership delineation lines, with the red segment under NCRA ownership and the blue segment under SMART's. The two entities have further developed operational easements and maintenance agreements in their shared territories.

After purchasing the Eureka Southern Railroad in 1992, NCRA operated freight service and a short-lived passenger rail service before severe storm damage and deferred maintenance compelled the Federal Railroad Administration to close the entire NCRA railroad from Arcata to Schellville for public safety reasons[3] in 1998. Not only were there landslides and collapsed tunnels, but there were also railcars in the Eel River (where they continue to reside in 2020), and staff were not adequately trained to safely handle operations. The railroad remained closed until 2011 when the Emergency Order was lifted for Windsor south to Ignacio and east to Lombard, for freight service only.

After 23 years with no operable railroad north of Windsor, Senator Mike McGuire introduced Senate Bill 1029 (SB 1029), the *NCRA Closure and Transition to Trails Act*. SB 1029 was signed into law (Chapter 934, Statutes of 2018) by former Governor Edmund G. Brown Jr. on September 29, 2018.

[3] Emergency Order 21, Notice No. 1 on November 25, 1998

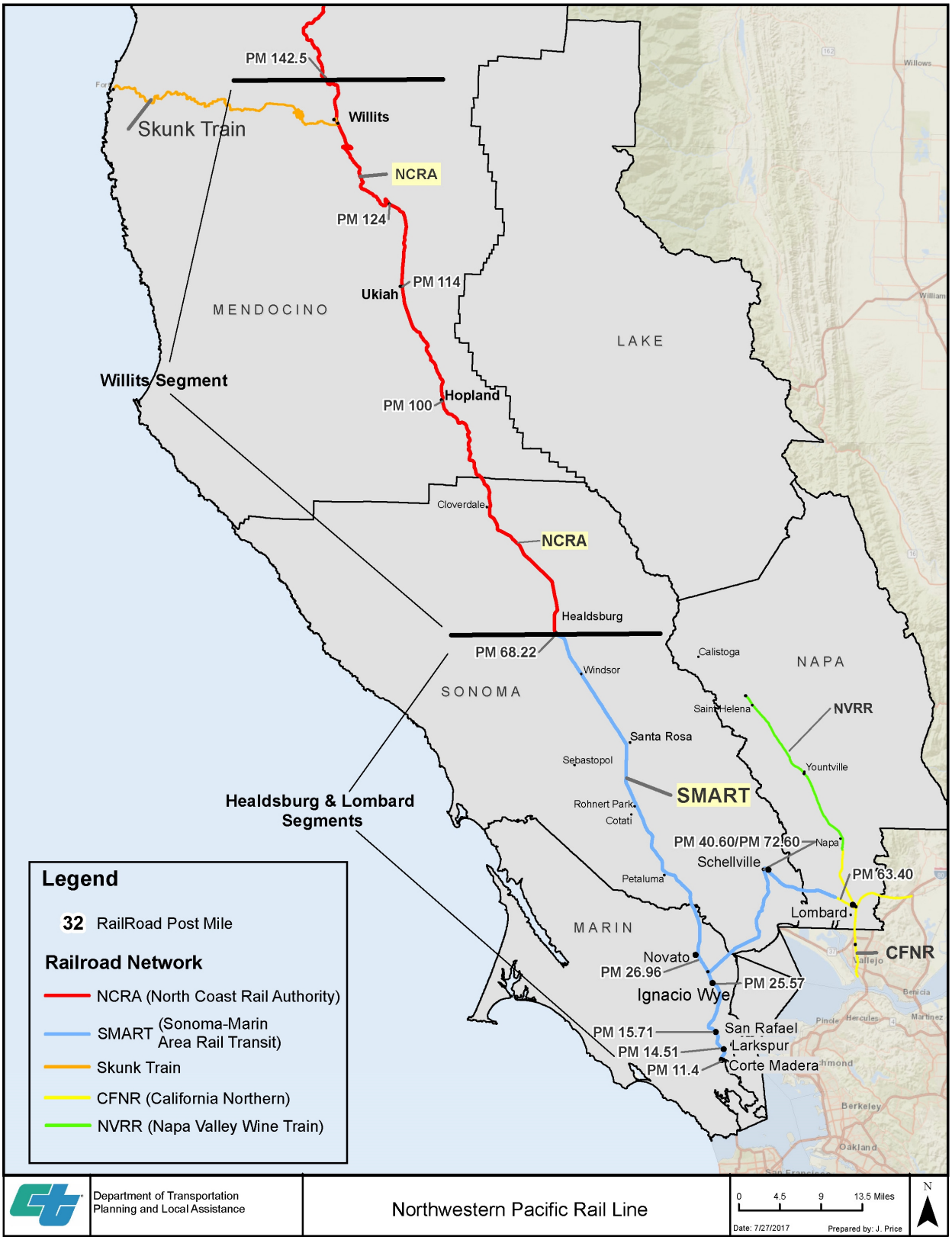


Figure 4. Map of Northwestern Pacific Railroad - Southern Section

State Oversight

When the Legislature created NCRA, it did not designate NCRA as a state or local agency and did not appropriate funding for its operations. Since its inception, NCRA has covered its expenses from rail revenues; state grant funding; public and private loans; loan forgiveness; proceeds from lease agreements; and leasing or sale of assets.

NCRA's quasi-governmental status has complicated its relationship with the state and local jurisdictions. As an independent special district, it has claimed to be a "state agency," a "local agency," and when it has been beneficial, a "railroad," thereby qualifying itself periodically for a variety of different funding mechanisms and environmental exemptions. Aside from the California Public Utilities Commission, which exercises state jurisdiction over rail operations, NCRA has no formal state oversight built into its governance structure. Caltrans does not have prescriptive or enforcement jurisdiction over NCRA, and oversight activities have been limited to fiduciary responsibilities associated with grant funds allocated by the CTC and administered by Caltrans.

As a result, Caltrans has provided monitoring and auditing for state-funded activities of NCRA. After a 1998 post-project audit conducted by Caltrans' Office of External Audits and Investigations[4], NCRA received the designation of "High-Risk Grantee" and the CTC began requiring 'special conditions' to be included with each subsequent release of funds. These conditions required enhanced oversight by Caltrans and more rigorous reporting by NCRA. Subsequent audits have not removed the "High-Risk Grantee" designation.

Public Investment in the NCRA Corridor

Between 1990 and 2011, a total of $124 million of state and federal funds were invested in the NCRA corridor to restore freight rail service. These funds were used to purchase the entire right-of-way from Lombard to Humboldt Bay; to rehabilitate 62 miles of track (including 56 crossing signals, 50,000 crossties, and 50,000 tons of ballast); emergency levee repairs in Schellville and Humboldt Bay; repair 43 rail bridges and three movable bridges; install quiet zones in Novato; to briefly cover NCRA agency funds and outstanding debt; to settle litigation; and to address environmental contamination left behind by the historic private rail

[4] With the passage of Senate Bill 1, The Road Repair and Accountability Act of 2017, Caltrans's Office of External Audits and Investigations was reorganized. The new Independent Office of Audits and Investigations is led by a Governor appointed Inspector General and is vested with the authority to maintain a full-scope, independent, and objective audit and investigation program.

operators. However, the economic, environmental, and social challenges NCRA faced proved insurmountable for the resumption of freight rail service in this corridor, which has led to the current effort and assessment for use of NCRA's right-of-way as a multi-use path.

Current investment in the SB 1029 Assessment and associated dissolution activities includes $17.8 million. A full description of state and federal funds used in this corridor can be found in Appendix B, *Public Investment in the NCRA Rail Corridor*.

Table 1. Summary of Public Investment in NCRA Rail Corridor

Purpose	Amount
Right-of-Way and Equipment Acquisition	$44,800,000
Rail Rehab/Capital Projects	$48,744,364
Project & Environmental Studies	$12,677,000
Debt, Admin, Local Match	$17,310,550
SB 1029 Assessment & Dissolution	$17,800,000
TOTAL PUBLIC INVESTMENT	**$141,331,914**

Northwestern Pacific Railroad Company (NWPCo)

Following an open bidding process, NCRA's Board of Directors approved NWPCo as its new freight operator on September 13, 2006, and executed an Operating Agreement later that month.

NWPCo is a private enterprise created in June 2006 and should not be confused with the prior owner-operator, North Western Pacific Company L.L.C. (NWPY); the historic name of the rail line, Northwestern Pacific Railroad (NWP); nor the Joint Powers Authority and SMART predecessor described previously on page 15, NWPRA.

Following execution of the Operating Agreement, NWPCo and NCRA entered into a series of complicated contracts that helped finance rehabilitation of the southern portion of the line and lift the Emergency Order 21 from Windsor, south; it also left NCRA severely in debt to NWPCo and contractually obligated for up to 99 years with no guaranteed lease payment revenue[5]. These contracts and financial arrangements are detailed on page 23 and Appendix C, *OSAE Calculated Value of Net Assets Report*.

[5] Unless and until NWPCo's revenues exceed $5,000,000 for freight operations on the line, it owes no annual lease payment to NCRA.

FINANCIAL ASSESSMENT

Scope of Work

OSAE's responsibilities and objectives for its component assessment report were to 1) assess NCRA's debts, liabilities, contractual obligations, and litigation; 2) assess NCRA's assets, except for the estimated values for equipment and real properties with property rights; and 3) assess NCRA's freight contractor lease, including the contractor's assets and liabilities, to the extent that information is available. The OSAE assessment did not include the estimated values for equipment, real properties with property rights, and contingent (including potential environmental) financial liabilities. Instead, the Task Force teams collaborated to compile lists of equipment and contingent liabilities based on the information available and verified the existence of the equipment whenever possible. As a result, the calculated value as of December 31, 2019, presented on the following pages excluded values for these items.

In conducting the assessment and determining the calculated value, OSAE focused on NCRA's business transactions from July 1, 2016, to December 31, 2019, and expanded this period when necessary to the extent the information was available. OSAE interviewed individuals from NCRA, including NCRA's board members, Caltrans, SMART, and NWPCo. OSAE reviewed NCRA's and NWPCo's accounting records and other available documents; reviewed working papers of the independent auditors of NCRA and NWPCo; obtained third-party confirmations and representation on financial and legal information and equipment conditions; and visited select NCRA depots to verify equipment. Because not all records were available and NCRA was able to provide only limited information on NCRA activities, OSAE's determination of calculated value is based on certain assumptions, as cited in the report.

OSAE's complete *Calculated Value of Net Assets Report* is included as Appendix C.

Net Calculated Value of NCRA

Based on the calculation procedures performed by OSAE; facts and circumstances as of the calculation date; and assumptions made, the calculated value of NCRA's net assets as of December 31, 2019, was a total debt owed of $7,239,933. This calculated value excludes capital assets (equipment and real properties) and contingent liabilities. The current market value of these assets has

not been calculated or considered here. Table 1 summarizes the calculation results.

Table 2. Calculated Value of Assets and Liabilities as of Dec. 31, 2019

Description	Calculated Value
Cash	$ 104,857
Accounts Receivable, net of Allowance for Bad Debt	$ 41,378
Other Current Assets	$ 22,453
Total Assets	$ 168,688
Railroad Rehabilitation & Improvement Financing Loan	$ (2,403,899)
Debts owed to NWPCo	$ (3,321,721)
Professional Services Payables	$ (1,000,657)
Employment Related Liabilities	$ (235,365)
All Other Payables	$ (446,979)
Total Liabilities	$ (7,408,621)
Total Calculated Value	$ (7,239,933)

Financial Assets

The following financial assets are variable, and the totals included in this report are confirmed only through December 31, 2019. NCRA continues to be an operational organization with daily agency activities, and these confirmed totals will need updating if NCRA is dissolved. NCRA's major assets are briefly described below; please refer to the full *Calculated Value of Net Assets Report* in Appendix C for additional detail.

Cash

Valid and Supported Balance $104,857

NCRA's cash is pooled with the Sonoma County Treasurer, which has been maintaining and managing NCRA's bank accounts and acting as NCRA's disbursing agent since 2001. The assessment validated cash transactions greater than $5,000 between July 1, 2016, and December 31, 2019, by reviewing associated agreements and invoices.

Accounts Receivable

Valid and Supported Balance $41,378

Accounts receivable consist of uncollected property lease income and other service fees. Based on OSAE's review of income transactions for the period between July 1, 2016, and December 31, 2019, and the associated lease

agreements and invoices, NCRA's primary income sources included revenue from leasing rail cars, properties, and cellphone towers' facilities.

Other Current Assets

Valid and Supported Balance $22,453

NCRA's other current assets confirmed total includes prepaid insurance expenses and small deposits made in 2006 and is valid as of December 31, 2019.

Outstanding Debt and Contractual Obligations

NCRA's debt obligations as analyzed in the OSAE report are valid as noted below as of December 31, 2019. Activity on the accounts after December 31, 2019, has been noted as updates in the description but have not been confirmed in the total calculated value presented by OSAE. For additional detail, please see the full Calculated Value of Net Assets Report in Appendix C.

RRIF Loan

Recorded Balance $2,403,899
Valid and Confirmed Balance $2,403,899

The Federal Railroad Administration granted NCRA and NWPCo a loan, as co-borrowers, from the Railroad Rehabilitation & Improvement Financing (RRIF) Program in November 2011.

Under the loan terms, the Federal Railroad Administration agreed to lend NCRA and NWPCo up to $3.18 million for allowable project costs. The loan bears an interest rate of 2.96 percent per annum and is due and payable in full 25 years after the date of the drawdown. NCRA-owned rail cars and equipment (identified previously as assets) were pledged as collateral to secure the loan.

Update after December 31, 2019:

- NWPCo has made two quarterly payments of $45,115 each.
- CalSTA has encumbered funds to settle the remaining RRIF Loan balance; as part of the transfer of freight rights from NWPCo to SMART, south of the Sonoma-Mendocino county line.

Debts Owed to NWPCo

Recorded Balance $3,992,534
Calculated Value Total $3,321,721

Incorporated in June 2006, NWPCo is a freight carrier operating 62 miles of rail between Lombard and Windsor. NWPCo and NCRA entered into an Operating Agreement in September 2006 for the resurrection of operations along the Northwestern Pacific Railroad Line between Willits and Healdsburg, including NCRA's freight easements between Healdsburg and Lombard.

The Operating Agreement had an initial term of five years, with options to extend. In September 2011, NWPCo sent a Notice of Action to extend the agreement term by 20 years. Under the agreement, NWPCo is required to remit annual lease payments in the amount of 20 percent of net income commencing in the first year after NWPCo has generated positive net income exceeding $5 million. In June 2011, the Operating Agreement was amended to require NWPCo to remit $25,000 monthly lease payments. The lease payment requirement was waived, and the obligation was terminated upon the execution of the Memorandum of Understanding – FRA Loan.

Since September 2006, NCRA and NWPCo have maintained a close financial and operational relationship. While NCRA struggled to become financially sustainable, it incurred significant debt through continued borrowing from NWPCo. Specifically, NCRA entered into eight agreements, seven amendments, and one informal financing arrangement with NWPCo to fund NCRA's operations. It also incurred a trade payable obligation. As of December 31, 2019, OSAE's calculated value of NCRA's debts owed to NWPCo totaled $3,321,721. A detailed discussion can be found in the full OSAE report (Appendix C).

Calculated Value for Legal Obligations – Judgments/Settlement Claims

Recorded Balance $2,155,198
Calculated Value Total $0
Updated Balance $658,183+

OSAE categorized legal obligations such as legal judgements and settlement claims as Legal Liabilities in its *Calculated Value of Net Assets Report* in Appendix C. For purposes of this discussion, Legal Liabilities are referred to as legal obligations – judgements/settlement claims.

OSAE identified three long-term legal obligations – judgments/settlement claims liabilities, two of which could not be verified. The third liability was settled in April 2019 with Friends of the Eel River and Californians for Alternates to Toxics

regarding their lawsuit over NCRA's Russian River Division Environmental Impact Report (EIR). CalSTA used funds appropriated in the 2019 Budget Act to settle the Russian River Division EIR lawsuit debt of $1,915,803.29 in January 2020. Although this payment was made after December 31, 2019, it was included in the calculation to determine the calculated value.

Update after December 31, 2019:

On April 29, 2020[6], NCRA settled one lawsuit OSAE identified as a contingent liability (see Table 3). According to the stipulated judgement against NCRA, an outstanding balance of $658,183 is owed to MCM Construction and interest will accrue at a rate of 7 percent per annum from May 5, 2020, until paid in full. In September 2019 MCM Construction filed a complaint for breach of contract and violation of prompt payment statutes, alleging NCRA owed a total of $500,000 for work performed on the Ukiah Depot courthouse project. In addition to the 7-percent post-judgment interest and opposing party's attorney's fees, NCRA is required, pursuant to Public Contract Code, to pay 2 percent interest on retention and 10 percent interest on progress payments.

Professional Services Payables

Recorded Balance $1,002,852
Confirmed Total $1,000,657

NCRA maintains two regular staff members (Executive Director and an Executive Assistant). All other staff are on-call contractors. As of December 31, 2019, NCRA owed two of its contractors a total of $1,000,657 for services rendered.

American Rail Engineering, Inc.

NCRA entered into a professional services contract with the American Rail Consultants in January 2007 for engineering and other supporting services.

The assessment noted NCRA's unpaid invoices balance of $410,365 materially agrees with American Rail Engineering, Inc.'s, confirmation and is valid and supported. However, an adjustment of $5,699 is needed to increase interest owed to $189,903 based on American Rail Engineering, Inc.'s, confirmation and OSAE's recalculation.

Outstanding balance owed to American Rail Engineering, Inc., as of December 31, 2019, is $600,268.

[6] MCM and NCRA reached settlement on April 29, 2020. The Mendocino County Superior Court entered the settlement into judgment on May 5, 2020.

Update after December 31, 2019:

American Rail Engineering, Inc., has an active contract for Professional Services that it continues to provide to NCRA. Outstanding invoices for work performed during FY 2019-20 have been brought current using NCRA lease revenue and CalSTA funds from the Budget Act of 2019[7], which appropriated $8.8 million for "expenses related to dissolving NCRA, including operations, maintenance, and the retirement of outstanding debt." Outstanding invoices for services provided by American Rail Engineering, Inc., prior to FY 2019-20 do not qualify for payment from this funding source and will continue to accrue interest until satisfied.

Christopher Neary

Christopher Neary served as NCRA's legal counsel until February 2019, when Sonoma County became NCRA's legal counsel. Based on OSAE's review, NCRA's recorded balance owed to Christopher Neary should be reduced by $7,894, due to an incorrectly recorded invoice and a duplicate monthly retainer recorded for September 2017. As of December 31, 2019, the calculated value for amounts owed to Christopher Neary is $400,389.

Mr. Neary is no longer under contract with NCRA, and once this debt is settled, additional liability is not anticipated.

Employment Related Liabilities

Recorded Balance $218,734
Confirmed Total $235,365

Net Pension Liability

NCRA participated in the Miscellaneous Plan and the Public Employees' Pension Reform Act Miscellaneous Plan, both of which are defined benefit retirement plans administered by the California Public Employees' Retirement System (CalPERS). Based on OSAE's analysis, the balance of $212,650 is confirmed as of December 31, 2019, and will vary due to other factors that impact net pension liability. In addition, NCRA may incur unfunded termination liability if it were to terminate its retirement plans with CalPERS.

Salaries and Benefits Payable

NCRA's general ledger included $22,715 in salaries and benefits payable as of December 31, 2019. Based on review of the accounting records and financial statements, OSAE determined the calculated value for salaries and benefits payable is based on NCRA's general ledger balance of $22,715 as of December 31, 2019.

[7] AB 74 (Ting, Chapter 23, Statues of 2019), Item No. 0521-101-0001

All Other Payables

Recorded Balance $1,037,172
Confirmed Balance $446,979

Balfour Beatty Rail Inc.

NCRA recorded a $6,637 balance owed to Balfour Beatty Rail, Inc., for unpaid invoices and $296,036 interest, totaling $302,673 as of December 31, 2019. OSAE made several attempts to obtain confirmation of these balances from Balfour Beatty Rail, Inc., and its successor company, but received no response. As such, OSAE was unable to validate the balance and the calculated value does not include the amounts owed to Balfour Beatty Rail, Inc.

TransDynamics and Golden Age Rail Equipment Corporations

NCRA incurred an obligation of $510,000 to TransDynamics Corporation and Golden Age Rail Equipment Corporation for the purchase of various rail equipment in 1997. The general ledger listed an unpaid balance totaling $288,708, including $124,000 principal and $164,708 in interest. TransDynamics Corporation has been dissolved, and a successor could not be found. Likewise, Golden Age Rail Equipment Corporation could not be located. Therefore, OSAE was unable to validate the debt and the calculated value did not include the $288,708 unpaid balance and interest.

Unearned Rent Revenue

Unearned rent revenue comprises payments received under property and operating lease arrangements in advance of the period earned. Revenue is recognized on such lease arrangements on a *pro rata* basis over the lease term. NCRA recorded $235,690 unearned rent revenue as of December 31, 2019. OSAE validated this balance. Therefore, the $235,690 unearned rent revenue balance was valid and supported, and OSAE based its calculated value on the general ledger balance for unearned rent revenue as of December 31, 2019.

All Other Vendors

NCRA recorded other payables of $210,101 as of December 31, 2019. OSAE increased this amount by $1,188, to $211,289, through verifications with respective vendors. These debts are owed to numerous small vendors because of regular business practices; this amount will vary as NCRA continues to operate through the 2020-2021 and subsequent fiscal years.

Contingent Liabilities

Contingent liabilities summarized in Table 3, below may occur depending on the outcome of an uncertain future event. Estimated potential liability amounts listed as "Unknown" may require further analysis by specialized consultants. This list is

not all inclusive and additional liabilities may be identified if NCRA is dissolved. Please see the full OSAE *Calculated Value of Net Assets Report* in Appendix C for additional detail. Environmental remediation liabilities are described below and discussed further in the *Environmental Liabilities* section starting on page 64.

Table 3. Contingent Liabilities

Description	Estimated Potential Liability Amounts
Potential Environmental Remediation Costs	
Estimated costs for future rail ops, clean-up, and remediation activities to comply with the Environmental Consent Decree settled in July 1999.	$4,347,000 - $6,926,000[8]
Abandoned rail cars and equipment in the Eel River and other sites.	Unknown
Potential legal issues and removal costs of rail equipment in Eureka	Unknown
Potential safety improvements needed for the hazardous material storage of LPG cars stored in the Schellville Depot.	$5,200,000 - $7,200,000
Other existing and probable hazard materials and contaminants.	Unknown
Potential Repair, Maintenance, and Structural Removal Costs	
Costs for a falling trestle, weed abatement, and a collapsed tunnel.	Unknown
Potential removal costs related to illegal structures.	Unknown
Costs for one building at the Ukiah Depot and three in the Willits yard.	Unknown
Costs related to rail debris identified by State Parks' consultants.	Unknown
Potential Liabilities Resulting from NCRA's Business Practices and Property Rights	
Potential interest owed to Christopher Neary as of July 31, 2019.	$193,660
Estimated settlement for MCM Construction litigation[9]	$536,026
Potential liabilities related to a football field on the Willits yard.	Unknown
Potential liabilities for NCRA waiving competitive bidding for contracts.	Unknown
Unfunded termination liability related to NCRA's pension plans with CalPERS as of June 30, 2018.	$759,027 - $846,259
Future management fees for FEC Real Estate Service.	$40-$50,000/yr.
Defending encroachments.	Unknown
Potential Liabilities Related to Third-Party Rail Equipment Owners	
Costs for relocating rail equipment owned by two third-party owners.	Unknown

[8] Estimate pursuant to the 2002 Capital Assessment report, not represented in present dollar value. Remaining obligations of the Environmental Consent Decree not assessed as of December 31, 2019.

[9] MCM litigation was settled in May 2020. Please see page 24 for more detail.

PROPERTY ASSESSMENT

Scope of Work

The Department of General Services, Asset Management Branch, Real Estate Services Division's (DGS) responsibilities and objectives for this assessment were to 1) assess NCRA's property, rights-of-way, and easements; 2) assess options for transferring the southern portion of the rail corridor to SMART; and 3) estimate market rate values for equipment and real properties.

DGS, helped identify and aggregate NCRA real property data along its 316-mile rail corridor. DGS reviewed recorded and unrecorded real property asset data provided by NCRA; its property manager FEC Real Estate Services LLC; SMART; CalSTA; the California Department of Tax and Fee Administration (CDTFA, formerly BOE) railroad valuation maps; County Assessor maps and data; County Surveyor mapping; information obtained from ParcelQuest Parcel & Property Data; and material provided by NWPCo. More than 2,800 right-of-way parcels and their associated property rights were identified and compiled in an electronic itemization and tabulation Excel spreadsheet available on the project webpage: https://calsta.ca.gov/subject-areas/reports

Ownership data was arranged in sequential order running the length of the rail corridor from south to north. Data fields represented in the spreadsheet include specific references to each of the acquisitions identified as part of the original assemblage of the NCRA right-of-way corridor and include the related preliminary report or policy of title insurance; right of way corridor valuation map; engineering survey stations; regional location; mile post; grantor; grantee; conveyance document type (fee, easement, lease, or other agreement); document date, recording book, and page; acreage; and remarks from the Property Schedules found on the valuation maps. Electronic links to the preliminary reports or policies of title insurance, grant deeds, and valuation maps are embedded within the electronic spreadsheet and are available on the project webpage: https://calsta.ca.gov/subject-areas/reports

County Assessor maps along the 316-mile rail corridor were also assembled sequentially, aggregated from south to north in an Adobe Acrobat file format. Where needed, the maps were augmented to include approximate location of the railway corridor. This digital file is available on the project webpage: https://calsta.ca.gov/subject-areas/reports

NCRA's previous property manager, FEC Real Estate Services LLC, provided the Task Force with all its leases, licenses, permits, and other agreements related to FEC's management and mitigation of encroachments affecting NCRA's corridor. These agreements affect property owned in fee by NCRA located north of the Sonoma-Mendocino county line (mile post 89), some of which are income generating and have been reported in the OSAE *Calculated Value of Net Assets Report* in Appendix C.

Collectively, the data and documents compiled are intended to be utilized by SMART and NCRA, or its successor agency, during the proposed conveyances and are anticipated to provide efficient and cost-effective benefits to the buyer, seller, and title company.

Equipment, Rights-of-Way, and Other Capital Assets

NCRA's capital assets primarily consist of land, buildings, track structures, heavy equipment, rolling stock, motor vehicles, and unused signal equipment. DGS compiled the inventory of parcels, while Ascent Environmental gathered data on track structures and freight rail equipment along the line. OSAE determined the existence and completeness of NCRA's own inventory of equipment, including heavy equipment, rolling stock, motor vehicles, and unused signal equipment.

Because the inventory of equipment and property was conducted concurrently by the Task Force agencies, reconciling the lists and determining market value for each item was not possible during the study period. For these assets to be liquidated during a dissolution process, the fair market value will need to be determined at that time. The following equipment and capital assets were identified during this assessment:

Equipment — Market Value Unknown

During its assessment OSAE identified 306 pieces of equipment and miscellaneous materials (e.g. rail ties, culverts, etc.), which are detailed in OSAE's *Calculated Value of Net Assets Report* in Appendix C. Items of interest include the following:

- OSAE confirmed 143 pieces of equipment owned by NCRA through observations or third-party confirmation. This included six pieces of heavy equipment and 33 rail cars used as collateral to secure the Federal Railroad Administration RRIF Loan. The 33 rail cars were purchased with a FEMA grant in 1996 and are leased to the Boston Transit Group, of which OSAE confirmed the existence and operating status. The same group of equipment (heavy equipment and rail cars) also served as collateral to the Bridge Financing Agreement, the Marin Consent Agreement, and the

Reopening Project Agreement to secure debts owed to NWPCo, as discussed in OSAE's report. On March 27, 2019, NWPCo filed documents with the Surface Transportation Board asserting its rights to the 33 rail cars, along with the Boston Transit Group lease and lease proceeds therefrom, pursuant to the Marin Consent Agreement. If NWPCo (or the other creditors) exercises its lien on this equipment, NCRA would lose its largest and most reliable source of revenue, a total of almost $12,000 per month.

- Thirty-eight pieces of equipment observed during site visits belonged to third parties or unknown owners. The 38 pieces do not include various liquefied petroleum gas rail cars and Skunk Train rail cars owned by third parties.
- The location and ownership of 125 pieces of equipment could not be determined by OSAE during its assessment. The team identified these pieces of equipment by obtaining equipment-related information from photo albums, internet searches, and available documents. Due to the age and quality of the information reviewed, OSAE determined that the 125 pieces could include equipment no longer owned by NCRA. Additionally, in the absence of identification numbers for the equipment, the 125 pieces may include the 38 pieces described above.

During its field review of the NCRA right-of-way, the State Parks team documented 13 locations throughout the rail corridor where abandoned rail equipment, structures, or railroad debris were observed, See Table C-7 in Appendix C for detail; the locations can be found in Figure 2.6-1 in the Map Book portion of Appendix C. Items of interest include the following:

- rail cars (e.g., cranes, excavators, horse trailers),
- a communications tower,
- crossing debris,
- railroad track switches,
- grease boxes,
- displaced culverts and culvert debris,
- scattered metal debris and pieces,
- residential buildings (such as hunting cabins abandoned homes), and
- failed tunnel portals.

Property, Rights-of-way, and Easements — Market Value Unknown

NCRA's real property, whether owned in fee or held as a railroad easement, was purchased with state and federal funds. (See Appendix B for details on funding program, purpose, and dollar amounts.) The funds transfer agreements

associated with these transportation programs and state bond funds require that any right-of-way acquired remain in public transportation use *in perpetuity*. If the right-of-way is sold or taken out of public transportation use, the proportionate funding participation by the State and other non-recipient generated public funds must be returned or credited to the State. The *pro rata* share is based on fair market value, not necessarily sale price. In lieu of repayment, the *pro rata* share may be dedicated exclusively to a CTC-approved public transportation purpose. The State's *pro rata* share is as follows:

- All right-of-way acquired north of Willits was purchased with 100 percent Prop 116 funds and therefore, 100 percent of proceeds would be returned to the state Public Transportation Account or dedicated to a state-approved public transportation purpose.
- All right-of-way acquired south of Willits and east from Ignacio to Lombard was purchased with a mix of 10 percent state Transit Capital Improvement funds and 90 percent federal Q-funds. Therefore, not less than 10 percent of proceeds would be returned to the state Public Transportation Account or dedicated to a state-approved public transportation purpose. Federal Highway Administration has not sought recovery of the federal share of funding.
- All right-of-way acquired south of the Sonoma-Mendocino county line and east from Ignacio to Lombard is subject to the 90-percent/10-percent proportional share split described above. However, the right-of-way is expected to be transferred to SMART in accordance with Section 17 of SB 1029 (McGuire, 2018) and not available for liquidation if NCRA is dissolved.


NO
MOTOR
VEHICLES

RAILBANKING ASSESSMENT

Description

Railbanking is the legal process by which an unused rail line preserves its right-of-way status as a rail line and allows for an interim use, such as a multi-use trail, when the right-of-way is *not* being utilized to operate rail. If a railroad wishes to convert the trail back into a railroad, the right-of-way has retained its status with the STB as a rail line and the conversion is a straight-forward legal matter.

Procedures for railbanking the NCRA rail corridor were researched utilizing resources from the Rails-to-Trails Conservancy and the STB. Highlights of that process are discussed below, and detailed information can be found in Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report*.

Process

The railbanking process consists of three basic steps, as outlined below.

Step 1: Railroad Files Notice to Begin Abandonment Proceedings

The opportunity to railbank is triggered when a railroad owner formalizes its intention to divest a rail line, or portion of one, by initiating abandonment proceedings with the STB[10]. Within 30 days after the abandonment filing, qualified trail managers may express interest in railbanking the line by filing with the STB. If a freight rail operator is willing to assume responsibility, it has priority over a railbanking proponent.

Step 2: Trail Manager Files Public Use Condition and Interim Trail Use Request

The potential trail manager must submit all filings within the required timeframes, include a map delineating the proposed trail by mile post, and acknowledge its willingness to assume full legal and financial responsibility for the corridor. Any entity that takes on the role of a trail manager must file a statement indicating its willingness to assume full responsibility for: 1) Managing the right-of-way, 2) Any legal liability arising out of the transfer or use of the right-of-way, and 3) The

[10] The Surface Transportation Board is an independent federal agency that is charged with the economic regulation of various modes of surface transportation, primarily freight rail. Created on January 1, 1996 by the ICC Termination Act of 1995, the Board is the successor to the former Interstate Commerce Commission (1887-1995) and was established as a wholly independent federal agency on December 18, 2015.

payment of any and all taxes that may be levied or assessed against the right-of-way.

Step 3: Railbanking Negotiations

Once the potential trail manager has filed a railbanking request, the railroad owner must confirm with the STB that it consents to the proposal. Upon STB approval, the parties then have one year to negotiate the terms of the transition, including, but not limited to, right-of-way transfer through sale, easement, or lease; cost; equipment transfer or construction and maintenance responsibilities, etc.

Once the railbanking process has been completed and ownership of the right-of-way transferred to the trail manager, trail planning and construction can begin. The railroad owner will have the opportunity to remove any tracks, ties, or other property during the negotiation period.

Reversionary Clauses

Railroad alignments in the United States in general, and California in particular, were mostly established in the late 1800s by means of federal legislation, land grants, voluntary sales, and eminent domain. Sales contracts, grant deeds, and railroad easements often included reversionary clauses, which means that fee interests revert to the grantor (or descendants) if the right-of-way ceases to be used for rail purposes. Railbanking is considered a rail purpose because it maintains the integrity of the alignment for future use. *Railbanking therefore ends the abandonment process and avoids the activation of reversionary clauses.* There is also an argument under the shifting public use doctrine that continued use of the corridor for transportation may be enough to avoid reversion.

The alternative to railbanking is abandonment via formal process with the STB, which is usually initiated by the railroad but can be started adversely by others. In abandonment proceedings, the right-of-way is made available to other railroad companies to keep the line operational. If no rail companies are willing to take over operations, reversionary clauses may be triggered. Reversionary clauses vary, so an examination of each contract, easement, and deed would be necessary to determine the likelihood of reversion upon abandonment with STB.

Preservation of Future Rail Options

Based on the experience of NCRA and its predecessors, the costs of preserving the historic NWP rail line north of Healdsburg as a freight railroad outweigh the benefits. Absent a large economic draw on the north coast, such as a resurgence

in the redwood forest products industry or development of the Humboldt Port, it does not make economic sense to invest further public funds into preserving and rehabilitating a freight railroad currently.

Railbanking provides a unique opportunity to use the historic NWP corridor as a public-use, active[11] transportation route, while it continues to be preserved as a rail line for future railroad use. If at some point in the future a large economic draw is developed, a railroad company would have the ability to restore the corridor to rail use by petitioning the STB.

This assessment examined railbanking the northern portion of the NCRA right-of-way as well as the non-railbanking alternative.

Option 1: Railbank the Corridor

If NCRA is dissolved and the right-of-way is designated as a public active transportation corridor, railbanking the corridor is vital to maintaining a successful project. It will preserve the contiguous corridor in its entirety, allow for an interim trail use, and be accessible for future railroad purposes if necessary.

With 252 miles proposed as the Great Redwood Trail, it will be necessary to establish a trail management agency with enough resources to handle the legal process of railbanking while assuming full legal and financial responsibility for the corridor, including, but not limited to, maintenance of the existing right-of-way (such as weed abatement and emergency repairs); maintenance of existing and future contractual obligations; and physical conversion of the railroad corridor to a multi-use path.

Option 2: Do Not Railbank the Corridor

During its compilation of parcel data, DGS identified more than 2,800 parcels in the NCRA rail corridor. Each parcel deed has the potential of containing a reversionary clause and will need to be assessed on an individual basis, if the right-of-way is not preserved as an active railroad or railbanked.

Parcels owned in fee could be sold or retained for use as a trail. Parcels held by easement would likely revert to the underlying property owner, creating breaks in the corridor. If the corridor is intended to be used as a trail, the trail manager would either negotiate a sale price with the underlying property owner or

[11] According to the Centers for Disease Control and Prevention, "active transportation" is any self-propelled, human-powered mode of transportation, such as walking or bicycling. Physical inactivity is a major contributor to the steady rise in rates of obesity, diabetes, heart disease, stroke, and other chronic health conditions in the United States.

condemn at fair market value, adding cost to the project and potentially leaving gaps in the trail that would be expensive to close.

This option would also terminate all future railroad opportunities. Without the protection of railbanking, any use other than as a rail line could constitute abandonment of the railroad, and property owners would have the right to invoke their reversionary clauses. Property owners with fee simple, who own their property outright, would be able to use or dispose of their property in any manner permitted by law.

Figure 5. Aging Railroad Trestle in NCRA Corridor

SUCCESSOR AGENCY GOVERNANCE OPTIONS

Scope of Work

The planning, construction, operation, and maintenance of the Great Redwood Trail in its entirety would likely be a multi-generational effort. Although the primary purpose of this section is to identify potential governance structures for the immediate next steps for the Great Redwood Trail project, this section also recommends looking beyond these steps to identify a long-term management solution for the trail (see SB 1029 Section 2[a][4][A]).

The rail corridor would require certain environmental remediation efforts before and during construction of a trail (see Chapters 2 and 3 of the Trail Feasibility Assessment in Part I of Appendix D). After construction, the Great Redwood Trail would require a comprehensive operations and maintenance plan, as well as a reliable annual operating budget to maintain acceptable trail standards. Identifying the owner and operator of the trail at this early stage would help provide an adequate governance structure to manage the complex future operational and maintenance needs of the trail.

State Parks' *Great Redwood Trail Feasibility, Governance, and Railbanking Report* in Appendix D examined six typical trail management governance structures including:

- Single Government Organization
- Nonprofit Organization
- Cooperative Agreement
- Joint Powers Authority (JPA)
- Commission
- Special District

The governance evaluation for the Great Redwood Trail measured these common trail management structures against the criteria developed for the trail. These criteria examined how well each governance structure could potentially manage the corridor over multiple generations, considered the existing policy field, and the lessons learned from NCRA. Based on this analysis, two criteria — classification and multi-jurisdictional trail — were identified as critical to success.

Because a successful trail governance structure for the Great Redwood Trail must also assume financial and legal responsibility of the corridor, some of the common trail management governance structures identified above, such as a cooperative agreement or nonprofit organization, may not have the capacity to own and manage the corridor alone. As a result, only three of the common

management governance structures were found to be applicable to the Great Redwood Trail project. These include:

- State ownership,
- JPA ownership, and
- Local and nonprofit organization ownership.

A fourth model considers a continuation of the status quo, in which NCRA continues to own the right-of-way but removes railroad operations from its mandate and instead, focuses on trail management. While this option was analyzed and identified as a potential solution, it is not a strong candidate as a trail management agency due to NCRA's existing limitations, including its lack of clear reporting structure, limited financial capacity, and narrow focus.

Analysis Criteria

When conducting its analysis, the State Parks team considered a number of critical elements such as the existing governance structure of NCRA; the ability of a governance structure to railbank and manage the corridor, including environmental remediation, trail construction, and long-term planning; the ability of the governance structure to operate within the policy field in which it is established; and its interactions with numerous concerned stakeholders, such as jurisdictional partners, business interests, and the public.

Measurable criteria were created that examined the ability of governance structures to fulfill the specified tasks and responsibilities of a trail manager.

The following two criteria were identified as critical and are the basis for analysis of all potential governance structure options. If an option did not meet these criteria, it was not considered viable.

1. **Classification:** Identified what type of entity was being proposed. Classifications include local and state agency; multi-agency; joint powers authority; nonprofit; and special districts. The classification is important to determine the agency's legal status and reporting structure. NCRA does not have a clear classification, which made oversight of its operations challenging.

2. **Conducive to Multi-Jurisdictional Trail:** Identified whether the governance structure being analyzed would be conducive to building and maintaining a trail that spans multiple jurisdictional boundaries. All governance structures considered for the Great Redwood Trail meet this criterion.

The following additional, measurable criteria were created to identify typical governance structures that may also be appropriate for this corridor. These included:

- **State Risk**: Measured the potential level of risk and liability to the State.
- **Timeframe for Implementation**: Measured how long the trail would take to implement given the strengths and weaknesses of the proposed governance structure being analyzed.
- **Existing Staff Expertise and Resources:** Measured whether an existing entity would have staff with trail expertise and capacity to manage and maintain the trail; recognizing that the establishment and operation of a new entity would require additional administrative and overhead costs.
- **Trail Consistency:** Measured the ability to build and consistently maintain the trail. Decentralized governance structures or structures without stable funding sources may have limited ability to implement or maintain the trail in a consistent manner.
- **Potential Funding Consistency**: Measured the availability of stable funding sources for trail planning and design, development, and operations and maintenance. Governance structures that relied on membership fees or donations may result in unequal distribution of resources along the corridor.
- **Long-Term Operations & Maintenance Costs:** Measured the level of funds required to operate and maintain the trail.
- **Maintenance Capabilities**: Measured the capacity for conducting maintenance along the trail.

Figure 6. Wild and Scenic Eel River Canyon

Ownership Models

To successfully implement and maintain a potential future Great Redwood Trail, a trail manager must be identified with the ability and capacity to guide the overall vision of the trail; identify funding opportunities and administer funds; coordinate with partner agencies and organizations; oversee planning, design, and construction; manage contractors; and oversee operations and maintenance. The trail manager would also need to railbank the corridor to ensure that it is preserved for public transportation *in perpetuity*. The trail manager that takes on the railbanking process would take on potentially significant liability.

The following ownership models have trade-offs with respect to State risk; timeframe for implementation; access to potential funding sources; staff expertise and capacity; trail consistency and quality; and long-term operations and maintenance costs.

OPTION 1: State Ownership

In this management structure, a single agency manages the transportation corridor. Because the NCRA railroad corridor passes through multiple local agency jurisdictions, the potential for a single local agency to be the manager of the entire trail is complicated.

A state agency could provide strong expertise, which may facilitate quicker and higher quality implementation of the trail. However, it would also create the highest risk to the State in terms of liability and cost and may be subject to competing state efforts.

Great Redwood Trail: Roles and Responsibilities

State ownership of the Great Redwood Trail would vary depending on whether the designated agency is an existing or a newly created agency. While an existing state agency may have the organizational structure and expertise to manage the Great Redwood Trail, it would require substantial additional staffing, equipment, and funding resources to oversee planning, design, construction, and environmental remediation efforts and effectively operate and maintain the trail. It could, however, partner with local jurisdictions to manage trail implementation and maintenance, and with non-profit organizations for advocacy and fundraising efforts.

Role, Responsibility, and Liabilities of the State

In a state-ownership option, the State would be directly involved in all aspects of trail implementation, operations, and maintenance. The State would also, in turn, be responsible for any existing rail infrastructure and associated liabilities along the corridor, which may result in significant increased costs of hundreds of millions of dollars to state taxpayers, potentially even before implementation and operation of the trail. However, not all costs would necessarily fall on the State, as some could be accounted for through innovative financing solutions as well as private, federal, and local sources.

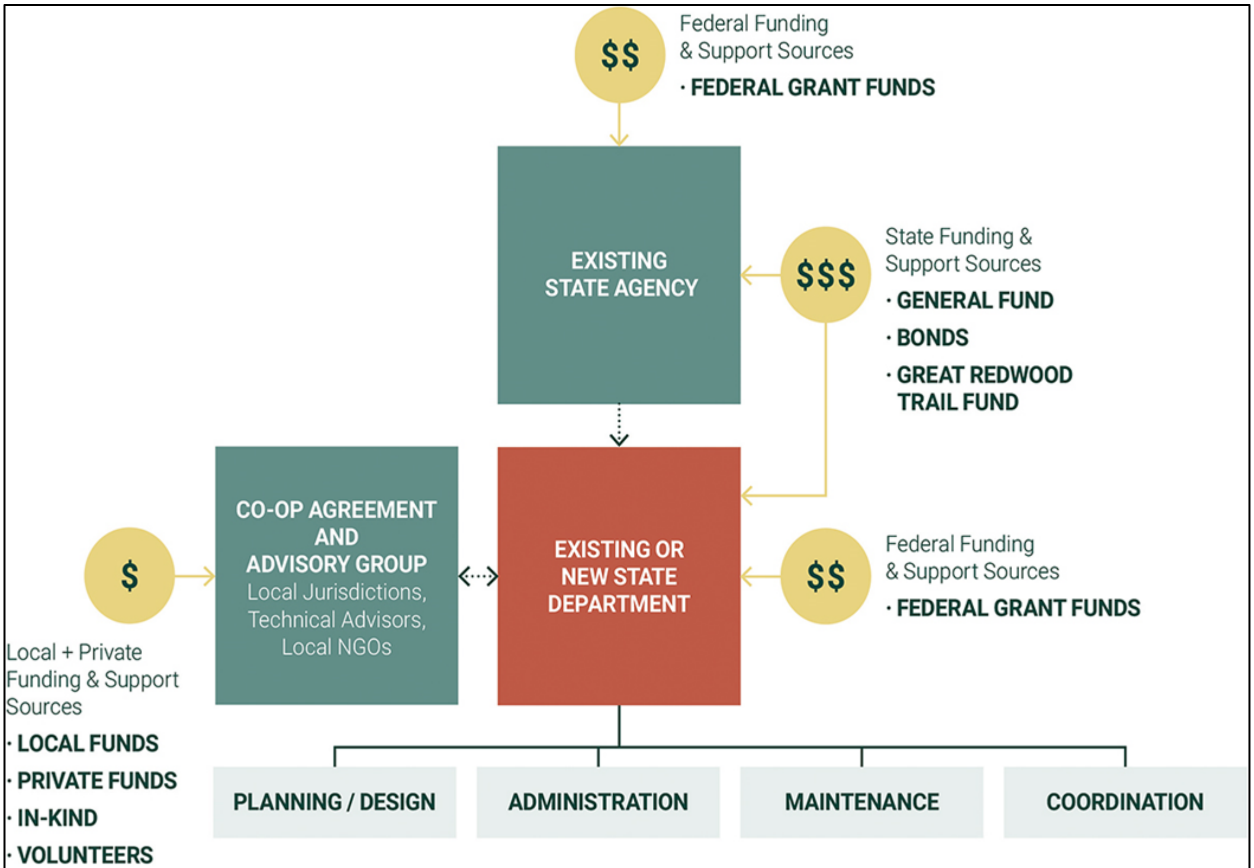
Great Redwood Trail: Funding Stream

To provide funding for trail planning, operations, and maintenance, the State could collect revenue generated through trail user fees, rent from utility companies that have located their infrastructure (cell phone towers, fiber optic cable, water lines, telephone lines etc.) within the rail corridor right-of-way, and lease agreements from encroaching neighbors. This revenue is not expected to cover support staff costs; environmental remediation and mitigation; capital projects; and future maintenance. Additional study is needed to determine the estimated funding gap between projected revenue and annual trail management expenses.

Supplemental revenue could be obtained through state and federal appropriations and/or grants. Local agency and nonprofit partners could provide local funds, in-kind support, and volunteers to supplement state and federal funds.

See Figure 8 for the organizational diagram and Part II (Section 6) of Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for additional detail.

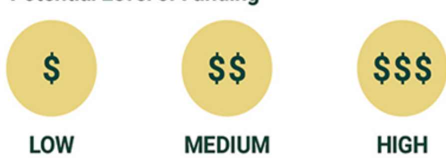
Figure 7. Stranded Rail Car and Equipment in NCRA Corridor



Other Entities Providing Funding and Oversight

	Money	Policy	Oversight
Federal			
Federal Highway Administration	●		
National Park Service	●		
State			
CA Legislature	●	●	
California Transportation Commission	●		●
California Department of Finance	●		
California State Transportation Agency	●	●	●
Natural Resources Agency	●	●	●
Local & NGO			
Local Counties & Cities	●		
Local NGOs	●		

Potential Level of Funding



*Potential Example Agency or Department

Figure 8. State Agency Organizational Chart

OPTION 2: Joint Powers Authority

A Joint Powers Authority (JPA) is an entity that allows its member agencies to jointly exercise common powers. The structure allows for one entity to oversee a trail crossing multiple jurisdictions and is typically funded by its member agencies or can pursue donations and grants as well as issue bonds. Because it requires creating a new entity, a JPA governance structure for the Great Redwood Trail would include initial administrative and other overhead costs.

This structure would enable agencies to formally partner by creating a new legal entity to oversee trail implementation and maintenance. The JPA would own the corridor in fee or easement; manage trail planning and implementation; and ultimately, manage trail operations and maintenance.

Great Redwood Trail: Roles and Responsibilities

For the Great Redwood Trail, the JPA option is considered a local-only option made up of the local counties and cities. It could, however, also be established using local and state agencies. Anticipated member agencies could include local counties, such as Humboldt, Trinity, Mendocino, Sonoma, and Marin, and local cities, including Blue Lake, Arcata, Eureka, Fortuna, Rio Dell, Willits, Ukiah, Cloverdale, Healdsburg, Windsor, Santa Rosa, Rohnert Park, Petaluma, and Novato.

The JPA should be overseen by a Governing Board of Directors consisting of appointed Directors from each member agency and could include a Governor-appointed ex-officio member to provide state-wide representation. Member agencies would appoint or hire staff to manage the various responsibilities of the corridor, which, based on a review of other case studies, is estimated to be up to ten staff members including a full-time trail coordinator, planning and engineering staff, administrative staff, and program management staff.

Role, Responsibility, and Liabilities of the State

The State could play a role in the JPA by appointing an ex-officio member to sit on the JPA's board, but it is not required. The JPA, rather than the State, would own the corridor in fee or in easement; would be responsible for implementing the trail; and would assume all liability and risk associated with the trail. If a state agency were to be part of the JPA, the State would be responsible only for its portion of the Joint Powers Agreement, not the corridor itself. This would limit state investment and risk in trail development and operations.

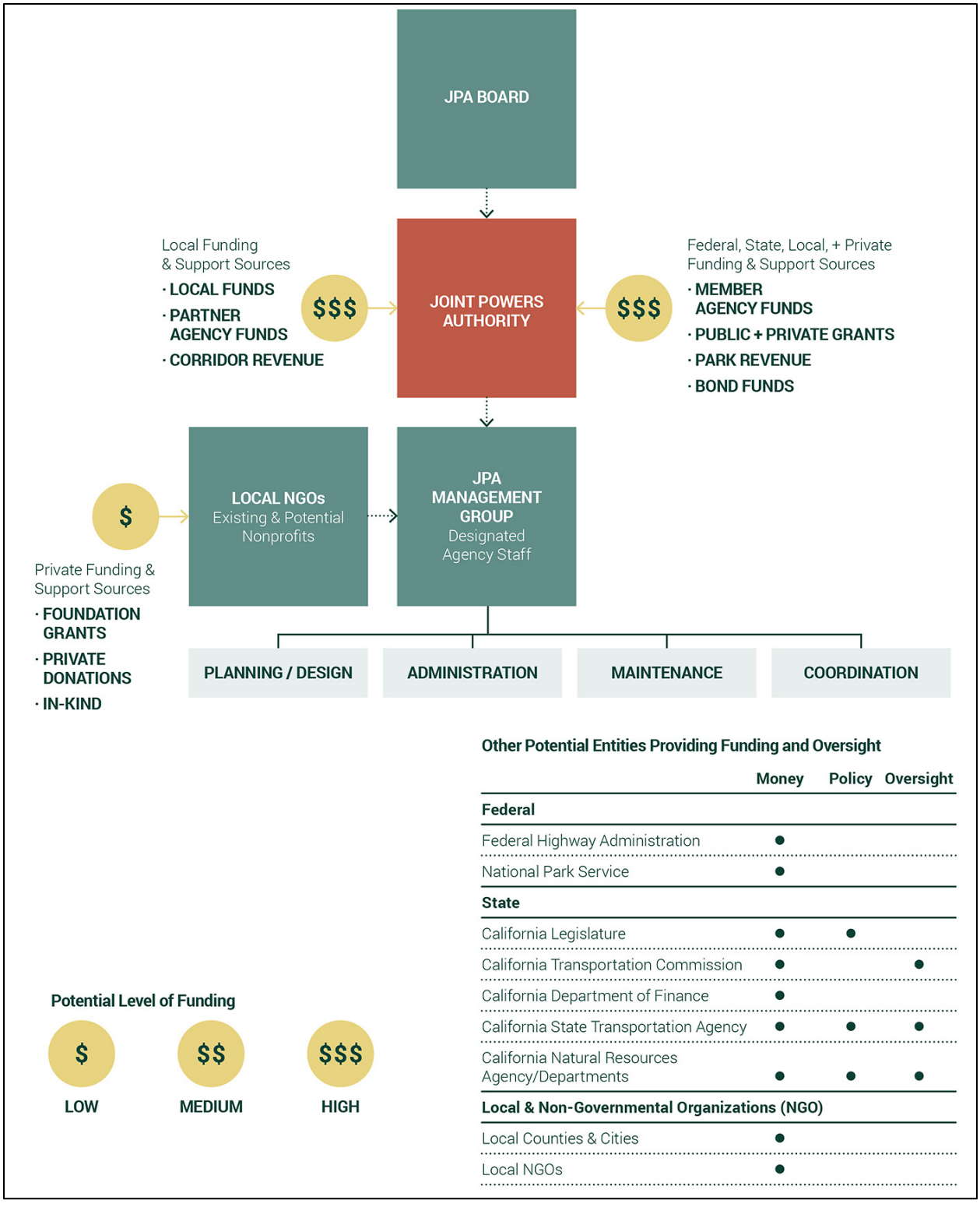


Figure 9. Joint Powers Authority Organizational Chart

Great Redwood Trail: Funding Stream

The JPA could receive annual funds from each of its member agencies; state and federal grant funds; and corridor user-fee revenue. It could also partner with a nonprofit to provide additional funds through private donations. Finally, the JPA member jurisdictions could request their local tax base to vote on a special ballot measure and commit a portion of local sales tax revenue.

See Figure 9 for the organizational diagram and Part II (Section 8) of Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for more detail.

OPTION 3: Nonprofit and Local Jurisdiction Ownership

A nonprofit can draw funding from a large pool of sources, including private funding, and provides flexibility with program development, advocacy, and communications. However, it typically does not have the authority of an elected body or landowner and lacks a dedicated funding source without assistance from local, state, or federal funding mechanisms. Smaller nonprofits may not have the resources required to manage a corridor of this magnitude without support from another entity.

Great Redwood Trail: Roles and Responsibilities

A trail manager for this project could be found within an existing nonprofit organization that is passionate about the Great Redwood Trail or it may be a new nonprofit created to oversee trail implementation.

The nonprofit would guide the overall vision and implementation of the project and partner with various local agencies to build and maintain different sections of the trail. The nonprofit would be led by an Executive Director and overseen by a Board of Trustees and an Advisory Board consisting of representatives of both the local and state levels. It is estimated that additional staff would be needed for regional operations, programs, communications, membership and fundraising, and administration.

The nonprofit organization would be responsible for coordinating trail planning and design; implementation; and programming. Local jurisdictions such as the counties and cities would own the right-of-way and oversee trail construction, operations, and maintenance.

In this option, the trail manager duties would be shared among different entities. The nonprofit organization would provide a strong centralized structure in terms of trail planning, coordination, and implementation. However, because

nonprofits generally do not have a stable funding source; the expertise required to operate and maintain a trail; or the capacity to assume the risk associated with owning the right-of-way, ownership, operations, and maintenance are left to local jurisdictions.

Although Option 3 provides an opportunity to receive funds from a wide array of sources, it would likely have less consistent funding than Options 1 and 2 and could result in a longer timeframe for trail implementation and less trail consistency.

Role, Responsibility, and Liabilities of the State

To efficiently railbank the corridor, it would be beneficial for the State to consider managing the railbanking process with one centralized trail manager to initially assume the right-of-way and to ensure all legal requirements are met. The State would also be liable for the corridor during this temporary period. Specifically, any entity that takes on the role of a trail manager must file a statement indicating the willingness to assume full responsibility for 1) managing the right-of-way, 2) assuming any legal liability arising out of the transfer or use of the right-of-way, and 3) paying any and all taxes that may be levied or assessed against the right-of-way.

The State may have some oversight over the nonprofit to the extent that state representatives serve on the Advisory Board.

Great Redwood Trail: Funding Stream

In addition to private funds, the nonprofit could also seek local, state, and federal grants.

Local jurisdictions could contribute local funds, corridor user-fee revenue funds, and local sales tax revenue and could apply for federal and state grant funds for trail construction, operations, and maintenance.

See Figure 10 for the organizational diagram and Part II (Section 10) of Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for additional detail.

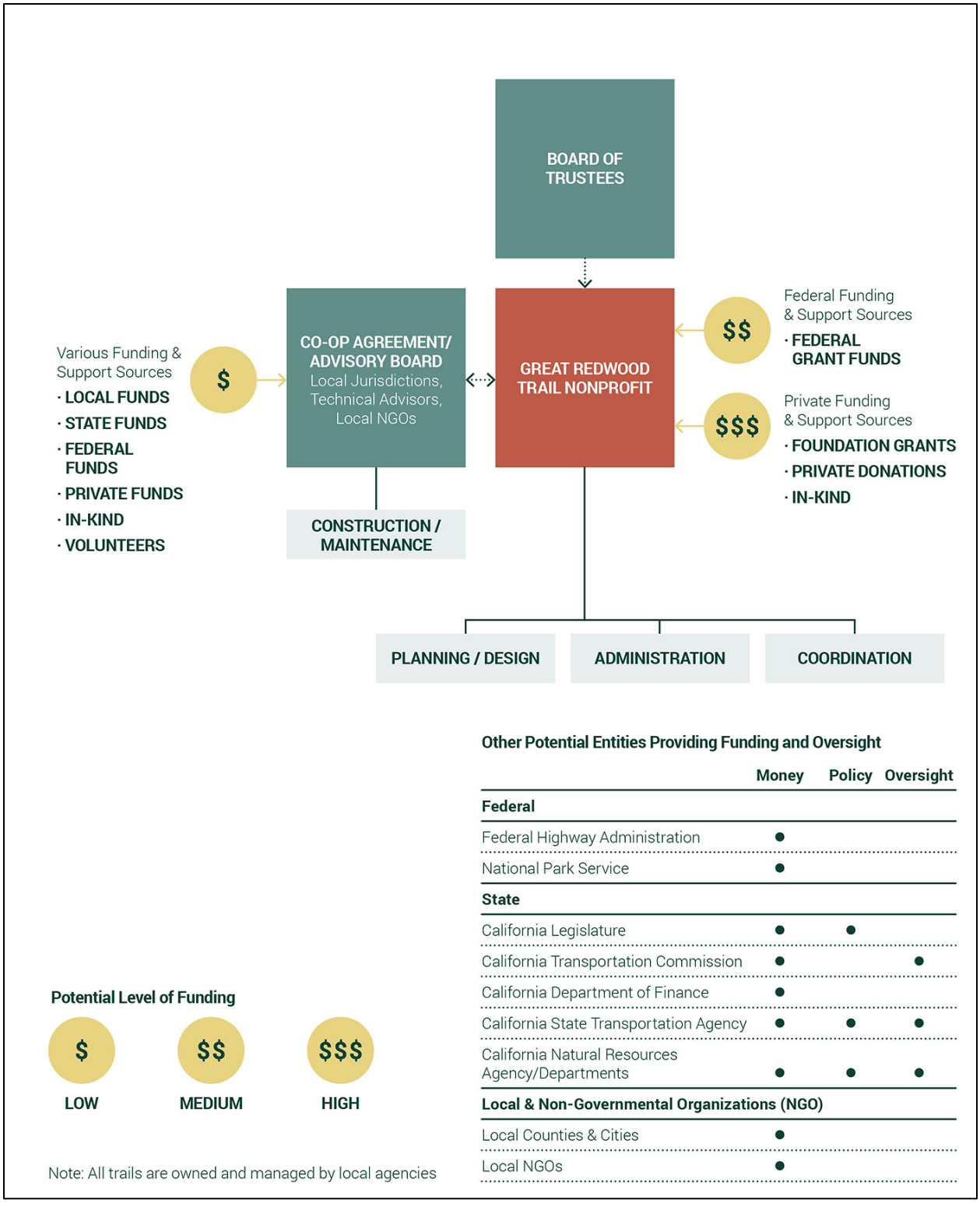


Figure 10. Nonprofit and Local Jurisdictional Organizational Chart

OPTION 4: NCRA Status Quo

Organizational Structure

NCRA's structure and authority are codified in the Public Utilities Code. NCRA's organizational structure is shown in Figure 12 on page 52. Although it was established as a public agency, it was not designated as a state or a local agency and as such did not have a clear reporting body from its beginning. NCRA is subject to STB and Federal Railroad Administration jurisdiction at the federal level.

NCRA's staff includes an executive director and an administrative assistant. The County of Sonoma provides legal counsel and accounting support to NCRA for a fee. In addition, NCRA also has on-call contracts with a resident engineer and transportation planner. While staff-level decisions are made by the executive director, major decisions require board approval and pursuant to SB 1029, the CTC. (See page 12.)

The Board of Directors is made up of nine members: two representatives each from Humboldt, Mendocino, Marin, and Sonoma Counties and one city representative.

Funding

NCRA's regular revenue comprises individual payments for encroachment permits, lease agreements, and the commercial rental of 36 boxcars. In FY 2019- 20 NCRA's budget anticipated $381,080 and in FY 2020-21 NCRA budgeted $361,115 in locally derived revenue. Budgeted annual agency expenditures for baseline operations for FY 2019-20 and FY 2020-21 exceeded NCRA's revenue by almost $300,000 each year. NCRA does not have a dependable source of outside funding to supplement this revenue.

State project funding that NCRA received in the past was appropriated by the Legislature, approved and allocated by the CTC, and administered by Caltrans. These funds were project specific and not a regular source of funding for the agency. Local funds are collected and overseen solely by NCRA.

Some local entities utilize NCRA right-of-way without paying a fee, instead covering operations and maintenance of a section of the corridor. For example, the City of Ukiah holds a license agreement with NCRA that enables it to construct and maintain a multimodal rail-with-trail path within NCRA's corridor in the city limits. The City utilizes its own resources to provide maintenance and weed

abatement along its path within NCRA's right-of-way and charges NCRA for additional weed abatement services outside of the multimodal path footprint.

Existing Management Challenges

The primary NCRA management challenges are summarized below.

1. NCRA was not designated as a local or state agency when it was established and as a result, was not provided with a clear reporting body. Because it has not clearly been subject to a regulating authority, there has been little oversight over its decision-making and financial transactions.

2. NCRA does not have sustainable funding to support its operating expenses. The decline of the timber industry reduced demand for railroad operations and ultimately led to the railroad's bankruptcy under private ownership prior to NCRA. Without a thriving industry behind it to drive demand, the complexity of the corridor meant that without a sustainable funding source NCRA could not maintain railroad operations. NCRA was created to assume financial and legal responsibility of the bankrupt railroad but was not provided with adequate funds to meet its mandate. As a result, NCRA has been unable to hire and retain qualified staff and has been forced to contract out work. These on-call contracts have ultimately proven to be overly expensive and have limited NCRA's ability to manage the existing right-of-way, address concerns along the corridor, and make improvements to failing infrastructure.

3. Because NCRA's board is made up entirely of local representation, it has historically made decisions that mostly benefit local interests. While the board has worked to protect the right-of-way as a singular transportation corridor, it has done so primarily for local economic interests.

Considerations for the Great Redwood Trail

Because NCRA has long struggled financially due to a lack of available funding and low revenue stream, it has acquired significant debt. If NCRA were to be transformed into a new trail agency, the new agency would retain this debt, complicating environmental remediation efforts, trail development, and maintenance. Disposing of this debt and transferring NCRA's assets to either an existing entity or a new trail agency created for the purpose of developing the Great Redwood Trail would provide a governance structure that could efficiently manage these tasks.

Funding for NCRA as a Trail Manager

Most local funds that NCRA receives are for rail equipment that NCRA rents out to other companies. This revenue source would likely not be available to a future trail manager because the equipment may be sold, or collected as collateral on outstanding debts, during the dissolution of NCRA. In addition, there are numerous existing encroachments on NCRA right-of-way that are not currently approved by NCRA and therefore, no fees are collected by NCRA. The trail manager for the Great Redwood Trail should review all unapproved, unpaid encroachments and charge an annual fee for any that may remain.

One potential source of expanding revenue for NCRA, could be from existing and future utility lines that utilize the corridor.

Other Liabilities

There are additional environmental constraints associated with the corridor for which the trail manager would be liable and which the chosen governance structure should be equipped to handle. These constraints include, but are not limited to, infrastructure, such as bridges, tunnels, culverts; other structures in need of repair; and areas with hazardous materials that may require environmental remediation. These environmental constraints are detailed starting on page 54 and in Chapters 2 and 3 of Appendix D, Part I.

Figure 11. Deferred Maintenance in NCRA Corridor

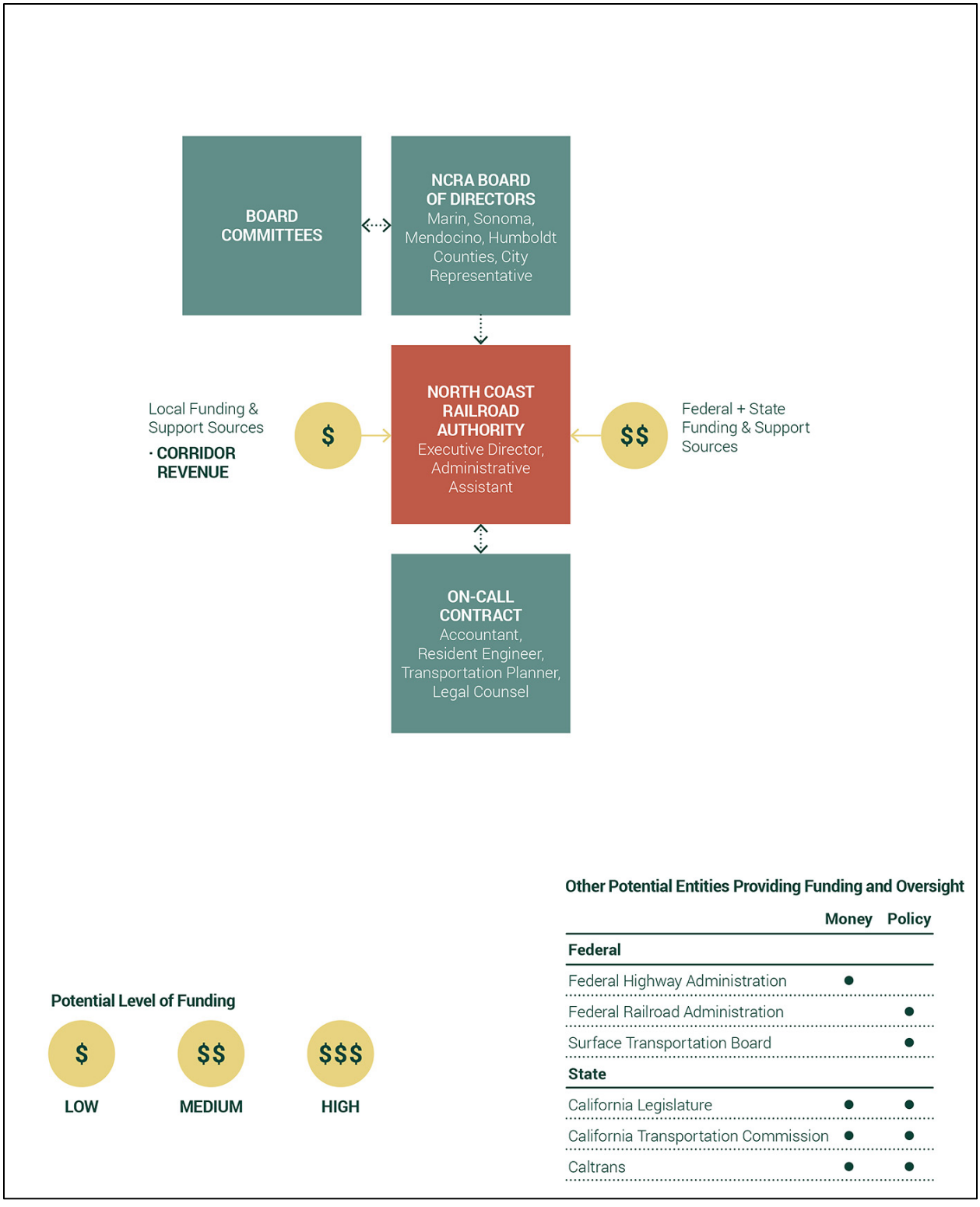


Figure 12. NCRA Organizational Chart

RAIL-TRAIL CONSTRUCTABILITY

Scope of Work

State Parks' assessment examined the viability and constructability of a trail developed on the entirety, or a portion of, the property, right-of-way, or easements owned by NCRA. This effort included, among other things, an analysis of physical contraints, environmental remediation requirements, and planning level cost estimates. The study methodology and findings are briefly described below; detailed information can be found in Appendix C, *Great Redwood Trail Feasibility, Governance, and Railbanking Report*.

Methodology

SB 1029 divided NCRA's corridor into "northern" and "southern" sections. This assessment set the delineation line for the Great Redwood Trail at mile post 87, two miles south of the Sonoma-Mendocino county line. If the southern section is transferred to SMART, the southern two miles (mile posts 87 - 89) of the trail would be in SMART's right-of-way.

The northern section was evaluated for repurposing a 252-mile portion of the rail right-of-way into a trail, by means of a rail-to-trail conversion where rail service would cease and the rail corridor would become a public multi-use path. The corridor evaluated extends from Healdsburg in Sonoma County to Blue Lake, northeast of Arcata in Humboldt County, passing through the cities of Healdsburg, Cloverdale, Ukiah, Willits, Fortuna, Rio Dell, Eureka, Arcata, and Blue Lake, and dozens of unincorporated communities. (See Figure 13.)

Figure 13. Rail-with-Trail and Rail-to-Trail Sections

The southern section, from Healdsburg to Cloverdale, was evaluated for the potential of a rail-with-trail, where a rail facility and trail would share the corridor; consistent with SMART's existing rail-with-trail operations south of Healdsburg and SMART's plans to develop passenger service to Cloverdale in the future. (See Figure 13.)

The NCRA rail corridor was further divided into five major sections. (See Figure 14) Analysis of the trail sections included an assessment of the rail corridor right-of-way in its current state, i.e., its "existing condition." Rail infrastructure and other features were inventoried along with known environmental constraints, known cultural sites, soil stability, and ease of public access. Potential trail development types were analyzed for constructability given the segment's physical condition and proximity to urban centers, and "feasibleness" was determined based on a ranking of all the criteria. Costs were developed on a high-level preliminary basis for planning purposes only. Actual cost is variable and will change depending on details of the project design, environmental remediation requirements, and market rate of construction materials.

Several methods were used to gather information about the existing condition of the rail corridor, including searches of publicly available data sources and review of existing reports related to the corridor. To help inventory and assess the condition of existing structures (such as bridges and culverts) and features along the rail corridor, small teams conducted field assessments from Healdsburg to Arcata and the Carlotta, Samoa, and Korbel branches of the rail corridor.

Great Redwood Trail Feasibility

The potential trail corridor contains significant feasibility challenges in certain locations, particularly in remote segments within and close to the Eel River Canyon. Key constraints include segments with steep, unstable slopes that destabilize hundreds and occasionally thousands of feet of the corridor; existing right-of-way obstructions that in some locations fully block the corridor; former rail infrastructure (i.e., bridges, trestles, tunnels, and major culverts) that have been dilapidated or destroyed by years of deferred maintenance; and the significant cost of developing a public trail.

Despite these constraints most of the 252-mile corridor is generally intact with good physical conditions for trail construction. State Parks' assessment confirmed that the corridor's gentle grades lend themselves to interregional non-motorized trail use. If fully developed, the Great Redwood Trail could create an outdoor recreation opportunity and commuter corridor that would connect Northern California communities with the Bay Area.

Figure 14. Trail Assessment Corridor Sections

User Demand Projections

As expected, high trail-use estimates occur in segments within or near urban communities or towns along the corridor. Likewise, trail use through the more remote segments (generally between the cities of Willits and Ferndale) is anticipated to be low and oriented toward serious, long-distance cyclists and hikers, or perhaps occasional day-use by visitors driving to remote access points for short hikes.

Parts of the rail corridor already have fully developed rail-with-trail segments constructed adjacent to the rail bed. These are in more-populated areas, such as around Humboldt Bay near the cities of Arcata and Eureka, and continue to support regular, daily use. Only one developed segment, the Ukiah Rail Trail in Ukiah, has received a formal Great Redwood Trail designation.

Estimated trail use demand in the southern section of the rail corridor indicates the trail would experience substantial high-volume non-motorized use, including commuters and recreational users of all ages and abilities. This is expected to occur in Sonoma County where rail-with-trail could be implemented and near the larger communities, such as the cities of Ukiah and Willits in Mendocino County. Likewise, trail use demand projections are strong in the far northern part of the NCRA rail line; the corridor between the cities of Ferndale and Fortuna; and the corridor between the cities of Eureka and Arcata around Humboldt Bay.

Physical Constraints

The major constraints within the rail corridor that most influence trail feasibility include geomorphic challenges (landslides, high-risk slopes), large right-of-way encroachments (particularly those that are authorized and leased by NCRA), failing infrastructure (bridges, trestles, culverts, and tunnels), and previous contamination or hazardous material sites where remediation is required. In addition, the presence of wetlands and special-status species, historic structures, areas of archaeological sensitivity, and tribal lands also may present significant constraints to trail development.

The presence of wetlands and special-status species in the corridor may influence the time and cost to implement the trail if extensive permitting, corridor re-routes, or compensatory mitigation are required.

Cultural Resources

Identification and designation of potential archaeological and tribal cultural resources along the corridor would require cultural records research and regular

and consistent coordination with tribal representatives. If cultural resources are present and avoidance or mitigation measures are needed, the project may require a longer schedule and result in higher overall costs.

Historic Structures

The presence of historic structures along the corridor is a minor benefit in the opportunity and constraints analysis because the resource offers an opportunity for interpretive signs and public education. There are, however, possible challenges associated with permitting and zoning requirements for historic sites. If building renovations are needed, for instance, the process for obtaining relevant permits and approvals may pose a challenge to trail development. In addition, historic buildings can pose liabilities associated with safety hazards, if they are in poor condition. While these constraints would not be insurmountable, they would substantially increase the cost of trail construction and maintenance, which could result in schedule delays and higher overall cost.

Remote, Hard to Access Corridor

Development of the long center sections generally starting in the vicinity of the City of Willits and then continuing north through Trinity and northern Mendocino Counties to the area near the City of Ferndale in Humboldt County would involve significant environmental remediation and construction costs. Combined with low trail use demand projections, these remote sections may be difficult and financially challenging to fully develop with construction and maintenance costs expected to be high. Appropriate trail types for steep, sometimes unstable terrain should be emphasized in these sections, such as narrower, soft-surface recreational trail facilities instead of a hard-surface trail (Class I).

Significant costs and long-term maintenance challenges are related mostly to major stabilization of slopes; rebuilding or replacing deteriorated rail infrastructure; and possible rerouting around major obstructions. Rerouting can reduce costs in some locations, compared to replacing infrastructure, but can also result in additional costs to obtain access rights for the public access trail.

Eel River Canyon

The Eel River Canyon poses unique challenges and opportunities. It has some of the greatest constraints in the corridor, including difficult geophysical conditions and dilapidated, unmaintained infrastructure. It is isolated and rugged, and the slopes are unstable. The substantial costs of construction and long-term maintenance in this highly dynamic landscape are noteworthy. Abandoned rail

cars and other rail debris are also present in this section, including in the river. However, approximately 75 percent to 85 percent of the NCRA rail corridor through the Eel River Canyon is in good physical condition for trail construction. This section of the trail offers some of the most spectacular views of the entire corridor, including the scenic values reflected in its Wild and Scenic River designation.

Due to its designation as both a federal and state Wild and Scenic River[12], rigorous environmental protective measures would need to be incorporated into the trail design and construction. Trail development may also consider inclusion of river restoration opportunities, such as removal of collapsed rail infrastructure and rail cars from the river, enhancing the value of the trail and therefore its potential feasibility. At this preliminary assessment stage, it is unknown whether environmental restoration would be a requisite part of trail development, which would need further investigation to be determined. Due to access challenges, the costs to remove abandoned rail debris would be high. Recognizing the complexity of this section of the corridor, an alternative narrow, soft-surface trail may be readily developed and maintained over time, compared to a Class I hard-surface trail.

Interregional Active Transportation Route

If fully developed, the Great Redwood Trail would become an interregional trail providing outdoor recreation and active transportation experiences. It would connect a major urban metropolitan area, the northern extent of the Bay Area, with the natural and scenic resources of the landscape along the North Coast to Humboldt Bay.

Most Feasible Trail Segments

With limited physical, environmental, and cultural constraints; access to nearby communities with potential non-motorized users; and low construction costs; the following sections of the rail corridor are identified as the most feasible to develop:

- Rail-with-trail sections in Sonoma County,
- Trail segments near towns and urban communities (including Willits and Ukiah) in Mendocino County,

[12] The National Wild and Scenic Rivers System was created by the Wild and Scenic Rivers Act of 1968 (Public Law 90-542[1]), enacted by the U.S. Congress to preserve certain rivers with outstanding natural, cultural, and recreational values in a free-flowing condition for the enjoyment of present and future generations.

- Humboldt County segments from Ferndale to Korbel, and around Humboldt Bay.

Rail-with-Trail Segments

- This southern section from Healdsburg (mile post 68.22) to Cloverdale (mile post 87), included in the transfer of freight rights to SMART, is well suited for rail-with-trail development. The corridor width in this section varies between 50 feet and 100 feet; can accommodate rail-with-trail infrastructure; and has no major physical, environmental, or cultural constraints. Trail development in this segment will be the responsibility of SMART and could be implemented in conjunction with SMART's plans to develop passenger service to Cloverdale. This section would be recommended for priority project planning, design, and environmental review as possible next steps, if trail planning proceeds.
- Development of rail-with-trail along a stretch of the rail corridor surrounding Humboldt Bay is preferred. Local jurisdictions have already constructed rail-with-trail multi-use paths to the north and south of the bay, and the County of Humboldt has plans to construct the final rail-with-trail segment in the middle, closing the north-south gap. In addition, the rail corridor is currently used by the Timber Heritage Association for recreational rail operations (speeder crew car rides) in Eureka and Samoa. Additional proposals for a tourist excursion train and rail bikes have been discussed. Continuing to develop the rail-with-trail option around Humboldt Bay could expand the recreational and active transportation opportunities in the region and enhance economic opportunities.

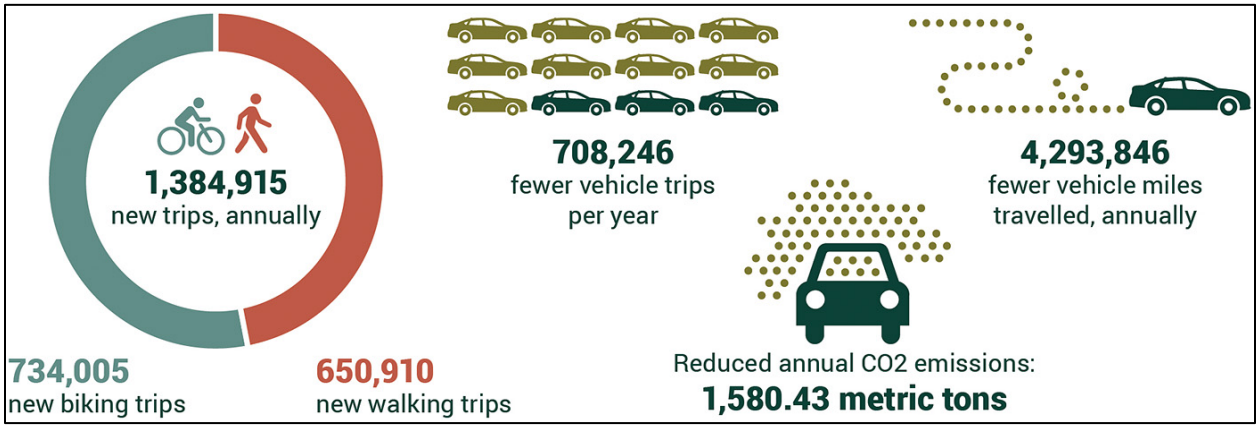


Figure 15. Economic and Social Benefits of a Fully Developed Trail

Economic and Public Health Benefits

If the trail were fully developed, it is projected to spur economic activity in the region and generate roughly $24 million in local revenue annually. Public health benefits include reduced vehicle trips and vehicle miles traveled; a reduction of 1,580.43 metric tons of carbon dioxide emissions; and an increase of 1,384,915 walking and biking trips annually. (See Figure 15)

Trail Cost Estimates and Project Phasing

Planning-level cost estimates are based on assumptions about the planned trail facility and general cost factors applied to the associated infrastructure. Cost estimates are provided by corridor segment and by project priority, as well as for the entire corridor, and have been rounded to the nearest hundred dollars.

While an overall corridor cost estimate is provided, the total cost for fully developing the corridor would not be incurred all at once. Trail development is expected to be long-term, and costs would be spread over the course of decades, depending on project phasing and fund availability. The costs described below do not include estimates of environmental remediation efforts that may be required prior to construction. As previously discussed, remediation costs may be substantial.

Project Phasing

Based on a review of the inventoried trail features and results of the condition and user demand assessments, development of the rail corridor has been divided into four logical phases. (See Figure 16.) These phases include projects that are grouped by their level of difficulty for development and anticipated trail demand, and include near-term, mid-term, and long-term implementation priorities. While these project phases represent priority projects when looking at the entirety of the corridor, the phases are not binding and can be modified as needed.

Figure 16. Project Phasing

Full-Development Project Cost Estimates

While cost is not considered to be a measure of the technical feasibility of trail development, it is the main factor in determining whether and to what extent the trail can be built. This section presents cost estimates by project phase to illustrate how the trail could be developed over time, limiting the amount of investment required at any one time. For more detailed discussion see Chapter 5 of Appendix D, Part I, *Great Redwood Trail Feasibility, Governance, and Railbanking Report*.

Planning-level costs for trail development of the entire 252-mile corridor are estimated at:

- $749,259,900 in 2020 dollars
- $900,685,200 in 2025 dollars
- $1,082,713,500 in 2030 dollars

Cost estimates were also calculated for each of the four project phases (segments grouped into near-term, mid-term, and long-term phases) described above. Total cost for each phase is a sum of the estimated budgets for each trail segment included in that phase. These cost estimates are organized by trail typology and include construction costs; planning and management costs; contingency; and escalation.

Phase 1 has an estimated total cost of $190,974,700 in 2020 dollars and $275,967,000 in 2030 dollars. It includes 62 miles of urban trail, 24 small access points, and seven large access points. Route design alternatives could result in cost reductions of nearly $11 million.

Phase 2 has an estimated total cost of $296,230,500 in 2020 dollars and $428,065,900 in 2030 dollars. It includes 48 miles of urban trail, 13.7 miles of rural trail, and five small access points. Route design alternatives could result in cost reductions of nearly $56 million.

Phase 3 has an estimated total cost of $194,628,100 in 2020 dollars and $281,246,200 in 2030 dollars. It includes 62 miles of rural trail, seven miles of urban trail, and 11 small access points. Route design alternatives could result in cost reductions of nearly $19 million.

Phase 4 has an estimated total cost of $67,826,500 in 2020 dollars and $98,012,400 in 2030 dollars. It includes 22 miles of urban trail and four small access points, including one new long-span bridge. There are no route design alternatives.

Cost estimates are based on potential trail types that were applied to specific conditions along the corridor for cost estimating purposes with planning, design, management costs, and contingencies included. Percentages were used to estimate the planning, design, and management costs for the corridor, which include survey, technical studies, and engineering design; environmental analysis, documentation, and permitting; project administration; construction management; mobilization; and design services during construction. A 30-percent contingency amount was added to account for unknown factors that may influence the overall cost of the trail. The State Parks assessment estimates environmental costs of the trail as a soft cost or percentage of the construction costs. The cost to remediate environmental liabilities in remote locations (such as rail cars in the Eel River) has the potential to be extraordinary, and project-level costs have not been estimated. A detailed discussion of environmental liabilities begins on page 64, and additional studies would be needed to further refine all costs.

Potential reroutes of the trail outside of the rail corridor and onto surface roads to bypass areas with major geologic challenges or failing infrastructure provide opportunities to reduce costs. Potential reroutes were identified that could result in an estimated $86 million in cost reductions.

For a full description of the assessment findings, trail segment feasibility results, and planning level cost estimates, please refer to Appendix D, Part I, Great Redwood Trail Feasibility, Governance, and Railbanking Report.

Figure 17. NCRA Corridor, Southern Section

ENVIRONMENTAL LIABILITY

The NCRA railroad corridor pre-dates both the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA) by roughly 100 years and contains environmental waste contaminants deposited along the corridor which have been passed down through generations to its current owner, NCRA.

To understand the environmental issues, it is helpful to clarify terminology. In this report, the following terms are used:

- Remediation – This term is often used to describe the process of cleaning to its purest, natural form a site that has been found to have environmental contaminants.
- Mitigation – This term is used in reference only to projects and is a required element of NEPA and CEQA. It attempts to lessen the environmental impact of an infrastructure project by taking a separate action that would benefit the environment. A project could be required to both remediate and mitigate.
- Liability – In this project context, liability is referenced for legal risk, financial risk, and environmental remediation risk. Unless otherwise specified, liability is the assumption of responsibility for the risk, without necessarily having identified all possible risks. In the context of environmental liability, NCRA or its successor agency may be held responsible for the remediation (or the cost of remediation) of the rail corridor for known contaminants and contaminants discovered later. Environmental studies on portions of the NCRA corridor have been conducted and referenced in Appendix F. This process has identified many environmental hazards as an aggregate, but project-level studies will identify specific concerns and may result in additional cost. If NCRA or its successor refuses to accept this liability (where applicable), it could result in litigation.
- Planning-level cost estimates – Projects such as the Great Redwood Trail begin as ideas, which are then examined with enough detail to get a rough idea of the level of effort and cost required to bring the idea to fruition. This assessment report is that first flush, precursory examination; all costs, including environmental liability, are estimates from that high, planning-level vantage point. These cost estimates are then used to develop an overall budget and schedule for the life of the project. Planning-level estimates give project managers an idea of the economy of

scale the project will need, but there is too much variation in the estimate for it to be a completely accurate number.

- Project-level cost estimates – As the project moves forward and detailed environmental studies and design work are conducted, the planning-level cost estimates are amended and narrowed down to increasingly accurate, project-level cost estimates. These more-realistic estimates can be used to establish project budgets and seek funding.
- Preliminary analysis – As described with planning-level cost estimates, projects begin with a first look to determine if there are enough resources and strong enough justification to continue pursuing the project. The preliminary environmental analysis for this assessment examined existing reports and databases for known environmental concerns, in addition to information gathered by a field crew that walked the length of the corridor. This preliminary analysis allowed State Parks to determine areas of concern needing additional study. If the trail project moves forward, more-formal NEPA/CEQA studies and documentation will be necessary.
- Hazardous waste material – This term includes any industrial by-product or discarded commercial product that is potentially harmful to the environment or people and other living organisms because it is ignitable, corrosive, reactive, or toxic. In the NCRA corridor, this is anticipated to be mostly abandoned, decaying rail equipment and chemical contaminants that leaked or were dumped along the corridor during regular operations.

Preliminary Analysis

NCRA has conducted project-level environmental remediation when required, but has not conducted a thorough, corridor-wide, environmental remediation effort. To accurately assess the level of contamination for the entire 252-mile corridor proposed for trail conversion, additional focused study will be required.

This assessment effort conducted a preliminary analysis for high-level, policy planning purposes only. Environmental studies, findings, and cost estimates included here represent a preliminary examination of the existing conditions visible in the corridor during field visits; literature reviews of prior environmental studies, databases, and consent decrees; cost comparisons with similar projects; and knowledge of current environmental regulation placed on state agencies conducting projects in this region.

Because of the level of uncertainty surrounding environmental liability through the corridor, it was assessed by 1) OSAE in the financial analysis (page 20 and

Appendix C), 2) State Parks in the trail feasibility analysis (Appendix D), and 3) Caltrans in a separate memo prepared for discussion purposes with the Task Force (Appendix F). An effort was made to complement other teams' studies, but there are some areas of overlap in the cost estimates. A comprehensive environmental study of the whole corridor is necessary to remove overlapping costs and narrow them down to corridor-wide project – level estimates.

Environmental liability assessed by State Parks includes planning – level soft costs for trail construction and general environmental studies, with some hazardous waste removal, but does not include potential wetland mitigation or detailed hazardous material clean – up (which Caltrans' addressed) or a number of other contingent liabilities (which OSAE analyzed). As part of its analysis, State Parks' assessment rolled environmental planning into its full – development planning – level cost estimates as described on page 61. These costs address only the 252-mile portion of NCRA's corridor currently proposed for use as the Great Redwood Trail (Healdsburg, Sonoma County to Korbel and around Humboldt Bay, in Humboldt County).

OSAE identified areas of concern for potential liability due to environmental conditions. Cost estimates for these are itemized in Table 3 on page 27 and described in detail below. These items are applicable to NCRA's entire 316 – miles of right-of-way, including the portion proposed to be transferred to SMART. Caltrans' memo based its analysis on full build-out of the 252-mile trail corridor used in State Parks' report, including both the rail-to-trail and rail-with-trail portions, and follows the project phasing recommended by the State Parks analysis (page 61 and Appendix D).

Financial Liability

Many NCRA depots and maintenance facilities along the rail line may need environmental clean-up, regardless of the corridor's future use. The following list of potential liabilities was identified by OSAE during its assessment and additional detail can be found in Appendix C, *Calculated Value of Net Assets Report*.

Environmental Consent Decree

NCRA contracted with an environmental professional services firm to assess NCRA's level of compliance with the requirements, laws, and regulations pursuant to the Environmental Consent Decree and to develop a plan for regulatory approval for compliance. The estimated costs associated with future rail operations, clean-up, and remediation activities ranged from $4.3 million to

$6.9 million according to the assessment report dated July 2002 (see table 3, page 27). These costs have not been updated to 2020 market rates. It is unknown to what extent NCRA has fulfilled all obligations pursuant to the Environmental Consent Decree as of December 31, 2019.

Eel River

Although no legal claims have been identified, additional liability may exist for environmental related issues involving abandoned rail cars and equipment in the Eel River and other sites. As described in table 3 on page 27, costs are unknown and need additional study to accurately estimate cost of removal. For more detail, please see Appendices C and D.

Figure 18. Rail Cars and Collapsed Tunnel in Eel River Canyon

Local Jurisdiction Complaints

NCRA received a legal notice from the City of Eureka in December 2014 stating that the presence of rail equipment in Eureka's yard constituted a public nuisance under Eureka's Municipal Code. The City of Eureka required NCRA and a private party to remove all rail equipment from the Eureka yard. OSAE research and communication with the private party equipment owner indicated that the equipment was not removed as of December 31, 2019. This may result in monetary sanctions against NCRA. Further, in July 2015, a northern California news article reported that work to remove trains from the Eureka yard (known as the "Balloon track") was stopped due to workers becoming sick from exposure to contaminants. This may also present legal exposure to NCRA, or a successor agency. As described in table 3 on page 27, costs are unknown and need additional study to accurately estimate cost of removal. For additional detail, please see Appendix C.

Liquified Petroleum Gas

NCRA faces unconfirmed potential costs and obligations associated with safety improvement of the hazardous material storage of liquefied petroleum gas cars stored in the Schellville Depot.

This potential liability was identified in a complaint against NCRA filed on May 28, 2019, with Sonoma County's Permit and Resource Management Department, Code Enforcement Division. Costs associated with the safety improvements may range from $5.2 million to $7.2 million according to the September 2019 complaint. (See table 3, page 27.)

Based on the Letter of Intent between NCRA, NWPCo, and SMART entered on February 15, 2017, NCRA agreed to assume all risks and fully indemnify, defend, and hold SMART harmless with respect to any claim, damage, or liability resulting from transporting hazardous materials on the tracks and/or storing liquefied petroleum gas at the Schellville Depot. This section of right-of-way is proposed to be transferred to SMART, as discussed beginning on page 71. For additional information, please see Appendix C.

Environmental Remediation and Mitigation

Caltrans' North Region Division of Environmental Planning utilized State Parks' draft report as the basis for its analysis of the corridor. Caltrans approached this analysis from the perspective of a state agency required to comply with state and federal regulations and examined the environmental liability issues that could be anticipated for the Great Redwood Trail if the trail conversion project moves forward. Two main areas of concern for this corridor were identified: wetland mitigation and hazardous material remediation. These areas of concern were analyzed for planning-level costs, resulting in an overall environmental liability of $4 billion for full-development of the 252 – mile trail corridor. This cost is dependent on project design, level of remediation required, and market costs at time of construction. Additional studies are required to get an accurate and detailed cost estimate. Caltrans' assumptions are described below, and costs are itemized by State Parks' trail development phases in Table 4. Further information on Caltrans' assumptions can be found in its memo (Appendix F).

Wetland Mitigation

Wetland mitigation estimates are based on Caltrans knowledge of the North Coast region and the NCRA corridor specifically. The cost estimate of $103 million relied on data gathered and reported in the State Parks' draft Great Redwood Trail Feasibility Study to determine locations where mitigation is likely to be

required. Wetland mitigation liability may be lessened if the trail project does not progress and the right-of-way continues to exist in its current form.

Hazardous Material Remediation

Hazardous waste remediation focused on the potential contamination of an aquifer used for drinking and the possibility of soil and sediment contamination. Chemicals of concern include PCE, Arsenic, PCP, TPHs, heavy metals, petroleum (diesel, gasoline, and waste oils), chromium, PAHs, solvents, benzene, ethylbenzene, toluene, xylene, chlorinated hydrocarbons, non-petroleum hydrocarbons, pesticides, fumigants, dioxin/furans, heating oil, copper, lead, nickel, PCBs, and distillates. These chemicals are common contaminants for this type of land use and were identified in previous studies of the corridor.

Caltrans assumed that full remediation of the rail bed would be required before public trail construction could begin. This makes up the bulk of the cost estimate because if Caltrans were to undertake the trail project, the project would be subject to code requirements and would likely require removal of all ballast (aka gravel) from the railroad bed on the entire 252-mile corridor. The ballast would be treated as hazardous waste (if the railway ballast contains the concentrations of lead and arsenic typically found in ballast), which would require transportation to a cleaning facility and disposal. The trail proponent may be able to mitigate these costs if the resource agencies overseeing toxic substances and hazardous waste were to allow the ballast to remain in place, covered with clean soil or another hard surface treatment (aka "capping" the rail). Costs were estimated based on total removal of ballast for the entire 252-mile corridor.

Figure 19. Abandoned Debris in the Eel River Canyon

A second major cost assumed in this estimate relates to the accessibility of heavy equipment and whether it (and waste debris) could be delivered by truck or would require being airlifted to/from the site. Costs are provided for accessible and inaccessible areas. When calculating costs for ballast and tie removal, it was assumed that 50 percent of the project limit was accessible, and 50 percent was not.

For a full explanation of assumptions used, and a detailed breakdown of items included in the estimate, please see Appendix F.

Table 4. Caltrans Environmental Liability Cost Estimate for the NCRA Corridor

Item	Cost Estimate (Low)	Cost Estimate (High)
Wetland Mitigation	$103,566,500	$103,566,500
Hazardous Waste Remediation	$3,960,342,000	$4,007,700,500
Whole Corridor Environmental Liability TOTAL	**$4,063,908,500**	**$4,111,267,000**
Per Mile Environmental Liability TOTAL	**$16,255,634**	**$16,445,068**

Figure 20. Deferred Maintenance of Tunnel in NCRA Corridor

FREIGHT RIGHTS IN THE SOUTHERN SECTION

Section 17 of SB 1029 appropriates the sum of $4 million to SMART for the acquisition of freight rights and equipment from NWPCo to ensure efficient provision of goods movement requirements in the corridor in the context of growing passenger service. NWPCo has agreed to accept this payment provision but is under no obligation to SMART or the State if another buyer were to make an offer before the transaction agreement is executed.

If the State does not take advantage of this unique opportunity, future capital costs to extend and increase passenger service in the context of a different freight operator may be prohibitive, putting expansion of passenger service on the existing corridor at risk. Using the SB 1029 appropriations to facilitate the acquisition is likely to result in significant cost savings.

Rail Network Connectivity

The California Legislature created SMART in 2002 to operate passenger rail service in the Sonoma-Marin region. This publicly owned rail transit agency operates passenger rail from the Larkspur Ferry Terminal to the Sonoma County Airport and plans to extend its service north to Cloverdale. In addition, SMART owns railroad rights-of-way east from Novato through Ignacio to the Napa Junction at Lombard and has long-term plans to provide passenger rail service to alleviate congestion on State Route 37 (SR 37), a vital regional connector route between Marin and Contra Costa Counties and the Central Valley, that experiences high demand for business, freight, and recreational travel during weekday peak and weekend off-peak hours. SR 37's western terminus begins at its intersection with US 101, just north of Ignacio, and heads east, where it terminates at Interstate 80 in northern Vallejo.

The State has explored developing the east-west corridor for passenger rail transit to alleviate major congestion on SR 37. Caltrans' Traffic Concept Report for SR 37[13] describes long-term planning strategies that include considerations for multi-modal facilities and public transit options to help achieve the operational concept for the corridor. In addition, the 2018 California State Rail Plan[14] identified this corridor as a significant gap in the statewide passenger rail service network. Finally, SMART conducted a study in 2019 in partnership with CalSTA and

[13] https://hwy37.ucdavis.edu/files/upload/resource/TCR%2037-FINAL-SIGNED.pdf
[14] https://dot.ca.gov/programs/rail-and-mass-transportation/california-state-rail-plan

Caltrans to determine the feasibility of rehabilitating existing rail infrastructure for passenger service between Novato and Suisun City. Currently, there is no full-corridor public transportation service in the corridor, and development of the rail network will help to fill this transit gap for the region.

The 2018 California State Rail Plan also identified the State's interest in the Novato - Napa line as a key segment required for the development of a SMART passenger rail link to Napa and Solano counties. Service goals as identified in the plan are intended to deliver service on strategic interregional corridors that provide critical connections for economic mobility and equitable access to jobs, housing, and medical facilities. The SMART corridor is a critical link for the region and state. Therefore, the 2018 California State Rail Plan set the following service goals:

- By 2022: Establish integrated express bus services to connect the communities north of Windsor with SMART and to connect the Napa Valley with intercity services in Solano County and Martinez.
- By 2027: Provide integrated regional rail service from Larkspur to Cloverdale, increasing the utility of the service and providing a rail link between northern Sonoma County and North Coast communities, including integrated express bus services between Napa County and Suisun-Fairfield.
- 2040: Provide half-hourly peak and hourly off-peak service between Cloverdale and Larkspur and hourly service between Suisun City and Novato, with timed connections to service between Cloverdale and Larkspur.

The acquisition of freight rights in the SMART corridor would secure a significant interregional transportation corridor and close a critical gap in the statewide rail network, as identified in the 2018 California State Rail Plan and the SMART Feasibility Study. The acquisition will foster a rail connection between the Solano and Sacramento regions to the North Bay Area and provide resiliency and redundancy along the congested and flood-prone SR 37 corridor.

Operational and Capital Investment Efficiencies

A public transit agency owning both the passenger and freight rights consolidates control of the corridor. Split ownership of rights on the corridor not only increases operational costs for the public transit provider but can also cause delays and otherwise degrade performance. Because SMART does not own the freight easement, it cannot ensure that it receives a financial benefit from the freight operations on its track to offset increased maintenance costs. This arrangement

limits the ability of the passenger operator to efficiently operate a service that is convenient and attractive to passengers.

Currently, the right-of-way between Healdsburg and the Sonoma-Mendocino county line is owned by NCRA. Depending on how NCRA is dissolved and its assets disposed, this arrangement could cause complications for SMART. Common railroad industry practice when a publicly owned passenger service operator does not own the underlying right-of-way is for the host railroad to charge fees above and beyond maintenance and rehabilitation, as well as the cost of any requested improvements in the corridor. Often, the public agency incurs additional costs to pay for projects the host railroad wants completed, regardless of relevancy to the passenger improvements, and regardless of whether the freight operator will make significant use of the improvements. This is specifically relevant to the cost of capital investments that will be needed as SMART extends north to Cloverdale. With SMART owning the freight rights as well as the passenger rights, investments in infrastructure can be tied directly to their immediate usefulness for both freight and passenger movement, and not be invested in prematurely.

Increasingly, the State is moving towards access agreements, whereby the State, the operator, or another public entity pays the host railroad an access fee for dedicated time slots in the host's operations schedule. This is likely to reduce overall project delivery cost but still require payment to a third party. Additionally, there are delays in delivering projects through a host railroad as all modeling and service improvements must be approved by the host railroad. The proposed transfer of freight rights and right-of-way from NCRA to SMART in the southern section insulates the passenger rail service from this additional cost. Likewise, it helps to solidify its role on the east-west corridor and protect against future conflicts.

Emergency Response

Exclusive ownership of the railroad corridor, including all associated rights-of-way and operations (freight and passenger) by a public passenger rail agency such as SMART would provide increased flexibility and sustainability for the railroad owner and operator. Passenger and freight railroads have different operating characteristics and passengers require on-time performance and useful schedules, whereas a small freight operation can be planned around the passenger schedule. By transferring all rights and ownership to SMART, SMART can better manage the railroad to prioritize on-time-performance and adapt schedules to meet changing market demands. Importantly, on the east-west corridor, SMART's exclusive ownership will also strengthen its important emergency

response role in transporting key personnel and meeting evacuation needs during public emergencies. SMART has been a critical part of the region's emergency response to wildfires in the North Bay in the past. It is anticipated that exclusive ownership of the railroad tracks and rights will provide necessary redundancy, resiliency, and emergency support for future climate change impacts, such as flooding and fire, or other emergency freight or passenger transportation needs.

Secondary Benefits

SMART has established a successful public-private partnership with a broadband internet utility provider. Through this partnership, the utility can economically install fiber optic cable and SMART receives additional funding for rail rehabilitation. Full build-out of the SMART system promises to deliver broadband internet along with passenger rail service to rural communities in the northern part of Sonoma County. The current COVID-19 crisis has demonstrated that internet access is as important for daily life as any other utility. Development of the SMART passenger rail service would be a cost-effective way to deliver physical mobility together with broadband internet to rural Californians.

Assets, Rights, Liabilities, and Abilities to be Transferred

SMART owns the real property from Corte Madera north to Healdsburg and east from Ignacio to the Napa Junction in Lombard, as well as passenger rights as far north as Willits. NCRA owns the real property from Healdsburg north to Humboldt County and the freight rights for both sections of right-of-way. (See Figures 1 and 4, on pages 2 and 16, respectively)

Using state funds, SMART will acquire the freight rights in the active SMART corridor and the east-west freight-only corridor between Ignacio and the Napa Junction (aka Napa River), near Lombard. It will also acquire, through a quit-claim deed from NCRA, both the real property and freight rights between Healdsburg and the Sonoma-Mendocino county line.

As described in the *Background* section of this report, NCRA contracts its freight rights to NWPCo, which is an active, low-volume, short-line, privately held, railroad company. NWPCo has agreed to transfer its rights to SMART, thereby transferring its 99-year lease with NCRA and ceasing its operations as a private rail enterprise south of mile post 89.

SB 1029 amended Public Utilities Code Section 105095 to give SMART the authority to provide both freight and passenger rail service. In May 2020, its Board of Directors adopted a Resolution to acquire the NWPCo freight contract and

manage its freight customers. During this transition period the following actions will, or have already, occurred.

1) SMART will enter into a Baseline Agreement with CalSTA that outlines the deliverables of the freight rights acquisition and provides for the transfer of funds to SMART.

2) SMART will enter into an Asset Transfer Agreement with NWPCo to solidify the terms of the agreement and describe assets, rights, responsibilities, and liabilities to be transferred.

3) NWPCo will formally transfer its freight operations to SMART. This is to include management of the existing freight customers; all freight equipment and railcars; maintenance responsibilities for the railroad right-of-way and crossing signals; and coordination responsibilities with local, state, and federal jurisdictions.

4) NWPCo will formally transfer its freight license, issued by the STB, to SMART for the designated right-of-way.

5) NCRA's Board of Directors adopted a Resolution in May 2020, to approve the transfer of freight rights for the entire SMART corridor south of Healdsburg and the transfer of real property between Healdsburg and the Sonoma-Mendocino county line to SMART.

6) SMART will conduct its own market and feasibility studies to explore continued and/or expanded freight service in its corridor.

While SMART is acquiring a private enterprise with the ability to generate revenue, it is also accepting additional responsibilities and costs. As a public agency, the passenger service operator will have the right to expand its freight customer base and use the profits from freight operations to help cover long-term maintenance costs on the entire rail line, including the freight and passenger portions of the right-of-way. Short-term maintenance, however, will require initial funding.

Measure Q, the voter-approved local ordinance that funds and governs SMART activities within the Counties of Sonoma and Marin, provides funding for the design, construction, implementation, operation, financing, maintenance and management of a passenger rail system and a bicycle/pedestrian pathway connecting the 14 rail stations from Cloverdale to Larkspur. It does not contemplate an east-west passenger rail service, and therefore, cannot fund activities in the Novato to Suisun City corridor without additional funding.

Maintenance activities on the freight-only right-of-way from Novato to the Napa River near Lombard are contractually assigned to NWPCo as its only active rail

operator, and some repairs have been deferred. While SMART is acquiring the NWPCo business, it is also assuming responsibility for an aging infrastructure needing an estimated $10.5 million in one-time track and signal maintenance repairs and an estimated $450,000 in annual flood, fire, track, and signal maintenance, as well as potential safety repairs.

Cost

As previously described, Section 17 of SB 1029 appropriates $4 million to SMART for the purchase of freight rights from NWPCo. In addition, the Legislature appropriated $2 million[15] in Assembly Bill 74, Budget Act 2019-20 to CalSTA for SMART to be used on safety upgrades and maintenance upon acquisition of a freight contract.

Assembly Bill 74, Budget Act of 2019-20 also appropriates $8.8 million for expenses related to dissolving NCRA, including operations, maintenance, and the retirement of outstanding debts. CalSTA was given discretion over the use of those funds and plans to use $2.4 million to retire the Federal Railroad Administration RRIF Loan. Settling this outstanding debt will release both NCRA and NWPCo, as co-borrowers, from their ongoing quarterly payment obligation to the Federal Railroad Administration.

[15] Item 0521 – 101 - 0001 in Assembly Bill 74, (Ting) Budget Act of 2019

SCENARIO ANALYSES

This section describes five plausible scenarios considered by the Task Force during this assessment and lists other alternative options for further exploration.

Scenario 1: NCRA is dissolved, and its right-of-way is liquidated

Scenario 2: NCRA is dissolved, and its right-of-way is converted to a trail

Scenario 3: NCRA is not dissolved, and its mission is amended

Scenario 4: Do nothing

Scenario 5: A new railroad company buys out NCRA

It is important to note that these scenarios address the northern portion of the NCRA rail line, from the Sonoma-Mendocino county line north to Humboldt Bay and Korbel. The southern portion, including real property and freight rights south of the Sonoma-Mendocino county line and east from Ignacio to Lombard is proposed to be transferred from NCRA to SMART, as described previously in this report.

Considerations for Dissolution of NCRA

Scenarios 1, 2, and 5 contemplate dissolution of NCRA. If one of these options is chosen, it will be necessary to address the following issues.

Outstanding Debt

As of December 31, 2019, total known liabilities were $7.4 million. In addition, one outstanding lawsuit was settled by NCRA in May 2020, which will accrue interest until it is paid. NCRA does not have a revenue stream to cover these debts.

Liquidation

Liquidating NCRA's real property and equipment to pay off these debts requires consideration of the following.

1. All property was purchased with state and federal funds. The Funds Transfer Agreements governing those purchases contain language which requires the property to remain in public transportation use or Title IV projects *in perpetuity*. Alternatively, in the event of sale or other alienation of the property, the State and Federal Highway Administration may demand a return of their *pro rata* share of fair market value or may permit their *pro*

rata shares of fair market value be redirected towards other eligible projects. Generally, south of Willits, the State's share is 10 percent and north of Willits is 100 percent. When NCRA has sold excess property in the past, the CTC has sought reimbursement while the Federal Highway Administration has not. See page 32 for details.

2. This assessment did not include an appraisal or market analysis of the potential revenue that could be generated from the liquidation of assets or of the portion of proceeds that could be retained after the State has been reimbursed. Therefore, additional study would be needed to determine if this revenue would be enough to satisfy the outstanding debt, while also allowing state and federal government programs to recoup their investments.

3. This assessment effort did not include acquisition of individual property title reports and therefore, this assessment report does not have documentation of property liens. However, it is anticipated that liens exist on certain parcels, and in its review of contracts, OSAE did identify equipment that was offered as collateral by NCRA. Specifically, this equipment includes 33 rail cars that are the source of NCRA's most reliable revenue for agency funding.

Conversion to Trail

If the property is used for public transportation purposes and the corridor is converted to a trail, the successor agency will likely not assume all the outstanding debts of the dissolved rail entity. (Some liabilities, such as environmental, may remain with the right-of-way.) Absent available funding, a dissolving agency such as NCRA with outstanding debt will likely be forced into bankruptcy. This option is discussed in more detail with Scenario 4, beginning on page 88.

Lease Agreements and Encroachments

With the transfer of real property and freight rights south of the Sonoma-Mendocino county line, SMART will assume responsibility for maintaining any lease agreements that may exist at the time of NCRA's dissolution. Lease agreements on the 252-mile corridor that spans Humboldt, Trinity, and Mendocino Counties, however, will require legal review.

NCRA maintains approximately 127 paid property lease agreements. These include encroachments from neighboring properties or municipalities that may use excess NCRA land or at-grade-crossings. They also include permanent utility leases, such as AT&T phone lines, PG&E power lines, and cell towers. While NCRA established some leases on its own, it did contract with a professional property

manager, by the name of FEC, for several years. This contract requires payment to FEC of 30 percent of all fees collected on leases negotiated by FEC on NCRA's behalf. The lease payments from all sources constitute NCRA's main source of local funding.

In addition, there are unpermitted encroachments that NCRA has not pursued or abated. Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* describes encroachments encountered during field assessment of the corridor, and a list of permitted encroachments was provided by NCRA. This assessment did not cross reference the lists. Dissolution activities will require identifying, addressing, and enforcing property boundary lines.

Liquidation

If NCRA's right-of-way is liquidated at the time of its dissolution, existing lease agreements will need to be assessed on an individual basis depending on the underlying property status. Property that is owned in fee may be offered to the leaseholder to purchase. Property that is owned as a railroad easement may revert to the underlying property owner, who will need to assume or cancel existing lease agreements.

Conversion to Trail

If NCRA's right-of-way is converted to a trail, these agreements will transfer to the successor agency for continued administration and could be a source of minimal agency funding.

Licenses and Permits

As an "active" railroad, NCRA is governed and regulated by the Surface Transportation Board, the Federal Railroad Administration, the California Public Utilities Commission, and various resource-permitting agencies. If the rail line north of the Sonoma-Mendocino county line is dismantled, either to be liquidated or converted to a trail, all three government agencies must be consulted and involved in the process.

- The STB is an independent federal agency charged with the economic regulation of various modes of surface transportation, primarily freight rail. For a railroad to dissolve, it must also file a legal petition for abandonment through the STB[16]. The process is lengthy and involves a public comment period where shippers, receivers, and others have an opportunity to oppose the petition for abandonment. NWPCo currently has fewer than ten regular shippers that it services, and all freight is moved on the southern portion of rail line owned and

[16] In accordance with 49 CFR Part 1152.

managed by SMART. The freight license on the northern portion of the line would need to be addressed as part of the abandonment process and may be denied by the STB.

- The Federal Railroad Administration issues, implements, and enforces railroad safety regulations; invests in rail corridor development and rehabilitation; and is involved in railroad research and technology development.
- The California Public Utilities Commission is the state agency that oversees rail safety in California. The oversight it provides can be broken down into three areas: 1) Railroad Safety; 2) Rail Transit Safety; and 3) Rail Crossing Safety.

Environmental Liability

The NCRA rail corridor contains several types of environmental liabilities which may have to be addressed regardless of a future rail or trail project. As discussed in the *Environmental Liability* section of this assessment report, starting on page 64, overall environmental liability is estimated to be around $4 billion.

While removal of abandoned equipment and rail cars is a high priority for all scenarios considered, the level of subsurface remediation needs more investigation than could be performed during this assessment. It is important to note when considering dissolution of NCRA that the sale of right-of-way containing hazardous material may be complicated and costly and may not relieve NCRA of the liability.

Liquidation

To sell property in California when environmental contamination is a known possibility, a due diligence assessment should be done. Based on the assessment, 39 locations along NCRA's right-of-way were identified to as containing hazardous material. In addition, there may be future locations discovered which, like the known sites, will need further examination and possible remediation prior to liquidation. As the prior property owner, NCRA may be held liable for the cost to remediate contaminants, which may result in a negligible net profit from the sales.

Conversion to Trail

While the station sites identified in the Environmental Consent Decree will need to be remediated, and abandoned equipment removed from the Eel River and along the line, a full remediation may not be required along most of the corridor. Full remediation includes removal, cleansing, and disposal or return of ballast from the railbed. Areas where the track remains intact may not need full remediation and may be capped (covered with soil) instead. More-detailed project design and environmental studies will determine the exact level of contamination and

remediation required for the proposed use. Please see the *Environmental Liability* section starting on page 64 for more detail.

Transitional Administration

Given NCRA's tenuous financial circumstances, it has been contemplated that NCRA may dissolve immediately and its holdings transferred to an interim agency for administration and to manage the liquidation or railbanking process. This option may complicate rather than simplify matters because of NCRA's outstanding debt, potential environmental liability, known and unknown litigation, and numerous lease agreements. Therefore, if NCRA is dissolved, it would be prudent to have a plan in place to address all outstanding issues as well as to manage, liquidate or transfer its assets.

Scenario 1: NCRA is Dissolved, Right-of-Way is Liquidated

In addition to the dissolution considerations described above (outstanding debt, lease agreements and encroachments, licenses and permits, and environmental liability), there are conditions unique to liquidation that must be considered.

Future Rail Opportunities on North Coast Will Be Dissolved Along with NCRA

Acquisition of a contiguous corridor that has low sloping grades, meandering curves conducive to railroads, and connects the Bay Area with Humboldt Bay was difficult in the 1880's due to private property ownership and existing development. Contemplating the possibility of recreating this corridor at some point in the future is daunting. If the NCRA right-of-way is liquidated, the likelihood of acquiring a similar corridor for any use is expected to be astronomically more expensive, time consuming, and complex than retaining the existing corridor.

This policy decision will have far reaching effects for future freight and passenger rail, as well as the current proposed interim use as an active transportation commuter and recreational path.

Title Searches & Reversionary Clauses

If the corridor is liquidated, a detailed examination of individual title reports will be necessary. Based on the DGS assessment, there are more than 2,800 parcels that will need to be reviewed for reversionary clauses prior to disposition. This is discussed in detail on pages 29 and 35.

Sale of Property Owned in Fee

As previously discussed on page 32, fair market value proceeds from the sale of property and equipment purchased with public funds must be returned to the State in the *pro rata* proportion used in the original acquisition (or directed to eligible public transportation projects) and may result in a negative net value when assets are liquidated.

Existing Lease Agreements and Contracts

NCRA maintains many long-term lease agreements and contracts with public utilities, local jurisdictions, private property owners, and other railroads. These agreements may be transferrable to the new owner and will need to be assessed on an individual basis. There may be zoning restrictions enacted by local jurisdictions to protect existing permitted infrastructure (i.e. constructed rail-with-trail segments, and public utilities) that could limit legal uses of the liquidated right-of-way. Federal regulations may govern the assignment or transfer of contracts, depending on their substance. Specific contract review and concomitant research is necessary to resolve this issue.

Impacts on the State

Rail Connectivity

Liquidation of the NCRA right-of-way would eliminate freight and passenger railroad service possibilities in the existing rail corridor through Humboldt, Trinity, and Mendocino Counties from the Bay Area to Humboldt Bay. Liquidation would eliminate a contiguous transportation route that could serve multi-modal purposes, such as an active transportation commuter path and recreational trail, as well as a possible alternate parallel route to US 101 in the region.

Cost to State vs Cost to Local Jurisdictions

Because It is not clear if NCRA is a "local" or "state" agency, or a "special district" it becomes difficult to determine which jurisdiction would manage liquidation of the right-of-way. Liquidation is further complicated because NCRA is a regional railroad with federal oversight under the Federal Railroad Administration and the Surface Transportation Board.

If the right-of-way were to convert to local control, as it does for other local agencies or special districts, the state Government Code provides for the management under The Cortese-Knox-Hertzberg Local Reorganization Act of 2000 (Government Code Section 56036, et seq.). This statute defines a "district" as "an agency of the state, formed pursuant to general law or special act [*id est* Cal. Gov. C. § 93020 et seq.], for the local performance of governmental or

proprietary functions within limited boundaries and in areas outside distinct boundaries when authorized… pursuant to (Government Code) Section 56133[17]".

Because Local Agency Formation Commissions (LAFCO) are organized by county, all four counties with NCRA right-of-way (Humboldt, Mendocino, Trinity, and Sonoma) would have to participate. The individual LAFCOs would need to coordinate and either 1) reach a consensus that one county would take the lead management role or 2) Balkanize the alignment, which would complicate any attempt to railbank.

Alternatively, if a state-legislated railroad with federal oversight dissolves, management is likely to fall back on the State. Generally, DGS takes on management of abandoned state-owned right-of-way. Considering the length of the railroad and complicating factors, this would be a significant new responsibility for DGS.

Scenario 2: NCRA is Dissolved, Right-of Way Converted to a Trail

In addition to the dissolution considerations described above (outstanding debt; lease agreements and encroachments; licenses and permits; and environmental liability), there are conditions unique to conversion to a trail that must be addressed.

Designating a Successor Entity and Determining Effective Trail Governance

Before railbanking and converting the right-of-way to a trail can be pursued, a trail manager must be identified. As described in the *Governance Structure Options* section starting on page 41, the trail management entity, or successor agency, must have enough resources to: 1) handle the railbanking process; 2) maintain the 252-mile corridor, including weed abatement and emergency repairs; 3) maintain existing lease and contractual agreements; and 4) work with local, state, and federal agencies to properly study, remediate, and construct the trail.

As NCRA's organizational structure has shown, the successor entity will need financial support if it is to be successful in its ongoing mission to convert the rail to trail. Please refer to Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for additional details.

[17] Cal. Gov. C. § 56036(a)

Railbanking Process and Transfer of Assets/Liabilities to a Successor

Due to the property ownership complications described earlier, specifically the reversionary clauses, NCRA's right-of-way will need the additional protections afforded a railbanked corridor and financially viable successor agency before it is converted from a rail to a trail corridor. If this step is missed, the corridor is anticipated to lose significant gaps in ownership to underlying property owners, and the proposed trail would abruptly end at the property line or be forced to find alternate routes around the obstructions. Trail proponents would be met with additional complications and cost, while out-of-way travel would significantly increase for trail users, including commuters. Please see Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for additional details.

Environmental Hazards of Converting a Railroad to a Trail

Trail design is a significant factor in determining the level of environmental remediation required. Allowing members of the public to walk on former railroad grades and infrastructure may expose them to potential environmental hazards that they would not be exposed to otherwise. If the rail corridor is converted to a trail, a master planning process would include developing preliminary plans and design leading to the initiation of environmental studies. The environmental hazards identified in this assessment (*Environmental Liability,* starting on page 64*)* are based on previous studies and observed conditions during field visits. Further detailed assessments will be necessary for each section of trail.

Trail Master Planning, Stakeholder Involvement, and Cost

Before additional environmental studies or trail conversion can take place, NCRA's successor agency will need to develop a thorough trail master plan. This – 1-year to –3-year process will allow trail proponents to work with stakeholders on identifying opportunities and constraints; establish project development partnerships; and develop an overall theme for the trail; or sections of the trail. It must also identify a funding source to cover the expenses associated with trail development and eventual trail construction. See Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report* for additional detail.

Impacts on the State

Rail Connectivity

Scenario 2 proposes to stop all railroad services north of the Sonoma-Mendocino county line. Rail has not operated in this section of the corridor for 25 years, so rail connectivity concerns that currently exist will continue. It would be beneficial to

the state's rail network in the long-term to preserve and maintain NCRA's right-of-way through the railbanking process for future railroad use when it becomes economically viable to rehabilitate freight and/or passenger rail in the region.

Public Health and Greenhouse Gas Emissions

Currently, trains are not running in the corridor or emitting greenhouse gases on the northern segment of NCRA's rail line. Therefore, conversion of the rail to a trail will have a negligible impact on air emissions. However, the trail would have public health benefits. As an easy-access multi-use commuter and recreational trail, this active transportation corridor is estimated to attract approximately 1.4 million annual trail users, or 3,800 daily users. Please see the discussion *Economic and Public Health Benefits* on page 60 and Appendix D, for additional detail.

Cost to State vs Cost to Local Jurisdictions

As discussed previously in the *Governance Structure Options* Section starting on page 41 and in more detail in Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report,* the organizational structure chosen for the trail management agency will determine costs to the State versus costs to local jurisdictions. For Scenario 2, which is to convert the rail to a trail, it is important for the project's success to establish a strong, fiscally viable, successor agency that has the staff resources to meet its mandate.

Scenario 3: NCRA is Not Dissolved, and its Mission is Amended

Another potential scenario involves amending the legislative mandate to allow NCRA to railbank its own right-of-way and convert it to a trail. See the discussion starting on page 49 and Appendix D, *Part II*, for a detailed discussion of NCRA's existing governance structure.

In this scenario, NCRA is both the railroad owner *and* the trail management successor agency. NCRA would need to file abandonment of the railroad with the STB and then proceed with the Railbanking process. While the Task Force found no legal issues to preclude NCRA from taking this action, it did identify the following issues to address for a successful trail development project.

Staff Expertise

During the year and a half that this assessment was being conducted, NCRA's Board of Directors underwent a complete overhaul, with new members having knowledge or experience with trails rather than railroad and freight industries.

Staffing has also undergone some changes, with NCRA's long-time legal counsel being replaced with County Counsel from Sonoma County.

NCRA maintains two full time staff (Executive Director and Administrative Assistant) with additional support from on-call contractors (accountant, engineer, legal, property management etc.). See Appendices B and D for more detailed information on the finances and existing governance structure of NCRA.

For a trail management agency to successfully railbank and implement a trail in NCRA's corridor, it would need to hire staff with expertise in environmental studies, public outreach, master trail planning, and trail construction. While much of the specialized work could be contracted out, it is estimated that NCRA would still require in-house staff with subject matter knowledge to adequately manage the contracts and oversee the effort.

However, NCRA's existing local revenue may not be sufficient to support the necessary skilled and professional staff. (See page 49 for additional information.)

Capital Project Funding

With a new mandate focused on trails, NCRA could qualify to apply for capital project funding that it has not had access to in the past. Because NCRA will be a new grantee to these state and federal programs, it is anticipated that NCRA would need to submit to pre- and post- award audits. NCRA previously received a designation of "High-Risk Grantee" by Caltrans Office of External Audits and Investigations and would need to demonstrate effective financial management to be competitive for capital funding.

Other Issues

As described in the first two scenarios, NCRA, the trail manager, would need to address the following:

1. Outstanding Debt
2. Lease Agreements and Encroachments
3. Licenses and Permits
4. Environmental Liability

Structural Adjustment of NCRA

As described in Part II, Appendix D, *Great Redwood Trail Feasibility, Governance, and Railbanking Report,* NCRA's creation left its staff with the challenge of rehabilitating an aged and decrepit railroad with no dedicated funding source.

The result was an ineffective, quasi-governmental agency that limped along on a shoestring budget for nearly 30 years.

If NCRA is expected to shift gears and take on a new trail management mandate, it is vital that NCRA be restructured to avoid the management and oversight problems discussed starting on page 49 and in Appendix D, Part II. A restructured NCRA should 1) clarify the type of entity it is (local, state, private, special district etc.); 2) identify a source of funding to satisfy all outstanding debt; 3) identify a reliable funding source to adequately cover ongoing staffing and maintenance needs; and 4) identify potential sources of capital project funding. Any public fund involvement should include an oversight agency, be auditable, and assist NCRA to lift its "High-Risk Grantee" designation from Caltrans.

Scenario 4: NCRA Maintains Status Quo

If NCRA is not dissolved, sold, or converted to a trail manager, it is reasonable to assume that NCRA could be forced into bankruptcy. With a calculated net value of (-) $7.2 million, a lack of revenue generating options, a growing list of potential litigants, and a shifting political environment, it is not likely that NCRA will continue to survive on its own.

A Chapter 9 bankruptcy filing could allow NCRA to retain its assets. However, it would need to establish itself as a "municipality" as defined in federal Bankruptcy Code 11 U.S.C. §101(40). Alternatively, a Chapter 11 filing for corporations may require an organizational restructuring and liquidation of assets, in which case, the rail corridor, and the State's investment ($102 million over the last 30 years), could be lost through liquidation by the trustee. A bankruptcy lawyer should be consulted for more detailed information.

Creditors affected by a bankruptcy proceeding are described in the *Financial Assessment* section starting on page 20 and detailed in Appendix C, *OSAE Calculate Value of Net Assets Report*. For the most part, debt holders are independent contractors and small, disadvantaged businesses, with one exception; the Federal Railroad Administration RRIF Loan. While the State is not a co-borrower on the loan, it is not advisable to allow the loan to default.

Deferred maintenance along the corridor would continue to challenge local jurisdictions. Weed abatement, for example, is often conducted by cities and counties on NCRA's right-of-way to reduce fire hazard and vagrancy, which NCRA is billed for after the fact.

Local jurisdictions in Humboldt and Mendocino counties are actively planning and building rail-with-trail segments on NCRA right-of-way. Several segments

have been completed within the last few years and more are close to construction. As described on page 59, it is anticipated that within the populated areas around Humboldt Bay, and within the cities of Ukiah and Willits, local jurisdictions will continue to implement rail-with-trail projects.

Finally, environmental rehabilitation at station sites and in the Eel River Canyon are expected to continue being unaddressed.

Scenario 5: New Railroad Buys Out NCRA

NCRA could sell its right-of-way to a private rail operator. However, with no strong economic draw on the north coast, the associated environmental liability, and costs to rehabilitate the line, the probability of a private railroad company acquiring NCRA is low. The Task Force did not analyze this scenario and no interested parties reached out during the assessment period.

Figure 21. Overgrown foliage

Figure 22. Scenic Eel River Canyon

CONCLUSION

This assessment examined NCRA's known assets and liabilities to inform the Legislature and provide alternatives for dissolving the railroad, dispensing its assets, addressing its liabilities, and examining the constructability of a Great Redwood Trail on the NCRA alignment.

OSAE conducted a *Calculated Value of Net Assets* assessment (Appendix C) by examining NCRA's financial and inventory records; reviewing existing contracts, lease agreements, and legal settlements; and estimating contingent liabilities where possible. OSAE concluded that NCRA has a negative calculated value of net assets of (-) $7.2 million as of December 31, 2019.

The State Parks assessment (Appendix D) evaluated the feasibility of converting the railroad line to a 252-mile multi-use trail and examined options for successor agency governance structures. The assessment included an examination of physical, environmental, and cultural constraints as well as opportunities and planning-level cost estimates. State Parks concluded that although the NCRA railroad corridor is conducive to trail construction and would provide a scenic tourist attraction and active transportation commuter route, the proposed Great Redwood Trail presents significant engineering challenges and high costs. Planning level, full-buildout cost estimates for the entire trail are approximately $1 billion with a cost reduction potential of $86 million. These estimates do not include potentially significant environmental remediation costs estimated at $4 billion that may be required prior to project construction. State Parks also concluded that a central governance structure is preferred to most efficiently meet the railbanking requirements to manage and maintain a multi-jurisdictional trail. A central governing agency should own the entire corridor, have a clear reporting structure, and have a consistent annual funding stream.

The Department of General Services compiled two databases, 1) NCRA – Fee Right-of-way BOE Surveyor Maps Reference, and 2) NCRA Agreements and Contracts. The first database includes 1,800 lines of parcel data for NCRA's right-of-way. The second database is focused on NCRA's agreements and contracts. Both databases have been converted to Adobe Acrobat and are available for viewing on the project website: https://calsta.ca.gov/subject-areas/reports.

The five scenarios explored and assessed consider the dissolution of NCRA, the significant fiscal and legal challenges, and the potential to change the landscape of rail transportation on the North Coast for many years to come.

While the proposed Great Redwood Trail would require significant capital expenditures to restore NCRA right-of-way for use as a trail, it would preserve the rail corridor for future rail use and provides a unique active transportation route for local commuters and recreational tourists.

Next Steps

Because NCRA was created by legislation, its dissolution will likewise require legislation. In addition to dissolving or recasting NCRA, dissolution legislation should address whether to liquidate, sell to another railroad company, or railbank the right-of-way; identify or create a successor trail management agency with a clearly defined governance structure and oversight mechanism; and identify a reliable revenue stream to support that agency. NCRA's right-of-way spans five counties and any changes in use will directly or indirectly affect residents of the entire North Coast region. Prior to liquidation or conversion of the right-of-way, it would be prudent to incorporate stakeholder concerns into the next phase of the project.

While NCRA's fate is considered by the Legislature, NCRA will need to continue to manage the right-of-way, honor existing lease agreements, and complete the railbanking process together with a successor agency.

This report and all appendices are available to the public on the CalSTA website at: https://calsta.ca.gov/subject-areas/reports

Hard copies of this report can be requested from CalSTA at (916) 323-5400.

APPENDIX A.
Statutory Reporting References

GOVERNMENT CODE 13978.9

TITLE 2. GOVERNMENT OF THE STATE OF CALIFORNIA
DIVISION 3. EXECUTIVE DEPARTMENT
PART 4.5. TRANSPORTATION AGENCY

CHAPTER 1. General Duties and Powers

Section 13978.9 (a) Upon the appropriation of moneys by the Legislature for these purposes, the Transportation Agency, in consultation with the Natural Resources Agency, shall conduct an assessment of NCRA to provide information necessary to determine the most appropriate way to dissolve NCRA and dispense with its assets and liabilities. The Transportation Agency shall report to the Legislature before July 1, 2020, on its findings and recommendations from the assessment. The report shall include, but not be limited to, all of the following:

(1) An assessment of NCRA's debts, liabilities, contractual obligations, and litigation.

(2) An assessment of NCRA's assets, including property, rights-of-way, easements, and equipment.

(3) An assessment of NCRA's freight contractor lease, including the contractor's assets and liabilities to the extent that information is available.

(4) A preliminary assessment of the viability of constructing a trail on the entirety of, or a portion of, the property, rights-of-way, or easements owned by NCRA, and recommendations relating to the possible construction of a trail, including both of the following:

(A) Options for railbanking and the governance structure or ownership structure for a new or successor entity that is necessary to railbank property, rights-of-way, and easements along the rail corridor.

(B) A preliminary assessment of which portions of the terrain along the rail corridor may be suitable for a trail.

(5) An assessment of the options for transferring the southern portion of the rail corridor to the Sonoma-Marin Area Rail Transit District and recommendations on the specific assets and liabilities that could be transferred, including rights or abilities to operate freight rail.

(b) The Transportation Agency and the Natural Resources Agency may request the Department of General Services, the Department of Finance, or any department within their agencies, or contract with other entities, to perform the

work the agencies deem necessary to carry out the duties described in this section. Any work done by the Department of General Services, the Department of Finance, or any department within the agencies pursuant to such a request may be conducted using the power and authority of the requested department.

(c) The Transportation Agency shall prioritize the assessment of the southern portion of the rail corridor and may separately report information related to the potential transfer of the southern portion of the rail corridor to the Sonoma-Marin Area Rail Transit District. It is the intent of the Legislature that information and recommendations regarding the potential transfer of the southern portion of the rail corridor to the Sonoma-Marin Area Rail Transit District be provided as expeditiously as possible and not be delayed due to the potential complexity of assessing the northern portion of the rail corridor.

(d) (1) A report to be submitted pursuant to this section shall be submitted in compliance with Section 9795.

(2) Pursuant to Section 10231.5, this section is repealed on January 1, 2024.

GOVERNMENT CODE 93000-93005

TITLE 12. NORTH COAST RAILROAD AUTHORITY

CHAPTER 1. General Provisions

Section 93000. This title shall be known and may be cited as NCRA Closure and Transition to Trails Act.

Section 93003. The Legislature finds and declares that it is in the public interest to dissolve the authority, and to transfer its rights-of-way to other entities for the purpose of potentially developing a trail that could include railbanking and continuing freight where it was operational on January 1, 2018.

GOVERNMENT CODE 93010-93012

TITLE 12. NORTH COAST RAILROAD AUTHORITY

CHAPTER 2. Creation of Authority

Section 93010. (a) The authority is hereby created, having a service area comprising the Counties of Humboldt, Mendocino, Sonoma, and Trinity.

(b) The County of Marin may elect to join the authority and, if that election is made, the authority is expanded to include that county.

GOVERNMENT CODE 93020-93025

TITLE 12. NORTH COAST RAILROAD AUTHORITY

CHAPTER 3. Powers and Duties of Authority

Section 93020. (a) The authority has all of the following powers:

(1) To acquire, own, operate, and lease real and personal property reasonably related to the furtherance of the purposes of this title, the planned transfer of all of its assets, and its dissolution. Any sale, easement, or lease entered into by the authority after August 1, 2018, shall be approved by the California Transportation Commission.

(2) To operate railroads along the rights-of-way where they were in operation on January 1, 2018.

(3) To accept grants or loans from state or federal agencies.

(4) To employ an executive officer, other staff, and consultants deemed appropriate for support of the activities of the authority, to further the purposes of this title.

(b) The authority shall do all of the following:

(1) In coordination with state agencies, immediately begin planning for the transfer of all of the authority's assets and liabilities and for the dissolution of the authority.

(2) Cooperate with its freight contractor to continue freight operations along the rights-of-way where they were in operation on January 1, 2018.

(3) Cooperate with, and provide information upon request to, the Transportation Agency, Natural Resources Agency, or other state or local agencies or contractors working at the direction of the Transportation Agency or Natural Resources Agency.

(4) Cooperate fully with the assessment conducted pursuant to Section 13978.9.

Section 93021. The authority may acquire, own, lease, and operate railroad lines and equipment, including, but not limited to, real and personal property, tracks, rights-of-way, equipment, and facilities, to further the purposes of this title.

Section 93022. The authority shall cooperate with the assessment conducted by the Transportation Agency and Natural Resources Agency pursuant to Section 13978.9, and shall provide access to all authority records, files, documents, accounts, reports, correspondence, and financial affairs to the agencies, and any entity conducting the assessment for the agencies, pursuant to Section 13978.9.

PUBLIC UTILITIES CODE 105095

DIVISION 10. TRANSIT DISTRICTS
PART 16. SONOMA-MARIN AREA RAIL TRANSIT DISTRICT
CHAPTER 4. Powers and Functions of the District
ARTICLE 4. Rail Transit Facilities and Services

105095. The district may provide a rail transit system for the transportation of passengers and their incidental baggage by rail and provision of freight service by rail.

APPENDIX B.
Public Investment in the NCRA Rail Corridor

The California State Legislature has committed more than $100 million to the NWP line since NCRA was created in 1989. The following breakdown identifies the source and year of funding; the dollar amount programmed and allocated; and the purpose for the expenditure. These historical records of fund disbursement have been gathered by the Task Force and verified by Caltrans, California Transportation Commission, and NCRA. Public Fund Investment in the NCRA Rail Corridor 1989-2020.

Table 5. Public Fund Investment in the NCRA Rail Corridor 1989-2020

Date	Purpose	Fund	Source	Agency	Amount
Property and Equipment Acquisition					
1991-1992	**Willits to Korbel** *Title acquired in the name of NCRA*	Prop 116	State	NCRA	$ 6,100,000
1996	**"Willits Segment"** (Healdsburg to Willits and 4 stations) *Title acquired in the name of NCRA*	TCI / TP&D	State	NCRA	$ 596,031
1996	**"Willits Segment"** (Healdsburg to Willits) *Title acquired in the name of NCRA*; and "**Healdsburg Segment"** (Novato to Healdsburg) and **"Lombard Segment"** (Ignacio to Lombard) *Title acquired in the name of NWPRA*	Q-Fund Loan	Fed	NCRA	$ 12,000,000
2003	36 Freight Rail Cars, Emergency Repairs to Black Point Bridge	FEMA / OES	Fed	NCRA	$ 7,900,000
1995	**"Healdsburg Segment"** (Novato to Healdsburg) and **"Lombard Segment"** (Ignacio to Lombard) *Title acquired in the name of NWPRA*	HR2 Demo Project	Fed	NWPRA	$ 9,770,649
1995		ISTEA Demo Project	Fed	NWPRA	$ 6,179,351
1995		TCI / TP&D	State	NWPRA	$ 1,488,500
1995		TCI / TP&D	State	NWPRA	$ 765,469
				SUBTOTAL	**$ 44,800,000**

Table 5. (continued)

Rail Rehab / Capital Projects - Humboldt					
1991	*Appropriated, not allocated*	Prop 116	State	NCRA	$ 72,285
1993-1994	Phase II Capital Improvements - Humboldt	Prop 116	State	NCRA	$ 1,885,923
2004	Tie Replacements (Northern Projects)	Prop 116	State	NCRA	$ 410,706
1996	Short-Line Rail Rehab (Northern Projects)	TCI / TP&D	State	NCRA	$ 703,990
1995	Willits to Eureka- Phase IV Rehab Project	TCI / TP&D	State	NCRA	$ 150,000
1995	Willits to Eureka- Phase IV Rehab Project	TCI / TP&D	State	NCRA	$ 240,000
1995	Willits to Eureka- Phase IV Rehab Project	TCI / TP&D	State	NCRA	$ 456,730
1996	Short line Rehab phase IV-C Project	TCI / TP&D	State	NCRA	$ 48,472
2010	Novato Quiet Zones, Signal Repair, Black Point Bridge Automation	ISTEA Demo Project	State	NCRA / SMART	$ 8,572,172
				SUBTOTAL	**$ 12,540,278**

Rail Rehab / Capital Projects - Mendocino					
1993-19994	Phase II Capital Improvements – Mendocino	Prop 116	State	NCRA	$ 1,257,282
2004	Tie Replacements (Northern Projects)	Prop 116	State	NCRA	$ 273,804
1995	Willits to Eureka- Phase IV Rehab Project	TCI / TP&D	State	NCRA	$ 150,000
2000	TCRP 32.2 - Rail Rehab Windsor to Willits	TCRP	State	NCRA	$ 600,000
2006	TCRP 32.4 - Marin Levee Repairs/Rehab	TCRP	State	NCRA	$ 1,475,000
2007	TCRP 32.4 - Fields Landing Levee Repair	TCRP	State	NCRA	$ 690,000
2007	TCRP 32.4 - Schellville Rail Levee Repair	TCRP	State	NCRA	$ 2,084,000
2007	TCRP 32.9 - Russian River Crossing Signals	TCRP	State	NCRA	$ 1,530,000
2007	TCRP 32.9 - Russian River Crossing Signals	TCRP	State	NCRA	$ 7,495,000
2007	TCRP 32.9 - Tracks Windsor to Lombard	TCRP	State	NCRA	$ 13,588,000
2008	TCRP 32.9 - Russian River Rehab	TCRP	State	NCRA	$ 1,561,000
2011	Windsor to Lombard Rail Rehab	RRIF Loan	Fed	NCRA / NWPCo	$ 3,200,000
				SUBTOTAL	**$ 33,904,086**

Table 5. (continued)

Rail Rehab / Capital Projects - Marin					
1996	Marin Station Site Improvements	TCI / TP&D	State	NWPRA	$ 2,300,000
				SUBTOTAL	**$ 2,300,000**
Plans, Specs, & Estimate / Project Approval & Environmental Documents					
2000	TCRP 32.3 Capital Assessment Willits North	TCRP	State	NCRA	$ 400,000
2006	TCRP 32.3 - Russian River EIR	TCRP	State	NCRA	$ 600,000
2001	TCRP 32.4 - Capital Assessment	TCRP	State	NCRA	$ 100,000
2006	TCRP 32.4 - Russian River EIR	TCRP	State	NCRA	$ 651,000
2000	TCRP 32.5 - Env. Consent Decree Remediation (Programmed, not Allocated)	TCRP	State	NCRA	$ 2,665,000
2001	TCRP 32.5 - Env. Consent Decree Studies	TCRP	State	NCRA	$ 100,000
2002	TCRP 32.5 - Env. Consent Decree Remediation	TCRP	State	NCRA	$ 1,046,000
2006	TCRP 32.5 - Env. Consent Decree Studies	TCRP	State	NCRA	$ 289,000
2006	TCRP 32.9 - Russian River EIR	TCRP	State	NCRA	$ 6,826,000
				SUBTOTAL	**$ 12,677,000**
Debt Reduction					
2000	Q-Fund Trust Account	TCI / TP&D	State	NCRA	$ 810,550
2000	TCRP 32.6 - Debt Reduction	TCRP	State	NCRA	$ 10,000,000
				SUBTOTAL	**$ 10,810,550**
Defray Administrative Costs					
2000-2001	TCRP 32.1 - Defray Admin Costs	TCRP	State	NCRA	$ 1,000,000
				SUBTOTAL	**$ 1,000,000**
Local Match for Federal Aid Awards					
2001	TCRP 32.8 - (Allocation returned to State)	TCRP	State	NCRA	$ 5,500,000
				SUBTOTAL	**$ 5,500,000**
Dissolution Expenses - SB 1029					
2020	Assessment Studies	2018-19 Gen Fund	State	CalSTA to Task Force	$ 3,000,000
2020	SMART acquire freight rights (Healdsburg to Lombard)	2019-20 PTA	State	CalSTA to SMART	$ 4,000,000
2020	2019/2020 NCRA Agency Operating Costs	2019-20 Gen Fund	State	CalSTA to NCRA	$ 500,000

Table 5. (continued)

2020	Rail Rehab	2019-20 Gen Fund	State	CalSTA to SMART	$ 2,000,000
2020	Legal Fees - EIR Consent Decree	2019-20 Gen Fund	State	CalSTA to Litigant	$ 2,000,000
2020	RRIF Loan Payoff	2019-20 Gen Fund	State	CalSTA to FRA	$2,400,000
2020	Dissolution Expenses - TBD	2019-20 Gen Fund	State	CalSTA	$ 3,900,000
				SUBTOTAL	**$ 17,800,000**
		TOTAL State Investment		$102,281,914	
		TOTAL Federal Investment		$39,050,000	
		TOTAL Public Investment in NWP Line		**$141,331,914**	

*Except for the SB 1029 appropriations, the total expended on the NWP Line does not include funds that may have been granted to, or expended by, SMART after the dissolution of NWPRA.

State Programs

Proposition 116 *$10,000,000*

The Clean Air and Transportation Improvement Act of 1990, also known as Prop 116 is a voter-approved state proposition which designates $1.99 billion for specific projects, purposes, and geographic jurisdictions, primarily for passenger rail capital projects. In the NWP Corridor, these funds have been used for right-of-way acquisition for both NCRA and NWPRA/SMART, as well as rehabilitation projects.

Transit Capital Improvement (TCI / TP&D) *$7,509,742*

Transportation Planning & Development (TP&D) Funds are generated from sales tax on diesel fuel, sales tax due to state tax on gasoline above nine cents per gallon, and "over spill" sales tax (4.75 percent tax on taxable goods, including gasoline, in excess of revenue generated from 5 percent state sales tax on all taxable good, except gasoline). Transit Capital Improvement Program is an annual state program funded by the California Transportation Commission with TP&D and Article XIX (state gas tax) funds. Eligible uses include abandoned railroad rights-of-way acquisition; bus rehabilitation; fixed guideway/rolling stock for commuter rail, urban rail, and intercity rail; grade separation; intermodal transfer stations serving various transportation modes, ferry projects, vessels, and terminals; and short-line railroad rehabilitation. In the Northwestern Pacific Railroad corridor these funds were used as "local match" to leverage federal aid funds to acquire right-of-way south of Willits and for rehabilitation projects along the line.

Traffic Congestion Relief Program (TCRP) *$60,000,000*

The Traffic Congestion Relief Program was in effect during the years 2000 – 2018. It was created by the Legislature to provide funding for transportation projects that would improve traffic mobility and relieve congestion; connect transportation systems; and provide for better goods movement. A total of $60 million was appropriated to NCRA and was split into nine different projects (32.1 – 32.9) for use on the entire rail line. These projects covered administration costs; outstanding debts; environmental consent decree projects; "local match" for appropriations in the federal reauthorization bill of 1991, The Intermodal Surface Transportation Efficiency Act (better known as ISTEA); Q-fund trust deposit (see below for more detail); environmental studies; and long-term stabilization/rehabilitation projects.

Public Transportation Account (PTA) *$4,000,000*

The Public Transportation Account is comprised of bond proceeds allocated to capital projects and the sales tax on diesel fuel and can be used for either capital projects or agency operations. SB1029 appropriated these funds to CalSTA for SMART to purchase NWPCo's freight rights and rail equipment.

General Fund *$13,800,000*

The state General Fund makes up the bulk of the annual California State budget (with 75 percent of all appropriations) and allocating monies to state operations and payments to localities. A total of $13.8 million has been appropriated to CalSTA in the State Budget Act of 2019-20 for conducting this assessment; for track rehabilitation in the SMART corridor; and for expenses related to the dissolution of NCRA.

Federal Programs

ISTEA (Fund 368) *$15,000,000*

The federal transportation reauthorization bill, or Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), appropriated funds in Section 1108, Project 13 for Intermodal projects in Northern California for the purchase of right-of-way and to develop a transportation corridor in the existing rail right-of-way from Larkspur to Korbel, and Novato to Lombard. Roughly $4 million of this appropriation was used for right-of-way acquisition, and the remaining $11 million funded rail and depot rehabilitation projects, such as the Ukiah Depot building, in both NCRA and NWPRA corridors.

Q-Fund Loan *$12,000,000*

The federal Q-Fund Loan program provided funding from the Federal Highway Administration Right-of-Way Revolving Fund as authorized by 23 CFR, Chapter I, Subchapter G, Part 712, Subpart G, also known as "Q- Funds." The purpose of the

April 1996 loan was to match state funding in the acquisition of the historic Northwestern Pacific Railroad right-of-way from Larkspur to Willits and Novato to Lombard, also known as the "Willits," "Healdsburg," and "Lombard" segments. As previously described, NCRA retained the Willits segment while NWPRA retained the Healdsburg and Lombard segments and NCRA assumed the entire $12,000,000 loan liability. In the Traffic Congestion Relief Program created in 2000, the Legislature appropriate $5.5 million to help alleviate this debt. The Traffic Congestion Relief Program funds were transferred to a trust fund account, the balance of which was expected to grow with accrued interest and regular deposits by NCRA. The trust account remitted periodic payments on the debt until the balance of the Q-Fund Loan was forgiven under Section 1915 of the 2005 federal transportation reauthorization bill, The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (commonly referred to as SAFETEA-LU), and the remaining state funds were returned to the Traffic Congestion Relief Program.

HR2 (1987) Demonstration Projects (Funds 307, 309) *$9,770,649*

These federal demonstration funds were provided in Section 149(a)(41)(B) of the 1987 federal transportation reauthorization bill, The Surface Transportation and Uniform Relocation Assistance Act adopted in April 1987. The legislation directed the US Secretary of Transportation to carry out a highway project for the purpose of demonstrating the extent to which traffic congestion is relieved on a major north-south segment of the Federal-aid primary system by construction of high occupancy vehicle lanes along a right-of-way which is parallel to a north-south arterial which connects Santa Rosa and Petaluma and connects San Rafael and Healdsburg. These "Demonstration Funds" were used on the Healdsburg and Lombard segment right-of-way acquisitions for NWPRA.

Railroad Rehabilitation & Improvement Financing (RRIF) *$3,180,000*

The Railroad Rehabilitation and Improvement Financing (RRIF) program was established by the 1998 federal transportation reauthorization bill, The Transportation Equity Act for the 21st Century (TEA-21). Under this program, the Federal Railroad Administration is authorized to provide direct loans and loan guarantees up to $35 billion to finance development of railroad infrastructure. Direct loans can fund up to 100 percent of a railroad project with repayment periods of up to 35 years and interest rates equal to the cost of the borrowing by the government. NCRA and NWPCo are co-borrowers on this loan, which funded the final rehabilitation of Windsor to Lombard. This is discussed in more detail in the *Liabilities* section.

APPENDIX C.
OSAE Calculated Value of Net Assets Report

The report titled *North Coast Railroad Authority Calculated Value of Net Assets as of December 31, 2019"* is available for viewing on the project website: https://calsta.ca.gov/subject-areas/reports.

APPENDIX D.
Great Redwood Trail Feasibility, Governance, and Railbanking Report

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Due to file size, both Part I and Part II of the *Great Redwood Trail Feasibility, Governance, and Railbanking Report* are available for viewing on the project website: https://calsta.ca.gov/subject-areas/reports.

APPENDIX E.
DGS Databases

DGS compiled two separate databases, 1) NCRA – Fee Right-of-way BOE Surveyor Maps Reference, and 2) NCRA Agreements and Contracts.

The first database includes 1800 lines of parcel data for NCRA's right-of-way. This information is a compilation of data from surveyors maps and includes the following data: map references, Grantor, Grantee, type of land acquisition and date, record date, acreage, and deed number.

The second database focused on NCRA's agreements and contracts. Data included in this spreadsheet include: purpose of the agreement, county, reference links, type of agreement, options included, and payment terms.

Both databases have been converted to Adobe Acrobat and are available for viewing on the project website: https://calsta.ca.gov/subject-areas/reports.

APPENDIX F.
Environmental Liability of the NCRA Corridor

The memorandum titled "Environmental Liability of the North Coast Railroad Authority Corridor" is available for viewing on the project website: https://calsta.ca.gov/subject-areas/reports.