



CITY OF SALINAS

COUNCIL STAFF REPORT

DATE: **JUNE 19, 2018**

DEPARTMENT: **OFFICE OF THE CITY MANAGER**

FROM: **ANDREW MYRICK, ECONOMIC DEVELOPMENT MANAGER**

TITLE: **BUILD GRANT APPLICATION FOR A NEW INTERMODAL FREIGHT RAIL FACILITY**

RECOMMENDED MOTION:

Approve the attached Resolution supporting the proposed intermodal rail facility project and directing staff to continue to work with Aurora Express International in preparing a grant application.

RECOMMENDATION:

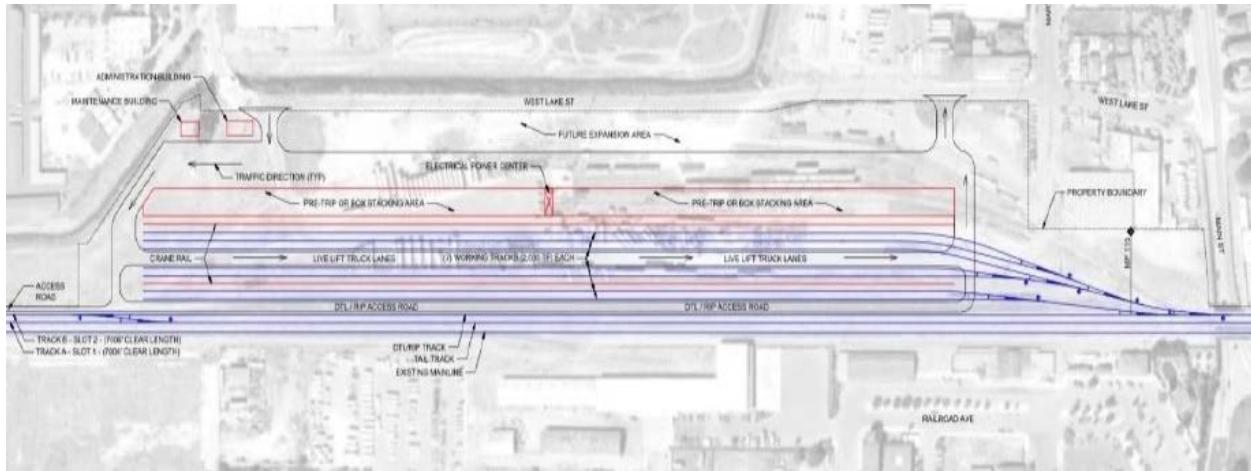
Staff recommends that the Council approve the attached Resolution. This would express support for the project described in this Staff Report, and provide staff direction to continue to work with Aurora Express International in the preparation of an application, as well as continue to conduct due diligence activities.

BACKGROUND:

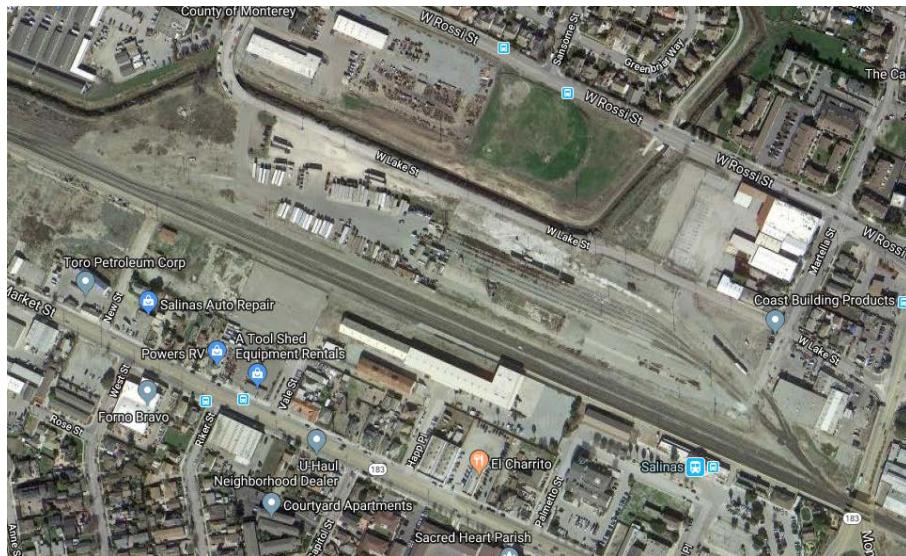
Prior to the advent of the interstate highway system, the primary means of transporting agricultural products to customers on the East Coast was by railroad. Throughout the City, a number of railroad spurs serving individual packing sheds were constructed, and development clustered around both sides of the Union Pacific Railroad which runs through the City. However, the shipment of goods by rail began to decline in the 1950's, and was almost totally replaced by truck traffic by the late 1980's. Some of the spurs constructed have since been removed; however, some still remain in place (though unused and mostly obsolete) in various locations throughout the City.

In 2014, the City of Salinas was approached by representatives of Aurora Express International regarding the potential development of an intermodal rail center in Salinas. The concept of the intermodal center would be to bring produce from processing/packing facilities to the intermodal rail facility by truck, and then load it onto a train. Due to changes in the rail and trucking industries, the business owners believe they can reduce the time and cost that it takes to ship produce across the country. The concept of locating one of these facilities in the region has been examined several times over the past few decades, with studies in 1995 and 2008 both finding that the development of such a facility would have positive benefits related to economic growth and the reduction of truck traffic in the region.

The desired site for this location would be on the north side of the main railroad track line, across from the Salinas Train Station and south of West Lake Street. This site is owned by Union Pacific Railroad, and includes a number of obsolete spur tracks from an intermodal center which has fallen out of use. The proposed project would include the removal of all existing tracks, installation of new tracks to serve the new intermodal facility, the installation of a large electric crane, and some minor administrative buildings, as noted on the site plan below:



The site is currently being used for outdoor storage, as noted in this aerial photograph:



Operationally, the business would employ a fleet of dray trucks that would transport shipping containers from processing/packing facilities and bring them to this site. The crane would then directly lift the container from the back of the truck and place them directly onto a railroad car. The cars would then be held on the tracks until the train is ready to transport them. The business anticipates one train trip per day. The projected number of jobs created would be 22 by 2020, increasing to 68 by 2024 if their projections prove accurate, with a mean compensation of \$27.39 per hour plus benefits.

At this point, the business represents that they have secured a lease from Union Pacific on the site, and have completed project design documents, and are now trying to secure financing for the project. The business has indicated that the total cost of start-up for this project is approximately \$101 million, including nearly \$79 million in equipment and slightly more than \$17 million in construction costs. To date, the business has secured about \$76 million through selling equity, acquiring debt, and personal resources. This leaves a gap of about \$25 million to complete the project.

There are several Federal grants available that can assist in the completion of this project. The business would be able to fund the remaining \$25 million balance through the use of a BUILD (Better Utilizing Investments to Leverage Development) from the Department of Transportation. The business has retained the services of a respected consultant, Seneca Group LLC, which specializes in transportation grants, to author the grant application. However, as a private company, Aurora Express International is not a permitted applicant for a BUILD grant. Therefore, Aurora Express International has requested that the City partner with them to submit the grant application.

ANALYSIS

The proposed grant application would be for approximately \$25 million, and would provide the last piece of funding necessary to move the project forward.

Benefits of Grant

Typically, the City would not submit a grant application on behalf of a private enterprise. However, in this case, the benefits of the operation would provide public benefits in addition to any benefits received by the business. For example, the money would allow for the redevelopment of a highly visible property suffering from substantial blight, and operations at the site would greatly reduce incidences of trespassing at the site. In addition, the project would result in the construction of new railroad infrastructure, which would be of value regardless of whether the business is successful.

Grant Submittal Costs

Aurora Express International is responsible for preparation of the grant application. The City's role would be to receive and review the application, and submit the application if it deems it to be acceptable.

City Match

Aurora Express International has secured all necessary funding from private sources to qualify for the project. The business is not requesting that the City contribute any funds to the project.

Ongoing Monitoring

As the grantee, the City would be responsible for any ongoing monitoring of the grant, including the distribution of funds to outside parties as necessary, and ensuring that any conditions are complied with. Because the exact requirements of the grant are unknown at this time, it is impossible to estimate those costs. However, Aurora Express International has agreed to reimburse the City for all of its costs in managing the grant, and has included a request for funds to administer the grant in the grant request. The City and Aurora Express International will enter into a written agreement to specify the nature of this compensation prior to accepting any grant award.

Risks

The greatest potential risk posed by this grant would occur if the grant agreement would include “clawback” provisions for non-performance, and either the business or another third party does not meet the grant’s performance requirements. A typical clawback provision requires the grantee to pay back some or all of a grant if certain conditions are not met. Although it is not known at this time whether the final grant agreement would include such a provision, given the size of the grant, if the City were to be required to pay back the entirety of this grant, the results could be catastrophic.

There are a number of provisions that will be put in place to prevent such an event from occurring. First, the City will carefully review any potential agreements to determine whether the conditions would pose a significant risk to City resources, and will not enter into any agreements unless those risks are satisfactorily mitigated. Second, Aurora Express International has agreed to purchase a surety bond from a reputable company in order to cover the City’s losses in the event of non-performance, and the cost of such a bond has been included in the project budget. Third, the money from the grant will be distributed on a reimbursement basis, so costs can be regularly monitored and funds withheld if any improper activity is detected.

CEQA CONSIDERATION:

The proposed project includes freight rail service on property owned by Union Pacific Railroad. Pursuant to the Federal Interstate Commerce Commission Termination Act of 1995, local and State regulations, including CEQA, are not applicable to this project.

STRATEGIC PLAN INITIATIVE:

The proposed grant would promote the Council Strategic Plan Initiatives of Economic Diversity & Prosperity (through job creation and the redevelopment of a blighted site) as well as Well-Planned and Excellent Infrastructure (by providing needed updates to the rail network within the City).

FISCAL AND SUSTAINABILITY IMPACT:

On balance, the grant should have a neutral or positive financial impact on the City. All City costs incurred by the City, including administrative overhead, will be reimbursed by the applicant. There are also potential increases in revenue created by the redevelopment of the site and increased employment. Prior to the acceptance of any grant award, staff will ensure that any risks to the City are negligible.

ATTACHMENTS:

Proposed Resolution

Draft Federal Grant Application Summary from Aurora Express International

Job Forecast from Aurora Express International