

Municipality of Chatham-Kent

Finance, Budget & Information Technology Services - Financial Services

CAO Office - Economic Development Services

To: Mayor and Members of Council

From: Steven Brown, CPA, CMA Stuart McFadden
Director, Financial Services Acting Director, Economic Development

Date: July 3, 2018

Subject: Potential Sale of WDC Rail Assets and Cash Flow Loan

Recommendation

It is recommended that:

1. The Municipality of Chatham-Kent increase the operating loan to WDC Rail by \$75,000 to provide the company with cash flow to fund 2018 operations.

Background

On November 6, 2006, the Municipality of Chatham-Kent ("Municipality") received notice from CSX Transportation of that company's proposed discontinuance of a railway line from Wallaceburg (milepost 44.5) to Chatham (milepost 18.3), a total distance of 26.2 miles of main track or 28.6 miles including siding and spur lines.

Since that time, the Municipality has purchased the short line, and formed WDC Rail, a corporation wholly owned by the Municipality. Council has given WDC Rail direction to investigate options for a potential sale of rail assets. This report will consider different options.

Comments

For the purpose of this report, the WDC Rail can be examined as four different types of asset classes unique to the short line railway. These include Rail Structures (which include bridges and culverts), Rail Assets (rail material and equipment needed to support short line operations), Rail Line Ballast (the stones and base of the short line), and the Land itself that the short line uses.

Municipal staff have compiled a list of the short line assets so WDC Rail can move forward with selling assets in a way that maximizes value to the Municipality.

A basic overview of each asset type is listed below:

Rail Structures – There is currently a total of 14 known crossings (bridges and culverts) that the short line crosses over.

Rail Assets – An estimated 7,224.86 tonnes of steel (rail and other track materials) as well as additional specialty rail equipment that pertains to each of the 43 public road crossings.

Rail Line Ballast – A conservative estimate of 604,032 tonnes of ballast and an unknown amount of subgrade material.

Land – Lands equal more or less than 181.18 acres of which include siding areas located in Eberts, Dresden and Wallaceburg. Starting just south of the Black Bridge in Chatham, the rail line has a direct path to the communities of Eberts, Dresden and Wallaceburg and backs various property classes. WDC Rail also has an easement on title for the entire short line which it owns.

The WDC Rail Board is now determining the best options for the potential sale of WDC Rail assets. The current options are listed below.

Option 1: Sell the short line outright. The Municipality currently holds the running rights and operating rights for the short line and if there was an interested buyer(s), the Municipality could transfer all assets to a potential buyer(s).

Option 2: Separate assets (Rail Structures, Rail Assets, Rail Line Ballast and Land) and sell each asset type individually or combine assets as part of a sale.

If the option to sell land is exercised, it is advised that land and rail structures be packaged together. However, municipal staff at this time **do not advise selling the lands** that the short line is located on unless Option #1 occurs.

Option 3: Remain status-quo.

June 25, 2018 Council Meeting

At the June 25, 2018 session of Council, Councilor Wesley said that he would bring forth the following motion at the July 16, 2018 Council meeting for discussion and voting:

“That Chatham-Kent begin the process of removing obsolete rail crossings, signage and begin repaving, repairing those crossings for the benefit of drivers and school bus operators. Staff to report back to Council for the meeting on August 13, 2018 or on the date that the WDC Rail report comes to Council”.

Regarding the Notice of Motion, staff have already begun the process of removing railway crossing signs and bagging the electronic warning devices associated with the WDC Rail.

Council has directed that the deficits remain in the separate corporation until such time that a buyer is found. To facilitate the cash requirements of the company, the Municipality has loaned the company funds to buy the property and to fund operating expenses. The company is charged interest on the loan equal to the rate earned by Chatham-Kent's surplus funds. An additional \$75,000 loan is recommended to provide the cash for the company to pay its 2018 operations.

Loan Balance

If the recommendation is approved, the loan balance will be \$4,875,000 as detailed below:

2013 Loan to Purchase Land and 2013 - 2015 Operating Expenses	\$1,000,000
2015 Loan to Purchase Track Assets	\$3,650,000
2015 Loan recommended for 2015 - 2016 Operating Expenses	\$150,000
2018 Loan recommended for 2018 Operating Expenses	<u>\$75,000</u>
Total CK Loan to WDC Rail	\$4,875,000

Cash is recommended to only be loaned to WDC Rail. No grants or subsidies have been paid by Chatham-Kent to WDC Rail.

Areas of Strategic Focus and Critical Success Factors

The recommendation in this report supports the following areas of strategic focus:

- Economic Prosperity:
Chatham-Kent is an innovative and thriving community with a diversified economy
- A Healthy and Safe Community:
Chatham-Kent is a healthy and safe community with sustainable population growth
- People and Culture:
Chatham-Kent is recognized as a culturally vibrant, dynamic, and creative community
- Environmental Sustainability:
Chatham-Kent is a community that is environmentally sustainable and promotes stewardship of our natural resources

The recommendation in this report supports the following critical success factors:

- Financial Sustainability:
The Corporation of the Municipality of Chatham-Kent is financially sustainable
- Open, Transparent and Effective Governance:
The Corporation of the Municipality of Chatham-Kent is open, transparent and effectively governed with efficient and bold, visionary leadership

- Has the potential to support all areas of strategic focus & critical success factors
- Neutral issues (does not support negatively or positively)

Consultation

The WDC Rail Board, the Chief Administrative Officer, the Chief Financial Officer, the Chief Legal Officer, and the General Manager of Infrastructure & Engineering Services, have been consulted on the potential sale of WDC Rail assets.

Financial Implications

While the discussion of a potential sale of WDC Rail assets has substantial financial implications for WDC Rail and the Municipality, there are two other financial elements associated with the short line asset.

The Municipality's asset management plan will be affected. Potentially selling WDC Rail assets means removing or delaying future maintenance and/or replacement costs associated with the short line.

Secondly, the WDC Rail incurs \$60,000 of annual expenditures for required track maintenance, utilities and property taxes that sees no use by rail traffic. Maintenance of the rail corridor will continue to be required by WDC Rail and the Municipality so long as the short line remains in place. If the short line is outright sold, this annual expenditure will be the responsibility of the owner of the short line.

Prepared by:

Steven Brown, CPA, CMA
Director, Financial Services

Stuart McFadden
Acting Director, Economic Development

Reviewed by:

Mike Turner
Chief Financial Officer, Treasurer

Don Shropshire
Chief Administrative Officer

Consulted and confirmed the content of the consultation section of the report by:

John Norton, General Manager
Community Development

Thomas Kelly, General Manager
Infrastructure & Engineering Services

Attachment(s): None

P:\RTC\F&PS\Finance\2018\RTC033 - WDC Rail Sale and Loan