

To: CHAIR AND COMMISSIONERS

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From: SUSAN BRANSEN
Executive Director

Subject: **NORTH COAST RAILROAD AUTHORITY (NCRA) 2018 STRATEGIC PLAN**

SUMMARY:

The North Coast Railroad Authority (NCRA) will provide an overview of their Strategic Plan in follow-up to the California Transportation Commission's (Commission) request at the June 2017 meeting to provide a business plan or shut down plan including an update on the status of a Federal Railroad Rehabilitation and Improvement Financing (RRIF) loan.

NCRA's Strategic Plan is included as an attachment to the Caltrans staff report for this agenda item. The Strategic Plan states that NCRA is exploring options to improve the overall functionality of the entire rail corridor and improve the financial stability of NCRA and is pursuing a course of action to accomplish the following three key objectives:

- Railbank a 120 mile portion of the right of way from Willits to South Fork, including the entire Eel River Canyon. Receive one time funding in exchange for railbanking to be used to retire debt.
- Obtain dedicated funding to maintain necessary staffing and resources to manage the maintenance of those portions of the line that do not have freight service and are not yet railbanked.
- Work toward obtaining grant and private funding to complete phased improvements to restore freight service from Cloverdale to Willits and establish a freight belt line and tourist train around Humboldt Bay.

Staff has reviewed the Strategic Plan and notes that the plan does not present sufficient information for the Legislature and other stakeholders to make informed decisions concerning the future of NCRA. Instead, the Strategic Plan is a high level visionary document. The Strategic Plan does not detail NCRA's current financial position including debt obligations, viability/market analysis, expected benefits, funding partners, accountability measures, and other factors needed before the identified objectives can be pursued. Additional staff comments to the Strategic Plan are included in the attachment.

Of additional concern, NCRA, at its January 2018 meeting, considered entering into a long term lease to secure funding for its existence that would allow for non-transportation (passenger and freight rail) use of property acquired exclusively with state funds. Caltrans Legal Counsel, by letter to the NCRA Board, informed NCRA that the property considered for lease was secured exclusively with Clean Air and Transportation Improvement Act (Proposition 116) funds provided by the Commission through Caltrans and that execution of the Agreement by NCRA would trigger NCRA's duty to repay the state the proportionate funding by the state, 100% of fair market value. Caltrans further informed NCRA that Commission approval was required to enter into such a lease. While NCRA did not enter into this lease, staff is concerned that NCRA was considering, as recently as January 10, 2018, leasing property purchased with state funds for non-transportation purposes without Commission approval as a means to obtain on-going financing.

BACKGROUND:

NCRA was created by State law in 1989 to maintain and expand rail service to the North Coast area of the State. There have been a series of loans and grants of federal and State funds provided to NCRA to purchase right of way, rolling stock and other equipment, and make improvements and repairs to related facilities.

Between 1991 and 2008, the Commission allocated Proposition 116, Transportation Planning & Development (Transit Capital Improvement Program), and Traffic Congestion Relief Program funding. The last reimbursement request by and authorized payment to NCRA by the Department of Transportation was processed in January 2012.

In a June 2017 presentation to the Commission, NCRA leadership shared that the Authority was having difficulty maintaining and expanding rail service, has never been self-sufficient, and was routinely unable to pay its obligations. The Commission requested that the NCRA representatives provide a business plan identifying potential responsible directions the Authority can implement moving forward.

Given the uncertain future direction expressed by the Authority's management, the Commission, in its 2017 Annual Report, recommended that it was in the best interest of the state that the Legislature create a committee of stakeholders involved in the development and operation of NCRA to explore various scenarios for the Authority's future.

Attachment – Comments to NCRA's Strategic Plan

Comments to NCRA's Strategic Plan

NCRA's Strategic Plan does not include sufficient information for stakeholders involved in the development and operation of the North Coast Railroad Authority (NCRA) to explore various scenarios for the Authority's future. For example, the following information was not included in the Strategic Plan:

- Sufficient information to understand NCRA's goals, core values and the steps and resources necessary to achieve those goals and values.
- A market analysis to support the options under consideration.
- The breadth and cost of the organizational structure(s) and partnerships required for implementation of the plan.
- The identification of and means planned to overcome debt and continuing fiscal challenges including recurring losses from operations.
- Performance metrics or mechanisms to determine operational success.
- Targets of completion and operational milestones to overcome the barriers identified in the plan.
- The means to which it will ensure oversight and accountability for protecting the public interest.
- The Strategic Plan seeks to rail bank tracks in the north but does not include information on the cost, schedule, partnerships and other requirements that must be met to construct and maintain a trail. For example, the plan does not specify the:
 - Federal and state approvals required including the cost, schedule and plan to obtain approvals.
 - Environmental remediation necessary including the cost, barriers and timeline to remediate.
 - Easements or other subordinated property interests that create a barrier in constructing and operating a trail.
 - Funding source(s) secured or to be secured for implementation and operation.
 - Responsibility for construction, maintenance and operation of the trail.
 - Partnerships that must be formed or approvals required from federal, state, local and private stakeholders.

- The Strategic Plan seeks to obtain dedicated funding to maintain necessary staffing and resources but does not identify relevant information to make informed business decisions including the:
 - Purpose, description, cost and specific scope of work/tasks to be accomplished of the staffing and resources required;
 - Current financial condition including, but not limited to, outstanding obligations, interests subordinated, cost of operations, current and anticipated revenues under existing and planned operations, anticipated return on investment, or source(s) of funding to be pursued.

- The Strategic Plan seeks to obtain grant and private funding to restore freight service, establish a freight belt line, and a tourist train around Humboldt Bay. However, for each improvement under consideration, the plan does not include a:
 - Market analysis of the viability of the operations proposed.
 - Projected cost of capital and operations.
 - Projected revenues.
 - Funds required to pay off outstanding loans.
 - Federal, state, local and other approvals and/or partnerships required.
 - Nature, amount and likelihood of obtaining private funding.
 - State and/or federal subsidy required to maintain and expand operations, and if so for how long before proposed operations are expected to be self-supporting.