

TO: Regional Transportation Commission
FROM: Luis Mendez, Deputy Director
RE: Santa Cruz Branch Rail Line Acquisition Project – FY 07-08 Budget and Consultant Contract Amendments

RECOMMENDATIONS

Staff recommends that the Regional Transportation Commission:

1. Adopt the attached resolution (Attachment 2) amending the FY 07-08 Budget and Work Program to shift funds within the Rail/Trail Authority Budget to continue negotiations, complete the Phase II Environmental Site Assessment and complete appraisals for purchase of the Santa Cruz Branch Rail Line right-of-way (ROW);
 2. Adopt the attached resolution (Attachment 4) authorizing the Executive Director to amend the agreement with Colliers Pinkard to a maximum amount of \$27,500 to update the Land and Overall appraisal work of the Santa Cruz Branch Rail Line right-of-way with the most current real estate sales information; and
 3. Adopt the attached resolution (Attachment 5) authorizing the Executive Director to add \$91,000 to the contract with Geomatrix Consultants to complete the Phase II Environmental Site Assessment.
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BACKGROUND

The Regional Transportation Commission (RTC) has been working on the acquisition of the Santa Cruz Branch Rail Line since 2001. In December 2004, the RTC approved entering into a non-binding Letter of Intent with Union Pacific (UP) to purchase the Santa Cruz Branch Rail Line for \$19 million. A number of reports and steps must be completed before the RTC can make a final decision on acquisition of the Santa Cruz Branch Rail Line. Final approval is also contingent on obtaining the necessary approvals from the corresponding funding and regulatory agencies such as the California Transportation Commission (CTC), Caltrans Division of Right-of-Way (ROW) and the Surface Transportation Board (STB).

Since 2001, the RTC has done much of the work necessary to make a final decision on acquisition of the Santa Cruz Branch Rail Line. These include completion of environmental review, production of a draft Phase II Environmental Site Assessment, production of a draft business plan, completion of preliminary title report, production of maps showing the right-of-way expected to be purchased, completion of general and detailed structural assessments, securing a reimbursable grant from the Coastal Conservancy, conducting appraisal work and drafting of a request for proposals for a short line operation on the rail line. The RTC has kept

Union Pacific informed of the due diligence work as it progresses and has negotiated with Union Pacific any issues which have arisen as a result of the work. At times it has been necessary to halt due diligence work as issues are negotiated and resolved.

DISCUSSION

Due diligence work necessary for acquisition of the Santa Cruz Branch Rail Line has been halted for some time pending the resolution of some negotiations with Union Pacific. Recent negotiations indicate that the RTC may resume all remaining due diligence work very soon and could potentially make a final purchase decision in the fall of this year (Attachment 1). In order to continue the due diligence work and ensure continued negotiations with Union Pacific, it is necessary to make amendments to the RTC's FY 07-08 Budget and to consultant contracts.

Fiscal Year (FY) 07-08 Budget Amendment

Exhibit A to Attachment 2 lists the current RTC approved FY 07-08 budget for the Santa Cruz Branch Rail Line acquisition project along with proposed amendments to continue with the necessary due diligence work and negotiations for the project. The budget approved by the RTC is based on the financial plan for the project approved by the RTC in June 2006 (Attachment 3). It is expected that the current phase of negotiations with Union Pacific will affect the financial plan for the project but changes cannot be made until the current phase of negotiations is complete. However, in order to be prepared to proceed with the due diligence work and for the RTC to be prepared to make a final purchase decision in the fall of this year, it is necessary to make the proposed FY 07-08 budget amendments. Therefore, **staff recommends that the RTC adopt the attached resolution (Attachment 2) amending the FY 07-08 Budget and Work Program to shift funds within the Rail/Trail Authority Budget to continue negotiations, complete appraisals and complete the Phase II Environmental Site Assessment for purchase of the Santa Cruz Branch Rail Line right-of-way (ROW).**

The proposed FY 07-08 budget offsets budget line increases with a budget line reduction for the hazardous materials insurance because this purchase will not be necessary in this fiscal year. When the current phase of negotiations is completed staff will return with a proposed financial plan which will include the funds to purchase the necessary hazardous materials policy.

Negotiations with Union Pacific

In 2001, the RTC contracted with Miller, Owen and Trost to serve as the RTC's negotiator with Union Pacific, to oversee due diligence work, to provide legal advice as necessary and to assist with meeting funding requirements for acquisition of the Santa Cruz Branch Rail Line. At the beginning of FY 07-08 \$51,184 remained in the contract with Miller, Owen and Trost for the purposes specified above. After the work done through February 2008 almost \$26,000 remains in the contract for work by Miller, Owen and Trost. Since all of the due diligence work is expected to resume very soon, the work performed by Miller, Owen and Trost will increase significantly and it is necessary to add funds to and extend the contract to ensure continuation of the work. On August, 4 2005, the RTC approved a resolution authorizing the Executive Director to "extend the term of the contract and execute future amendments to the agreement provided that the

amendments are within the scope of the agreement and consistent with the approved SCCRTC budget.” Therefore, the budget amendment recommended above will enable the Executive Director to add up to \$80,000 to and extend the term of the Miller, Owen and Trost contract.

Appraisals

Before state and federal funds may be used for a purchase, the Caltrans guidelines require four appraisals: Net Liquidation Valuation (NLV) of the tracks structures and other improvements, Going Concern Valuation of the freight business, Land and Overall appraisal, and Review Appraisal. Taken together, these appraisal documents will give the RTC, the California Transportation Commission (CTC), and Caltrans documentation of the fair value of the property. In November 2003, the RTC entered into agreements with four consultants to produce the appraisals. Much of the appraisal work has been completed. However, because appraisal work was initiated in 2003 the valuation data used in the Land and Overall appraisal is from March 2004. Therefore, it is necessary to update the appraisal work to current valuation data and complete the appraisal work.

The Land and Overall appraisal was contracted to Arthur Gimmy International for a cost of \$69,515. When asked about updating the completed appraisal work, Arthur Gimmy International stated that it would take a significant effort to update the appraisal work completed to date and would cost close to the amount already spent. Therefore, staff sought other potential appraisers who could update the appraisal work at a more reasonable cost. Colliers Pinkard proposed doing a partial updated valuation for a maximum amount of \$12,500 and a complete update for a maximum amount of \$27,500. Since the cost of the partial updated valuation is within the Executive Director’s purchase authority and funds were available in the contingency line of the FY 07-08 Rail/Trail Authority Budget, the Executive Director entered into an agreement with Colliers Pinkard for the partial updated valuation. However, staff has recently learned that it will be necessary to update all of the Land and Overall appraisal work done to date. Therefore, **staff recommends that the RTC Adopt the attached resolution (Attachment 4) authorizing the Executive Director to amend the agreement with Colliers Pinkard to a maximum amount of \$27,500 to update the Land and Overall appraisal work of the Santa Cruz Branch Rail Line right-of-way with the most current real estate sales information.**

It will also be necessary for the RTC to engage a review appraiser to review the updated appraisal work. The budget amendment in staff recommendation #1 above includes an estimate for the required review appraisal work. Staff is still investigating the review appraisal options for the RTC and will return to the RTC with a recommendation.

Phase II Environmental Site Assessment

In June 2005, the RTC received in closed session the draft Phase II Environmental Site Assessment report. Completion of the Phase II Environmental Site Assessment was placed on hold due to the results of the structural assessment reports of 2005 and 2006. Union Pacific has indicated that soon they will reinstate the right of entry agreement necessary to complete the investigation work to finalize the Phase II Environmental Site Assessment. In April 2006, the RTC approved adding \$85,000 to the contract with Geomatrix consultants to complete the Phase

II Environmental Site Assessment. Because the work was put on hold, staff never amended the contract to add those funds. The current estimate to complete the Phase II Environmental Site Assessment is \$91,000. It is also necessary to extend the term of the agreement with Geomatrix Consultants. **Staff recommends that the RTC approve the attached resolution (Attachment 5) authorizing the Executive Director to add \$91,000 to and extend the term of the agreement with Geomatrix Consultants to complete the Phase II Environmental Site Assessment work.**

SUMMARY

Due diligence work necessary for acquisition of the Santa Cruz Branch Rail Line has been halted for some time pending the resolution of some negotiations with Union Pacific. Recent negotiations indicate that the RTC may resume all remaining due diligence work very soon and could potentially make a final purchase decision in the fall of this year. In order to continue the due diligence work and ensure continued negotiations with Union Pacific, it is necessary to make amendments to the RTC's FY 07-08 Budget and to consultant contracts. Staff recommends that the RTC adopt the attached resolutions making the necessary budget and contract amendments to proceed with negotiations and due diligence work for acquisition of the Santa Cruz Branch Rail Line.

- Attachment 1: Draft Timeline for Acquisition of the Santa Cruz Branch Rail Line
- Attachment 2: Resolution Amending the FY 07-08 Budget and Work Program
- Attachment 3: Rail Acquisition Project Financial Plan (Approved June 29,2006)
- Attachment 4: Resolution Amending the Contract with Colliers Pinkard for Updated Appraisal Work
- Attachment 5: Resolution Amending the Contract with Geomatrix Consultants for the Phase II Environmental Site Assessment