Report

Business Plan for Operations of the SJVR in Fresno County

Prepared For:

Fresno Council of Governments
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Executive Summary

Introduction

The San Joaquin Valley Railroad (SJVR) is a Class III railroad operating several disconnected segments throughout Kern, Tulare and Fresno counties in the state of California. These segments connect the local shippers to the greater rail system through interchanges with BNSF Railway (BNSF) and Union Pacific Railroad (UP), which run parallel for the most part between Fresno and Bakersfield, CA. SJVR has trackage rights over the UP main line in order to reach its many segments and interchange with UP. These trackage rights allow SJVR to move its own equipment to on the UP track to each of its segments, but not to move any freight traffic over UP's line. Any freight traffic from SJVR's branch lines must be interchanged to UP to move on that line.

Over the last 3 years, SJVR has systematically sought to abandon several segments of its rail lines in these counties. The branch line running parallel to the UP main line from Jovista at its south point all the way to Fresno at its north point has been one of these segments. This branch line serves customers in the eastern parts of Tulare and Fresno counties, and has already been partially abandoned. Tulare County has been fighting the abandonments and attempted to negotiate a purchase of the segments at risk from SJVR, but has been thus far unsuccessful.

Fresno County has a vested interest in the future of this branch line, which currently serves several of its own shippers. Fresno County has decided to be proactive in its efforts to prepare for threats to its rail service and examine traffic, track conditions and operational feasibility for this portion of the line before potential abandonment threats. The purpose of this report is to develop a potential business plan for the city and county of Fresno to acquire the line if necessary to preserve service. This includes an inspection of the rail track, a market analysis to determine the traffic and revenue for the line, development of an operating plan that could serve on the line including the associated costs, analysis of the operational feasibility/return on investment for the line, and developing the Net Liquidation Value for the line, which would be the basis for any purchase negotiations.

Summary of Findings

Inspection – The line was found to be 80% heavy rail in overall average to good condition. However, there is about 5.7 miles of light weight rail, 75 lb. and 90 lb. rail which is in condition ranging from fair to poor. RII recommends upgrading at least the 75 lb. rail to 112 lb., if not the entire 5.7 miles of lightweight rail. At very least, 10,000 ties should be replaced and added; this would be the least cost and operations could still run on the line, but speeds would be slower, maintenance higher and there could be restrictions on equipment types and loads for the line. The annual maintenance expenditures should be about $6,370 per mile, or about $165,000 per year under a good operating plan.

Market Analysis – The current traffic for the Fresno County portion of this line alone accounts for over 4,700 carloads per year. This is significant and sufficient to support an operation profitably. In addition, with a proper marketing plan and focus on customer service, existing customers' potential traffic could likely more than double that number. This does not even include numerous additional potential customers in the area that were noted as potential rail shippers who could add traffic to this line. The revenue – current and potential – appears to be substantial for this line.

Operating Plans and Economics – An operating plan was developed for handling traffic on just the Fresno County portion of the line from Ivory to Fresno, CA. A scenario was developed for handling the existing 4,700 cars, and a separate scenario was developed for handling the potential traffic (that traffic expected if rail service is improved and expansion plans move forward as expected and reported by the shippers). While both scenarios support a profitable operation, the existing traffic yielded a return of 6.9%, while the potential traffic yields a return of up to 27.5%, not counting any additional customers that may come on line with better service and a strong marketing plan.

Net Liquidation Value (NLV) – The NLV for the rail materials is **$2,416,840**. This is the market salvage value of the track assets minus the costs of salvage. The real estate in the right of way is owned by UP. Fresno County may have the option of leasing this land from UP as opposed to purchasing it. If Fresno moves to purchase this real estate as well, an "over the fence value" for the land can be developed (based on values of adjacent land parcels), which is the method used by the STB for determining value of right of way land. The $2,416,840 is the salvage value SJVR could realize from sale of the track materials it owns.

Conclusions – RII's main recommendation coming from this project is for Fresno County to take a proactive role in working with SJVR to prevent the situation as it has developed in Tulare County and develop more traffic on the line, improve relationships

and service with the customers, and step in to acquire the line if SJVR is not interested in the same goal.

Physical Inspection

RII performed a physical track inspection by spot checking the line at various places and walking parts of the track. A hi-rail vehicle, which allows an inspection of the entire track by running over it, was not made available for this inspection. The track inspection of the SJVR was conducted from Ivory, CA at MP 232.3 to Fresno, CA at MP 205.5 on October 18th and 19th, 2010. Most of the rail line was accessible directly from the roadway for inspection. Unlike the expected assumption that the line was mostly 112 lb. rail, the line is actually a mix of many different rail weights. The chart to the right shows the estimated breakdown of the track weights as inspected. This inventory is an estimate based on the spot inspection since the entire line could not be hi-railed. Rail weight is its weight per rail length, usually a 33-39 foot segment of rail. Different rail weights have different values and contribute to different tonnage in steel for scrap; therefore, different rail weights will have a significant impact on the Net Liquidation Value (NLV). Although this line has several spur tracks, it could not be determined who owns these tracks, so they were not included in the inspection and NLV. If SJVR is determined to own these spurs, it will affect the NLV and they should be added.

Totals MP 232.3 to MP 205.5	
Weight	**Miles**
75 lbs.	2.0
90 lbs.	3.7
110 lbs.	7.6
112 lbs.	10.8
113 lbs.	2.2
115 lbs.	0.2
130 lbs.	0.1
136 lbs.	0.2

There did not appear to be a runaround track on the line between Fresno and Ivory as expected. This would allow the SJVR to run around cars for the purpose of switching various industries. The lack of a runaround track means that switching various industries is limited to handling either northbound or southbound depending on which way the switchgear operates. From an operating standpoint, this is less flexible and somewhat restricts the operating plan options. However, an economical operation is still possible and is illustrated in the Operating Plan section. When SJVR leaves Fresno, all cars need to be lined up for the southbound switches, and when SJVR leaves Ivory, all cars will need to be lined up for the northbound switches.

Rail

Almost 80% of the line is heavy rail: 110, 112, 113, 115, 130 and 136 lbs. About 20% of the line is lighter rail: 75 and 90 lbs. Most of the 75 lb. rail is at the end of the line at Ivory, and most of the 90 lb. rail is at the beginning of the railroad in Fresno.

For the most part, the heavy rail is in average to good condition. The 136 and 130 lb. rail is located in road crossings and is in good to very good shape. There are spots where the rail is welded at the joints for longer length of rail which helps lessen overall maintenance. Both the 90 lb. and 75 lb. rail are showing some wear, including chips and shelling on the top. This rail is in mostly fair condition, but there are areas of poor condition. Given the 90 lb. rail is at the beginning of the line, all traffic must go over this part of the line, thus, this part of the line handles the most tonnage and will take the most wear and tear for all operations on the line.

The rail steel track components include tie plates (which hold the rail to the wood cross ties), some anchors (which provide additional support for holding the rail to the ties), and spikes (holding the tie plate to the ties). The track is mostly single spiked plates with a few double spikes and even a third spike in some areas.

At MP 213, there is a Wye track that has 90 lb. rail. This is used for switching or turning cars within a train when and if ever needed, and is included in the NLV.

Ties

This rail line has an average of 20-24 ties per rail length. The ties are in mostly fair condition with some average ties and a few in poor condition. It is evident that SJVR has done very little tie work over the past several years and the ties are starting to show wear. One of the saving factors is that 80% of the line is heavy rail. Evidence of tie wear includes the tie plate cutting into the tie and the spikes, and the spikes working their way out of the tie. Most of the rail lengths have 5-8 good ties which will allow for speeds of 10-25 MPH. A good tie program will be needed in order to keep the rail line at present levels and speeds.

The poorest ties are located at the following:

MP 223.7 poor ties
MP 221.7 poor ties
MP 220 poor ties
MP 209 poor ties
MP 207 poor ties

The overall makeup of the tie condition is as follows:

40% Scrap
30% Industrial
30% Relay

Ballast

The ballast on the rail line ranges from average to poor condition to none at all. About 50% of the line has fair to average ballast, but ballast will be needed on the line to help with drainage and vegetation control.

Vegetation

For the most part, the vegetation control was average to good and seemed to be maintained well. A small vegetation problem was noted at the 90 lb. rail section at the beginning of the line in Fresno.

Line and Surface

The line and surface of the rail line is in average to good condition in most areas, but in the same places where there are poor ties, the line and surface condition degrades to fair to poor condition. Basically, the heavy rail and minimal traffic has allowed the surface and lining to hold. However, with the marginal ties in the line, with increased traffic, the line and surface will start to break down.

Bridges

After the initial inspection of the wooden trestles, they seemed to be in fair to average condition. The only issue is the large steel bridge north of Reedley, which seems to be in poor shape. It is advised that this bridge be inspected further by a bridge engineer to determine a detailed condition and develop costs to keep the bridge in service over the long-term.

Crossings

The crossings ranged from fair to very good condition. The newer ones and the ones located in the cities are generally in the best condition. Many country crossings and some private crossings are in fair to average condition. None of the crossings are in poor condition and seem to have no major issues or potential problems.

Right-Of-Way

The right-of-way, which is owned by Union Pacific, is mostly 50-100 feet. There are some areas in the cities where it is 200 feet. However, at the beginning of the line in Fresno the right-of-way is limited and is less than 50 feet. No right-of-way is included in the NLV since it is not owned by SJVR.

Annual Maintenance Budget

For the 26.8 miles, the average cost to maintain the track should be around $6,370 per mile. This amounts to roughly $165,000 annually. Based on this initial inspection, very little has been spent on maintenance, so over time the rail line will continue to decline. The track speeds will be continue to be reduced and service on the line most likely will become an issue if the current levels of maintenance on this line are not improved.

Rehabilitation Costing

Most of the line was in fairly good condition. However, 5.7 miles were found to have light weight rail. Although operations can be performed on this track with the expected traffic as is, RII recommends some replacement to keep longer term maintenance costs down, ensure optimum efficiency in the operating plans suggested and reduce the risk of restrictions on equipment and carload weights. The recommendations are presented in 3 scenarios, beginning with the lowest cost scenario.

Scenario 1: replace 10,000 ties on the entire line

At a very minimum, at least 10,000 ties should be replaced and added based on the track inspection results to efficiently handle the expected traffic. To replace the ties with brand new ties, the cost would be about $150 per tie including labor and installation. For complete replacement of 10,000 ties with brand new ties, the total cost is estimated at $1.5 million. In reality, it is acceptable to replace the poor condition ties with good grade relay ties, which would reduce this cost by about 50%. Relay ties are recycled ties from another rail segment that are still in useable condition, and are about half the price of new ties when available. A thorough explanation of tie condition and relay ties is included in the section on Net Liquidation Value at the top of page 37.

Scenario 2: replace 2miles of 75 lb. rail with 112 lb. rail

An even better option would be to replace at least the 75 lb. rail with 112 lb. rail in addition to adding/replacing 10,000 ties.

Ties: This scenario would replace the 2 mile section of 75 lb. rail with 112 lb. rail, which would require an additional 1,000 ties per mile in this section from that in place at the moment, resulting in a complete tie replacement of a total of 12,000 ties. Based on the estimated cost of $150 per tie replaced with brand new ties including labor and installation, the total cost of tie replacement for this scenario would be $1.8 million. Again, it should be noted that replacing bad condition ties with good grade relay ties would cost about 50% less.

Rail Replacement: It is estimated that at least 197.12 tons of 112 lb. rail would be needed to replace each mile of the rail. Assuming the 112 lb. rail is attainable at the current market price of about $650/net ton, the entire rail rehabilitation cost of replacing 2 miles of rail with 112 lb. rail including rail material components and labor is estimated to be from $460,000 to $540,000.

Surfacing: The 2 miles of new rail would need to be completely surfaced. The surfacing cost is estimated at about $15 per foot including 500 tons of ballast per mile needed. The total surfacing cost for the 2 mile segment is $158,400.

Total cost: The total estimated rail rehabilitation cost for this scenario is as follows:

Tie replacement cost:	$1,800,000
Rail Replacement cost:	$ 460,000 - $540,000
Surfacing cost:	$ 158,400
Total cost:	$2,418,400 - $2,498,400

Scenario 3: replace 2 miles of 75 lb. rail and 3.7 miles of 90 lb. rail with 112 lb. rail

This would be the most aggressive rehabilitation, replacing all of the light weight rail and investing in optimum rail operations for future traffic increases.

Tie: This scenario includes the original replacement of 10,000 ties plus adding 1,000 ties per mile for the 5.7miles of light weight rail to be replaced. This results in a complete tie replacement of a total of 15,700 ties. Based on the estimated cost of $150 per tie replaced with brand new ties including labor and installation, the total cost of tie replacement for this scenario would be at $2.355 million. Again, if good grade relay ties were utilized instead of new ties, the tie cost could be reduced by about 50%.

Rail Replacement: It is estimated that at least 197.12 tons of 112 lb. rail are needed to replace each mile of rail. Assuming the 112 lb. rail is attainable at the current market price of about $650/net ton, the entire rail rehabilitation cost of replacing 5.7 miles of light weight rail with 112 lb. rail including material track components and labor is estimated to be from $1,311,000 to $1,539,000.

Surfacing: The 5.7miles of new rail would need to be completely surfaced. The surfacing cost is estimated at about $15 per foot including 500 tons of ballast per mile. The total surfacing cost for the 5.7 mile segment is $451,440.

Total cost: The total estimated rail rehabilitation cost for this scenario is as follows:

Tie replacement cost:	$2,355,000
Rail Replacement cost:	$1,311,000 - $1,539,000
Surfacing cost:	$ 451,440
Total cost:	$4,117,440 - $4,345,440

These figures are broad estimates based on a spot inspection of the line, which was the extent of the scope in this project and is sufficient for further planning. Before actual rehabilitation should begin, a full hi-rail inspection of the line should be performed to fine tune the figures.

Conclusion and Recommendations

This track inspection was a simple spot inspection to serve the purposes of determining condition for the NLV, determining ball park rehabilitation costs if necessary and for identifying any problem issues. Since there was lightweight rail found in the line, future potential for moving unit trains on this line and a major bridge at Reedley, it is recommended that a thorough inspection with a Hi-Rail vehicle be performed over the entire line at a future date. It is clear that a sufficient maintenance budget has not been spent to keep this track in stable condition, and the condition has begun to decline.

Significant increases in traffic and possible unit train traffic will require immediate work on the line to maintain speeds and safety. RII has recommended replacing at least the 75 lb. rail, but the 90 lb. rail at MP 205.5 to MP 208.5 is also a concern because all SJVR traffic must go over this part of the line. This rail is showing wear already and if traffic levels increase or unit train traffic materializes, a replacement program will be mandatory. Since the SJVR does not seem to be spending on maintenance for these lines, the future of these lines is uncertain, even with significant traffic projections.

It is not certain what SJVR's strategy may be. Its plan could be to operate the lines until condition allows an embargo and then abandon the lines and sell them for scrap. Another possibility is that they will operate the lines until condition deteriorates to a point where they request funds from a public agency in order to continue service. If this were the case, SJVR should be made to commit to serving and maintaining the lines to a specific standard. The public agency would need a detailed inspection as recommended above and agreements from SJVR that it will spend a minimum annual maintenance budget on maintaining the line. If something is not done, the current lack of track maintenance will ultimately affect the customers, traffic levels, speeds and service on the line, as well as future economic development opportunities.

A total of 11 current shippers were interviewed for this study. There were 8 reported shippers currently on the line, but RII was able to identify 3 additional shippers whose traffic contributes to the operations and revenue on the line. This chart shows the current traffic from these customers:

Fresno Study: Current Traffic		
	Inbound Current	**Outbound Current**
PDM Steel	60	
Wawona Frozen Foods		100
Lyons Magnus		*
Holt Lumber	18	
International Paper	650	
Taiga Building Products	132	
M. C. Truss	14	
Univar	160	22
Tony Guerriero Cold Storage		
O'Neill Vintners and Distillers	16	92
Richard Best Transfer	3,500	
Total	***4,550***	***214***

* Would like to move by rail in the future, but will need the SJVR to work with them.

A brief profile on each of these customers is included in this section highlighting their business in the area and commodities moved, as well as the results of our interview discussions.

Based on the interviews, it is evident that SJVR has had little communication with these customers and is doing very little marketing work. Service is declining and the SJVR wants to charge the customers excessive surcharges and fees, which is making the rail service non-competitive. Charges such as demurrage are rising, even when the railroad is not providing the needed service for the shippers. Demurrage is a penalty fee for not releasing a railroad car within a certain number of days back to the railroad.

The switch crews are a problem also and do not work with the customers. SJVR seems to have little interest in the customers; this is going to make it difficult for the customers in the future and for any economic development efforts.

There is a strong potential for additional traffic on this line if service were improved and customer service were made a priority. The following chart shows what the potential for traffic could be right now if service were adequate for existing customers:

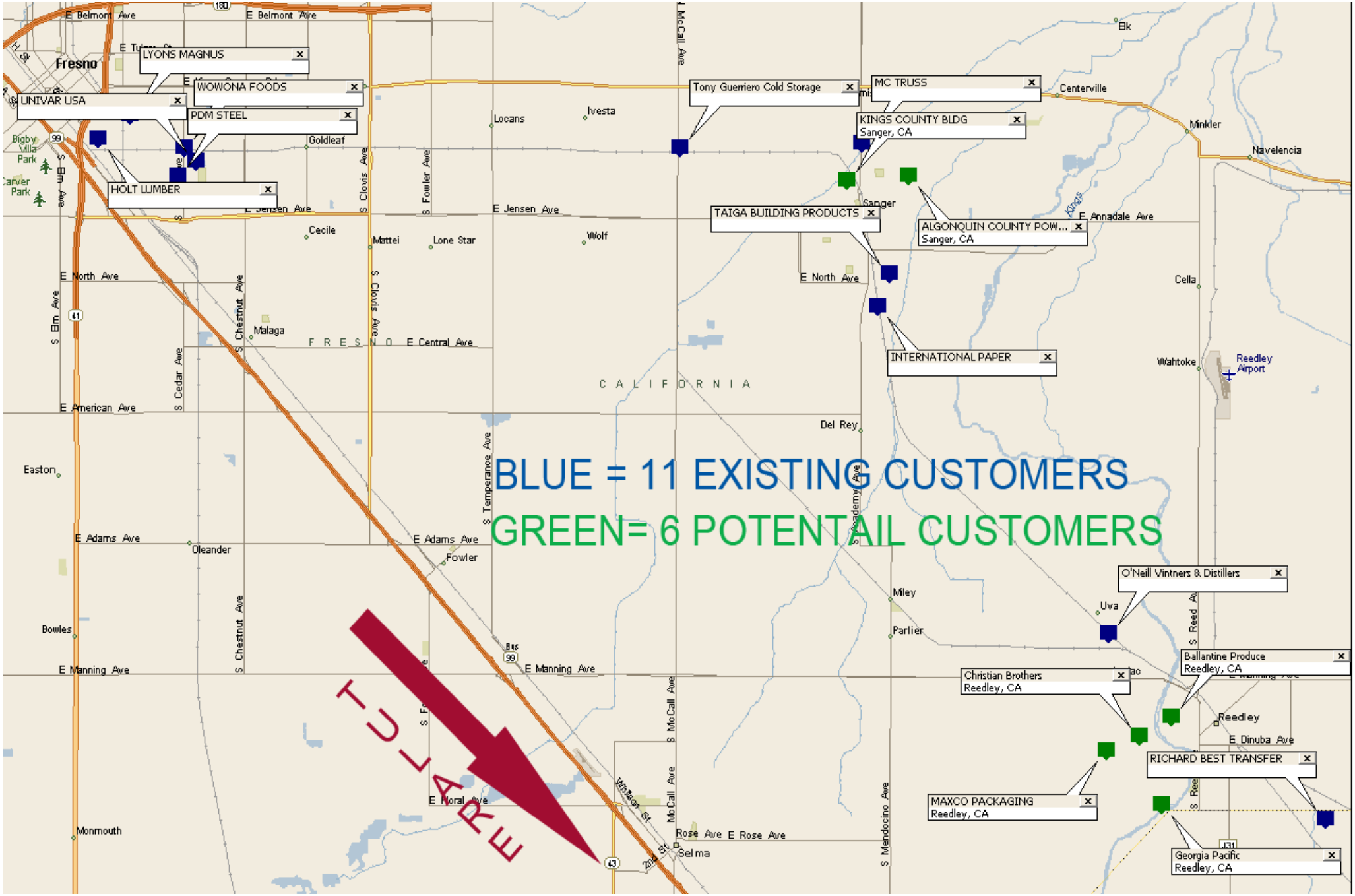
Fresno Study: Potential Total Traffic		
Customer	**Inbound current plus potential**	**outbound current plus potential**
PDM Steel	102	
Wawona Frozen Foods		120
Lyons Magnus		55
Holt Lumber	30	
International Paper	813	
Taiga Building Products	360	
M. C. Truss	18	
Univar	300	30
Tony Guerriero Cold Storage	10	10
O'Neill Vintners and Distillers	16	92
Richard Best Transfer	8000	
Total	***9649***	***307***

In addition, there are numerous potential customers in Reedley, Sanger, and Fresno that could possibly use rail service as well. Since no marketing has been done by SJVR to develop traffic, the potential traffic from these shippers could be substantial. Examples of companies that should be approached to develop a true potential traffic number would include:

1. Kings Conger Building – Sanger, CA
2. Algonquin County Power/Dry Fiber – Sanger, CA
3. Maxco Packaging – Reedley, CA
4. Christian Brothers – Reedley, CA
5. Georgia Pacific – Reedley, CA
6. Ballantine Produce – Reedley, CA

There is potential to increase rail service and volumes, but it will require a different level of effort and interest than previously shown.

The map on the following page shows the line within Fresno County, current customers on the line and locations or potential customers mentioned in this report. You can see the rail line coming up from the southeast at Reedley and then turning sharply at Sanger to head due west into Fresno.


LYONS MAGNUS
WOWONA FOODS
UNIVAR USA
PDM STEEL
HOLT LUMBER
Tony Guerriero Cold Storage
MC TRUSS
KINGS COUNTY BLDG
Sanger, CA
TAIGA BUILDING PRODUCTS
ALGONQUIN COUNTY POW...
Sanger, CA
INTERNATIONAL PAPER
O'Neill Vintners & Distillers
Ballantine Produce
Reedley, CA
Christian Brothers
Reedley, CA
RICHARD BEST TRANSFER
MAXCO PACKAGING
Reedley, CA
Georgia Pacific
Reedley, CA
BLUE = 11 EXISTING CUSTOMERS
GREEN= 6 POTENTAIL CUSTOMERS
TULARE
Fresno
Clovis
Sanger
Reedley
Selma
Fowler
Parlier
Del Rey
Malaga
Centerville
Kingsburg
Navelencia
Minkler
Cella
Wahtoke
Reedley Airport
Easton
Oleander
Bowles
Monmouth
Miley
Uva
Locans
Ivesta
Goldleaf
Cecile
Mattei
Lone Star
Wolf
E Belmont Ave
E North Ave
E Jensen Ave
E Annadale Ave
E Central Ave
E American Ave
E Adams Ave
E Manning Ave
E Dinuba Ave
E Floral Ave
E Rose Ave
S Elm Ave
S Chestnut Ave
S Cedar Ave
S Clovis Ave
S Fowler Ave
S Temperance Ave
S McCall Ave
S Academy Ave
S Mendocino Ave
S Reed Ave
CALIFORNIA

Fresno Yard & Truss Plant

1916 S. Cherry
Fresno, CA 93721

Phone: (559) 233-3291
Fax: (559) 233-9049

Contact: Tom Powers

Holt Lumber is a family owned and operated business that has been serving Northern California since 1930. They provide lumber, pre-manufactured wood trusses, building materials and custom fabrication to their customers all over the Central Valley and surrounding areas. Their vast array of products includes foundation, framing, siding, insulation, roofing, fencing, drywall, hardware and tools.

Tom Powers at the plant noted that Holt Lumber owns the Truss plant across the street and they also have a plant at Hanford. Its market is Kings, Fresno, Madera and Tulare counties. He states that San Joaquin Valley Railroad (SJVR) is their service carrier, located in Fresno, CA. Mr. Powers has also noted that the shipper provides the equipment and the rates. At this time they require 1-2 switches a month, or as needed. Holt Lumber has the spur capacity of 2 cars, but could extend the siding up to 45 feet (to be 145 feet in total). Mr. Powers stated that due to the current economy, only local suppliers and small volumes, they are utilizing rail for only 20% of their volume. This is to bring in 1-2 loads a month of lumber, plywood, SOB and studs from Nola, OR. At this time, business is down 60% and factors that could affect volumes include the economy and local building. Rail service has been unreliable and communication has been poor. Mr. Powers could utilize trucks for their shipping needs, but would lose a substantial amount of profit. They have not seen anyone in over two years from SJVR about the rail situation. Due to the cost of trucking, rail would be the preferred mode of transport; however, rail rates will be key.

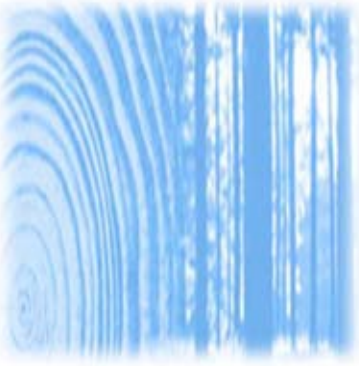
International Paper
1000 Muscat Ave.
Sanger, CA 93657-4001

Phone: (559) 876-6221
Fax: (559) 875-4673

Contact: Teodoro Villarreal- Operations
Doug Leader- Manufacturing Manager

International Paper Company is a leader in producing and distributing paper and packaging and forest products, including building materials. The Company operates 21 pulp, paper and packaging mills, 146 converting and packaging plants, 19 recycling plants and three bag facilities. They distribute printing, packaging, graphic arts, maintenance and industrial products through over 237 distribution branches in the United States. International Paper Company also owns or manages approximately 200,000 acres of forestlands in the United States.

Teodoro Villarreal of the Sanger plant notes that this particular plant has been in Sanger, CA since 1986. Its market extends from Los Angeles to Sacramento. Mr. Villarreal states that their current service provider is SJVR. International Paper has the spur capacity of 7 cars plus 4 storage spaces. They would like to receive service 5 days a week but are currently receiving fewer days. Inbound traffic includes rolled paper at an annual volume of 600-700 cars a year, with rail accounting for 80% of the moves, from Oregon, California and Oklahoma. They also bring in wax via trucks at an annual volume of 20-24 loads a year coming in from California. Traffic could grow 25% in the near future. Some factors that could affect the volumes include the agriculture business, economy and foreign competition. Mr. Villarreal notes that some rail has been lost from Oxnard due to the siding being pulled out. International Paper has not seen anyone from SJVR in months and they have accumulated extra rail charges, including demurrage; and have also missed switches, which has hurt business for them. Mr. Villarreal states that they could utilize trucks as an alternative shipping mode; however, profits would potentially be lost.



Lyons Magnus

3158 East Hamilton Ave.
Fresno, CA 93702

Phone: (559) 268-5966
Phone: (800) 344-7130
Fax: (559) 233-8249

Contact: Don Savino – Vice President of Purchasing

Lyons Magnus (LM) is family owned and operated and was founded 1852. LM is a supplier of foodservice and ingredient products all across the United States and internationally, providing 500 products and 1500 labels. LM employs 700 people and is directly involved at nearly every level of the industry, including growing and processing of key raw materials, process engineering, manufacturing, warehousing and transportation. LM is located in Fresno CA and has a rail spur with BNSF, although there is a rail spur in Fresno serviced by SJVR to the plant.

LM had two plants, #3 and #8, that previously had rail service, but the spur was pulled up without any notice and plant #4 has a spur that SJVR says cannot be utilized. Mr. Savino notes that they would like to use rail to ship their 50 containers per month to Walton, KY. He states that they also have the potential to move frozen product by rail to the Midwest and east coast if they had sufficient rail service. LM has received poor communication from SJVR and it seems that SJVR is not interested in their business.

M. C. Truss

1144 Commerce Way
Sanger, CA 93657

Phone: (559) 876-3630
Fax: (559) 867-3540

Contact: Nick Nisbett - Design Manager

M.C. Truss has been family owned and operated for 25 years. They specialize in both commercial and residential roof, floor and wall panel systems. M.C. Truss moved to Sanger, CA in 2002. Their market includes the entire state of California.

M.C. Truss receives rail service from SJVR, located in Sanger, CA. They receive 1-2 cars a month, or as needed, although they have the capacity to receive 3 per month. The shipper provides and pays for the equipment. M.C. Truss receives 12-15 cars per year of lumber, originating from Oregon, which accounts for 70% of their inbound product. Note: They can load 150,000-160,000 board feet on a center beam car. Mr. Nisbett notes that when the economy picks up, they have the potential to increase their carloads to 15-20 per year. M.C Truss also has the potential of reloading cars out to large job sites. The largest factor that could affect M.C. Truss's volumes would be the economy and rail rates. Mr. Nisbett states that due to 90% business decrease in this economy, service is not an issue at this time, although rail rates still need to be competitive. He also notes that they have not seen anyone from SJVR. M.C. Truss could utilize truck but using rail saves the company $15,000 annually in transportation costs.



O'Neill Vintners & Distillers

8418 South Lac Jac Avenue
Parlier, California 93648

Phone: (559) 638-3544

Contact: Matt Towers - COO Operations

O'Neill Vintners & Distillers was founded by Jeff O'Neill in 2004. They are the 8th largest U.S winery and are recognized as the preferred outsourcing partner for many of the world's leading beverage alcohol companies and brand owners. O'Neill Vintners & Distillers contracts over 15,000 acres of vineyards from vast areas in California, including their own Gravelly Ford vineyard on the San Joaquin River in Madera County. They produce 125,000 tons of crushed grape and over 5 million proof gallons of brandy and spirits a year.

Mr. Towers notes that the rail location for this distillery is in Parlier, CA. They are serviced by San Joaquin Valley Railroad (SJVR) and the shippers and receivers provide and pay for the equipment. O'Neill receives 6 cars per month and ships 15-20 car per month. Their outbound commodities include alcohol moving by rail at about 7,300,000 gallons per year, with a final destination of Kentucky. This amounts to approximately 92 rail cars per year. Inbound traffic includes alcohol originating from the east coast and Mexico by rail, which accounts for about 400,000 gallons or 16 rail cars, per year.
Mr. Towers states that traffic should remain steady in the future and has been steady even in the current economy situation. He also mentions that although service from SJVR has declined, his own business has not been affected. Every 30-40 days SJVR drops off 9-10 cars to work with. As of right now, they are having no issues with rates or service but seldom see a person from SJVR. Mr. Towers notes that they could utilize trucks but this would be a very expensive option. Rail is the most inexpensive option and is definitely needed.

PDM Steel Service Centers Inc.
4005 East Church Avenue
Fresno, CA 93725

Phone: (559) 442-1410
Fax: (559) 442-1409

Contact: Frank Rodriquez - Assistant Operations Manager

PDM Steel Service Centers, Inc. (PDM) is a distributor of heavy carbon steel products. Established in California in 1954 and headquartered in Stockton, CA, PDM currently has nine facilities located throughout California, Washington, Nevada, Colorado and Utah. PDM buys steel products in large quantities and holds the material until orders are placed by customers. Preprocessing of steel is often requested of PDM which consists of basic cutting services to meet finished specs that greatly reduces their customer's time to make the steel usable.

PDM's Fresno facility is served by SJVR and has a spur capacity of 6 cars for unloading and 20 car capacity for storage. The shippers provide the rail equipment and pay for freight charges, and service is required anywhere from 1 to 3 days per week. PDM does not use rail for outbound shipments but approximately 40% of inbound products is shipped by rail and equates to 5 cars per month. Tubing, beams and flat bar are shipped on flat cars from the Midwest, east coast, Colorado, Utah and Washington.

PDM expects rail traffic to grow to 7 – 10 cars per month when the economy and building industry improves and with better rail service. Inconsistent rail service, poor communication with an unpleasant disposition, increased rates, demurrage and other charges are issues that PDM has experienced with SJVR over the last year. PDM has not seen anyone from SJVR to discuss these issues. Although PDM could ship by truck, the costs to do so are higher.

Richard Best Transfer Inc.

6801 Avenue 430
Dinuba, CA 93618

Phone: (559) 591-4075

Contacts: Chuck Littlefield – Chief Operating Officer
Richard Best - President and Owner

Richard est Transfer Inc. (R T is a rail & truck offloading, commodity storage, transportation and tank cleaning company in Dinuba, CA. R T's rail site is in Ivory, CA with a spur capacity of 5 cars on the north track and 15 cars on the south track. The SJVR would keep the line from Fresno to Ivory where RBT is located. RBT is the largest customer on the line. Although outbound product is only trucked locally, they receive carloads by rail of DDG, Canola Oil, gypsum soil, sunflower oil and seed. Products come from ADM and ConAgra in the Midwest, Canada and Texas, and from US Gypsum in Gerlach, NV. They have local competition from Foster and Miller, located on the UP main line.

Mr. Littlefield notes that there has been a significant decline in service over the years and they have had issues with switching, rates, ancillary charges, demurrage and equipment. Negotiations with SJVR have been difficult and they do not seem to be making any progress except on possible unit train operations. Truck is not a viable alternative for the expected volumes. At this time BNSF handles 70% of their traffic and UP handles the other 30%. They are looking at expanding capacity to handle unit trains of DDG and canola oil, as many as 5 trains per month. They will still need a small portion of cars annually handled in single cars or small blocks despite the unit train moves. R T is not confident in SJVR's ability to handle these operations efficiently. They have an interest in providing their own switching and believe they could unload a car in 6 minutes with the planned expansions of the facility to handle unit trains. These expansions would have BNSF and UP handling their unit trains.

Taiga Building Products

1980 Industrial Way
Sanger, CA 93657

Phone: (559) 696-7277
Fax: (559) 876-3626

Contact: Jim Johnston - Yard Manager

Taiga Building Products (TBP) distributes building products through fourteen distribution centers across Canada and Northern California. Their primary customers include building supply dealers and industrial manufacturers. Their products include dimension lumber, panel products, treated wood, engineered wood, roofing materials, mouldings, composite decking, polyethylene sheeting, batting and foam insulation, siding and flooring. TBP has a sister plant in Roseville, CA and their market is a 200 mile radius from the plant site.

Taiga Building Products receives rail service in Sanger, CA, which is serviced by SJVR. They receive 6 cars 3 days a week, and the shipper provides and pays for the freight. Half of the railcars they receive are box cars and the other half are center beam cars. Currently, 75% of their inbound commodities come in by rail. TBP receives approximately 10-12 shipments of OSB, Plywood, siding, lumber and engineered wood products originating in Arkansas, Louisiana, Canada, Washington and Oregon.

Mr. Johnston notes that TBP has the potential to grow to 30 cars per month with a good economy and rail service. The biggest factors would be the economy and material cost. Mr. Johnston states that over the last year, cars have been getting held up in Fresno, CA, which results in extra rail charges and they have not seen anyone from SJVR. TBP could utilize trucks with the exception of OSB, but they will definitely need good rail service in the future.

Tony Guerriero Cold Storage

1061 S. Mccall Avenue
Sanger, CA 93657

Phone: (559) 251-8103

Contact: Tony Guerriero - Owner

Tony Guerriero Cold Storage provides climate controlled warehouse storage and supply chain services in central California and has a rail served location in Sanger with a one car spur capacity. They have not shipped or received by rail in a number of years; however, they have the potential to handle inbound fertilizer and outbound frozen fruit.

To date, SJVR has shown little interest in developing a relationship with Tony Guerriero Cold Storage for rail business and there has been no communication between the two, although Mr. Guerriero has tried on many occasions to work with rail. SJVR shows absolutely no interest and claims that it will cost a lot of extra money to service the facility. In fact, SJVR has even talked about tearing up the switch that services the facility's spur.

Univar USA

4465 East Florence Ave.
Fresno, CA 93725-1150

Phone: (562) 879-0362
Phone: (559) 488-4706
Fax: (866) 486-1624

Contact: Brian Beal/Brian Banerdt – Regional Quality Manager

Univar USA is a wholly owned subsidiary of Univar, a leading distributor of industrial chemicals with a network of over 179 distribution facilities globally. Univar is in the Industrial Chemical business and purchases chemicals from manufacturers in truck, railcar or tank car volumes and distributes them to customers who purchase in smaller quantities. The company is capable of bulk tank storage, tank truck deliveries, transloading, less than car load, storage and logistics, custom blending and packaging and just in time delivery among many other services.

Univar's market extends from Bakersfield south, from Woodland north and from Paso Robles west. The SJVR is the serving rail carrier and Univar's 1,000 feet of owned track and 2,400 feet of SJVR leased track is located in Fresno. Currently, Univar is being served one to two days per week, but they need service three days per week in order to satisfy their customers. Tank cars are owned by their customers and the customers also handle the rates.

Inbound commodities consist of acid, potash, soda, corn syrup and glycerine with 85% transported by rail from the Midwest, Gulf of Mexico and east coast. Outbound rail shipments to the Midwest, Iowa and Nebraska of magnesium and calcium are expected to reach 11 carloads annually through the end of year 2010. Due to the economy, competition, poor rail service and increases in rail charges, inbound rail volume will amount to 160 carloads through end of year 2010. Rail traffic is likely to grow if better and more consistent rail service is realized.

Univar's expectation is that rail volume will not grow under present rail service and conditions; however, annual volumes of talc from the Midwest are expected to reach 100 tank cars annually through year 2015 if rail service improves and rates are competitive. Projected inbound rail traffic will depend upon competition, rail service and rates.

Although Univar wishes to use rail, it is becoming more difficult to use. SJVR has increased rail charges and service is very inconsistent. Negotiating and communicating with SJVR about service and charges has proven difficult and has not gone well. SJVR has a “take it or leave it” attitude and calls upon Univar less than twice yearly unless there is a problem or issue. Based on present day conditions, Univar may have to move another 30-40 carloads annually to truck if the situation does not change, which would be carloads lost for the railroad revenue.

Univar said that SJVR has closed the local customer service office, making it more difficult to work with them and Univar expects service will be the key for the future of the rail line. SJVR has cut back on crews and service has suffered. Of note, Univar utilizes a track mobile to move their cars around in plant, which allows them the freedom to move the cars without relying on the railroad for switching and without needing certified rail engineers on staff.



Wawona Frozen Foods

100 W. Alluvial Ave
Clovis, CA 93611

Phone: (559) 299-2901
Phone: (800) 669-2966
Fax: (559) 299-1921

Contact: Larry Narbaitz – Director of Operations
William Smittcamp – Owner

Wawona Frozen Foods (WFF) grows and freezes fresh fruits and fruit products to be shipped across North America all year long. WFF is family owned and was established in California in 1953. WFF currently employs around 125 employees in the California area and distributes almost 65 million pounds of fruit products a year. Some customers of note include Sara Lee and Smuckers. The WFF facility is located in Clovis, CA with a rail site in Fresno, CA served by the SJVR.

WFF's rail site in Fresno has a spur capacity of 3 to 4 cars and requires service as it is needed. Refrigerator cars are provided by SJVR and currently the carriers provide the rates. WFF transports frozen fruits to the east coast, 10% by rail and 90% by truck due to customer requirements, rail service and the fact that most of their customers do not have rail spurs. Currently their volume by rail is 100 cars annually but this could increase by 10% if there were sufficient rail service. Factors that could affect their volumes include lack of truck capacity and a steady economy. Mr. Narbaitz notes that rail service has been inconsistent and they have had no contact with SJVR. Other problems with service include demurrage and other additional charges. He states that it also takes several days to get cars once they have been ordered. WFF could truck their product if they have no other option, even though this would result in higher transportation rates.

Traffic Observations and Conclusions

Interviews confirm that for the most part, SJVR has shown little interest in the customers on the line. Most customers are faced with declining service, extra charges and are being forced into looking for alternative shipping modes. SJVR personnel make few visits to see or even work with the customers. Marketing and traffic development does not exist; in fact, new business opportunities are turned away.

Based on this analysis, there are numerous opportunities with existing and potential customers on line to develop additional traffic and revenue. More emphasis needs to be put on traffic development and working with existing customers, and this line could be an attractive, profitable operation for alternative operators.

The line's potential for traffic and revenue should be determined through a targeted market analysis. In addition to developing the potential traffic that existing customers could provide with sufficient rail service, other customers in the area should be identified and interviewed. There appeared to be numerous rail conducive shippers on the line who might be able to ship by rail, but since SJVR has not marketed the line, no new traffic has been developed. There is phenomenal potential there. In addition, another revenue stream for the line could include transloading, which could open up access to rail to even more shippers in the area, and the resulting additional rail traffic for the line. These opportunities should be explored to determine the true revenue potential for the line. Since traffic development has been neglected so badly, there is no way to know now what that potential might be.

If the current situation continues over time, the existing business will be lost to other modes or disappear as local businesses and their profitability are hurt. Every car lost puts the remaining traffic and customers in jeopardy of additional service decreases – a downward spiral. Fresno County may need to play a more active role in working with the SJVR on customer and traffic development. For this line to be an economic development tool for the County, more emphasis will need to be made on customer development, communication and stronger relationships.

Operations Analysis

The objective of an operations analysis is to assess the economic viability of a rail operation on the referenced rail line based on the ongoing traffic. The operational analysis examined the operation plan and schedule based on traffic volumes, operational costs, and potential freight revenue generated from switching service for existing and potential customers. RII developed the current and potential traffic along the line by interviewing the shippers regarding their traffic volumes, commodities and service needs. The operations analysis was performed on two scenarios. One is based on current existing traffic now running on the line. The other scenario is the potential traffic including both the current traffic and potential traffic that current shippers expressed would move if rail service were reliable and able to handle the traffic.

Typically, a railroad operation receives freight revenue from the number of carloads it handles or interchanges. The operational expenses generally consist of four major elements:

- Maintenance of Way: routine and major track maintenance work to keep the track in a safe and operational condition that will allow the traffic volume to move.

- Maintenance of Equipment: routine and major locomotive maintenance work to ensure locomotives are available to move the traffic volume.

- Transportation: costs related to the movements, such as operations, train schedules, crew and fuel, etc.

- General & Administrative: General management of the entire operation, office clerical, marketing and administrative work.

Scenario of Current Traffic

According to RII's surveys with current shippers along the line, the current existing traffic is estimated to be about 4,764 cars primarily from the following shippers:

Fresno Study: Current Traffic		
	Inbound Current	**Outbound Current**
PDM Steel	60	
Wawona Frozen Foods		100
Lyons Magnus		*
Holt Lumber	18	
International Paper	650	
Taiga Building Products	132	
M. C. Truss	14	
Univar	160	22
Tony Guerriero Cold Storage		
O'Neill Vintners and Distillers	16	92
Richard Best Transfer	3,500	
Total	***4,550***	***214***

* Note that Lyons Magnus was listed as a current shipper and was interviewed, but is not currently moving traffic. They have potential traffic noted in the next scenario if rail service were improved.

In order to handle the switching operation for over 4,000 cars per year, the following staff structure would be the minimum required:

Staff: A total of 11 people

- One General Manager supervising operations, marketing, track maintenance, mechanical and all other clerical and administrative work
- One Operation Supervisor supervising the train operation
- Two train crew, working five days a week and eight to ten hours per day
- Three track people, including one track foreman and two labors performing routine track inspections and minor track maintenance work. (Any major track work will need to be contracted out). One of the track people would be cross-trained to fill in as train crew for the train operation as needed.
- Two mechanical people, including one mechanic and one helper conducting routine daily locomotive inspections and engine maintenance work, and managing major locomotive overhaul work whenever scheduled or needed
- Two administrative people for routine office clerical work

Freight Revenue

It was assumed that a switching charge of $350/car will be billed to shippers for switching service provided. Typically, the freight switching charge is adjusted annually to reflect the inflation factor. Since there has not been any inflation factor reported in the past two to three years according to the U.S. Commerce Department data, RII did not assume any inflation factor for the first three years of the projected period. For the second three years, RII applied an inflation rate of 1.5% on freight switching charges and for the last three years of the projection period, RII applied an annual inflation factor of 2% on freight charges. No other sources of revenue were assumed for this operational analysis.

Operation Expenses

- Maintenance of Way: It was estimated that at least 1,500 ties would need to be replaced annually. The total maintenance material expenses are projected at an average of $6,370 per mile.

- Maintenance of Equipment: Three GP-38 locomotives will be needed to handle the operation for switching over 4,000 cars. An average of about $32,500 per locomotive per year was projected for the locomotives' annual maintenance cost based on RII's experience with short line railroad operations.

- Transportation: There are two train crew people budgeted with each person working from 40-48 hours per week. No overtime labor cost was assumed since all the employees are salaried.

Operation Plan and Schedule

Train is scheduled to run from Fresno to Ivory and return each day Monday to Friday. Depending on the traffic, the train may or may not go all the way to Ivory. The traffic of Richard Best Transfer has been included in this analysis.

Ivory Turn

- On duty at Fresno Yard at 8:00am
- 8:00-9:00am switch cars from interchange
- 9:00am depart for Ivory, switch as necessary along the route
- 12:00pm arrive Ivory to switch Richard Best Transfer
- 1:00pm depart for Fresno and switching as necessary along the route
- 4:00pm return to Fresno, deliver cars and tie up locomotives

The Fuel expenses were calculated based on five-day ten-hour service on each day per week. It was assumed that an average of 18 gallons of fuel will be consumed per locomotive operation hour. The unit fuel cost is estimated at $3.0 per gallon.

- General & Administrative: One General Manager will supervise the entire switching operation and other clerical and administrative work. The General Manager will also be responsible for the marketing effort. The basic office expenses are purely an estimate here. It was assumed that brand new railroad operation liability insurance would need to be purchased at cost of $75,000 per year. In reality, if the potential operator already carries liability insurance before, it could cost less to add railroad switching operation coverage.

Capital required for initial operation set-up

It was assumed that the capital required for purchasing locomotives (three GP-38 locomotives), maintenance equipment, vehicles and other necessary equipment will be funded by a short term commercial loan. The initial minimum working capital requirement (which is equivalent to three months of operation expenses) will be fulfilled by a potential operator's cash contribution. The detail can be referenced on the Capital Expenditure Sheet in Appendix B.

Snapshot of Projected Operation Financials

	Year 1
PROJECTED CARLOADS:	4,764
AVERAGE REVENUE PER CARLOAD:	$ 350
OPERATING REVENUES	
Freight Revenue	$ 1,667,400
Other Revenues	$ -
TOTAL OPERATING REVENUES	$ 1,667,400
OPERATING EXPENSES	
MAINTENANCE OF WAY	$ 355,320
MAINTENANCE OF EQUIPMENT	$ 246,300
TRANSPORTATION	$ 454,743
GENERAL AND ADMINISTRATIVE	$ 353,469
OPERATING EXPENSES BEFORE DEPRE. & AMORTI.	$ 1,409,831
EBITDA	$ 257,569
OPERATING MARGIN	15.4%
DEPRECIATION	$ 70,000
AMORTIZATION	$ -
INCOME BEFORE INTEREST & TAX	$ 187,569
INTEREST EXPENSES	$ 72,250
TOTAL OPERATING EXPENSES	$ 1,552,081
NET INCOME BEFORE TAX	$ 115,319
PRE-TAX INCOME	$ 115,319
Income Tax 0% Tax Rate for Public Entity	$ -
NET INCOME AFTER TAXES	$ 115,319
NET PROFIT MARGIN	6.9%

This table is a glance of the first year projection of the operation on this line for the scenario of existing traffic. The detailed schedules are attached as Appendix B.

It should be noted that this operation analysis was projected assuming that Fresno County will acquire and operate the rail line itself or set up an affiliated entity to operate the rail line under the Fresno County, thus the tax rate is assumed at 0% for public entity on this projection.

Scenario of Potential Traffic

According to RII's surveys with shippers along the line, the potential traffic along the line could reach close to 10,000 cars annually if the economy recovers and shippers' expected capital expansions all fall into place. The potential traffic based on shippers' interviews is summarized as follows:

Fresno Studay: Potential Total Traffic		
	Inbound current plus potential	**outbound current plus potential**
DDM Steel	102	
WAWONA		120
Lyons		55
Holt Lumber	30	
International Paper	813	
Taiga	360	
M. C. Truss	18	
Univar	300	30
Tony Guerriero Cola Storage	10	10
O'Neill Vint	16	92
Richard Best Transfer	8000	
Total	***9649***	***307***

In order to handle the switching operation for potential traffic of almost 10,000 cars per year, the following minimum staff structure would be required:

Staff: A total of 13 people

- One General Manager supervising operations, marketing, track maintenance, mechanical and all other clerical and administrative work
- Three operating personnel, including one Operation Supervisor supervising the train operation and two train people, working five days a week and ten to twelve hours per day. In addition, the Operation Supervisor will also fill in for switching operations as needed.
- Four track people, including one track foreman and three laborers performing routine track inspections and minor track maintenance work. Any major track work will need to be contracted out. One person cross trained to fill in train service as needed
- Two mechanical people, including one mechanic and one helper conducting routine daily locomotive inspections and engine maintenance work, and managing major locomotive overhaul work whenever scheduled or needed.
- Three administrative people, including two clerical and one designated account manager for routine office work, accounting and customer service

Freight Revenue

It was assumed that a switching charge at $350/car will be billed to shippers for switching serviced provided. For the Potential Traffic scenario, a switching charge at $250 per car will be charged to unit train traffic of Richard Best Transfer. Among the total of 8,000 cars of total potential traffic, an estimated 7,000 cars will be handled through unit trains. Only 1,000 cars will be switched in regular train service. Since there has not been any inflation factor in past two to three years according to U.S. Commerce Department data, RII did not assume any inflation factor for the first three years of projected period. For the second three years RII applied 1.5% inflation rate on freight switching charge and for the last three years of the projection period, RII applied 2% annual inflation factor on freight charge. No other sources of revenue were assumed for this operation analysis.

Operation Expenses

- Maintenance of Way: due to the high volume handled, it is estimated that at least 3,000 ties would need to be replaced every year. The total track maintenance materials expenses was projected at an average of over $10,000 per mile due to the extra maintenance work required to ensure the safe operation of almost doubled traffic.

- Maintenance of Equipment: a total of four GP-38s were projected to handle the operation at potential traffic volume. Three of the GP-38s locomotives will be used to handle the daily operation for switching volume of almost 10,000 cars. One locomotive will be used as a backup engine. An average of about $32,500 per locomotive per year has been projected for the locomotive's annual maintenance cost based on RII's experience in short line operations. Three locomotives will be used on the unit train operation and two locomotives in normal operation.

- Transportation: there are two train crew people budgeted with each person working an average of 48 hours per week.

Operation Plan & Schedule

This plan sets up regular train service for 1,000 cars of Richard Best Transfer and the remaining traffic from all other shippers. The train is scheduled to run from Fresno to Ivory each day Monday through Friday. Depending on the traffic, the train may or may not go all the way to Ivory. The traffic of Richard Best Transfer has been included in this analysis.

Ivory Turn

- On duty at Fresno Yard at 8:00am
- 8:00-9:00 switch cars from interchange
- 9:00 am depart for Ivory, switch as necessary along the route
- 12:00 arrive Ivory to switch Richard Best Transfer
- 1:00pm depart for Fresno and switching as necessary along the route
- 4:00 pm return to Fresno, deliver cars and tie up locomotives

Operation Plan & Schedule – Unit Train

This schedule is for the Unit Train operation to move 7,000 cars for Richard Best Transfer.

- 8:00 am - Depart Fresno
- 10:00 am - Arrive Ivory
- 11:00 am - Set out Cars
- Crew to be picked up and the three locomotives will be parked on site
- Crew will come back and use the fourth locomotive to switch the other industries as necessary
- When the train is empty, the crew will be brought to Ivory at 9:00am after being on duty at 8:00am
- Switch and depart Ivory at 10:00am
- Arrive Fresno at 12:00pm to deliver train
- Crew will switch other industries as necessary

The Fuel expenses were calculated based on 18 gallons of fuel consumed per locomotive operation hour. The unit fuel cost is estimated at $3.0 per gallon.

It should be noted that although the potential traffic is more than double that of the current traffic, most of the traffic volume increase comes from Richard Best Transfer, which will be handled through unit trains. The switching operation itself does not deviate much from the current switching operation.

- General & Administrative: One General Manager will handle all supervisory work and oversee other clerical, marketing and administrative work. The basic office expenses are purely an estimate here. It was assumed that new railroad operation liability insurance would need to be purchased at a cost of $75,000 per year. In reality, if the potential operator already carries liability insurance, it could cost less to add railroad switching operation coverage.

Capital required for initial operation set-up

It was assumed that the capital required for purchasing locomotives (four GP-38 locomotives), vehicles (for Maintenance of Way) and other necessary equipment will be funded by a short term commercial loan. The initial minimum working capital requirement (which is equivalent to three months of operation expenses) will be fulfilled by the potential operator's cash contribution. The detail can be referenced on the Capital Expenditure Sheet on Appendix C.

Snapshot of Projected Operation Financials

The following table is a glance of the first year projection for the operation on this line for the potential traffic scenario. The detailed schedules are attached as Appendix C.

	Year 1
PROJECTED CARLOADS:	9,956
AVERAGE REVENUE PER CARLOAD:	$ 280
OPERATING REVENUES	
Freight Revenue	$ 2,784,600
Other Revenues	$ -
TOTAL OPERATING REVENUES	$ 2,784,600
OPERATING EXPENSES	
MAINTENANCE OF WAY	$ 537,120
MAINTENANCE OF EQUIPMENT	$ 292,800
TRANSPORTATION	$ 551,408
GENERAL AND ADMINISTRATIVE	$ 458,362
OPERATING EXPENSES BEFORE DEPRE. & AMORTI.	$ 1,839,689
EBITDA	$ 944,911
OPERATING MARGIN	33.9%
DEPRECIATION	$ 86,667
AMORTIZATION	$ -
INCOME BEFORE INTEREST & TAX	$ 858,244
INTEREST EXPENSES	$ 93,500
TOTAL OPERATING EXPENSES	$ 2,019,856
NET INCOME BEFORE TAX	$ 764,744
PRE-TAX INCOME	$ 764,744
Income Tax 0% Tax Rate for Public Entity	$ -
NET INCOME AFTER TAXES	$ 764,744
NET PROFIT MARGIN	27.5%

Net Liquidation Value (NLV)

Net Liquidation Value (NLV) refers to the market value of an asset minus the costs associated with its disposal. In essence, NLV is the realizable value of the assets - the track, land, equipment, vehicles and other structures - less the costs associated with their disposal to be used for any purpose, including but not limited to sales commissions, excavation, disposal, and environmental restoration. RII developed this NLV through its proprietary financial models and formulas to calculate the rail track, other track materials (OTM) and tie value. The right of way of the referenced railroad is owned by UP and thus the value of the right of way was not included in this valuation.

The unit salvage value of the railroad was obtained by inquiries to the American Metal Market for the most recent updated scrap steel pricing and by contacting some major rail salvaging companies for relay rail value. After all components are valued and calculated, the costs for salvage of the line are subtracted from the value to derive the NLV of the railroad assets.

The conditions used for valuation of materials track components were those developed through the track inspection performed by RII October 18th and 19th, 2010.

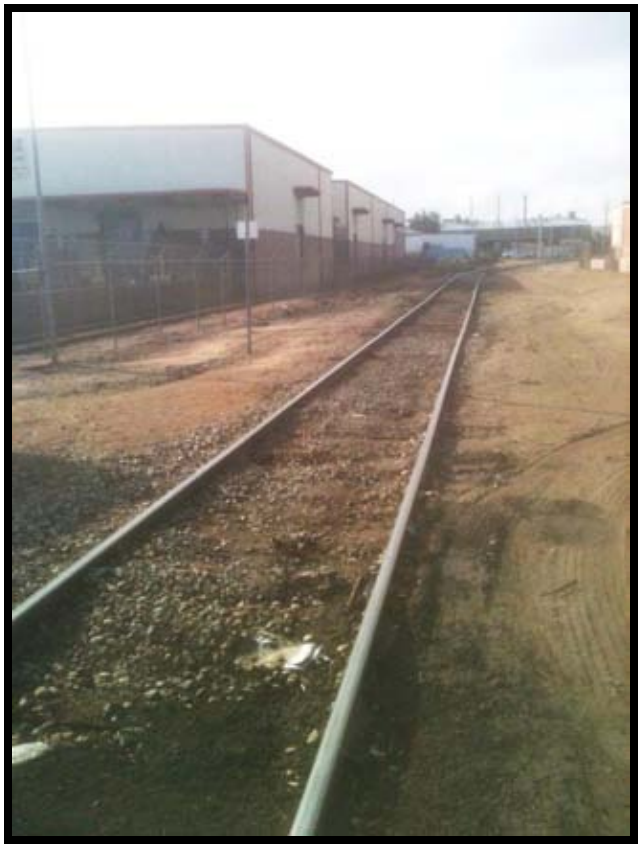
Net Liquidation Value: Rail & OTM

According to the inspection, the total track length involved with this valuation is 26.8 miles. ased on RII's inspection on the line, 5.7 miles of the rail are light rail (less than 100 lb.) and the rest of the rail is all heavy rail. The best use of the light weight rail is to sell the rail to mills for scrap since there is no current market for rail lighter than 100 lbs. The heavier rails are in #2 relay condition according to the inspection. According to the American Metal Market Scrap Steel Pricing as of December 8, 2010, the rail scrap steel value is at $383 per gross ton at the Chicago market, which is the market with the highest scrap steel value compared to other markets nationwide. It was estimated that at least $50 per ton in transportation costs would be needed to ship the salvaged materials to the Chicago market. The OTM was estimated at 25% of the total rail weight, and this includes other steel components such as tie plates, anchors, spikes, etc. The OTM of light rail will be scrapped and the OTM of the heavier relay rail can be salvaged as relay also at about $150 less per ton than the rail.

The total values of rail and OTM for the 26.8 miles of the rail is estimated at $2,408,859.

Net Liquidation Value: Railroad Ties

According to RII's inspection, it is estimated that there are about 2,978 ties per mile on this rail line. Based on the condition inspected, about 30% of the ties can be used as relay because they have at least 3 good sides remaining, 30% of the ties can be used for landscaping with at least 2 good sides remaining, and about 40% of the ties are in scrap or poor condition with fewer than 2 good sides remaining. According to RII's most recent inquires of major railroad salvage companies in December 2010, it was estimated that #2 relay ties and landscape ties have a market value of $10/each and $4/each respectively. Taking into account the tie removal cost of about $2/each and transportation costs (transportation cost only applies to landscape and scrap ties; typically, relay ties can be delivered locally) of about $3/each, the NLV of the ties are estimated at $7,981.



The complete NLV summary for all track, OTM and ties is as follows:

Fresno Railroad Assets NLV Estimate

Rail

Weight	Jnt/CWR	Miles	NT/Mile	Total NT	Total GT	Class	Price NT	Price GT	Total $ NT	Total $ GT
75 lb.	jnt	2	132.00	264.00	235.71	Scrap		$ 383	$ -	$ 90,279
90 lb.	jnt	3.7	158.40	586.08	523.37	Scrap		$ 383	$ -	$ 200,450
110 lb.	jnt	7.6	193.60	1,471.36	1,313.92	#2 Relay	$ 550		$ 809,248	$ -
112 lb.	jnt	10.8	197.12	2,128.90	1,901.10	#2 Relay	$ 600		$ 1,277,338	$ -
113 lb.	jnt	2.2	198.88	437.54	390.72	#2 Relay	$ 550		$ 240,645	$ -
115 lb.	jnt	0.2	202.40	40.48	36.15	#2 Relay	$ 650		$ 26,312	$ -
130 lb.	jnt	0.1	228.80	22.88	20.43	#2 Relay	$ 700		$ 16,016	$ -
136 lb.	jnt	0.2	239.36	47.87	42.75	#2 Relay	$ 700		$ 33,510	$ -
		26.8		4,999.10	4,464.16		**Total Rail Value**		**$**	**2,693,798**

OTM

Weight	Jnt/CWR	Miles	NT/Mile	Total NT	Total GT	Class	Price NT	Price GT	Total $ NT	Total $ GT
75 lb.	jnt	2	33.00	66	58.93	Scrap		$ 383	$ -	$ 22,570
90 lb.	jnt	3.7	39.60	146.52	130.82	Scrap		$ 383	$ -	$ 50,105
110 lb.	jnt	7.6	48.40	367.84	328.43	Scrap		$ 383	$ -	$ 125,788
112 lb.	jnt	10.8	49.28	532.224	475.20	#2 Relay	$ 450		$ 239,500.80	$ -
113 lb.	jnt	2.2	49.72	109.384	97.66	#2 Relay	$ 400		$ 43,753.60	$ -
115 lb.	jnt	0.2	50.60	10.12	9.04	#2 Relay	$ 500		$ 5,060.00	$ -
130 lb.	jnt	0.1	57.20	5.72	5.11	#2 Relay	$ 550		$ 3,146.00	$ -
136 lb.	jnt	0.2	59.84	11.968	10.69	#2 Relay	$ 550		$ 6,582.40	$ -
Totals		**26.8**		**1249.776**	**1,115.87**		**Total Rail OTM Value**		**$**	**496,505**

Ties (Removal & Market)

Class	%	Miles	Total Ties	Price Ea.	Total
#2 Relay	30%	8.04	23,943	$ 10	$ 239,431
Landscape	30%	8.04	23,943	$ 4	$ 95,772
Scrap	40%	10.72	31,924	$ -	$ -
			Total Tie Value		**$ 335,204**

Signal Appliance

Type	Quantity	Unit Price	Total
Lights	0	$ 2,500	$ -
Gates	0	$ 5,000	$ -
		Total all signals	**$ -**

Liquidation Cost

	Unit	Cost	Quantity	Total
Dismantle Rail (CWR)	Mile	$ 17,500	0	$ -
Dismantle Rail (Jnt)	Mile	$ 17,500	26.80	$ 469,000
Transport Rail &OTM	NT	$ 50	6,249	$ 312,444
Remove Ties	EA	$ 2	79,810	$ 159,621
Transport Ties	EA	$ 3	55,867	$ 167,602
Remove Relay Turnouts	EA	$ 400	0	$ -
Remove Crossing Signal	EA	$ 1,500	0	$ -
Restore Crossings	EA	$ 2,000	0	$ -

Gross Liquidation Value	**$**	**3,525,507**
Total Liquidation Cost	**$**	**1,108,667**
Net Liquidation Value	**$**	**2,416,840**

Conclusions and Recommendations

Based on all data gathered and analyzed for this project, there are some key points and concerns to note:

1. The rail service on this portion of the SJVR line is clearly declining.

2. There has been little marketing or customer development from the operator.

3. It is evident that the SJVR does not have a good relationship with the existing customers.

4. The existing customers are being charged additional fees that do not seem reasonable, pushing the traffic that does exist away.

5. SJVR has not been maintaining the line with the expectation of continuing operations at the traffic levels reported by the customers, so track condition is declining.

These service issues have created problems with the customers that have led to traffic being diverted from the railroad, moving to truck or losing market competitiveness. The best news is that all of these items can be easily remedied with a new focus on service and marketing to increase traffic and revenue on the line. Changes are needed if this line is going to have a future for economic development in this region. The following are positive steps that Fresno County may wish to take in order to ensure rail service is retained on this corridor.

A. The county will need to take a more active role in working with the SJVR. Working with the SJVR on a long term business and marketing plan could help prevent this line from the present and continued declines in service, condition and traffic. A joint marketing plan could allow the economic development interest to help develop traffic and revenue for the line while still providing the rail expertise needed from the railroad. This would require clear cooperation and commitment from the rail operator, as well as commitments to service levels.

B. Fresno will need to closely watch the activities in Tulare County since this line continues south into Tulare County and this is the only link into Fresno County from Tulare County for BNSF Railway. Preserving the entire corridor is the best way to preserve the viability of the line in the long term, especially for future

economic development plans. Based on the SJVR's previous actions in Tulare County, Fresno County will need to be ready to step in if the SJVR decides to abandon all or other parts of this line.

C. If SJVR seeks public funds in order to rehabilitate portions of the line, the funds should be contingent upon certain service levels being maintained and that the condition of the rail be maintained to a specific level. Maintenance expenses should cover the costs of maintaining the track to a constant condition. Track only deteriorates to these conditions when maintenance is deferred or an operating plan is not designed well enough to allow enough maintenance budget to maintain the track (or the budget is not spent properly). Fresno should require periodic inspections of the asset if they choose to invest in it, and that customers continue to receive the service needed.

Appendices

Appendix A – Inspection Photo Index

Appendix B – Pro Forma Financial Statements – Current Traffic

Appendix C – Pro Forma Financial Statements – Potential Traffic