

ConnectOregon Program

Application

PART B - Applicant Qualifications

1. CONTACT INFORMATION

APPLICANT

ORGANIZATION NAME Watco Companies, Inc.	PRIMARY CONTACT PERSON AND TITLE Ted Kadau/ Marketing Manager
ADDRESS 325 Mill Road, P.O. 1166	TELEPHONE 208-798-8395/ 208-791-8889
CITY, STATE AND ZIP CODE Lewiston, ID, 83501	FAX 208-743-4647

CO-APPLICANT / CO-SPONSOR

ORGANIZATION NAME	PRIMARY CONTACT PERSON AND TITLE
ADDRESS	TELEPHONE
CITY, STATE AND ZIP CODE	FAX

2. IS / ARE THE APPLICANT(S) CURRENT ON ALL STATE AND LOCAL TAXES, FEES AND ASSESSMENTS?

YES NO If NO, Explain:

PART C - Project Description

3. PROJECT DESCRIPTION AND PURPOSE: Summarize the project's description and purpose. Provide maps in 8 1/2 "X 11" format as hard copy only.

Throughout its lease partnership of the Palouse River & Coulee City Railroad, Watco Companies has worked to make improvements to the 21 miles of track that we operate in Oregon. These have included a partnership between Watco and Northwest Grain Growers that has paid huge dividends for not only both businesses, but also farmers in northeast Oregon. Additionally, in 2001, Watco worked with Smith Frozen Foods, Inc., to restore rail service to Smith's packing plant in Weston, OR. This project has also provided for a profitable and mutually beneficial relationship for both companies. However, Watco Companies now hopes to make additional improvements to the portion of the PCC which operates in Oregon. At this time, the line running from the Washington/ Oregon border to Weston is classified as Excepted track, which is the slowest rail speed classification and does not allow our crews to run in excess of 10 miles-per-hour. This is primarily due to the condition of ballast, ties and/or rail on the line. In an effort to better serve our customers on this railroad and to improve their ability to ship their products to regional, national and international destinations, Watco is working to continue the replacement of ageing rail ties south from Milton-Freewater, OR, to Weston, as well as the reconstruction of bridges on the rail line. Our estimate for this work, compiled by Scott Adams, Watco Chief Engineer for the Northwest Region, is \$465,395. Watco Companies is requesting ConnectOregon grant funding in the amount of \$372,316. Watco Companies will then provide the 20% matching funding of \$93,079 from our operational profits. Additionally, Watco Companies proposes the alternate possibility of ConnectOregon funding to make necessary track improvements on the 5 miles of the Milton-Freewater rail line located within the State of Washington. Our estimate for this work is \$160,984. A detailed analysis of both projects is added as a supporting document to this proposal.

4. ConnectOregon (CO) Project Budget

SOURCES OF FUNDS: Please identify the source and amount of moneys comprising your project budget in terms of grants, loans, match and other funds.

SOURCES:	Amount	Percent of Total	DATE AVAILABLE	
			Cal Year	Quarter
a. ConnectOregon Grant	\$372,316	80%	2006	Third
b. ConnectOregon Loan	N/A	%		
c. Required Match (Grants -20% of Total Project) 1	\$93,079	20%	2006	Third
d. Other Leveraged Funds (2)	N/A	%		
e. Other Leveraged Funds (2)	N/A	%		
f. Other Non-Leveraged Funds (Describe)	N/A	%		
g. Other Non-Leveraged Funds (Describe)	N/A	%		
TOTAL*	\$465,395	100%		

(1) Please describe the source and timing of the 20% match shown above. If applicable include the cost basis of property.

The source of the \$93,079 in 20% matching funding for the ConnectOregon grant funding will be Watco Companies operational profits. Upon being awarded ConnectOregon funding, Watco Companies will invest these 20% matching funds.

(2) If your project leverages other funds beyond the ConnectOregon grants, loans and match required for your project, please describe the source, timing and basis for valuing the other funds. Leveraged funds must be shown in 1(d) and 1(e) above.

Maintenance funding for the Weston line of the Palouse River & Coulee City Railroad leverages no additional funds beyond the requested ConnectOregon grant request and the 20% matching funds provided by Watco Companies.

USES OF FUNDS: Please identify the proposed uses and amount of moneys comprising the project budget.

USES:	Amount	Percent of Total	DATE AVAILABLE	
			Cal Year	Quarter
Labor (Payroll)	\$78,400	17%	2006	Third
Contracted Services (If Known)	\$56,094	12%	2006	Third
Materials and Supplies	\$295,901	64%	2006	Third
Capital Outlay (Land)	N/A	%		
Capital Outlay (Buildings)	N/A	%		
Capital Outlay (Equipment)	N/A	%		
Other (Describe): _____ Bridge Repairs	\$35,000	7%	2006	Third
Other (Describe): _____	\$	%		
Other (Describe): _____	\$	%		
Other (Describe): _____	\$	%		
TOTAL*	\$465,395	100%		

**Totals for Sources of Funds and Uses of Funds must be equal*

5. REAL ESTATE

EXACT ADDRESS OR LEGAL DESCRIPTION:

a. IS PROPERTY OWNED BY APPLICANT(S)? YES NO

PURCHASE PRICE	DATE

b. IS PROPERTY TO BE PURCHASED? YES NO

PURCHASE PRICE	DATE

c. IS PROPERTY TO BE LEASED? YES NO

d. DOES THE PROJECT INCLUDE EASEMENTS OR DONATED PROPERTY? YES NO

Provide any additional details here:

The Weston line of the Palouse River & Coulee City Railroad is leased by Watco Companies, Inc., from the Union Pacific Railroad.

PART D - Project Considerations

NOTE: The independent review consultant who will evaluate the project may consider other published or publicly available information when conducting this review.

6. TRANSPORTATION COST REDUCTION: Describe how the project reduces transportation costs for Oregon businesses.

In the 26 miles of rail line that it operates from Walla Walla, WA, to Weston, OR, Watco has three primary customers: Northwest Grain Growers, which ships wheat from its grain elevator at Spoffard, OR; Smith Frozen Foods, which ships frozen vegetables from its processing and packing plant at Weston, OR; and Garrett Packing Growers, which ships frozen vegetables from its packing plant in Milton-Freewater, OR.

In 2005, Watco shipped a total of 823 carloads from the rail line from Walla Walla to Weston. These included: Smith Frozen Foods: 401 cars; Garrett Packing Growers: 38 cars; and Northwest Grain Growers (Spoffard elevator): 384 carloads.

Since 1919, Smith Frozen Foods has worked to build its reputation as a leader in the frozen foods industry. From its plant and corporate offices in Weston, Smith has worked with vegetable growers in northeastern Oregon to establish a thriving operation which offers pea, corn and diced carrot production and a 250,000-square-foot cold storage facility with the capacity to handle 130 million pounds of product. At the Smith Frozen Foods facility, peas go from field to freezer within two hours. Corn is in the freezer within four hours. At this time, products originating from Smith Frozen Foods represent an average of 8 to 10 percent of all frozen peas, diced carrots and corn consumed in the United States.

From its Weston plant, Smith ships 50' and 64' "jumbo" refrigerated box cars to customers such as Campbell's, Pick Sweet and HEB Grocery in destinations such as Atlanta, GA; Birmingham, AL; Brockport, NY; Carthage, MO; Fort Worth, TX; Miami, FL; Montezuma, GA; Napoleon, OH; Paterson, NJ; and San Antonio, TX.

Continued on Addendum Page 8:

7. MODAL CONNECTIVITY: Describe how the project benefits or connects two or more modes of transportation.

Primary customers on the Milton-Freewater line of the PCC Railroad are located in small communities. Each are significant employers in the cities in which they reside and each has limited means of freight transportation. Therefore, it is important that each be able to participate in the national and global freight market to the fullest and be able to maintain rail in their arsenal of available transportation modes.

The Milton-Freewater line of the PCC is both unique and significant in that commodities from this line move to a diverse range of other transportation modes. Frozen vegetables from the line move to trucks in such far flung places as Texas and New York and wheat from the line moves to barge and then to ocean-going vessel to destinations in the Pacific Rim.

From packing plants in Weston and Milton-Freewater, frozen vegetables from Smith Frozen Foods and Garrett Packing Growers move via rail to large distribution points in Georgia, Alabama, New York, Missouri, Texas, Florida, New Jersey and Ohio. Once they reach their destinations, they are placed on refrigerated trucks for distribution to other cold storage facilities, hospitals, and schools or directly to grocery store shelves.

Continued on Addendum Page 9:

8. STATEWIDE OR REGIONAL TRANSPORTATION LINK: Describe how the project creates a critical link in a statewide or regional transportation system.

The communities of Milton-Freewater, OR, and Weston, OR, are rural, with Weston boasting a population of only 717 residents and Milton-Freewater being home to just 6,470 citizens. Both communities are located in Umatilla County, OR, and both rely upon agriculture as their principle economic drivers.

In fact, a primary economic stimulus for the region was the arrival of the railroad in 1881, opening the region to the development of dry land wheat farming. Water for irrigation has been key to economic diversification and growth, most recently in the Hermiston area, where lush watermelons and other products are grown.

Both communities are located in the fertile Palouse wheat-growing region, with wheat and barley being the principal products.

And, because the economy of Umatilla County is so heavily tied to agriculture, transportation is critical to its economic health. Trucking via I-84 and I-82 and barge service via the Columbia River are two links to this vitality, but the county is also served by mainline tracks owned by the UPRR, as well as by the Milton-Freewater line of the PCC Railroad.

The UPRR's Hinkle Locomotive Service and Repair Facility and main Northwest rail yard is located south of Hermiston. This yard services the UPRR's busy Pacific Northwest corridor, which runs west to critical destinations within the Port of Portland and east to the UPRR's busy corridors through southern Idaho, to North Platte, NB, and on to Chicago, IL.

The Milton-Freewater line of the PCC allows agriculture producers in Umatilla County and northeastern Oregon to participate in this important rail system. Rail usage allows them to connect with sea ports such as the Port of Portland and the Port of Vancouver, WA, linking them to key markets within the United States and the Pacific Rim. The railroad also allows them a cost competitive connection to their customers in the eastern United States.

For Smith Frozen Foods and Garrett Packing Growers, the PCC Railroad also provides an important mode of transportation to their customers in the western United States.

Continued on Addendum Page 9:

9. COST BORNE BY APPLICANT(S): Provide the amount by which the project will exceed, or, provide a match beyond *ConnectOregon's* minimum grant-match requirement of 20%.

Not applicable to this project.

10. PERMANENT AND CONSTRUCTION JOBS CREATION/RETENTION: Describe how the project creates and retains permanent and construction jobs in Oregon.

The Milton-Freewater line of the Palouse River & Coulee City Railroad helps to support a number of jobs, both on the railroad itself and at the businesses it serves.

The Milton-Freewater rail line supports five full-time Watco employees, including train service and track crew employees.

Smith Frozen Foods and Garrett Packing Growers employ between 250 and 700 workers at their Weston and Milton-Freewater processing and packaging facilities. The number of employees is fluid depending on seasonal factors such as harvest.

Northwest Grain Growers employs four full-time employees at their Spoffard elevator during the wheat harvest season.

Finally, Watco anticipates that maintenance work on the Weston line will employ a track surfacing crew of three workers and a rail tie crew of 12 employees to complete work on this project.

11. ANTICIPATED CONSTRUCTION START DATE OR EQUIVALENT: **Third quarter, 2006**

12. ANTICIPATED PROJECT COMPLETION DATE: **Second quarter, 2007**

13. CONSTRUCTION READINESS: Provide a project timeline and describe where the project is on this timeline in relation to planning, design and permitting issues.

Because the Milton-Freewater line of the Palouse River & Coulee City Railroad is owned by the Union Pacific Railroad and is leased by Watco Companies, we anticipate that no permitting and design issues will need to be undertaken as part of this project.

The timeline of this project will be determined by the availability of material and labor. Watco Companies anticipates that, due to our track work schedule and the availability of our employees, we will most likely hire an outside firm to perform this maintenance work on the Milton-Freewater line of the PCC Railroad. Therefore, the timeline will be determined by the availability of an outside firm and the availability of materials for this project, including railroad ties and ballast.

14. PROJECT OPERATIONS: How will the ongoing maintenance, operation and replacement of the project be financed?

Although Watco Companies would like to reserve the right to apply for future state and/ or federal grant funding for on-going maintenance work on the Milton-Freewater line of the PCC, it is anticipated that on-going and annual maintenance work will be funded through a capital outlay from Watco's operational profits.

15. OTHER CONSIDERATIONS AND INFORMATION: Describe any other considerations and information you would like taken into account about the project.

In addition to requesting ConnectOregon funding to rehabilitate the rail line between the Washington/ Oregon state line and Weston, OR, Watco Companies asks that members of the Oregon Rail Advisory Committee consider the possibility of funding track improvements between Walla Walla, WA, and Weston.

The reason for this request is simple: At this time, the PCC Railroad serves no customers on the 5 miles of track between Walla Walla and the state line, yet these 5 miles of rail are also in deteriorating condition due to many years of deferred maintenance.

The PCC rail line between Walla Walla and the state line, like the line from the state line to Weston, is classified as Excepted - the slowest rail speed classification. This, again, is primarily due to the condition of ballast, ties and/or rail. While we ask that the State of Oregon invest in the rail line within its borders from the Washington/ Oregon state line to Weston, Watco Companies is in a "we can't get there from here" scenario on the Weston line in that it does marginal good to rehabilitate the line from the state line to Weston to 25 mph speed if the line from Walla Walla to the state line remains in substandard condition.

It is worthy to note that Watco Companies has worked hard since taking over operations of the Milton-Freewater line to grow the business on this railroad. In 2001, we worked with Smith Frozen Foods to restore service to this important Oregon business. Then, in 2003 we worked with Northwest Grain Growers to restore rail service to the Co-op's elevator at Spoffard, OR. This project came after Northwest approached Watco about the possibility of moving more grain by rail out of the company's Oregon elevator.

Prior to 2003, Northwest moved very little grain out of its Spoffard facility by rail each year, with most of the grain moving out by truck to Northwest's elevator facility at Wallula, WA, on the Columbia River. The Spoffard elevator has a capacity of 500,000 bushels.

Continued on Addendum Page 10:

PART E - Supporting Materials: Provide a list here of supporting materials that will be provided as part of your hard copy submission.

- Track diagram of the rail line from Walla Walla, WA, to Weston, OR.
- Photographs of the track structure along the Milton-Freewater branch of the PCC Railroad: These photographs show the rail sidings utilized by the three primary customers on the Weston line: Northwest Grain Grower's siding at Spoffard, OR; Garrett Packing Growers' siding and rail spur at Milton-Freewater, OR; and Smith Frozen Foods' industrial spur at Weston, OR. Additional photographs show examples of the track structure of the Milton-Freewater rail line.
- A map of the Palouse River & Coulee City Railroad: This map shows the entire Palouse River & Coulee City Railroad, including those subdivisions of the railroad which are located in eastern and southeastern Washington, as well as the Milton-Freewater line in northeastern Oregon.
- Letters of support from Northwest Grain Growers, Smith Frozen Foods and the Union Pacific Railroad for this project.
- Spreadsheets provided by Scott Adams, Watco Chief Engineer for the Northwest Region, with an approximate cost breakdown for rehabilitating the Palouse River & Coulee City Railroad from the Washington/ Oregon State Line to Weston, OR, and from Walla Walla, WA, to the State Line.

ADDENDUM PAGE 8: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

Continued from Part 6: Transportation Cost Reduction:

Located in Milton-Freewater, OR, Garrett Packing Growers, Inc., is a subsidiary of Smith Frozen Foods and works to package and ship frozen corn, peas and diced carrots solely to San Antonio, TX.

At this time, about two-thirds of Smith Frozen Foods products are shipped from their Weston plant, with the other one-third moving from their Garrett Packing Growers facility. The Weston plant is a processing and packing plant, while the Garrett facility is used only for packing. All of the company's cob corn is moved out of the Garrett Packing Growers location.

Frozen vegetables processed, packed and shipped by Smith Frozen Foods is used by consumers in hotels, restaurants, hospitals, schools and is purchased in grocery stores. Vegetables purchased by Campbell's Foods are used for soup production.

The ability to load their products on rail represents a significant cost savings for Smith Frozen Foods and Garrett Packing Growers. For example, according to Mike Hachquet, Logistics Manager at Smith Frozen Foods, if Smith did not have rail service to their Weston and Milton-Freewater plants and were instead forced to truck their products to their customers, it would increase their transportation costs by 68 percent annually – "essentially creating a situation where our customers would not buy our product," Hachquet said.

Hachquet added that Smith Frozen Foods could potentially load out of a rail-served public warehouse, but this would result in incremental costs of more than 13 percent annually for his company.

Hachquet noted that this arrangement would also place an additional 1,138 trucks on Oregon's roads, transporting his products from Milton-Freewater and Weston to the public warehouse.

From its headquarters in Walla Walla, WA, Northwest Grain Growers, Inc., is a farmer-owned grain cooperative. With 50 employees, Northwest Grain Growers' members primarily grow wheat and barley. Northwest operates grain elevators in the Washington cities of Waitsburg, Prescott, Pasco and Walla Walla and at Spoffard OR. At this time, Watco works with Northwest to move grain by rail out of its elevators at Spoffard, Waitsburg and Prescott. The elevator at Spoffard was just placed back into service in 2003, but has quickly become a primary grain hub for Northwest, which now ships 126,720 bushels of grain annually out of its Oregon elevator.

All grain moving from Northwest's rail-served elevators is transported to the Co-op's Columbia River facility at Wallula, WA, where it is transported by river barge to ports in Portland, OR, and Vancouver, WA.

According to John Cranor, Operation and Logistics Coordinator for Northwest, trucking adds an additional 5 cents per bushels - without recent fuel surcharges of 15 to 17 percent - over rail for Northwest to truck their customers' wheat from Spoffard to their barge facility at Wallula.

Because of this cost savings over truck, in 2005 Northwest saved \$64,360 by railing its wheat to Wallula over trucking it the same distance.

And, it's important to note that Northwest passes this cost savings along to its customers as an incentive to bring their wheat to the Co-op. Therefore, this savings means dollars placed into the pockets of Oregon farmers - and Oregon's economy.

It's also significant to note that rail usage has a number of added benefits over truck usage for the State of Oregon. Traffic congestion is and will continue to be a prevalent issue in Oregon and - while trucks may be important to the overall health of the state's economy - it will be difficult for Oregon to continue to add sufficient capacity to its freeway and arterial road systems to meet the ever increasing demand of its growing population base. And, with truck traffic projected to rise nation-wide by almost 80 percent by the year 2020, sufficient road space is not likely to be available to handle the potential truck volumes.

Rail usage boosts fuel efficiency over trucks, reduces harmful emissions and elevates traffic congestion. For example, in an era when fuel costs are increasing exponentially, railroads are three times more fuel efficient than trucks. In fact, according to the American Association of Railroads, if just 10 percent of the freight currently being trucked were diverted to rail, the United States would save as much as 200 million gallons of fuel annually.

Continued on Addendum Page 10:

ADDENDUM PAGE 9: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

Number 7: Modal Connectivity:

Meanwhile, the link between modes of transportation by Northwest Grain Growers is perhaps even more significant to Oregon and the Pacific Northwest region.

From Northwest's rail-served grain elevator at Spoffard, wheat is taken by train in hopper cars to the Co-op's barge facility at Wallula. Once there, it is mixed with wheat from Northwest's other elevators and grain customers and is moved via the Columbia River waterway to sea ports such as those in Portland, OR, and Vancouver, WA. The wheat is then placed into sea-going vessels for delivery to nations such as China, Japan, Indonesia, South Korea, Taiwan and Thailand.

Once at these international destinations, the wheat is transloaded onto trucks for delivery to grain mills - eventually being used for foodstuff such as bread, noodles and pastas.

Number 8: Statewide or Regional Transportation Link:

Smith Frozen Foods has important customers at Ogden, UT; as well as Americold Industries at Walla Walla, WA, and Wallula, WA. And, although the traditional belief is that trucking is more economical for short hauls, according to Mike Hachquet, Logistics Manager at Smith Frozen Foods, it has become more economical to rail his products shorter and shorter distances. At this time, for example, Hachquet is exploring the possibility of utilizing rail to serve Smith's customers in southern California, which has traditionally been a truck destination for his company.

For Northwest Grain Growers, the railroad plays an even more vital regional transportation link. The PCC allows Northwest an economical way in which to transport its grain from its newly rail-served elevator at Spoffard, OR, to its barge facility at Wallula. From there, wheat is transported via the Columbia River to grain buyers at Portland, OR, and Vancouver, WA. Northwest's wheat is then sold to international buyers before being placed on ocean-going vessels to nations across the Pacific Rim.

Along the way, the PCC Railroad helps to support jobs and economic development in both Oregon and Washington. It is important to understand that increased rail capacity and efficiencies on the PCC Railroad complement the long-range goals of the State of Oregon in many ways. Oregon's system of moving both people and freight faces many identified challenges in the coming years, including record population growth, an uncertain future supply of fuel, global warming and other environmental degradation, transportation-related accidents and issues related to terrorism which threaten Oregon's residents and its economy.

The PCC rehabilitation project is a positive step towards resolving each of these identified challenges. Healthy rail transportation provides relief to Oregon's transportation system, removing trucks from the state's highway and interstate system and allowing capacity and safety for passenger vehicles and public transportation.

Railroads are safer than trucks. Each year, railroads transport 1.7 million carloads of hazmat materials, yet 99.9 percent of these hazardous loads reach their destinations without being released because of an accident. And, over the last several years railroads have taken important steps toward developing technological advancements that make them safer. These have included electronic equipment to inspect track conditions, redesigned braking systems and automated wayside detectors that provide advanced warning regarding potentially defective equipment. And, because one freight train can take as many as 500 trucks off of Oregon's roads, trains help reduce the possibility of truck/ passenger vehicle-related accidents.

And, trains are nearly three times more fuel efficient than trucks. Since 1980 freight railroads have increased their efficiency by 72 percent, with trains emitting three to 12 times less pollutants than trucks. In fact, according to the Environmental Protection Agency, railroads account for only 9 percent of total transportation-related nitrogen oxide emissions.

Finally, in a time when state and federal officials are becoming more and more concerned with security, rail is possibly the most secure form of transportation. Under a comprehensive security plan developed by the rail industry with the assistance of counter terrorism officials, freight railroads have established a progressive series of counter terrorism measures based on the level of threat against the rail industry. The railroad industry is, in fact, one of the few private sector industries to receive an "A" for its security efforts in a recent independent analysis by The Washington Post.

Continued on Addendum Page 10:

ADDENDUM PAGE 10: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

Continued from Addendum Page 8: Number 6: Transportation Cost Reduction:

Rail usage also helps to both reduce gridlock on Oregon's highways and lowers the maintenance costs on its roads. A single freight train can carry the load of up to 500 trucks and a single boxcar - such as those used by Smith Frozen Foods and Garrett Packing Growers - can transport as much as three trucks. Building new highways claims more scarce Oregon land, invites more punishing traffic, wastes more fuel, increases Oregon's air pollution and exhausts publicly-funded Oregon road maintenance and construction budgets. In short, additional freight and capacity moved by rail saves fuel, tax dollars, road congestion and lives, improving the quality of life for Oregon's residents.

Number 8: Statewide or Regional Transportation Link, from Addendum Page 9:

Actions taken since the September 11, 2001 terrorist attacks by the railroad industry have included increased cybersecurity, restricted access to railcar location data, spot employee identification checks, increased tracking and inspection of certain shipments, new encryption technology for selected data communications, increased security at physical assets, and increased employee training. The industry also created systems which link railroads with national security intelligence officials. This allows the railroad industry and the intelligence community to immediately share information and respond to threats.

Finally, the PCC rehabilitation project serves a key component of Oregon's identified goal of integrating transportation with economic development. As stated previously, the railroad provides a key economic development building device for communities and businesses in Umatilla County, OR. Rehabilitation of the PCC rail line links the county to outside markets and will serve to reinforce economically strong communities in northeastern Oregon. It also aids in reaching critical goals identified in the state's 2030 plan - including just-in-time delivery strategies, the smooth transition from one mode of freight to the other, economic vitality, safety and security for Oregon's residents.

Number 15: Other Considerations and Information:

After receiving the request from Northwest, PCC employees worked to make needed rail siding improvements to the Co-op's rail siding at Spoffard. And, in turn, Northwest made a number of upgrades to its Spoffard elevator to improve its ability to load grain on trains. These included updates to the elevator's load-out system, as well as the installation of fall protection for its employees. Northwest then moved forward with the addition of a grain ground pile at Spoffard in preparation for the 2005 harvest.

The result has been that Northwest went from moving just a few cars out of Spoffard in 2002 to more than 384 in 2005.

The use of rail has allowed the Co-op to save money on its transportation costs and pass that savings on to its Northeastern Oregon grain producers.

The partnership between the PCC and Northwest is a prime example of a customer investing in capital expenditures for further rail usage and a railroad contributing hard work, knowhow and funding toward ensuring that the future of its valued customer and its rail line are secure.

However, in order for the future of the line from the state line to Weston to be secure, it is critical that the health of the 5 miles of track between Walla Walla and the state line also be assured. Because of this, we ask that the State of Oregon consider investing in this line, as well as in the line from the state line to Weston.

Our estimate for this work, compiled by Scott Adams, Watco Chief Engineer for the Northwest Region, is \$160,984. Watco Companies is requesting ConnectOregon grant funding in the amount of \$128,788 for this project. Watco Companies will then provide the 20% matching funding of \$32,196 from our operational profits.

The costs associated with rehabilitating the line between Walla Walla and the state line is included as an addendum to this application.

ADDENDUM PAGE 11: Attach additional text here as necessary, identifying the corresponding application question number you are completing.

Watco Companies, Inc.

With a growing inventory of railroads, industrial switching operations, leasing and car mechanical operations, Watco Companies, Inc. is committed to the Rail Industry in the State of Oregon and across North America.

At this time, Watco operates 18 railroads in fifteen states, as well as specialized industrial contract switching services in 24 different locations across the United States.

Headquartered in Pittsburg, KS, Watco Companies was founded in 1983 by Charles R. "Dick" Webb. Watco's first operation was an industrial switching operation in DeRidder, LA, which is still in existence today. After making sure this operation was serving the customer to expectation, Dick started his first mechanical operation, a railcar repair shop in Coffeyville, KS, with a group of hand picked employees and a determination to make a difference in the quality of the industry. From this base and the efforts of our hard working employees, Watco has grown into many facets of the rail industry. Our focus has been and always will be one of customer satisfaction in any business venture, be it in or out of the rail industry.

Our Mission Statement:

Watco Companies will provide the best transportation related services to our customers in the most efficient and economical manner possible. We will provide an environment that allows our companies and our people to improve and grow, passing on to future generations a company with an outstanding reputation for customer service, profitability and quality.

Watco Companies works to consistently provide better than industry average service and prides itself on providing the integrated one-on-one partnership with its customers that only shortline operations can.

With a combined customer base, Watco is able to provide our customers with a more powerful voice and increased negotiating options with the larger Class I operations.

Additionally, with our dedication to a business partnership, we are able to increase the profitability and efficiency of our customers' operations, as well as to help them have greater control of their shipments and associated costs.

Watco Railroads is excited about providing an environment for its customers, business partners and employees that ensures long term mutual success and growth.

Watco Companies, Inc. in Oregon

At this time, Watco operates a number of profit centers within the State of Oregon, including a portion of The Palouse River & Coulee City Railroad (PCC) and the Condon railroad line which runs south from Arlington, OR, to the Columbia Ridge Landfill facility near Condon, OR.

The Oregon subdivision of the PCC Railroad begins at the Oregon/ Washington state line north of Milton-Freewater, OR, and ends at Weston, OR.

Principle commodities shipped on the Oregon portion of the PCC include wheat and frozen vegetables. Customers served on this railroad include Northwest Grain Growers, which ships wheat from the Co-op's elevator at Spoffard, OR; Garrett Packing Growers, which ships frozen vegetables from its facility at Milton-Freewater, and Smith Frozen Foods, which ships from its packing plant at Weston.

The PCC is administered from Watco's depot at Lewiston, ID. The PCC Railroad utilizes 10 high horsepower locomotives and two remote control locomotives which haul about 9,400 car loads of wheat, lentils, barley, frozen foods, canned foods, scrap steel, petroleum products and salt over 420 mainline miles in the rolling hills of northern Oregon and eastern Washington.

The PCC, as with all Watco Railroads, is fully committed to providing its customers an efficient and effective service, providing a fast and reliable delivery and collection of railcars.

Additionally, since 2003 Watco Companies has held a contract with the Union Pacific Railroad to operate the solid waste train between Arlington and Waste Management Corporation's Columbia Ridge Landfill, which is located 11.5 miles south of Arlington.

Watco's crews take the UPRR's engine and railcars from our interchange with the UPRR at Arlington to the Columbia Ridge Landfill facility. Watco crews move approximately 26,000 cars annually on this railroad. This train is principally comprised of solid waste from the City of Seattle, WA. However, we are currently working to develop additional opportunities on this rail line.

ADDENDUM PAGE 12: Attach additional text here as necessary, identifying the corresponding application question number you are completing.