Memorandum

To: Chair and Commissioners **Date:** February 28, 2006

From: **JOHN F. BARNA, JR.**
Executive Director

Reference Number:
Book Item 4.7
Information

Ref: **QUARTERLY REPORT FROM NORTH COAST RAILROAD AUTHORITY**

At the March 2006 California Transportation Commission (Commission) meeting members of the North Coast Railroad Authority (NCRA) Board of Directors and NCRA staff will report on the following:

Quarterly Report

- Current debt load compared to Fiscal Year 2004-05
- Progress in repaying Proposition 116 disallowed costs
- Progress in developing a stable funding source to assure that its administrative operations and project management are adequately funded
- Progress in establishing necessary administrative procedures and internal controls

2006 Strategic Plan Update

- Revisions to the Strategic Plan for the re-opening of the entire line
- Re-opening the rail line south of Willits and estimate of revenues to be generated on this portion of the line and makeup of the clientele
- Progress in securing a freight operator and potential revenues
- Efforts in complying with the Environmental Consent Decree (ECD) and work completed to date

BACKGROUND:

The 2000 Traffic Congestion Relief Act specified that $60,000,000 go to the repair, rehabilitation and re-opening of the NCRA's rail line between Sonoma County and Eureka, to mitigate environmental hazards along the rail corridor and to pay off overdue past debts.

Of the $60,000,000 provided through the Traffic Congestion Relief Program (TCRP), $5,500,000 was specifically identified for the repayment of a $12,000,000 loan from the Federal Highway Administration's (FHWA) Highway Planning and Construction Revolving Fund Loan Program (Q-Fund). In August 2005 Federal legislation was enacted that directed the FHWA to forgive repayment of the loan. In October 2005 the Governor vetoed Senate Bill 792 that would have allowed the TCRP funds to be used for other purposes by the NCRA. Two items are included on the Commission's March meeting agenda to de-program and de-allocate the $5,500,000 in TCRP funds (agenda items 2.1c.(10) and 2.6e.(3)). The culmination of these actions brings the total TCRP funding available to the NCRA to $54,500,000. Of the funds available, the following has been allocated by the Commission to date:

Project #	Description	TCRP Funding Available	TCRP Funding Allocated	Phase(s) Allocated
32.1	Defray administrative costs	$1,000,000	$1,000,000	Administration
32.2	Completion of rail line from Lombard to Willits	$600,000	$600,000	Construction
32.3	Completion of rail line from Willits to Arcata	$1,000,000	$400,000	Environmental
32.4*	Upgrade rail line to class II or III standards	$5,000,000	$100,000	Environmental
32.5*	Environmental remediation projects	$4,100,000	$1,146,000	Environmental, Design and Construction
32.6	Debt reduction	$10,000,000	$10,000,000	Debt Reduction
32.7	Local match	$1,800,000	$ 0	
32.8**	Fund repayment of federal loan obligations (Q-Fund)	$ 0	$ 0	
32.9	Long term stabilization	$31,000,000	$ 0	
	Total	**$54,500,000**	**$13,246,000**	

*Application amendment and allocation requests for these projects are included on the Commission March 2006
meeting agenda and will be heard under separate items (2.1c.(8), 2.1c.(9) and 2.6e.(2)).
**Reflects de-programming and de-allocation of TCRP funds.

The Commission requested that beginning in January 2002 the NCRA report quarterly on all outstanding debt and any newly incurred debt and the projected point in time when the NCRA will generate enough revenue to retire the remaining debt. The NCRA has provided these reports to the Commission and Department staff as requested and will include a report in their presentation.

At its April 2004 meeting, the Commission requested that the NCRA respond to several ongoing concerns regarding the viability of the railroad and the NCRA as a public agency. The NCRA has provided a progress report within the attached 2006 Strategic Plan and Progress Report and will address these concerns through their presentation. The concerns to be addressed include:

1. Completion of an amended TCRP application for project 32.5 – Environmental Remediation.
2. Funding plan to address the negative funding for administration function and outstanding debt.
3. Progress in remediating the environmental hazards and achieving consensus with the ECD agencies to move forward with the clean-up. A joint written statement from the ECD agencies and NCRA is requested.
4. Progress in hiring a short-line operator and actual funding it would generate.

5. Development of a strategic plan for re-opening the entire line north of Willits and the impact on the NCRA's ability to comply with the ECD if the line is not reopened north of Willits.
6. Estimates of revenue and the number of clientele who would use the line south of Willits, as well as the North segment when the entire line is open.
7. Final proposal to the Commission and Department regarding the repayment of the $166,000 in disallowed Proposition 116 costs.
8. Development of a proposal for use of the balance of funds in the Q-Fund account should forgiveness of the federal loan be included as part of the approved Federal reauthorization bill.

The Commission placed the following conditions on future application and allocation requests:

- Prior to subsequent requests to the Commission for an allocation of funds for the "North of Willits" or "South of Willits" segments, the NCRA shall submit for review and approval to the Department and Commission staff a design workplan for Class II/III upgrade and stabilization activities developed from the comprehensive assessment.
  Resolution TA-01-08, and reiterated in Resolution TAA-01-07
  TCRP Projects: 32.3, 32.4 and 32.9

- Prior to an allocation of funds for right of way acquisition and construction the NCRA shall demonstrate environmental approval for proposed capital improvements.
  Resolution TA-01-08, and reiterated in Resolution TAA-01-07
  TCRP Projects: 32.3, 32.4, 32.5, 32.7 and 32.9

- With the possible exception of funding for work to be completed under Government Code Section 14456.50, subparagraph (e) – environmental remediation projects, no additional funds shall be allocated to the NCRA until such time as the NCRA demonstrates to the Commission that the outstanding issues with the current common carrier rail operator have been resolved to allow the resumption of service by the current common carrier or by another common carrier operating pursuant to all appropriate state and federal statutes, codes, and regulations.
  Resolution TAA-02-03
  TCRP Projects: 32.3, 32.4, 32.5, 32.7, 32.9

- The Memorandum of Understanding that outlines the parameters and schedule for delivery of the interim and final products necessary to prepare a scope of work and schedule, within the funding available, must satisfy the requirements of the ECD and must also include a schedule for a satisfactory completion of required ECD actions.

Resolution TAA-01-01, and reiterated in Resolution TAA-01-07
TCRP Project: 32.5

- Written certification from the NCRA shall be signed by the Executive Director of the NCRA and each representative of the ECD state agency parties and shall be submitted as part of the future project application for the remaining $4,000,000 available to the project.
  Resolution TAA-01-01, and reiterated in Resolution TAA-01-07
  TCRP Project: 32.5

- The remaining $4,000,000 for environmental remediation will not be allocated by the Commission until the NCRA submits certification to the Department and the Commission verifying that the NCRA and the state agency parties to the ECD have reached agreement regarding the scope of work, schedule and use of those funds
  Resolution TAA-01-01, and reiterated in Resolution TAA-01-07
  TCRP Project: 32.5

Attachments: FY 2005-06 2nd Quarter Financial Report
2006 Strategic Plan and Progress Report

February 14, 2006

Mr. Eric Koch, Office Chief
Department of Transportation
Governor's Traffic Congestion Relief Program
1120 N Street Room 1109
P.O. Box 942873 MS 49
Sacramento, CA 94273-0001

Re: North Coast Railroad Authority Quarterly Financial Report for the 2nd Quarter of Fiscal Year 2005-06

Dear Mr. Koch,

Enclosed is NCRA's Quarterly Financial Report for the 2nd Quarter of Fiscal Year 2005-06. The Report discusses material changes, if any, since our last quarterly financial report for the 1st quarter of 2005-06, and it consists of a written narrative, a variance table, and Schedules A and B for both Operating (with rail service) and Non Operating (no rail service) scenarios.

At the meeting held February 10, 2006 with CTC, Caltrans, and NCRA staff, NCRA supplied financials in a new format, and the meeting participants discussed the differences between the new and the old formats. NCRA is recommending a slight change in the format of the Schedules A and B to make them more understandable. NCRA was directed to submit the "old" format for the 2nd Quarterly Report, and that CTC and Caltrans staff would review the suggested "new" format. NCRA requests to be notified by March 1, 2006 regarding the approach to be taken for the 3rd Quarterly report. The financials in the new format are attached for your convenience.

Should you have questions or require additional information concerning our quarterly report, please call me at your earliest convenience.

Sincerely,

Mitch Stogner
Executive Director
NCRA

cc: Robert Chung, CTC
Ross Chittenden, Caltrans
Lori Bodhiprasart, DOT
Cheryl Willis, Caltrans District 1
Leishara Ward, Caltrans District 1

NORTH COAST RAILROAD AUTHORITY

Quarterly Financial Report to the CTC

Second Quarter of FY 05/06

Introduction

The North Coast Railroad Authority (NCRA) is required to submit a financial status update, including outstanding debts and repayment strategies, on a quarterly basis to the California Transportation Commission. This report is required to list the cash balance forward, annual revenues and expenditures, long term debt, and a ten (10) year projection. The financial schedules presented in this current report have been revised to reflect the current cost information reported by Sonoma County accounting staff and verified by the NCRA. Only those variances in revenue and expenses are explained in detail. Financial schedules have been provided for the "With Rail Service" and "No Rail Service" scenarios, and Schedule A has been revised to reflect one prior year of data and ten years of projections.

Revenue

Traditionally, the majority of NCRA's annual reoccurring revenues are from property (lease revenue, encroachment applications, etc), and interest earned on cash balances.

The property revenue bookkeeping has undergone major refinement in FY 03-04 and 04-05 – agency staff has internally reviewed each lease and built an accounts receivable list that will continue to be refined throughout FY 05-06. Within this process, staff has uncovered many leases with CPI increase adjustments that were never charged so the receivables total will increase annually based on the CPI factor alone. It is important to note that the property lease revenue is a "porous" source of funds as leaseholders' are continually selling their properties, reassigning to new owners, canceling leases, and/or applying to the agency for new agreements. NCRA staff is committed to bringing the receivables up to date by invoicing delinquent leaseholders back to 2001.

Another major annual revenue source, upon which the funding of future agency expenses is dependent, are the lease payments paid to the Agency from the daily operation of freight trains. NCRA released a request for proposal for an operator or operators on January 17, 2006. An operator or operators are expected to be on board July 12, 2006. Based on the timing of an operator, project scoping and the anticipate ability to obtain funding, NCRA shows operating lease payments beginning in FY 2008-09 in With Rail Service scenario.

Non-reoccurring opportunities (non-property) generating revenues are the sale of assets, reimbursement from past funding sources and other miscellaneous opportunities that may be available to the Agency. When the railroad closes-out the OES/FEMA $7.9 mil. grant in early 2006, approximately $260,000 of unrestricted FEMA/OES retention funds will be provided to the Agency for payment to Mass Electric in settlement of a judgment against NCRA. Interest from an escrow account that was established at the time of the purchase of the Willits to Healdsburg segment from the Southern Pacific, is assumed to be disbursed annually. The escrow account is referred to as the UP Escrow since Union Pacific acquired Southern Pacific. The interest will be available until Union Pacific completes the required environmental remediation at specific sites, currently estimated to begin FY 2007-08.

NCRA will receive $108,000 in administrative allowance from the FEMA/OES grant. Additionally, NCRA will receive approximately $160,000 for the leasing of railcars in FY 05-06. NCRA entered into a five year lease for approximately $20,000 each month, or $240,000 annually for five years. At the end of the lease period the railcars will be turned over to the operator for their use.

Expenses

The NCRA had expenditures of $596,162 in FY 04/05 for the agency. The total agency expenditures estimated for FY 05-06 are $616,000. The increase in expenses is primarily related to the repayment of long-term debt, and secondarily related to bridge repairs and outside consultant costs.

Long Term Debt

HR 3 was signed into law on August 10, 2005 that removes a $12 million loan to NCRA for acquisition of railroad right-of-way South of Willits. NCRA received a loan from the Harbor District in December 2004, and interest payments are due quarterly until the loan is paid in its entirety on December 31, 2006, as reflected in the enclosed spreadsheet. NCRA continues to make payments to the CTC for its Proposition 116 audit exception repayment as outlined in its Resolution 2004-06

Contingent Liabilities

The Car Hire liability, considered not valid by the NCRA, has increased by $262,686, as per the NCRA Single Year Audit of FY 03-04, to a total figure of $1,724,814.

NCRA Variance Report

(Variances only apply to "With Rail Service" Scenario)
Second Quarter of FY 05/06
September 30, 2005 vs. December 31, 2005

	9/30/05	12/31/05	Variance	Explanation

Revenue

No variances to report

Expense

No variances to report

Long Term Debt

No variances to report

Contingent Liabilities

No variances to report

Schedule A - Projected Revenue and Expenditures Summary - Second Quarter 05/06 WITH RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Balance Forward	**$175,000 ***	**$53,463 ***	**-$43,583**	**-$542,275**	**-$878,522**	**-$750,562**	**-$624,566**	**-$600,272**	**-$647,979**	**-$679,908**
Annual Revenue										
Annual property/Agency Fee Revenue	$194,517	$230,000	$236,900	$244,007	$251,327	$258,867	$266,633	$274,632	$282,871	$291,357
FEMA/OES retention	$0	$259,769	$0	$0	$0	$0	$0	$0	$0	$0
Rail Operations Lease Payments	$0	$0	$0	$0	$240,000	$240,000	$240,000	$240,000	$240,000	$240,000
Sale of surplus equipment	$33,004	$0	$0	$0	$0	$0	$0	$0	$0	$0
Signal crossing maintenance fund	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
TCR PM Reimbursement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest on pooled cash	$2,843	$5,000	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
UP clean-up escrow interest	$23,728	$15,000	$15,000	$10,000	$10,000	$0	$0	$0	$0	$0
Q-Fund LAIF Account Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Harbor District Loan	$170,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Equipment Lease	$0	$161,000	$240,000	$240,000	$240,000	$240,000	$80,000	$0	$0	$0
FEMA/OES Admin Allowance	$0	$108,000	$0	$0	$0	$0	$0	$0	$0	$0
TCR Bridge Operation Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Local Agency Operation Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenue	**$424,092**	**$778,769**	**$495,400**	**$497,507**	**$844,827**	**$842,367**	**$690,133**	**$618,132**	**$626,371**	**$634,857**
Annual Expense										
Crossing Maintenance	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Property Management	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Administration Budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Consulting Services	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Non-Reimbursed Project Mgmt.	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Repayment of Passenger Car Sales	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
**Combined Adm/Prop Expenses (Agency Budget)	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300
Subtotal Annual Expenditures	**$596,162**	**$616,046**	**$763,692**	**$617,366**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**
Long-Term Debt										
Boyle Engineering (paid)	$23,083									
PALCO notes			$230,400							
Meecham Loan				$216,388						
Q-Fund Deficit Repayment (retired)										
Mass Electric		$259,769								
Option B interest	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
TXL Capital	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Neary	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Caltrans Prop 116 Audit Exception	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Harbor Loan	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Subtotal Long-Term Debt	**$23,083**	**$259,769**	**$230,400**	**$216,388**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
TOTAL EXPENSE	**$619,245**	**$875,815**	**$994,092**	**$833,754**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**
Ending Balance	**-$20,153**	**-$43,583**	**-$542,275**	**-$878,522**	**-$750,562**	**-$624,566**	**-$600,272**	**-$647,979**	**-$679,908**	**-$703,351**
Contingent Liabilities (See Schedule B)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

*** CASH BALANCE IN NCRA PROPERTY AND ADMINISTRATIVE ACCOUNTS AS REPORTED BY SONOMA COUNTY AUDITS AT THE END OF EACH FY**

**Combined Adm/Prop Budget (Agency Budget) includes the following items:										
Agency Salaries/Benefits, Services/Supplies	$234,946	$209,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000
Service and Supplies	$316,496	$322,155	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000
Property Taxes	8,266	8,300	8,300	8,300	8,300	8,300	8,300	8,300	8,300	8,300
Expense Subtotal	559,708	539,455	558,300	558,300	558,300	558,300	558,300	558,300	558,300	558,300
Caltrans Audit Exception Prop 116 Repmt	12,000	12,000	12,000	42,962	42,962	42,962	0	0	0	0
Harbor Loan Repayment	6,800	6,800	176,800	0	0	0	0	0	0	0
Option B Interest Payment	7,539	7,539	7,539	7,539	7,539	7,539	7,539	7,539	0	0
TXL Capital	10,115	9,551	9,053	8,565	8,066	7,570	0	0	0	0
Neary Debt	0	40,701	0	0	0	0	0	0	0	0
L-T Debt Subtotal	36,454	76,591	205,392	59,066	58,567	58,071	7,539	7,539	0	0
Total Combined Adm/Prop Budget Expense	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300

Schedule A - Revenue Only - Second Quarter 05/06 WITH RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Balance Forward	**$175,000**	**$53,463**	**-$43,583**	**-$542,275**	**-$878,522**	**-$750,562**	**-$624,566**	**-$600,272**	**-$647,979**	**-$679,908**
Annual Revenue										
(1) Annual Property Revenue	$194,517	$230,000	$236,900	$244,007	$251,327	$258,867	$266,633	$274,632	$282,871	$291,357
(2) FEMA/OES Retention	$0	$259,769								
(3) Rail Operations Lease Payments	$0	$0	$0	$0	$240,000	$240,000	$240,000	$240,000	$240,000	$240,000
(4) Sale of Surplus Equipment	$33,004									
(5) Signal Crossing Maintenance Fund	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
(6) Interest on Pooled Cash	$2,843	$5,000	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
(7) TCR PM Reimbursement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(8) UP Cleanup Escrow Interest	$23,728	$15,000	$15,000	$10,000	$10,000	$0	$0	$0	$0	$0
(9) Q-Fund Deficit Account Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(10) Harbor District Loan	$170,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
(11) FEMA/OES Admin Allowance	$0	$108,000	$0	$0	$0	$0	$0	$0	$0	$0
(12) Equipment Lease	$0	$161,000	$240,000	$240,000	$240,000	$240,000	$80,000	$0	$0	$0
(13) TCR Bridge Operating Funds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(14) Local Agency Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenue	**$424,092**	**$778,769**	**$495,400**	**$497,507**	**$844,827**	**$842,367**	**$690,133**	**$618,132**	**$626,371**	**$634,857**

NOTES

Balance forward in 05/06 is actual cash as reported by Sonoma Co. and verified by NCRA staff. The highlighted Balance Forward shows the impact if requested TCRP and local agency funds are received.

(1) Lag in collections for 04/05 Invoiced $250,000 and expect carry-over into 05/06 to yield $230,000 for full fiscal year. Disciplined management control should enable increased collection for existing leases, along with collecting against illegal encroachments estimated at $15,000 - $20,000 on south end of railroad alone. Assumes an increase of 3% each year based on inflation and better management.

(2) Remaining disaster 1203 retention from the Cotati to Willits portion of the railroad. Payment due to Mass Electric, see Long Term Debts.

(3) Estimated lease payments from Operator for track usage on South and North End.

(4) Nonrefundable (unrestricted) deposit for retracted bid from Orient Express for Passenger Cars. All revenue collected from Passenger Car Sales on behalf of State has been returned to State as of Jan-05.

(5) Reimbursement for maintenance of crossings from State sources expected to be resumed when the railroad is operational.

(6) Projected interest on funds held by Sonoma County on behalf of NCRA. Interest revenue included in Combined Administrative/Property Budget, and excludes interest on TCR funds (see footnote 12).

(7) Caltrans audit to be scheduled in April 2006, this line item is reserved for future reimbursement requests for NCRA project management expenses related to the TCRP program, estimated at $24,000/year.

(8) Current interest on an escrow account established at time of 1996 Willits to Healdsburg purchase to guarantee environmental cleanup of specific sites by UP. Expect to continue to draw interest until site cleanup planning and remediation begins in FY 2005-06. Reflects annual disbursement of interest.

(9) Loan forgiven, interest remaining in LAIF fund is estimated to total $170,000 at year end 2005-06. NCRA is requesting (from CTC) to use these funds to repay the Harbor Loan.

(10) On December 31, 2004 The Humboldt Bay Recreation and Harbor District issued a bridge loan to the NCRA.

(11) Administrative allowance for costs associated with management of FEMA/OES Grant.

(12) Five-year equipment lease revenue from lease of NCRA owned railcars. After lease expires, railcars are expected to become part of operating lease with NWP operator.

(13) NCRA is requesting at the CTC March 2006 meeting, that $1 million of the $5.5 million forgiven through HR 3 be allocated to NCRA operating funds for FY 05-06 and the following three years.

(14) NCRA is pursuing local agency funding in the amount of $100,000 annually from the three counties represented on its Board of Directors.

Schedule A - Annual Expenditures - Second Quarter 05/06 WITH RAIL SERVICE										
	2004-05	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Annual Expense										
(1) Crossing Maintenance	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
(2) Unreimbursed Project Mgmt	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(3) Repay Passenger Car Sales	$33,004									
(4) Combined Adm/Prop Budget	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300
(Detail shown on Schedule A)										
Annual Expenses	**$629,166**	**$616,046**	**$763,692**	**$617,366**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**

Notes

(3) Actual expenditure for utility and related crossing expenses included in future Property Budgets. Obligation will be assumed by freight operator upon resumption of service.

(6) A one-time payment of the local match ($18,000) to restore the Ukiah Depot. Future HQ location for the NCRA. Projected date for completion is 06-07.

(8) Track damage to CT Route 162 Project HWY Mile Post 5.7 - NCRA to repair track as part of rail rehabilitation project

(9) The total anticipated Project Manager cost is $98,500. The admin budged includes $17,000. The remaining $81,500 is identified here as a material update to the budget.

(11) On January 10, 2005 the NCRA repayed the State for Passenger Car revenue collected from selling rail cars purchased with public funds.
CalTrans District 1 staff has indicated that because the NCRA used it's own agency cash to pay off a loan (REDEC - $100,000) to remove a lien on one of these
cars, the NCRA may be eligible to request a refund of the passenger car revenue. NCRA has initiated that process.

(12) Since FY 03/04 a single agency budget has existed that combines Administration, Property and other expenses into one budget. It does not include outside funding
revenue or associated expense.

Schedule A - Long Term Debt - Second Quarter 05/06 WITH RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Long-Term Debt										
(1) Boyle Engineering	$23,083	$0	$0	$0	$0	$0	$0	$0	$0	$0
(2) PALCO Notes	$0	$0	$230,400	$0	$0	$0	$0	$0	$0	$0
(3) Option B Interest	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(4) TXL Capital	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(5) Meecham Loan	$0	$0	$0	$216,388	$0	$0	$0	$0	$0	$0
(6) Neary	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(7) Q-Fund Deficit Repayment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(8) Caltrans Audit Exceptions	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(9) Mass Electric	$0	$259,769	$0	$0	$0	$0	$0	$0	$0	$0
(10) Harbor Loan	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(11) Combined Adm/Prop Budget (Detail shown on Schedule A)	$36,454	$76,591	$205,392	$59,066	$58,567	$58,071	$7,539	$7,539	$0	$0
Total Long Term Debt	**$59,537**	**$336,360**	**$435,792**	**$275,454**	**$58,567**	**$58,071**	**$7,539**	**$7,539**	**$0**	**$0**

Notes

(1) Settlement amount for $23,083 paid in December 2004 in full.

(2) Two notes, original amount was $146,505 at 6%. Defer payment until 06/07 when due. Will increase future debt.

(3) Remaining interest due those that chose to receive full interest over 11 years instead of an up front payment of reduced interest. Herzog settlement in 02/03.

(4) Judgment was for $70,750 with interest at 7%. Liability was from locomotive leases. Annual payments being made per stipulated judgement.

(5) Originally $124,000 at 7% on 6/30/01. Defer until 07/08 when due. Will increase future debt.

(6) Current Chris Neary agreement specifies payment for past services. Proposed payment has been deferred to 05-06.

(7) Loan forgiven as a result of HR 3 passage in August 2005.

(8) Caltrans audit exceptions related to Herzog and Rail-Ways Prop 116 activities are being paid according to NCRA Resolution No. 2004-06.

(9) Mass Electric in settlement of its litigation. NCRA will use FEMA retention funds (shown in Revenue) to pay Mass Electric.

(10) In Dec 2004, the Humboldt Bay Harbor and Recreation District issued a loan to the NCRA. The first interest only payment was due April 2005, interest is charged at 8%.
The loan is to be paid in full by December, 2006.

(11) A single Agency Budget has existed since FY 03/04 that combines Administration, Property and certain debt repayments into one budget. It does not include outside funding.
Items 3, 4, 6, 8, and 10 are in the single budget line item.

Schedule B Contingent Liabilities - Second Quarter 05/06 WITH RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Liabilities not Considered Valid										
(1) TCRP Debt Reduction	$98,887	$98,887								
(2) Car Hire	$1,724,814	$1,724,814								
SUB TOTAL	$1,823,701	$3,151,701								
Liabilites Repayment Under Negotiation										
(3) FEMA Community Disaster Loan	$855,500	$855,500								
(4) Fish and Game	$113,319	$113,319								
(4) Dept of Toxic Substance	$50,000	$50,000								
Sub-Total	$1,018,819	$1,018,819	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	**$2,842,520**	**$4,170,520**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Notes

(1) Elek-Tec ($2,804), PacBell ($14,652) and Skyline Steel ($31,431) did not respond to TCR debt reduction contact efforts. Ommitted from original debt reduction (self-insured retention of $50,000). NCRA to begin the process to write-off these first three debts in 05-06.

(2) Per Union Pacific response to single year audit FY 01/02. Currently in negotiations with Union Pacific to resolve.
Car hire is the daily rental rate paid for rail cars used by a connecting railroad. Typically car hire ceases to accrue during an embargo. The Northern Division of the NWP was embargoed following the February 1998 storms which stranded approximately 96 rail cars. Most third party lessors forgave rental and made claims against their insurance carriers. Southern Pacific, (now Union Pacific) demanded full car hire. In 2001 NCRA paid Union Pacific $1, 227,313.91 for accrued car hire rentals. Since then NCRA has returned almost half of the cars to Union Pacific. However Union Pacific has recently billed NCRA for $2.2 million for accrued car hire since 2001, which billing NCRA believes was mistakenly conceived. NCRA disputes the claim due to the fact that the maxium rental exposure is the depreciated value of the cars. The Depreciated Value was established by Union Pacific on May 17, 2002 as being $1, 525,501, rendering the outside exposure for NCRA for accrued car hire as being $298,187.09.

(3) Auditors have instructed Executive Director to send a letter and documentation to FEMA requesting loan forgiveness under current FEMA regulations. This documentation is being reviewed and gathered, and will be sent prior to the close of FY 2005-06.

(4) Per the Environmental Consent Decree. Under discussion with respective Consent Decree parties.

Schedule A - Projected Revenue and Expenditures Summary - Second Quarter 05/06 WITHOUT RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Balance Forward	**$175,000** *	**$53,463** *	**-$43,583**	**-$542,275**	**-$878,522**	**-$990,562**	**-$1,104,566**	**-$1,320,272**	**-$1,607,979**	**-$1,879,908**
Annual Revenue										
Annual property/Agency Fee Revenue	$194,517	$230,000	$236,900	$244,007	$251,327	$258,867	$266,633	$274,632	$282,871	$291,357
FEMA/OES retention	$0	$259,769	$0	$0	$0	$0	$0	$0	$0	$0
Rail Operations Lease Payments	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sale of surplus equipment	$33,004	$0	$0	$0	$0	$0	$0	$0	$0	$0
Signal crossing maintenance fund	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
TCR PM Reimbursement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest on pooled cash	$2,843	$5,000	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
UP clean-up escrow interest	$23,728	$15,000	$15,000	$10,000	$10,000	$0	$0	$0	$0	$0
Q-Fund LAIF Account Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Harbor District Loan	$170,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Equipment Lease	$0	$161,000	$240,000	$240,000	$240,000	$240,000	$80,000	$0	$0	$0
FEMA/OES Admin Allowance	$0	$108,000	$0	$0	$0	$0	$0	$0	$0	$0
TCR Bridge Operation Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Local Agency Operation Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenue	**$424,092**	**$778,769**	**$495,400**	**$497,507**	**$604,827**	**$602,367**	**$450,133**	**$378,132**	**$386,371**	**$394,857**
Annual Expense										
Crossing Maintenance	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
Property Management	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Administration Budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Consulting Services	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Non-Reimbursed Project Mgmt.	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
Repayment of Passenger Car Sales	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget	agency budget
**Combined Adm/Prop Expenses (Agency Budget)	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300
Subtotal Annual Expenditures	**$596,162**	**$616,046**	**$763,692**	**$617,366**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**
Long-Term Debt										
Boyle Engineering (paid)	$23,083									
PALCO notes			$230,400							
Meecham Loan				$216,388						
Q-Fund Deficit Repayment (retired)										
Mass Electric		$259,769								
Option B interest	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
TXL Capital	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Neary	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Caltrans Prop 116 Audit Exception	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Harbor Loan	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
Subtotal Long-Term Debt	**$23,083**	**$259,769**	**$230,400**	**$216,388**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
TOTAL EXPENSE	**$619,245**	**$875,815**	**$994,092**	**$833,754**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**
Ending Balance	**-$20,153**	**-$43,583**	**-$542,275**	**-$878,522**	**-$990,562**	**-$1,104,566**	**-$1,320,272**	**-$1,607,979**	**-$1,879,908**	**-$2,143,351**
Contingent Liabilities (See Schedule B)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

*** CASH BALANCE IN NCRA PROPERTY AND ADMINISTRATIVE ACCOUNTS AS REPORTED BY SONOMA COUNTY AUDITS AT THE END OF EACH FY**

**Combined Adm/Prop Budget (Agency Budget) includes the following items:										
Agency Salaries/Benefits, Services/Supplies	$234,946	$209,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000
Service and Supplies	$316,496	$322,155	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000	$325,000
Property Taxes	8,266	8,300	8,300	8,300	8,300	8,300	8,300	8,300	8,300	8,300
Expense Subtotal	559,708	539,455	558,300	558,300	558,300	558,300	558,300	558,300	558,300	558,300
Caltrans Audit Exception Prop 116 Repmt	12,000	12,000	12,000	42,962	42,962	42,962	0	0	0	0
Harbor Loan Repayment	6,800	6,800	176,800	0	0	0	0	0	0	0
Option B Interest Payment	7,539	7,539	7,539	7,539	7,539	7,539	7,539	7,539	0	0
TXL Capital	10,115	9,551	9,053	8,565	8,066	7,570	0	0	0	0
Neary Debt	0	40,701	0	0	0	0	0	0	0	0
L-T Debt Subtotal	36,454	76,591	205,392	59,066	58,567	58,071	7,539	7,539	0	0
Total Combined Adm/Prop Budget Expense	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300

Schedule A - Revenue Only - Second Quarter 05/06 WITHOUT RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Balance Forward	**$175,000**	**$53,463**	**-$43,583**	**-$542,275**	**-$878,522**	**-$990,562**	**-$1,104,566**	**-$1,320,272**	**-$1,607,979**	**-$1,879,908**
Annual Revenue										
(1) Annual Property Revenue	$194,517	$230,000	$236,900	$244,007	$251,327	$258,867	$266,633	$274,632	$282,871	$291,357
(2) FEMA/OES Retention	$0	$259,769								
(3) Rail Operations Lease Payments	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(4) Sale of Surplus Equipment	$33,004									
(5) Signal Crossing Maintenance Fund	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
(6) Interest on Pooled Cash	$2,843	$5,000	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500	$3,500
(7) TCR PM Reimbursement	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(8) UP Cleanup Escrow Interest	$23,728	$15,000	$15,000	$10,000	$10,000	$0	$0	$0	$0	$0
(9) Q-Fund Deficit Account Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(10) Harbor District Loan	$170,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
(11) FEMA/OES Admin Allowance	$0	$108,000	$0	$0	$0	$0	$0	$0	$0	$0
(12) Equipment Lease	$0	$161,000	$240,000	$240,000	$240,000	$240,000	$80,000	$0	$0	$0
(13) TCR Bridge Operating Funds	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(14) Local Agency Funding	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Revenue	**$424,092**	**$778,769**	**$495,400**	**$497,507**	**$604,827**	**$602,367**	**$450,133**	**$378,132**	**$386,371**	**$394,857**

NOTES

Balance forward in 05/06 is actual cash as reported by Sonoma Co. and verified by NCRA staff. The highlighted Balance Forward shows the impact if requested TCRP and local agency funds are received.

(1) Lag in collections for 04/05 Invoiced $250,000 and expect carry-over into 05/06 to yield $230,000 for full fiscal year. Disciplined management control should enable increased collection for existing leases, along with collecting against illegal encroachments estimated at $15,000 - $20,000 on south end of railroad alone. Assumes an increase of 3% each year based on inflation and better management.

(2) Remaining disaster 1203 retention from the Cotati to Willits portion of the railroad. Payment due to Mass Electric, see Long Term Debts.

(3) Estimated lease payments from Operator for track usage on South and North End.

(4) Nonrefundable (unrestricted) deposit for retracted bid from Orient Express for Passenger Cars. All revenue collected from Passenger Car Sales on behalf of State has been returned to State as of Jan-05.

(5) Reimbursement for maintenance of crossings from State sources expected to be resumed when the railroad is operational.

(6) Projected interest on funds held by Sonoma County on behalf of NCRA. Interest revenue included in Combined Administrative/Property Budget, and excludes interest on TCR funds (see footnote 12).

(7) Caltrans audit to be scheduled in April 2006, this line item is reserved for future reimbursement requests for NCRA project management expenses related to the TCRP program, estimated at $24,000/year.

(8) Current interest on an escrow account established at time of 1996 Willits to Healdsburg purchase to guarantee environmental cleanup of specific sites by UP. Expect to continue to draw interest until site cleanup planning and remediation begins in FY 2005-06. Reflects annual disbursement of interest.

(9) Loan forgiven, interest remaining in LAIF fund is estimated to total $170,000 at year end 2005-06. NCRA is requesting (from CTC) to use these funds to repay the Harbor Loan.

(10) On December 31, 2004 The Humboldt Bay Recreation and Harbor District issued a bridge loan to the NCRA.

(11) Administrative allowance for costs associated with management of FEMA/OES Grant.

(12) Five-year equipment lease revenue from lease of NCRA owned railcars. After lease expires, railcars are expected to become part of operating lease with NWP operator.

(13) NCRA is requesting at the CTC March 2006 meeting, that $1 million of the $5.5 million forgiven through HR 3 be allocated to NCRA operating funds for FY 05-06 and the following three years.

(14) NCRA is pursuing local agency funding in the amount of $100,000 annually from the three counties represented on its Board of Directors.

Schedule A - Annual Expenditures - Second Quarter 05/06 WITHOUT RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Annual Expense										
(1) Crossing Maintenance	$0	$0	$0	$0	$100,000	$100,000	$100,000	$100,000	$100,000	$100,000
(2) Unreimbursed Project Mgmt	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(3) Repay Passenger Car Sales	$33,004									
(4) Combined Adm/Prop Budget	$596,162	$616,046	$763,692	$617,366	$616,867	$616,371	$565,839	$565,839	$558,300	$558,300
(Detail shown on Schedule A)										
Annual Expenses	**$629,166**	**$616,046**	**$763,692**	**$617,366**	**$716,867**	**$716,371**	**$665,839**	**$665,839**	**$658,300**	**$658,300**

Notes

(3) Actual expenditure for utility and related crossing expenses included in future Property Budgets. Obligation will be assumed by freight operator upon resumption of service.

(6) A one-time payment of the local match ($18,000) to restore the Ukiah Depot. Future HQ location for the NCRA. Projected date for completion is 06-07.

(8) Track damage to CT Route 162 Project HWY Mile Post 5.7 - NCRA to repair track as part of rail rehabilitation project

(9) The total anticipated Project Manager cost is $98,500. The admin budged includes $17,000. The remaining $81,500 is identified here as a material update to the budget.

(11) On January 10, 2005 the NCRA repayed the State for Passenger Car revenue collected from selling rail cars purchased with public funds.
CalTrans District 1 staff has indicated that because the NCRA used it's own agency cash to pay off a loan (REDEC - $100,000) to remove a lien on one of these cars, the NCRA may be eligible to request a refund of the passenger car revenue. NCRA has initiated that process.

(12) Since FY 03/04 a single agency budget has existed that combines Administration, Property and other expenses into one budget. It does not include outside funding revenue or associated expense.

Schedule A - Long Term Debt - Second Quarter 05/06 WITHOUT RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Long-Term Debt										
(1) Boyle Engineering	$23,083	$0	$0	$0	$0	$0	$0	$0	$0	$0
(2) PALCO Notes	$0	$0	$230,400	$0	$0	$0	$0	$0	$0	$0
(3) Option B Interest	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(4) TXL Capital	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(5) Meecham Loan	$0	$0	$0	$216,388	$0	$0	$0	$0	$0	$0
(6) Neary	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(7) Q-Fund Deficit Repayment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
(8) Caltrans Audit Exceptions	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(9) Mass Electric	$0	$259,769	$0	$0	$0	$0	$0	$0	$0	$0
(10) Harbor Loan	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget	Agency Budget
(11) Combined Adm/Prop Budget (Detail shown on Schedule A)	$36,454	$76,591	$205,392	$59,066	$58,567	$58,071	$7,539	$7,539	$0	$0
Total Long Term Debt	**$59,537**	**$336,360**	**$435,792**	**$275,454**	**$58,567**	**$58,071**	**$7,539**	**$7,539**	**$0**	**$0**

Notes

(1) Settlement amount for $23,083 paid in December 2004 in full.

(2) Two notes, original amount was $146,505 at 6%. Defer payment until 06/07 when due. Will increase future debt.

(3) Remaining interest due those that chose to receive full interest over 11 years instead of an up front payment of reduced interest. Herzog settlement in 02/03.

(4) Judgment was for $70,750 with interest at 7%. Liability was from locomotive leases. Annual payments being made per stipulated judgement.

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(6) Current Chris Neary agreement specifies payment for past services. Proposed payment has been deferred to 05-06.

(7) Loan forgiven as a result of HR 3 passage in August 2005.

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(9) Mass Electric in settlement of its litigation. NCRA will use FEMA retention funds (shown in Revenue) to pay Mass Electric.

(10) In Dec 2004, the Humboldt Bay Harbor and Recreation District issued a loan to the NCRA. The first interest only payment was due April 2005, interest is charged at 8%. The loan is to be paid in full by December, 2006.

(11) A single Agency Budget has existed since FY 03/04 that combines Administration, Property and certain debt repayments into one budget. It does not include outside funding. Items 3, 4, 6, 8, and 10 are in the single budget line item.

Schedule B Contingent Liabilities - Second Quarter 05/06 WITHOUT RAIL SERVICE

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Liabilities not Considered Valid										
(1) TCRP Debt Reduction	$98,887	$98,887								
(2) Car Hire	$1,724,814	$1,724,814								
SUB TOTAL	$1,823,701	$3,151,701								
Liabilites Repayment Under Negotiation										
(3) FEMA Community Disaster Loan	$855,500	$855,500								
(4) Fish and Game	$113,319	$113,319								
(4) Dept of Toxic Substance	$50,000	$50,000								
Sub-Total	$1,018,819	$1,018,819	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL	**$2,842,520**	**$4,170,520**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Notes

(1) Elek-Tec ($2,804), PacBell ($14,652) and Skyline Steel ($31,431) did not respond to TCR debt reduction contact efforts. Ommitted from original debt reduction (self-insured retention of $50,000). NCRA to begin the process to write-off these first three debts in 05-06.

(2) Per Union Pacific response to single year audit FY 01/02. Currently in negotiations with Union Pacific to resolve.
Car hire is the daily rental rate paid for rail cars used by a connecting railroad. Typically car hire ceases to accrue during an embargo. The Northern Division of the NWP was embargoed following the February 1998 storms which stranded approximately 96 rail cars. Most third party lessors forgave rental and made claims against their insurance carriers. Southern Pacific, (now Union Pacific) demanded full car hire. In 2001 NCRA paid Union Pacific $1, 227,313.91 for accrued car hire rentals. Since then NCRA has returned almost half of the cars to Union Pacific. However Union Pacific has recently billed NCRA for $2.2 million for accrued car hire since 2001, which billing NCRA believes was mistakenly conceived. NCRA disputes the claim due to the fact that the maxium rental exposure is the depreciated value of the cars. The Depreciated Value was established by Union Pacific on May 17, 2002 as being $1, 525,501, rendering the outside exposure for NCRA for accrued car hire as being $298,187.09.

(3) Auditors have instructed Executive Director to send a letter and documentation to FEMA requesting loan forgiveness under current FEMA regulations. This documentation is being reviewed and gathered, and will be sent prior to the close of FY 2005-06.

(4) Per the Environmental Consent Decree. Under discussion with respective Consent Decree parties.

ATTACHMENT C
NORTH COAST RAILROAD AUTHORITY (NCRA)
2006 STRATEGIC PLAN and PROGRESS REPORT

I. STRATEGIC PLAN

The NCRA Strategic Plan has been refined to reflect available funds and the requirement to have completely operable segments to attract and support an operator.

A. Reopening Plan

NCRA's Strategic Plan calls for the eventual reopening of the entire line. The Plan takes into consideration NCRA's RFP issued January 17, 2006 for new freight and excursion operators, the comprehensive capital assessments prepared in 2002 and 2005, coordination with SMART and its environmental and capital assessments, the FEMA South-End Programmatic Environmental Assessment, and Federal Railroad Administration and Environmental Consent Decree requirements. NCRA's Strategic Plan is graphically represented in the attached "Work Plan February 2006" (2006 Work Plan).

The Strategic Plan divides the reopening geographically into South, North and Canyon regions. Independent environmental processing would be conducted for the South and the North. The environmental process for the Canyon would address the connection of the North to the South and the cumulative environmental effects of the entire line. The 2006 Work Plan shows a deliberate approach to full compliance with the Environmental Consent Decree's subtasks of site characterization, sub-surface remediation, operating plans, sensitive area cleanup, and monitoring. In addition, the reopening plans for all of the regions reflect an environmental permit approval process and a private-public partnership with an operator. Potential operating revenue is discussed in Subsection 1C. below.

NCRA's initial focus is to open up operable blocks in the South from the interchange at Lombard north to Willits. The 2005 Capital Assessment Report and related preliminary plans entitled, "Russian River Division Rehabilitation Program" will form the basis of a project description that will be submitted to Caltrans District 1 staff to use to obtain ISTEA funds.

Currently, the plans are being reviewed with SMART, who owns a portion of the right-of-way. The project description will be finalized with input from the new operator regarding sequencing of the blocks, and additional input from SMART regarding its level of participation. It is estimated that NCRA will submit the project description to Caltrans District 1 in September 2006 with an estimated cost (see Subsection 1B. below) to re-open the entire line south of Willits of $25 million, assuming that OES funds will be available for recent storm damage (approximately $2 million).

Potential South-End shippers include Sonoma County Waste Management Agency which has expressed an interest in hauling waste by rail, and local natural resource companies such as granaries, lumber mills, and food products.

Based on interest from the private sector, it is anticipated that the next logical focus will be the North-End, from South Fork to Samoa, and will result in excursion service over a portion of the line. Additionally, with the current interest in the deep water Humboldt Bay Port by the Port of Oakland and international shipping companies, it is foreseen that Humboldt County industries would benefit and pay for freight rail service connecting to the Port. It is anticipated that the current RFP will result in several proposals to return service in the North. NCRA's Board will review the proposals, and that review, in combination with available funding sources, will be considered in developing a project description and schedule.

Service into the Canyon region offers two significant opportunities: Island Mountain's 250-acre aggregate quarry and a major role in goods movement by connecting the Port in Eureka with the interchange at Lombard. Evergreen Natural Resources is in the permitting process of developing a prime-grade aggregate quarry at Island Mountain that has an estimated production rate of six million tons per year. In addition, NCRA owns 15 percent of the quarry. Having access to this aggregate would provide a highly affordable source for roadbed ballast, rip rap and material for stabilization repairs. Island Mountain is nearly the center of the rail line, and may warrant a separate operable segment within the Canyon, depending on an operator's plan and available funding.

The next two years are critical to the success of the NCRA and the Northwestern Pacific Railroad as a public-private partnership. NCRA has no designated administrative funding from public sources, and therefore cannot effectively accomplish its State mandate independent of a viable private operator. Historically, several private operators have failed to successfully operate within this right-of-way, which led to the legislated public responsibility to maintain the transportation corridor for the economic vitality of the North Coast region.

TCRP funding is the cornerstone to the public contribution of restoring the NWP right-of-way. The unavailability of this fund source over the last several years has delayed right-of-way improvements, and subsequently, the ability to attract a viable operator. As a result, NCRA's administrative funding has been deficient over the last two fiscal years and is expected to be deficient this fiscal year and in future years unless state and local operational funding is identified. NCRA has a three-fold focus to address this deficiency:

1. Utilize interest earnings on NCRA's contributions made to the Q-Fund on deposit in the Local Agency Investment Fund (LAIF) estimated to be $43,000, to assist in the repayment of the Harbor District loan of $170,000 due in December 2006.

2. Request NCRA operational funding from the three Counties represented on NCRA's Board of Directors for a total of $100,000 each year for the next three years.

3. Request state funding assistance of $250,000 per year from the Public Transportation Account (PTA) for the operational costs associated with the maintenance and preservation of a 316 mile publicly – owned rail corridor.

Finally, before operation resumes, NCRA will pursue compliance through its operator with operation-related requirements of the Environmental Consent Decree. The current TCRP application for Project 32.5 requests funding for site characterization and remediation at maintenance yards and the Hopland station. It has become clear, to NCRA and the resource agencies that are overseeing this work, that the funding available in Project 32.5 is insufficient. It is estimated that at least $4 million in additional funding will be required to complete remediation and the sensitive area cleanup. In order to address this deficiency, NCRA will pursue folding the efforts related to the consent decree into other TCRP project scopes where a nexus exists. In addition, NCRA will aggressively seek to enforce the contractual arrangement with Union Pacific that requires Union Pacific to remediate the Willits yard.

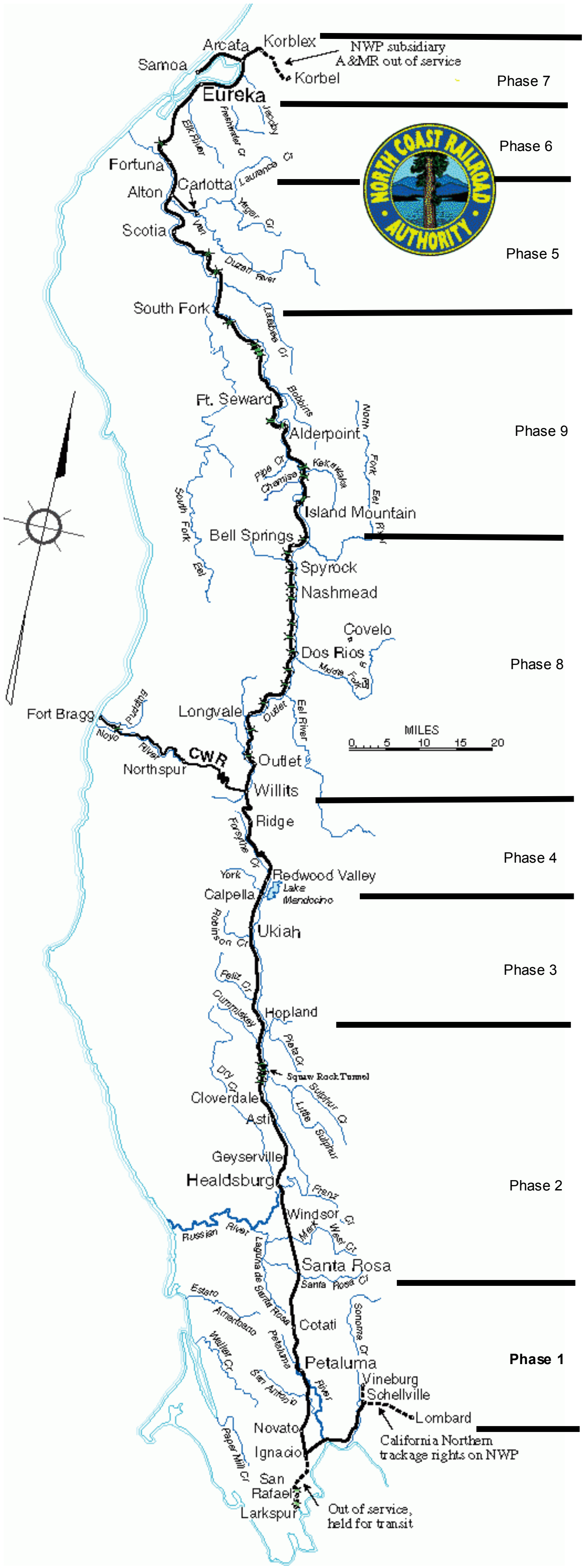
The CTC has previously asked NCRA to report on its ability to comply with the ECD if the rail is not extended through the Canyon. As stated above, it is NCRA's intent to eventually open the entire line and thereby address the ECD issues. Although some of the ECD concerns north of Willits would disappear without an operating railroad; like the establishment of best practices for the operator to deal with earth flows that would close the rail to traffic, several remediation issues would remain.

Without the rail it would be doubtful that NCRA would ever have the financial means to address the ECD through the canyon area. ECD issues such as the removal of ties, debris, and waste in the Canyon area north of Willits, have been agreed to be delayed until reasonable access is provided via rail improvements. Without rail improvements the costs related to access will be greatly increased. As an example, the retrieval of discarded rail ties along the right of way, which are called for in the ECD, would cost less than $2 per tie if the rail is available. It is estimated that the costs would be at least 10 times as much to air lift the ties out of the Canyon.

B. Cost Estimate to Re-open the Line by Operable Phases

NCRA's Strategic Plan has been refined to adjust to available funding from TCRP, ISTEA, partnering with SMART, and seeking financial assistance from Sonoma County Measure M funds. In order to maximize funding sources and begin construction as soon as possible, the construction is expected to be phased, based on a strategy of operable segments that produce a return on investment to an operator. As additional funding becomes available, either through private sources or additional public sources, future phases will be initiated.

The following map shows NCRA's right-of-way and the proposed reopening/ construction phases.


Arcata
Korblex
NWP subsidiary
A&MR out of service
Korbel
Samoa
Eureka
Phase 7
Phase 6
NORTH COAST RAILROAD AUTHORITY
Fortuna
Carlotta
Alton
Scotia
Phase 5
South Fork
Ft. Seward
Alderpoint
Phase 9
Island Mountain
Bell Springs
Spyrock
Nashmead
Covelo
Dos Rios
Phase 8
Fort Bragg
Longvale
MILES
0 5 10 15 20
CWR
Northspur
Outlet
Willits
Ridge
Phase 4
Redwood Valley
Calpella
Lake Mendocino
Ukiah
Phase 3
Hopland
Squaw Rock Tunnel
Cloverdale
Asti
Geyserville
Healdsburg
Phase 2
Windsor
Russian River
Santa Rosa
Cotati
Petaluma
Phase 1
Vineburg
Schellville
Lombard
California Northern trackage rights on NWP
Novato
Ignacio
San Rafael
Larkspur
Out of service, held for transit

The estimated phases and cost to re-open the entire rail line follow, based on the latest available information.

Lombard to Willits – South-End/Russian River Division (Costs in Millions Include Environmental Document, PS&E and Capital)					
Type of Improvement	Phase 1 Lombard To Santa Rosa	Phase 2 Santa Rosa to Hopland	Phase 3 Hopland to Redwood Valley	Phase 4 Redwood Valley to Willits	Total Cost w/30% Markup for Incidentals
Geotechnical	$ 0.0	$ 0.2	$ 0.0	$ 0.3	$ 0.8
Tunnels	0.0	0.2	0.0	0.0	0.2
Structures	3.0	0.9	0.5	0.2	5.9
Roadway	1.4	1.2	0.7	0.8	5.4
Signals	5.5	3.0	0.8	0.4	12.7
Total Capital Cost	10.0	5.5	2.0	1.7	$ 25.0
Capital Cost w/incidentals	$ 13.0	$ 7.2	$ 2.6	$ 2.3	$ 25.0

South Fork to Eureka – North-End Division (Costs in Millions Include Environmental Document, PS&E and Capital)				
Type of Improvement	Phase 5 South Fork to Fortuna	Phase 6 Fortuna to Eureka	Phase 7 Eureka to End of Line	Total Cost w/30% Markup for Incidentals
Geotechnical	$ 1.2	$ 0.6	$ 3.0	$6.3
Tunnels	0.2	0.1	0.5	1.0
Structures	2.8	13.7	3.4	25.9
Roadway	0.3	0.1	0.6	1.3
Signals	1.0	0.5	2.7	5.5
Total Capital Cost	5.5	15.0	10.2	$ 39.9
Capital Cost w/incidentals	$ 7.1	$ 19.5	$ 13.3	$ 39.9

Canyon Division – Willits North to South Fork (Costs in Millions Include Environmental Document, PS&E and Capital)			
Type of Improvement	Phase 8 Willits to Island Mountain	Phase 9 Island Mountain to South Fork	Total Cost w/30% Markup for Incidentals
Geotechnical	$ 8.3	$ 4.7	$ 16.9
Tunnels	4.5	1.3	7.5
Structures	3.0	7.1	13.1
Roadway	1.2	1.0	2.9
Signals	0.5	0.0	0.6
Total Capital Cost	17.5	14.1	$ 41.1
Capital Cost w/incidentals	$ 22.8	$ 18.3	$ 41.1

The following table outlines the cumulative costs for the operable phases and indicates funding currently available. NCRA continues to seek funding from alternate sources. This information will be refined based on input from the operator(s) business plans, as well as the pursuit of additional funding through avenues such as the Governor's proposed infrastructure bond, Federal Railroad Administration (FRA) Railroad Rehabilitation and Improvement Financing (RRIF) loans, and future goods movement grant opportunities.

Cumulative Cost by Phase (Costs in Millions)					Funding Sources (in Million)					
Phase	Division	Cost by Phase	Cumulative Cost		TCRP[1]	ISTEA[2]	Meas M[3]	Private[4]	Other[5]	Total
Phase 1	South	$ 13.0	$ 13.0		$ 1.8	$ 8.2	$ 3.0			$ 13.0
Phase 2	South	7.2	20.2		1.0	0.4	0	2.9	2.9	7.2
Phase 3	South	2.6	22.7		0.4			1.1	1.1	2.6
Phase 4	South	2.3	25.0		0.4			1.0	0.9	2.3
Phase 5	North	8.9	33.9		1.3			3.8	3.8	8.9
Phase 6	North	20.4	54.3		.7			4.0	15.7	20.4
Phase 7	North	10.6	64.9		1.7			4.4	4.5	10.6
Phase 8	Canyon	17.5	87.7		7.5			7.6	7.6	17.5
Phase 9	Canyon	14.1	106.0		7.5			5.4	5.4	14.1
Total		$ 106.0	$ 106.0		$ 22.3	$ 8.6	$ 3.0	$ 30.2	$ 41.9	$ 106.0

C. Estimated Income from Operations

NCRA's Board released an RFP for a new rail operator January 17, 2006. The RFP covers the entire line from Lombard to Samoa and would allow multiple operators on the NWP. The schedule for selection calls for a contract with a new operator on July 12, 2006. The results of the RFP, including the business plan and funding expected from a new operator(s), will be reported to the CTC when the information becomes available. NCRA estimates that the actual income to be generated by a short line operator(s) will include revenue from the following sources:

- **Island Mountain Aggregate Haul:** Evergreen Natural Resources is in the permitting process of developing a prime-grade aggregate quarry that has an estimated production rate of six million tons per year or four million cubic yards of material.

[1] The TCRP funds include $0.6 million for 32.3, $4.9 million for 32.4, $1.8 million for 32.7 and $15 million, which is half of the funds for 32.9.
[2] NCRA has been designated as the lead agency for this funding.
[3] SMART and the County of Sonoma have agreed to use the $3.0 million designated in Measure M for railroad signals for this scope of work.
[4] Private funding will be arranged by the operator with the assistance of NCRA.
[5] Humboldt Bay Port Demonstration Bond proceeds and funding being pursued under the Governor's proposed infrastructure bond, Railroad Rehabilitation and Improvement Financing through the FRA, and future grant opportunities for Goods Movement projects.

Assuming 100 cubic yards per car, this would result in 40,000 cars per year and at $500 per carload,[6] would generate $20 million in revenue for the railroad operator per year.

- **Sonoma County Garbage Haul:** In the Assessment of Long-Term Solid Waste Management Alternatives for Sonoma County[7] prepared January 2006, the consultant concludes, "Considering that the costs for rail transport vs. highway vehicle transport are fairly comparable (within 7 to 8%) with the added benefits discussed above, WBR [waste by rail haul] should definitely be considered as a long-term out-haul option." The report estimates that Sonoma County would ship 12 railcars a day at $600 per car[8] to generate revenue of approximately $1,872,000 per year for the selected rail operator. NCRA met with the County February 9, 2006 to discuss future timing of rail service, and intend to meet regularly to discuss options and progress.

- **South-End Traditional Clients:** Historically, the NWP has provided service to several companies: lumber mills, granaries, wood products, building products, and produce. In the Parsons Brinkerhoff Economic Feasibility Report for NCRA (PB report), the low forecast shows 43 shippers in the South-End, the largest include Mead Clark Lumber in Santa Rosa with 700 cars per year, Piedmont Lumber in Calpella with 555 cars per year, and Standard Structures in Windsor with 550 cars per year. The total number of railcars projected in the low forecast scenario for the South-End was 4,051 cars. Using an average revenue per rail car of $500, a conservative forecast would generate $2,025,000 annually. Recent operator projections for these same traditional clients indicate 7,000 cars per year after the first year of operation, which would result in $3,500,000 in annual revenue for the private sector operator.

- **New Markets:** As dependable rail service becomes available on the NWP, new clients will specifically locate warehouses and distribution centers along the line to take advantage of alternate shipping opportunities. Around the nation, shippers have been prompted to modify logistics practices so that goods are not delayed. Some shippers have established warehousing and distribution facilities in close proximity to alternative seaports, ensuring easier access and distribution of their goods throughout the nation. Similarly, shippers take advantage of rail and trucking competition and locate or relocate to locations that can be serviced by both modes of transport.

- **Goods Movement Port/Rail Opportunities:** Not only is rail service important for the Port of Humboldt Bay to reach its potential role in improving State-wide goods movement, but it is also an important tool to attract additional manufacturing to California. There is a significant market in the entire north coast area for new commercial, industrial, warehousing, and distribution centers, that at present is

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[6] The Long Term Financial and Economic Feasibility of the Northwestern Pacific Railroad, Parsons Brinkerhoff, January 2003

[7] Assessment of Long-Term Solid Waste Management Alternatives for Sonoma County prepared by Brown, Vence & Associates January 2006, Appendix E Waste by Rail Haul Letter Report September 2005, p. 18 www.sonoma-county.org/pw/pdf/solid_waste_jan06.pdf.

[8] Ibid, p 7 and p 13

languishing because of the lack of sea and rail transportation. The Port of Humboldt Bay presently has many underutilized real estate and port services appropriate for additional growth in California's manufacturing sector. Reestablishment of rail service provides the opportunity for a variety of manufacturing or bulk commodity shipping businesses to relocate or expand to California. To attract businesses to the Humboldt Bay region, the Port of Humboldt Bay has partnered with the Port of Oakland and is actively marketing Humboldt Bay's underutilized port assets in China through individual business meetings and with the Governor's November 2005 trade delegation to China. The Port is also participating with the State's CalBiz and Upstate California economic development programs.

Reestablishment of rail service to the Port of Humboldt Bay is also crucial to the success of any statewide goods movement improvement program. The Port of Humboldt Bay continues to revitalize the Port and work toward diversifying the commodities shipped through California's Northern Gateway, Humboldt Bay. As a part of this diversification, the Port is actively working toward the development of container handling facilities aimed at not only handling containers destined for local consumers and manufacturers, but also providing the capacity to provide a measure of relief to other congested California container ports. Except for one minor tunnel repair, the entire 300 mile NWP is accessible to ship double-stack containers. One estimate has suggested that if the railroad is reopened and with upgraded port container handling facilities, up to 1,000 containers per day double-stacked could be moved to and from the Port of Humboldt Bay to the national rail system. Using an average revenue per railcar of $1,000, this results in $130 million per year based on a five-day per week hauling schedule.

The existing ports of California are overloaded and the State is losing business to alternate ports. The Goods Movement Action Plan Phase I states:

> *With record increases in cargo volume creating delays through the ports of Long Beach, Los Angeles, and Oakland, shippers have begun to diversify the ports of entry for their cargos. This diversification includes other West Coast ports as well as East and Gulf Coasts ports, which can be reached by ships going through the Panama and Suez Canals. Thus, instead of offering only the traditional land-bridge service (disembark at a California port and move by rail through California and across country), ocean shippers are beginning to offer all- water services with greater service frequency, speed and reliability.* [9]

As a result, if secondary ports are not developed in California, California will lose its share and shippers will bypass to Seattle, Portland, Vancouver, Mexico, and the Gulf Coast. Recently, several businesses have expressed great desire to relocate to California, specifically to Humboldt Bay region, but left the State and went elsewhere because of the lack of rail service. In each case, the businesses were willing to invest

[9] Goods Movement Action Plan Phase I: Foundations prepared by Business, Transportation and Housing Agency and California Environmental Protection Agency, dated September 2005, *Page IV-7*.

$150-$300 million in their facilities and had the potential to employ 60-250 employees each. These are sobering examples of the huge losses to the State economy because of a lack of rail service to the north coast. The Humboldt Bay Port and NCRA's rail assets are currently underutilized and provide an incredible opportunity to provide some measure of statewide goods movement relief and create an enticement for the establishment or relocation of additional manufacturing, shipping or distribution centers in northern California.

II. PROGRESS REPORT

Since the NCRA last reported to the California Transportation Commission (CTC) on October 28, 2004, several important milestones have been achieved:

1. NCRA is in the process of developing a project scope, funding plan, and operation plan for the **reopening of the South-End of the line in phases**. It is important to note that SMART and NCRA have overlapping interests and both have the common goal of opening segments of the NWP, with SMART as owner of the line from Lombard to Healdsburg, and NCRA having maintenance responsibilities over the same segment. Therefore, there are shared interests in capital improvements. NCRA met with SMART staff January 25, 2006 and together we are establishing timing and cost responsibilities for capital investments such as signals, roadway crossings, and bridge repairs and/or replacements. Based on the timing of the operator RFP, it is anticipated that NCRA will have a viable operation plan and project scope by the third quarter of 2006 as shown in the South-End Reopening work plan attached.

2. NCRA has terminated its operating agreement with NWPY, and **on January 17 released a Request for Proposals (RFP) for a new contract railroad operator** for the line. A pre-proposal conference is scheduled February 15, and the deadline for submission of proposals is March 31. As of February 6, 25 RFPs had been requested by interested parties.

3. In January 2006 **NCRA responded to several emergency calls**, including: a) a massive debris flow that plugged NCRA culverts and presented a major flooding threat in Redwood Valley, b) a roadway embankment that washed out spilling ballast and roadway fill onto a rancher's property in Hopland, c) flood debris blockage at a bridge that diverted flood waters onto a rancher's property in Ukiah, and d) a number of cases where culverts were blocked and adjoining private properties were flooded. NCRA responded to several counties with storm damage estimates to submit to OES for disaster funds. The storm damage in Humboldt, Mendocino, Sonoma, Marin, and Napa counties are continuing to be evaluated and quantified.

4. NCRA signed a lease in December 2005 for the **leasing of 35 rail boxcars that will result in an annual revenue stream of $240,000**. NCRA purchased these new boxcars as discussed in item 8 below. This is a responsible use of this asset until an operator can make use of them. In addition, NCRA is updating and improving its approach to property

management. NCRA's billing records are being thoroughly reviewed to reflect current leases, licenses, easements, and other revenue generating entitlements, including the increase of leases, where appropriate, for CPI increases. In addition, an aggressive delinquency management system is being initiated. These changes are expected to increase annual revenues from this source anywhere from 5 -15 percent.

5. NCRA has **completed the waste and debris clean-up of nine rail yard sites** (all in the Eel River Division except the Willits Yard and the Hopland Station) as required by the Environmental Consent Decree and managed by NCRA. Waste and debris cleanup consisted of sampling, packaging, transportation, and disposal or recycling of hazardous waste, regulated waste, and inert debris; and the decommissioning of aboveground diesel, gasoline, and waste oil tanks at the following sites: Eureka, Scotia, South Fork, Fort Seward, Alderpoint, Island Mountain, Dos Rios, Willits and Hopland as documented in the Kleinfelder report dated December 23, 2005 entitled, "Documentation of Completion Waste and Debris Cleanup North Coast Railroad Authority."

6. On November 18, 2005 David Hull, Port Director of the Port of Humboldt Bay forwarded a **request to Secretary McPeak and Secretary Lloyd to add two projects to the infrastructure short list of the December 2005 Phase II Goods Movement Action Plan**. In his correspondence Mr. Hull explained, "These projects will increase the goods handling capability of shippers through California, will create thousands of new jobs in the port and in the rail system, and will provide an alternative port to California in response to any security issues or natural disasters that may hamper goods movement at other California ports. The two projects that we strongly recommend being included in the Phase II Action Plan are: The reestablishment of freight rail service on the State-owned NCRA rail line from the Port of Humboldt Bay to the national rail system; and the modernization of the Redwood Dock Marine Terminal to both facilitate short-sea shipping between the Port of Humboldt and the Port of Oakland, and to accommodate and respond to goods movement shipping demands at the Harbor District's publicly owned marine terminal in Humboldt Bay, as well as support national and international investment in and around the Port of Humboldt Bay." NCRA and Port of Humboldt Bay staff met in November 2005 to discuss partnering on a new feasibility study, project schedules and scope. The two agencies are working together to inform the appropriate state and federal authorities of the opportunities for goods movement on the north coast.

7. In November 2005 NCRA entered into a contract with a consultant to assist in documenting, organizing, and where necessary, preparing the administrative documents and procedures necessary to **eliminate the high-risk grantee status of NCRA**. NCRA recently completed its 2004-05 financial audit, and is in the process of finalizing its policies and procedures manual in order to schedule a Caltrans audit in April 2006. An indirect allocation plan will be submitted shortly thereafter.

8. Federal Emergency Management Agency **(FEMA) proceeds of $7.9 million** were used to complete an Updated Capital Assessment Report for the Russian River Division (Willits south to Lombard) by NCRA's on-call engineer dated November 2005. The report updates the work and costs necessary to re-open the line and will be the source of

the South-End re-opening project description. In addition, the FEMA funds were used from December 2004 to November 2005 to:

- Purchase the following signal materials: 70 Bi-directional Predictors, 70 Shunt Enhancers, 140 Tunable Narrow Band Shunts, 8 Dummy Loads, 10 Gates, and 2 Flashers.

- Purchase 35 new rail boxcars.

- Purchase the following maintenance equipment: a brush cutter from Westside Tractor Sales, an excavator from Westside Tractor Sales, a 3/4–ton Ford high rail pickup, a 2000 Volvo rotary dump truck, a 2005 Caterpillar 430D backhoe, and a Sullaire 185 CFM Compressor.

- Complete preliminary bridge layout plans and estimates ($4.5 million) for the repair and replacement of 120 bridges in the Russian River Division

- Complete existing signal layout plans with repair and replacement recommendations for 99 highway-rail grade crossings and three drawbridges and estimates ($9.8 million) for the Russian River Division

- Prepare detailed maps of the Russian River Division documenting right-of-way, geotechnical sites, signal locations, bridge sites, and other details.

- Complete inspection, plans, and fender protection improvements on the Haystack Landing and Black Point bridges and update the navigation lighting system.

9. **SMART released a Draft Environmental Impact Report** in November 2005 to provide passenger rail service on approximately 60 miles of the Russian River Division (Ignacio to Cloverdale). FEMA's Final Programmatic Environmental Assessment (PEA) for the Russian River Division was prepared in March 2004. Both of these documents cover much of the physical activities proposed in NCRA's design work plan to open the Russian River Division (South-End). The biological and technical studies from SMART's DEIR and FEMA's PEA will be used in addition to any other required studies to complete NCRA's environmental process from Lombard to Willits. NCRA's environmental process is estimated to take a year and is shown on the South-End Reopening work plan attached to this progress report.

10. On October 2, 2005, NCRA received a copy of a permit request by **Evergreen Natural Resources to mine Island Mountain**. The mine operators will be quarrying the site for aggregates of all sizes to be used to repair the NCRA railroad and also to be sold in the bay area and other places for construction purposes. The mine area includes 350 acres and will produce approximately four million cubic yards per year. The site contains about 250 million cubic yards with a specific gravity of 3.2 which is prime grade. Access to this site by truck is impractical because of the lack of public roadways and the grade and condition of the existing private roadways. The applicant assumes that rail service will be used to transport equipment and the aggregate materials.

11. NCRA actively pursued the **forgiveness of the Q-Fund loan** from November 2004 to October 2005. The following steps to reallocate the forgiven loan proceeds have been taken or are in progress:

    - HR 3, the Federal Highway and Transit Reauthorization Bill, was signed into law in August 2005 with provisions to forgive the $12 million Q-Fund loan.

    - State legislation (SB 792-Chesbro) to reallocate the funds set aside to repay the Q-Fund loan was enacted by the legislature in September 2005. Under SB 792, $5.5 million allocated to NCRA in 2001 (under AB 2928) for Q-Fund repayment would be reallocated to fund the second phase of the court-mandated environmental clean-up, and fund public safety improvements on the publicly-owned right-of-way. SB 792 was vetoed by the Governor in October 2005.

12. In addition to achieving forgiveness of the Q-Fund, **NCRA has reduced its debt load** over the last year by paying the following:

Creditor	P&I Balance End of FY 2004-05	P&I Payment in FY 2005-06	P&I Balance End of FY 2005-06
PALCO Notes	$ 230,400	$ 0	$ 230,400
Option B Interest	52,773	7,539	45,234
TXL Capital	42,805	9,551	33,254
Humboldt Bay Harbor Loan (using $43,000 of LAIF interest earnings for 05-06 payment)	183,600	49,800	133,800
Meecham Loan	216,388	0	216,388
NWPRA (SMART) Loan	128,490	128,490	0
Mass Electric	259,769	259,769	0
Neary Debt	40,701	0	40,701
Q-Fund	10,687,234	Forgiven	0
Caltrans Prop 116 Audit Exception (using $90,000 from Cloverdale Bypass funds for 05-06 payment)	152,886	102,000	50,886
Total	$11,995,046	$ 557,149	$ 750,663

13. With the enactment of HR 3 in August 2005 **NCRA was designated as the lead agency to receive $8.6 million** in Intermodal Surface Transportation Efficiency Act (ISTEA) funds on deposit with the Federal Highway Administration (FHWA). NCRA intends to use these funds along with the matching funds designated in TCRP Project 32.7 toward Phase 1 rail improvements to the South-End. NCRA submitted the second draft of a Disadvantaged Business Enterprise (DBE) program and methodology to Caltrans District 1 on January 31, 2006.

14. In September 2005 Caltrans District 1 requested NCRA review the **Willits Bypass** Preliminary Plans for impacts on the NWP. The plan is in final design and NCRA has

been coordinating with the District on location of structure foundations, track alignments, track clearances, construction easements, and right-of-way requirements. An agreement between NCRA and Caltrans District 1 is expected in the next few months to document right-of-way requirements, construction easements and reimbursement for engineering plan review.

III. NCRA'S RESPONSE TO CTC QUESTIONS

In April 2004 the CTC requested that NCRA respond to several ongoing concerns regarding the viability of the railroad and NCRA as a public agency. These questions were addressed in the information provided above, but are summarized below.

1. <u>Completion of the amended TCRP application for project 32.5 – Environmental Remediation.</u>

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

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

   <u>Response:</u> The Authority receives revenues from easements, property leases, the leasing of rail cars and equipment, and recently through the reimbursement of project management and administrative costs for the FEMA South Alternate project. Equipment leases constitute a new revenue source for the Authority and result in annual revenue of $240,000 until the railcars can be used by an operator on the NWP line, at which time they will be leased to the operator.

   This year the Authority will be finalizing its Indirect Allocation Plan as well as other policies and procedures to work toward eliminating its status as a high-risk grantee. It is expected that a Caltrans audit of NCRA's books and procedures will be scheduled in April 2006.

   The Executive Director has successfully worked toward the forgiveness of certain debts and has initiated negotiations to restructure other debts listed on NCRA's financial statements. As shown in Section 2. above, NCRA's outstanding debts went from a balance of $12 million in FY 2004-05 to $0.7 million in FY 2005-06.

   An RFP for an operator was released January 17, 2006 that will also address certain administrative costs. NCRA will continue to utilize contract staff in order to complete engineering, maintenance, and certain administrative functions necessary to access public dollars for capital repairs.

Discussions have been initiated with the Counties of Sonoma, Mendocino and Humboldt, with the help of NCRA Board members, to explore the possibility of securing up to $100,000 per year in local funding for certain administration, maintenance activities, and repairs. Future budgets will reflect the outcome of these discussions.

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

   Response: As stated in Section 2. above, NCRA has completed the Waste and Debris Clean-up of nine rail yard sites. The Project 32.5 application to be reviewed by the CTC at its March 2006 meeting represents continued consensus building with the State Agencies and is a request for the next phase of work towards completing the Consent Decree remediation. Several conference calls and two meetings have been held with the State Agencies to build consensus on the remaining scope and budget required to comply with the Consent Decree.

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

   Response: As stated in Subsection 1C. above, NCRA's Board released an RFP for a new rail operator at its January 2006 meeting. The RFP covers the entire line from Lombard to Samoa and would allow multiple operators on the NWP. It is anticipated that a new operator will be on board in July 2006. The results of the RFP, including the business plan and funding expected from a new operator(s), will be reported to the CTC when the information becomes available. Several potential revenue sources are highlighted in Subsection 1C. above including, Island Mountain aggregate haul, Sonoma County garbage haul, traditional clients in the South, North and Canyon Divisions, new markets, and port related traffic.

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

   Response: NCRA's strategic plan includes reopening the line north of Willits as described Subsection 1A. NCRA's reopening strategy is dependent on State funding. That said, NCRA recognizes that funding is finite. In setting its funding priorities, the State may choose to delay funding for the Port and/or railroad improvements serving it. If so, barring changes to existing legislation, NCRA will still need to comply with the ECD and maintain its right-of-way in accordance with its legislated mandate to maintain the transportation corridor for future use. As stated in Subsection 1A., the addressing of ECD issues, in the canyon area north of Willits, has been agreed to be delayed until reasonable access is provided via rail improvements. Without these improvements the costs related to access will be greatly increased. Without the rail it would be doubtful that NCRA would ever have the financial means to address the ECD through the canyon area.

It should be understood that maintaining the railroad infrastructure is a significant pubic safety issue. For example, the road bed serves as a levee in several regions of the railroad and flooding of public and private lands is a concern. In addition, culvert maintenance and flood debris removal at bridges is required to protect streambeds and public property from flooding, and vegetation and brush control is required to limit the spread of invasive plant and minimize fire hazards.

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

   Response: This information will be updated to reflect the selected operator(s) business plan. The operator is expected to invest where it can derive a reasonable rate of return. The focus on return will not necessarily yield a public benefit to the entire line. Improvements such as those proposed in the current 32.4 application are not necessarily going to be immediate priorities to the operator, but they are urgently needed for public safety. Potential revenue sources are listed in Subsection 1C. above.

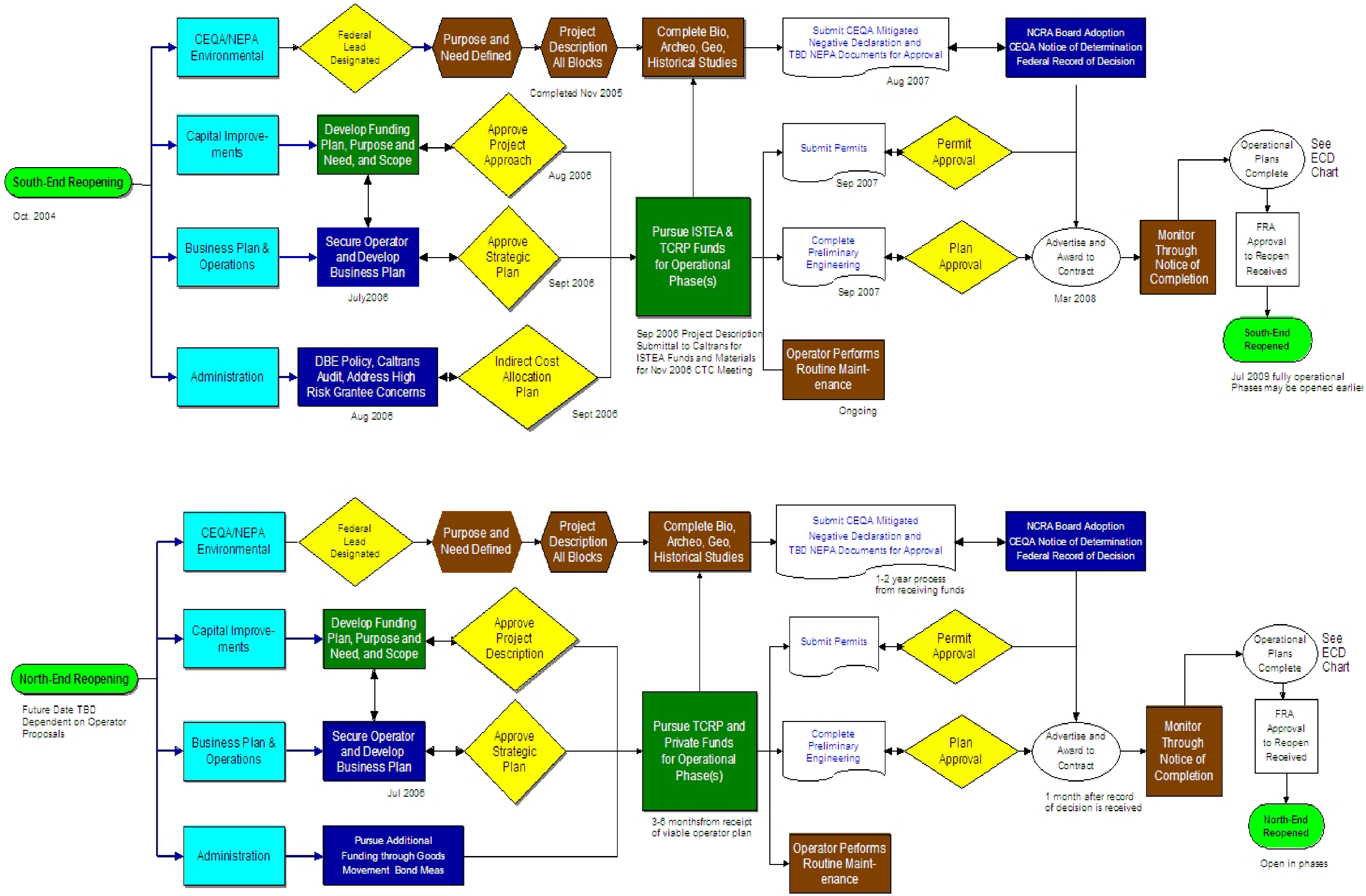
7. A final proposal to CTC and Department District staff regarding the repayment of the $166K in disallowed Proposition 116 costs.

   Response: As shown in Section 2. Item 12, NCRA has been making payments toward repayment of the disallowed Proposition 116 costs in accordance with NCRA Resolution No. 2004-06 approved August 18, 2004 and subsequently accepted 7-0 at the September 15, 2004 CTC Meeting.

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

   Response: NCRA will use its share of the remaining proceeds of the Q-Fund account, which consist of the interest earnings on the portion of the Q-Fund contributed by NCRA, to partially repay the $170,000 Harbor District loan that is due December 2006.

NCRA Work Plan February 2006 - Re-opening Work Plan



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