

SMART FREIGHT ACTIVITIES UPDATE NOVEMBER 17, 2021



HISTORY

- Late 1800s - Freight and passenger service began moving throughout the region
- Originally went from Southern Marin to Eureka. Known as the Redwood Empire Route
- Over the years, service has been supplied by up to 42 railroads
- Throughout its history, North Bay rail has predominately moved lumber from Northern California forests in Mendocino and Humboldt County down through Sonoma and Marin to the rest of the Bay Area.

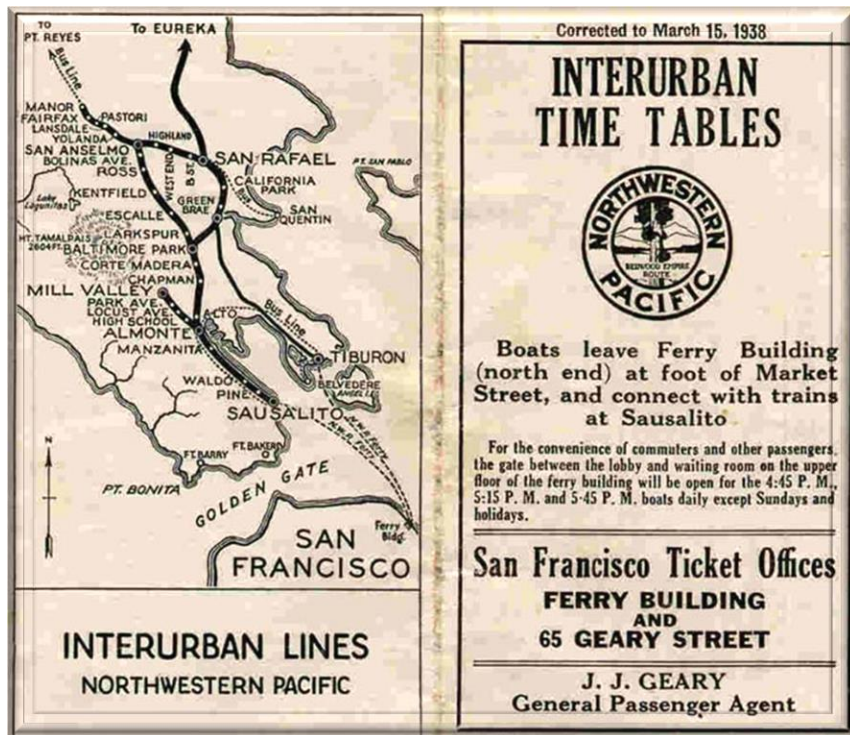


HISTORY

- Provided much of the lumber that built the Bay Area and rebuilt it after the Great 1906 San Francisco Earthquake and following fires.
- In the 19th century, estimates for lumber production were over 20,000,000 board feet annually (board feet is how the volume of lumber is measured).
- At its peak, the SMART owned right-of-way had 22 spurs providing direct connections to customers and transload facilities.



HISTORY



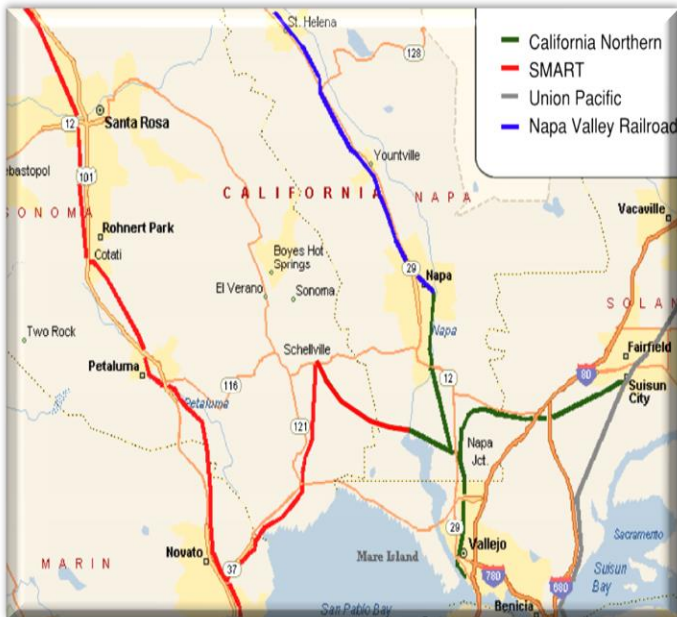
- Passenger service boomed throughout the region until the 1930's.
- Automobiles began drawing people away from the railroads with passenger service completely ending in 1971 until SMART started the service again in 2017.
- Freight service was heavy until the 1970's, supplying lumber for the bay area housing boom.
- Repeated disasters, such as floods and fires, made maintenance difficult and expensive through the Eel River canyon, eventually forcing the railroad north of Willits to shut down.

HISTORY

- Freight rail service in the region continued to shrink as trucking became cheaper and cheaper and freeways were improved.
- Between 1998 and 2011, freight traffic was stopped by the Federal Railroad Administration due to unsafe conditions created by El Niño storms.
- In 2011, NWPCo. reopened service between Napa and Windsor moving grain and lumber products roughly 3 times a week.



CURRENT OVERVIEW



- All incoming and outgoing freight for Marin and Sonoma Counties must go through the following:
 - Union Pacific Railroad
 - California Northern Railroad
 - Northwestern Pacific Co. (NWPCo)
- NWPCo currently delivers to 4 customers:
 - Willowbrook
 - Lagunitas Brewery – trucked from Willowbrook
 - Dairyman Feed
 - Hunt and Behrens
- Only 5 spurs remain along SMART’s alignment:
 - Dairyman Feed – Petaluma
 - Willowbrook (Willowbrook Feed and Lagunitas Brewery) – Petaluma
 - Hunt and Behrens Feed – Petaluma
 - Sonoma Pacific (unused) – Schellville
 - Hopper (unused) – Petaluma



LEGISLATION AND REGULATORY STATUS

SB-1029 (McGuire)

Signed by Governor Brown on September 29, 2018.

- Existing law creates the North Coast Railroad Authority (NCRA) with various powers and duties relating to rail service in the north coast area of the state,
- This bill did repeal and revised various provisions relating to the authority. and the planned transfer of all its assets, and its dissolution.

SB-1029 (McGuire)

- Existing law creates, within the Counties of Sonoma and Marin, the Sonoma-Marín Area Rail Transit District with specified duties and powers.
- This bill did authorize the district to also provide a rail transit system for the provision of freight service by rail.
- This bill did appropriate \$4,000,000 to the California State Transportation Agency from the Public Transportation Account for rail improvements on the corridor owned by the district and the authority. The bill would allocate those moneys to the district for the acquisition of freight rights and equipment from the Northwestern Pacific Railroad Company to ensure efficient provision of goods movement requirements in the corridor in the context of growing passenger service and authorizes the transfer of those moneys to the district, as specified.



SB-69 (McGuire)

Signed by Governor Newsom on September 30, 2021.

- Changed the definition of “rail transit,” for the purpose of SMART, to include provision of freight service in addition to transportation of passengers.
- Expanded the duty and powers of SMART’s board that currently apply to rail transit to also include freight.
- Directs SMART’s board to consider potential alternative to help address the housing needs of current and future employees.
- Requires SMART to designate a single point of contact for the Great Redwood Trail.



SB-69 (McGuire)

- Authorized SMART to partner or contract with trail agencies, including the Great Redwood Trail Authority on creation and maintenance of the bicycle and pedestrian pathways under the district's jurisdiction.
- Specifies that the ancillary bicycle and pedestrian pathways that provide connections between and access to district station sites and the district's other pathways shall be known as the "Great Redwood Trail, Southern, Segment."

UPDATE ON SMART BOARD POLICY DECISIONS

At the May 20, 2020, SMART Board meeting, following a public discussion, a number of decisions were made. Here are the policy decisions and their status:

1. Consider the concept of SMART becoming a Common Carrier and Freight service provider (directly or through a contract) with the understanding of all of its privileges, opportunities and obligations from Sonoma-Mendocino County line south and east to Napa River.
 - **(Approved by SMART Board)**
2. Accept the additional right-of-way from Downtown Healdsburg to Sonoma-Mendocino County Line - 20.8 miles
 - **(Approved by SMART Board)**
3. Authorize the General Manager to execute the “Asset Transfer Agreement” between SMART and NWPCo in substantially the form attached hereto as
 - **(Executed by General Manager)**



4. Authorize the General Manager to execute the Baseline Agreement between State of California and SMART in substantially the form attached here to as
 - **(Executed by General Manager)**

5. Direct the Chair of the Board and General Manager to work with Senator McGuire, other State Legislators, Governor and his/her administration to secure the funding needed for the ongoing maintenance and capital project of the freight area.
 - **(On going. So far, \$6M has been secured for ongoing freight related activities).**

6. File documents with the Surface Transportation Board (STB) authorizing SMART to acquire railroad right-of-way and transferring common freight carrier rail operations.
 - **(Filed with STB).**
 - **(STB Approved).**

7. Authority to SMART for all freight services south of Mile Post 89.
 - **SB-69 (McGuire) approved and signed by the Governor.**



8. Authorize General Manager to issue a Request for Proposal to seek a freight consultant who would perform Economic Feasibility Study of the entire SMART owned area and analysis for the options to provide freight services in the future.
 - **(Request For Proposal Issued. The selected consultant, Project Finance Advisory Limited conducted the study and an Executive Summary of the findings was distributed to the board in August of 2021).**

9. Authorize General Manager to negotiate and execute an agreement with NWPCo. to provide interim service to the existing freight customers until the Board has made a permanent decision.
 - **(On going)**

10. Request the Chair of the Board to assign several Board members and the General Manager to meet with officials from County of Sonoma, Town of Sonoma, First Responders and the affected Community regarding the future of the existing practice of storage of Liquefied Petroleum Gasoline (LPG) and report back to the Board in a future public meeting.
 - **(To Be Done. Director Gorin and General Manager have been in touch with Community Leaders and partner agencies).**



SMART OPERATIONS DISCUSSION

SMART has a number of options on how to provide freight services

PROVIDING FREIGHT SERVICE

Providing Freight Service Options:

1. Operate and maintain with SMART freight staff
 2. Contract out with a private party for the operations, maintenance, and freight revenue collection
 3. Contract out only operations
- Currently in negotiations for NWPCo to operate on a temporary basis to assure continuity of service for the existing customers.

OPTION 1: PROVIDE FREIGHT SERVICE WITH SMART FREIGHT STAFF

COSTS:

- Labor – operators, track maintainers, mechanical inspectors, management oversight and coordination
- Materials – fuel, filters, replacement parts
- Marketing
- Freight staff may fall under Federal Employees Liability Act (FELA) and Railroad Pension instead of CalPERS

BENEFITS:

- SMART directly collects all freight revenues
- SMART will have complete control of operations throughout the alignment
- Infrastructure is already in place
- SMART can mobilize much faster
- Cost of providing this service is less expensive because there is no profit margin



OPTION 2: CONTRACT OUT WITH A PRIVATE CONTRACTOR FOR ALL ASPECTS OF THE SERVICE

COSTS:

- Contractor is responsible for all freight services
- Will still have some SMART freight staff to oversee contractor
- All opportunity for revenue generation goes to the contractor
- SMART needs to conduct some track maintenance with possible negotiated shared cost

BENEFITS:

- SMART's liability is reduced
- Contractors have experience growing business
- Contractors have connections with major shippers
- Contractor is responsible for most of potential Railroad Pension issues

OPTION 3: CONTRACT OUT ONLY OPERATIONS

COSTS:

- SMART pays contractor for their operations cost
- SMART freight staff must oversee contractor's performance
- SMART is responsible for Maintenance – Brazos Branch and the locomotives
- SMART is responsible for materials – fuel, replacement parts
- SMART is responsible for marketing and developing new customers in-house or through a third-party consultant

BENEFITS:

- SMART's liability reduced
- SMART is responsible for and controls revenue collections and business growth potential

ESTIMATED REVENUE BASED ON CURRENT OPERATIONS

Total Estimated current Revenue = \$1.7 million/ year
(Estimates determined based on conversations with NWPCo)

- Freight Hauling - ~ \$1.2 million/ year
- Storage of Cars - ~ \$466,000/ year (*Roughly 90% or \$420,000 is from LPG storage*)
- Other miscellaneous income - ~ \$49,000

Note: LPG storage accounts for 27% of total estimated revenue

ESTIMATED EXPENSES FOR 3 OPTIONS BASED ON CURRENT OPERATIONS

- SMART Operates and Maintains with our freight staff
 - ~ \$1.7 million
 - More control over expenditures to come within estimated revenues
- Private contractor full service
 - ~3.4 million
 - Estimated deficit **\$1.7** million annually
- Private contractor for operations only
 - ~ \$3.0 million
 - Estimated deficit **\$1.4** million annually

Note: None of the options include capital costs for repair or rehabilitation of the line. State funding has been provided in the amount of \$6 million to address some of the capital and repair issues.

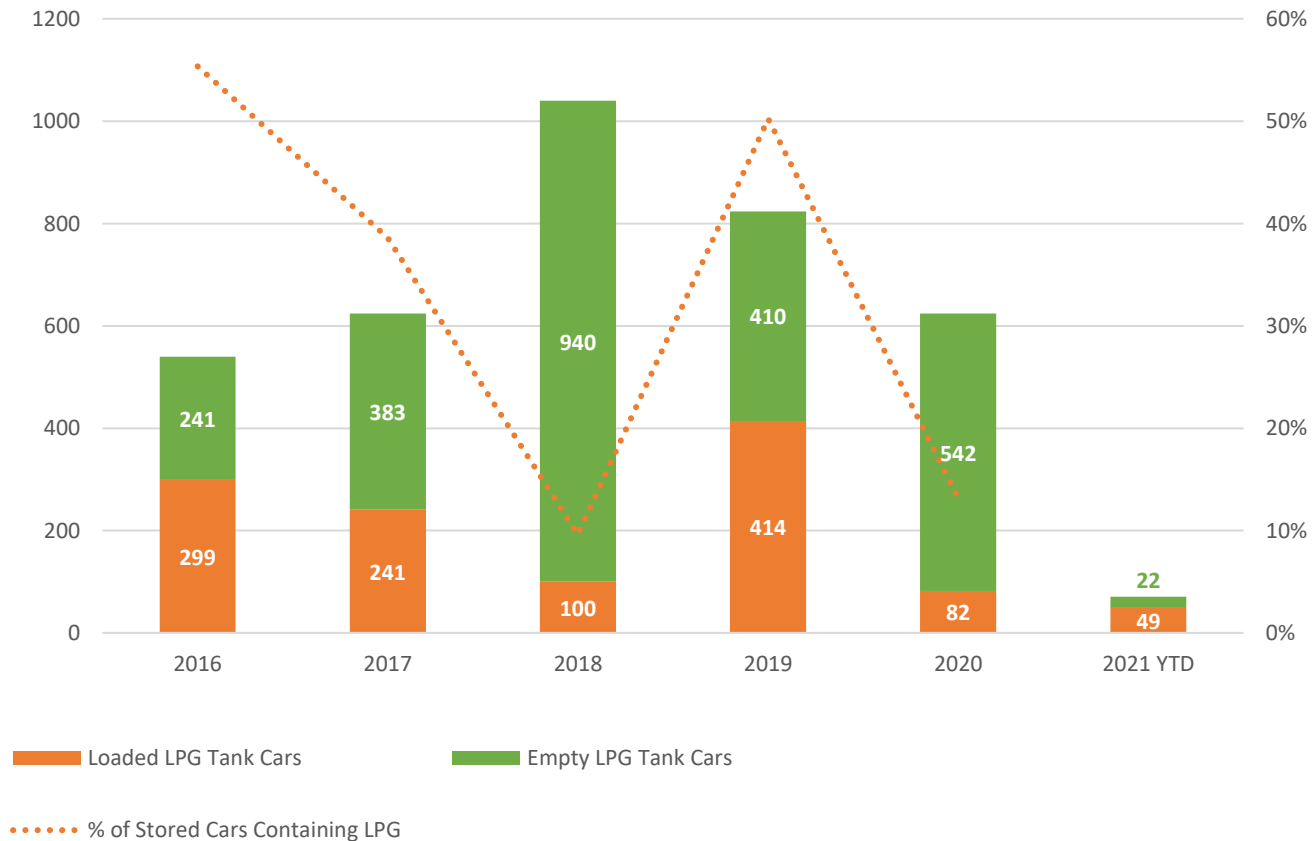


LIQUIFIED PETROLEUM GAS (LPG)

- NCRA's private contractor, NWPCo began transporting and storing LPG tankers at the Schellville Property in 2016.
- SMART objected to the storage of LPG and requested Federal Railroad Administration (FRA) review NCRA/NWPCo's LPG operations. FRA found no violations.
- NCRA and NWPCo filed a complaint with the Surface Transportation Board (STB).
- STB denied NCRA's initial request for an emergency order and injunction and instead instituted a formal proceeding to review the matter once the legal issues were fully briefed.
- In 2017, SMART and NCRA/NWPCo reached an agreement that allowed LPG storage at Schellville only:
 - No other locations can be used for LPG storage
 - No other Hazardous Material can be stored

HISTORY OF LPG

LPG Tank Cars Stored FY16-FY21



Note: there are 150 car spots at Schellville. This data shows car movements and does not include how many days a car was stored.



LPG OPTIONS

There are 3 options available for SMART:

1. Continue with the current practice.
2. Stop the current practice when contract allows it.
3. Establish a transition period of 3 years where all LPG tankers will be removed from Schellville and provide SMART with opportunity to backfill the lost revenue.

UPDATE ON LPG AND COMMUNITY FEEDBACK

- On Sunday, November 14; Director Susan Gorin and SMART General Manager met with several community members and discussed the history and options available to SMART.
- Community members were encouraged to provide feedback in writing so we can share them with the entire Board.
- On Monday, November 15; Director Gorin, Chair Rabbitt and SMART General Manager hosted a zoom meeting with several community members and business leaders as well as members of media and discussed the LPG issues and available options.

FREIGHT POLICIES

There are several policies that SMART needs to consider and adopt in the next 12 months. Examples are:

- Policy and Procedure for creation/modification of a new/existing spur serving a shipper:
 - Who pays?
 - Who owns?
 - Who maintains?
 - What other transit agencies do?
- Policy and Procedure for creation/modification of a new/existing crossings serving a shipper:
 - Who pays?
 - Who owns?
 - Who maintains?
 - What other transit agencies do?
 - Financial policies related to Freight operations

QUESTIONS