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November 6, 2024

VIA E-FILING

The Honorable Cynthia T. Brown
Chief, Section of Administration
Surface Transportation Board
395 E. Street, S.W., Room #100
Washington, DC 20423-0001

Re: *Fox Valley & Lake Superior Rail System, L.L.C.-Acquisition and Operation Exemption-Lines of Wisconsin Central Ltd. in Wisconsin*, Docket No. FD 36504

Watco Holdings, Inc.-Exemption for Intra-Corporate Family Transaction-Fox Valley & Lake Superior Rail System, L.L.C. and Wisconsin & Southern Railroad, L.L.C., Docket No. FD 36505

Watco Holdings, Inc.-Continuance in Control-Fox Valley & Lake Superior Rail System, L.L.C., Finance Docket No. 36506

Dear Ms. Brown:

This letter responds to Clark County Economic Development Corporation & Tourism Bureau's ("CCEDC") comments regarding the Spencer-Medford line (the "Medford Sub") in Wisconsin filed in the above dockets on October 17, 2024.¹

The purpose of CCEDC's comments are unclear. There is no active Board proceeding and CCEDC asks for no concrete action by the Surface Transportation Board ("Board"). Nevertheless, the Fox Valley & Lake Superior Rail System, L.L.C. ("FOXY") welcomes the opportunity to update the Board on the progress that FOXY has made since consummating the underlying transaction in 2022 and to set the record straight with regard to the Medford Sub.

The FOXY Transaction

In January 2022, FOXY acquired approximately 509.27 miles of rail lines in Wisconsin from Wisconsin Central. In total, FOXY acquired fifteen separate rail lines including the Medford Sub. These lines consisted generally of lightly used and out of service branch lines. Upon consummation, FOXY immediately hit the ground running, inspecting the acquired lines, making significant investments, engaging with scores of stakeholders to identify and develop opportunities to grow rail volumes, and pursuing public funding opportunities.

FOXY's first order of business was to inspect the active rail lines, address deferred maintenance issues and identify immediate opportunities to grow volumes through infrastructure investment.

¹ The letter is signed by CCEDC but purports to also be "authored" by the Tri-County Railroad Team, the City of Colby and the Village of Dorchester.

FOXY found that many of the lines were in significant need of tie replacement and track work as well as upgrades to handle heavier traffic. Thus, in 2022 and 2023, FOXY invested,

- \$1.3 million to upgrade three railroad bridges in the Wausau area to allow for 286k shipments (Valley Sub and Abbey Spur);
- \$1.1 million in tie and surface track work on New London Subdivision;
- \$960,000 in a major tie replacement and track surfacing project north of Wausau on the Valley Subdivision;
- \$425,000 in tie and surface track work on the Shawano Subdivision; and
- \$110,000 in emergency bridge repair in New London.

FOXY continues to make significant investments in the acquired lines. In 2024, FOXY is investing or is planning to invest,

- \$2.1 million in a complete bridge replacement at MP 105.34 on the Valley Subdivision to upgrade to 286,000-pound rail, based on customer demand; and
- \$1.1 million in the subsequent phase of the major tie replacement and track surfacing project on the Valley Subdivision to maintain 286,000 pound ratings.

Also, FOXY has pursued, and continues to pursue, federal and state funding opportunities to support additional investment in the acquired lines.

- FOXY applied for and received a Federal CRISI Grant of \$2 million for engineering and design for three moveable swing bridges over the Fox River in Green Bay and Kimberly, Wisconsin, and FOXY is applying for additional federal grants of up to \$25 million for component repair and replacement in order to upgrade the bridges to 286K standards and extend their useful lives; and
- FOXY is applying for another Federal CRISI Grant for engineering and design for 22 active railroad bridges in New London, Appleton, Center Valley, Wausau, Brokaw, Merrill, Tomahawk and Bradley, Wisconsin, which are in substandard condition.

Additionally, FOXY constructed new modern locomotive shops in Wausau (\$564,500), and Appleton (\$891,000) to service its locomotive fleet.

These investments combined with an aggressive and extensive marketing outreach to current and potential rail customers and customized service offerings have already yielded meaningful results. Several new customers have begun shipping on rail and several former rail customers have reactivated service. New and returning customers in Wisconsin include Schumitsh Companies and Boulder Images in Merrill, Agropur and G2 Paper in Appleton, Walker Forge in New London, and United Cooperative in Center Valley. Several existing customers including 3M, one of Wausau's biggest employers, have increased their use of rail services and rail volumes dependent on market conditions.

FOXY also continues to pursue opportunities to reactivate service on lines that it acquired in discontinued state. To this end, FOXY,

- recently, cleared vegetation +/- 20 miles east of Rhinelander to Atkins to evaluate the conditions of the track and structures;
- is clearing vegetation and evaluating conditions to restore freight rail service to Mellen, Wisconsin; and
- continues to maintain the dormant section of the West Bradley Subdivision (Tony, Wisconsin to Prentice, Wisconsin) and evaluate all business opportunities along the line.

The Medford Sub

While FOXY has accomplished a lot in a short period of time, some of FOXY's efforts have not yet begun to pay dividends. This is true of the Medford Sub which is the focus of CCEDC's complaints. The Medford Sub consists of approximately 27.5 miles of rail line running north-south in central rural Wisconsin, connecting to the Wisconsin Central in Spencer.

At the time FOXY acquired the Medford Sub in 2022, just three active shippers remained on the line. Those shippers combined were forecast to move approximately 40 cars annually, which would have yielded FOXY an estimated revenue of less than \$25,000. Further, upon acquiring the Medford Sub, FOXY identified track geometry issues that would quickly need to be addressed. In total, FOXY estimated that an annual investment of approximately \$500,000 in maintenance and capital expenditures would be necessary for continued operations.

Following acquisition of the Medford Sub, FOXY's Sales Director, Brad Peot, engaged in a series of discussions with a variety of stakeholders to explore opportunities to increase rail volumes. In early 2022, Mr. Peot reached out to the three existing rail customers on the line to understand their need for rail service and the opportunities to grow their traffic. Over the course of the next several months, Mr. Peot engaged in outreach to eighteen potential rail customers located on the Medford Sub. Unfortunately, FOXY found few viable opportunities to increase rail volumes. Generally, for most potential rail customers in the area, the economics simply do not support switching from truck to rail. And the existing rail users are largely indifferent to whether their goods move by rail or truck. As a result, the current lack of demand negatively affects the Medford Sub's eligibility for state funding.

In light of the track geometry issues, in August 2022, FOXY embargoed the Medford Sub while it explored opportunities that would justify the investment needed to restore the line. Before embargoing the line, FOXY worked hand-in-glove with the existing rail customers to ensure that their transportation needs would be fully met. For one customer, this meant establishing a transload facility in Prentice, Wisconsin to enable the customer to continue to utilize rail. The other customers expressed no concern with the loss of rail service. Although the embargo has since expired, the Medford Sub remains out of service, and there is no current demand for rail service. Despite these challenges, FOXY intends to continue to explore opportunities to restore rail service on the Medford Sub.

FOXY has engaged with CCEDC repeatedly including on its high level proposal that FOXY lease the Medford Sub to a third party operator. FOXY has engaged with CCEDC in good faith to find a fair and reasonable outcome for each party and intends to continue to do so. After all, FOXY and

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CCEDC appear to share the same goal – namely, restoring rail service on the Medford Sub. However, CCEDC is yet to provide even the most basic information regarding its proposed third party lease arrangement. CCEDC has not identified a potential lessee or explained how such an arrangement would be economically viable. If presented with a sufficiently detailed proposal, FOXY will certainly consider it.

That said, the core of FOXY's, and that of its Watco short line affiliates', business model is to acquire and operate underutilized or out of service rail lines and make them profitable by developing new customers and growing existing customer volumes. FOXY and its affiliate companies have a well-earned track record of success in executing on this business model. If a viable business case existed for restoring service on the Medford Sub, FOXY would have seized it. And if such an opportunity evolves, FOXY intends to seize it.

Sincerely,

Stinson LLP

David F. Rifkind

DFR:teg

cc: Senator Tammy Baldwin
Congressman Thomas Tiffany
Governor Tony Evers
Parties of Record