

PRESERVING

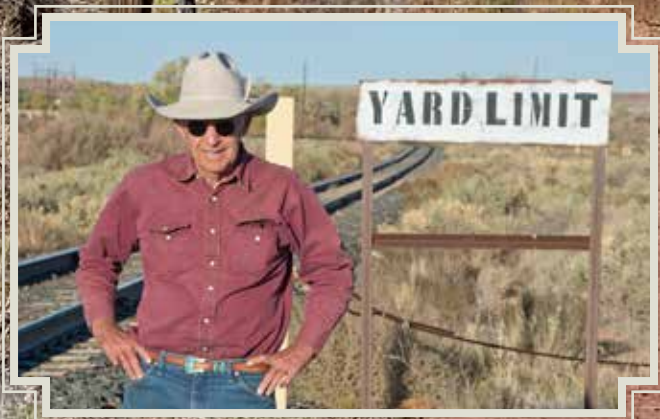
How a community, a cowboy, and its own employees banded together to save the Apache Railway

Story and photos by Davidson A. Ward

Stephen M. Brophy stands beside a weathered yard limit sign in the warm afternoon light and looks across the railway he and his company helped save a few years earlier. Brophy, president of the 135-year-old Aztec Land & Cattle Co., says from under his cowboy hat: “We took it for granted. Like so many others, [we thought] the railroad would be here forever.”

In July 2012, Catalyst Paper Corp. announced it would close its mill in Snowflake, Ariz., along with its subsidiary Apache Railway Co., a short line that had served the community for nearly a century. The announcement was the opening act in a three-and-a-half-year effort by Brophy, the railway’s dedicated employees, and an entire community to save the route that had been its lifeline since 1917.

“We had to step in,” Brophy said. “We were just a bunch of country lawyers and a cowboy. And now I’m the dog that caught the truck.”



ABOVE: The Holbrook train accelerates southbound past one of the line’s ubiquitous cattle guards, used to keep roaming cattle away from major highways. INSET: Steve Brophy of the Aztec Land & Cattle Co., fresh off of a cattle drive, stands beside the Holbrook yard limit sign.



A LIFELINE



A ROCKY START

Unlike the arid deserts to the south, the White Mountains of northeastern Arizona are covered in a dense blanket of pine trees. In the early 1900s, the U.S. Forest Service and the White Mountain Apache Tribe sought to put these vast timber resources to work, but they encountered a problem — the forest was more than 70 miles from the nearest railroad. In 1917, the U.S. Forest Service advertised the White Mountain timber reserves for logging. The only bidder was the Apache Lumber Co., which, along with its subsidiary Apache Railway Co., had been formed earlier that year by local businessmen.

In need of additional funding, the Apache Railway approached the Atchison, Topeka & Santa Fe Railway. The AT&SF was supportive, providing a cash loan, in-kind materials for construction, and an agreement to purchase 400,000 ties per year for 20 years from the lumber company. The AT&SF also had access to a vast swath of adjacent land over which to lay the route.

In 1884, the Atlantic & Pacific Railroad sold a million acres of land to a new-start ranching operation, the Aztec Land & Cattle Co. The A&P, which later became the AT&SF, assumed a large interest in Aztec, a position it held until 1928. It was primarily over this land that the first 40 miles of the Apache Railway was built.

Construction began in October 1917 at Holbrook, and rails reached an all-electric sawmill at Cooley, a distance of 72 miles, in February 1919. Between Holbrook and Snowflake, the railway meandered through the wide-open high desert of the Colorado Plateau, its sawtooth profile hugging the undulating, arid terrain. Beyond Snowflake, the railway climbed high into the mountains to access the timber-rich forests of the White Mountains.

From the beginning, the project was woefully over budget because raw-material costs increased due to World War I. For the first of four times throughout its history, the parent company of the Apache Railway

entered bankruptcy in spring 1922. Both emerged in fall 1923 when Louisiana-based Cady Lumber Co. acquired the assets for 65 cents on the dollar, renaming the lumber company to the W.M. Cady Lumber Co., and changing the name of the town of Cooley to McNary, after Cady's business partner. These new owners soon faced financial difficulty, reorganizing in 1926 as the Cady Lumber Corp. of Delaware. In September 1930, following the onset of the Great Depression, the Cady Lumber Corp. entered receivership.

In 1935, the newly organized Southwest Lumber Mills Inc. acquired the assets of Cady, including the Apache Railway. It was only in 1942, thanks to the demands of World War II, that the timber operation first made a profit. Around that time, Southwest Lumber extended a non-common-carrier branch line 68 miles between McNary and Maverick, a logging line that climbed to more than 9,300 feet.

BOOM AND BUST

The lumber company rebranded itself as Southwest Forest Industries in 1960, and shortly thereafter opened a large paper mill just west of Snowflake on land it acquired, again, from Aztec Land & Cattle Co. Logging operations in the mountains dwindled steadily, with the last log train running between Maverick and McNary in 1968. A tourist operation known as the White Mountain Scenic Railroad leased the Southwest Forest branch between McNary and Maverick from 1964 until 1975. It was ultimately forced to shut down in 1975 due to a disagreement with the local Native American tribe, over whose land the excursion operated. The line between McNary and Maverick was soon abandoned.

Meanwhile, Southwest Forest Industries continued to invest in its Snowflake Mill and Apache Railway. In 1972, it acquired used 131-pound rail from the AT&SF and relaid its entire Holbrook-to-Snowflake main line. With log, pulpwood, paper, and coal traffic, the Apache Railway saw its highest volume in 1979, hauling more than 24,500 carloads. That year, however, the lumber mill at McNary burned to the ground and, with a more modern lumber mill in Flagstaff, the company shuttered that operation. The 37 miles of rail between Snowflake and McNary were abandoned soon after.

Southwest Forest Industries and its subsidiary Apache Railway were acquired in 1986 by Stone Container Corp., and in 1997, Stone became Abitibi-Consolidated through a corporate merger. In 2008, the paper mill and railway were sold to Catalyst Paper Corp., which upgraded the plant to accept single-source recycling materials and to produce glossy paper. In 2008, the

Apache Railway handled just over 10,000 carloads, but the mill continued to struggle, operating at a loss from 2009 until 2012. Catalyst filed for bankruptcy on Jan. 17, 2012. The No. 1 product of Catalyst's Snowflake Mill, newsprint, was beholden to an ever-shrinking market.

On July 30, 2012, Catalyst announced that both the Snowflake Mill and Apache Railway would be shut down in two months. Suddenly, railway Superintendent Shirley Cornett, a fixture at the railway since 1991, was ordered to reduce her staff from 32 people to eight. "It was devastating to us," she said.

Cornett and her remaining staff were long-standing employees of the railway and, despite the dim outlook, sought what they could do to keep the company afloat. When the mill shut down on Sept. 30, the Apache Railway lost 94% of its traffic, going from approximately 8,250 carloads per year to fewer than 500. Its eight employees were left to service a single shipper, facilitate freight-car storage, and await the inevitable liquidation of their employer.

NECESSARY FOR HEALTH, WELFARE, AND SAFETY

As president of Aztec Land & Cattle Co., Brophy knew he had to step in to save the Apache Railway if he ever wanted to diversify the use of Aztec's lands, over which 27 of the railway's 38 route-miles were built. So, Brophy met with town leaders to discuss the impending liquidation. Jason Whiting, then Snowflake vice mayor, says: "Brophy met us and he laid the math out logically of how the railroad, without the mill, would all but certainly be liquidated. This was compounded by the fact that the railroad had a greater scrap value than its market value. No paper mill, no railroad."

So important was this remaining infrastructure to the city that Whiting, Snowflake mayor Tom Poscharksy, and town manager Paul Watson led the council to pass a resolution on Nov. 6, 2012, stating that it "...is necessary for the health, welfare, and safety of the Citizens and the Town of Snowflake for the Town to acquire the Apache Railroad [sic]." Around the same time, Aztec partnered with Snowflake to incorporate the nonprofit Snowflake Community Foundation as a potential mechanism to own the railway.

Asked why Snowflake was so agreeable to getting involved, Whiting recalls, "The



**Railway Superintendent
Shirley Cornett**



closure of the mill became very scary, very quickly. We had just lost 300 jobs centered around Snowflake [population 5,500], and this translated into families losing jobs and being forced to move. So, it was all hands on deck to find a way to support this key piece of infrastructure.”

The Snowflake Community Foundation retained legal counsel and set about trying to devise a means to stop the liquidation. Its lawyers soon discovered that the Apache Railway did not have its own independent bankruptcy trustee; rather, it was simply grouped with the overall bankruptcy of Catalyst. Since common-carrier railroads have shippers reliant upon their services, a bankrupt railroad cannot simply shut down. Rather, the railroad must seek a court-ordered trustee whose job is to factor the public interest into the court’s decision.

Based on this discrepancy, the community foundation’s lawyers drafted a legal brief to argue before the Delaware bankruptcy court seeking to dismiss the case. Instead of filing it, however, they sent the draft directly to the lawyers representing Catalyst as a preemptive measure. “I got an immediate call from their lawyer, and they weren’t amused,” Brophy says.

He was summoned to a meeting in Phoenix with representatives from Catalyst and their counsel, who wanted to know who he was and why he was making a fuss. Brophy explained his intentions were to save the railway, in large part because so much of the route was built on Aztec land, but also because he knew once it was gone, there would

be no way for the town and county to rebuild it. Despite the meeting, Catalyst made no changes to its position, and the town of Snowflake ultimately filed its motion to dismiss the bankruptcy on Nov. 30, 2012.

The Snowflake Community Foundation legal team also developed one additional approach: condemn the railway as a public asset. With the town of Snowflake again in agreement, the legal team drafted a second motion, filing its partial objection to the bankruptcy case on Dec. 12, 2012.

TWO TWIGS IN A WINDSTORM

“We had a two-pronged approach to stop the boulder heading down the hill toward us,” Brophy says. “One was the motion to separate [the railway] from the Catalyst bankruptcy disposition, and the other was to rally a condemnation sword from the town of Snowflake ... we had these two little twigs in this windstorm.”

About this time, Brophy received a call from Michael Hackman, CEO of a Los Angeles-based private equity firm called Hackman Capital Partners, who informed him that his firm was interested in bidding on the mill and railway, but, aware of the legal filings, he was uninterested in “buying a problem.” The two discussed the matter and came to a verbal agreement: if Hackman agreed to allow the community foundation to bid on the Apache Railway as a partner at the upcoming auction, the foundation would agree to drop its two legal motions.

Brophy traveled to New York to partici-



The Apache Railway operates through areas of open range land, where hundreds of cattle roam freely.

pate in the bankruptcy auction with Hackman Capital and 21 other bidders in mid-December. The bidding lasted well into the following morning when Hackman was just one of two final bidders left. In the final round, Catalyst’s law firm assigned a “nuisance value” to Snowflake’s legal claims. Since the Snowflake Community Foundation had agreed to waive those suits should Hackman Capital win, this assigned nuisance value provided a sufficient bonus to make Hackman Capital the high bidder.

Over the next few weeks, Hackman Capital and Aztec were in fleeting discussions to hammer out an agreement. At the last minute, Hackman called Brophy to finalize a deal. Since there is no easy way to finance a railroad worth more in scrap than as a going concern, they needed to place the railway into some sort of holding company to provide both parties time to determine next steps. Enter the Snowflake

The venerable C424s take a brief rest while drilling the Apache Railway shop lead tracks with a long cut of tank cars. Engineer Kevin Rowell leans out of the cab.





The Apache Railway is home to a four-track car and locomotive maintenance facility near Snowflake, Ariz. This shop is operated by the railway to primarily perform contract tank-car repair and qualification work.

Community Foundation.

Hackman Capital and Aztec reached an agreement to sell all of the Apache Railway stock to the foundation. In exchange, Hackman took a mortgage on the stock that was exercisable by repossession, in the event a deal was not reached by April 2014. And so, on Jan. 30, 2013, the Apache Railway was transferred into the foundation, with Steve Brophy serving as its president, Snowflake town manager Paul Watson its vice president and treasurer, and Shirley Cornett its superintendent.

KEEPING THE LIGHTS ON

Two things were needed to keep the Apache Railway alive: first, it had to generate enough new business to support future debt service; and second, the foundation had to devise a means to buy the railway outright from Hackman Capital. Despite the odds, generating new business with 94% less rail traffic was manageable thanks in large part to the unique infrastructure of the railway.

Since the Apache Railway maintains its main line to FRA Class 3 standards and its traffic had dropped off so much, it could defer track maintenance for a few years with minimal repercussions, saving on near-term maintenance costs. The railway also offers more than 33,000 feet of spare track capacity, facilitating the storage of more than 500 freight cars. Finally, its 27,000-square-foot, four-track car and locomotive maintenance shop would be the envy of many a short line, serving as a solid base for contract car repair.

Cornett and her team began flipping through their Rolodex to see what business they could develop. At first the railway was able to generate a bit of revenue by main-

taining existing car-storage contracts and providing 40 cars a month to its single rail shipper — a pig farm then owned by Hormel and now owned by Smithfield. Like the support of the AT&SF back in 1917, the BNSF Railway signed up as the first large customer of the “new” Apache Railway in 2013. Aware that the Apache Railway was equipped to maintain hopper and boxcars, a contact at BNSF developed a contract with Apache to perform car repair. Apache also began performing dry car cleaning of hoppers and gondolas on behalf of BNSF.

While Cornett was busy “keeping the damn lights on,” Brophy pursued financing. The foundation retained consulting firm R.L. Banks & Associates Inc. to develop a Federal Railroad Administration Railroad Rehabilitation & Investment Financing loan application. Banks worked with the foundation to appraise the railway and develop detailed financial models, submitting its loan application in July 2013. What the FRA first received in a positive light quickly encountered one bureaucratic delay after another.

The foundation needed additional capital to meet the requirements of the FRA loan, and so sought financing from the Arizona Competes Fund, a state grant program. Because neither Brophy nor the foundation wanted to accept grant money, they lobbied to have legislation introduced allowing the \$25 million fund to be used to provide loans, rather than just grants. As the legislation was ultimately passed, however, there was a fatal flaw in its wording; it stipulated that only counties “... with more than 100,000 residents, but less than 120,000 ...” could apply. This discriminatory requirement meant that only businesses in

Navajo County, home of the Apache Railway, could apply. Ultimately, this led to litigation and a determination that the legislation was unconstitutional.

Meanwhile, on the federal level, bureaucratic delays to the FRA loan continued. “One crisis was the dumbest of the many from FRA I dealt with,” Brophy says. “The FRA indicated part way through that RRIF loans were subject to Buy America provisions, and that they couldn’t make the loan without an exemption.”

The Buy America provisions mandate that federal funds be used to acquire items manufactured of 100% domestic content. The 49-year-old Montreal Locomotive Works locomotives were an issue, as were two of the railway’s vehicles. Ultimately, the foundation filed for a waiver from these provisions, but that just added delay.

Finally, in June 2014, the FRA scheduled a conference call with the foundation to inform them that the loan had gone to committee. Brophy recalls that an FRA official with whom they had never spoken simply said: “This loan doesn’t meet our criteria. We’re not going to make it. Have a nice day.” And that was it — the FRA loan was dead.

Despite the setback, the foundation pursued financing elsewhere. This time they worked with the Little Colorado Water Conservation District to pursue a U.S. Department of Agriculture Rural Development Community Facility Program loan to buy the stock of the Apache Railway. They argued in the application that the railway was a key piece of infrastructure, vital to supporting ongoing agriculture in the region. This loan application was being drafted when the railway’s time ran out.

ONE LAST CHANCE

By early 2015, Hackman Capital had already sold many of the assets of the former paper mill, and the multiple delays pursuing financing for the Apache Railway had taken their toll. In May 2015, Hackman Capital issued official notice that it was exercising its note and seizing the stock of the Apache Railway. Brophy passed this notice on to his lawyers and, within the day, his counsel realized that Hackman Capital's letter seized the stock, but it did not forgive the loan. This error opened a small window where the foundation, as the railway holding company, could be placed into bankruptcy and argue the case before a judge.

Brophy was asked to take the new Hackman-appointed Apache Railway "President" to its headquarters the following day. "After I recognized that [he] wasn't going to go anywhere," recalled Brophy, "I bid him adieu, left him with Shirley, who combed his tail feathers, and I called the lawyer and told him to put SCF into bankruptcy."

With that, the Apache Railway had a reprieve — its owner was in bankruptcy, causing Hackman Capital to take the foundation before a judge rather than seizing Apache's stock. At first the foundation hoped the USDA loan would pan out, but the USDA ultimately decided in mid-September that the loan was ineligible, and it was denied.

Around this same time, Midwest Poultry Producers L.P. had been in discussions with the Apache Railway about installing a large poultry farm along the railway, but its management had expressed concern about the future of the line. Brophy says: "To solve the question about the [Apache Railway], they would have to partner with Aztec in purchasing the railroad."

After several dispositive hearings before the bankruptcy court, Aztec agreed to pay Hackman the amount due on the note by Dec. 1, 2015. On Nov. 30, 2015, the Apache Railway's stock passed to a holding company owned by Aztec and Midwest Poultry that both firms control. The railway was purchased in part with a \$1.75 million loan from the Arizona Commerce Authority's Arizona Innovation Accelerator Fund Program and a \$750,000 loan from Arizona MultiBank. Additional equity investment by Aztec and Midwest Poultry fulfilled the remainder of the \$7.2 million purchase price.

MAKING ENDS MEET

The first few months of independence saw the railway continue to grow its revenues, and workforce, but tough times arrived again all too soon when BNSF announced, in late 2016, that it would be shifting its hopper and boxcar maintenance back in house. This forced Apache to lay off people again, shrinking the workforce from 32 to 18.

Despite the adversity, the Apache management team dug in, pursuing an alternative plan to obtain certification for repairing tank cars. Cornett hired Cory Mangum, coincidentally the last employee of the Snowflake Mill, who joined the railway in November 2016. Mangum worked alongside specialized consultants to oversee the development of Apache's tank car quality assurance program, and in April 2018, the Apache Railway opened its doors to tank-car repair. There was an immediate onslaught of business.

"Not knowing the time frame, we bit off a little bit more than we could chew," Cornett confesses. "Car owners want their cars back in 60 days, but they knew we were a new shop, and everybody was so forthcoming and supportive."



Senior Locomotive Engineer Kevin Rowell

Amassing a 120-car backlog on the property, the Apache Railway had to inform car owners in April 2019 that they would not be accepting new cars until later that year. With the ability to complete 20 tank-car qualifications per month, the Apache again reopened its doors in December, and it has been welcoming new business ever since.

The continued growth of the railway is due in large part to its nimble approach to business. "We survivors decided Shirley's job was to bring in the business, and she didn't need any griping or minuscule things [from us] to bring her down," explains Kevin Rowell, the railway's senior locomotive engineer. "So we all set out to solve any problems we run across, leaving Shirley to handle the big things."

Rowell and his fellow crew members



This custom hopper gate opener attachment was home-built by Apache Railway mechanical forces using Alco crank-shaft support bearings and other components they had on hand.



Scott Smith (left) and Lance Shumway use a 4-foot-long pipe wrench to remove a stubborn fitting atop a tank car undergoing its qualification at the Apache Railway.



Dry car cleaning can be hot and dusty work. A team of workers use push brooms to complete the cleanout of a mill gondola.

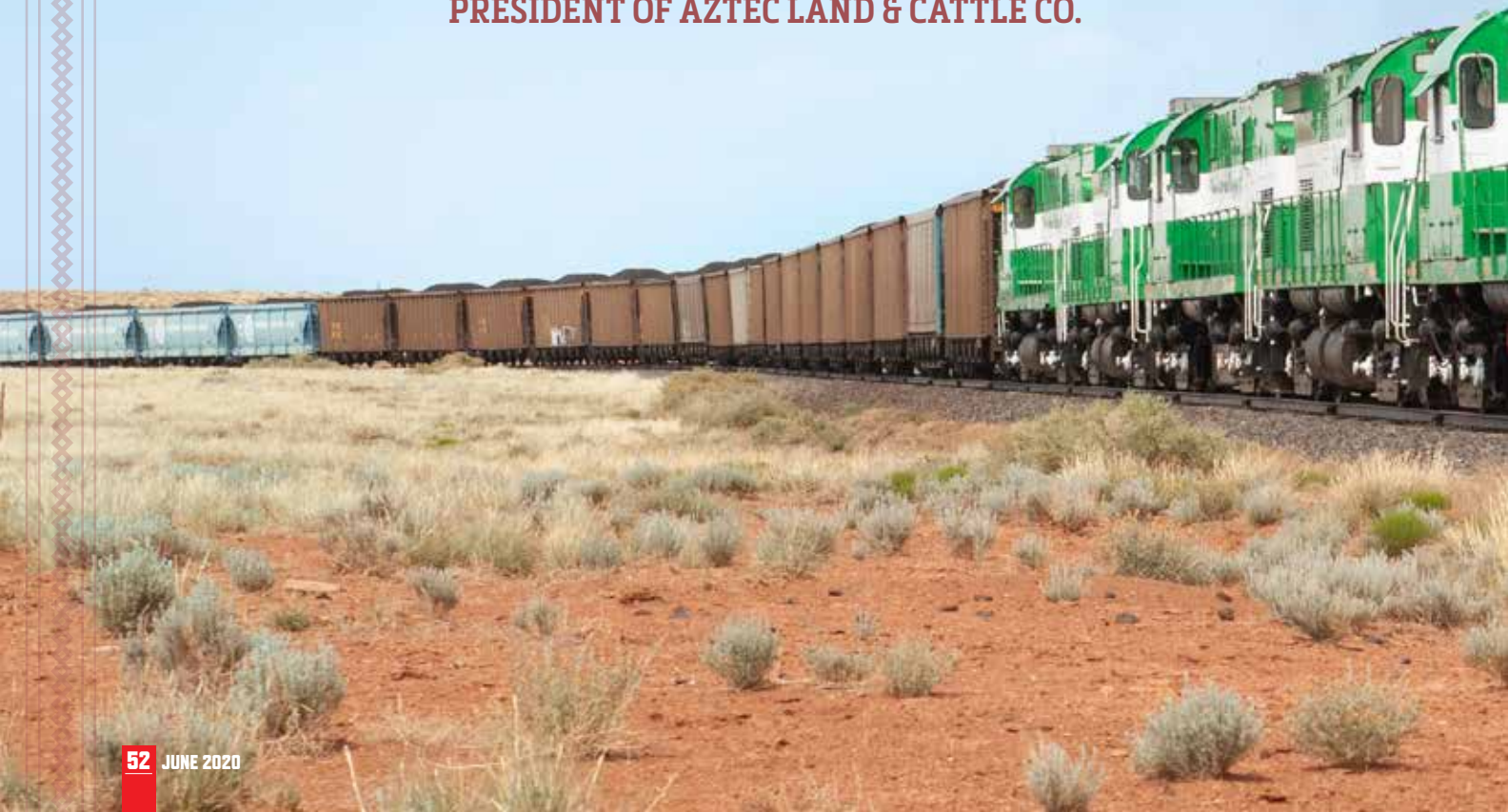
operate trains twice per week on average, but the remainder of the days they work in the car shop or elsewhere on the railway. In talking with other staff on the property, it was apparent employees would pitch in where they could, working in maintenance-of-way one day and cleaning cars the next.

“These people are big problem solvers,” Cornett says. “Being treated as the ‘red-headed stepchild’ by the mill for so many years helped us learn to make do without much. Our people have kept that mindset ever since.” This ethos of entrepreneurship is embodied across the company by its staff in taking on the unexpected.

The once 10,000-car-per-year Apache Railway has evolved, having hauled approximately 4,800 cars in 2019, split between revenue freight, car storage, car cleaning, and car repair. Nowadays, approximately 10% of total revenue comes from freight transportation; the remaining 90% consists of tank-car repair, car cleaning, and car storage. Midwest Poultry is still planning a massive egg farm along the Apache Railway, which would be the terminal for unit grain trains and employ

“WE ARE RANCHERS AND LANDOWNERS WITH A COMPANY THAT DATES BACK TO 1884, AND THIS RAILROAD IS THE KEY TO ENABLING OUR COMMUNITY AND US TO DIVERSIFY, GROW OUR BUSINESS, AND ADAPT TO THE 21ST CENTURY.”

**— STEPHEN M. BROPHY
PRESIDENT OF AZTEC LAND & CATTLE CO.**



upwards of 250 people.

The venerable Alco and MLW locomotives soldier on and, while most trains require no more than two, all seven of these locomotives are kept operational. The master diesel mechanic at the railway, Mel Chee, has been an employee since 1984. Though the locomotives are reliable, it is getting harder to find spare parts. The three original Alco RS36 locomotives serve as parts sources for the remaining "Century Series" locomotives. "For this territory, these locomotives work really well," Chee says. "The GE parts are still available, but a lot of the main generator parts are gone. The fuel pumps, that kind of stuff; we need to retrofit those things."

Despite the characteristic "Alco smoke," which is exacerbated by both turbo lag and the line's nearly 6,000-foot elevation, the locomotives operate like fine-tuned machines. Multiple managers and staff say there are no plans to replace these venerable locomotives any time soon.



**Master Diesel Mechanic
Mel Chee**

THE FUTURE

"We think in terms of decades, not years, and the mindset of building this railroad aligns with that philosophy," Brophy says. "We are ranchers and landowners with a company that dates back to 1884, and this railroad is the key to enabling our community and us to diversify, grow our business, and adapt to the 21st century."

Whether Midwest Poultry moves forward with its 5-million-egg-per-day farm remains to be seen, but the future of the Apache Railway continues to look brighter as Cornett and all employees of the company work to diversify its business and pursue new opportunities. What is certain, however, is that the Apache Railway, a standout independent short line among many, exists today thanks to the outstanding dedication of its employees, the support of the leadership in the community it serves, and the rugged tenacity of a cowboy and his country lawyers. **I**



Conductor Gilbert Alvarez (left), student brakeman Scott Smith (middle), and engineer Kevin Rowell go over their day's work orders after just having gone on duty.



It's May 2012 and the Apache is heading toward Snowflake from Holbrook on a beautiful spring afternoon. Coal loads for the paper plant are in abundance. Ahead is a future and change that nobody can see, even from the cab of No. 98. TRAINS: Jim Wrinn