

# *WEST PARK INLAND PORT & SHORT-HAUL RAIL ANALYSIS*

FINAL REVIEW OF CURRENT ANALYSES

Submitted to:

Stanislaus County, California

Submitted by:



**GLOBAL** INSIGHT

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## I. Introduction

In October 2007, Stanislaus County contracted with Global Insight USA, Inc to provide a critical review of the West Park Inland Port/Short Haul Rail Master Plan, in order to provide constructive feedback to the West Park team (West Park) in the Crows Landing redevelopment.

That initial effort consisted of a review of several documents, including the following:

1. *West Park Inland Port Short Haul Rail and Inland Port Master Plan*, August 14, 2007
2. Attachment B: *Inland Port at Crows Landing and Fresno Vicinity: A report on Truck, Rail and Ramp Cost/Price Levels*
3. Attachment C: *Market Research Executive Summary; Prospective Patronage for a Short Haul Intermodal Rail Shuttle Service Between the Port of Oakland and Crows Landing*
4. Letter from Gerry Kamilos to Ms. Therese McMillan
5. Short Haul Rail/Inland Port: Trade Corridor Bond Program Issues – September 24, 2007
6. Letter from Dick Monteith (Stanislaus County Board of Supervisors) to Chairwoman Mary Nichols (California Air Resources Board)
7. Testimony of Gerry Kamilos; PCCP West Park, LLC at the Goods Movement Emission Reduction Incentive Program, October 10, 2007; Fresno, CA

That review was completed in November 2007, and Global Insight provided a Technical Review (were the basic assumptions and methodologies appropriate for the initial analyses and were they applied in a reasonable fashion?) and a Professional Review (were the conclusions of the preliminary report consistent with the known facts, either those identified in the analysis or those identified externally?)

In that initial document, Global Insight identified a number of suggested modifications to the West Park Analysis covering seven specific areas. These included:

1. Shipper Interest
2. Cost Analysis
3. Operational Analysis
4. Foreign Export Markets
5. Import Market Demand
6. Seasonality of Trade
7. Empty Container Handling

Also part of the initial review Global Insight analyzed West Park's traffic diversion and economic model for the Inland Port/Short Haul Rail Master Plan. This effort provided a number of other suggestions for further exploration by the West Park consulting team. Global Insight made a number of improvements to the West Park cost models and economic performance

evaluations that have been incorporated in subsequent versions. The data and rationale of these corrections were detailed in a follow-up memo supplied to the West Park Team.

The items addressed in that document included:

1. Application of Inflation Adjustments
2. The comparative Cost of Using Truck vs. Short-Haul Rail Intermodal
3. Market Penetration Factors
4. Overall Market Sizing

All during that time, Global Insight participated in several conference calls with representatives of the West Park team, providing clarification for our conclusions, and additional suggestions to improve the quality and coverage of the basic analysis.

In late February 2008, West Park provided a response to the multiple Global Insight reviews, providing clarification on some issues and accepting the suggestions on others. This report, the *West Park Inland Port/Short-Haul Rail Master Plan Response to Global Insight Review* offered responses to several of the issues raised in the previous Global Insight technical memoranda, including:

1. Shipper Survey
2. Cost Analysis
3. Congestion Inflation
4. Logistics and Inventory Costs
5. Railroad Operating Issues
6. Drayage Operations
7. Truck Diversion Analysis
8. Seasonal Exports
9. Empty Containers

West Park's response to the Global Insight analysis suggests that additional early-stage research and planning recommended by Global Insight is premature for the Crows landing development, and that these efforts will proceed – as needed – as the site analysis and development efforts progress. For some aspects of the analysis, this perspective is appropriate. In other areas however, we believe that more detailed preliminary analysis is important to understand the full range of benefits and costs of the West Park Inland Port/Short Haul Rail Project. This final report from Global Insight provides additional guidance for subsequent phases of the analysis effort.

For the sake of clarity, Global Insight is responding to each of these issues individually to provide additional direction for future analysis efforts.

## II. Response Items

### *Shipper Survey*

With respect to Global Insight comments on additional survey work for the proposed short-haul rail service, West Park advised that:

"Because we are still in the planning stages of this new service, we do not agree that additional marketing studies, focus groups or other such market identification work is worthwhile at this time. When we are closer to implementation and have much more detail decided as to freight train schedules, pricing and overall services to be offered to shippers, we fully intend to study the market further."

We agree that this issue needs further study as project planning progresses. While the Tioga survey did reveal a high level of potential shipper interest, the detailed results provided in February 2008 clearly indicate that the current survey work is not conclusive. In addition, the detailed responses clearly identify an interest in having the short-haul rail service available as an option, that "interest" should not be construed as projecting an actual shipper market behavior, or mode diversion opportunity. In fact, many of the individual shipper comments recorded from the surveys suggested that despite a consistent and reliable short-haul rail service, they would continue to favor truck-based operations. These issues will need clarification in subsequent phases of the analysis.

While the focus group discussions we suggested might not represent a preferred method of data collection for the West Park team, some additional follow-up will be necessary early in the next phase, to more precisely define the divertible market for the short-haul rail service, and to identify specific target shippers for the new operation.

Finally, the Tioga Group's survey results specifically outline that price discounts will be necessary to induce divisions. The Tioga survey's market discount numbers; (1) closely match those suggested by Global Insight in previous communications, (2) were incorporated in Global Insight's cost model edits provided to West Park, and (3) have been accepted, and included in subsequent versions of the analysis. These adjustments had a significant impact on the size and duration of subsidies, and will require further examination in the next phase of the analysis. With the approval of the California infrastructure bond application, we believe it is important on the part of West Park to continue to explore shipper receptivity for the short-haul service.

### *Cost Analysis*

In its response, West Park concurs with GII that the West Park Cost Analysis Model contains several significant assumptions that could alter the economic performance of the short-haul rail operation. They are unable at this point; however, to resolve these assumptions with respect to train operations and trackage rights costs until such time as a more formal agreement is in place with the railroad owners and short-haul rail operations. Global Insight fully understands the preliminary nature of the project discussions, and appreciates the fact that commitments have been difficult to obtain in the absence of certain California infrastructure bond funding.

We would suggest that in the next phase of the analysis that West Park could provide a sensitivity analysis with respect to these uncertain cost elements. Bracketing these costs could provide Stanislaus County with reasonable minimum and maximum subsidy levels that would ease the public-sector anxiety over the long-term commitments inherent to the operation. Global Insight commonly uses  $\pm 10$ , 15, and 25% sensitivity factors to reflect the uncertainty surrounding principal, but indeterminate variables. We suggest the West Park Short-Haul rail analysis could apply similar factors in the next phase of research, if these cost elements are still unresolved.

Second, with respect to "stem time"<sup>1</sup> we understand West Park's assumptions with respect to driver domiciles. The issues raised by "stem time" could alter the overall project economics, but not significantly. Thus the risk of uncertainty is low for this issue, and we believe West Park's current response is sufficient.

In the next phase of analysis, the results of the Tioga Survey (which provide some guidance in this area) could be incorporated in the West Park Cost Model. Similarly, local unemployment data – serving as a proxy for driver availability – could provide some surety that the stem time issue is appropriately represented in the analysis.

### ***Congestion Inflator***

The West Park analysis utilized a truck congestion inflator to induce diversions to the short-haul rail operation. In principle, we agree with the concept, and acknowledge that mode diversion is impacted by irregular route congestion. Moreover, the West Park cost analysis discounted the congestion inflator by 37% to reflect the uncertainty of its impact in generating demand for short-haul rail service.

For this preliminary analysis, and after reviewing the report of West Park's traffic engineer Chris Kinzel, this would seem to be a reasonable approach. In subsequent phases of research we would suggest further research to enhance this basic approach for two reasons:

(1) *A percentage change in congestion will not generally result in a corresponding and equivalent change in truck cost performance.* The current model's assumption is that competitive truck costs move in lockstep with increases in congestion. This is not always the case, as cost recovery in a competitive business climate is limited, and some time delays occur on unpaid movement legs<sup>2</sup>. Whereas the "discounting" of the congestion inflator could be

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<sup>1</sup> "Stem time" is time it takes a drayman to drive from where he lives to where he is scheduled to pick-up a trailer or container. In some circumstances, the cost of this movement (driver time and truck operating costs) is included in price quotations for local drayage operations. The longer the stem time (the further away the driver is from the freight pick-up) the more likely these costs will be included in price quotations, and the more likely they will be substantial.

<sup>2</sup> These additional delay costs may or may not be reflected in market prices due to the competitiveness of the market for trucking services, and/or the competitiveness of the market for driver labor.

assumed to account for this incongruent relationship, a more empirically based linkage could be developed from available data. Some research has been done in this area that could be useful in developing congestion related cost factor adjustments for the short-haul rail operation.

*(2) The Tioga shipper survey results provide some additional information that could be useful in subsequent analysis.* From our cost model review, we noted the significant impact of the congestion inflator on the economic performance of the model. Given this sensitivity, we believe it will be prudent in the next phase of the analysis to analyze the survey feedback (or to conduct some new research with the identified shippers) with respect to changing shipper behavior as a result of increased congestion on the principal regional arteries.

### ***Logistics and Inventory Costs***

Logistics and inventory costs, as defined in our original review, did not represent a decisive factor in predicting mode diversions. The costs of truck line-haul versus short-haul rail line-haul costs represented a more compelling argument for truck to rail shift. Logistics and inventory costs are however, often a deciding factor in shippers' mode selections. We do not perceive West Park's failure to address these issues in their first analysis to be problematic, based on our calculations of their impact, but we do suggest that subsequent analyses explore the issue in more detail.

In particular, West Park's response indicates that the "...the eventual prime market for short-haul rail services will be to customers that are using Crows Landing as their logistics and distribution activities [sic]." While we agree that the economics of short-haul rail are most favorable for these clients, this assumption will require some clarification in the next phase of the analysis for two reasons: (1) it is somewhat inconsistent with the traffic source data provided in the original cost model (which contemplates significant diversion from shippers in the surrounding communities – particularly for export containers) and (2) it is untested in the survey analysis or other support materials. The next phase of analysis could clarify these findings, perhaps with the benefit of some potential shipper testimonies (such as are reported anonymously in the Tioga survey results) or some comparative examples (from other project applications from similar projects across the nation).

### ***Railroad Operating Issues***

Our expressed concern over a lack of definition for the rail operating issues is being resolved through significant efforts by West Park, Stanislaus County, CalTrans, and the railroads themselves. The West Park response reflects an appropriate planning-level understanding of many of the issues that could undermine the success of the short-haul rail operation. We applaud this ongoing effort to resolve the Global Insight identified issues of commuter train interference, track ownership and dispatching, and trainset storage. Further, the early dialogue between the various rail agencies – as reported by Stanislaus County – suggests that a project favorable outcome can eventually be negotiated.

For the next phase of analysis, we are recommending that West Park secure a rail expert from their existing consulting team members to help facilitate continued progress in this area, and to participate in the ongoing multi-party negotiations related to the project.

The number of players involved, the complexity of the issues, and the unique nature of rail operations warrant additional support in the next phase of analysis: much of the overall project benefit is tied to the successful implementation of the short-haul rail operation. This additional scrutiny will likely uncover additional capital investment for the project (although we would not expect such capital investment needs to be extraordinary) that could alter the actual economics of the operation, and perhaps delay self-sufficiency somewhat.

In the interim, we suggest that these capital costs be handled using sensitivity factors such as outlined in the Cost Analysis section, above. This could help set upper and lower bounds for identified capital and rail operating costs. The combination of sensitivity factors – applied here and in different aspects of the analysis – could be defined as scenarios, such as an "optimistic case" and a "pessimistic case". The scenarios could be useful in providing risk assessment for public officials concerned with potential project "downsides".

### ***Drayage Operations***

In its response, West Park indicates that it has made progress developing partnerships with local drayage operators.

"West Park has had a number of informal discussions with several reputable trucking firms as to the feasibility of providing this dedicated level of service. The response has been very favorable. The creation of a long-term, dedicated business relationship with an inland port and short haul rail operator will provide a perfect opportunity to invest in new equipment and operating practices, which will eventually be required of all truckers in the industry."

At this point in the project planning and development, these informal commitments should be sufficient.

The next phase of the analysis however, will probably require that these relationships be formalized with specific service and cost proposal data, and ultimately with a memorandum of

understanding. These efforts might be best coordinated by a terminal operator for the Crows Landing facility – another firm that should be engaged sooner rather than later in the process.

### ***Truck Diversion Analysis***

The current truck diversion methodology employed by the West Park team provides a reasonable approach to developing planning level estimates, although more rigorous models are readily available, that include both price and service elasticities. For the current phase of analysis, Global Insight recommends that the results of the Tioga survey be used to inform the development of diversion factors, based on distance from the Crows Landing facility (identified by respondent location) and varying levels of service performance (identified by survey response).

For future phases of analysis, West Park indicates that they:

"...would be most interested if Global Insight is aware of truck traffic modeling or truck diversion to rail analyses accomplished in other travel markets, especially if those projections have the advantage of actual diversion experience, accomplished after the initial projections, to calibrate the models for future use."

While Global Insight and others have developed such analyses for a number of regional projects, we believe that for this very localized analysis, a traditional stated-preference survey should be sufficient for developing reasonable diversion rates. Furthermore, this process could be conducted among the previously surveyed shippers (see Tioga survey results), and would provide strong evidence of local shipper interest. We recommend that such a process be initiated at the start of the environmental impact review.

### ***Seasonal Exports***

Global Insight agrees that at this issue is appropriately handled for "this very nascent stage in the development of this new service", and that marketing efforts to local shippers of the ready service will uncover such opportunities. Furthermore, we recognize that these volumes are not necessarily "baseload" for the short-haul rail operation.

We merely sought to raise the profile of the issue as market penetration of seasonal freight impacts facility sizing, staffing, container throughput, service reliability, and hence economic performance. Subsequent phases of the planning effort should address the desirability or undesirability of seasonal traffic volumes, the degree to which they can be accommodated by the facility at different stages of development, and the ways in which the service needs of this traffic varies from regular freight.

### *Empty Containers*

As West Park indicates, empty container positioning is a vexing issue for ports and intermodal terminals alike. The conceptual plan outlined in the West Park rebuttal contemplates a closed-loop system where empties and loads are cycled in and out of the Crows Landing operation. It is unlikely that even a significantly less efficient operation will noticeably diminish the other proposed benefits of the short-haul rail program. Thus, at this point, we agree that a more detailed analysis is not justified.

As the project planning progresses, it will be helpful for West Park to identify locations from which empty containers could be drawn. This should help blunt any criticism that empty repositioning costs will offset the efficiency of environmental gains of the short-haul rail operation.

### III. Conclusion

We are encouraged that West Park has continued to refine its analysis in support of the Inland Port/Short Haul Rail Master Plan. We believe that the critical review provided by Stanislaus County and Global Insight represents a positive step towards the successful implementation of the Crows Landing development project and the short-haul rail operation.

We look forward to West Park's continued efforts to clarify and confirm the economic and operational assumptions that underlie their models, and to continue to produce reliable and well documented analysis for this important initiative.

The proposed Crows Landing redevelopment plan is a creative one that has been successful in other venues. The development of the Logistics Park Chicago/Global Trans Park from the former Joliet Arsenal in Illinois as a rail intermodal-centric industrial park represented a milestone in military base conversions. The rapid economic development growth at the site and in the surrounding region has surprised even project advocates, and the job creation in warehousing and distribution has been unusually strong. As communities have sought to replicate the Logistics Park Chicago/Global Trans Park success, the difficulty has been finding a suitable site with strategic rail network access.

It is possible that the Crows Landing site – connected by rail to the Port of Oakland – could become just such an engine of economic development for the region. As port volumes and local road congestion both continue to increase, the demand for inland port capacity is likely to accelerate. With a number of strategic options available to Stanislaus County for the Crows Landing redevelopment, the West Park Inland Port/Short Haul Rail Master Plan is certainly worth a careful look.

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# IV. Global Insight Modifications to West Park Cost Model

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Years of Inflation	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
<b>Daily Container Quantities from Daily-Boxes-Trains sheet</b>																				
<b>Inbound (from Oakland to West park)</b>																				
Import Containers	40	60	100	150	300	425	550	560	570	580	650	660	670	680	690	690	690	690	690	690
Empty Containers	14	21	15	150	300	425	550	560	570	580	650	660	670	680	690	690	690	690	690	690
Total Inbound Containers	54	81	115	150	300	425	550	560	570	580	650	660	670	680	690	690	690	690	690	690
<b>Outbound (from West Park to Oakland)</b>																				
Export Containers	34	83	115	150	165	186	195	175	149	120	124	128	132	136	140	144	149	153	158	162
Empty Containers	20	27	40	53	193	304	445	500	471	500	567	572	582	591	591	591	591	591	591	591
Total Outbound Containers	54	81	115	150	300	425	550	560	570	580	650	660	670	680	690	690	690	690	690	690
<b>Total Daily Containers Handled</b>	<b>108</b>	<b>162</b>	<b>150</b>	<b>300</b>	<b>600</b>	<b>850</b>	<b>1,100</b>	<b>1,120</b>	<b>1,140</b>	<b>1,160</b>	<b>1,300</b>	<b>1,320</b>	<b>1,340</b>	<b>1,360</b>	<b>1,380</b>	<b>1,380</b>	<b>1,380</b>	<b>1,380</b>	<b>1,380</b>	<b>1,380</b>
<b>Trains Required (each way)</b>																				
At 115 containers nominal per train	0.47	0.70	1.00	1.30	2.1	3.70	4.78	4.87	4.96	5.04	5.65	5.74	5.83	5.91	6.00	6.00	6.00	6.00	6.00	6.00
Trains required (rounded) - roundtrips	1	1	1	1	3	4	4	4	4	4	5	5	5	5	5	5	5	5	5	5
Train Cost (assume 70% of costs fixed, 30% variable with length of train)	\$ 12,926	\$ 14,225	\$ 15,876	\$ 17,661	\$ 46,264	\$ 63,289	\$ 80,638	\$ 81,748	\$ 82,879	\$ 84,031	\$ 99,031	\$ 100,290	\$ 101,571	\$ 102,873	\$ 104,196	\$ 104,933	\$ 105,670	\$ 106,407	\$ 107,144	\$ 107,881
<b>Total Cost For Importer/Exporter to Use Rail</b>																				
<b>Inbound (from Oakland to West park)</b>																				
Unit Cost	1.15	1.18	1.19	1.22	1.26	1.28	1.31	1.33	1.36	1.39	1.42	1.44	1.47	1.50	1.53	1.55	1.58	1.61	1.63	1.66
Dray Ocean Term to Intermodal Term (loads)	\$ 70	\$ 3,540	\$ 5,403	\$ 9,174	\$ 14,047	\$ 28,704	\$ 41,428	\$ 54,646	\$ 56,693	\$ 58,777	\$ 60,898	\$ 62,470	\$ 64,127	\$ 65,864	\$ 67,681	\$ 69,588	\$ 71,586	\$ 73,675	\$ 75,847	\$ 78,103
Dray Ocean Term to Intermodal Term (empties)	\$ 70	\$ 1,239	\$ 1,891	\$ 1,376	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ramp access fee by YPRR to ACTS	\$ 25	\$ 1,550	\$ 2,380	\$ 3,435	\$ 4,575	\$ 9,433	\$ 13,602	\$ 17,977	\$ 18,686	\$ 19,409	\$ 20,145	\$ 21,000	\$ 21,874	\$ 22,766	\$ 23,685	\$ 24,630	\$ 25,601	\$ 26,600	\$ 27,627	\$ 28,682
Ramp OAK Intermodal Term Lift-off Charge (loads+miles)	\$ 35	\$ 2,170	\$ 3,332	\$ 4,808	\$ 6,405	\$ 13,206	\$ 19,042	\$ 25,168	\$ 26,161	\$ 27,172	\$ 28,203	\$ 29,258	\$ 30,338	\$ 31,444	\$ 32,576	\$ 33,735	\$ 34,921	\$ 36,134	\$ 37,375	\$ 38,644
Rail Train from Oakland to West Park (112 of row 22)	\$ 6,463	\$ 7,112	\$ 7,938	\$ 8,861	\$ 23,132	\$ 31,645	\$ 40,319	\$ 49,274	\$ 41,440	\$ 42,016	\$ 43,116	\$ 44,246	\$ 45,401	\$ 46,586	\$ 47,797	\$ 49,033	\$ 50,294	\$ 51,580	\$ 52,891	\$ 54,227
Ramp Inland Port Lift-off Charge (loads+miles)	\$ 35	\$ 2,170	\$ 3,332	\$ 4,808	\$ 6,405	\$ 13,206	\$ 19,042	\$ 25,168	\$ 26,161	\$ 27,172	\$ 28,203	\$ 29,258	\$ 30,338	\$ 31,444	\$ 32,576	\$ 33,735	\$ 34,921	\$ 36,134	\$ 37,375	\$ 38,644
Ramp Inland Port Gate Charge	\$ 35	\$ 1,607	\$ 2,468	\$ 4,181	\$ 6,405	\$ 13,206	\$ 19,042	\$ 25,168	\$ 26,161	\$ 27,172	\$ 28,203	\$ 29,258	\$ 30,338	\$ 31,444	\$ 32,576	\$ 33,735	\$ 34,921	\$ 36,134	\$ 37,375	\$ 38,644
<b>West Park to Oakland</b>																				
Ramp Inland Port Gate Charge	\$ 35.00	\$ 1,366	\$ 3,414	\$ 4,808	\$ 6,405	\$ 7,256	\$ 8,844	\$ 8,171	\$ 7,080	\$ 6,162	\$ 6,162	\$ 6,481	\$ 6,800	\$ 7,118	\$ 7,489	\$ 7,804	\$ 8,227	\$ 8,593	\$ 9,015	\$ 9,434
Ramp Inland Port Lift-off Charge (loads+miles)	\$ 35.00	\$ 2,170	\$ 3,332	\$ 4,808	\$ 6,405	\$ 13,206	\$ 19,042	\$ 25,168	\$ 26,161	\$ 27,172	\$ 28,203	\$ 29,258	\$ 30,338	\$ 31,444	\$ 32,576	\$ 33,735	\$ 34,921	\$ 36,134	\$ 37,375	\$ 38,644
Train from West Park to Oakland (112 of row 22)	\$ 6,463	\$ 7,112	\$ 7,938	\$ 8,861	\$ 23,132	\$ 31,645	\$ 40,319	\$ 49,274	\$ 41,440	\$ 42,016	\$ 43,116	\$ 44,246	\$ 45,401	\$ 46,586	\$ 47,797	\$ 49,033	\$ 50,294	\$ 51,580	\$ 52,891	\$ 54,227
Ramp access fee by YPRR to ACTS	\$ 25	\$ 1,550	\$ 2,380	\$ 3,435	\$ 4,575	\$ 9,433	\$ 13,602	\$ 17,977	\$ 18,686	\$ 19,409	\$ 20,145	\$ 21,000	\$ 21,874	\$ 22,766	\$ 23,685	\$ 24,630	\$ 25,601	\$ 26,600	\$ 27,627	\$ 28,682
Dray OAK Intermodal Term Lift-off Charge (loads+miles)	\$ 35	\$ 2,170	\$ 3,332	\$ 4,808	\$ 6,405	\$ 13,206	\$ 19,042	\$ 25,168	\$ 26,161	\$ 27,172	\$ 28,203	\$ 29,258	\$ 30,338	\$ 31,444	\$ 32,576	\$ 33,735	\$ 34,921	\$ 36,134	\$ 37,375	\$ 38,644
Intermodal Term to Ocean Term (loads) (*)	\$ 65	\$ 6,940	\$ 9,786	\$ 14,047	\$ 19,042	\$ 38,464	\$ 53,802	\$ 70,222	\$ 68,311	\$ 70,222	\$ 72,066	\$ 73,944	\$ 75,854	\$ 77,797	\$ 79,772	\$ 81,781	\$ 83,814	\$ 85,880	\$ 87,978	\$ 90,108
Intermodal Term to Ocean Term (empties) (*)	\$ 65	\$ 1,643	\$ 2,258	\$ 3,407	\$ 4,609	\$ 17,183	\$ 27,532	\$ 38,006	\$ 41,736	\$ 45,145	\$ 48,212	\$ 51,024	\$ 53,681	\$ 56,196	\$ 58,668	\$ 61,098	\$ 63,486	\$ 65,833	\$ 68,140	\$ 70,407
(*) Assumes 50% will be part of round-trip																				
<b>Total cost to move containers to/from West Park by rail</b>	\$ 36,893	\$ 54,685	\$ 74,722	\$ 96,943	\$ 198,947	\$ 279,804	\$ 362,962	\$ 373,025	\$ 382,782	\$ 392,506	\$ 450,420	\$ 463,984	\$ 477,663	\$ 491,556	\$ 505,822	\$ 519,689	\$ 529,987	\$ 539,086	\$ 548,185	\$ 557,284
<b>Cost per Loaded Container (to be charged to Importer/Exporter)</b>	\$ 499	\$ 382	\$ 348	\$ 323	\$ 428	\$ 458	\$ 487	\$ 508	\$ 532	\$ 561	\$ 582	\$ 599	\$ 616	\$ 633	\$ 650	\$ 667	\$ 684	\$ 701	\$ 718	\$ 735
<b>Local Dray Costs (incurred by Importer/Exporter)</b>																				
Unit Cost	1.26	1.29	1.31	1.34	1.37	1.39	1.42	1.45	1.47	1.50	1.53	1.55	1.58	1.61	1.63	1.66	1.69	1.71	1.74	1.77
Dray Intra-West Park Truck Cost	\$ 75	\$ 75	\$ 1,737	\$ 5,925	\$ 10,404	\$ 25,770	\$ 39,055	\$ 53,057	\$ 55,095	\$ 56,935	\$ 59,055	\$ 61,369	\$ 63,870	\$ 66,461	\$ 69,134	\$ 71,891	\$ 74,733	\$ 77,661	\$ 80,675	\$ 83,776
Dray Truck Cost West Park from Stockton	\$ 200	\$ 2,528	\$ 2,701	\$ 2,893	\$ 3,097	\$ 3,322	\$ 3,555	\$ 3,804	\$ 4,070	\$ 4,353	\$ 4,654	\$ 4,971	\$ 5,315	\$ 5,677	\$ 6,058	\$ 6,458	\$ 6,877	\$ 7,314	\$ 7,769	\$ 8,243
Dray Truck Cost West Park from Modesto	\$ 135	\$ 2,560	\$ 2,735	\$ 2,926	\$ 3,136	\$ 3,364	\$ 3,599	\$ 3,852	\$ 4,121	\$ 4,407	\$ 4,712	\$ 5,038	\$ 5,381	\$ 5,748	\$ 6,137	\$ 6,549	\$ 6,984	\$ 7,441	\$ 7,920	\$ 8,421
Dray Truck Cost West Park from Merced	\$ 180	\$ 2,048	\$ 2,188	\$ 2,341	\$ 2,509	\$ 2,692	\$ 2,879	\$ 3,081	\$ 3,297	\$ 3,526	\$ 3,770	\$ 4,029	\$ 4,305	\$ 4,598	\$ 4,910	\$ 5,242	\$ 5,594	\$ 5,969	\$ 6,367	\$ 6,790
Dray Truck Cost West Park from Fresno	\$ 315	\$ 2,389	\$ 2,553	\$ 2,731	\$ 2,927	\$ 3,140	\$ 3,359	\$ 3,593	\$ 3,842	\$ 4,107	\$ 4,388	\$ 4,685	\$ 5,000	\$ 5,333	\$ 5,685	\$ 6,057	\$ 6,450	\$ 6,874	\$ 7,328	\$ 7,813
<b>Export Containers</b>																				
Dray Intra-West Park Truck Cost	\$ 75	\$ 75	\$ -	\$ -	\$ 565	\$ 715	\$ 1,778	\$ 1,765	\$ 2,447	\$ 2,558	\$ 2,845	\$ 3,004	\$ 3,116	\$ 3,272	\$ 3,426	\$ 3,578	\$ 3,776	\$ 3,915	\$ 4,106	\$ 4,293
Dray Truck Cost West Park from Stockton	\$ 200	\$ 826	\$ 1,304	\$ 1,829	\$ 2,407	\$ 3,042	\$ 3,727	\$ 4,316	\$ 4,909	\$ 5,148	\$ 5,397	\$ 5,657	\$ 5,929	\$ 6,209	\$ 6,502	\$ 6,807	\$ 7,125	\$ 7,456	\$ 7,799	\$ 8,157
Dray Truck Cost West Park from Modesto	\$ 135	\$ 743	\$ 1,268	\$ 1,833	\$ 2,033	\$ 2,573	\$ 3,200	\$ 4,767	\$ 4,604	\$ 5,120	\$ 5,408	\$ 5,699	\$ 5,980	\$ 6,264	\$ 6,551	\$ 6,841	\$ 7,134	\$ 7,430	\$ 7,729	\$ 8,031
Dray Truck Cost West Park from Merced	\$ 180	\$ 1,485	\$ 2,536	\$ 3,655	\$ 4,065	\$ 5,146	\$ 4,286	\$ 4,237	\$ 5,915	\$ 4,092	\$ 4,814	\$ 5,606	\$ 3,740	\$ 3,927	\$ 4,112	\$ 4,293	\$ 4,531	\$ 4,706	\$ 4,938	\$ 5,167
Dray Truck Cost West Park from Fresno	\$ 315	\$ 1,757	\$ 2,907	\$ 4,120	\$ 5,399	\$ 6,744	\$ 8,154	\$ 9,628	\$ 11,166	\$ 12,770	\$ 14,441	\$ 16,179	\$ 17,984	\$ 19,856	\$ 21,795	\$ 23,800	\$ 25,871	\$ 27,999	\$ 30,184	\$ 32,426
<b>Total cost of "local" dray trips per loaded container</b>	\$ 277	\$ 206	\$ 191	\$ 180	\$ 157	\$ 148	\$ 142	\$ 138	\$ 135	\$ 128	\$ 129	\$ 131	\$ 134	\$ 136	\$ 139	\$ 142	\$ 145	\$ 148	\$ 151	\$ 154
<b>Average cost of local dray trips per loaded container</b>	\$ 277	\$ 206	\$ 191	\$ 180	\$ 157	\$ 148	\$ 142	\$ 138	\$ 135	\$ 128	\$ 129	\$ 131	\$ 134	\$ 136	\$ 139	\$ 142	\$ 145	\$ 148	\$ 151	\$ 154
<b>Total Daily Cost For Importer/Exporter to Use Rail and "Local" Truck</b>	\$ 57,379	\$ 84,138	\$ 115,821	\$ 150,942	\$ 271,804	\$ 369,957	\$ 469,152	\$ 474,774	\$ 479,560	\$ 482,320	\$ 549,964	\$ 567,372	\$ 584,887	\$ 602,828	\$ 621,222	\$ 639,555	\$ 657,928	\$ 676,347	\$ 694,812	\$ 713,324
<b>Average Cost per Loaded Container to Importer/Exporter</b>	\$ 775	\$ 588	\$ 539	\$ 503	\$ 585	\$ 606	\$ 629	\$ 646	\$ 667	\$ 689	\$ 710	\$ 720	\$ 729	\$ 739	\$ 748	\$ 758	\$ 767	\$ 777	\$ 786	\$ 795
<b>Total Daily Cost For Importer/Exporter to Use Truck Exclusively</b>																				
<b>Cost Increase Due to Road Congestion Productivity Loss</b>																				
Unit Cost	3.0%																			
Truck Cost from POO to West Park	\$ 300	\$ -	\$ 8,053	\$ 26,243	\$ 51,182	\$ 130,579	\$ 203,833	\$ 285,219	\$ 305,058	\$ 324,705	\$ 346,883	\$ 411,970	\$ 437,044	\$ 463,333	\$ 490,879	\$ 519,724	\$ 541,171	\$ 563,186	\$ 585,760	\$ 608,880
Truck Cost from POO to Stockton	\$ 300	\$ 4,998	\$ 4,998	\$ 6,776	\$ 5,714	\$ 6,314	\$ 6,957	\$ 7,659	\$ 8,451	\$ 9,309	\$ 10,232	\$ 11,226	\$ 12,280	\$ 13,404	\$ 14,598	\$ 15,862	\$ 17,196	\$ 18,600	\$ 19,984	\$ 21,448
Truck Cost from POO to Modesto	\$ 400	\$ 8,537	\$ 9,395	\$ 10,361	\$ 11,428	\$ 12,629	\$ 13,914	\$ 15,308	\$ 16,802	\$ 18,419	\$ 20,152	\$ 22,001	\$ 24,066	\$ 26,358	\$ 28,887	\$ 31,652	\$ 34,663	\$ 37,920	\$ 41,431	\$ 45,196
Truck Cost from POO to Merced	\$ 515	\$ 5,12																		

## V. Global Insight to West Park: Memo – February 7, 2008

## **Cost Model Evaluation**

This evaluation seeks to address three key issues in the original Cost Model; the first is how the model holds up once inflation adjustments to costs and revenues have been made. The second issue is whether the cost of using truck vs. intermodal rail has been appropriately estimated in the model. Lastly this evaluation will explore whether market penetration factors used in the Cost Model are realistic.

### **I. Inflation Adjustments**

There are three factors that were used to adjust the cost model for inflation namely the rail inflation adjustment factor, the truck inflation adjustment factor and the Producer Price Index (PPI). The rail inflation adjustment factor and the truck inflation adjustment are derived from Global Insights inflation model in which due to expected increases in driver wages, fuel costs and insurance costs the rate of inflation for trucks will be higher than that of rail.

The application of inflation adjustment factors to the cost model increased both the truck and rail operating costs than was previously projected in the original cost model. Conversely, the projected revenues also increased, though the facility is expected to yield negative income flows in the first three years of operation. The annual subsidy requirement in the years when costs are expected to be higher than revenues becomes higher once the inflation adjustments have been made.

### **II. Cost of Using Truck vs. Intermodal Rail**

In the cost model it is assumed, or derived however the calculation is not clear, that shippers would be willing to pay 90 percent of the total truck cost to dray containers to/from Port of Oakland by rail. This increases to 95 percent in 2016 and 100 percent in 2021 as the West Park Inland Port becomes more prominent.

This assumption is rather unfounded because it ignores certain fundamentals of shippers needs. To begin with shippers generally consider short haul intermodal rail to be inferior to truck primarily because short haul truck services offer a certain amount of flexibility and frequency of services that intermodal rail simply cannot offer. Short haul truck services are available virtually anytime to any place according to the shippers needs. Rail services continue to be limited, with fewer trains operating at fixed schedules.

Historically rail intermodal prices across all levels of service have been at an average of 85 percent of truckload costs. Even when one takes into account the increasing cost of fuel, Global Insight projects that this trend is not likely to change. As such in the Proforma Adjusted Cost Model (see excel worksheet), Global Insight maintains that shippers would be willing to pay 85 percent of the total truck cost to dray containers to/from Port of Oakland by rail.

### **III. Market Penetration Factors**

In the original cost model the West Park Inland Port is projected to garner a 50 percent market share. Global Insight asserts that a market share of 50 percent would be very difficult to achieve, certainly not in the early years of operation. Based on market trends it is highly likely that a facility is able to build densities quickly for trainload volumes. Those facilities that are able to build densities quickly often run into the problem of major delays, which in turn decreases the facilities' market share.

To further illustrate the point that a 50 percent market share is too high; using the Transearch database Global Insight explored the market share of intermodal rail as a percent of total tons (intermodal rail plus truck tons) being drayed from one Business Economic Area to another across the United States at a distance of 100 miles or less.

The best performer in this assessment was Savannah GA to Augusta GA, in this route intermodal rail has a market share of 15.6 percent of the total tons. Even if the Transearch model was off by 100 percent the intermodal market share of 31.2 percent is far from 50 percent. While this assessment may not be the perfect comparison for the West Park Inland Port, it does illustrate the low market share of intermodal rail.

While the 50 percent market share of intermodal rail used in the model is rather unreasonable, Global Insight was able to verify that the underlying import and export container volumes reported in the cost model are within a very reasonable range.

The cost model projects that approximately 1 percent of the total traffic to/from the Port of Oakland could be diverted to West Park Inland Port. The model projects that the West Park facility would handle 45,540 TEUs in 2011; even by 2007 standards this represents less than 3 percent of total traffic to/from the Port of Oakland (See Oakland volumes).

#### **Diversion Factors Adjustment**

Global Insight made adjustments to the fraction of goods that would be diverted to short haul rail in the West Park Inland Port cost model. Adjustments were made to the fraction of perishable, non-perishable and other goods that that would be diverted to short rail.

##### **Perishable Goods**

In the original cost model the fraction of perishable goods that would be diverted to rail was projected to increase from 5 percent in 2011 to 25 percent by the facility's fifth year in operation and then peaking at 30 percent throughout the rest of the forecast period. Using Global Insight's proprietary database Transearch we determined that it would be very difficult to divert 30 percent of perishable goods moving through the region to short haul rail. Perishable goods require a more frequent delivery schedule than most rail operators can offer. As a result we maintained the same year-on-year growth rate (which may be based on factors Global Insight has not been able to review) however we peaked the fraction of perishable goods that would be diverted to rail at 15 percent.

In the revised model the fraction of perishable goods that would be diverted to rail is now projected to increase from 2.5 percent in 2011 to 12.5 percent by the facility's fifth year in operation and then peaking at 15 percent throughout the rest of the forecast period. The new factors reflect the low market share of perishable goods that are transported by rail intermodal in short-haul lanes.

### Non-Perishable Goods

Non-perishable goods make up a large share of the goods that are transported by rail due to the fact that they are less time sensitive than perishable goods. In the original cost model the fraction of non-perishable goods that would be diverted to rail was projected to increase from 10 percent in 2011 to 30 percent by the facility's fifth year in operation and then peaking at 40 percent throughout the rest of the forecast period. Such breakneck growth would be difficult to achieve, furthermore if a new facility did achieve such impressive growth in so short a period of time it is likely to experience residual delays and possibly congestion.

Using the Transearch database Global Insight was able to determine that even in the best performing rail intermodal facilities the highest fraction of non-perishable goods that could be diverted to rail is 30 percent.

In the revised model the fraction of non-perishable goods that would be diverted to rail is now projected to increase from 7.5 percent in 2011 to 22.5 percent by the facility's fifth year in operation and then peaking at 30 percent throughout the rest of the forecast period.

While the time sensitivity is lower for non perishable goods, for short haul moves shippers still prefer the speed and flexibility offered by trucks. This is why we believe it would be very difficult to divert the projected 40 percent of non-perishable goods at the West park facility to rail.

### Other Goods

While Global Insight is not privy to the specific type of goods that are classified as 'other' goods, these goods have similar limitations as the non-perishable goods. In the original cost model the fraction of 'other' goods that would be diverted to rail was projected to increase from 15 percent in 2011 to 35 percent by the facility's fifth year in operation and then peaking at 50 percent throughout the rest of the forecast period.

In the revised model the fraction of 'other' goods that would be diverted to rail is now projected to increase from 9 percent in 2011 to 21 percent by the facility's fifth year in operation and then peaking at 30 percent throughout the rest of the forecast period.

### Seasonal Peak

The model currently records an additional diversion percentage for shipments occurring during a "seasonal peak". It was assumed that this referred to the produce harvest season or the pre-Christmas retail rush: it is not certain which of these or both are represented by this feature.

The additional diversion percentage indicated in the model for this "seasonal peak" reflects a 20% boost in volumes; however, these additional units do not appear to be factored into the cost evaluation model as added volume. The issue of "seasonal peak" is legitimate in this analysis as the higher volumes of freight during these periods often provoke truck shortages, and hence modal shifts.

The result of that however, might not represent an increased opportunity for market capture, but rather a reduction, as the quick-turn of equipment increases carrier revenue performance. Thus shippers may opt for truck delivery during periods of equipment shortage to improve material handling rather than once-daily short haul rail.

With insufficient information on the incorporation of the "seasonal peak" in the modeling effort, we did not adjust the market penetration factors. It is presumed that other factors may have influenced the modeler's estimates, or that the influence of "seasonal peak" volume impacts was perceived to be negligible.

### Conclusion

With these factor adjustments together with the inflation adjustments made in the previous version of the cost model it is clear that the annual subsidy requirement is now noticeably higher than in the original West Park cost model. The factor adjustments were made based on market intelligence and trends, and applied based on generally accepted modeling and forecasting principles. If any additional evidence can be provided in support of the original diversion factors reported in the cost model, Global Insight would be more than willing to reconsider appropriate revisions to the conclusions contained in this analysis.

## VI. West Park to Global Insight: Memo – February 27, 2008

# **West Park Inland Port/Short-Haul Rail Master Plan Response to Global Insight Review**

## **Introduction**

In August of 2007, PCCP West Park (West Park) submitted an Inland Port/Short-haul Rail Master Plan to the County of Stanislaus. Subsequently, in fall of 2007, the County engaged the firm of Global Insight to provide an objective review of the West Park Inland Port/Short-haul Rail Master Plan. On November 2, 2007, Global Insight submitted a review of the Master Plan and associated studies to the County Administrator, titled “West Park Inland Port Short-Haul Rail Analysis.” Copies of the original Inland Short-Haul Master Plan, associated studies and the Global Insights Analysis are attached to this document for reference.

On November 26, 2007, the County Deputy Executive-Economic Development, provided West Park with an Issue Memo#4 that provided the Global Insight Analysis of the Master Plan and provided the County’s comments and questions regarding the Master Plan.

West Park very much appreciates the professional approach and qualifications of the Global Insight team and regards their work, on behalf of the County, as a positive contribution to this Master Plan going forward.

This report is intended as an addendum or refinement to that earlier Master Plan, based on observations, suggestions and questions raised in the Global Insight review.

West Park is submitting this addendum to the original Master Plan to address specific issues and questions raised by the Global Insight review. As an introduction to these responses, it is appropriate to briefly review some of the underlying reasoning as to why the Inland Port Short-haul Rail development is considered feasible and to provide a clear, relevant context for the information that follows.

The positive impacts of this Regional Distribution Center concept are developed in detail in the Stanislaus County nomination for Trade Corridor Infrastructure Funding application that was prepared by the County and West Park and submitted to the California Transportation Commission on February 17, 2008 for consideration. A copy of the Nomination is attached for reference.

In this Trade Corridor nomination, these impacts are described in some detail in the “Purpose and Need for the Project” section on pages 2-3, in the “Economics/Job Growth” section on pages 5-6, in the “Transportation and Air Quality Analysis Discussion” in

pages 6-8, in the “Transportation Evaluation Criteria” in pages 8-10, and finally in the “Community Impact Factors” section on page 10.

In addition to these job generation, regional and local economic benefits and the significant air quality and congestion mitigation that are described in the Nomination, West Park LLC and its financial partners have identified numerous other factors that contribute the overall feasibility of this new regional distribution and logistical center. Among these are:

- Currently operational, well maintained rail lines with existing capacity between the Port of Oakland and a point directly adjacent to the inland port site in Stanislaus County;
- The Cows Landing site is located on I-5 and State Route 33, and is strategically placed to serve both international and domestic goods movement routes;
- The site is in proximity to a major and growing population of 7 million people and forecast to grow to 12 million people within 20 years;
- The site is within the Federal Foreign Trade Zone Designation providing important excise tax advantages and also within the State of California Enterprise Zone Designation providing further tax advantages;
- Abundant and affordable labor pool with affordable housing in the area;
- Low electrical and utility costs;
- General Aviation and airport facilities adjacent to the site;
- Large land parcels zoned for industrial and commercial use with little future residential encroachment; and
- Low permit and impact fees compared to competing sites in Northern California and Nevada.

Global Insight Comment: Global Insight suggested the preliminary market surveys conducted by The Tioga Group could be augmented with selected focus groups, mail surveys, and research data to give greater insight in available market size etc.

Attached for your review is a shipper survey completed last summer for West Park by The Tioga Group. This survey contacted a large number of the most significant export shippers now shipping from locations between Stockton and Fresno through the Port of Oakland.

As previously found, these shippers were almost unanimously interested in a rail alternative located at Crows Landing that would be comparable to truck pricing and that

would provide reliable, on-time service. The survey results showed very few shippers who required overnight delivery. Most shippers and receivers of goods surveyed were interested in overall reliability and stability in pricing. They were almost unanimous in believing that current levels of truck and container availability, lack of on-time schedule reliability, recent fuel and driver cost increases, and air quality regulations now pending at the California Air Resources Board for trucking will be major problems in the future in terms of meeting their shipping needs.

As this new service is still in the planning stages additional marketing studies, focus groups or other such market identification work has limited value at this time. As more detail becomes developed as to freight train schedules, pricing and other overall services that will be offered to shippers, further studies of the market will be undertaken.

Global Insight Comment: Cost analysis “appeared reasonable, although some—such as the projected UP trackage rights costs and the exclusion of “stem time” costs are based on very significant assumptions that if unrealized could impact conclusions...”

As Global Insights has pointed out, the approach that was taken in setting up the cost analysis model was reasonable in its approach. It is agreed that projected “trackage rights” “cost of rail are very significant assumptions. The costs associated with train operations used in the model are the estimated cost of operating a train between Oakland and Crows Landing. These train operating estimates are all-inclusive and reflect both the operating variable expenses such as labor and fuel as well as fixed costs for use of the track, maintenance and railroad overhead and administration. This approach provides the best estimation of the operating costs for individual trains and as complete a financial picture as possible. In the most desirable scenario, the track will be in “public ownership” and the actual services will be provided by shortline operator rather than a Class I railroad such as Union Pacific. Under that scenario cost should be more favorable than what has been estimated.

“Stem Time”, which is defined differently in different markets, but is defined in the Tioga Study and cost analysis as the time and distance from the point a truck is domiciled to and from the origin or destination of pickup or delivery. For the Inland Port Short-haul Rail operations this is not expected to a significant issue, particularly once the system is up and running. Truckers that are domiciled in the Valley will incur some stem time going to and from Crows Landing, but this will be offset by greatly reducing additional miles that are incurred by driving to the Port of Oakland throughout the day and avoiding the Altamont Corridor and I-880. The drayage in Oakland will be performed by local truckers domiciled near the Port, eliminating stem time.

Global Insight Comment: None of the operating costs in the model are inflated...and would have the effect of increasing the spread between short-haul rail and truck.”

West Park did not include either inflation factors or contingency in the Trade Corridor nomination, because they have agreed to pay for all costs in excess of the \$52 million for infrastructure and equipment required for Phase I of the project. However, it is agreed

that inflation factors for operations are appropriate and will be applied in future models and analysis.

Global Insight Comment: “The limited application of the congestion inflator (in the operating subsidy forecast model) would appear to favor the West Park plan inappropriately.”

There is no argument from transportation planners, the trucking industry and shippers that traffic congestion from the Central Valley over I-580 impacts the cost and reliability of trucking exports to the Port of Oakland over this route. In order to consider the impact of this congestion on trucking diversion to a new rail service over the same route, a congestion inflator factor of 2.5% per year was used.

For trucks, this factor is based on increases in congestion levels from 1996 to 2006 of about 3.95% per year over I-580 (Altamont Pass) as documented by the California Department of Transportation (Caltrans). The future 20 year truck traffic projections recently completed by Caltrans and the Alameda County Congestion Management Agency for the I-580 Corridor was also used in the analysis, which projects a 3.75% increased in congestion per year.

The 2.5% congestion inflator we used in the subsidy model is therefore conservative in relation to both historical and projected data. West Park believes extreme congestion is as a critical factor that must be recognized when considering truck competition in the corridor. It is felt that, given the large number of traffic “incidents” experienced by truckers daily in the I-580 corridor and the steep grades that slow trucks as congestion increases in the same corridor, the 2.5% factor seems reasonable. In addition, there are no freeway widening, double decking or even new-truck-only climbing lanes funded for this state highway corridor in the foreseeable future, so congestion can only get worse over time. Further documentation, provided by the traffic firm, TKJM, is attached for reference.

Global Insight Comment: Depending on ship arrival and departure times...the once-per-day rail operation...could result in additional inventory carrying costs for shippers and receivers...”

Assessing logistics and inventory costs across a wide spectrum of shippers and receivers of goods is a complex process, as these internal costs are unique to each customer. While the potential for an additional day of delay in moving cargo between the San Joaquin Valley and the Port of Oakland may have some significance for some shippers, it may not be a factor for others. More importantly, the eventual primary market for short-haul rail services will be customers using Crows Landing as their logistics and distribution activities. Any potential incremental costs associated with inventory carrying costs associated with rail versus truck service will be far outweighed by the many economic and operational efficiencies and reliability inherent in using short-haul rail and of locating operations at the Crows Landing inland port.

Global Insight Comment: Further discussion and clarification of railroad operating issues and negotiations with the Union Pacific Railroad.

The rail route between the Port of Oakland and Crows Landing is owned by the Union Pacific Railroad. Most of the route is over their Oakland Subdivision. A major portion of the Oakland Subdivision, between Elmhurst (in East Oakland) and Niles Junction, is very seldom used. The portion between Niles Junction and Lyoth Junction, near Tracy, has moderate- to low-levels of freight traffic and is the main route for the Altamont Commuter Express Service. The connection between Lyoth Junction and Crows Landing has only one train in each direction per day. In the current configuration and with current levels of service, the overall corridor has more than enough capacity to handle the anticipated additional short-haul trains.

In the initial stages of the operation, the trains will move at night between Crows Landing and Oakland, outside of commuter train operational hours. It is also anticipated that there will be some limited Union Pacific train traffic on parts of the corridor. However, as additional trains are put into short-haul service, the trains will eventually begin to intrude on the ACE commuter windows. This will not, however, pose operational problems since the short-haul trains are relatively short in length, at 4,000 feet or under, and it is anticipated that the Oakland Subdivision trains will be under control of ACE. Currently, trains are controlled by Union Pacific dispatchers located in Omaha, Nebraska. Train movements on the Altamont Corridor have a low priority within the dispatching territory and, as a result, the trains are subject to delays. By providing local dispatching for both ACE and short-haul trains, capacity on the route is significantly increased. Additionally, as train activity on the Corridor increases, there are a number of physical improvements that can be made to increase the capacity and efficiency of operations. These potential improvements include construction of new passing sidings, adjusting curves to increase operating speeds, and new rail connections at Niles Junction. These improvements will not be necessary for some time, and planning and funding them will be part of future passenger and short-haul rail programs.

Loading and unloading track and storage track for trains at Oakland may become issues in the future. However, projects like the construction of the new Port of Oakland Outer Harbor Intermodal Terminal and expansion of the existing rail terminals will provide new terminal capacity. Significant improvements in terminal operating practices, including stacking of containers, computer-assisted loading and unloading cranes and more efficient gate operations will provide even more capacity in the future.

The negotiation of either trackage rights or outright purchase of the line for use as both a short-haul rail route and for expanded passenger services is a complicated process, and will depend on many inter-related developments. The San Joaquin Regional Rail Commission (SJRRRC), which operates the ACE service, has held preliminary discussions with Union Pacific Railroad to acquire major portions of the Oakland Subdivision for “public purposes.” The SJRRRC has submitted a TCIF nomination for funds to purchase the right-of-way for both passenger and short-haul rail operations. Stanislaus County, West Park and the SJRRRC have a signed a letter of intent to work together and mutually

support each other in negotiating and executing an agreement with the railroad to acquire the necessary right-of-way for the short-haul service.

Successful TCIF nominations by the State of California and the Port of Oakland for investments in the Martinez Subdivision between Oakland and Martinez, which is the main route for UP central corridor trans-continental traffic, as well as the main access for BNSF to the Port of Oakland will be necessary for UP to be able to consider giving up or extending rights for use of the Oakland Subdivision. As in any negotiation, the success in gaining the necessary track access will be a function of providing UP significant economic and operating incentives to reduce or relinquish an asset. Project proponents on both the passenger rail service and the short-haul rail side are confident that there are enough economic incentives available to engage UP in serious negotiations.

Actual future costs are dependent on so many unknown factors, including eventual ownership of assets, agreements between parties, and other economic circumstances that it is impossible to adequately predict or address them at this time. Until the State of California makes a bond allocation and the County agrees to go forward with the development project, it is premature to negotiate these details.

The operating subsidy cost model used train operating expenses that were provided by two railroad sources and verified by using Surface Transportation Board, the federal agency that regulates railroads, formulas that are used to determine reasonable cost for railroad operations. The per-train expenses are all-inclusive, with both operating and fixed costs including locomotives and rolling stock. The model is intended to provide an order-of-magnitude estimate of expenses.

The operating and business plan, which is included as an attachment to this addendum, accurately describes the operation of the train and other aspects of the service in terms of a project and service that is still in the planning stages and would commence operation no sooner than the last quarter of 2011. If the State of California agrees to a bond allocation, negotiations will begin immediately with UPRR and/or ACE on track operating issues. Until that time, it is premature to publish a schedule of operations or go much further with the next steps of detail regarding planned operation.

West Park is continuing serious discussions with major importer and agricultural export shippers interested in taking advantage of the benefits of the site location and rail access to the Port of Oakland. Obviously, in the final phases of this project, shipper needs, specifications and requirements will dictate much of the operational characteristics of the proposed services.

Global Insight Comment: No discussion of Port of Oakland commitment or cooperation of Drayage Operators.

West Park continues to have discussions with the Port of Oakland. The Port is currently the nominating agency for three major rail infrastructure projects in Oakland that are critical for the Port's future success. Therefore, all of their support and effort is focused

on those projects at this time. As previously discussed, successful funding of the Port's projects is also critical for shorthaul rail, as these projects will enable UP to move trains onto the Martinez Subdivision and create terminal capacity in Oakland. West Park will continue its discussions with the Port if the Inland Port Short-haul Rail funding is approved.

Currently, there is no lack of drayage operators in the Port of Oakland area. Most of these "trucking companies" lease the services of owner-operators with their own equipment. Rising trucking costs, the implementation of the Transportation Workers Identification Card by the TSA, stringent new air quality regulations and a demand for more sophisticated data interchange systems will reduce the number of drivers and equipment available in the future. The Inland Port and Short-haul operation will by definition require a dedicated fleet of trucks, meeting or exceeding all air quality standards and utilizing state-of-the-art EDI at start-up to meet the requirements of providing transportation services to its customers.

West Park has had a number of informal discussions with several reputable trucking firms as to the feasibility of providing this dedicated level of service. The response has been very favorable. The creation of a long-term, dedicated business relationship with an Inland Port and Short-haul Rail operator will provide a perfect opportunity to invest in new equipment and operating practices, which will eventually be required of all truckers in the industry.

#### Global Insight Comment: More Truck Diversion Analysis

West Park's transportation consultants have attempted to provide the best estimate or projection available regarding potential truck diversion to rail. Cambridge Systematics was responsible for refining their two-year, eight-county, Central Valley truck traffic model to provide a diversion analysis that was then used to model net air quality impacts. Much of the fundamental basis for the truck diversion came from the subsidy model already available to Global Insight and discussed on a recent conference call in detail.

The summary discussion of truck diversion is located on pages 6-9 of the Trade Corridor bond application. West Park is most interested in further discussions with Global Insight as to truck traffic modeling or truck-diversion-to-rail analyses accomplished in other travel markets, especially if those projections have the advantage of actual diversion experience, accomplished after the initial projections, to calibrate the models for future use. The problem that is encountered in most modeling is that it only deals with pricing and not numerous other variables that are very important to the shipper community, such as price stability, service reliability, services tailored to shipper needs, and service flexibility.

Global Insights Comments: Refine market analysis for Seasonal Exports and questions premise that "Valley Exports go through the Port of Oakland."

Again, we see no need at this very nascent stage in the development of this new service to refine our marketing studies to account for legitimate seasonal variations in export agricultural shipping needs from the Central Valley. This will be dealt with as we “market” to individual shippers in the next phase of work on the project. A more correct statement concerning “Valley Exports” would be that the vast majority of Valley exports go through the Port of Oakland, but some export value-added products also go south through Southern California ports, as well as the Port of Sacramento and Port of Stockton.

Global Insights Comment: No Discussion of Empty Containers.

The handling of empty containers is one of the most frustrating problems in the freight transportation business. The number of miles that are incurred and the cost of re-positioning empty containers have a major negative impact on both the environment and on goods movement. There are many institutional barriers to improving the situation, which Global Insight is well aware of.

However, the main purpose of the inland port is to locate both major importers and exporters at the site that will offer a solution to the container availability problem. A ready supply of empty import containers that can be matched-up on site and made available to exporters, who are also on site, will eliminate the need to dray containers back to the Port or to other sites in the Valley. In initial stages of the development, as facilities are developed, empties can be repositioned by train service in both directions, and could be made available to shippers in the Valley from Crows Landing, significantly reducing truck miles for repositioning empty containers. The reuse of one of the paved runways for container storage gives the project a huge immediate resource versus other location in the Central Valley.

In summary, West Park appreciates the review and comments of Global Insight. We hope that this addendum addresses the County’s questions and concerns raised by the Global Insights review. West Park has attempted to use the most accepted, practical and factual analysis of the Inland Port Short-haul Rail economics and operations. We welcome all input into our analysis that will result in better understanding of the project, and we look forward to continuing these discussions with the County and refining our analysis as we move forward.