

***Grower-Shipper Association of Central California***  
***“OUR MEMBERS: PARTNERS PRODUCING PROSPERITY”***



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The County of Monterey  
The City of Salinas  
The Transportation Agency for Monterey County

Re: Intermodal Rail Study, Final Report

It has been our pleasure to serve you regarding the completion of the Scope of Work envisioned for the Intermodal Rail Study. Mr. Stephen Collins and I have updated each of your respective agencies verbally and this written report contains our analysis, conclusions and recommendations. Attached as an Exhibit is the Economic Analysis of the Rail Study, performed by Dr. Johnathan Mun, affiliate of the Naval Postgraduate School.

One of the principal economic engines of the County of Monterey is agriculture and the industry has sustained numerous serious blows over the last several years and has economic viability issues. As we have previously discussed, many of the issues facing the agricultural industry are beyond our ability to assist or offset. We have recognized one, however, that we can attempt to ameliorate. We have focused our energies on expanded methods of shipping our product to centralized markets for further distribution through the market chain. The cost of shipping a full car container via truck has doubled in the last year, adding significant cost to the end consumer. At what point do we price ourselves out of business for fresh produce?

The County of Monterey, the City of Salinas and the Transportation Agency for Monterey County, in a collaborative effort, have funded this study to determine feasibility of alternative transportation methods for finished product to market. The following is the scope of work and results.

## Task 1. INDUSTRY ASSESSMENT:

The Grower-Shipper Association met with key stakeholders in the Salinas Valley agricultural industry in both individual meetings and a joint meeting held at our facility. The purpose of the meeting was to present the logistical and economic findings of our study to date, and assess the willingness of the industry to participate and assist in funding additional steps necessary to bring a rail center to fruition. Our meetings were very much a success. There is a definite enthusiasm for rail being an additional component to the shipping structure. At this point some data is in order.

There is a significant amount of data included in the Economic Analysis so we will not repeat it herein, but some core data is fundamental to understanding the scope and limitations of a study such as this. Every company in the County of Monterey is going to keep their individual data regarding costs, sales averages, margins, customer base, etc. confidential. We are therefore, working with industry averages that we have determined are accurate and reasonable based upon our unique perspective as a servant of this industry. Further, there are a significant number of produce packs. For our purposes our averages are based on the industry standard of a 24 unit pack and we can extrapolate from there. We intentionally worked with data ranges in the Economic Study to deflect any potential criticism of specifics.

On average there are approximately 2,500 refrigerated trucks that leave the Salinas Valley on a daily basis for distribution of our produce throughout the United States. Our shippers are now regional in scope; most Salinas Valley shippers “follow the sun” meaning we may include shipments to and from Oxnard, etc. but the total remains the same. A “straight load” of iceberg lettuce would be 976 cartons in a fully loaded truck so for analysis purposes we decided on a unit of measure of 1,000 cartons as an equivalency and determined that most other commodities would fall within an acceptable standard deviation.

We met with Union Pacific Railroad and several vendor providers of rail service to determine capacity with the rail system and tolerance for additional loads. There are some fundamentals that are important to understanding our ultimate recommendations. A fully loaded rail car train of fresh produce consists of 60 full capacity refrigerated rail cars (53 to 60 feet in length) or 60 fully loaded flat cars with self contained refrigerated units double stacked. In either case we can achieve a reduction of approximated 200 “18 wheel” trucks from our roadways every day that we ship produce via rail. As an aside the carbon footprint of rail versus truck is approximately .33 to 1. The economic benefit is significant and discussed elsewhere. It is important to note that the rail system as it currently exists in the United States is not prepared to handle daily loads of produce from the West Coast to the East Coast. A more likely scenario would be every third day or perhaps every other day, but this would require serious coordination with the providers.

There is a current operating model of a rail transport system in operation in Delano, California and Walla Walla, Washington. The company is named Railex and they were kind enough to share data with us and let us tour their Delano facility. They are also very interested in being a part of the solution and building a rail transport facility in the Salinas Valley and operating year round. This will be part of the recommendations section as a possible alternative, but for now, we will focus solely on their business model. Several large shippers in the Valley are currently utilizing their services out of the Delano facility and are very pleased both with the service model and the pricing.

Produce is delivered to the Railex facility in refrigerated trucks and offloaded into a cold storage facility. The loads are consolidated and reloaded into specially designed rail cars that can be temperature regulated from minus 20 degrees to room temperature. The cars are constantly monitored via GPS for temperature, timing etc. on their travel from the West Coast. Other than rest breaks for crew changes and engine transfers there are no planned stops for product loading or unloading other than the ultimate destination in New York. Transit time is 5 days (trucks generally make the trip in 4 days) and the produce is unloaded in a temperature controlled environment and then reloaded onto transport trucks to its ultimate destination on the East Coast. The principal drawback to this system is the number of times the product is handled; our observation, and the testimony of the growers currently using this system, is that this has not been an issue for them so far, but it was a concern to many we spoke to. The consensus that grew out of our meetings with growers and shippers was the preferred method of self contained shipping containers that are fully refrigerated, loaded at the shipper site and delivered to the intermodal rail site where they would be loaded as received onto flat cars and immediately shipped.

One of the principal concerns that must always be in the forefront when considering the shipment of fresh produce is food safety. Everyone is aware of the recent issues therein, and the less handling of the commodities, the better. The cold chain must always be preserved and either method of shipment accomplishes this goal. An issue that arose during the study was the tremendous underutilization of either trucks or rail on shipments coming from the East Coast back to the West Coast. Union Pacific stated that less than 10% load utilization is accomplished on the return trips; the trains are essentially dead heading back. An ancillary conversation was held with representatives of United Parcel Service and FedEx regarding possible affiliation with shipments to a central delivery site in California. These conversations were fruitful and an element of the economic analysis. We did not want to get aggressive with potential benefit so we conservatively showed an increase in freight utilization of 10% to 30% on the return trip. Even this small incremental increase has a very positive effect on the net shipping price and return on investment. Paramount in our discussions with the shippers was the type of commodity that could be shipped west, no meat products, soap, chemicals, etc., anything that could produce a potential food safety hazard. Again, these factors are all considered and incorporated in the economic study.

The industry is eager for ideas that help to facilitate quality delivery of their product while assisting in the revenue\costing structure. Rail is an important component and most likely will be utilized by larger shippers sending “straight loads” of specific commodities (broccoli, iceberg lettuce, artichokes, cauliflower, etc) to a forward distribution center on the East Coast versus consolidated full mix loads.

## Task 2. RAIL ASSESSMENT:

We documented the existing rail routes and infrastructure in both conversation with Union Pacific and reviewing usage data for rail routes to the East Coast. Routes in the United States are designated with a category status of green (underutilized or significant growth possibility), yellow (nearing full utilization but with proper planning few issues noted) and red (fully utilized and significant planning needed to allow flow through certain areas without backups or safety issues). The good news for the Salinas Valley is the main California rail line runs straight through our valley and is almost universally green in designation. Further the dedicated route for commodity rail delivery west to east is also green with the exception of one area in northern California. Union Pacific indicated that significant additional shipments could utilize this route with little or no degradation in existing or future service levels.

We also considered infrastructure needs of the actual shipment itself. Was the approximately one mile train capable of maintaining the cold chain throughout the entire journey? If we double stacked the shipping containers were there mountain passes or tunnels that posed a problem? Was there existing inventory of either flat bed rail cars or refrigerated rail cars available to service our needs?

The answers to all of these questions was positive; we will take each in order. Cold chain; the train when moving is actually an electrical generation unit, each container or rail car is “plugged” into the rail car bed and its refrigeration unit is powered by the motion of the train. The units have small backup units powered by diesel, but no problems have been reported in use currently.

Union Pacific assured us that their conveyance routes were all well designed for freight shipment far beyond our needs or concerns and that there were no physical limitations to our rail needs.

There is currently not enough rail car or flat bed inventory within the system to handle a fully loaded once a week train, much less several days per week. We indicated that there would need to be a willingness on the part of Union Pacific to build and supply the requisite inventory or there was no point in proceeding. We met with six members of the Union Pacific team, including the senior vice president of logistics for the company and he assured us that the inventory would be acquired once they were certain that we were proceeding and they were guaranteed return on their investment. At the appropriate time operating agreements will need to be negotiated

with Union Pacific but we do not see this as a serious issue at this time; they are very anxious to proceed and see this project as a wonderful opportunity for a further agricultural partnership.

The second element of this task was the rail infrastructure assessment within the County of Monterey. Several key factors were noted; the site must be west of Highway 101 and preferably south of Salinas. We will potentially remove 200 “18 wheel” trucks from the road each day we ship by rail, but we will have a large volume of trucks converging on a central location. It is our opinion that this would be best out of the normal traffic flow. Additionally, these trucks must have easy access to the delivery\shipping facility and crossing the existing rail tracks and freeway must be accounted for in the planning. We do not envision freeway overpasses or tunnels in our costing structure. We have identified several sites for the rail center that we think make perfect locations, but due to the nature of sites being privately owned, do not wish to discuss at this time. Assuming we move to the next phase of the planning on this rail facility there will be ample time to identify multiple sites for the center.

### Task 3. LEGISLATIVE ANALYSIS, GRANT OPPORTUNITIES AND INDUSTRY ALLIANCE:

There are multiple national studies of rail transport, both intermodal and other taking place at this time. The County of Santa Cruz is studying the acquisition of rail capacity from Union Pacific and looking for partners and alliance. The Federal Government is funding several large studies, including one by the University of Chicago to determine expansion of rail for commodity shipments throughout the Country. Our freeways are overcrowded and the infrastructure state of the freeway system is in serious need of upgrade and repair. Simply put, there is a desire to remove large trucks from our roadways, if possible, and rail is seen as an attractive alternative. What is being noted in these studies, however, is the lack of capacity that exists within the rail system in much of the nation. This is actually good news for Monterey County; as previously noted, our route is primarily green, much of the rest of nation is almost always red. More rail lines can be built, but you are now talking about years of development. Our rail center could be reality in much less time.

The current state of the economy and its impacts on government at all levels suggests that while there is significant appetite for rail projects and alternative transportation, realistically looking for the State or Federal Government for financing assistance may be wishful thinking. There are grants and loans available, but the demand for such help far exceeds supply.

#### Task 4. MARKET FEASIBILITY AND ECONOMIC ASSESSMENT:

Rather than rewrite the conclusions of Dr. Mun herein, we are attaching his Economic Study and conclusions as Exhibit "A". Suffice to say, there is significant benefit to the industry to consider rail as a component of their commodity shipping.

Perhaps the most important element of this final report is a discussion on where do we go from here. We have provided compelling testimony regarding the efficacy of moving forward with this Intermodal Rail Center; how best to do this? We have centered our conclusions on three main alternatives and for sake of brevity will keep the pro's and con's of each limited herein, and discuss in more detail when we present to each Board in public session.

The first alternative is a public\private partnership wherein the funding entities would continue to fund the process of refining alternatives, researching issues, contract negotiation, land acquisition, costing models of construction, etc. The three current funding partners, the County of Monterey, the City of Salinas and the Transportation Agency for Monterey County could continue as is, or restructure their involvement. Other partners, such as AMBAG could also be added. Private enterprise could then bid for ownership or management of the facility. Legal issues would have to be entertained regarding operation and pricing structures. Frankly, due to economic realities within the City and County we do not support this alternative and the concept of a public\private partnership engenders far too many legal challenges.

The second alternative is the private sector embracing the concept of a regional rail center and building it themselves. Several of the larger shippers have expressed enthusiasm for such a rail system and assuming the return on investment is significant could bear the entire cost themselves. Obviously, the downside to such a result is the reduction of trucks on the road, but solely from several shippers versus a broader spectrum.

The most attractive alternative to us is the creation of a Co-op type structure wherein companies with interest could participate in a venture where the planning and future steps would be paid for with a cost per carton assessment. Once in the construction and operation phase the owners would be determined based on their volume in the Co-op and profits would be split accordingly. This method seems to us the fairest for the industry in general and based upon interest expressed to date would be the most inclusive. A Co-op engenders its own special set of laws and regulations and these issues would need to be addressed, but this process is certainly done all of the time and could be expedited.

The challenge in issuing a report on a body of work is being expansive enough to discuss the work and results without being overly wordy. We are ready and able to expand on any issue discussed herein in our presentations and truly appreciate the opportunity to serve the community. Thank you again for partnering with us in this important endeavor.

Sincerely,

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