REQUEST FOR INFORMATION

FOR

FREIGHT RAIL OPERATOR SERVICES

RFI NO. FR-PS-21-001

Sonoma-Marin Area Rail Transit District (SMART)
5401 Old Redwood Hwy., Ste. 200
Petaluma, CA 94954

Issue Date: August 4, 2021

Deadline for Responses: August 18, 2021 by 2:00PM (Pacific)

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The following Attachments are incorporated into this Request for Information:

ATTACHMENTS

ATTACHMENT A - QUESTIONNAIRE FORM
ATTACHMENT B - EXECUTIVE SUMMARY OF SMART'S FREIGHT RAIL OPERATIONS, MAINTENANCE, CAPITAL COSTS, AND BUSINESS OPPORTUNITIES ANALYSIS

1. OVERVIEW

The Sonoma-Marin Area Rail Transit District (SMART) is a government transit agency that owns, maintains, and operates passenger rail service between Larkspur in Marin County and North Santa Rosa in Sonoma County.

Recently, SMART received approval from the Surface Transportation Board (STB) to become a common carrier for Freight and is analyzing whether to contract the Freight Operation Services with a third-party contractor or perform the freight operation in-house.

SMART is issuing this Request for Information (RFI) to determine whether there are any freight operators that possess the experience and interest in providing Freight Operator Services for SMART.

The Sonoma-Marin Area Rail Transit District (SMART) conducts its Requests for Information process electronically through a dedicated Procurement Portal located at https://sonomamarintrain.bonfirehub.com. Please register your company in order to obtain all documents, communicate with SMART, access addenda, receive notifications, and submit your response.

THIS IS A REQUEST FOR INFORMATION (RFI) ONLY. This RFI is issued solely for information and planning purposes and will not result in an award of any contracts. This does not constitute a Request for Proposal (RFP) or a promise to issue an RFP in the future. It is being issued to determine the level of interest to provide Freight Operations Services for SMART. Dependent upon responses to this RFI, a Solicitation may be issued. Unsolicited proposals cannot be considered.

Disclaimer

This RFI in no manner obligates SMART to pursue any contractual relationship with an entity that responds to this RFI. SMART further reserves the right to cancel this RFI at any time if deemed to be in the best interest of SMART.

2. BACKGROUND INFORMATION

2.1 History of Recent Events

Since 2011, Northwestern Pacific Railroad Company (NWPCo.) has served Sonoma County as the freight rail operator.

On February 22, 2021, the freight operator, NWPCo, petitioned the Surface Transportation Board (STB) for Discontinuance of Service Exemption (requesting authority to cease being the freight operator).

In February of 2021, SMART hired a third-party consultant, Project Finance Advisory Ltd, to conduct a thorough and unbiased analysis of existing and potential

freight rail customers within the North Bay Area and to identify the operations, maintenance, and capital costs associated with the expected and potential freight traffic. In addition, the analysis identifies the challenges, potential solutions to those challenges, and provides reasonable estimates of the freight traffic potential which the area holds. The executive summary of the final report is provided for reference in Attachment B "Executive Summary of SMART's Freight Rail Operations, Maintenance, Capital Costs, and Business Opportunities Analysis".

On June 11, 2021, the STB approved NWPCo's petition for discontinuance of service and authorized SMART to assume freight operations and common carrier duties over the rail line which became final on July 11, 2021.

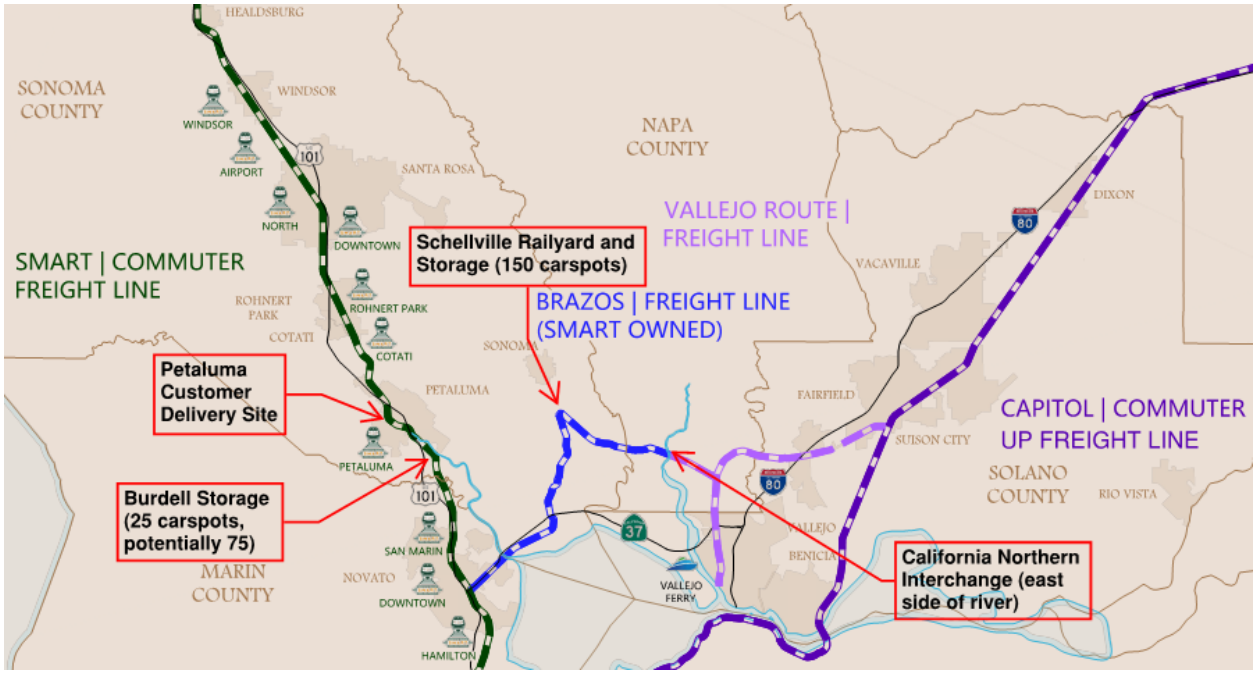
At this time, NWPCo. is expected to provide interim service until SMART replaces their operation by either self-performing the operation or contracting with a third-party operator to fulfill the service.

2.2 Number of Current Customers and Frequency of Service Provided

NWPCo. currently delivers to 4 customers using 3 separate spurs all located in Petaluma, CA. The customers are Dairymen's Feed & Supply Co., Hunt & Behrens Inc, Willowbrook Foods, and Lagunitas Brewery. Deliveries to Petaluma are completed on 2 nights each week and interchanges with California Northern Railroad, a Genesee & Wyoming property, 2 other days of the week. The current window for operations to Petaluma on the Mainline Subdivision is between 9:00 pm (Pacific) and 3:00 am (Pacific).

In addition to twice weekly deliveries, the current operator, NWPCo., has agreements with nearby refineries to store full and empty Liquid Petroleum Gas (LPG) tank cars, as well as, hoppers of refinery biproducts. In total, existing storage is roughly 175 carspots. This number may be expanded to 225 if additional work is completed to the Burdell siding in Novato, CA to address its proximity to mainline track. In the Fall/Winter of 2021, the SMART Board of Directors will consider whether the storage of LPG at Schellville can continue or cease once the current contract obligation has been met.

2.3 Location and Service Area



2.4 Average Annual Car Volume (Based on Past 3 Years)

Existing operator NWPCo. currently handles roughly 1,000 cars per year, and stores cars for roughly 26,000 car-days. Revenue for all work is estimated between $1,200,000 and $1,300,000 for the year 2020. Revenue generated for switching and storing storage cars is estimated to account for 49% of all revenue.

2.5 Track Class

The SMART-owned mainline runs South to North from Larkspur, CA to the Sonoma/Mendocino County Line, CA (MP 15 to MP 85.4). In-service track runs from Larkspur, CA to Airport Blvd (MP 60.0) in Santa Rosa, CA with Windsor, CA (MP 63.0) expected to be completed by 2023. At this time, there is no freight service allowed south of MP 25.4. The Mainline Subdivision track meets Class 4 track standards (maximum freight speed is 45 mph) and will be maintained solely by SMART. Running East to West, the Brazos Jct Subdivision of SMART's property is currently only occupied by freight traffic and has no existing Positive Train Control ("PTC"). This section of track predominately meets Class 2 standards and stretches from Novato, CA (MP B25.6) to just east of the Napa River (MP B49.80). All maintenance of existing infrastructure on the Brazos Jct Subdivision shall be the responsibility of the service provider.

2.6 SMART Equipment

SMART owns 2 in-service locomotives:

1. NWP 2009 Railpower RP20DB Tier III
2. NWP 2611 Railpower RP20GE Tier III

These units are available for use by the service provider. The 2009 Railpower RP20DB Tier III locomotive is already installed with the Positive Train Control onboard system required to operate on the Mainline Subdivision to Petaluma, CA.

If service provider chooses to use their own equipment, the equipment must be furnished with onboard Automatic Train Control equipment, which must be interoperable with SMART's Enhanced Automatic Train Control System.

In addition to the 2 locomotives, SMART owns 2 ballast cars which will be available for the service provider to use also.

3. GENERAL SCOPE OF SERVICES

3.1 Service Provider Responsibilities

Service Provider shall be responsible for providing the following services when under contract:

a. All track inspection and maintenance activities on the Brazos Jct Subdivision right-of-way and trackage required to support intended operation during the term of the Agreement per Federal Railroad Administration and California Public Utilities Commission (CPUC) regulations.

b. Operation and maintenance of the two moveable bridges (lift span, swing span) on the Brazos Jct Subdivision.

c. All maintenance and mechanical activities on the SMART-Owned equipment identified in Section 2.6 if SMART-owned equipment is used by the service provider. This includes performing all maintenance and FRA required inspections on locomotives and railcars, etc.

d. All vehicle and equipment maintenance on Service Provider-owned or leased equipment.

e. All marketing, sales, and new customer business development.

f. All personnel management.

g. Contract Administration.

h. FRA required employee training and qualification.

i. FRA required reporting and safety plans/programs.

3.2 SMART Responsibilities

SMART would be responsible for providing the following support services:

a. Freight access and use of right-of-way.

b. All dispatch services.

c. SMART-Owned equipment identified in Section 2.6 above if the service provider chooses to use SMART's equipment.

3.3 Mutual Responsibilities

a. Any capital upgrades or improvements to infrastructure would require mutual agreement between both parties.

4. INSTRUCTIONS TO SUBMIT RESPONSE

4.1 RFI Response Schedule

The RFI Response Schedule is listed below and is subject to change at the sole discretion of the District.

Date	Event
August 4, 2021	Issue Request for Information
August 18, 2021	RFI Responses Due to SMART, 2:00 PM (Pacific)

4.2 Questions and Clarification Requests

A. All questions, inquiries, requests for information, requests for clarification and other communications regarding the Request for Information must be submitted using the District's Procurement Portal located at https://sonomamarintrain.bonfirehub.com by clicking on the Opportunity Q & A tab of the message section located on the project page.

The questions submitted must reference the section of the Request for Information or other document when submitting the request.

B. Rules of Contact

(1) RFI Responders shall only correspond or communicate with the District regarding this RFI through the District's Procurement Portal Opportunity Q

& A tab.

(2) RFI Responders shall not contact District employees or officials regarding the RFI, except through the process identified above.

(3) The District will not be bound by any oral exchange or any other information or exchange that occurs outside the official process specified herein.

4.3 Submission Requirements

Proposers shall submit the response electronically. The Response shall be uploaded at https://sonomamarintrain.bonfirehub.com within the project page for this Request for Information by the deadline identified in the "RFI Response Schedule". **Hardcopy response submittals, responses submitted by email, and faxed responses will not be reviewed.** SMART is not responsible for submissions delayed for any reason. The online submission system will not allow for any submission to be accepted after the stated date and time.

Responses to this RFI shall be prepared in the format indicated on SMART's Procurement Portal and will include the following elements:

Part	Contents
A	Questionnaire
B	Additional Information

PART A. QUESTIONNAIRE

Responder shall submit the following information under this section:

a) Complete and Sign the Questionnaire (Attachment A).

PART B. ADDITIONAL INFORMATION

a) Responder may submit any additional information they wish to share with SMART. This information may include details about your company, history of performing services, qualifications of staff, etc. This section is optional.

4.4 Modifications to Responses prior to Due Date

In the event a Responder submits a Response to the RFI and needs to make revisions or withdraw their Response prior to the Deadline, instructions for doing so can be found here: https://support.gobonfire.com/hc/en-us/articles/200531216-Can-I-revise-my-submission-. Once the Submission Deadline has passed, revisions are not permitted.

4.5 No Public Opening of Responses

Responses submitted will not be publicly opened. Only those persons authorized by the District, and its officials, employees and agents, having a legitimate interest will be provided access to the Responses submitted.

4.6 Cost of Submitting a Response

The Responder shall bear all costs and expenses whatsoever for the preparation, submittal, discussions, interviews, and negotiations related to the Response.

4.7 Public Disclosure

All written correspondence, exhibits, photographs, reports, printed material photographs, tapes, electronic disks, and other graphic and visual aids submitted to the District during this process, including as part of the response to this RFI, are, upon their receipt by District, the property of the District and are subject to the California Public Records Act (Chapter 3.5, commencing with Section 6250, of Division 7 of Title I of the Government Code) (the "Act"). None of the aforementioned materials will be returned to the submitting parties. Respondents should familiarize themselves with the provisions of the Act. In no event shall District, or any of its agents, representatives, Contractors, directors, officers, or employees be liable to any Responder for the disclosure of all or a portion of a Response submitted under this RFI.

ATTACHMENT A

QUESTIONNAIRE

NAME OF COMPANY: _____

WEBSITE: _____

BUSINESS P.O. BOX: _____

CITY, STATE, ZIP: _____

BUSINESS STREET ADDRESS: _____

CITY, STATE, ZIP: _____

CONTACT NAME: _____

TITLE: _____

PHONE #: _____

EMAIL ADDRESS: _____

1. Is your company interested in providing Freight Rail Operation Services for SMART based on the information provided in the Request for Information?

☐ **Yes** ☐ **No**

If answered “no”, what additional information would your company need in order to be interested in providing these services for SMART? (Attach Additional Sheets if Necessary)

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2. If your company is not interested in performing all of the Freight Rail Operation Services for SMART, is your company interested in providing a portion of the Freight Rail Operation Services?

☐ **Yes** ☐ **No** ☐ **We are interested in performing <u>all</u> of the Services**

If yes, please indicate which portions below:

☐ Operations
☐ Track Maintenance
☐ Vehicle Maintenance
☐ Signals
☐ Marketing & Business Development

3. How many years of experience does your company have performing similar work identified in the General Scope of Services? _____ years.

4. What additional information would your company need to know in order to submit a competitive proposal? (Attach Additional Sheets if Necessary)

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5. Please provide feedback to SMART regarding the Scope of Services and this potential opportunity. (Attach Additional Sheets if Necessary)

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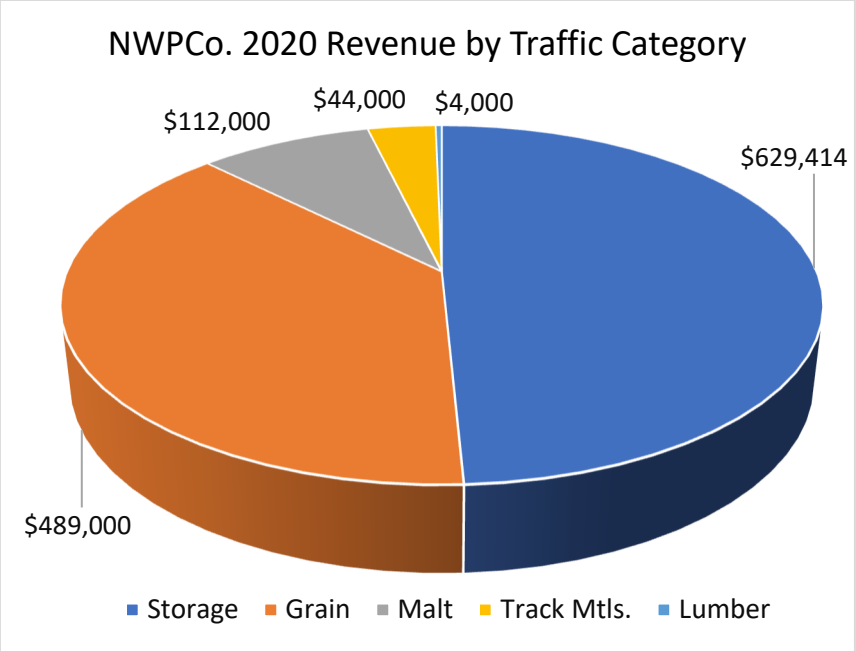
Executive Summary of SMART's Freight Rail Operations, Maintenance, Capital Costs, and Business Opportunities Analysis

Prepared by Project Finance Advisory Ltd.
For Sonoma-Marin Area Rail Transit District (SMART)

Introduction
This executive summary is intended to provide SMART with an overview of key findings from the recently completed analysis of freight rail operations, maintenance, capital costs, and business opportunities. The objective of the study was to conduct a thorough and unbiased analysis of existing and potential freight rail customers within the North Bay Area and to identify the operations, maintenance, and capital costs associated with the expected and potential freight traffic. In addition, the analysis would identify the challenges, potential solutions to those challenges, and provide reasonable estimates of the freight traffic potential which the area holds.

Description of Study
The freight study provides a review and assessment of existing and potential freight rail customers in the service area, existing and potential freight traffic and revenue under various scenarios, and estimates of Operations & Maintenance (O&M) costs associated with each freight customer's traffic.

NWPCo. Freight Revenue
At present, NWPCo. is generating revenue by providing two basic services – rail transportation and storage of rail equipment. NWPCo. transports products to various customers along the line, primarily grain moving to feed mills and malt for Lagunitas Brewing, all located in the Petaluma area. NWPCo. also earns revenue by providing track space for storage of rail equipment north of Novato and in Schellville, and for storage of empty and loaded liquid petroleum gas (LPG) cars near



Schellville. The proportion of NWPCo. revenue generated by each traffic category in 2020 is shown in the accompanying graph. The category "Track Mtls." includes materials shipped in for SMART's track construction by contractor Stacy & Witbeck.

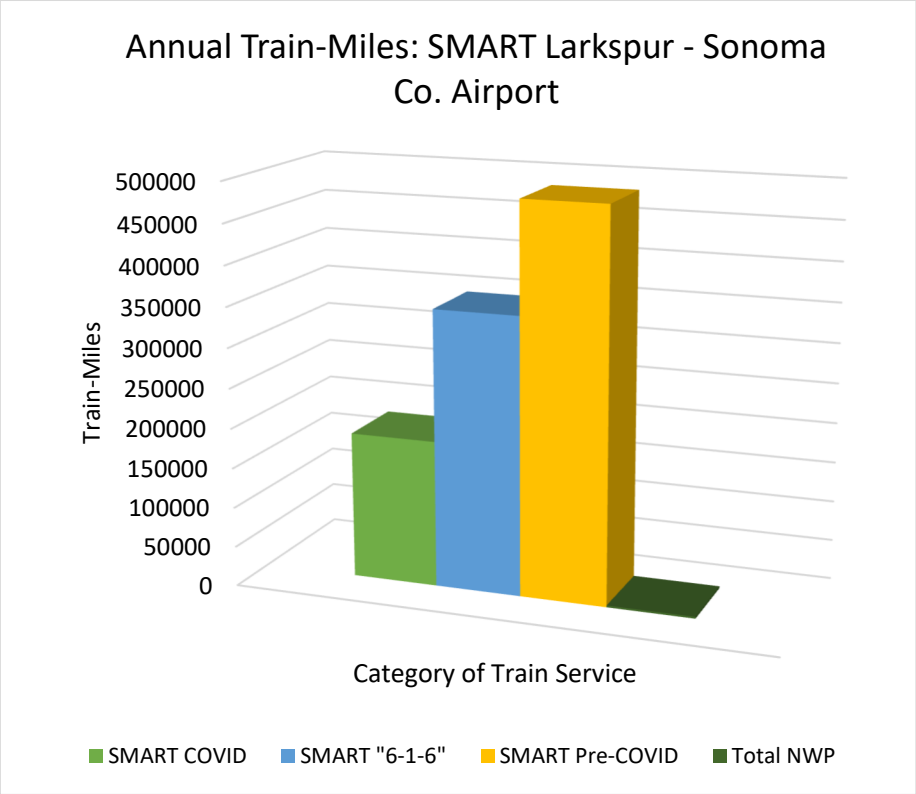
Revenue earned for moving and storing storage cars generated the largest proportion (49%) of NWPCo's revenue in 2020, followed by transportation of grain (38%). Total revenue has increased over the past five years, primarily a result of additional grain shipments going to the feed mills.

Estimated O&M Costs of Freight Activities

Operations and maintenance (O&M) costs associated with the freight operation fall into two basic categories, train operations and infrastructure. Looking first at train operations, it appears there are only a few significant "out-of-pocket" or direct operating costs associated with moving freight cars to and from customers: the cost of fuel, car-hire (rental), and direct labor. Other costs are essentially fixed costs that will not vary significantly with additional traffic handled. Detailed, itemized financial records for NWPCo. were not provided so it was not possible to conduct a thorough analysis of the company's operational costs. Using estimated figures, it appears that individual cars handled for customers provide comfortable profit margins. This means that any increases in freight traffic will materially and directly improve cash-flow, while any traffic losses will notably diminish company cash-flow amounts. Additional cost detail is provided in the full report. It is recommended that all cost figures be fully verified, analyzed, and incorporated into a financial model and strategic plan.

With the necessary infrastructure already in place to facilitate movement of freight traffic, capital spending to support existing freight customers' shipments will be minimal for the life of those assets. Infrastructure maintenance spending will be driven primarily by SMART's need to keep existing track assets in safe condition for passenger operation as the various infrastructure components age. Three main infrastructure cost categories were reviewed in the study: freight switches, passenger infrastructure, and the Brazos Branch.

A **freight spur switch** that provides access to a freight customer's spur will require maintenance to ensure it functions reliably and safely. Like any physical asset, its components will wear over time and require increasing amounts of maintenance as it ages. Working with SMART's managers, life-cycle maintenance costs for main track freight switches located along the passenger corridor were developed. The fully allocated cost for maintenance of these switches is estimated to be $5500/year in early years, increasing to an average of approximately $8000/year after several decades of service. SMART currently has three main track switches that provide access to freight customer facilities and five additional main track or controlled siding switches that are used only by the freight operation.



While various track and bridge components will be subjected to additional wear and tear because of freight operation on the **passenger infrastructure**, it appears those additional costs will be so minor as to be almost immaterial. Based on train-mile and ton-mile usage of the passenger infrastructure at current levels, the freight operation will account for something in the range of 1-4% of overall traffic on the line. With the freight service accounting for such a small portion of the overall infrastructure use it appears that freight activity will not be a key driver of track maintenance spending in the future. Track maintenance spending along the passenger corridor will be driven primarily by the much higher standards required for passenger operations, with the need to provide high levels of safety and comfort for passengers. Given this, overall maintenance spending on infrastructure components along the passenger corridor in the future will be essentially unaffected by the presence of the freight service.

The "**Brazos Branch**" trackage extends eastward nearly 24 miles from Ignacio Wye through Schellville to Lombard and is currently freight-only. The current condition of track along this line is more than adequate to support the existing freight operation for many years with only minimal, routine maintenance. In terms of overall cost, by far the most significant risk factors on the Brazos Branch are related to flooding and bridges. Flooding in these low areas is common, and bridges – especially the movable structures – can require repairs involving six figure price tags. Bridges spanning navigable rivers are also subject to additional risk from collisions involving barge traffic. In previous instances funds for this kind of work have been available through state or federal programs such as FEMA and/or various grant programs. With SMART's freight trains being the sole users of this branch in the future, a significant expenditure to repair extensive flood damage or address a major bridge issue would need to be managed carefully since it would have a major impact upon the finances of the freight business.

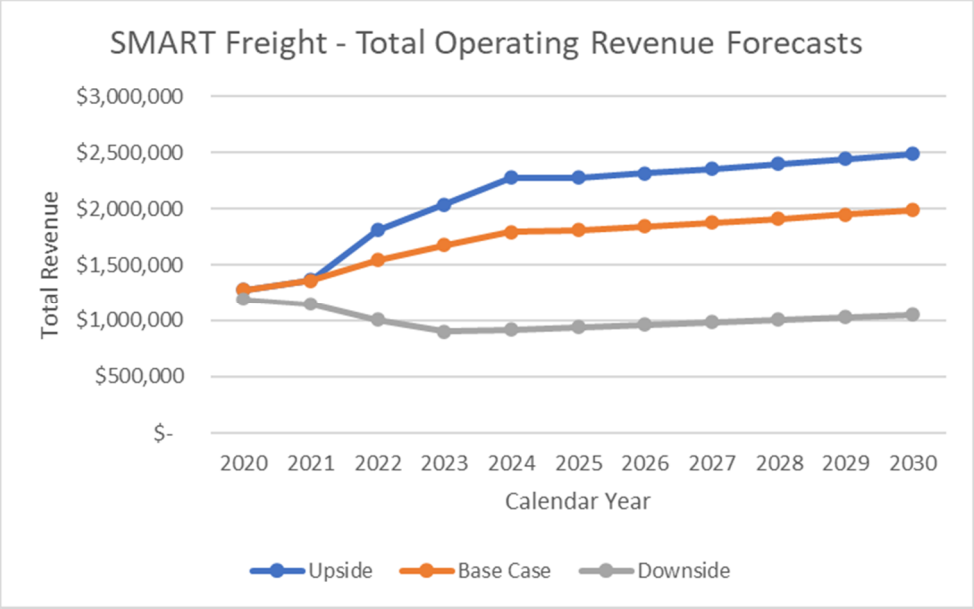
Freight Traffic Projections

Based upon extensive research as well as numerous interviews with existing customers, potential customers, and other individuals with knowledge of freight transportation in the North Bay Area, three traffic forecast scenarios have been prepared. Additional detail on each scenario can be found in the full report. The forecasts show a divergence of revenue outcomes over the next 10 years, primarily dependent upon how SMART elects to manage its freight operation.

The **Base-Case** assumes that the freight service continues to function as it has in recent years, with essentially the same operating and commercial practices. This is essentially a "status-quo" forecast without any significant investments or changes. The slight increases in traffic shown are primarily due to additional marketing efforts and added emphasis on the car storage business, which includes use of the currently inactive main track north of Windsor. Total revenue in the base-case scenario grows from approximately $1.3 million in 2021 to nearly $2.0 million in 2030.

The **Downside** forecast assumes a variety of negative outcomes that would adversely affect freight traffic. Examples of potentially negative issues are: continued aggressive rate increases by railroads, an aggressive increase in user fees for SMART trackage, loss of customer-responsive service, customers charged for the cost of switches, only minimal marketing/promotional activities, restrictions to storage of hazardous tank cars, limitations on available track capacity for car storage, and land not made available for new transload facilities. Total revenue in the downside forecast is anticipated to drop slightly from approximately $1.2 million in 2021 down to $1.1 million in 2030.

The **Upside** forecast assumes multiple policies favorable to freight development are implemented in the future. Examples of favorable changes are: rate reductions, improvements in service consistency and transit times, aggressive marketing/promotion of freight service, addition of freight spurs with minimal or no charge for usage, development of transload sites, prudent application of available grant funds to develop spur tracks and freight facilities, increased availability



of track capacity for car storage, SMART assisting with land acquisition needs, and SMART willing to subsidize freight by limiting fees for use of trackage. The Upside forecast projects approximately $1.4 million in total revenue for 2021, increasing to $2.5 million in 2030.

The accompanying graph summarizes total operating revenue (transportation and storage combined) each year for the three forecast scenarios.

Conclusion

The study did not reveal any new traffic opportunities that are likely to increase freight volume dramatically on SMART's trackage. It appears that a well-managed freight operation would be able to grow revenue 8 percent in the short term by utilizing additional storage north of SMART's active track and 92 percent over a 10-year period predominantly by developing additional storage and transload opportunities. This potential traffic growth along with existing traffic could be handled sufficiently by a small train operating 2-3 times per week. Potential profitability and cash-flow generated by the freight operation under various scenarios can be determined through additional financial modeling of the freight business.

The amount of freight revenue generated on SMART's lines and resulting cash flow will be highly dependent upon the willingness of SMART to support and promote the freight business. By properly structuring and actively promoting the freight business, being willing to invest in facilities, soliciting and wisely applying grant funding, and providing additional track capacity for car storage, SMART could grow its freight revenue considerably from present levels. On the other hand, with restrictive policies, minimal investment, poor promotion of services, and unwillingness to host storage cars, the freight business will likely decline, providing less revenue in the future than it does today.

It is recommended that SMART develop a financial model and formulate a strategic plan to help guide future decisions. The resulting business decisions and investments will enable SMART to optimize the financial performance of its freight business and develop it to the extent possible.