

Exhibit 1  
Letter of Intent

SANTA CRUZ COUNTY  
REGIONAL TRANSPORTATION COMMISSION (SCCRTC)  
AND  
UNION PACIFIC RAILROAD COMPANY (UPRR)

This Letter of Intent reflects the current status of negotiations related to the proposed purchase of the Santa Cruz Branch from Watsonville Junction through Santa Cruz to Davenport, California (Line). It is understood that SCCRTC wishes to continue the freight operation on the Line and will contract with a third party for continued freight operation on the Line. In addition, SCCRTC wishes to use the Line for multi-purpose transportation uses.

**Area:** Santa Cruz Branch Milepost 0.43 (South edge of Salinas Road) to Milepost 31.39 (250 feet north of the Highway 1 crossing at Davenport). Approximately 295+/- acres

**Price:** \$19,000,000 net to UPRR

**Closing:** September 23, 2005

**Short Line Operation:** UPRR will assign its Common Carrier responsibility to a short line operator selected by SCCRTC and concurred with by UPRR. If the short line operator terminates for any reason, SCCRTC will assume the common carrier responsibilities so that UPRR will not be responsible for direct freight service on the sale Property.

**SCCRTC Is Responsible for:**

- Executing a right of entry agreement;
- Conducting all necessary due diligence investigations to determine that the SCCRTC can accept and assume responsibility for the property "As Is;"
- Accepting assignment of existing leases affecting the property;
- Continuing to provide safe and reliable freight rail schedules to existing and future rail customers that is cost competitive and meets the customers' reasonable business requirements; and
- Obtaining Surface Transportation Board approval for the transaction contemplated by this Letter of Intent.

**UPRR Is Responsible for:**

- Providing SCCRTC with a right of entry agreement to complete its due diligence investigation of the Line prior to acquisition; and
- Providing SCCRTC with copies of documents from UPRR's records in connection with SCCRTC's due diligence, as is mutually agreed between UPRR and SCCRTC.

**SCCRTC CONTINGENCIES:** SCCRTC purchase of the property is subject to a feasibility period ending August 23, 2005, during which it will satisfy itself as to the following at its sole cost:

1. SCCRTC review and approval of Phase I and II environmental testing;
2. SCCRTC review and approval of title matters;
3. SCCRTC review and approval of final appraisal of the Line;
4. SCCRTC refinement of its draft Business Plan;
5. Formal approval of the acquisition by the SCCRTC; and
6. Formal approval of the acquisition by the California Transportation Commission and/or other SCCRTC funding agencies.

**UPRR CONTINGENCIES**

1. Formal approval of UPRR senior management and Board of Directors;
2. UPRR concurrence with third party operator responsible for providing freight service along the Line and associated switching rate; and
3. SCCRTC acceptance and assumption of responsibility of Property "As Is", including environmental condition of the Property.

This Letter of Intent is intended to serve as the basis for additional negotiations, including development of the Purchase and Sales Agreement, although neither party is bound to any of the Letter's terms and may propose different or additional terms as negotiations proceed. Although UPRR and SCCRTC are hopeful that negotiations will be successfully concluded on the basis of this Letter, neither party has any obligation to continue negotiations and, until the transaction is fully negotiated, documented in a written purchase and sale agreement signed by both parties and approved in accordance with the internal approval policies of each party, neither party has any obligation to the other party with respect to the proposed transaction (except for their obligations under Right of Entry dated September 28, 2001).

This Letter of Intent is effective as of the 2<sup>nd</sup> day of December, 2004.

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Janet K. Beautz, Santa Cruz County Regional Transportation Commission

Date: \_\_\_\_\_

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Richard L. Gooch, Union Pacific Railroad Company

Date: \_\_\_\_\_