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Request For Qualifications (RFQ)

Freight Rail Operations on the Coos Bay Rail Line From Eugene (Lane County) Union Pacific Rail Yard to Coquille (Coos County) End of Track

Issue Date:

Friday, July 23, 2010

**Please deliver six (6) hard copies of response materials
to the mail or courier address shown below
or one (1) electronic copy to the email address indicated below:**

Coos Bay Rail Link (CBR)

Attention: Martin Callery

**Mail: P.O. Box 1215, Coos Bay, OR 97420-0311
Courier: 125 Central Ave, Suite 300, Coos Bay, OR 97420
Electronic: portcoos@portofcoosbay.com**

Closing Time and Date:

5:00 PM PDT, Friday, September 17, 2010

Contact Information:

**Dan Lovelady, Interim Chief Operating Officer
Cell: 541 404-5706 / email: dlovelady@portofcoosbay.com
Martin Callery, Chief Commercial Officer
Cell: 541 297-2007 / email: mcallery@portofcoosbay.com**

**Coos Bay Rail Link (CBR)
Phone: 541 267-7678 / email: portcoos@portofcoosbay.com**

Request For Qualifications (RFQ): Coos Bay Rail Line

Overview

The Oregon International Port of Coos Bay (Port) is seeking a Notice of Intent, **Letter of Submittal and Statement of Qualifications**, *with supporting documentation*, from qualified and experienced railroad operating companies to manage and operate, under contract, lease or other agreement suitable to all parties, the Coos Bay rail line, in order to provide freight rail service on the line between the Union Pacific (UP) Railroad Yard in Eugene, Lane County, Oregon, to the end of track at Coquille, Coos County, Oregon, a distance of approximately 135 miles, including all necessary train operations, rail yard operations and industrial switching services, interline interchanges with Class I and shortline carriers, ongoing rail system maintenance, and marketing/business development activities. The Coos Bay rail line will be operated as the Coos Bay Rail Link (CBR).

Submission of RFQ Proposals

All proposals must be received by 5:00 P.M. PDT Friday, September 17, 2010 via mail, courier or email as indicated on the cover sheet of the RFQ. Please deliver six (6) hard copies of response materials to the mail or courier address shown on the cover sheet or one (1) electronic copy to the email address indicated on the cover sheet.

Statement of Qualifications responses submitted after the specified time on the due date will not be considered. Firms submitting responses accept all risks of late delivery of mailed or couriered submittals regardless of fault.

Oregon International Port of Coos Bay staff, working with its various railroad industry consultants and several shipper coalition representatives, and possibly State of Oregon rail officials will review all appropriate RFQ responses – Letter of Submittal and Statement of Qualifications – and establish a list of specific respondents for further consideration and interviews in order to make a final selection leading to negotiations for a contract, lease or other suitable agreement for railroad services.

The Oregon International Port of Coos Bay's Board of Commissioners or an authorized representative of the Port reserves the right to reject any and all submittals, and waive any and all formalities and irregularities in the submittal and evaluation process as they may be deemed in the best interest of the Port District. This RFQ does not obligate the Port to pay any costs incurred by respondents in the preparation and submission of their RFQ response. Additionally, the RFQ does not obligate the Port to accept or contract for any expressed or implied services.

General Information for Proposers

Request For Qualifications (RFQ) Definitions

Definitions for the purposes of this RFQ include:

Port – The Oregon International Port of Coos Bay, an Oregon Special District and issuer of this RFQ. The Port is the owner of the Coos Bay rail line.

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RFQ – A formal process through which Port staff, utilizing analytical input from various railroad consultants and representatives of rail shippers on the Coos Bay rail line, will evaluate the qualifications and experience of individuals or companies interested into a contractual relationship with the Port for freight rail service on the Coos Bay rail line. Representatives of the Oregon Department of Transportation Rail Division also may participate in the review. The purpose of the RFQ is to provide interested parties the opportunity to illustrate their ability to successfully operate the rail line and meet the transportation needs of shippers in the region.

RFQ Manager(s) – Port staff who oversee and manage the RFQ process, schedule follow-up interviews with proposers selected for further evaluation, and who will participate in discussions regarding a contractual agreement for freight rail operations on the Coos Bay rail line.

Proposer – An individual or company submitting an RFQ proposal in order to be a candidate for a contractual agreement with the Port for operation of the Coos Bay rail line.

Proposal – A formal RFQ response, including a Letter of Submittal, Statement of Qualifications and supporting documentation, for further evaluation as a candidate for a contractual agreement with the Port for operation of the Coos Bay rail line.

Proprietary Information/Public Disclosure

The Port would not expect responses to this RFQ solicitation to contain any proprietary information, however the RFQ response documents will remain confidential until such time as Port staff, working with various railroad industry consultants, representatives of the shipper's coalition and possibly State of Oregon rail officials, has completed a review of all RFQ submittals and has selected individuals or companies for follow up interviews and development of future proposals for freight rail operation of the Coos Bay rail line.

The Port understands that proprietary information could be a part of proposals submitted later in the process for selection of an operator for the Coos Bay rail line, and consequently the Port will comply with requests to exempt designated proprietary information from public disclosure as allowed for under the Oregon Revised Statutes (ORS).

Revisions to the RFQ

In the event it becomes necessary to revise any part of this RFQ solicitation, addenda will be mailed and/or emailed to Proposers for whom communications of interest in any form have been received by Port staff. Upon issuance, such addenda shall be incorporated in the RFQ solicitation and shall prevail over inconsistent provisions of earlier issued RFQ documentation.

The Port also reserves the right to cancel or to reissue the RFQ, in whole or in part, prior to any announcement of selection of any individuals or companies for follow up interviews.

Minority and Women-Owned Business Enterprise Participation

In accordance with Oregon Public Contracting regulations, this RFQ solicitation encourages participation by Minority and Women-Owned Business Enterprises (MWOBE). Participation may be either on a direct basis in response to this RFQ solicitation or as a subcontractor to a Proposer. However, unless required by federal statutes or regulations, no preference will be included in the evaluation of RFQ submittals and no minimum level of MWOBE participation shall be required as condition for follow up interviews in the selection of an operator for the

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Coos Bay rail line, and RFQ submittals will not be rejected or considered non-responsive on that basis. Any affirmative action requirements set forth in federal regulations or statutes included or referenced in the contract documents will apply.

Responsiveness

All proposals will be reviewed by the RFQ Manager(s) to determine compliance with administrative requirements and instructions specified in this RFQ solicitation. Failure to comply with any part of the RFQ may result in rejection of the submittal as non-responsive. The Port reserves the right, however, at its sole discretion to waive minor, non-material irregularities.

Costs to Propose

The Port will not be liable for any costs incurred by the Proposer(s) in preparation of a submittal for this RFQ solicitation, or any other activities related to responding to this RFQ.

No Obligation for Follow up Interviews or Acceptance of Any Proposals

This RFQ does not obligate the Port to conduct any follow up interviews with any Proposer or to accept any proposals for operation of the Coos Bay rail line.

Rejection of Submittals

The Port reserves the right, at its sole discretion, to reject any and all submittals for this RFQ solicitation without penalty, not to issue invitations for follow up interviews, or to accept any proposals for operations of the Coos Bay rail line.

Single Proposer

In the event that only one submittal is received for the RFQ solicitation, the Port may reject such proposal at its sole discretion.

Notification of Intent

Individuals or companies intending to submit a response to this RFQ solicitation should inform the RFQ managers (listed on the cover sheet) of their intent by email, letter or fax. That contact information is on the cover sheet.

RFQ Submittal Contents

Proposals may be submitted in hard copy or electronically (see cover page), formatted for 8 1/2" x 11" printing or photocopying. Exceptions will be made for maps or plan drawings. Items set forth in the section entitled "Specific Evaluation Criteria" must be addressed to the greatest extent possible in both the Statement of Qualifications, and in supporting documentation. If requested information is not provided for any reason, the Port may reject the proposal in whole as non-responsive.

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Letter of Submittal – (Mandatory: failure to provide with RFQ submittal will result in rejection of the proposal)

A Letter of Submittal must accompany the Statement of Qualifications and supporting documentation. The letter must be signed and dated by a person authorized to legally represent the Proposer (e.g, the President, Chief Executive Officer or Executive Director if a corporation; a managing partner if a partnership, or the proprietor if a sole proprietorship). Along with introductory remarks, the Letter of Submittal should include the following information about the Proposer and any proposed subcontractors:

1. Name, address, principle place of business, telephone number(s), and fax number(s)/e-mail addresses of legal entity and contact persons.
2. Legal status of the Proposer (sole proprietorship, partnership, corporation, etc.) and year the entity was organized to do business as the entity now substantially exists.
3. Federal Employer Tax Identification number and/or Oregon Uniform Business Identification (UBI) number issued by the state of Oregon Department of Revenue.

If following a review of this information, it is determined by the Port that a conflict of interest exists, the Proposer may be disqualified from further consideration for the award of a contract.

Specific Evaluation Information

The Port will consider, at a minimum, the following in evaluating Statement of Qualifications submittals, with supporting documentation, from interested parties:

▶ Railroad Operations:

- past history and ongoing experience in managing and operating various types of railroads, and any affiliated business units;
- expertise and experience in handling a variety of rail-shipped commodities and various types of rail cars and ancillary equipment;
- train and crew dispatching, rail yard management and operations, and industrial switching;
- efficient equipment utilization and management;
- management and documentation of railroad interchange activities with Class I and shortline connecting railroads, including trackage rights experience with Class I lines.

▶ Maintenance Operations:

- equipment maintenance – locomotives, rolling stock and other equipment;
- railroad infrastructure maintenance: maintenance-of-way, asset preservation and protection – tunnels, turn-span swing bridges, various types of other bridge/trestle structures, rail/ties/ballast, drainage facilities, signals and at-grade crossing equipment maintenance.
- all required rail line and bridge structure inspections and reporting.

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- ▶ **Rail Operations and Maintenance Administration:**
 - cost estimating, budgeting and financial management, and preparation of annual operating and capital budgets;
 - personnel development and human resource administration, labor union relations;
 - employee training, job orientation, certification and safety awareness;
 - railroad employee and public safety programs;
 - accident and loss prevention education;
 - all required federal and/or state record keeping and reporting;
 - emergency preparedness and response.

- ▶ **Customer Service/Business Development:**
 - customer service, communications and problem solving;
 - business retention and expansion, and rail-shipped commodity diversification;
 - relationships with Class I and shortline carriers necessary for developing new interstate and intrastate freight movements.

Environmental Stewardship

The Port is committed to encouraging the implementation of sustainable environmental practices and the use of environmentally benign products, and seeks to minimize the impacts of all types of transportation and industrial operations on air, water and land quality.

Rail transportation has the potential to lessen impacts on the environment by moving commodities in an efficient, less carbon-intensive manner. Describe how your firm fosters environmental sustainability through standard practices and product use as a daily part of operations and maintenance.

References

Provide individual or company name, contact person, contact information, and describe relationship with three private firms and/or governmental entities, with which you have conducted business transactions during the past three to five years. At least two references should have knowledge of your capabilities and practices, and at least one should have knowledge of your history of financial business practices.

Evaluation and Follow Up

Evaluation Procedure

Responsive submittals to this RFQ solicitation will be evaluated by Port staff, utilizing analytical input from various railroad consultants and representatives of the rail shipper's coalition on the Coos Bay rail line. Representatives of the Oregon Department of Transportation Rail Division also may participate in the review. The evaluation team will review the qualifications and experience of individuals or companies interested in entering into a contractual relationship with the Port for freight rail service on the Coos Bay rail line.

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The evaluation process will consist of two phases: evaluation of the RFQ submittal, and a personal interview with those individuals or companies considered to be the top contenders for entering into a contractual agreement with the Port for operation of the Coos Bay rail line.

Notification to Proposers

The Port, at its sole discretion, may elect to select several firms which demonstrate the experience and expertise for successful operation of the Coos Bay rail line as finalists for a personnel interview and presentation, or to select a single firm to prepare a proposal for operation of the rail line.

Individuals or companies whose RFQ submittals are not selected for follow up interviews will be notified via letter sent by Fax or by e-mail.

Debriefing of Unsuccessful Proposers

Upon request, a debriefing conference will be scheduled with an unsuccessful RFQ Proposer. The request for a debriefing conference must be received by the RFQ Manager(s) within one week (five [5] business days) after the Notification of Unsuccessful Proposer letter is faxed/e-mailed to the Proposer. Efforts will be made to schedule the debriefing conference within two weeks (10 business days) of receipt of the request.

Discussion will be limited to a critique of the requesting Proposer's proposal. Comparisons between proposals or evaluations of the other proposals will not be allowed. Debriefing conferences may be conducted in person or on the telephone and will be scheduled for a maximum of one hour.

Inquiries

All inquires related to this RFQ are to be directed to the contact person indicated on the cover sheet of this RFQ. Inquiries will be accepted by phone, mail or email. Inquires should be directed to:

Dan Lovelady, Interim Chief Operating Officer
Coos Bay Rail Link (CBR)

or

Martin Callery, Chief Commercial Officer
Oregon International Port of Coos Bay / Coos Bay Rail Link (CBR)

P.O. Box 1215 ▪ Coos Bay, OR 97420-0311
Phone: 541 267-7678

email: dlovelady@portofcoosbay.com or mcallery@portofcoosbay.com

Information obtained from sources other than those indicated previously is not official and should not be relied upon for completion of the RFQ. Inquiries and answers that could substantially affect any portion of the response to the RFQ may be distributed to all potential respondents at the Port's option.

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Estimated Schedule of RFQ Evaluation Activities

Request For Qualification (RFQ) Evaluation Process	Date
Issue Request For Qualifications (RFQ)	07 / 23 / 2010
Last date for receiving Notification of Intent (email, letter or fax) to Submit RFQ Proposal	08 / 06 / 2010
Last date for mailing RFQ Addenda	08 / 20 / 2010
RFQ Proposals due	09 / 17 / 2010
Evaluate proposals	09/27-10/8 / 2010
Conduct personal interviews as required	10 / 13-22 / 2010
Announce results of RFQ process and send notification via e-mail to unsuccessful Proposers	10 / 25-29 / 2010
Commence discussions of operating proposals	To Be Determined

Note: The Port reserves the right to revise this schedule as needed.

Proposals for Long-term Operation of the Coos Bay Rail Line

Following Port staff review and evaluation of the RFQ submittals from all interested parties, and completion of personal interviews and presentations with selected individuals or companies, one or more individuals or companies may be asked to submit proposals for operation of the Coos Bay rail line on a long-term basis. Proposals submitted for consideration will likely be the basis for negotiation of a lease, contract or other agreement suitable to all parties between the Port and the proposed rail line operator. Invited parties will be asked to include the following components in a business plan.

Business Plan

Port staff, and the Port's railroad consultant team, will be seeking information on the following topics in any proposed business plan.

- Transition Management Team – identify key personnel and outline their experience
- Financial Strength and Financial Plan – provide detailed description of the firm's financial position, including assets, liabilities and net worth, with balance sheet and income statement; provide financial plan for start-up and operations; rate and fee structure
- Personnel Plan – outline proposed management structure and description of duties
- Proposed Operating Locations – identify base of operations and personnel working from various locations
- Insurance and Liability Coverage
- Operating Plan – define general railroad operations, including providing service to small and large shippers
- Communications System
- Computer Operating System
- Regulatory Compliance – related to federal regulations and state statutes and rules
- Railroad Equipment Operating Plan / Facility Needs and Requirements
- Track Maintenance Plan
- Collaboration with other shortline and Class I railroads
- Marketing and Customer Service / Business Development
- Coos Bay Rail Line Start-up Schedule

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The Business Plan should also contain a section that identifies any potential challenges which could hinder business development efforts, including but not limited to:

- Class I franchise issues
- Financial constraints
- Infrastructure limitations
- Operational constraints
- Negotiating rights to operate over Union Pacific trackage accessing the Eugene yard

Information Attachments to the Coos Bay Rail Line RFQ

There are three (3) information attachments to this RFQ solicitation.

- Information Attachment No. 1 – Overview of Rail Commodity Movements
- Information Attachment No. 2 – Coos Bay Rail Line Embargo and Port Involvement
- Information Attachment No. 3 – Brief History of the Coos Bay Rail Line

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Information Attachment No. 1

Overview of Rail Commodity Movements on the Coos Bay Rail Line

Markets, Traffic Volume and Revenue Opportunities

Market Description and Customer Base

The majority of revenue car loadings on the Coos Bay rail line has been historically dependent on the regional timber industry in southwest Oregon, specifically manufactured forest products, wood fiber and logs, which, in turn, is dependent on the highly cyclical housing and related construction industries.

Historical traffic data obtained from the Central Oregon & Pacific (CORP) Railroad regarding the years 2006 and 2007 indicate that over 95 percent of CORP's historical business base was timber industry related. The data provided by CORP indicates that most of the outbound car loadings were manufactured forest products shipped to locations in California, Oregon and Illinois, with smaller volumes moving to Nevada and Arizona.

Major customers on the western portion of the Coos Bay line that generated forest product related traffic include three major forest products operations; two stud mills and a plywood operation. Several smaller lumber product manufacturers generated smaller volumes of forest products, most of which moved through a truck/rail reload operation in the Coos Bay area. Non-forest products related shippers included a structural steel fabrication company and two propane gas distributors. On the east end of the line three small forest products manufacturing firms produced limited numbers of car loadings.

Total traffic volume on the line in 2006 was 6,333 carloads, while the partial year 2007 (to the September 21st embargo) was 4,809 carloads.

Timber industry commodities previously handled on the line included inbound whole logs, some outbound whole logs, outbound wood fiber in the form of wood chips, and outbound manufactured forest products such as plywood, structural lumber, and some specialized lumber products. The manufacturers of these lumber products are located in Coquille, Coos Bay, the North Spit of lower Coos Bay, Bolon Island north of Reedsport, Swisshome, Noti, and Vaughn. Currently, all of these shippers are relying on truck transportation to move their products from the manufacturing points, or to receive inbound commodities.

Excluding manufactured forest products, wood fiber and logs there are a few other commodities handled over the Coos Bay line, including propane and some low volume irregular commodity movements, thus making the Coos Bay Line essentially reliant on one commodity category.

However, the steel fabrication firm could be a key employer in the region, and its traffic is predominately rail dependent. Any upturn in highway and bridge construction, and possibly rail bridge construction could produce a significant upturn in rail service for this company, and may be a key market growth element for the line.

Relative to commodities produced by and for the forest products industry, the last several years have been particularly challenging to lumber mill operators and transporters of lumber and building products. The dramatic decline in the housing market due to tighter credit, oversupply

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of houses as well as increased mortgage delinquencies and foreclosures, has impacted the entire forest product market negatively.

The following national rail tonnages (in thousands) of lumber and wood products by year is provided or derived from data supplied by the Association of American Railroads ("AAR"):

Railroad Industry Tons Hauled of Lumber and Wood Products (2004 – 2008) (Thousands of Tons)

2004 (Actual)	= 47,364	
2005 (Actual)	= 47,603	up 0.5 percent
2006 (Actual)	= 42,956	down 9.8 percent
2007 (Actual)	= 36,152	down 15.8 percent
2008 (Estimate)	= 29,428	down 18.6 percent based on year-to-date AAR data.

Note: Actual rail traffic is down by 21% for lumber and wood products for full year 2008 vs. 2007, with the last weeks of the year being closer to 50% year over year declines.

It is clear that nationwide railroad lumber and forest product freight volume has fallen precipitously, dropping by a cumulative 38 percent from the 2005 peak.

Data released by the US Census Bureau reveals that privately-owned housing starts over the twelve months ending July 2008 are down over 50 percent from averages as compared with starts recorded in the respective months in 2004 through 2006 in the West and Midwest areas of the country. The long term outlook for growth in housing starts is dependent on a number of factors, such as growth in jobs and personal income relative to the consumer price index, the availability of credit and interest rates as well as overall demand for housing.

Volume and Revenue Projections

Projections of the future of the forest products manufacturing sector are somewhat cloudy although many economists expected a turnaround by least 2010. That now appears doubtful; however some financial analysts are now projecting a slow upturn in 2011.

Oregon's own Office of Economic Analysis reported in its June 2008 forecast (the Oregon Economic and Revenue Forecast): "[T]he wood products sector is projected to lose jobs at the rate of 5.6 percent in 2008 and 1.7 percent in 2009. As the housing market improves into 2010, wood products jobs should grow 3.8 percent." In addition, this report adds, under the title of "Forecast Risks," the following comments: "[T]he forecast projects a slowing Oregon economy in 2008 which continues into the first half of 2009 with mild growth in the second half. This outlook faces heightened risks for a much deeper downturn in 2008 and 2009."

Other sources suggest that the economic slowdown currently facing the nation and the world may not experience a significant turnaround until late 2010, or more likely mid 2011, and that the turnaround may be slow, with swings up and down in different markets (such as we are observing in the stock market recently, good news one day, bad news the next).

Projections of future volume growth are tempered by the fact that the forest products market is currently depressed by 20 to 30 percent under levels that had been present prior to the line's embargo and likely would improve to "normal" levels over the next three to four years as

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demand for housing begins to exceed supply, creating a strong demand for new housing and increasing lumber demand by approximately 10 to 20 percent per year.

Potential New Rail Volume Opportunities

There are several initiatives that might result in additional (non-forest product) new businesses that would generate freight volume on the Coos Bay rail line. Listed below are the current initiatives:

Oregon Resources Corp. – This company proposes to mine and process minerals sands in the coastal region south of Coos Bay. The company proposed to ship mineral sands to supply a variety of industrial operations, with potential major markets in the Midwest U.S. and California. Some commodities may be shipped via rail to Canada and Mexico. Oregon Resources projected volumes projections in the 500-600 annual carload range. Boxcars may be the preferred equipment type used but it is possible that covered hoppers could be used if the proper type can be supplied.

Municipal Solid Waste – Coastal communities and counties are facing increased regulatory issues involving municipal waste disposal. Several counties in the south coast region are discussing the possibility of transporting containerized municipal solid waste by rail to a permitted landfill on the upper Columbia River near Arlington, Oregon.

Multi-Purpose, Multimodal Terminal – The Port is proposing the development of a marine industrial parcel on the North Spit of lower Coos Bay. This terminal facility would be designed to handle several types of cargo, including bulk commodities, non-containerized breakbulk cargoes, heavy-lift cargo and possibly intermodal containers. Some of the possible cargoes are listed below:

Scrap Metal Exports – There are strong markets in the Asia and India for scrap metal and other scrap materials. Inbound scrap material for export loading would require a rail line to support significant volumes of scrap originating in northwestern states. Metal and other scrap is a commodity that some ports would prefer not to handle.

Lumber Exports – In the past there was a significant export market for lumber out of Oregon and the Pacific Northwest. That market grew significantly during the first quarter and second quarters of 2008, but has since contracted given the impacts of the economic downturn in North America and much of the world.

Aggregate / Sand Imports – There is a potential market for imported sands and aggregates if locally produced sand becomes impractical or non-viable due to increasing state and federal regulatory issues.

Biomass Fuel Export / Import – Over the next 10 to 20, there will be a growth in demand for biomass fuels, particularly in the Asia/Pacific Rim region, India, and possibly northern Europe. Biomass type fuels, such as industrial wood pellets, scrap and residual wood products, and other biomass products could be a significant port import or export product.

Other Bulk Commodities – Import or export of bulk commodities such as potash, other fertilizer compounds, various ores and coal could be handled at Coos Bay, but would require a rail connection to provide the low cost essential for these types of commodities.

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LNG Terminal – The Jordan Cove Energy Project. The Port has been working with Energy Projects Development LLC on developing a portion of the North Spit area for the siting of a liquefied natural gas terminal. The project has received Federal Energy Regulatory Commission (FERC) approval, while the pipeline component is still working through some land use issues. If the project stays on schedule there could be significant shipments of construction materials by rail starting in 2013/2014. Depending on where the LNG originates, there also could be outbound rail shipments of propane and butane.

Intermodal Container Terminals – Port staff has been working with an international marine terminal development company which has been considering developing an intermodal container terminal in the Coos Bay harbor. The proposed terminal would be similar to recent terminal development at the Port of Prince Rupert in British Columbia, Canada. Due to market conditions and the projected cost of such a terminal, actual development probably would not be completed within the next 10 years.

There are also a number of former rail shippers on the Coos Bay line that may be willing to discuss moving commodities by rail when service is restored. Several of these firms discontinued use of rail for service-related reasons.

Competition and Traffic Diversion

The primary competition to the Coos Bay rail line is truck service over either the full trip length or to a transload facility on the UP at Eugene or on the CORP Siskiyou Line. However, both would have an operating cost disadvantage relative to direct rail freight service once the Coos Bay line is rehabilitated.

A tractor-trailer type of truck features a load capacity of (at maximum) 44,000 pounds, or 22 tons, and an average cost per mile in the \$1.75 to \$2.00 / mile range.

The road distance between Coos Bay and Eugene is 112 miles and a single truck would need to traverse this distance six to eight times to deliver what a single rail car could in one round trip. The rail car equivalent by tractor/trailer combination truck would be $6 \times 112 \times \$1.80 = \$1,209.60$ or $8 \times 112 \times \$1.80 = \$1,612.80$. So rail rates and costs compare favorably with the cost of trucking, even before consideration of any transloading cost associated only with a truck haul. As a result of this cost advantage, it is likely that direct rail transport would be able to recapture a fair portion of the freight that is currently moving by truck/transload/rail now.

On the other hand, freight that is moving a relatively short distance, for example, within Oregon, may currently be moving by truck from origin to destination. This freight may be more challenging to recapture as the faster delivery time of trucks may permit a lower quantity of freight in transit (inventory cost) at any given time. The decline in the economy and lower volumes of lumber also frees up a significant portion of truck capacity, reducing pricing to below breakeven at many trucking companies in order to survive.

Despite the cost advantages of the railroad mode, any restored Coos Bay rail line railroad operation will need to provide a reliable service product to regain traffic and the key to that goal is providing daily (Monday through Friday) plant switching service to most of the customers at the Coos Bay end of the line (including Coquille). Service levels to east end customers (at Noti and Vaughn) also should be provided at a relatively high level of at least three switches per week per customer, if needed. Due to the current track arrangement at Noti, one customer will be switched by the westbound train crew while the other customer will be switched by the

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eastbound train crew. Additional trackage, such as a runaround track, would be required to permit switching of both customers by either train.

Interchange Carriers and Tariffs

The prior shortline carrier, CORP, signed a Cooperative Marketing Agreement (“CMA”) with UP that essentially made CORP a “handling carrier” (rather than an “origin carrier”) so that UP appeared as the origin road on the bill of transit (“waybill”) and UP was responsible for all transit rates and fuel surcharges, as well as customer billing and interline settlement. The UP, in turn, reimbursed CORP a set, agreed amount of the bill, usually a flat rate based on the commodity. The advantage to CORP is that it did not have to handle customer billing, collections, negotiation and contracts.

UP likely would be willing to continue with a similar contract regarding the Coos Bay rail line operator, with possibly some changes. Because the CMA is considered “highly confidential” information (and is still in use on the remainder of CORP’s operation), details of that agreement are not available for discussion.

CORP also was involved in interline operations for movement of local (Oregon intrastate) traffic with one or more other shortline carriers through the UP Eugene rail yard. Opportunities of this nature may be available in the future and can be very important for building annual carload volumes.

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Information Attachment No. 2:

Coos Bay Rail Line – Embargo by the Central Oregon & Pacific Railroad (CORP), acquisition of the rail line by the Oregon International Port of Coos Bay (Port), and ongoing rehabilitation of the rail line

Embargo and Discontinuance of Service on the Coos Bay Rail Line

On September 21, 2007, the CORP Railroad, an operating unit of RailAmerica Inc., filed a rail Embargo No. CORP000107 stopping rail service over the majority of the Coos Bay line – from Richardson (west of Eugene) to Coquille. Shippers and receivers on the line were provided less than 48 hours notice of the embargo.

CORP stated that three tunnels on the line were unsafe and did not comply with Federal Railroad Administration (FRA) standards. An FRA inspection, with participation by the Oregon Department of Transportation Rail Division, confirmed the unsafe conditions in several tunnels.

Termination of freight rail service severely impacted industrial manufacturing firms at many locations in western Lane County, western Douglas County and Coos County, as well as marine terminals in the Coos Bay harbor. The Coos Bay line is southwest Oregon's only link to the North American rail system.

The manufacturing firms and other rail shippers impacted by the loss of competitive transportation access immediately came together as a coalition to assess their transportation options, discuss legal actions which might be available, and to pursue efforts to restore rail service. The coalition also explored any assistance available from local, state and federal public agencies. After several shipper-only meetings and meetings with state officials, including the governor, the group invited the Port to become a member of the shippers' coalition.

The coalition's position at that time was that while they would prefer to have a private-sector firm acquire and operate the Coos Bay rail line; however there did not appear to be any interested parties. The group then evaluated the role the Port could play in helping rehabilitate the line and restore freight rail service. The Port had previously acquired the main rail bridge crossing Coos Bay in order to extend its operating life through a long-term restoration project and had built a rail spur to provide rail access to a new industrial manufacturing facility and to nearby industrially-zoned land the Port was seeking to acquire from a major forest products industry land owner.

Port Acquisition of the Coos Bay Rail Line

Following Port staff evaluation of all available engineering and inspection reports, commodity and revenue car loading data – both public and proprietary – from shippers, ongoing meetings with the shippers' coalition, preliminary discussions with state transportation officials and meetings with state and federal officials, the Port's Board of Commissioners authorized Port staff to pursue all available opportunities and processes for acquisition of the rail line.

The Port then retained Oregon and Washington, D.C., legal counsel at the recommendation of the Port's federal lobbyist. The Port's Executive Director, DC lobbyist and DC legal counsel then met with staff of the U.S. Surface Transportation Board (STB) to discuss options for

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resolving the rail service conflict. The preferred methodology for the STB is to bring parties together with the assistance of staff mediators to resolve conflicts and find solutions outside of the formal processes of the board. STB staff twice attempted to mediate between the parties.

Since all attempts to negotiate a reasonable and responsible resolution of the issues with the rail line owner, both through the STB staff efforts and by reaching out directly to senior management of the company, failed, Port staff then presented options to the Board of Commissioners. The Board directed staff to pursue all available formal processes through the STB for acquisition of the rail line.

During the ensuing months, CORP/RailAmerica took no action to restore service, severed communications with interested parties, and subsequently published a System Diagram Map in April 2008, a prerequisite for an abandonment filing with the STB.

On July 11, 2008, the Port filed a Feeder Line Application (FLA) with the STB, with the goal of acquiring the Coos Bay rail line at Net Liquidated Value (NLV). Several days later CORP/RailAmerica filed for abandonment of the Coos Bay line from Vaughn to Cordes on the North Spit of lower Coos Bay, and for authority to discontinue service over the remainder of the line from Cordes to Coquille, which CORP leased from Union Pacific.

During the STB Feeder Line Application process, the Port was provided access to the Coos Bay rail line only by stipulated orders granted by the STB. As a part of the STB review process, the Port engaged the services of R.L. Banks & Associates, an international railroad consulting firm. Banks' role was to gather as much information as possible about the physical condition of the rail line through all possible sources; direct inspection of the line, specifically track structure, tunnels, bridges and trestles and other associated facilities, public records inspections and any other viable sources. As the Feeder Line Application process moved forward, the Port was able to continue its due diligence of the rail line.

Following a lengthy STB administrative process, the Port completed acquisition of 111 miles of the Coos Bay rail line from CORP/RailAmerica on March 13, 2009, as stipulated by a decision affirming the Port's Feeder Line Application before the STB. The price, as set by STB order, was \$16.6 million. Additionally, the Port spent nearly \$1.5 million in fees related to the legal action before the STB.

Purchase of the line was supported by the State of Oregon through a loan package administered by the Oregon Economic & Community Development Department. The loan balance is \$5.4 million. The Port utilized funds from the *ConnectOregon* I program (\$4 million) and federal surface transportation legislation – SAFETEA:LU (\$7.2 million) – that were originally proposed for phase II rehabilitation of the Coos Bay railroad bridge for the majority of the purchase price. State officials and federal legislators helped reprogram both allocations so they could be used for the rail line purchase.

Rehabilitation of the Coos Bay Rail Line

Prior to final acquisition of the rail line, Port staff completed a Request For Qualifications (RFQ) process to identify a professional engineering services firm to serve as Engineering Services Coordinator/ Project Manager for the planned rehabilitation of the rail line and the restoration of freight rail service for western Lane, western Douglas and Coos Counties. After the rail line acquisition, the Port engaged the services of HDR Engineering Inc. (Portland office) as the engineering/project manager. Other members of the engineering team include R.L. Banks,

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Jacobs Associates (tunnel engineers) and a variety of other disciplines, including environmental specialists and geotechnical engineers.

The Port also entered into an intergovernmental agreement with the City of Prineville to utilize the experience and expertise of Dan Lovelady, General Manager of the City of Prineville Railway and former General Manager of the CORP from 2002 through 2006. Dan continued to serve as the General Manager for the Prineville Railway through June 2010, while assisting the Port in the role of Interim Chief Operating Officer for the Coos Bay Rail Link, with the reporting mark of CBR. Dan is now working full time for the Port, but is still providing some consulting service to the City of Prineville.

The first task for HDR was assisting Port staff in preparing an application to the Oregon Transportation Commission for funding available through the American Recovery and Reinvestment Act (ARRA) of 2009. The funding needed to bring the Coos Bay rail line back to Federal Railroad Administration (FRA) Track Classification 2 (25 miles per hour) was estimated to be nearly \$32 million, which includes the phase 2 rehabilitation of the Coos Bay railroad bridge; however Port staff and various engineering consultants have proposed that restoring freight rail service may be achieved through an investment of between \$15 million – \$18 million, but the line will be limited to a mix of 10 mile-per-hour and 25 mile-per-hour sections, which will impact operating costs, but they should be manageable.

The Port was successful in acquiring an AARA grant of \$2.5 million from a \$10.5 million request for tunnel and bridge repair and maintenance. The funds have been used for rehabilitation of four tunnels deemed unsafe by FRA inspectors. The tunnel contract was awarded to LRL Construction Inc. of Tillamook, Oregon, and they mobilized equipment on site in late August 2009 and started work in September. As work on the tunnels progressed through the winter and spring change orders for additional tunnel work allowed the Port to fully expend the ARRA funds while performing more work in the designated tunnels. There will be a close out of the ARRA grant in late June, but tunnel work will continue through the summer of 2010, through the use of lottery bond funds allocated to the Coos Bay rail line project by the Oregon Legislature at the close of the session in June 2009.

Port staff is currently focused on acquiring additional funding to continue rehabilitation, and Dan Lovelady is dealing with many ongoing issues involving the condition of the rail line and several rail line-related projects. The rail line also received a \$20,000 grant from the Oregon Department of Transportation Rail Division to help with rail line clean-up (downed trees and small slides). That work has been completed, however removal of sand across the line on the between TransPacific Parkway and Hauser will be delayed until rail service is restored because it will continue to accumulate.

Port staff, primarily Jeff Bishop, Dan Lovelady, Martin Callery and Kathy Wall, working through the Coos/Siskiyou Shippers Coalition has been meeting with former shippers on the Coos Bay rail line and will continue to keep shippers informed about progress toward restoration of rail service. Port staff is also involved in continuous outreach to elected officials, public agencies such as counties, cities and towns, economic development organizations and to civic groups throughout the region in order to keep them informed of the status of the railroad.

In September 2009, Port staff worked with several consultants to prepare an application for the ARRA TIGER – Transportation Investment Generating Economic Recovery program (later called TIGER 1). The Port's application was for approximately \$42.7 million, and included funding for phase two of the Coos Bay rail bridge rehabilitation and funds to rehabilitate the rail

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line from the North Spit of lower Coos Bay to Coquille. However, there were more than 1,400 applications totaling nearly \$58 billion and only one application from Oregon was approved; a transit project in the Portland area.

The Port also submitted an application in November 2009 to the *ConnectOregon* III program, which was part of Governor Kulongoski's and the Oregon Legislature's Jobs and Transportation Act of 2009. The Port is seeking \$7.8 million from the program, which will be matched by a \$1.9 million commitment from the Port. The match will come from a combination of the rail line purchase price and the \$3.6 million provided to the Port by the 2009 Oregon Legislature. The Port's rail line project was ranked second in the state by both the Oregon Freight Advisory Committee and the ODOT Rail review committee. The project was ranked first by the SouthWest Area Commission on Transportation and the ODOT Region 3 review committee. During the Final Review Committee meeting June 9-10, the project was ranked third on the statewide project list being forwarded to the Oregon Transportation Committee for review and approval during July and August. The *ConnectOregon* III funds should be available in the early fall of 2010.

The U.S. Department of Transportation has announced a second round of funding for the TIGER program, designated TIGER 2. The Port and its consultants are preparing the required pre-application submittal and will file a full application in September. The TIGER 2 request will be in the range of \$12 million to \$15 million and will be for rehabilitation of track structure. There will be separate applications to other TIGER 2 program components for a planning grant for a bike/pedestrian pathway adjacent to the rail line between Coos Bay and Coquille, and for a passenger rail feasibility study for service between Coos Bay/North Bend and the Amtrak station in Eugene. If either the bike/pedestrian pathway or the passenger service proposals appear to be viable, the Port will seek funding for those projects following completion of the rehabilitation of the rail line and restoration of freight rail service.

Additionally, the Port has nearly completed the process for acquisition of the Coos Bay to Coquille section, which is still owned by UP and is still leased to CORP/RailAmerica. UP and CORP are working to resolve a number of issues regarding the condition of the line and termination of the lease. The Port has signed an initial purchase agreement, but is still pursuing due diligence regarding UP's rail assets in Coos County; specifically rail yards in North Bend and Coos Bay, and the rail line to Coquille.

Following completion of the major tunnel rehabilitation during the summer of 2010, the additional work required to restore freight rail service on the Coos Bay rail line is expected to take six to eight months, assuming receipt of the *ConnectOregon* funds in the fall of 2010. Rail operations are targeted to resume in the spring of 2011. Of course, rail shippers would like to see rail service as soon as possible, but have been patient given the state of the housing market and overall demand for lumber.

The Importance of Freight Rail Service

The Port has two primary reasons to pursue resumption of freight rail service for the region.

- Freight rail service is necessary to support future economic development opportunities in the marine industrial sector
- It is critical to the Port and to southwest Oregon communities to retain freight rail service to support the existing industrial base and jobs in the local mills.

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Information Attachment No. 3

Brief History of the Coos Bay Rail Line

Rail transportation, primarily freight movements between communities in the Coquille Valley and Marshfield (Coos Bay), but also including passenger service, was first established in the Coos County region of southwestern Oregon in the period of 1891-93 with the construction of a rail line between Marshfield and Myrtle Point by the Coos Bay Roseburg and Eastern Railroad and Navigation Company (CBR&E [not a reporting mark]).

The California owners of the CBR&E had originally planned to extend the line eastward to the Umpqua Valley and Roseburg through the Coast Range to connect with the Oregon and California Railroad (O&C [not a reporting mark]) linking Portland and northern California. The O&C had been leased by the Southern Pacific Railroad (SP) in 1887, and was being operated in conjunction with other SP lines in the west. However, the Panic of 1893 curtailed future expansion east by CBR&E.

In the summer of 1905, SP announced it would build a rail line to the Coos Bay area diverging from the main line at Drain and following the general route of the Umpqua River. SP then purchased the CBR&E, although it continued to operate independently of the SP Portland Division until 1915. Right-of-way acquisition and some grading and tunneling west of Drain began in early 1906, continued into 1908, and all activities were discontinued later that year without explanation from SP.

Early in 1910, an entrepreneur backed by an investor from England proposed a rail line to Coos Bay via a route on the west side of the Willamette Valley to Eugene, then on to Florence along the Siuslaw River. This group operated under the name Pacific Great Western Railway (PGW [not a reporting mark]). This proposed line gained the attention of SP, which then announced plans to build a line from Eugene utilizing the route of the Siuslaw River to Florence and then down the coast to the Coos Bay area. Construction of this line began in July 1911 under the name Willamette Pacific Railroad Co. SP eventually bought out the PGW in 1912.

The Coos Bay rail line was opened for through service between Eugene and Marshfield (Coos Bay) when the turn-span bridge across the Umpqua River at Reedsport was completed in July 1916. Prior to that both freight and passenger service had been utilizing a steam ferry connection across the Umpqua River. SP also then discontinued use of the Willamette Pacific Railroad name and officially designated the through connection as the Coos Bay Branch of SP's Portland Division.

The rail line served the communities of Veneta, Noti, Vaughn, Swisshome, Mapleton, Cushman, Canary, Reedsport, Lakeside, Hauser, North Bend, Coos Bay, Coquille, Myrtle Point and Powers, although the Powers line was primarily a logging operation. Trackage beyond Coquille, 18.8 miles between Myrtle Point and Powers was abandoned in 1972, and 7.5 miles between Coquille and Myrtle Point was abandoned in 1987. One additional mile at Coquille was abandoned in 2000. Passenger service on the line ended in June 1953.

The Coos Bay line has been used extensively for the transport of finished lumber and plywood, wood fiber and logs throughout much of its operating life. At various times a variety of bulk commodities such as wood chips, fertilizers, propane, various petroleum products and mineral

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Brief History of the Coos Bay Rail Line (continued)

ores moved on the line. Not too many years ago there were two paper mills shipping over the line.

During the 1950s, 1960s and 1970s, SP upgraded the rail line by replacing lighter weight rail with heavy relay rail (110/136 lb) cascaded down from mainline operations. A significant number of ties were replaced and many tons of ballast was added where needed. The SP also rebuilt several trestles across coastal lakes between the Siuslaw River and Lakeside.

On December 31, 1994, shortline railroad operator RailTex Inc. acquired the Coos Bay and Siskiyou Branch Lines of the Southern Pacific Transportation Company and established the Central Oregon & Pacific Railroad (CORP) to provide continued freight rail service for southwest Oregon and northern California; Lane, Douglas, Coos, Josephine and Jackson Counties, Oregon, and Siskiyou County, California.

In 1996, Southern Pacific was merged into the Union Pacific Railroad (UP), following the Burlington Northern (BN) and Santa Fe (ATSF) railroads merger into The Burlington Northern and Santa Fe (BNSF) Railway Co in 1995, which was renamed BNSF Railway in 2005.

In early 2000, RailTex Inc. was acquired by RailAmerica, Inc. and in February 2007, RailAmerica Inc. became a subsidiary of Fortress Investment Group. During this time CORP continued to operate the Coos Bay line with crews and equipment located in Eugene and Coos Bay.