

Patrick Higgins
Humboldt Bay Harbor, Recreation and Conservation District
5th District Commissioner
4649 Aster Road
McKinleyville, CA 95519
707 839-4987
phiggins@humboldt1.com

Dennis Hunter, Commission Chair
Humboldt Bay Harbor District
601 Startare Drive, Woodley Island
Eureka, CA 95501

February 28, 2008

Re: Final Redwood Marine Terminal Feasibility Study

Dear Dennis,

I am disappointed, but not surprised that the final release of the *Redwood Marine Terminal Feasibility Study* by TranSystems did not change substantively in its conclusions and recommendations. Although there are some additional quantitative data in the revised report, my specific request for cash flow projections and fiscal analysis of Option A components was not met. There is no indication that there is a viable business enterprise in the aggregate of small-scale, short term shipping options that make up Option A. Similarly, Option B relies on restored railroad service, which I consider unlikely, and does not build a case that the Port of Humboldt Bay can compete in the international shipping trade. Therefore, I can only conclude that both Option A and Option B are infeasible and recommend that we use the \$100,000 business plan money on other strategies for the Redwood Dock development.

I have attached Table 1, which lists all shipping business opportunities that make up Option A, with specific language within the *Feasibility Study* regarding prospects for each venture. The reason there is no projected cash flow from this aggregate of shipping opportunities is because none of the business ventures is viable. Without a projected cash flow, we cannot calculate payback on the estimated \$29 million to rebuild the Redwood Dock. No more specific fiscal information could be provided for Option A, should we proceed to the *Business Plan* phase, because there is no basis.

Everything really hinges on large scale shipping becoming economically viable, which relies on restoring rail service to Humboldt County and Humboldt Bay with success requiring “rail connectivity for the terminal and adequate rail corridor capacity (for example, tunnel clearances for double-stack rail cars).” The *Feasibility Study* cites the North Coast Railroad Authority *Strategic Plan* estimate of \$151 million and two years time from funding acquisition for restoring service, but admits \$250 million is needed for getting Class III freight status (40 mph). This is far less than the \$650 million by the Federal Emergency Management Agency (FEMA, 1998) estimate.

The *NCRA Capital Assessment Report* instead suggests "... 'living' with the landslides and earth movements using existing state of the art remediation techniques that have proven effective on other railroad properties in the western United States." The Eel River canyon has 125 large scale earthflows and rotational slumps and greater geologic challenges than any other piece of railroad bed currently in service in the U.S. It had a cost of maintenance three times higher than any other piece of track owned by Southern Pacific at the time they abandoned the line. Low-balling commits the NCRA to an unending, costly repair cycle and is not a sound business strategy. Shippers will not have sufficient confidence that goods could move in the winter. Opening the railroad at a Class I standard (10 miles/hour) also does not constitute a viable shipping enterprise. The only viable mechanism for the NCRA to make a profit is hauling aggregate, lots of it (see Figure 1 below).

There is also a "Catch-22" in the NCRA qualification that it will only move on opening the railroad to Eureka once a stream of revenue is insured. This *Feasibility Study* projects a timeline of 2015 for container freight availability, when the Redwood Dock is in service and the Port of Humboldt Bay is getting business because other West Coast ports are overwhelmed. This contradicts the findings of the previous *Revitalization Plan* by PB Marine, which states categorically that Humboldt Bay cannot be competitive in the international shipping trade, *even if the railroad between Eureka and the Bay Area was working*. The auto and container trades are the only shipping categories showing increase (see Figure 2 below) and the Port of Humboldt Bay is not competitive in these sectors. (See excerpts in Appendix). I find it unlikely that the 10 years of marketing and provision of infrastructure recommended by the *Feasibility Study* will lead to any measure of success.

I think that a museum complex with a mix of light industry is a more appropriate use of the Redwood Dock and would be more compatible with the development proposed for the adjacent town of Samoa. I propose that we change the focus of our business plan to a more diverse array of economic development options for the site other than large scale shipping. The depth of dredging this far up the bay is unwise and will degrade aquaculture and would have very negative effects on the physical and ecological functions of the North Bay.

I look forward to working with you and the rest of the Commissioners and the community on coming up with ways to build the economy around Humboldt Bay while protecting and improving our quality of life.

Sincerely,



Patrick Higgins

Sensitivity Analysis
Cash Flow for the Northwestern Pacific Railroad
2.85% Annual Increase in Tariff and Inflation
Most Likely Scenario with Different Aggregate Car Volumes

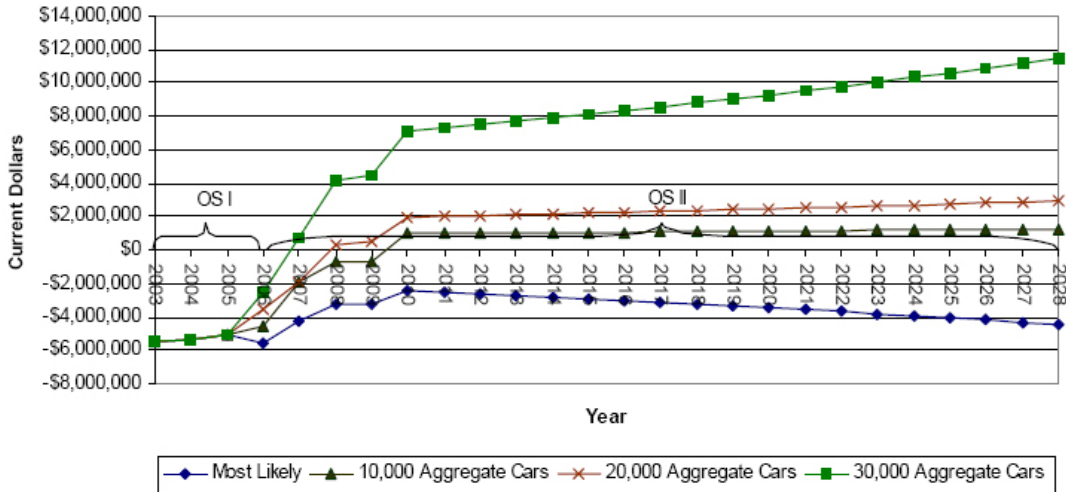


Figure 1. PB Marine found that the NCRA was likely to lose between \$2-6 Million per year and would only make money if greater than 20,000 carloads of aggregate are shipped annually. Chart from PB Marine *NCRA Economic Feasibility Study*.

PB Marine Revitalization Plan Excerpts Container and Auto Shipping Trade

The *Revitalization Plan I* believe more accurately described the competitive position of the Port of Humboldt Bay for accessing the container ship business:

“Based on Humboldt Bay’s very small local market size, lack of close proximity by highway to a major West Coast market like San Francisco, and poor rail access (assuming rail service is restored), its competitiveness for container cargo is very poor. Even with rail access restored, Humboldt Bay would not be considered by the container carriers as a potential port call or overflow outlet. As discussed earlier, rail service over the NCRA line would take three to four days to interchange with UP in Fairfield before heading east, which would not meet the steamship lines’ requirements for 65- to 85-hour service to the Midwest. This time-consuming and circuitous rail routing—which must backtrack though other competing port areas—is a severe limitation on Humboldt Bay’s competitiveness. The extra transit time and rail mileage cannot compete with service at other, more established ports.”

The West Coast automotive shipping trade was the only sector experiencing growth besides containers, according to the *Revitalization Plan*, which also noted that we are not competitive for autos either:

“Despite the availability of plentiful low-cost land, the opportunity for auto imports or exports via Humboldt Bay is limited due to competition from other

ports, highway distance from the larger market in San Francisco Bay, and poor/circuitous rail access. As discussed earlier, rail service over the NCRA line would take three to five days to interchange with UP in the Bay Area before heading east, which would not meet the auto companies' requirements for 85-hour service to the Midwest. Humboldt Bay would need to compete with Bay Area ports for imports of fully assembled autos. In addition to Benecia, the Port of Stockton is gearing up to compete for potential automobile opportunities at its newly acquired, 1,400-acre Rough and Ready Island site. As the auto companies continue to consolidate port operations, competition also occurs with ports in the Pacific Northwest and Southern California for intermodal traffic. As a result, Humboldt Bay's opportunities to attract auto business are poor."

Figure 2 is from the PB Marine *Revitalization Plan* and shows that only the container and auto shipping business is going up.

Waterborne Cargo Trends

Source: BST Associates using data from PMA

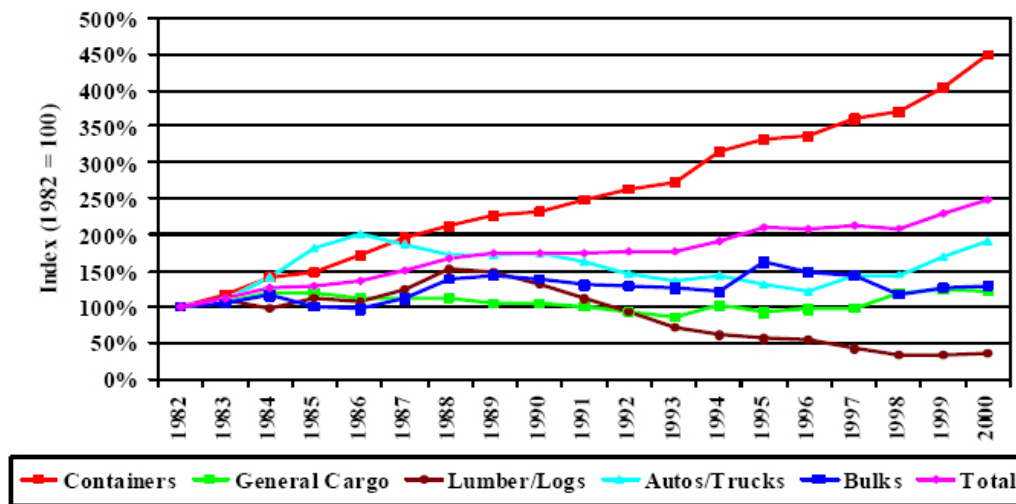


Figure 2. This chart is taken from the PB Marine *Revitalization Plan* and shows that only auto and container shipping are increasing and the Port of Humboldt Bay is non-competitive in these sectors.

Table 1. Shipping categories and prospects according to Draft *Redwood Dock Feasibility Study*. Bold highlights indicate impediments.

Type of Shipping	Prospect
Bulk Cargo	“A likely requirement is to have a rail connection to transport recycled metals in from major population centers for processing and export.”
Container on Barge	“ Container shipping lines pointed out that very little international container cargo moves to and from the Humboldt County area due to the region’s small population and limited manufacturing base. Apart from the limited amount of container freight, container shipping lines stated that an important obstacle to COB service would be stevedoring charges at Oakland.”
Short Sea Shipping Market	“The commercial viability of a short sea shipping service for the Pacific Coast is under investigation with the focus on major freight corridors between Southern California, San Francisco Bay Area and the Pacific Northwest. If any of these corridors are deemed viable then consideration may be given to integration of secondary ports if they do not cause deterioration in the service quality between major ports. ”
Regional Freight Movements	“While the Port of Humboldt Bay is not being evaluated in current studies due to the small size of its market, it is reasonable that the same criteria would apply and that the majority of divertible cargo would be within a 50 to 100 mile distance of the port, essentially the Humboldt County hinterland. The hinterland may extend further inland if there is significant future congestion on the north-south I-5 truck corridor or new environmental regulations impose additional costs on trucking, which make short sea shipping more efficient than the I-5 corridor.”
Military Cargo	“On the West Coast, the majority of these shipments move through the Port of Oakland. Humboldt Bay does not currently meet the requirements to handle military cargo or to be a location for berthing of ready reserve ships. The development of new terminal infrastructure and the rail corridor may open up this opportunity for the port.”
Ready Reserve Force	“ The requirement for a full service port currently excludes Humboldt Bay as a candidate for berthing of RRF vessels. However, the District should periodically revisit this opportunity in case contracting conditions change in the future or if new terminal development takes place at Humboldt Bay that allows the District to meet contracting requirements.”
Autos	<i>Revitalization Plan</i> = NO. Redwood Dock Feasibility says some changes may occur, but very competitive.
Containers	<i>Revitalization Plan</i> = NO. The availability of a functional and efficient rail corridor between Humboldt Bay and the transcontinental rail system is a requirement to be considered for terminal investment and operation. The District must have a coordinated development strategy with the management of the rail corridor.