

NO: **R145**

COUNCIL DATE: **JULY 21, 2014**

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 16, 2014**

FROM: **Acting General Manager, Engineering
General Manager, Finance and Technology**

FILE: **8710-20(heritage)**

SUBJECT: **Heritage Rail Demonstration Project – Additional Funding**

RECOMMENDATION

The Engineering Department and Finance and Technology Department recommend that Council:

1. Receive this report as Information;
2. Approve the allocation of up to a maximum of \$395,000.00 including taxes to the Heritage Rail Demonstration Project (the “Project”) as the City’s contribution towards the construction of a siding bypass, subject to the execution of a satisfactory access agreement with Southern Railway and BC Hydro granting full rights of usage and passage and matching contributions from the Fraser Valley Heritage Railway Society;
3. Direct the Fraser Valley Heritage Railway Society (the “Society”) to focus its efforts on raising funds from sources other than the City of Surrey for the remaining funding required for the siding bypass and any further changes or enhancements to the scope of their operations.

INTENT

The purpose of this report is to provide an update on the Heritage Rail Demonstration Project being undertaken by the Society and based on their delegation of June 23, 2014 to obtain Council approval for a contribution of up to \$395,000.00 toward building a rail spur bypass to ensure unrestricted access to the mainline.

BACKGROUND

The Heritage Rail Demonstration Project undertaken by the Fraser Valley Heritage Railway Society has reached a number of important milestones since the last report to Council:

- A new Car barn was completed in Cloverdale and operations were moved from Sullivan to the new facility;
- A replica Cloverdale Station was constructed and landscaped after extensive fundraising from the Society and top-up funding from the City;
- The restoration of Interurban Car 1225 was completed;
- Testing and operator training has been undertaken; and
- Revenue operations began in June 2013.

The summer of 2013 was the first year of operations for the Project which saw over five thousand (5,000) passengers carried. There was extensive positive media coverage of all aspects of the construction, move and service launch. Anecdotal feedback indicates that the Project has generated significant goodwill with the public and has reinforced Cloverdale as a heritage destination.

During the inaugural year the Project conducted passenger operations over sixteen (16) weekends for a total of thirty-two (32) possible operating days. Unfortunately, there were a total of twelve (12) days (38% of the possible days) when passenger operations were cancelled due to Southern Railway's (SRY) commercial customer doing business on the weekend and blocking access from the Cloverdale Station to the mainline.

Year to date in 2014 there have been eight (8) cancellations out of a possible fourteen (14) trips (57% of the possible days), with only six (6) days when service was able to run. SRY's commercial customer has confirmed access as late as the morning of operations. The sporadic timing of these cancellations and their last minute nature has proven difficult for the Society to manage, and impacts the public's ability to plan ahead for a ride on the train.

The Society has indicated that the service has been of interest to both locals and tourists based on informal conversations with visitors, though currently there is no information available on any corresponding impact to tourism, hotel stays, etc. Marketing and promotion of the Project beyond the Society's webpage has been suspended until the access issue is resolved. The Society plans to undertake a formal survey to help quantify benefits once the access issues are resolved and marketing has resumed.

Funding History

Early Society estimates to develop the service from Cloverdale to Brownsville near the Scott Road SkyTrain station were \$5 million in total. In July 2009 the Society estimated that if a reduced Heritage Rail Demonstration Project from Sullivan to Cloverdale was approved then it would cost \$0.8 million and begin operations in May 2010, though funding was not approved at that time.

In January 2011 Council approved funding of \$2.9 million for a much revised Project which included an expanded scope with a move to Cloverdale, the purchase of land, and a new Car barn. The rationale was that the new location would allow for synergies and increased economic development opportunities with Cloverdale's existing heritage resources. A further \$1.175 million was approved in February 2012 due to increased scope and unforeseen costs. The scope of the Heritage Rail Demonstration Project was to run Car 1225 between Cloverdale and Sullivan.

To date the City has invested just over \$4 million in the Project and just over \$4.8 million in total for all Society endeavours at both Sullivan and Cloverdale including land, buildings, interurban car refurbishment, rent, watering and lawn maintenance at the car barn, insurance, a temporary project manager to explore funding opportunities, and administration not including permanent staff hours. The City also provides an annual grant of approximately \$65,000.00 which covers the cost of liability insurance.

The Society has generally matched the City's contribution with volunteer hours and in kind donations of materials and reduced rates from corporate sponsors. Beyond the funding provided by the City, the Society generates additional funds from ticket sales, which have been affected by the service cancellations, selling Society memberships and direct donations.

DISCUSSION

Siding Bypass

The City and the Society have examined a number of options for improving access to the mainline and concluded that a new third spur to bypass the commercial customer is the best option. The City has been supportive of this change in order to fully leverage our substantial investment to date in the Project. The bypass will ensure unimpeded access and allow for certainty in the scheduling and promotion of passengers operations.

A number of actions are underway to enable the siding bypass to move forward. An access agreement which provides the Society assurance of uninterrupted access over the long term is expected to be executed shortly between the City, Society, SRY and BC Hydro. Approval of additional funding is contingent on the execution of this agreement. BC Hydro has also provided a quote and design for the works necessary to move the existing Hydro poles which currently impede the bypass ROW. Designs have been developed to extend the drainage culvert under the rail bed to accommodate the siding bypass, as well as for the bypass itself.

Current Funding Request

As a delegation to the June 23 Council in Committee meeting, the Society requested that the City provide \$318,830.00 plus tax for a total of just under \$360,000.00 to build the siding bypass. This report fulfills that request and includes an additional \$35,000 for a number of elements missing from the Society request. With the construction of the bypass, all the core components will be completed to operate a successful Heritage Railway Demonstration Project over the term of the 5 year Operating Agreement.

The Society also presented other anticipated funding requests that go beyond the scope of the Heritage Rail Demonstration Project over the next three years, including:

- Completing Restoration of Car 1304;
- Rail connection from the spur to the second car barn bay;
- Generator and cart for Car 1304;
- Traction motor refurbishment for Car 1304;
- Car barn expansion to accommodate the freight motor recently acquired from Edmonton
- Restoration of the freight locomotive (costs unknown at this time);
- Siding bypass in Sullivan and move of Sullivan Station to allow two cars to operate the full service from Cloverdale to Newton once Car 1304 is restored and operating (costs unknown at this time); and
- Station and pedestrian improvements in Newton (costs unknown at this time).

These funding requests are outlined in the table attached as Appendix I to this report, and total \$1.7 million over the 2014-2016 three (3) year period.

FUNDING CONSIDERATIONS AND RECOMMENDATION

The Society has indicated that Project operations cost them approximately \$25,000.00 per year, and that they intend to keep a bank balance equal to 4-5 years of operating costs, plus \$100,000.00 set aside for future maintenance of Car 1225. The Society also paid approximately \$25,000.00 this spring to transport a former BC Electric Railway freight motor donated from Edmonton Radial Railroad to Cloverdale, though this engine is not part of the Project.

According to the financial statements released at their AGM, as of February 28, 2014, the Society had just over \$230,000.00 in current assets, including \$100,000.00 in a GIC and \$93,000.00 in a general bank account. In 2013 the Society's funding came from City grants approved by Council, \$5,304.00 from memberships, \$41,021.00 from ticket sales, and a nominal amount from direct donations.

With regards to the siding bypass, the Society has been successful in obtaining a substantial quantity of in-kind donations including:

- \$280,000.00 from SRY for labour, track design and materials, including used track and switches;
- \$85,000.00 from PNR Railworks for labour and used ties; and
- \$57,000.00 from RDM for labour, machine time and materials.

The total cost of the spur is estimated as \$817,000.00 and the value of the donations is approximately \$422,000.00, with the remaining portion requiring approximately \$395,000.00 from the City. As noted the Society has requested that the City undertake the funding of the new siding bypass to resolve the access issue, as well as additional items not related to the Heritage Rail Demonstration Project outlined in Appendix I.

The City's capital program for 2014 to 2018 is fully committed at this time and any additions require "reprioritization" of that plan as capital funds for the near future are very limited. The City's limited funding indicates that the most prudent option is to provide up to \$395,000.00 of the total value of the siding bypass subject to the execution of a satisfactory access agreement with Southern Railway and BC Hydro, with the balance of funding coming from the Society.

Alternatively, Council could direct that the HRDP continue with the sub-optimal access while the Society undertakes fundraising to achieve the additional funds needed to complete the third rail spur bypass without City funding.

As noted in the table of anticipated funding requests which total \$1.7 million and attached as Appendix I, the Society has a second heritage rail car (BCER 1304), which they are in the midst of refurbishing. The recommendation of this report does not include funding to finish the restoration of Car 1304. Similarly the recommendation does not include any funding for the acquisition of a generator and cart for Car 1304, an addition to the Cloverdale car barn, or any other items related to the expansion of the Society's mandate beyond operating the Heritage Rail Demonstration Project with Car 1225 between Cloverdale and Sullivan.

In relation to these and other possible further enhancements, it is recommended that Council instruct staff to advise the Society that the City is not able to expand its role beyond providing the annual grant for rent and insurance. For all future needs the Society will need to receive their funding from other sources.

SUSTAINABILITY CONSIDERATIONS

The ongoing operation of the Heritage Rail Demonstration Project will assist in achieving the objectives of the City's Sustainability Charter, including:

- Developing a sense of place and belonging for the community through the introduction of heritage rail facilities into Cloverdale;
- Preserving significant heritage assets;
- Educating the public about the City's history; and
- Encouraging tourism and economic development opportunities.

In particular, The Project supports the following Sustainability Charter scope actions:

- SC10: Historical and Heritage Assets
- EC1: Corporate Economic Sustainability

CONCLUSION

Based on the above discussion, it is recommended that Council:

1. Approve the allocation of up to a maximum of \$395,000.00 including taxes to the Heritage Rail Demonstration Project (the "Project") as the City's contribution towards the construction of a siding bypass, subject to the execution of a satisfactory access agreement with Southern Railway and BC Hydro granting full rights of usage and passage and matching contributions from the Fraser Valley Heritage Railway Society;
2. Direct the Fraser Valley Heritage Railway Society (the "Society") to focus its efforts on raising funds from sources other than the City of Surrey for the remaining funding required for the siding bypass and any further changes or enhancements to the scope of their operations.

Gerry McKinnon
Acting General Manager, Engineering

Vivienne Wilke
General Manager Finance and Technology

Appendix I – Fraser Valley Heritage Railway Society Anticipated Funding Requests

GMC/JB/DB/ras

APPENDIX I

Fraser Valley Heritage Railway Society Anticipated Funding Requests	
2014	
Third Spur (original request \$318,830, updated)	\$ 395,000
Car 1304 Restoration (50% in 2014)	\$ 190,000
Total 2014	\$ 585,000
2015	
Car 1304 Restoration (50% in 2015)	\$ 150,000
Carbarn Connection	\$ 103,500
Generator and Cart	\$ 100,000
Traction Motors Refurbishment	\$ 60,000
Total 2015	\$ 413,500
2016	
Carbarn Expansion	\$ 550,000
Freight Locomotive Restoration	?
Sullivan Siding Bypass and Station Relocation	?
Newton Station	?
Total 2016	\$550,000 +
2014-2016 Sub-Total	\$ 1,548,500
Tax	\$ 185,820
Total	\$ 1,734,320