

# **Island Corridor Foundation**

## **Business Plan 2005-2009**



1 Aug 1997 William Slim - First train across new track and bridges at Six Mile

September 2004

**Submitted to:**

Island Corridor Foundation  
Nanaimo, British Columbia, Canada

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## **I. EXECUTIVE SUMMARY**

The Island Corridor Foundation was incorporated in 2003 as a not for profit Society and has applied to become a registered charity under the *Income Tax Act*. The Foundation proposes to receive a donation from Canadian Pacific Rail of the underlying title of the Corridor of land and infrastructure presently used for the Esquimalt Nanaimo railway from Victoria to Nanaimo and from Parksville to Courtenay.

The donation will include the land, gravel rail bed, ties, tracks, culverts and related structures such as bridges, trestles and tunnels that support the rail service as well as seven historic train stations and the land they sit on and timber rights along the Corridor. The train stations are located in Victoria, Duncan, Ladysmith, Nanaimo, Parksville, Qualicum, and Courtenay. The donation has an appraised value of \$178 million.

### **A. Objects**

In summary, the Objects of the Foundation are to:

- acquire, preserve and develop for purposes of the Corporation the Corridor which lies North-South from Victoria to Courtenay and East-West from Nanaimo to Port Alberni on Vancouver Island;
- maintain the continuity of the Corridor as a contiguous special use connection for all communities;
- contribute to safe and environmentally sound passenger and freight rail services;
- encourage a flexible infrastructure along the Corridor which will encourage a wide range of economic and trade activity;
- preserve archaeological resources, historic landmarks, structures, artifacts, and historic routes along the Corridor for historical purposes;
- create trails, parks, gardens, greenways and other public areas for use of members of the public along the length of the Corridor;
- conserve the environmental and spiritual features and functions of the Corridor in respect of the land, water and natural resources; and
- do all such charitable activities which are incidental to and beneficial to the attainment of the purposes stated above.

In order to meet its object, the Foundation plans to undertake a number of charitable activities. It plans to work with neighboring First Nations and local governments to develop community-planning policies and recognize and protect the value of this Corridor. It plans to:

- identify opportunities to extend and improve fibre optic, electronic and/or energy transmissions via the Corridor;
- promote the Corridor as an alternative to road based vehicle traffic;
- work with communities to take advantage of near term needs of the improving rail service;
- identify locations for recreation functions that can be wholly or partly delivered using Foundation land;
- coordinate with Regional District Parks with respect to service delivery and maintenance;
- provide a liaison with municipal parks departments to facilitate delivery of local park functions from the Corridor land;
- build cross-cultural awareness, sharing traditional uses of plants, water and places along the Corridor while respecting the sacredness of many of the practices of aboriginal people.

The Foundation has identified a number of specific projects which could be undertaken to meet the objects of the Foundation in the first five years. Through a criteria selection process, the projects identified were prioritized and a decision was made to place emphasis on the development of trails for walking, hiking and cycling along the rail tracks from Victoria to Courtenay for the purpose of enhancing tourism and recreation. It was further decided that the Foundation would assist the First Nations with service development enterprises through advice and facilitation.

## **B. Business Opportunities**

In order to finance the charitable activities of the Foundation and to provide the administration required to undertake projects, the Foundation will pursue commercial opportunities and fundraising events.

### **1. Existing revenue**

The gift which is being made by CPR comes with a non-rail revenue stream of \$67,000 per year on an ongoing basis plus an expected \$200,000 per year for the first two years.

Based on discussions with CPR personnel, there is a potential to increase the current encroachment and access fees by \$16,000 per year. The Foundation expects to see these increases implemented by 2007.

### **2. Rail operation**

CPR has a lease and operating agreement with RailAmerica, through its subsidiary, E&N Railway Company (1998) Ltd., (ENR98) whereby ENR98 covers all Corridor operating expenses which include property taxes,

maintenance and insurance. No additional lease fee is paid to CPR. The agreement will be assigned to the Foundation with the donation. The Foundation is in negotiations with ENR98 and other operators to identify opportunities to increase the profitability of the rail operator. The goal of the Foundation is to increase the profitability to facilitate an additional lease fee over and above the operating costs of \$150,000 per year starting in 2007.

### **3. Station improvements and heritage development**

The Foundation has identified an opportunity to renovate six stations with the intent of leasing them out to commercial operators such as restaurant owners and/or gift shops. The stations in question are located in Duncan, Ladysmith, Nanaimo, Parksville, Qualicum Beach and Courtenay. The Foundation anticipates starting those renovations in 2006 with completion in 2007. Projected revenue from the stations is set at \$108,000 per year.

### **4. Public awareness and fundraising events**

The Foundation will develop a series of public awareness and fundraising events under the general theme of “celebrating our heritage and future”. These special events will focus on the Corridor and its connections with Vancouver Island communities. In addition to these events, the Foundation is taking steps to implement a number of initiatives to promote donations and bequests for the maintenance of the Corridor. The Foundation expects to raise \$40,000 per year from these various activities.

### **5. Building an endowment fund**

Included in the donation from CPR, approximately \$4 million of “surplus” land has been identified. The Foundation plans to strategically select \$1 million of parcels along the Corridor to be either subdivided and sold or leased to commercial operators on a long-term basis. The Foundation expects to generate an annual revenue of \$50,000 per year from these parcels. In the projection, this activity has been recorded as a sale with the proceeds going into an endowment fund. Alternatively, if the land is leased rather than sold, the return on investment may be greater than \$50,000 per year.

Over \$800,000 of timber, net of logging costs, will be included in the gift. The Foundation board will investigate opportunities to harvest this timber using sustainable logging practices. As a result, the directors do not expect to harvest more than approximately \$200,000 of this timber within the next few years. Proceeds from the sale of timber will go in an endowment fund to generate an investment return in perpetuity.

In summary, the financial projection shows the following sources and uses of funds. Readers are cautioned to refer to Appendix 4 of the report for the hypothesis and assumptions built into the projection.

	Year 1 2005	Year 2 2006	Year 3 2007	Year 4 2008	Year 5 2009
<b>Sources of funds</b>					
Existing sources of revenue	\$ 267,000	\$ 267,000	\$ 67,000	\$ 67,000	\$ 67,000
Increases in encroachment and access fees		\$ 4,000	\$ 16,000	\$ 16,000	\$ 16,000
Rail operator			\$ 150,000	\$ 150,000	\$ 150,000
Donations	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000
Station leases		\$ 27,000	\$ 81,000	\$ 108,000	\$ 108,000
Interest on endowment fund*		\$ 10,000	\$ 60,000	\$ 60,000	\$ 60,000
Interest on capital reserve		\$ 7,600	\$ 7,900	\$ 5,800	\$ 6,200
Sale of excess assets		\$ 200,000	\$1,000,000		
Cash surplus from planning phase	\$ 76,700				
	<u>\$ 383,700</u>	<u>\$ 555,600</u>	<u>\$1,421,900</u>	<u>\$ 446,800</u>	<u>\$ 447,200</u>
<b>Uses of funds</b>					
Debt servicing	\$ -	\$ 90,600	\$ 71,300	\$ 68,200	\$ 65,100
Administration	\$ 185,400	\$ 185,400	\$ 185,400	\$ 185,400	\$ 185,400
Renovation of stations		\$ 150,000	\$ 150,000		
	<u>\$ 185,400</u>	<u>\$ 426,000</u>	<u>\$ 406,700</u>	<u>\$ 253,600</u>	<u>\$ 250,500</u>
Cash surplus	\$ 198,300	\$ 129,600	\$1,015,200	\$ 193,200	\$ 196,700
Cumulative cash balance	<u>\$ 198,300</u>	<u>\$ 327,900</u>	<u>\$1,343,100</u>	<u>\$1,536,300</u>	<u>\$ 1,733,000</u>
<b>Allocated as follows:</b>					
Operating account	\$ 47,100	\$ 19,100	\$ 25,200	\$ 61,400	\$ 100,700
Endowment fund**	\$ -	\$ 200,000	\$1,200,000	\$1,200,000	\$ 1,200,000
Capital Asset reserve	\$ 151,200	\$ 108,800	\$ 117,900	\$ 274,900	\$ 432,300
	<u>\$ 198,300</u>	<u>\$ 327,900</u>	<u>\$1,343,100</u>	<u>\$1,536,300</u>	<u>\$ 1,733,000</u>

\* some of this may be in the form of long-term land lease payments

\*\* if surplus land is sold and not leased

## C. Governance and staff structure

The Foundation is governed by a Board of Directors comprised of a minimum of twelve directors. An equal number of directors will represent local governments and First Nation governments. Membership in the Foundation is limited to local



governments and First Nation governments whose territories are wholly or partly within the geographic area of the Corridor.

A number of sub committees will be formed to oversee the operational activities of the Foundation. As a minimum, the board will have an audit committee, a human resource committee, a real estate committee, a rail operations liaison committee, and a community projects committee.

The Board of Directors will hire or appoint a managing director and an administrator who will oversee the management functions and resources of the Foundation. The Foundation will also rely extensively on the support of volunteers to administer and manage most of the Foundation's special projects.

## **D. Risk Analysis and Critical Success Factors**

A number of potential risks have been identified in the business plan with suggestions for mitigation. The risk analysis included the review of environmental, financial, operational, social and technological risks.

To be feasible, there are a number of factors which are critical. In this particular plan, the critical success factors have been identified as follows:

### **1. Control of the ENR98 portion of the Corridor**

One of the principal objectives of the Island Corridor Foundation is “to acquire, preserve and develop.... the Island Corridor which lies north-south from Victoria to Courtenay and east-west from Nanaimo to Port Alberni on Vancouver Island...” and “to maintain the continuity of the Island Corridor as a contiguous special use connection for all communities...” Therefore, it is critically important that the Foundation be successful in negotiating a takeover of the part of the line owned by ENR98.

### **2. Undertake charitable activities**

The Foundation proposes to undertake a number of charitable activities. The Foundation can only be successful if the following is in place:

- Full support from neighboring First Nations and local governments through participation on the Board, in committees and undertaking joint ventures.
- To identify specific projects which will contribute to the charitable activities of the Foundation.
- To get public support and participation in the activities.



### **3. Financial feasibility**

To ensure that the Foundation is able to meet its financial obligations as they come due, a number of revenue sources have been identified. The ones which are most critical are as follows:

- Increased profitability for the rail operator is critical to the Foundation because the Foundation is relying on a lease revenue of \$150,000 over and above the cost recovery starting in 2007.
- Should rail operation prove non-feasible for the long term, it is critically important that the Foundation be successful in at least one of the following:
  - Reduce Corridor operating costs by obtaining a rezoning and waiver on property taxes.
  - Remove and salvage ties and tracks to be sold for net proceeds.
  - Identify additional parcels of land for lease to commercial operators.
- During the initial two years, as the Foundation develops the various business strategies identified, the non-rail revenue being assigned by CPR in the amount of \$267,000 is critically important.
- To meet one of its objectives as well as contribute to the operations of the Foundation, it is important that the Foundation be successful in its negotiations with Via Rail and ENR98 for the use and control of the six main stations.
- The sale or long-term lease of surplus assets is key for generating an ongoing annuity.
- It is critical that the Foundation be able to get liability insurance at an affordable rate.

## II. HISTORY AND BACKGROUND

The Esquimalt and Nanaimo Railway (E&N railway) was incorporated on September 27, 1883 by Sir Robert Dunsmuir, the coal baron. To build the railway, land was granted to Dunsmuir under the Act of Confederation.

Completed in 1886, the initial rail operation ran for 115 kilometers from Esquimalt to Nanaimo, hence the original name of the company. By 1888, the line was extended into Victoria.

In 1905, Dunsmuir was Premier of British Columbia and the Canadian Pacific Railway (CPR) wanted permission from the Province to build a line through southeast BC. Dunsmuir agreed to give permission, on condition that CPR take over the railway, which at that time was struggling financially. He transferred the railway and the land grants (the Corridor) to the CPR and by 1925, the E&N Railway was a thriving operation.

Over time, the railway was developed to become an important transportation link stretching from Victoria to Courtenay and across to Port Alberni.



In recent years a variety of business changes have occurred which have created financial challenges for the rail operator. Slow or inadequate responses to these changes have meant that rail service has not been able to maintain its market status and has been at risk of failure on numerous occasions. In spite of that, thousands of Vancouver Island residents have expressed strong support for the maintenance and improvement of both the railway and the Corridor, with emphasis on options for public transportation for the sake of the environment, as well as public safety and recreation.

Over the past two years, elected leaders of local First Nations and municipal governments have accepted a mandate to work towards the preservation of the Corridor. After much planning and discussion, a strong consensus was formed around the vision of a charitable foundation that would be responsive to the communities along the right-of-way (ROW).

The Island Corridor Foundation (the Foundation), incorporated in November 2003, makes possible the preservation of this critically important land by accepting the right-of-way as a gift from CPR, the current owners of the majority of the property. The Foundation's Board of Directors is comprised of First Nations and local government leaders who embrace a new model of partnership in Canada.

The Foundation has applied to the Canada Revenue Agency to become a registered charity under the Income Tax Act. As a charity, the Foundation will be able to accept gifts for special projects. The Foundation's Board members are working together as equal partners to formulate and enhance a wide range of charitable objectives for the benefit of the Corridor. The focus of charitable activities is the connecting of communities along the Corridor, through educational and recreational activities.

First Nation leaders plan to raise awareness of their rich history and culture among residents and visitors. For example, the Cowichan Friendship Centre along the Corridor in Duncan is expected to be a highlight in the education of schoolchildren, elders, and visitors. Many other First Nations communities could use the Corridor to illustrate the traditional life and culture of the many nations of Vancouver Island.

A renewed passenger and freight rail service will be in the hands of an operating company, under a lease agreement with the Foundation. The company will work with Island communities who undertake charitable activities, and facilitate transportation and communications through special programs in partnership with the Foundation.

The work of the Foundation will support the work of other charitable foundations and non-profit groups through special events and public activities along the Corridor. The Foundation plans sharing responsibility for events with community organizations along the right-of-way, to benefit community needs and renew the

focus on the importance of the Corridor as a connector between communities on the Island.<sup>1</sup>

### III. THE CORRIDOR

The Corridor consists of the land, gravel rail bed, ties, tracks, culverts and related structures (bridges, trestles, and tunnels) that support rail service on the ROW. It also includes the historic train stations and the land that they sit on as well as the timber within the Corridor.

The Corridor is normally about 30 meters (100 feet) wide through most of its length, and is sometimes wider where it includes adjacent land used for rail stations. In total, the Corridor represents a significant amount of real estate both inside and outside the Island's populated areas.<sup>2</sup>

There are essentially two rail corridors on the Island: a North-South Line from Victoria to Courtenay, and an east-west Line from Nanaimo to Port Alberni, and an east-west line from Lake Cowichan to Koksilah (just south of Duncan.) These lines intersect and share track in the middle of the North-South Line. The line from Lake Cowichan to Koksilah is a non-operating line. These three corridors run through 5 regional districts, 9 First Nation communities, 10 municipalities and 13 unincorporated communities. The North South Line goes through the most populated sections, with approximately 85% of the Island's population living within 30 minutes of the Corridor.<sup>3</sup>

CPR owns the Corridor land from Victoria to the beginning of the Marine Rail Service in Nanaimo (known as the Wellcox Spur), and from Parksville to Courtenay. As well, CPR owns additional right-of-way in Nanaimo, Port Alberni, and other parts of the line between Nanaimo and Parksville as follows:

- The section running through the Nanaimo First Nation community on the Wellcox Spur;
- The section running through the Nanoose First Nation;
- The rail yard and a section immediately before the Rail Barge in Nanaimo;
- A section of track in Parksville; and
- A section of track in Port Alberni.

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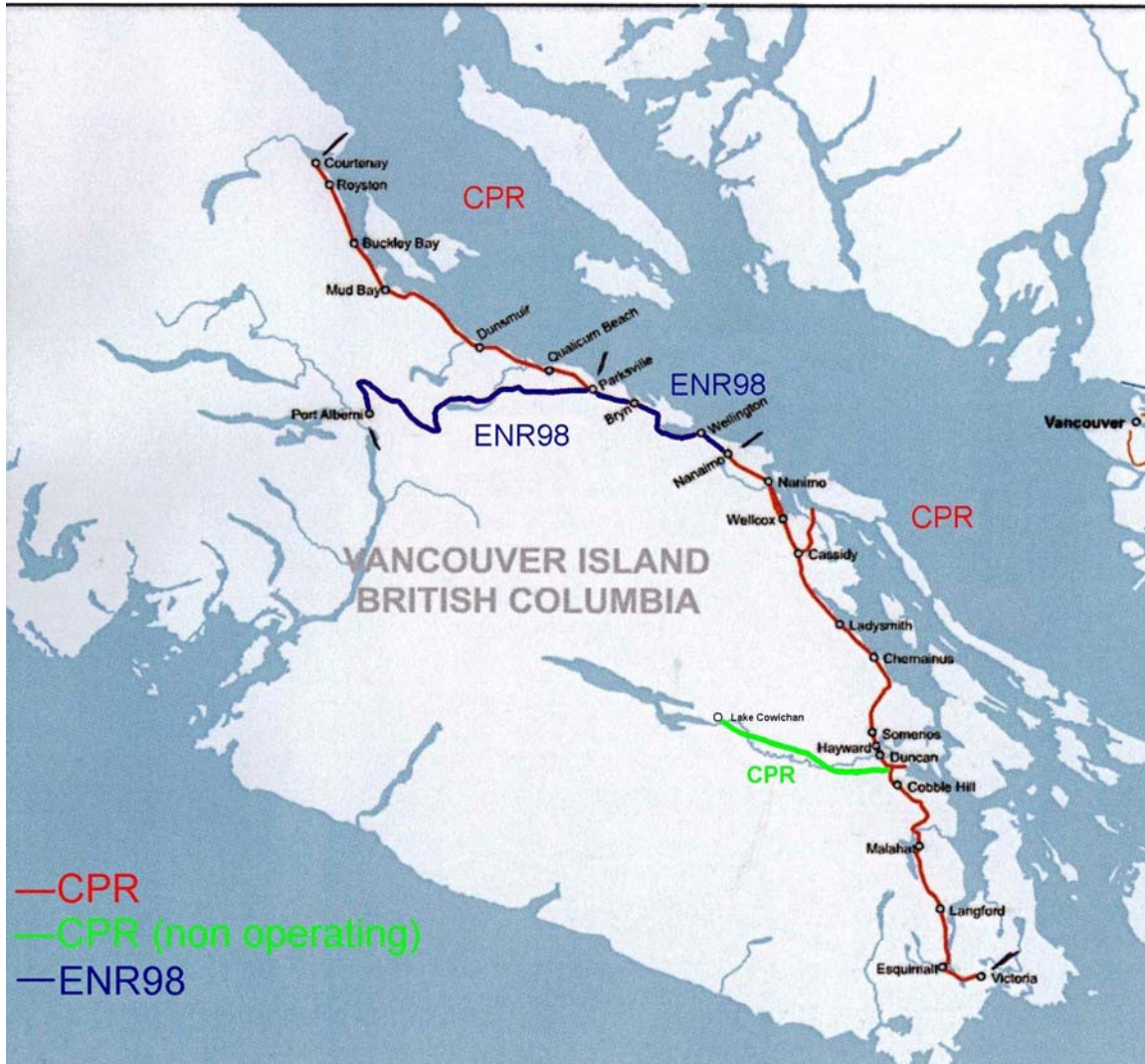
<sup>1</sup> A large part of the History and Background was adapted from *Vision for the Island Rail Corridor Foundation, a charitable foundation for the benefit of all citizens on Vancouver Island*, Councillor Mary Ashley, District of Campbell River.

<sup>2</sup> The Corridor is comprised of about 1610 acres of land, not including land owned by RailAmerica's subsidiary, E&N Railway Company (1998) Ltd. E&N Railway Valuation Study. Volume 1, Exhibit 8.

<sup>3</sup> A Partnership for Greater Community Control of the E&N Transportation Corridor. Volume II. Lanarc Consultants Ltd. August 2002.

RailAmerica, through a subsidiary E&N Railway Company (1998) Ltd. (ENR98) owns the Corridor from the Wellcox Spur in Nanaimo to Parksville and the east-west line from Nanaimo to Port Alberni less those parcels retained by CPR as set out above. The map below shows the portions owned by CPR versus those owned by ENR98.

## E&N Railway and Corridor



### A. The North-South Line

The current passenger service between Victoria and Courtenay operates on the North-South line. Freight service is also on this line, concentrated in the middle section between Parksville and Nanaimo.

Given that the line goes through the most populated areas and most of the major communities on the Island, the potential for other uses of the Corridor is higher on this line.



This line requires some investment if it is to be sustained as rail infrastructure. It has been maintained to meet safety and rail regulatory standards and has not included upgrades or facility improvements. Its primary use is for passenger rail with some limited freight.

## **B. The East-West Line**

There are presently no rail services on this line. Historically, the rail line was used for freight, with no passenger service either operating or contemplated.

The line from Parksville to Port Alberni is rural and remote and the potential for real estate development is less apparent than on the North-South line.

The rail infrastructure has been idle since early January 2002 and would require attention before it could again support rail traffic.

It has been maintained to required safety and rail regulatory standards, but it has not been improved.

## **C. Rail Services**

There are three types of rail services currently on the Island, namely freight, passenger, and barge

1. *Rail Freight:* Rail freight services are offered on the line by ENR98 and through CPR. The current rail freight on the line are CPR customers when the freight originates on the mainland or when it is destined for the mainland.
2. *Passenger Rail:* VIA Rail operates a passenger service on the Island as part of its regional and remote services. The local operator, ENR98, provides the crewing of the trains and access to the line.
3. *Rail Barge:* The rail barge service is in Nanaimo and provides the connection between the Island Railway and the Mainland. Coastal Marine, a division of the Washington Group currently operates this service.

Overall management and maintenance of the entire rail infrastructure, is the responsibility of ENR98 through a lease and operating agreement with CPR. This includes all maintenance and inspection services, switching and otherwise providing access to the railway.

## **IV. INTENTIONS OF THE ISLAND CORRIDOR FOUNDATION**

The Island Corridor Foundation was incorporated in 2003 as a not-for-profit society and has applied to become a registered charity under the Income Tax Act. The Foundation proposes to receive a donation from CPR of the underlying title of the corridor of land and infrastructure presently used for the Esquimalt and Nanaimo Railway. The gift does not include the operating assets nor does it include the Songhees and Nanaimo yards. The Foundation has a detailed agreement with CPR regarding the donation of title to the land in the Corridor and the historic stations.

The Foundation intends to conclude negotiations for receiving the Corridor as a gift from the CPR before the end of 2004. Prior to the conclusion of these negotiations, the Foundation and the Canada Revenue Agency require a business plan identifying the financial benefits and liabilities and the proposed projects and risks associated with the ongoing operation of the Corridor.

Included in the Asset Donation Agreement from CPR, the Foundation will have three options as follows:

- For a purchase price of \$3 million, the Foundation has the option to purchase the revenue generated by CPR from Telus Communications (BC) Inc. under a statutory right of way for their fibre optic lines;
- The Foundation also has options to purchase the Songhees yard in Victoria for a purchase price of \$4 million; and
- The Wellcox yard in Nanaimo for a purchase of price \$4 million.

All three options expire on November 1, 2005. The Foundation will only exercise these options if and when it is financially feasible.

The Foundation is currently in negotiations with Rail America and its subsidiary, ENR98 to obtain control of the Corridor they own through a transfer of title or through an amended lease and operating agreement.

The Foundation intends to enter into an agreement with a railway operator(s) to provide passenger and/or freight services along the E&N railway. Currently Via Rail Canada operates a passenger service on the line and ENR98 operates a freight service on the line. The Foundation has no intention of providing these services internally and will look to the existing operators to continue providing passenger and freight service. In the event that the existing operators are unwilling to provide passenger and freight service, other interested parties will be invited to provide them.



## V. OBJECTS OF THE FOUNDATION

The Objects of the Foundation are to:

- acquire, preserve and develop for purposes of the Corporation and its objects, but for no other purposes, the Corridor which lies North-South from Victoria to Courtenay and East-West from Nanaimo to Port Alberni on Vancouver Island, together with ancillary lands, structures and all other property rights attached thereto and the infrastructure and other assets that constitute the E & N Railroad and are located on the Corridor;
- maintain the continuity of the Corridor as a contiguous special use connection for all communities, while respecting and supporting First Nations interests and traditional lands and uses;
- contribute to safe and environmentally sound passenger and freight rail services along the Railroad;
- encourage a flexible infrastructure along the Corridor which will encourage a wide range of economic and trade activity for the benefit of all communities lying adjacent to the Corridor;
- preserve archaeological resources, historic landmarks, structures, artifacts, and historic routes along the Corridor for historical purposes and for ongoing and future use by the community;
- create trails, parks, gardens, greenways and other public areas for use of members of the public along the length of the Corridor;
- conserve the environmental and spiritual features and functions of the Corridor in respect of the land, water and natural resources for the general benefit of the public; and
- do all such charitable activities which are incidental to and beneficial to the attainment of the purposes stated above.

The Foundation proposes to undertake a number of charitable activities to meet its objects. It plans to work with neighbouring First Nations and local governments to develop community-planning policies that recognize and protect the value of this Corridor. It plans to:

- identify opportunities to extend and improve fibre optic, electronic and/or energy transmissions via the Corridor;
- promote the Corridor as an alternative to road based vehicle traffic;
- work with communities to take advantage of near term needs of the improving rail service;
- identify locations for recreation functions that can be wholly or partly delivered using Foundation land;

- coordinate with Regional District Parks with respect to service delivery and maintenance;
- provide a liaison with municipal parks departments to facilitate delivery of local park functions from the Corridor land;
- building cross-cultural awareness, sharing traditional uses of plants, water and places along the Corridor while respecting the sacredness of many of the practices of aboriginal people.

From the list above, the Foundation has identified a variety of specific charitable activities that could be undertaken to advance its charitable objectives. Through a criteria selection process, the projects identified were prioritized and the following two specific projects have been selected for implementation in the first five years of operation.

## **1. Trail development**

This project is to participate in the development of walking, hiking and bicycle trails along the rail corridor from Victoria to Courtenay for the purpose of enhancing tourism and recreation. The trail would follow the right of way (ROW), where practical, and will eventually connect all of the municipalities along the Corridor. Many significant investments have been made by municipalities and regional districts in the development of recreational trails within, and adjacent to, the ROW and others would quickly step forward if the corridor were controlled locally by the Foundation.

The City of Nanaimo, for example, has developed and financed a trail along the rail corridor. The E&N trail runs alongside the tracks, within the ROW for about half the length of the city. As additional trail segments are developed along the Corridor, the Foundation will work with municipalities but anticipates that each municipality will fund the capital costs of trail development.

A study entitled “Area 5 Study” completed by the Corporation of the District of North Cowichan in 1997 recommended acquiring the right-of-way from CPR to be used as an access, servicing a recreational corridor. To quote the report, *“This greenway could be used to link residential areas with green space along Holmes Creek and provide pedestrian access to parks and schools to the north.”*

## **2. Assist First Nations with service development enterprises**

First Nation groups on Vancouver Island have a vested interest in developing service enterprises that support the E&N railway. Some examples of service enterprises that have been discussed include:

- The development of a maintenance facility for the rail and equipment. This facility would in turn offer some training opportunities for their members.

- Provision of onboard services such as food and beverage services.

The business development plans for these enterprises are not fully developed in this document as they will require the participation of third parties such as the individual First Nations and external funding agencies such as Aboriginal Business Canada.

The Foundation expects to work with First Nations interested in providing support and services. This assistance would be in the form of administrative support and liaison between proponents and the rail operator. Business development activities would be led by First Nation groups in the form of proposals brought forward to the Foundation.

It goes without saying that these projects will be dependent on the rail service being in operation. Some types of services may be provided without an operator, but most of the opportunities identified during the preparation of the business plan focus on supplying services to a functioning railroad.

## **VI. THE BUSINESS OF THE CORRIDOR**

### **A. Current Situation**

Through a lease and operating agreement between CPR and ENR98, ENR98 pays for all operating costs of the railroad as well as the Corridor costs. In a review of the financial statements of ENR98, three expenses were identified as Corridor related as follows: property taxes, liability insurance, and maintenance. All other expenses incurred by ENR98 are directly related to the rail operation. The property taxes are approximately \$475,000 per year of which approximately \$300,000 is on the CPR owned Corridor to be gifted to the Foundation. It is difficult to split the insurance and maintenance costs between the rail service and the Corridor. CPR and ENR98 personnel estimate maintenance costs for the Corridor at approximately \$200,000 per year. Exact insurance costs have not been determined but for purposes of this report have been estimated at \$150,000 per year for the non-operating portion of the Corridor. Therefore, the indirect revenue from the ENR98 lease is approximately \$825,000 per year (see note 8, page 57).

Under the current lease and operating agreement, CPR does not benefit from any rail related revenue. However, it does collect approximately \$67,000 per year in encroachment leases and access fees. CPR also reports approximately \$200,000 in non-rail lease revenues at the Songhees and Nanaimo yards.

## **B. The Foundation as the owner**

As part of the donation agreement from CPR, the non-rail revenue of \$67,000 currently collected by CPR will be assigned to the Foundation. Although the Songhees and Nanaimo yards are not included in the donation, according to the Foundation's solicitor, CPR has undertaken to transfer the \$200,000 of annual lease revenue earned at the Songhees yard to the Foundation for a period of two years.

Although the Foundation is not bound to continue with the lease and operating agreement with ENR98 for the long term, the plan is not to change anything in the first year. Therefore, ENR98 is expected to continue to cover the \$825,000 of Corridor operating costs. The Foundation is in negotiations with ENR98 and will also entertain proposals from other operators to develop a rail service which takes better advantage of the current operating climate.

Expressions of interest (EOI) have been received from other rail operators. A preliminary analysis of these EOIs suggest a lease fee of \$150,000 per year over and above the reimbursement of Corridor operating costs.

Therefore, without undertaking any other projects, the expected annual income of the Foundation in the first two years will be approximately \$267,000 going down to \$217,000 per year starting in the third year.

As detailed later in this business plan, the Foundation expects to incur approximately \$185,000 per year in administration costs. This will include personnel costs, premises and office overhead.

In summary, the current non-rail revenue and the proposed rail operating agreements will be sufficient to cover administration costs, leaving an annual surplus of \$32,000 and \$82,000 to pay for extraordinary items such as trail development, capital replacements beyond those undertaken by the rail operator to maintain the safety of the corridor, and other projects which the Foundation wishes to undertake from time to time to meet its mission and goals. The next three sections address a number of specific commercial opportunities to generate additional funds to enhance the Foundation's ability to undertake charitable projects and fund capital projects.

## **C. Corridor Business Development**

Identifying the best opportunities for Corridor business development is an ongoing process. At the time of writing, the opportunities described on the following pages have been put forward and are in various stages of discussion and research.

The first three projects have an immediate priority for the Foundation and have been developed in this business plan to the point of identifying the critical success factors and performing a risk assessment to determine the level of feasibility. The last project is not totally developed in the plan and is considered to be a future project. It has been analyzed at a high level and its feasibility will be determined within the first two years of the Foundation's operation.

## 1. Station improvements and heritage development

During the peak of the E&N railroad, there were more than fifty stations along the ROW. Today, only about 25 stations exist along the 140 miles between Victoria and Courtenay. Many of these are in a state of disrepair and are boarded up and not used. Of these 25 stations, less than ten are used on a regular basis and only a handful are maintained in an operational state. Most of the stations need significant upgrades before greater levels of use can be contemplated.<sup>4</sup> There are seven operational stations located in Victoria, Duncan, Ladysmith, Nanaimo, Parksville, Qualicum Beach and Courtenay. A number of opportunities have been identified for the use of the stations.



Duncan Station



Nanaimo Station



Qualicum Beach Station



Courtenay Station

<sup>4</sup> Vancouver Island Railway Co. "Railway Stations and Historic Structures on the Vancouver Island Railway" July 2003.



Four stations have been designated as heritage sites through federal or provincial legislation. The heritage stations are located in Duncan, Nanaimo, Qualicum Beach, and Courtenay.<sup>5</sup>

The Board of Directors and local residents have strong feelings towards the stations along the ROW.<sup>6</sup> Many feel that station revitalization is key to making this entire project a success. It is recognized that these buildings provide a unique opportunity to develop a meaningful heritage showcase linking communities up and down the corridor.

All the stations are currently leased to VIA Rail who, in turn, has been providing the use of the stations to local community groups on the condition that they maintain the stations in safe operating condition. According to CPR, VIA operations only need a ticket booth and the balance of the space is not part of the current operations. Many of the leases are with groups such as museums, Chambers of Commerce and other non-profit societies.

There are opportunities to develop the stations to a standard that would support commercial leases in the form of restaurants and/or tourist shopping.

Station upgrades would be undertaken as adaptive reuse of these heritage structures. Development plans would be created in consultation with municipal guidelines for heritage development and in consultation with local historical societies.



Parksville Station



Ladysmith Station

This project is in keeping with the Foundation's objects and has the potential of generating net revenue for the Foundation. Discussions with CPR personnel, confirm that they do not have an inventory of the status of the individual stations. They do concur with the general assumption that on average \$50,000 is an appropriate assumption of the level of effort required to bring the stations to a full leaseable state. The current plan of the Foundation

<sup>5</sup> Heritage Conservation Act and Heritage Railway Stations Protection Act.

<sup>6</sup> Personal communication with Board members, local residents, tourists, and station users. Summer 2004.

is to invest \$150,000 in station developments in each of 2006 and 2007. The return through lease revenue is projected at \$18,000 per year per station for a total revenue of \$108,000 for six stations.

The managing director will be directed to initiate project feasibility studies early in 2005 regarding the process for upgrading these buildings. At the same time, a review of current agreements with Via Rail and its subleases will be undertaken.

## **2. Opportunity to increase current revenue**

According to CPR personnel, there is an opportunity to increase the encroachment fee currently charged along the rail by 10%. The current revenue collected by CPR is \$66,000 per year. Each lease is on a year-to-year basis and CPR claims they have not been aggressive at staying with market value. The Foundation plans to revisit the rates in the urban areas to generate an extra \$6,000 in revenue without incurring additional costs.

There are currently 120 existing encroachments of pipe and/or wire on the line. They are charged an access fee of approximately \$10 per annum. CPR claims the fee could easily be increased to \$100 per annum. This would generate an increase of approximately \$10,000 per year in revenue without additional costs.

Both of these rate increases are expected to be implemented by 2007.

## **3. Public awareness and fund raising events**

The Foundation will develop a series of public awareness and fund raising events under the general theme of ***Celebrating Our Heritage And Future***. These special events will focus on the Corridor and its connections with Vancouver Island communities.

For events that involve train services, the Foundation will arrange for the operator to provide rail equipment and services. Revenues for the Foundation will be generated from ticket sales, meals and concessions. Volunteer participation will exceed 90% of resources required, directed by Foundation staff. Specific events are being considered for:

- West Coast Sockeye Excursions
- Victoria Day Excursion
- National Aboriginal Day
- Canada Day
- Autumn Wine Tour
- New Years Eve Gala

The Foundation plans to undertake only two events in the first year because of limited resources initially. Other events will be added in the second and third year. A progressive development of events also allows the Foundation



to monitor the success and minimize potential losses on the less successful events.

#### **4. Develop hybrid rail service for tour operations<sup>7</sup>**

A hybrid rail service vehicle is a passenger bus, dually equipped with normal rubber tires and with “hi-rail” gear for travel on rail lines. Hi-rail is a trade name for any of several units that are affixed to the front and rear of a vehicle’s frame allowing for travel on railway tracks. Railway companies have been using this type of equipment on service vehicles for many years. The vehicles’ rubber tires maintain contact with the rail and provide motive and braking power.<sup>8</sup> The hi-rail units can be hydraulically lowered (for rail travel) and raised (for highway travel) with controls mounted at the driver’s console.



Hybrid rail tours could depart from downtown Victoria along the E&N railway to a predetermined location (possibly Duncan or Chemainus). Once arriving at the destination, the tour could leave the railway and transport it’s passengers via normal roads and highways, returning to Victoria via the Island Highway.

Hi-rail units could be installed on one or more specially designed buses for transporting passengers on unique Island tours. The tours would appeal to a wide variety of customers and could be tailored for charters and group tours. The unique feature of hi-rail is that tourists will be able to see Vancouver Island from two unique perspectives: from the railway and from the highway.

Further analysis and feasibility must be performed before the Foundation will decide whether or not to pursue this project. A preliminary business plan exists, but it has not been updated for five years. This project may be more appropriately operated by the rail operator or transit authority. A feasibility study on hybrid rail tours will be performed by the Foundation within the first two years of operation.

This project is consistent with the foundation’s objective of developing alternative transportation opportunities.

<sup>7</sup> Prepared with information obtained from CPR personnel.

<sup>8</sup> Many hi-rail units are also equipped with brakes.

## **D. Building an Endowment Fund**

Recognizing that sustainability over the long term is a primary objective for the foundation, the directors wish to investigate opportunities to build an endowment fund that can support future charitable activities and ensure the vitality of the corridor over the long term.

To develop this endowment the foundation will investigate opportunities to generate funds through the sale of surplus assets. Proceeds will be invested in an endowment fund to produce an annual return.

### **1. Sell or lease surplus land**

In areas along the corridor, surplus land exists which is not required for rail operations. An analysis of these surplus lands has been performed and parcels that appear large enough to sell have been identified in Appendix 3.

The value of surplus land was \$3.8 million in 1998. Selling prices for single-family residential homes on Vancouver Island have increased by 15.1% on average since 1998.<sup>9</sup> Using residential homes as a proxy for the surplus land gives the land a value of approximately \$4.3 million today.

There are packages of land with strong development opportunities that the Foundation would be able to sell without great difficulty. For example, the Foundation is aware of current interest in the strip of the residual land from Cumberland Road to the Puntledge River. This could be sold to create approximately \$1 million in revenue. Alternatively, small parcels of land could be sold along the route without impacting on the contiguous nature of the corridor. It would appear quite feasible to identify parcels with a combined value of \$1 million to be offered for sale.

In the financial projections, the assumption is that \$1 million of land somewhere along the rail will be sold with the proceeds going into an endowment fund to generate annual revenue of \$50,000. Alternatively, this land could be leased out in long-term leases. The expected lease revenue using a cap rate of 10% which is common on Vancouver Island would mean a \$100,000 return on investment. In the financial projections the more conservative scenario has been assumed.

One of the first goals of the managing director will be to engage a realtor to assist with the identification of specific parcels of land to be subdivided and listed for sale or lease. The process is expected to take at least eighteen months which would make it reasonable to expect the sale or lease to complete in calendar year 2007. The projections recognize a return on investment starting that year.

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<sup>9</sup> Vancouver Island Real Estate Board website. <http://www.vireb.com/sales.html>

## 2. Sale of timber

According to the Huock Resource Consultants valuation performed in 2004, there is \$884,164 of timber, net of logging costs, along the Corridor.<sup>10</sup> Additional research into the logistics and politics of harvesting this timber is required, but the Foundation Board is only interested in this revenue source if it can be developed using sustainable forestry practices. However, \$880,000 does not imply a large number of trees and does not likely mean any clear cutting.

The Foundation has not projected to harvest more than approximately \$200,000 within the next few years. For purposes of the financial projection, the proceeds are recognized in calendar year 2006. In order to meet that goal, the managing director will have to contract with a forest consultant early in 2005.

## 3. Cut the line at the Songhees yard

In order to cut the costs and risks of maintaining the Johnston Street Bridge (a.k.a. the blue bridge) for a rail service, the line could be stopped at the Songhees yard. A station could be set up at Songhees and the land from Songhees to the end of the line at the Victoria station could be sold. It is estimated that this land has a value of \$500,000 for approximately ½ acre of land in downtown Victoria.

This may or may not be viable depending on who the rail operator is. For example, one potential operator indicated that service to the Victoria station was important to them. The Songhees yard is currently used to overnight the VIA Rail train. The yard is within walking distance of downtown Victoria.

Because of the uncertainty of this last item, no recognition of proceeds have been included in the financial projection for the first five years.

## E. Other sources of funds

The Foundation is taking steps to implement the following initiatives:

- a) With a history of volunteer support and a database of interested individuals and organizations, the Foundation will develop a **Volunteer Support Program** for inviting and organizing individual and corporate support for running Foundation activities.
- b) A high-profile **Significant Donor Program** will be established by further development of the Foundation's database of interested

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<sup>10</sup> Timber Valuation Along E&N Railway Right of Way. Huock Resource Consultants Ltd. 2004.

individuals and organizations, and making regular solicitations by mail out brochures for operating and capital campaign donations. Significant donors will be publicly recognized for their contributions.

- c) An **Island Corridor Foundation Membership Program** will be established in which members will receive discounts and benefits for their participation. This program will attract annual membership fees that will support the Foundations efforts to preserve a unique and significant piece of Canada's west coast history and culture that began in 1883 when Sir Robert Dunsmuir incorporated the E&N Railway.

The Foundation directors expect they will be able to generate an average of \$40,000 per year through donations and bequests and the fundraising events which are outlined in VI.6.C.3.

## **VII. INTERNAL RESOURCES**

### **A. Governance, Management Functions and Resources**

The Island Corridor Foundation was incorporated under Part II of the Canada Corporation Act in November 2003 as a Canadian not-for-profit company. The Foundation has since applied to the Canadian Revenue Agency to become a registered charity under the Income Tax Act. As part of the agreement with CPR, the Foundation must receive charity status before the donation of land is completed.

The Foundation is governed by a board of directors, comprised of a minimum of twelve directors. An equal number of directors will represent local governments and First Nation governments. Membership in the Foundation will be limited to local governments and First Nation governments whose territories are wholly or partly within the geographic area of the Corridor.

The Foundation directors will have five sub-committees to oversee the operational activities of the Foundation. The committees will be as follows:

1. **Audit Committee:** The purpose of the Audit Committee is to liaise with the external auditors of the corporation; to act as advisor to the Board of Directors in meeting with the external auditors; to monitor internal controls and financial systems; to monitor the external audit process; and to make recommendations to the Board.
2. **Human Resource Committee:** The purpose of the Human Resource Committee will be to develop and oversee the terms of employment for the managing director; to recommend compensation for the managing director; to act as a resource to the managing director on all human

resource issues; to approve human resource policies and procedures for the corporation; and to make recommendations to the Board of Directors.

3. Real Estate Committee: The purpose of the Real Estate Committee will be to work with the managing director in the improvement and leasing of the stations, identification and sale or lease of surplus land and any other activities related to the real estate of the Foundation.
4. Rail Operations Liaison Committee: The purpose of the Rail Operations Liaison Committee will be to negotiate the operating and lease agreement with the rail operator; to act as the Foundation's representative in managing the relationship with the rail operator; and to make recommendations to the Board of Directors related thereto.
5. Community Projects Committee: The purpose of the Community Projects Committee will be to oversee the administration of all charitable activities; to interact with the communities along the ROW; and to coordinate and correspondence with the volunteers and members of the Foundation.

Each committee will be required to develop its own specific terms of reference which will form part of the governance manual of the corporation.

The Directors may choose to appoint non-directors to individual committees for their specific expertise. For example, if no one on the Board of Directors has real estate experience, the Directors may appoint an individual with real estate experience and expertise. However, the chair of each committee will always be a Director. This will ensure clear communication between the committees and the Board.

Other committees will be formed on an ad hoc basis to oversee specific projects or deal with specific issues. These committees would have a limited duration based on the circumstances.

## **B. Staff Requirements**

The board of directors will hire or appoint a managing director and an administrator who will oversee the management functions and resources of the Foundation. The managing director will be tasked with implementing the projects and opportunities identified in this business plan and the administrator will provide support services to the managing director, the board committees and the Board of Directors. These will be the only two employees of the Foundation for the foreseeable future. Salaries and benefits for these staff members have been included in the financial projections.

The Foundation will rely extensively on the support of volunteers. Volunteers will be used to administer and manage almost all of the Foundation's projects.

A volunteer recognition program will be set up by the Foundation that will assist with attracting, retaining, and motivating volunteers. Volunteers will be essential to ensuring the viability and success of the projects.

## **VIII. EXTERNAL STAKEHOLDERS**

### **A. Analysis of Key Stakeholders and Roles**

#### **1. Railway Operator**

A rail operator is a critical success factor for any project involving rail operations. The Foundation is not in the business of operating a railroad and would prefer to enter into an operating agreement with a qualified operator. Via Rail and ENR98 currently operate passenger and freight services, respectively, on the E&N railway.

Several potential railway operators have expressed an interest in operating along the Corridor, but formal negotiations have not occurred prior to the development of the business plan. The railway operator would be responsible for ongoing maintenance of the track, ROW, and rolling stock. The operator(s) would have to work together with the Foundation to provide the type of services described in this business plan on the E&N railroad.

#### **2. Local governments**

There are several local governments along the E&N railroad including:

- |                                       |  |
|---------------------------------------|--|
| ➤ Capital Regional District           | ➤ The Town of Ladysmith                    |
| ➤ Cowichan Valley Regional District   | ➤ The City of Nanaimo                      |
| ➤ Regional District of Nanaimo        | ➤ City of Parksville                       |
| ➤ Alberni-Clayoquot Regional District | ➤ Town of Qualicum Beach                   |
| ➤ Comox-Strathcona Regional District  | ➤ City of Port Alberni                     |
| ➤ City of Victoria                    | ➤ City of Courtenay                        |
| ➤ District of North Cowichan          | ➤ Corporation of the Township of Esquimalt |
|                                       | ➤ City of Duncan                           |
|                                       | ➤ Town of Lake Cowichan                    |

Municipalities have worked together in the past to assist and help the E&N railroad. They will play an important role in the future of the Corridor and



the Foundation. Municipalities can offer tax relief, develop connecting trails, and provide general support to the Foundation and its objectives.

Municipalities are able to administer property tax relief to the Foundation through annual application to council. Municipalities will be encouraged to support the development of the Corridor trail and other projects the Foundation may decide to pursue. Several municipalities are providing exceptional support by nominating representatives for participation on the board of directors of the Foundation.

### **3. First Nations**

There are several First Nation groups that relate to the Corridor now and several are supporting nominees who serve on the Board of the Foundation. These groups will play an important role in providing services to the rail operator as well as contributing ideas and investment capital. The First Nations groups along the E&N railroad include:

- Cowichan Tribes
- Esquimalt Nation
- Hupacasath First Nation
- Lake Cowichan First Nation
- Qualicum First Nation
- Snaw-Naw-As First Nation
- Songhees Nation
- Chemainus First Nation
- Halalt First Nation
- Komox Nation
- Lyackson First Nation
- Malahat First Nation
- Snuneymuxw First Nation

### **4. Rail users**

Rail users can be divided into two distinct groups, passengers and freight.

Currently, passengers are transported on VIA Rail's passenger train, which runs daily from Victoria to Courtenay and back. The current service does not meet the needs of commuters due to the timing of trains. A renewed passenger strategy could be developed that would address the large volume of people that commute to work between Duncan and Victoria. There is an estimated 300-400 people that travel by subsidized van service to Victoria on a daily basis. Other passenger strategies could include new equipment to rationalize new schedules and to increase routine and frequency of passenger operations. This would increase the attractiveness of rail as an alternative to road traffic between communities. A third passenger strategy could include full excursion offerings. These would be tourist focused, ski trains, connections with up Island tours and events, promotions. There is likely an opportunity for the cruise ship connections and access to Long Beach and the Pacific Rim area of Ucluelet and Tofino.



Freight users are typically companies that use the rail line to transport goods around the Island. Rail freight is more environmentally friendly than trucking and is able to help reduce congestion and greenhouse gas emissions related to the Island's highways. Successful freight business would depend on developing and securing long-term contracts with important business customers and on significant upgrades of the line to give it the ability to carry significant volumes of freight.

## **5. Trail users**

Trail users also consist of two distinct groups, recreational users and tourists. Recreational users will be primarily comprised of people that live on Vancouver Island. Tourist users will be comprised of visitors to the Island that are looking for outdoor activities. These groups will use the trail for walking, jogging, biking, sightseeing, and general recreation.

## **6. Adjacent Communities**

Businesses and non-profit societies resident in communities along the right of way have long benefited from the existence of the rail. Many of these groups continue to count on the ROW and the rail in their future plans. For example, in a recent draft business plan for its transit department, the Cowichan Valley Regional District refers to the E&N Railway and the role it plays for the region.

# **IX. RISK ANALYSIS**

This risk analysis section includes analysis of the sensitivity of the financial projections to fluctuations in the major assumptions underlying the projections, indicates the probability and seriousness of the risks inherent in the business and financial projections, and the actions required to mitigate the risks.

## **A. Business Risks and Mitigation**

### **1. No rail operator**

Although the Foundation is not planning on running a rail, it is critically important to have a rail operator on the corridor to fund corridor maintenance. Currently, there are two operators on the line, a number of other operators have expressed interest in operating rail services if the existing operations were to fail.

The goal of the Foundation is to negotiate a deal with an operator (or operators) that will give the Foundation \$150,000 to \$200,000 in its third year of ownership to replace the \$200,000 provided by CPR in the first two years of operation. Without an operator in place, an alternative business plan would be implemented. Other sources of revenue will have to be identified and the maintenance and upkeep of the Corridor will become the responsibility of the Foundation.

One potential revenue source would be to lease the land owned by the Foundation to interested parties. Land typically leases for 10% of its fair market value on Vancouver Island. According to the IBI valuation, the land is valued at about \$121 million.<sup>11</sup> Assuming that only 5% of the total land is available for leasing, this would generate \$600,000 of annual revenue for the Foundation. It is important to note that this would only be an option if no rail operator could be found.

## **2. Control of ENR98's portion of the Corridor**

The first objective of the Foundation is to acquire control of the entire Corridor including the part from Nanaimo to Port Alberni which is owned by ENR98. The Foundation's second objective is to maintain the continuity of the Corridor as a contiguous special use connection for all communities.

As at the report date, the Foundation directors were in negotiations with ENR98 to secure control of the Nanaimo-Port Alberni line. Should negotiations fail, the Foundation will enter into an access agreement with ENR98.

## **B. Risk Analysis of Projects**

The projects and commercial business opportunities included in this plan have been subjected to a risk analysis, accounting for environmental, financial, operational, social and technological risks. The critical and/or major risks for each project are discussed below. Critical or major risks have been defined as having a high probability of occurrence and a high level of impact, or a combination of high and medium probability and impact. For a detailed analysis of individual project risks, please see Appendix 2.

### **1. Trail development**

The two largest risks in developing a trail along the ROW are the environmental impacts and the challenges in financing the project.

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<sup>11</sup> E&N Railway Valuation Study. Volume 1. Prepared by IBI Group. January 2004.

The environmental impacts of trail development may be more pronounced in rural areas. To accommodate a trail some sections of the ROW may need significant grading and/or structures to accommodate both the tracks and a trail. This difficulty can be acute in steep terrain where the rail line is cut through the mountainside on one side and sheer cliffs on the other side, all within a few feet of each other. Alternate routing has already been proposed by regional districts where the corridor cannot easily accommodate trail development.



The development of a trail within the corridor may need significant investment where bridges and trestles need to be modified. Many of the existing structures do not have safety features, such as hand rails, walkways, or flooring that would allow for pedestrian traffic.



View of Malahat bridge from train

View of train on Malahat bridge

Examples of successful trail development within the corridor already exist where municipalities have already completed trails along the ROW. For example, in Nanaimo, a paved walking/biking/jogging trail runs beside the train tracks for several kilometers. In Victoria, a similar trail runs through the city, but not necessarily along the ROW. Each of the Regional Districts are active in the development of recreational trails and funding for rural areas would be provided through existing budgets for the development of regional trails.

To mitigate the environmental risks the Foundation will undertake a comprehensive plan prior to developing each phase of the trail. To overcome

the financing challenges, the Foundation will work with regional districts and First Nations groups for direct funding or joint application to senior levels of government.

## **2. Station improvements and heritage development**

Station improvements and development could face two related risks: pressure from lobby groups, which in turn could cause challenges with financing.

All stations are leased to VIA Rail. VIA Rail has the right to sublease the stations with permission from CPR. The underlying issue is that a number of existing tenants in the stations have a “token” lease agreement for the use of the space in the stations. In exchange for upkeep and maintenance of the station, the existing tenants lease the station space for minimal rent.

Improving the stations will help the Foundation negotiate better lease rates, but political pressure from community groups, non-profit societies, and current tenants will be strong. These groups may threaten to leave the station if lease rates are too high, thus leaving the Foundation without a tenant.

CPR estimates that there is room in the market for significant increases in lease rates, especially after the stations have been improved. The Foundation plans to undertake a feasibility study and develop a comprehensive plan on each station prior to making any commitment thereto. Only where the cost/benefit analysis justifies it, will a station be renovated for commercial lease.



Duncan station with museum tenant



Parksville station with pottery tenant



### 3. Develop hybrid rail service for tour operations

Hybrid rail service will be challenged by four high probability risks. These risks include severe competition, lack of market interest, difficulty in financing, and insurance problems.



Tour bus at Qualicum Beach



Truck equipped with hi-rail

This project will face severe competition from other Island attractions and this may lead to a lack of market interest in hybrid rail tours. A preliminary Internet search revealed that there are over one thousand tour companies currently operating or offering tours on Vancouver Island.<sup>12</sup> Several tour companies are already offering this type of service by combining a VIA Rail train trip with a bus trip.<sup>13</sup> However, the ability to tour the Island by hybrid rail is a unique experience and with innovative marketing strategies, could be a success.

This project will face financing and insurance challenges, as the financing and insurance costs for these types of customized buses may be prohibitive. The Foundation will need to find additional funding or an independent operator in order to make this project successful. The Foundation will also need the cooperation of the rail operator. The project is therefore not of highest priority in the first three years.

<sup>12</sup> Vancouver Island Travel Guide website. <http://www.vancouverisland-bc.com/Tours/>

<sup>13</sup> Pacific Spirit Tours website. [http://www.pacificspirittours.com/tour\\_vic\\_day\\_train.htm](http://www.pacificspirittours.com/tour_vic_day_train.htm)

## **C. Financial Sensitivities and Mitigation**

### **1. Rail Service**

As outlined in the previous section, a rail operator is key to the financial success of the Foundation in this plan. The financial model developed is based on a net revenue of \$150,000 per year from the rail operator starting in the third year. This surplus is over and above the Corridor operating costs which are also covered by the rail operator. The Corridor operating costs are estimated at \$825,000 made up of property taxes of \$475,000, insurance at \$150,000 and maintenance of \$200,000.

Without a rail operator, the Foundation would be responsible for all those costs. Therefore, to mitigate its Corridor operating costs the Foundation would pursue a waiver of property taxes as outlined in Appendix 5. It is also anticipated that the maintenance costs would be reduced because risks such as fires from sparks and other rail related maintenance costs would be avoided. Therefore, it is expected that the Corridor operating costs would be reduced to an amount as low as \$200,000 per year to cover insurance and minimal maintenance.

The ongoing Corridor operating costs of \$200,000 plus the loss of annual revenue of \$150,000 for a total of \$350,000 could easily be covered by the lease of the property in the amount of \$600,000 as described in Section IX.A.1.

### **2. Other revenue sources**

Other than the \$200,000 of insurance and maintenance costs referred to in the previous section, the Foundation's administrative overhead is expected to be \$185,000 per year. The Foundation will have \$67,000 of revenue per year immediately after the donation is completed. Therefore, \$118,000 is required from non-rail revenue to cover the shortfall. The financial projection included in this report anticipates \$216,000 of non-rail revenue over and above the \$67,000 already in place. Therefore, as long as the Foundation is successful in delivering 54% of the projects outlined (\$118,000 divided by \$216,000), it will be able to meet its financial obligations on an annual basis. However, this would leave no excess fund for repaying the debt to CPR or for building a capital asset replacement fund.



Therefore, in a worse case scenario, if the Foundation failed at all the commercial business enterprises identified in this plan, it would have to make a decision of either (a) not replacing assets as they deteriorated or (b) selling off more of the surplus assets to maintain the more critical ones.

### **3. Expenses**

The larger expenses in the projection are amortization and rail expenses.

Amortization is not a cash expense and therefore will not have any financial impact on the success of the Foundation.

The rail expenses are made up of the property taxes, insurance and maintenance. As outlined in Section IX.C.1., these expenses are expected to be reduced to \$200,000 per year without a rail service. \$150,000 of this amount is the projected cost of insurance. At the time of writing this report, the Foundation Board had not confirmed the actual cost of insurance. If there is no rail service and the insurance for the Corridor is more than \$150,000, any excess will be taken out of the expected revenue from property described in IX.A.1.

## **X. FINANCIAL ANALYSIS**

### **A. Financial Projections**

The financial projections are based on the following policies:

**Endowment Fund:** An endowment fund will be created from the sale of surplus assets. Because only the income from this fund will be spent, an annuity in perpetuity will be created.

**Capital Replacement Reserve Fund:** A capital replacement and maintenance reserve fund will be developed. All surplus revenues from business opportunities and the return on investments will be transferred to the capital fund for this purpose. The goal is to build a \$5 million reserve over the next 20 years which could be used to assist with infrastructure upgrades.

**Special Project Fund:** A fund for all special projects including theme excursions, promotional events, fund to assist First Nation endeavors and/or the development of trails will be set up. It will be the goal of the Foundation to assure that these projects are self-funded and/or financed by identified sponsors prior to being undertaken. It is expected that the special project fund will operate on a break-even basis from year to year.

Operating Fund: The operating fund will be set up to capture all revenues from business opportunities, donations, returns on investment, grants, and funds from the rail operator. In turn, all general and administrative expenses will be paid from this fund. The surplus generated in the fund will be transferred to the capital fund towards the building of the \$5 million reserve fund.

See the future oriented financial information in Appendix 4 for specific operating details and assumptions.

## **XI. CRITICAL SUCCESS FACTORS**

The following factors have been identified as critical to the success of the business plan.

### **A. Control of the ENR98 portion of the Corridor**

One of the principal objectives of the Island Corridor Foundation is “to acquire, preserve and develop.... the Island Corridor which lies north-south from Victoria to Courtenay and east-west from Nanaimo to Port Alberni on Vancouver Island...” and “to maintain the continuity of the Island Corridor as a contiguous special use connection for all communities...” Therefore, it is critically important that the Foundation be successful in negotiating a takeover of the part of the line owned by ENR98 as described in Section III of this report.

### **B. Undertake charitable activities**

Section V identifies charitable activities which the Foundation proposes to undertake. The Foundation can only be successful if the following is in place:

- Full support from neighboring First Nations and local governments through participation on the Board, in committees and undertaking joint ventures.
- To identify specific projects which will contribute to the charitable activities of the Foundation.
- To get public support and participation in the activities.

### **C. Financial feasibility**

To ensure that the Foundation is able to meet its financial obligations as they come due, a number of revenue sources have been identified. The ones which are most critical are as follows:

- Increased profitability for the rail operator is critical to the Foundation because the Foundation is relying on a lease revenue of \$150,000 over and above the cost recovery starting in 2007.

- Should rail operation prove non-feasible for the long term, it is critically important that the Foundation be successful in at least one of the following:
  - Reduce Corridor operating costs by obtaining a rezoning and waiver on property taxes.
  - Remove and salvage ties and tracks to be sold for net proceeds.
  - Identify additional parcels of land for lease to commercial operators.
- During the initial two years, as the Foundation develops the various business strategies identified, the non-rail revenue being assigned by CPR in the amount of \$267,000 is critically important.
- To meet one of its objectives as well as contribute to the operations of the Foundation, it is important that the Foundation be successful in its negotiations with Via Rail and ENR98 for the use and control of the six main stations.
- The sale or long-term lease of surplus assets is key for generating an ongoing annuity.
- It is critical that the Foundation be able to get liability insurance at an affordable rate.

## **APPENDIX 1 – GLOSSARY**

Corridor	The E&N Corridor consists of the land, gravel rail bed, ties, tracks, culverts and related structures (bridges, trestles, and tunnels) that support rail service on the right of way. The Corridor is normally about 30 meters (100 feet) wide through most its length.
CPR	Canadian Pacific Railway
E&N	Esquimalt and Nanaimo Railway
ENR98	E&N Railway Company (1998) Ltd.
Foundation	Island Corridor Foundation
Operator	A company that provides rolling stock (train cars, engines, etc.) to operate passenger and/or freight services and maintains the railroad.
RA	RailAmerica Corporation
ROW	Right Of Way
VIA	Via Rail Canada

## ***APPENDIX 2 – PROJECT RISK ANALYSIS***

This section contains a detailed risk analysis for each of the five proposed projects. The projects have been analyzed from the perspective of environmental, social, financial, operational, and technological risks. Each potential risk has been given a ranking as to the probability of the risk occurring and the impact of the risk if it were to occur. The probability of occurrence and the seriousness of the impact are assigned a rating of H = high, M = medium, L = low, and U = unknown. General comments regarding the risk, who would be affected, and possible ways to mitigate the risk are also given.

## Appendix 2 – Project Risk Analysis (Cont'd)

	Prob.	Impact	Comments	Who Affected	Actions to Mitigate Risk
<b>Project #1 - Trail development and Cowichan Green Lake</b>					
<b>Environmental</b>					
Pressure from environmentalist/lobby groups	H	L	Positive pressure to develop trail is expected	Foundation, Municipalities	Focus on positive benefits of trail
Use or transportation of hazardous materials	L	L	No hazardous materials expected	Foundation, Municipalities	Do not allow hazardous materials on trail
Fire hazard	L	H	Fire caused by human carelessness	Forestry, property owners	Encourage fire safety practices
Negative effects on flora or fauna	H	H	Trail will increase human interaction with flora and fauna	Users	Provide appropriate receptacles, encourage conservation of the environment
<b>Financial and Operational</b>					
Difficult to finance	H	H	Finding additional financing will be difficult for both the Foundation and Municipalities	Foundation, Municipalities	Municipalities expected to finance their portion of the trail
Insurance problems	L	L	Insurance is probably not required for the trail	Foundation	Determine if insurance is required
Difficult to staff	M	L	Staffing not expected to be a problem	Foundation	Promote and recruit potential staff for project
Severe competition	L	L	Other trail systems will enhance the benefit of the Corridor trail system	Users	Encourage and promote linkages to other trail systems
Lack of market interest	L	M	There appears to be sufficient interest from municipalities and potential users of trail	Users	Promote trail system
<b>Social</b>					
Lack of all round community support	L	H	Positive community support is expected	Municipality	Community support is critical to success
<b>Technological</b>					
New/relatively untried technology	L	L	Technology exists to create trail	Foundation	Hire qualified contractors to complete the trail



## Appendix 2 – Project Risk Analysis (Cont'd)

Prob. Impact		Comments		Who Affected	Actions to Mitigate Risk
Project #2 - Station improvements and heritage development					
Environmental					
Pressure from environmentalist/lobby groups	H	H	Pressure from external groups is expected to be high	Municipality, Foundation	Solicit input from affected stakeholder groups, encourage participation in planning stages
Use or transportation of hazardous materials	L	L	Minimal hazardous material is expected	Foundation	Minimize potential for hazardous materials during construction periods
Fire hazard	L	L	Minimal fire hazard is expected	Foundation	Minimize potential for fire during construction periods
Negative effects on flora or fauna	L	L	Minimal disruption to plants and animals is expected	Foundation	Minimize disruption of land and buildings during construction periods
Financial and Operational					
Difficult to finance	H	H	Upgrading and then leasing stations to users is critical	Foundation, Users	Approach existing/potential users to solicit interest
Insurance problems	M	M	Insurance for building will be the Foundations responsibility	Foundation, Users	Lease revenue should include costs of insurance
Difficult to staff	L	M	Staffing will be the responsibility of the station users	Users	Require that station users maintain stations to appropriate standards
Severe competition	L	L	Competition among stations is not expected	Users	None
Lack of market interest	M	H	There appears to be sufficient interest from municipalities and potential/existing users of stations	Users	Promote stations as historic landmarks
Social					
Lack of all round community support	L	M	Positive community support is expected	Municipality	Community support is important
Technological					
New/relatively untried technology	L	L	Technology exists to improve stations	Foundation	Hire qualified contractors to improve the stations

## Appendix 2 – Project Risk Analysis (Cont'd)

	Prob.	Impact	Comments	Who Affected	Actions to Mitigate Risk
<b>Project #3 - Theme excursions (fundraising events)</b>					
<b>Environmental</b>					
Pressure from environmentalist/lobby groups	L	L	Minimal pressure is expected	Operator	Inform stakeholders about operational plans and solicit feedback
Use or transportation of hazardous materials	L	L	Minimal hazardous material is expected	Foundation, Operator	Minimize potential for hazardous materials during excursions
Fire hazard	L	H	Fire caused by sparks from train can cause extensive damage	Foundation, Operator, Municipalities	Operator must take appropriate precautions to mitigate risk
Negative effects on flora or fauna	M	M	Tourists will expect to see plant and animal life during the excursion	Users, Foundation	Provide appropriate receptacles, encourage conservation of the environment.
<b>Financial and Operational</b>					
Difficult to finance	M	M	Requires a rail operator	Foundation	A rail operator who is willing to provide excursions is critical to success
Insurance problems	M	M	Insurance costs for operator may be prohibitive	Operator	Revenue from excursions must be able to support operating costs
Difficult to staff	M	M	Staffing will be the responsibility of the operator	Operator	Operator to hire competent and qualified staff
Severe competition	M	M	Competition from other Island excursions will be high	Operator	Promote excursions to tourists through appropriate marketing channels
Lack of market interest	M	M	Competition from other Island excursions will be high	Operator	Promote excursions to tourists through appropriate marketing channels
<b>Social</b>					
Lack of all round community support	L	L	Excursions are for tourism market and do not rely heavily on community support	Operator	Promote excursions to tourists through appropriate marketing channels
<b>Technological</b>					
New/relatively untried technology	L	M	Newer technology is needed but is available	Operator	Purchase or lease the required operating assets and technology

## Appendix 2 – Project Risk Analysis (Cont'd)

Prob.	Impact	Comments	Who Affected	Actions to Mitigate Risk	
Project #4 - Developing hybrid rail service for tour operations					
Environmental					
Pressure from environmentalist/lobby groups	L	M	Minimal pressure is expected	Foundation	Inform stakeholders about operational plans and solicit feedback
Use or transportation of hazardous materials	L	L	Minimal hazardous material is expected	Foundation	Minimize potential for hazardous materials during tours
Fire hazard	L	H	Fire caused by sparks from hybrid vehicle can cause extensive damage	Foundation, Municipalities	Foundation must take appropriate precautions to mitigate risk
Negative effects on flora or fauna	L	L	Tourists will expect to see plant and animal life during the tour	Users, Foundation	Provide appropriate receptacles, encourage conservation of the environment.
Financial and Operational					
Difficult to finance	H	H	Requires a hybrid passenger vehicle	Foundation	A hybrid rail/road vehicle is critical to success
Insurance problems	H	H	Insurance costs for hybrid vehicle may be prohibitive	Foundation	Revenue from tours must be able to support operating costs
Difficult to staff	M	M	Staffing will be the responsibility of the Foundation	Foundation	Foundation to hire competent and qualified staff
Severe competition	H	M	Competition from other Island tours will be severe	Foundation	Promote tours to tourists through appropriate marketing channels
Lack of market interest	H	M	Competition from other Island tours will be severe	Foundation	Promote tours to tourists through appropriate marketing channels
Social					
Lack of all round community support	L	L	Excursions are for tourism market and do not rely heavily on community support	Foundation	Promote tours to tourists through appropriate marketing channels
Technological					
New/relatively untried technology	M	L	Newer technology is needed but is available	Operator	Purchase or lease the required operating assets and technology

## Appendix 2 – Project Risk Analysis (Cont'd)

Prob.		Impact	Comments	Who Affected	Actions to Mitigate Risk
Project #5 - Assist First Nations with service development enterprises					
Environmental					
Pressure from environmentalist/lobby groups	M	M	Some pressure can be expected	Foundation, Municipalities	Solicit input from affected stakeholder groups, encourage participation in planning stages
Use or transportation of hazardous materials	U	U	Risk is dependent upon the type of business or services	Unknown	None
Fire hazard	L	L	Risk of fire is low	Foundation, Municipalities	Encourage fire safety practices
Negative effects on flora or fauna	U	U	Risk is dependent upon the type of business or services	Unknown	None
Financial and Operational					
Difficult to finance	L	L	Financing will be the responsibility of the First Nation	First Nation Business	Approach existing/potential users to solicit interest
Insurance problems	U	U	Risk is dependent upon the type of business or services	Unknown	None
Difficult to staff	L	L	Staffing will be the responsibility of the First Nation	First Nation Business	Business to hire competent and qualified staff
Severe competition	U	U	Risk is dependent upon the type of business or services	Unknown	None
Lack of market interest	U	U	Risk is dependent upon the type of business or services	Unknown	None
Social					
Lack of all round community support	L	L	Positive community support is expected	Foundation	Solicit input from affected stakeholder groups, encourage participation in planning stages
Technological					
New/relatively untried technology	U	U	Risk is dependent upon the type of business or services	Unknown	None

## APPENDIX 3 – CPR SURPLUS LANDS

<b>Location</b>	<b>Reference #</b>	<b>Description</b>	<b>Size</b>	<b>Market Value in 1998</b>	<b>Comments</b>
Victoria	168520	Parking lot for VIA customers at Victoria Station. Zoned CA-W, waterfront with excellent development potential.	.13 acres	\$230,000	<ul style="list-style-type: none"> <li>- High value area of old Victoria.</li> <li>- Small size of parcel will restrict commercial development.</li> </ul>
Shawnigan	167780, 167790, 167800, 167810, 167820, 167830, 167840, 167850, 167860	25' on each side of the track for approximately ½ mile. Property appears to be adjacent to some residential property and extends all the way to Shawnigan Lake and some of it is even under water. One parcel 167780 is occupied by a small rail passenger station house and gravel access road.	3 acres	\$550,000	<ul style="list-style-type: none"> <li>- Not likely easy to sell because of the layout of the property.</li> <li>- Some chunks could possibly be parceled out.</li> <li>- There may be a potential for moving the track to one side or the other to produce a 50' wide strip.</li> <li>- Poor development potential.</li> </ul>
Cowichan	167670 & 167680	55' on each side of the track for ¼ mile on one side and 1/8 mile on the other.	2.25 acres	\$110,000	<ul style="list-style-type: none"> <li>- Unless amalgamated, this probably has a limited use. The parcel is apparently treed and is wet in places.</li> <li>- Limited marketability.</li> <li>- Poor development potential.</li> </ul>
Koksilah	167940 & 167950	The property is approximately 55' on each side of the track for approximately ¼ mile on one side and ¾ mile on the other side.	5.7 acres	\$631,000	<ul style="list-style-type: none"> <li>- Highway 1A occupies the enter parcel.</li> <li>- Limited marketability.</li> <li>- Poor development potential.</li> </ul>
Somenos	168010	Approximately 40' on one side of the track where the Station is located. It fronts on Herd Road. Site is overgrown with small trees and brush with wet drainage at the south-end.	1.4 acres	\$14,000	<ul style="list-style-type: none"> <li>- Station</li> <li>- Poor development potential.</li> </ul>

### Appendix 3 – CPR Surplus Land (Cont'd)

<b>Location</b>	<b>Reference #</b>	<b>Description</b>	<b>Size</b>	<b>Market Value in 1998</b>	<b>Comments</b>
Osborne Bay	168020	It's a triangle of land not far from Chemainus Road zoned agricultural. Area is the abandoned Crofton Branch. Old rail remains in the trees. Approximately 3 acres of parcel is presently in pasture.	5.2 acres	\$130,000	<ul style="list-style-type: none"> <li>- Level property with limited marketability.</li> <li>- Poor development potential.</li> </ul>
Nanaimo	168280	Site occupied by AT & T building, parking and transmission tower on Selby Street.	0.3 acres	\$105,000	<ul style="list-style-type: none"> <li>- No lease is shown on the file. Parcel is too small to be marketed separately and therefore should be combined with adjacent ownerships.</li> </ul>
Union Bay	168390 & 168400	Both sides of rail for approximately one block in a residential area. A gentle to steeply sloped hillside above active right of way and adjacent to residential area. Area is wooded.	1.5 acres	\$40,000	<ul style="list-style-type: none"> <li>- Limited marketability.</li> <li>- Poor development potential.</li> </ul>
Courtenay	168410, 168450, 168460, 168470, 168480, 168490, 168500	Approximately 200' wide strip for several blocks from Puntledge River to other side of Cumberland Road.	9 ¼ acres	\$1,000,000	<ul style="list-style-type: none"> <li>- Entire area is zoned commercial.</li> <li>- There is some storage facilities on some of the parcels and a station building on #168490</li> <li>- Good development potential.</li> </ul>
<b>Other Parcels – (maps unavailable)</b>					
Esquimalt	168510 & 168530		1.6 Acres	\$232,000	
Langford	801221 & 801220		2.2 Acres	\$95,000	
Duncan	168960, 167980, 16790		1.5 Acres	\$427,000	
Nanaimo	168290			\$185,000	



## ***APPENDIX 4 – FINANCIAL PROJECTIONS***

**Island Corridor Foundation**  
**Financial Projection**  
*December 31, 2004 - 2009*

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We have compiled the financial projection of the Island Corridor Foundation consisting of projected balance sheets at December 31, 2004, 2005, 2006, 2007, 2008 and 2009 and the related projected statements of operations and fund balances and cash flows for the years then ended using assumptions, included in the hypothesis set out in Note 2, with an effective date of September 15, 2004 and other information provided by management. Our engagement was performed in accordance with the applicable guidance on compilation of a financial projection issued by the Canadian Institute of Chartered Accountants.

A compilation is limited to presenting, in the form of a financial projection, information provided by management and does not include evaluating the support for the assumptions, including the hypothesis, or other information underlying the projection. Accordingly, we do not express an opinion or any other form of assurance on the financial projection or assumptions, including the hypothesis. Further, since the financial projection is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. We have no responsibility to update this communication for events and circumstances occurring after the date of this communication.

This communication is intended solely for management's use and their submission to Canada Revenue Agency regarding the charitable status of the Foundation and is only to be referred to or distributed to the Board of Directors of the Island Corridor Foundation.

Nanaimo, BC

September 15, 2004

MEYERS NORRIS PENNY LLP  
Chartered Accountants

**Island Corridor Foundation**  
**Projected Statement of Financial Position**  
*As at each of the years ending December 31*  
*(Unaudited - See Notice to Reader)*

	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$
<b>Assets</b>						
<b>Current</b>						
Cash	76,700	47,100	19,100	25,200	61,400	100,700
<b>Internally restricted cash</b>						
Endowment fund	-	-	200,000	1,200,000	1,200,000	1,200,000
Asset replacement reserve	-	151,200	108,800	117,900	274,900	432,300
<b>Property, plant and equipment (note 6)</b>	-	175,526,400	173,076,800	169,821,200	167,415,600	165,010,000
	76,700	175,724,700	173,404,700	171,164,300	168,951,900	166,743,000
<b>Liabilities</b>						
<b>Current</b>						
Accruals	5,400	19,700	1,900	1,400	900	400
<b>Long term debt (note 7)</b>	300,000	300,000	240,000	180,000	120,000	60,000
	305,400	319,700	241,900	181,400	120,900	60,400
<b>Fund Balances (note 5)</b>						
Unrestricted	(228,700)	(272,600)	(222,800)	(156,200)	(59,500)	40,300
Internally restricted - endowment	-	-	200,000	1,200,000	1,200,000	1,200,000
Internally restricted - asset replacement	-	151,200	108,800	117,900	274,900	432,300
Invested in property, plant and equipment	-	175,526,400	173,076,800	169,821,200	167,415,600	165,010,000
	(228,700)	175,405,000	173,162,800	170,982,900	168,831,000	166,682,600
	76,700	175,724,700	173,404,700	171,164,300	168,951,900	166,743,000

**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2004*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2004 \$
<b>Revenue (note 8)</b>					
Leases from railway	-	-	-	-	-
Leases from non-rail sources	-	-	-	-	-
Grants	185,100	-	-	-	185,100
Donations and bequests	-	-	-	-	-
Interest	-	-	-	-	-
Special projects	-	-	-	-	-
	185,100	-	-	-	185,100
<b>Expenses</b>					
Start-up costs	408,400	-	-	-	408,400
Interest on long term debt	5,400	-	-	-	5,400
Amortization	-	-	-	-	-
Human resources	-	-	-	-	-
Office overhead	-	-	-	-	-
Facility costs	-	-	-	-	-
Rail expenses	-	-	-	-	-
Special projects	-	-	-	-	-
	413,800	-	-	-	413,800
<b>Deficiency of revenue over expenses</b>	(228,700)	-	-	-	(228,700)
<b>Fund balances, beginning of year</b>	-	-	-	-	-
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	-	-	-
Transfer to assets replacement reserve	-	-	-	-	-
<b>Fund balances, end of year</b>	(228,700)	-	-	-	(228,700)

**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2005*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2005 \$
<b>Revenue (note 8)</b>					
Leases from railway	825,000	-	-	-	825,000
Leases from non-rail sources	267,000	-	-	-	267,000
Grants	-	-	-	-	-
Donations and bequests	40,000	-	177,920,000	-	177,960,000
Interest	-	-	-	-	-
Special projects	-	20,000	-	-	20,000
	1,132,000	20,000	177,920,000	-	179,072,000
<b>Expenses</b>					
Start-up costs	-	-	-	-	-
Interest on long term debt	14,300	-	-	-	14,300
Amortization	-	-	2,393,600	-	2,393,600
Human resources	120,900	-	-	-	120,900
Office overhead	28,500	-	-	-	28,500
Facility costs	36,000	-	-	-	36,000
Rail expenses	825,000	-	-	-	825,000
Special projects	-	20,000	-	-	20,000
	1,024,700	20,000	2,393,600	-	3,438,300
<b>Excess of revenue over expenses</b>	107,300	-	175,526,400	-	175,633,700
<b>Fund balances, beginning of year</b>	(228,700)	-	-	-	(228,700)
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	-	-	-
Transfer to assets replacement reserve	(151,200)	-	151,200	-	-
<b>Fund balances, end of year</b>	(272,600)	-	175,677,600	-	175,405,000



**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2006*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2006 \$
<b>Revenue (note 8)</b>					
Leases from railway	825,000	-	-	-	825,000
Leases from non-rail sources	298,000	-	-	-	298,000
Grants	-	-	-	-	-
Donations and bequests	40,000	-	-	-	40,000
Interest	10,000	-	7,600	-	17,600
Special projects	-	30,000	-	-	30,000
	1,173,000	30,000	7,600	-	1,210,600
<b>Expenses</b>					
Start-up costs	-	-	-	-	-
Interest on long term debt	12,800	-	-	-	12,800
Amortization	-	-	2,399,600	-	2,399,600
Human resources	120,900	-	-	-	120,900
Office overhead	28,500	-	-	-	28,500
Facility costs	36,000	-	-	-	36,000
Rail expenses	825,000	-	-	-	825,000
Special projects	-	30,000	-	-	30,000
	1,023,200	30,000	2,399,600	-	3,452,800
<b>Excess (deficiency) of revenue over expenses</b>	149,800	-	(2,392,000)	-	(2,242,200)
<b>Fund balances, beginning of year</b>	(272,600)	-	175,677,600	-	175,405,000
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	(200,000)	200,000	-
Transfer to assets replacement reserve	(100,000)	-	100,000	-	-
<b>Fund balances, end of year</b>	(222,800)	-	173,185,600	200,000	173,162,800

**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2007*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2007 \$
<b>Revenue (note 8)</b>					
Leases from railway	975,000	-	-	-	975,000
Leases from non-rail sources	164,000	-	-	-	164,000
Grants	-	-	-	-	-
Donations and bequests	40,000	-	-	-	40,000
Interest	60,000	-	7,900	-	67,900
Special projects	-	50,000	-	-	50,000
	1,239,000	50,000	7,900	-	1,296,900
<b>Expenses</b>					
Start-up costs	-	-	-	-	-
Interest on long term debt	10,800	-	-	-	10,800
Amortization	-	-	2,405,600	-	2,405,600
Human resources	120,900	-	-	-	120,900
Office overhead	28,500	-	-	-	28,500
Facility costs	36,000	-	-	-	36,000
Rail expenses	825,000	-	-	-	825,000
Special projects	-	50,000	-	-	50,000
	1,021,200	50,000	2,405,600	-	3,476,800
<b>Excess (deficiency) of revenue over expenses</b>	217,800	-	(2,397,700)	-	(2,179,900)
<b>Fund balances, beginning of year</b>	(222,800)	-	173,185,600	200,000	173,162,800
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	(1,000,000)	1,000,000	-
Transfer to assets replacement reserve	(151,200)	-	151,200	-	-
<b>Fund balances, end of year</b>	(156,200)	-	196,939,100	1,200,000	170,982,900

**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2008*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2008 \$
<b>Revenue (note 8)</b>					
Leases from railway	975,000	-	-	-	975,000
Leases from non-rail sources	191,000	-	-	-	191,000
Grants	-	-	-	-	-
Donations and bequests	40,000	-	-	-	40,000
Interest	60,000	-	5,800	-	65,800
Special projects	-	50,000	-	-	50,000
	1,266,000	50,000	5,800	-	1,321,800
<b>Expenses</b>					
Start-up costs	-	-	-	-	-
Interest on long term debt	7,700	-	-	-	7,700
Amortization	-	-	2,405,600	-	2,405,600
Human resources	120,900	-	-	-	120,900
Office overhead	28,500	-	-	-	28,500
Facility costs	36,000	-	-	-	36,000
Rail expenses	825,000	-	-	-	825,000
Special projects	-	50,000	-	-	50,000
	1,018,100	50,000	2,405,600	-	3,473,700
<b>Excess (deficiency) of revenue over expenses</b>	247,900	-	(2,399,800)	-	(2,151,900)
<b>Fund balance, beginning of year</b>	(156,200)	-	169,939,100	1,200,000	171,028,900
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	-	-	-
Transfer to assets replacement reserve	(151,200)	-	151,200	-	-
<b>Fund balance, end of year</b>	(59,500)	-	167,690,500	1,200,000	168,831,000

**Island Corridor Foundation**  
**Projected Statement of Operations and Fund Balances**  
*For the year ending December 31, 2009*  
*(Unaudited - See Notice to Reader)*

	General Fund \$	Special Projects Fund \$	Capital Asset Fund \$	Endowment Fund \$	Total 2009 \$
<b>Revenue (note 8)</b>					
Leases from railway	975,000	-	-	-	975,000
Leases from non-rail sources	191,000	-	-	-	191,000
Grants	-	-	-	-	-
Donations and bequests	40,000	-	-	-	40,000
Interest	60,000	-	6,200	-	66,200
Special projects	-	50,000	-	-	50,000
	1,266,000	50,000	6,200	-	1,322,200
<b>Expenses</b>					
Start-up costs	-	-	-	-	-
Interest on long term debt	4,600	-	-	-	4,600
Amortization	-	-	2,405,600	-	2,405,600
Human resources	120,900	-	-	-	120,900
Office overhead	28,500	-	-	-	28,500
Facility costs	36,000	-	-	-	36,000
Rail expenses	825,000	-	-	-	825,000
Special projects	-	50,000	-	-	50,000
	1,015,000	50,000	2,405,600	-	3,470,600
<b>Excess (deficiency) of revenue over expenses</b>	251,000	-	(2,399,400)	-	(2,148,400)
<b>Fund balances, beginning of year</b>	(59,500)	-	167,690,500	1,200,000	168,831,000
<b>Interfund transfers (note 6)</b>					
Transfer proceeds from sale of assets	-	-	-	-	-
Transfer to assets replacement reserve	(151,200)	-	151,200	-	-
<b>Fund balances, end of year</b>	40,300	-	165,442,300	1,200,000	166,682,600

**Island Corridor Foundation**  
**Projected Statement of Cash Flows**  
*For the years ending December 31*  
*(Unaudited - See Notice to Reader)*

	2004 \$	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$
<b>Operating activities</b>						
Net income	(228,700)	175,633,700	(2,242,200)	(2,179,900)	(2,151,900)	(2,148,400)
Add back depreciation	-	2,393,600	2,399,600	2,405,600	2,405,600	2,405,600
Less non-cash donations	-	(177,920,000)	-	-	-	-
Increase (decrease) in accounts payable	5,400	14,300	(17,800)	(500)	(500)	(500)
	(223,300)	121,600	139,600	225,200	253,200	256,700
<b>Financing activities</b>						
Proceeds from long term debt	300,000	-	-	-	-	-
Repayment of long term debt	-	-	(60,000)	(60,000)	(60,000)	(60,000)
	300,000	-	(60,000)	(60,000)	(60,000)	(60,000)
<b>Investing activities</b>						
Disposal of capital assets	-	-	200,000	1,000,000	-	-
Acquisition of capital assets	-	-	(150,000)	(150,000)	-	-
	-	-	50,000	850,000	-	-
<b>Increase in cash</b>	76,700	121,600	129,600	1,015,200	193,200	196,700
<b>Cash, beginning of year</b>	-	76,700	198,300	327,900	1,343,100	1,536,300
<b>Cash, end of year</b>	76,700	198,300	327,900	1,343,100	1,536,300	1,733,000
<b>Represented by:</b>						
Cash - unrestricted	76,700	47,100	19,100	25,200	61,400	100,700
Cash - restricted - endowment fund	-	-	200,000	1,200,000	1,200,000	1,200,000
Cash-restricted - asset replacement reserve	-	151,200	108,000	117,900	274,900	432,300
	76,700	198,300	327,900	1,343,100	1,536,300	1,733,000

**1. Nature of presentation**

This financial projection presents, to the best of management's knowledge and belief, the Foundation's expected financial position, results of operations and cash flows for the projected period. Accordingly, the projection reflects management's judgment, as of September 15, 2004, of the expected conditions and their expected course of action.

The assumptions disclosed herein are those that management believes are significant to the projection. There will usually be differences between the projection and the actual results because events and circumstances frequently do not occur as expected and those differences may be material. Management does not intend to update the projection subsequent to the date of issue.

**2. Hypothesis**

This projection includes the hypothesis that the portion of the E & N Railway corridor from Victoria to Nanaimo and Qualicum Beach to Courtenay will be donated to the Island Corridor Foundation and there will be a lease with a rail operator to operate the railway.

**3. Projections period**

The time frame of 2005, 2006, 2007, 2008 and 2009 in the projected statements reflects the acquisition of the land in question before January 1, 2005. Acquisition may not occur at this time, however, time frames should remain reasonably consistent.

**4. Nature of operations**

The Foundation was incorporated under the Canada Corporations Act in November 2003 as a not-for-profit organization and is expected to be a registered charity under the Income Tax Act. The Foundation's main objectives are to acquire, preserve and develop the Island Corridor portion of the E & N Railroad and to maintain the continuity of the corridor as a contiguous special use connection for all communities while respecting and supporting First Nations interests and traditional lands and uses.

**5. Fund accounting**

This projection reflects the restricted fund method of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds. These funds are held in accordance with the objectives specified by the donors or in accordance with directives issued by the board of directors. Transfers between funds are made when it is considered appropriate and authorized by the board of directors. For financial reporting purposes, the accounts have been classified into the following funds:

General fund - accounts for the Foundation's general fundraising, granting and administrative activities. This fund reports unrestricted operating grants, revenue and expenses related to the Foundation's day-to-day operations.

Special Projects fund - accounts for the revenue and expenses directly related to special projects and events.

Capital Asset fund - reports the assets, liabilities, revenues and expenses related to the Foundation's capital assets, including the asset replacement reserve.

Endowment fund - reports resources contributed for endowment. Endowment contributions are included as revenues of the endowment fund. The net investment income and investment gains and losses on disposal of these assets are reported in the general fund unless otherwise directed by the donor.

## **6. Capital acquisitions and disposals**

The projection reflects the acquisitions of the following assets from Canadian Pacific Railway on January 1, 2005 at their estimated fair market value.

Land and timber	\$ 117,830,000
Track and associated items	36,230,000
Railway signals	3,040,000
Culverts	4,760,000
Buildings and other structures	15,810,000
Right of way	250,000
	<hr/>
	\$ 177,920,000

All assets will be amortized on a straight-line basis over 25 years except for land, timber and right of way which will not be amortized.

During 2006 and 2007 the Foundation will undertake to upgrade several of the railway stations at a cost of \$150,000 each year. Grants that may be available for this project have not been recorded.

The Foundation plans to dispose of surplus land and timber. Proceeds from these sales are expected to be \$200,000 from timber in 2006 and \$1,000,000 from land in 2007.

An asset replacement reserve will be set up in 2005 to fund future asset replacement and repair. A sinking fund in the amount of \$5,000,000 will require annual payments of \$151,200 for 20 years using an average interest rate of 5%. The transfer may not be made in full if it would cause the general bank account to go into overdraft.

## **7. Financing**

The Foundation has borrowed \$300,000 from Canadian Pacific Railway which is payable at \$30,000 every six months beginning April 2006 plus accrued interest at bank prime rate plus 1%. This projection uses an average rate of 4.75%.



## 8. Revenue

This projection reflects the following revenue assumptions:

### Leases from railway

Lease revenue from the rail operator will equal the rail cost for 2005 and 2006. Beginning in 2007 the lease revenue will exceed lease costs by \$150,000 as follows:

Property taxes	\$475,000
Maintenance	200,000
Insurance	<u>150,000</u>
	825,000
Lease profit	<u>150,000</u>
	<u>\$975,000</u>

### Leases from non-rail sources

Other lease revenue, except for amounts assigned by CPR, will be \$67,000 in 2005, which reflects the agreements in place at the report date. The Foundation will implement strategies to increase this revenue to \$98,000 in 2006, \$164,000 in 2007 and \$191,000 in 2008 and subsequent years. CPR has agreed to an assignment of non-rail lease revenue of \$200,000 for each of 2005 and 2006. This revenue is summarized by source as follows:

	2005	2006	2007	2008	2009
Assignment of leases from CPR	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ -
Encroachment leases	66,000	70,000	72,000	72,000	72,000
Station leases	-	27,000	81,000	108,000	108,000
Access fees	1,000	1,000	11,000	11,000	11,000
	<u>\$ 267,000</u>	<u>\$ 298,000</u>	<u>\$ 164,000</u>	<u>\$ 191,000</u>	<u>\$ 191,000</u>

### Grants

Start-up grants of \$185,100 have been applied for from Western Economic Diversification and Indian and Northern Affairs Canada and are expected to be received in 2004.

### Donations and bequests

The Foundation has a goal of generating annual donations and bequests of \$40,000 beginning in 2005. This projection assumes none of these donations will be restricted and therefore have been recorded in the general fund.

Interest

Interest revenue has been recorded using an average interest rate of 5%.

Special events

Only special events and projects which are expected to be self-funded will be undertaken. Special project revenue of \$20,000 in 2005, \$30,000 in 2006, and \$50,000 in 2007, 2008 and 2009 are targeted.

**9. Expenses**

Expenses are projected based on management's best assumptions and have not been adjusted for inflation. Significant specific assumptions are noted below:

Start-up costs

Start-up costs are estimated to include:

Feasibility study and business plan	\$ 101,890
Due diligence	100,000
Legal costs	126,500
Valuation	80,000
	<hr/>
	\$ 408,390

Rail expenses

Rail expenses are broken down as follows:

Property taxes - assume with a rail operator full property taxes will have to be paid at the rail operator rates and assessed values at \$475,000  
Insurance - assume annual costs will be \$150,000  
Maintenance - assume annual costs will be \$200,000

**10. Other significant assumptions**

Options - this projection reflects the assumption that the purchase options available to the Foundation for the Songhees property, Wellcox property and the Telus lines will not be exercised.

**11. Income taxes**

No provision for federal and provincial income taxes has been made, as the Foundation is not expected to be subject to tax.

**12. Inflation**

No consideration has been given to an inflation factor in this projection. In theory, inflation will affect income and expenses at the same rate and therefore all numbers should be proportionately magnified as will the excess of revenue over expenses for each year.

## APPENDIX 5 – PROPERTY TAXES

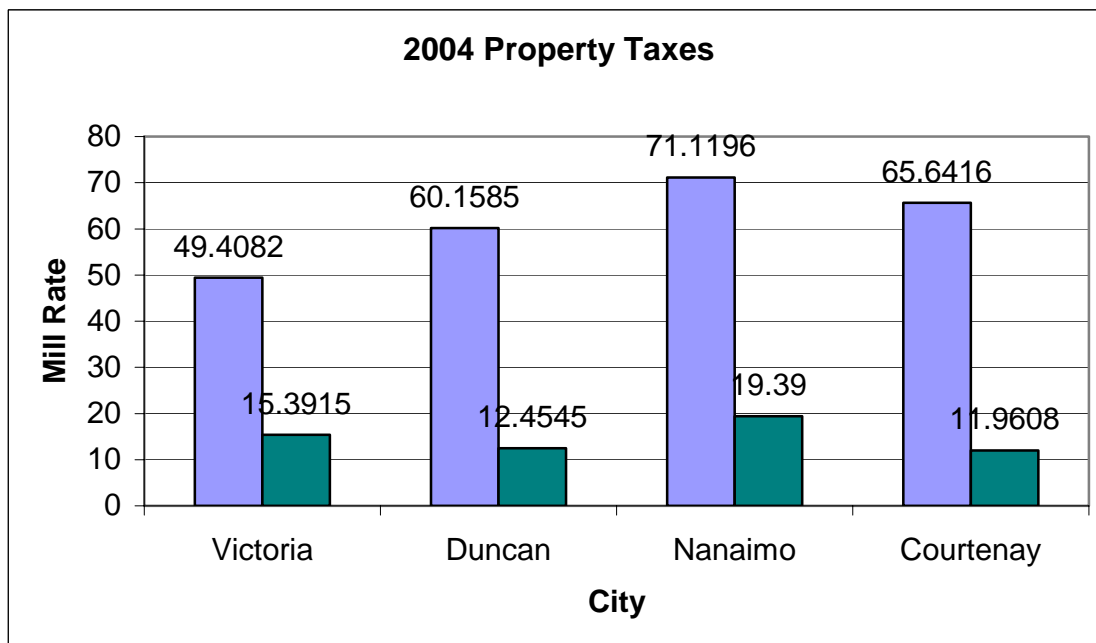
### Property tax reduction

The property taxes paid by ENR98 for both the CPR and ENR98 Corridors totaled \$460,000 in 2003 allocated as follows:

<u>CPR (\$295,000)</u>	General	School
Municipalities	\$108,000	\$49,000
Rural	<u>42,000</u>	<u>96,000</u>
	<u>\$150,000</u>	<u>\$145,000</u>

<u>ENR98 (\$165,000)</u>	General	School
Municipalities	\$49,000	\$31,000
Rural	<u>25,000</u>	<u>60,000</u>
	<u>\$74,000</u>	<u>\$91,000</u>

The taxes for 2004 are estimated at \$475,000. Most of the Corridor is considered a Class 2 utility by BC Assessment.<sup>14</sup> However, parts of the Corridor could possibly be reclassified as recreational land and are subject to a lower (or zero) tax rate. The following table compares tax rates of four municipalities.



If there was an interim period where the Foundation was waiting for the next operator to come in, there would be no change in zoning and the municipalities

<sup>14</sup> BC Assessment places property in nine classes, based on the property's type or use. Municipal zoning regulations are separate and do not fall under BC Assessment's jurisdiction. Class 2 usually has the highest mill rate of all classes. Mill rates are set by the municipality, not by BC Assessment.

would not likely be waiving any taxes. Thus, the Foundation would be responsible for the property taxes during the period where no operator was available. On the other hand, if an operator was not found and the railway was not considered a viable option, the Corridor would be converted to a trail system. The rails would be removed and the salvage value of the rail is expected to far outweigh the cost of maintaining the Corridor for one or two years.

If the rail line was converted into a trail system, there is a concern as to what would happen to property taxes for the Corridor because most trails in the province are not taxed. The most likely scenario is that the municipalities and the regional districts would waive the property taxes altogether. This scenario was created based on conversations with BC Assessment, local municipal leaders, and a review of the applicable taxation acts.

There are two government acts that apply to rural property (areas governed by the regional districts). The Local Government Act, Section 809, allows regional districts to waive property taxes. The criteria are somewhat narrower than for municipalities, but the act does include organizations "...used principally for public, athletic or recreation purposes." If the Foundation would like to declare the Corridor as a recreational property, a motion has to be passed by each regional district council by October 31 of the year prior to the taxation year.

The other act is the Taxation (Rural Area) Act. This act allows the assessor to grant an exemption from tax for various reasons.<sup>15</sup> The criteria are broader than the Local Government Act, as it includes property owned/occupied/used by a non-profit organization "... for activities that are of demonstrable benefit to all members of the community where the land is located." The application must be filed with the regional district before the end of December to be exempt for the following year. One example that was mentioned was a Bible camp that was originally denied exemption by the assessors (they felt it was not a benefit to all members of the community). The decision was challenged in the BC Supreme Court and was granted an exemption.<sup>16</sup>

According to an appraiser with BC Assessment, there is no reason why all property taxes (including school taxes) cannot be exempted for a non-profit organization assuming they meet the following four criteria and have applied for exemption at the local government level.<sup>17</sup> The four criteria include "the lands and improvements are owned or occupied by the Society; the lands and improvements are used exclusively by the Society; the Society is a non-profit organization; and, the Society's activities on the lands are of demonstrable benefit to all members of the community where the land is located." It is also important to note that the waiving of taxes is an annual decision. There is room in the legislation to extend the decision for ten years, but it's not often used.

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<sup>15</sup> Taxation (Rural Area) Act. Section 15(1)(q).

<sup>16</sup> [(*The Pentecostal Assemblies of Canada v. Assessor of Area 5 - Port Alberni*) Case 160, Victoria, September 14, 1981].] And [*Turtle Island Earth Stewardship Society v. British Columbia (Assessor of Area No. 6-Courtenay)* (30 November 1995).]

<sup>17</sup> Personal communication with BC Assessment. September 2004.