

October 17, 2018

Attorney General Xavier Becerra
Attorney General's Office
California Department of Justice
Attn: Public Inquiry Unit
P.O. Box 944255
Sacramento, CA 94244-2550

Re: Request for Investigation into Humboldt Eastern Railroad, Oscar Larson and Associates, and Pacific Charter Financial Services

Dear Attorney General Xavier Becerra:

The City of Eureka would like to request an investigative review into potential securities fraud concerning the ongoing unregulated sale of investment contracts and passive investment interests in the "Pacific Northwest Railroad" by Humboldt Eastern Railroad, LLC (HERR), Oscar Larson and Associates (OLA), and Pacific Charter Financial Services (PCFS). We understand the seriousness of this type of inquiry. However, we feel that it is in our constituents' best interests that the nature of this unregulated "offering" be reviewed by a State law enforcement agency with the A-G's jurisdiction insofar as it squarely appears to fall within the definition of a "security" as that term is defined in California law [Cal. Com. Code, § 8101 et seq.] and because it is being aggressively marketed to the general public.

As outlined in a recent news article, HERR contracted with Oscar Larson and Associates to provide engineering assistance for a rail line between Humboldt Bay and the northern Central Valley as well as developing Humboldt Bay to facilitate large ship traffic. Through OLA, HERR obtained the services of PCFS to help raise capital to fund these developments – without registration or regulation as a security offeror, as we believe is required under applicable California law.

Prospective investors are being told that the Pacific Northwest Railroad is projected to cost over \$10 billion, with four-plus billion dollars for the construction of the rail line and \$6-plus billion dollars for port improvements necessary to facilitate large ships. To finance the Pacific Northwest Railroad, project proponents have advertised that they are trying to raise \$10 million from local investors through the sale of shares in the railroad. In a letter to potential investors marked confidential, project proponents note that there is strong national and international interest for investing in a long-term, "in-the-ground" type of asset," however, this investment "all awaits a demonstration of local interest and commitment." This money will be used, in theory, to fund the

initial studies and permits necessary for the project. Offerors predict project completion in four to seven years.

Subsequent stock offerings are to be used to generate the remaining \$9,990,000,000 capital investment. **Initial investors have been told that once the first \$10,000,000 is raised, they will be paid back at four times their original investment.**

The City of Eureka's concern here arises from the fact that credible local news reports:

<https://lostcoastoutpost.com/2018/sep/12/latest-east-west-rail-scheme-most-grandiose-yet-it/> have stated that HERR ***“is not registered, and does not intend to register, as” an investment company because if it did (it) “would become subject to substantial regulation.”***

Under California law, offers and sales of securities must be qualified with the Commissioner of Corporations unless the transaction or the security being sold is exempt. The City's concern arises here because 1) this offering has numerous earmarks suggesting that it is **NOT** exempt and 2) the offering is being aggressively marketed locally to vulnerable citizens – particularly the elderly – within our city.

A cursory look at Pacific Charter Financial Services, an entity associated with the offering, confirms these concerns. According to the California Secretary of State, Pacific Charter Financial Service's business license has been forfeited “for failure to meet tax requirements.” The company is registered in Nevada; however, its value is estimated at only \$25,000.

Claims made to prospective investors – our community members – include details that seem highly questionable. For example, railroad bills itself as a “green” infrastructure investment—a potential selling point to future investors, according to project proponents—by highlighting that future locomotives will be powered by hydrogen fuel cells. However, this technology does not yet exist for freight locomotives and the project does not propose to develop this type of locomotive for the mountainous freight hauling required.

This securities offering shows multiple warning signs that project proponents, particularly OLA and PCFS, are looking to exploit emotional and economic desires by some for rail development in Humboldt County. HERR documents state that some of the “expected Benefits to Our Local Region” of the project to include:

“Good, decent paying jobs which provide a living wage, enabling families to be formed, and generating future local employment for our children and grandchildren. Better schools and other improved educational opportunities will likely result.”

“...sufficient medical doctors can be recruited and retained”

“...enhanced government services, repaired County roads, and healthy infrastructure improvements such as trails along with better-financed public transportation.”

“...improved air travel service is also likely.”

“...reduce and cope with societal ills such as homelessness, substance and child abuse, school dropout rates, and despair.”

“Restoration of hope, optimism, and determination among the people of Humboldt County can be anticipated.”

In our community, there are vulnerable and elderly individuals with limited resources who are especially susceptible to manipulation by such messages. Some have already invested tens of thousands of dollars in this unregulated “opportunity” because of the promises made by its proponents suggesting it is a worthy investment, playing on the emotions of community that has seen dramatic economic and cultural shifts away from its industrialized working class past.

The City Council of the City of Eureka is requesting the following:

1. A formal inquiry into Humboldt Eastern Railroad, LLC (HERR) by the Office of the Attorney General, to determine whether the aforementioned offering amounts to an unregulated “security” offering under applicable California law; and to determine
2. Whether HERR and/or PCFS is engaging in unfair and misleading business practices in violation of California's Unfair Business Practices Act (Cal. Bus. & Prof. Code § 17000) and/or untrue and misleading advertising in violation of § 17500 et seq.

Thank you for your attention to this matter.

Sincerely,

Frank J. Jäger
Mayor

City of Eureka.

CC: Maggie Fleming, Humboldt County District Attorney