

NO: R132

COUNCIL DATE: July 24, 2023

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 12, 2023**

FROM: **General Manager, Engineering**

FILE: **0930-30/255**

SUBJECT: **Fraser Valley Heritage Railway Lease at 5554 – 176 Street**

RECOMMENDATION

The Engineering Department recommends that Council:

1. Approve the execution of a lease agreement with Fraser Valley Heritage Railway Society (“FVHRS”) by the General Manager, Engineering on the terms and conditions described in Appendix “I” to allow FVHRS to continue to occupy the City-owned premises located at 5554 – 176 Street, as generally illustrated in Appendix “II” attached to this report.

INTENT

The purpose of this report is to seek Council’s approval to enter into a new four-year lease agreement (the “Lease”) with the FVHRS to allow the FVHRS to continue its Heritage Rail operations on the City property located at 5554 – 176 Street (the “Property”).

BACKGROUND

FVHRS is the operator of Heritage Rail, which runs a tourism rail service in Cloverdale. FVHRS currently operates railcars on the BC Transportation Finance Authority (“BCTFA”) land and is seeking to resume providing services on the Southern Railway (“SRY”) track and BC Hydro railway corridor from Cloverdale to Sullivan. The location of Heritage Rail is illustrated in Appendix “III”.

DISCUSSION

At the March 6, 2023, Regular Council meeting, Council directed staff to negotiate a new lease agreement with FVHRS to include the terms and conditions set out in the report (Corporate Report No. R033; 2023, attached as Appendix “IV”). City staff and representatives from the FVHRS have now reached agreement on the terms and conditions of the new lease that are consistent with other agreements with non-profit organizations.

Current Operations

FVHRS has recently secured a three-year agreement with BCTFA to operate the heritage railcars on the rail spur and are in discussions with SRY and BC Hydro to operate on the main freight rail line with the hope of securing access to their Sullivan station later this year. The City is not a party to any of these agreements.

FVHRS commenced their 2023 operations on May 6, 2023. Due to the absence of agreements with SRY and BC Hydro, they have temporarily limited their rail operations to the BCTFA spur line and focused more on an interpretive experience, which includes:

- A tour of the Cloverdale railway station. The station is the exact replica of the original station built in 1910;
- Live musical performances, some amateur and some professional;
- BC Electric Interurban Railcar rides (BCTFA rail spur only), where visitors will be given the history of the car and told the story of the car's restoration before returning to the station;
- A tour of the Discovery Centre world (Car Barn) where visitors can watch a movie in car #1207 theatre; and
- Rides on the "Honey Bee Express", the Family Quad Car and the Velocipede.

FUNDING

Based on an internal rental evaluation of the Property, the annual rent for the proposed four-year lease to FVHRS is \$112,000 for 2023 and \$188,424 per year for the remaining three years. The lower amount for the first year is due to the 2023 grants budget having already been approved for 2023. More details on the lease terms can also be found in Appendix "II".

It is expected that FVHRS will continue to apply to Council for an annual grant in lieu of rent for the duration of their lease with the City, under the City's policy for leasing of City lands and buildings and in alignment with the terms of this lease agreement. This policy requires that City leases to non-profit organizations be at fair market value with the ability for such organizations to apply for grants in lieu of rent. If approved, funding for this lease-in-kind will be included in the annual City Grants budget.

CONCLUSION

The Heritage Rail has been operated by the FVHRS since 2012 on the Property. Their current lease agreement has expired, and they are seeking a new lease agreement. The proposed lease will be consistent with other City leases to non-profit organizations, allow FVHRS to continue its Heritage Rail operations and eliminate the City's exposure to risk associated with Heritage Rail operating on the SRY main line.

Scott Neuman, P.Eng.
General Manager, Engineering

KSW/kd/cc

Appendix "I" - Summary of Lease Agreement Terms & Conditions

Appendix "II" - Site Map of 5554 - 176 Street

Appendix "III" - Site Map of BCTFA Rail Spur and SRY/BC Hydro Track & Corridor

Appendix "IV" - Corporate Report No. R033; 2023

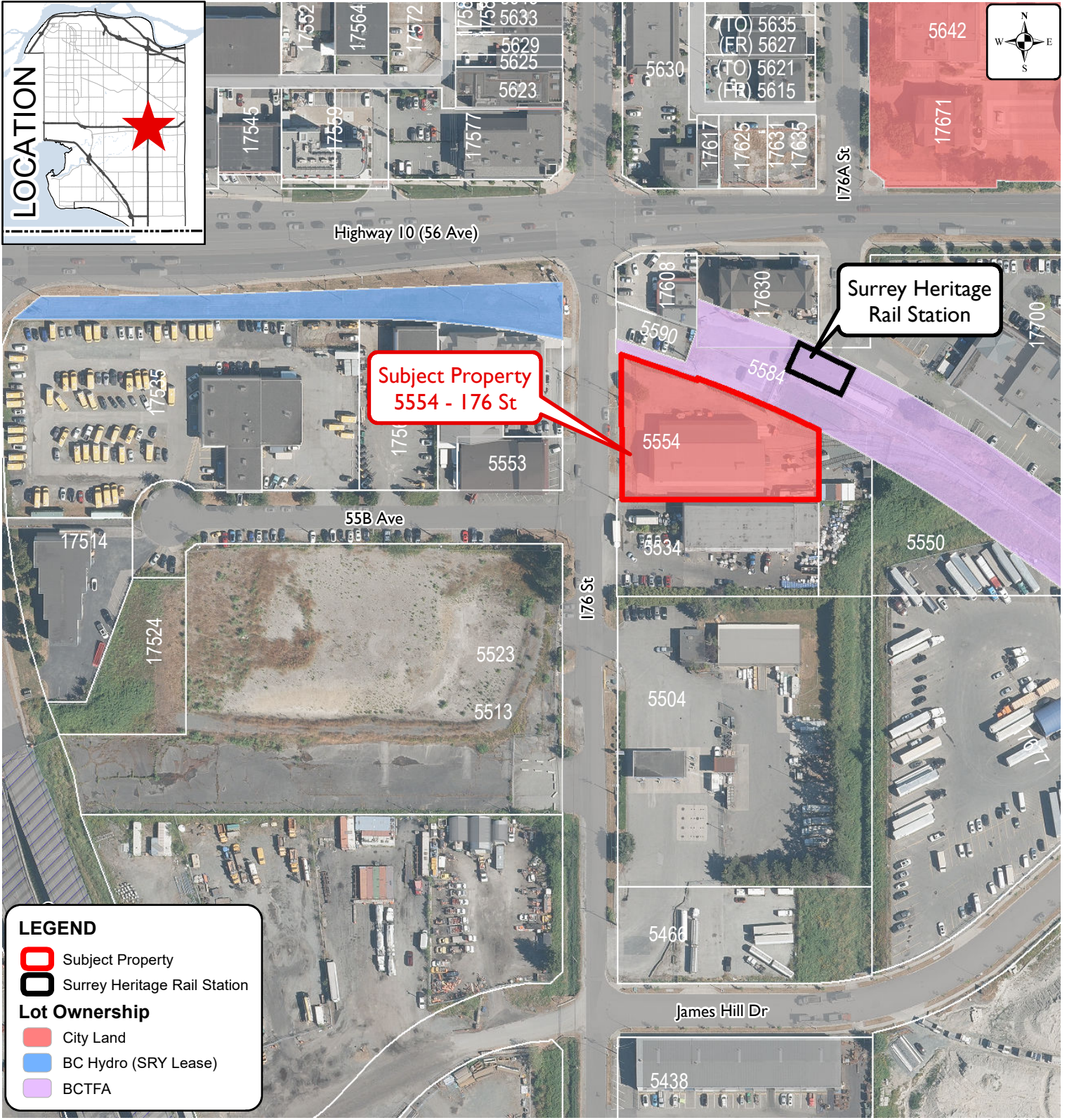
SUMMARY OF LEASE AGREEMENT TERMS & CONDITIONS

FVHRS Lease Agreement Terms & Conditions

The current lease of the City property at 5554 – 176 Street with FVHRS expired on July 31, 2022, and has since been month-to-month.

1. Lessor: City of Surrey
2. Lessee: Fraser Valley Heritage Railway Society (FVHRS)
3. Site Area: 5554 – 176 Street (3,083.7 m²)
4. Building Area: 972.5 m²
5. Term: 4 years (July 1, 2023 – June 30, 2027)
6. Lease Rate: \$112,000 for 2023, \$188,424 for remaining term
7. Maintenance: FVHRS responsibility
8. Utilities: FVHRS responsibility
9. Insurance: (i) Building (by City) (ii) Contents (by FVHRS)
(iii) General Commercial Liability (FVHRS with policy to name City as additional insured)

AERIAL PHOTOGRAPH OF SITE



Produced by GIS Section: 07-Jul-2023

Date of Aerial Photograph: 2022

Scale: 1:2,000

0 10 M

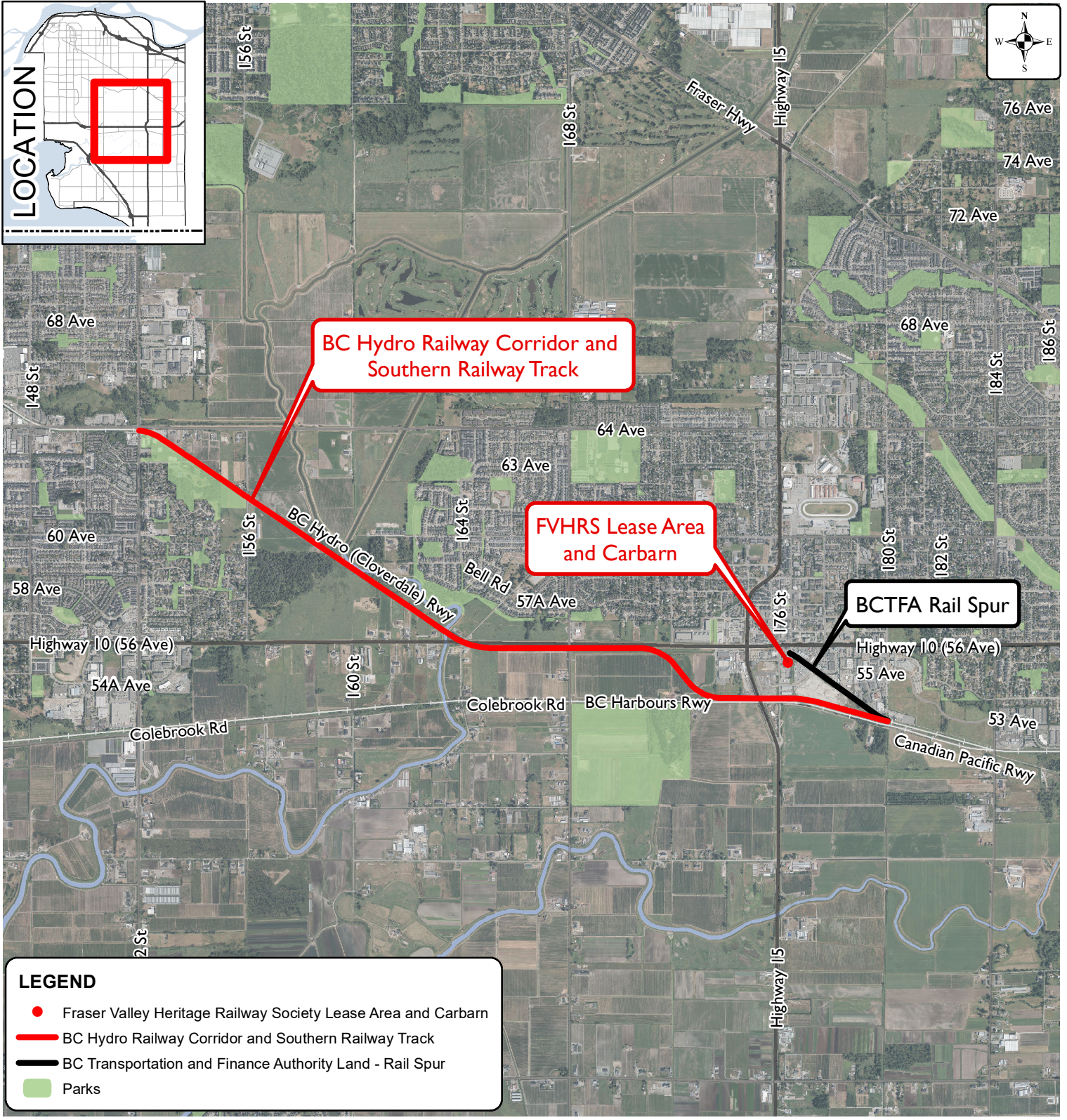


Subject Property
5554 - 176 Street

ENGINEERING
DEPARTMENT

The data provided is compiled from various sources and IS NOT warranted as to its accuracy or sufficiency by the City of Surrey. This information is provided for information and convenience purposes only. Lot sizes, Legal descriptions and encumbrances must be confirmed at the Land Title Office.

AERIAL PHOTOGRAPH OF SITE APPENDIX "III"



Produced by GIS Section: 15-Jun-2023

Date of Aerial Photograph: 2022

Scale: 1:40,000 0 390 M



BCTFA Rail Spur and SRY/BC Hydro Track & Corridor

ENGINEERING DEPARTMENT

The data provided is compiled from various sources and IS NOT warranted as to its accuracy or sufficiency by the City of Surrey. This information is provided for information and convenience purposes only. Lot sizes, Legal descriptions and encumbrances must be confirmed at the Land Title Office.

NO: R033

COUNCIL DATE: March 6, 2023

REGULAR COUNCIL

TO: Mayor & Council

DATE: March 2, 2023

FROM: General Manager, Engineering
General Manager, Finance
General Manager, Corporate Services

FILE: 0930-30/255

SUBJECT: Fraser Valley Heritage Railway Lease and Operational Cost Funding

RECOMMENDATION

The Engineering Department, Finance Department, and Corporate Services Department recommend that Council:

1. Receive this report for information; and
2. Direct staff to negotiate a new lease agreement with Fraser Valley Heritage Railway Society to include the terms and conditions set out in this report and detailed in the attached Appendix "I".

INTENT

The purpose of this report is to provide Mayor and Council background information on the Surrey Heritage Railway ("Heritage Rail") and its operation by Fraser Valley Heritage Railway Society ("FVHRS") and to negotiate a new lease agreement in order for the annual operational funding of Heritage Rail to be administered by FVHRS for consistency with similar agreements with other not-for-profit leases by the City.

DISCUSSION

FVHRS is the operator of Heritage Rail which runs restored Interurban Passenger railcars on the Southern Railway ("SRY") track from Cloverdale to Sullivan. The location of Heritage Rail can be found in the attached Appendix "II" and further information on Heritage Rail can be found in the attached Appendix "III".

Since 2003, the City has provided over \$6 million in financial assistance to FVHRS, whether it was for grants in-lieu of rent, liability insurance, SRY licensing fees, and other operating costs or capital projects such as rail car refurbishments, building facility improvements, and spur line additions.

In 2012, the City and FVHRS entered a 10-year lease agreement (five-year term with five-year renewal option). In addition to the lease agreement, the City entered:

1. A multi-year license agreement with BC Hydro, who owns the rail corridor; and
2. A tri-party City-FVHRS-SRY multi-year agreement pertaining to railway maintenance, operations, safety, upgrades and indemnity.

All three agreements related to FVHRS expired following the 2022 season.

In 2014, through Corporate Report No. R145; 2014, attached as Appendix "IV", Council directed staff to inform FVHRS that the City is not able to expand its role beyond providing annual grant for rent and the required insurance, and that FVHRS will need to receive their operating and capital funding from other sources.

FVHRS is seeking to renew the three agreements related to their operations, as they desire recommencing seasonal Heritage Rail service in May 2023. At the same time, staff are seeking to amend the terms and conditions of the agreements to:

- Reflect the previous direction from Mayor and Council as part of Corporate Report R145; 2014 (Appendix "IV");
- Be consistent with all other grants in-lieu provided to not-for-profit organizations; and
- Ensure the safety and liability terms are fair and do not pose undue burden on the City.

Staff recommend amended terms and conditions of these three agreements, which are outlined in the attached Appendix "I".

Based on internal rental valuation of the City-owned Heritage Rail land and building located at 5554 - 176 Street, the annual rent for FVHRS is \$188,424 per year. Since the 2023 Grants Budget has already been approved, the 2023 lease rate will be \$112,000, consistent with 2022, and then \$188,424 for the remaining years. More details on the lease terms can also be found in Appendix "I".

CONCLUSION

The Heritage Rail has been operated by the FVHRS since 2012. Their current lease and operating agreements have expired, and they are seeking a renewal agreement. It is recommended that the terms and conditions of the agreements be amended prior to renewal and prior to continued operation of Heritage Rail.



Scott Neuman, P.Eng.
General Manager,
Engineering



Kam Grewal, CPA, CMA
General Manager,
Finance



Rob Costanzo
General Manager,
Corporate Services

KW/kd/cc

Appendix "I" - Summary of Agreement Terms & Conditions

Appendix "II" - Site Map of 5554 - 176 Street

Appendix "III" - Background Information Pertaining to Surrey Heritage Rail

Appendix "IV" - Corporate Report No. R145; 2014

Note: Appendices available upon request