

AGENDA REPORT

FOR AGENDA OF: May 22, 2008

PLACE ON AGENDA: New Business

TITLE OF ITEM: Consideration of approval to negotiate an agreement with Goldman, Sachs & Co. to provide financial advisory services related to the possible concession, long-term lease or other arrangement involving all or a portion of the Redwood Marine Terminal and associated properties.

SUMMARY OF ISSUE: As a result of the work by the District's Director of Maritime Commerce to heighten the awareness of the Port of Humboldt Bay in Sacramento and through the Redwood Marine Terminal Feasibility Study process, interest in the Port of Humboldt Bay has grown. As is well known through the documents generated by TranSystems thus far, a marine terminal project in Humboldt Bay will require the investment of millions of dollars and will likely be operated by a group leasing the property from the District. To that end, it has been suggested that a large international financial advisory firm that specializes in finding groups to invest and/or operate large infrastructure projects should be retained to assist in developing terminal financing. Due to this increased interest in Humboldt Bay, the District has received an unsolicited proposal from Goldman, Sachs & Co. to act in that capacity for developing infrastructure financing for the Redwood Marine Terminal.

As you will see from the attached letter, Goldman, Sachs & Co. is well qualified to develop infrastructure funding for the Redwood Marine Terminal based upon the outcome of the TranSystems reports. Goldman, Sachs and Co. is a world leader in providing these services to governmental agencies worldwide. Interestingly, Goldman, Sachs & Co. was specifically referenced in the District's 2003 Harbor Revitalization Plan " *to ensure they are aware of Humboldt's target markets and advantages, and encouraging referrals of bona fide marine dependent industrial opportunities.*"

A cursory review by Goldman, Sachs & Co. indicates Redwood Marine Terminal development could be modeled on the Prince Rupert, British Columbia program concept. Goldman, Sachs and Co. performed a similar function in the development of Prince Rupert Fairview terminal.

Two representatives of Goldman Sachs Co. will make a brief presentation on their proposal (outlined in the attached letter) and answer any questions.

FISCAL IMPACT: No fiscal impact for negotiating an agreement

STAFF RECOMMENDATION: Staff recommends the Board of Commissioners authorize the Chief Executive Officer, District Counsel, District Treasurer and Director of Maritime Commerce to negotiate an agreement with Goldman, Sachs & Co. to provide financial advisory services related to the possible concession, long-term lease or other arrangement involving all or a portion of the Redwood Marine Terminal and associated properties.

Jeffrey Holt
Vice President
Public Sector and Infrastructure Banking



May 9, 2008

David Hull
Chief Executive Officer
Humboldt Bay Harbor Recreation & Conservation District
601 Startare Drive
P.O. Box 1030
Eureka, CA 95502

Dear David:

As you are probably aware, the valuations of US infrastructure assets have dramatically increased over the past three years. The work that the District has done on its basic dredging and infrastructure has been fortuitous as interest in port terminal facilities has never been greater. Several North American ports have been auctioning concessions or are in the process of preparing concessions on terminal facilities focusing on containers, freight and logistics warehousing for distribution centers. On the west coast many ports are participating in this new market for infrastructure concessions:

- The Port of Prince Rupert recently concessioned its greenfield container terminal to the Maher Terminal company. Maher Terminals was subsequently sold to RREEF, an infrastructure fund owned by Deutsche Bank.
- The Port of Portland is in the process of concessioning its T-6 container terminal and has announced that 10 bidders have responded to the Request for Qualifications of interested parties.
- The Port of Oakland has announced that it will concession Berth 20-24 in the next few months.

The concessions for all three of these facilities will likely require several hundred millions of dollars in mandatory investment as part of their full "build-outs" and are parallels to the needs of the District with respect to the Redwood terminal and the North Coast Rail line.

Over \$60 billion in investment equity capital has been gathering under the auspices of several US and international infrastructure funds. These funds are primarily comprised of investment capital from pension funds from around the world, with several of the funds capitalized to a significant degree by pension plans for teachers and government employees. Pension funds are focused on the long-term nature of infrastructure assets and of matching the longevity of these assets to their longer investment targets. The introduction of the pension money into the infrastructure space has dramatically increased the attractiveness of existing assets and has

increased the interest in these funds participating in the development and redevelopment of public infrastructure.

The port and rail assets of the District and the Railroad Authority make an attractive third California freight gateway. As the Ports of Los Angeles, Long Beach and Oakland fill their capacity with intermodal cargos destined for the mid and eastern parts of the US, there is a strong need for additional freight handling capacity for goods coming from the Pacific Rim. While British Columbia and Mexico can add some capacity, there is a genuine need for adding capacity in California. The Port of Oakland is fast filling with intermodal containers, and additional gateway capacity is needed for the export of produce and commodities from the Central Valley. Humboldt is a natural gateway for such exports, as well as an attractive additional source for container capacity. Making the improvements to the port and rail assets will potentially bring thousands of jobs to the region, including jobs in warehousing, distribution centers and light manufacturing.

With no ability to fund these improvements through District funds, the new source of private equity infrastructure funds is the best possible source to fund those improvements going forward. Since the Railroad is now controlled and operated entirely by NWP Inc. ("NWP") under a long-term contract with the North Coast Railroad Authority, the District would need to make arrangements with NWP to jointly offer a long-term concession on the combined Port/Rail assets. Such a concession would require that the minimum improvements be made to bring the Port and Rail facilities in full service within three to four years, according to the District's timetable for construction.

In order to accomplish this joint concession, the District will need to engage a Wall Street firm with expertise in the infrastructure funds, the asset auction process and the maritime and freight rail sectors. This firm would act as the sell-side advisor to the District for the concession and would be compensated only if and when the concession is successful.

Goldman, Sachs & Co. ("Goldman Sachs") is the only firm with sufficient expertise in each of these areas. We have studied the two assets and are confident that there will be significant interest from potential concessionaires to invest the required capital and to more fully develop a third California freight and rail gateway into the Central Valley and beyond.


Therefore, Goldman Sachs would like to propose an exclusive engagement whereby the Humboldt Bay Harbor Recreation & Conservation District (the "District") engages Goldman Sachs as their exclusive financial advisor in connection with the possible concession, long-term lease or other arrangement involving of all or a portion of the District's Redwood Marine Terminal and certain other properties ("Terminal Facilities") currently owned by the District together with the 316 mile connecting rail line, yards and facilities ("the Railroad") owned by the North Coast Railroad Authority ("NCRA") and operated under a long-term arrangement by NWP, and the District's consideration of financing and refinancing alternatives in connection therewith. In conjunction with this potential transaction, we anticipate that the District will form an arrangement with the NCRA and NWP whereby the District may offer a long-term operating concession on the combined assets and facilities of the Terminal Facilities and the Railroad (a "Transaction").

Our scope of services would include financial advice and assistance in connection with this potential Transaction, which may include performing financial analyses, searching for a concessionaire acceptable to the District, conducting a formal auction, coordinating due-diligence visits of potential concessionaires and assisting you in negotiating the financial aspects of the Transaction.

The fees for our engagement will depend on the outcome of the assignment. A transaction fee will be paid to us in cash upon consummation of each Transaction. We would propose that if this arrangement is acceptable to you, the fees, indemnification provisions and other terms of the engagement would be negotiated pursuant to a separate agreement.

Very truly yours,

GOLDMAN, SACHS & CO.

A handwritten signature in black ink, appearing to be "M. J. Holl", is written over a horizontal line. The signature is stylized and cursive.