



September 10, 2015

The Honorable Mario Cuomo  
Governor  
State of New York  
VIA ELECTRONIC TRANSMISSION

Dear Governor Cuomo,

I am writing to clarify and provide context for recent discussions about the Saratoga & North Creek Railway and the storage of empty freight cars on S&NC-owned track between North Creek and Tahawus.

Saratoga and North Creek Railway (S&NC), based in North Creek, New York, began operations in July 2011 by virtue of a five year licensing agreement with Warren County and the Town of Corinth, New York. These public agency partners had stepped forward in previous years to stave off abandonment of the line, arranging to purchase the 58-mile corridor and then upgrade it for service using local resources and a substantial contribution from the State of New York.

In 2012 IPH purchased the long-dormant 29.7 mile extension of track from North Creek to Tahawus, in Essex County, with the goal of developing profitable freight business that would help to sustain the economics of the S&NC operation. An abandoned mining operation near the Town of Newcomb includes a 50 million ton stockpile of mining byproducts that have been tested for use as high-quality construction aggregate. Substantial consuming markets for this material are located in the New York City metro region but sale of product to these areas requires a reliable, economic freight handling system.

Freight transportation by rail is substantially cheaper than truck for heavy bulk commodities such as rock. IPH believes that 1.5 to 2.0 million tons of rock per year could be moved into the NYC metro region once a viable handling system is put in place. Such a movement would anchor the viability of the entire S&NC operation while removing from the park, in an environmentally friendly way, the byproducts of a faded resource extraction facility.

S&NC has been challenged in negotiating a competitive rate for furtherance of the Tahawus aggregate, in conjunction with Canadian Pacific, to barge facilities at the Port of Albany. Those discussions are continuing; an industry-wide arbitration process is available should regular commercial negotiations fail. At this writing it appears unlikely that the aggregate will move in significant quantities until the 2016 construction season.

S&NC is a privately-held subsidiary of Iowa Pacific Holdings (IPH), a short line freight and passenger service operator on twelve different lines in North America and the United Kingdom. IPH is unique in its balance of marketing emphasis on both freight and passenger services. Lines that include a significant passenger service element require public investment for continued operation; revenues generated from

the fare box are insufficient to maintain tracks to the engineering standards required for passenger service.

S&NC's performance since the 2011 startup has been a modest success, but the current levels of revenue from passenger operations do not provide an adequate return on investment. Since the July 2011 startup around 168,000 people have boarded a variety of regular service, seasonal and special event trains. IPH has invested approximately \$1.2 million in the S&NC corridor above and beyond what was required in the 2011 licensing agreement. Investment to date in the North Creek - Tahawus line by IPH includes an initial \$1.0 million to purchase the alignment in 2012 and another \$485,000 in clearing the track for a very slow speed, rudimentary trial operation. The railway employs 17 people on a permanent basis and approximately 17-20 additional staff in support roles for special events and activities such as the Christmas season Polar Express trains.

Absent improvement in the S&NC's financial performance the railway may not be able to continue operations beyond June 2016.

The promulgation of new safety standards for the transport of crude oil has created a large pool of freight rail cars that cannot be used for their original intended purpose. Owners and lessees of these cars are in need of track space to store the equipment until such time as alternative uses can be found or the cars are permanently removed from rail service. Many of these cars are relatively new, built within the past five to 10 years (the oldest cars will simply be scrapped without going into storage). The condition of the cars is excellent, and they are presently in regular daily service. Also, as a result of the downturn in the price of oil, other types of cars are going into storage including covered hoppers normally used for frac sand loading.

S&NC has an excellent safety and environmental track record, and is fully-compliant with Federal Railroad Administration regulations. Also, S&NC and Iowa Pacific carry \$200 million in liability insurance. Our agreements with Warren County and the Town of Corinth make us fully liable for any accident, damage, or other casualty.

For Saratoga & North Creek, fees for the use of currently dormant track for such storage offer a financial bridge to enable extension of the operating lease beyond June 15, 2016 and to permit the railway to move to a more sustainable, long-term financial posture via strategies as described below.

A sustainable long-term business model for a continuation of S&NC's operation includes:

- Development of rail freight opportunities including the aggregates market from Tahawus to the New York City metro region. In addition, Barton Mines International has developed a range of new product applications for their garnet facility at North River, generating traffic to destinations as far ranging as Seattle and the US Gulf Coast. Other freight rail prospects include inbound forest products, road salt and miscellaneous construction materials.
- Further development of passenger rail opportunities including development of access rights into the CDTA station at Rensselaer. Direct access to Rensselaer for S&NC passenger trains would be expected to improve ridership and use of the trains as a "regular service" transportation alternative for New York City metro visitors to the region. The regional economic impact of such a service scenario is the object of a study that is being managed by the First Wilderness Corridor organization pursuant to an economic development grant awarded by the State of New York this past fall. Developing extended passenger operations by S&NC will require direct engagement by the State of New York as well as negotiations with CPR for access to that portion of the alignment between Saratoga Springs and Schenectady.

However, at this time, S&NC does not actually have any agreements to store freight cars for anyone. Our purpose in informing the County and Town of our plans was in the interest of good relations with our stakeholders. We are in contact with several potential clients, but at this moment we are moving cars in Mississippi and Colorado, but we have no cars moving into New York. We are hopeful of securing contracts that will provide sufficient cash flow to enable us to justify renewing our contract with the County and Town, so we can continue to operate one of the finest passenger trains in New York along a very scenic route.

Saratoga & North Creek Railway, along with the balance of the Iowa Pacific Holdings family, is proud of its history of engagement and transparency in the communities where it operates. We continue to believe that the S&NC can play a vital role in development of the southern Adirondacks, but cannot sustain the current level of operating deficits beyond the June 15<sup>th</sup> expiration of the present operating lease. Storage of empty freight rail equipment provides a financial bridge that will enable the railway to continue its efforts with local and state, public agency and private sector stakeholders in building a sustainable, long term service franchise in this unique and beautiful part of the Empire State.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Ellis', written in a cursive style.

Ed Ellis  
President  
Saratoga & North Creek Railway