



Date: July 18, 2005

TO: Board Members - Parks and Recreation
FROM: General Manager - Parks and Recreation
**SUBJECT: Purchase of Rolling Stock for Stanley Park
Miniature Railway**

RECOMMENDATION

THAT the Board approve a loan of up to \$90,000 from its donation reserve to finance purchase of an engine and three carriages at an interest rate of 5%, to be repaid over up to 4 years from additional net revenues generated at the Ghost Train and Bright Nights from operation of this additional train.

BACKGROUND

The Miniature Railway currently operates with three engines and two sets of five carriages. This allows it to run two trains at one time, with a spare engine held in reserve to allow for rotation to spread wear and tear, and to cover breakdowns.

For some time now, it has been clear that the current rolling stock is insufficient to meet customer demand on many nights at the Ghost Train and Bright Nights. At peak times during these events, tickets sell out within two or three hours of the site box office opening. Tickets are regularly sold out by early evening, leaving many prospective customers disappointed. Ticketmaster now sells up to half the tickets for these events and it often sells out of its allocation of tickets many days in advance. Extra trains could run during the peak hours and days of these events if they were available. This would bring in additional revenue to the Board and help satisfy customer demand. An additional engine would also provide further back up for the times when the other engines are out of service.

DISCUSSION

Proposed Purchase

To purchase new from the US manufacturer of most of the existing rolling stock at the Miniature Railway, to customize and adapt them to the 20" gauge track in Stanley Park (these trains are manufactured to the current standard gauge of 24"), and to transport them from the US, would cost over \$175,000 for an engine and \$40,000 for each carriage. An engine and five carriages would cost almost \$400,000. A business case cannot be made for purchasing new at these prices.

There is a very limited used miniature train market in North America. For several years now, staff have been following up on prospects but nothing has met requirements at an acceptable price. However, recently a purchase opportunity came to staff's attention, an engine and three carriages priced at US\$45,000 (approximately Can\$55,000). They are located in West Virginia.

The engine is a US manufactured CP Huntington, similar to two of the three existing engines at the Miniature Railway. The engine & carriages are 20" gauge (most of the other used trains on the market are 24").

Experienced City and Parks staff have inspected the engine & carriages. They are of the opinion that this is an opportunity well worth pursuing. The engine requires some work, which can be done at one of the City's works yard. Immediate repairs to make it safe to operate would cost \$10,000, and an additional \$5, – \$10,000 should be spent on items which are either less urgent, or are more for aesthetic reasons. A total of \$20,000 in respect of this work is included in the loan request.

The carriages are in excellent condition. However, they have canvas roofs which may have to be replaced with metal or fibreglass roofs in about four years time, at an estimated cost of \$10,000. That amount is not included in this financing request and could be funded from additional operating revenues from this extra train after the loan is paid off.

The seller has agreed to put US\$5,000 of the purchase price into escrow for a year, to be repaid to us if a major engine component fails during that time. An offer to purchase has been made and accepted, subject to obtaining Board approval.

Financial Aspects of the Purchase

Total costs to purchase, transport and put the train into service are estimated at approximately \$90,000, as follows:

purchase price	US	<u>\$45,000</u>
converted to Can \$ at 23%	Can	<u>\$55,350</u>
PST		<u>\$3,875</u>
transportation + brokerage		<u>\$8,000</u>
repairs / modifications required		<u>\$20,000</u>
contingency		<u>\$2,000</u>
total cost		<u>\$89,225</u>

With a third train running on the busier nights of both events, revenues from additional ticket sales at the Ghost Train and Bright Nights, net of additional operating costs, are estimated at \$24,000 per annum.

Funding for this loan can be from the Board's donation reserve. Interest at 5% will be paid on the loan.

Account Description	July 2005 Balance	Committed, Restricted or Reserved Funds	Funds available for use
Artificial Turf Replacement	\$230,000	\$230,000	\$ 0
Park Amenity Donations	\$670,000		\$ 670,000
Corporate Sponsorship	\$680,000		\$ 680,000
Donation	\$ 50,000		\$ 50,000
Golf Capital Reserve	\$152,000	\$152,000	\$ 0
Revenue Stabilization Fund	\$500,000	\$500,000	\$ 0
CF Moore Donation	\$350,000	\$250,000	\$ 100,000
Sub-total			\$1,500,000
Less:			
Loan to Celebration Pavilion			\$1,400,000
Balance for a loan to Ghost Train and Bright Light			\$ 100,000

To borrow \$90,000 over 4 years at 5% interest, annual repayments would be about \$25,000. If the new train is in service for this year's events i.e. by early October, the first loan repayment can be made in 2005 and the loan should be paid off by 2008. If the additional net operating revenues are greater than anticipated, then the loan repayment can be accelerated. Once the loan is paid off, the new train should continue to earn additional annual net revenues for the Board of over \$24,000.

Finance Committee

At its meeting on July 18, 2005, the Board's Finance Committee discussed this loan request and adopted a motion to recommend it to the Board for approval.

SUMMARY

This is a rare opportunity to purchase a used train and three carriages which are priced reasonably and would be a good addition to the Board's existing Miniature Railway operation. This extra capacity would enable more people to enjoy the Ghost Train and Bright Nights and would increase Board revenues at these events. It would also provide additional backup, should existing rolling stock be temporarily out of service during these events. Funding for the purchase loan is available in the donations reserve. The loan payback period is short and the payments should be manageable.

Prepared by:
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