



The 'Train to Christmas Town' departs from Neptune's Kingdom at the Santa Cruz Boardwalk during last year's holiday season. JONATHAN WEIAND/SENTINEL FILE

Rails of Debt

PARENT COMPANY OF LOCAL TRAIN OPERATOR STRUGGLES

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SANTA CRUZ — The Chicago-based railroad company operating the county's Branch Rail Line has unpaid debts locally and across the nation, raising questions about the company's finances and long-term viability.

From scenic upstate New York to sunny Southern California and across the Midwest, Iowa Pacific Holdings, owner of the Santa Cruz & Monterey Bay Railway, is struggling to keep up with its bills. It owes tens of thousands of dollars to Central Coast businesses alone, from large media outlets to small railroad support crews to even a tool rental shop.

"There's companies all over," said Mark Buchol, owner of St. Louis-based D & M Transportation Consultants, which repairs passenger cars. "I'm not bad-mouthing any one person there, but they had a lack of a business plan. I not sure what anyone was thinking when they started spending all this money without any plan to pay it back."

Iowa Pacific officials acknowledge a difficult financial period, blaming the federal government for clawing back millions of dollars in loans to the company to repair railroad tracks across the county. They say they are working to pay off debtors and remain committed to operations in Santa Cruz.

The county Regional Transportation Commission



KEVIN JOHNSON/SENTINEL FILE
Irina Sobrak-Seaton, 2, is hoisted onto the Train to Christmas Town in front of the Boardwalk.

bought the line from Union Pacific last year for \$14.5 million, seeing it as a 32-mile opportunity to develop rail service and provide the backbone of a future trail through some of the most scenic territory in the nation.

The agency picked Iowa Pacific to run the line from

RAIL

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among a handful of suitors after a prior operator backed out. Though the arrangement is not expected to net the Commission a financial windfall, commissioners cited Iowa Pacific's size, and presumed stability, as a factor in the selection.

Kevin Busath, Iowa Pacific's vice president of strategic planning, acknowledged the company's financial issues, saying what should have been a windfall — the sale of a profitable Arizona line — turned into a liability when the Federal Railroad Authority sought the return of more than half of a \$64.4 million loan due to the sale.

"To be perfectly blunt, we've been slow paying vendors in the Santa Cruz area and all across the country," said Kevin Busath, Iowa Pacific's vice president of strategic planning. "We're working our way out of this. Within two or three months we should be current with everybody."

IN FOR THE LONG HAUL

Busath said Iowa Pacific is a long-term investors in the area, believing freight operations near Watsonville will grow with a new biodiesel plant and the development of cold-car services to serve the region's agricultural industry.

He also said the company is a believer in passenger rail, and plans seasonal "Train to Christmas Town" passenger service near Watsonville during the winter holidays, since planned repairs to the La Selva Beach trestle prevent a return to Santa Cruz' Westside in 2013.

"We really see this as a significant source of revenue," Busath said.

Started in 2001 and headed by former Amtrak Vice President Ed Ellis, the company has been in an expansion mode for years, most recently acquiring a controlling interest in Cape Rail Inc., which runs a Cape Cod heritage train. The company targets underperforming lines, boasting in one presentation, "We should be called the Kennel Club because we only buy the dogs."

But their arrival locally has not the boost many had hoped for. While some vendors said they have been paid — a representative of Santa Cruz' Flyers fuel depot said Iowa Pacific paid for its diesel fuel with a credit card — several rail-related business have not, and local advertisers who helped promote the Train to Christmas Town also went unpaid, according to sources who asked not to be identified because they hoped to receive payment.

"The list of people that are owed money would probably fill several pages of your newspaper," said one local debtor, who asked not to be identified.

A BOON, BUT BUST TO SOME

Iowa Pacific runs freight lines and excursion trains across the country, as well as two in the United Kingdom.



The Iowa Pacific train draws train buffs and onlookers as it stops along the Westside in Santa Cruz. DAN COYRO/SENTINEL FILE

To some, they have been a shot in the arm to local economies, reviving underused lines and bringing exposure through tourists eager to revisit a bygone era.

One such city might be Alamosa, Colo., a town of fewer than 10,000 residents and the base of Iowa Pacific's San Luis & Rio Grande Railroad. The city's per capita income of \$19,500 is less than two-thirds of Colorado's average, according to the U.S. Census, and some see the company as a boon.

"They've brought a lot of tourism here from people wanting to ride the train. They've got a lot of events on the train that have been really popular. They've been absolutely fantastic community partners," Alamosa Mayor Kathy Rogers said. "My experience with them, and the city in general, has been nothing but positive."

But some local contractors are owed thousands of dollars. One is Torres Plumbing and Heating, which helped rehabilitate old cars for tourist excursions.

Owner Leonard Torres declined to specify how much he's owed, and said Iowa Pacific has paid some but not all of its debt. It is a big burden for a small company, he said.

"It's a substantial amount of money," said Torres, who said he's received letters from Iowa Pacific but has been unable to discuss the debt with them. "I can't get a real live person to talk to."

In upstate New York, Iowa Pacific has a revenue-sharing deal with Warren County for the scenic Saratoga and North Creek Railroad, which runs along the Hudson River. But the company lagged behind on payments for years until coming current in July.

Warren County Deputy Treasurer Robert Lynch said the Iowa Pacific has shared internal financial documents with the county. However, he added, the county has never seen audited statements, which are required under the deal.

'\$15 MILLION IS A LOT'

Busath said the financial problem stem from problems with a \$64.4 million federal loan through the Federal Railroad Administration, the regulatory agency

overseeing U.S. rail operations. Known as Railroad Rehabilitation and Improvement Financing loans, the loans are low-interest, long-term loans the federal government hands out to fund track improvements and repairs.

After getting that loan — which required Iowa Pacific use its nine rail lines as collateral — the company received generous offers for an Arizona line that served booming copper mining operations, the Arizona Eastern Railway. The reported sale price exceeded \$90 million.

"This offer was so good," Busath said. "After three to four seconds of deliberation, we decided to accept the top offer."

Since it sold a line that was to benefit from the loan, Busath said Iowa Pacific expected the federal government to recall part of the loan. The company put \$35 million into an escrow account, but, internally, expected federal regulators to seek \$20 million.

But after months of foot-dragging, the government sought all \$35 million, Busath said. In May, the Sentinel filed a federal Freedom of Information Act request for documents related to the loan.

The Federal Railroad Administration still has not provided the requested documents. An FRA spokesman on Friday said he did not know why the request was taking so long.

In the meantime, Iowa Pacific had spent against the \$15 million the company expected back from escrow, Busath said. The left them short of cash to pay vendors.

"Fifteen million is a lot for us," he said.

Ask what the company did with the rest of the money from the sale, Busath said it was used to pay down debt and fund other projects.

FINANCING FALLS THROUGH

In May, Iowa Pacific said it had reached a preliminary deal with two investors to infuse the company with needed cash. At the time, the company its freight carload had nearly doubled during the prior five months, largely the result of a fracking boom in West Texas oil fields, where the company

owns two lines.

"The new financing will improve our liquidity and enable us to continue to make improvements to track on the Texas-New Mexico and West Texas & Lubbock, which are experiencing a tsunami of new traffic," announced Ellis.

But that financing fell through. Busath said Iowa Pacific is still in talks with other interested investors, and acknowledged that previous investors wanted a big piece of the company.

"Yes, basically," Busath said. "We're interested in financing, not in selling."

STILL COMMITTED

The county's Regional Transportation Commission remains committed to Iowa Pacific. Bids are due Aug. 9 on \$5 million in planned track repairs that should open up the line to greater use, including a possible dinner train.

"They've continued to express their commitment for the operation in Santa Cruz," said Luis Mendez, the Commission's deputy director. "In a way they really couldn't do much yet because we still need to finish — or even start — the bridge rehab work."

But for now, several parts of the line are showing signs of neglect. Along the North Coast, waist-high weeds are common, often thick enough to obscure the rails themselves. In April, a small trestle was destroyed by a fire from an undetected homeless camp.

Mendez acknowledged that maintenance has been "minimal," but expects that to pick up once the Santa Cruz & Monterey Bay Railway begins expanded operations.

"They've assured us that when they start more increasing operations, they will invest more in maintenance to make sure the line is operational," Mendez said.

As part of Iowa Pacific's bid the run the Branch Rail Line, it was required to submit confidential financial reports to the Commission. Mendez said there is nothing to indicate the company was less than truthful in those reports.

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