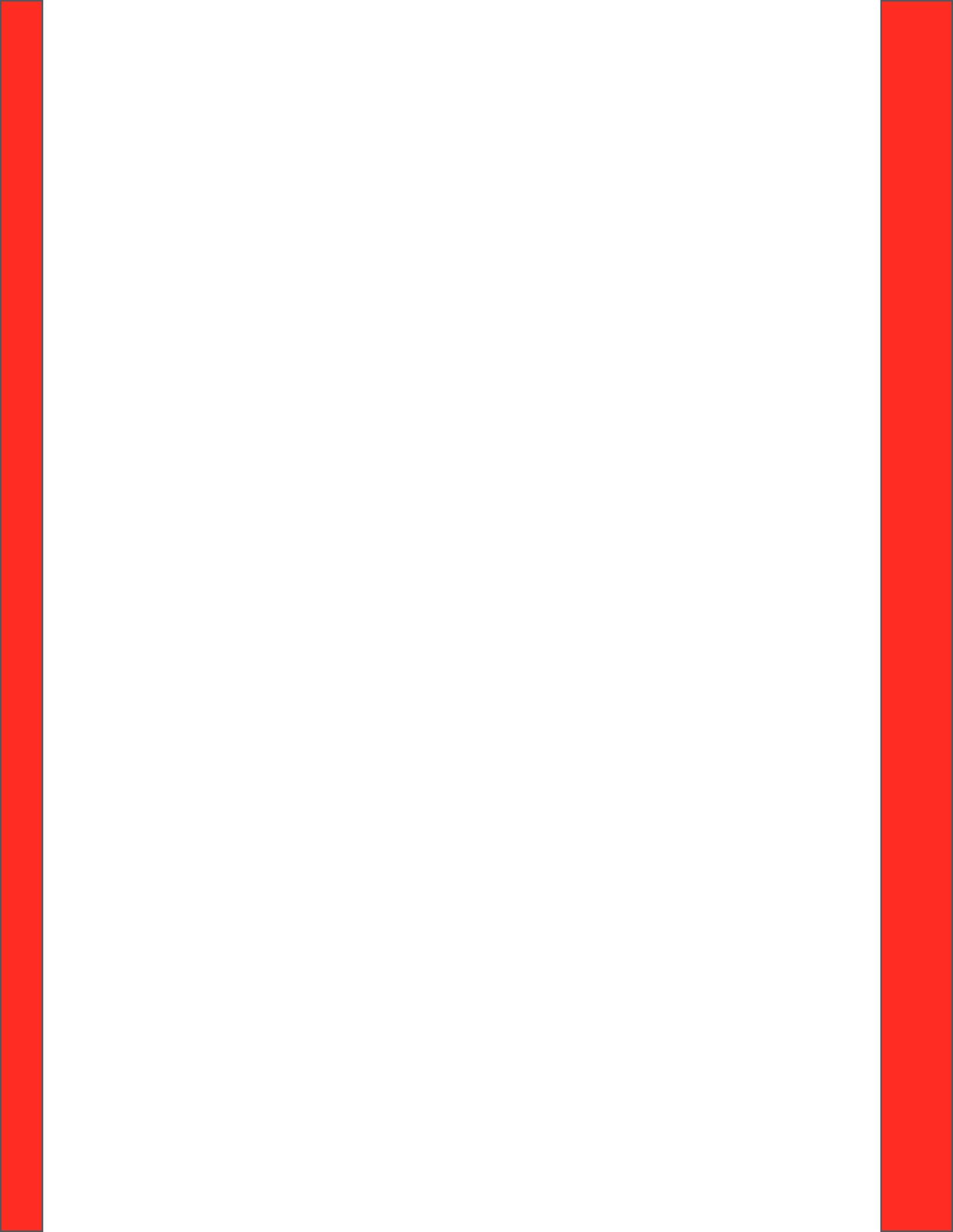




Carrizo Gorge Scenic Railroad Business Plan

Jonathan Smith



Executive Summary

Tucked away in one of the most pristine desert landscapes in America, the “Desert Line” of the San Diego and Arizona Railway lies unknown to much of the country. It extends over high wooden trestles, through long tunnels hand carved through the Jacumba Mountains. Combining both history and natural beauty, the Desert Line is a prime example of railroad history. Unfortunately this history is only accessible to a select few individuals, and goes unnoticed by the vast majority of San Diego County. Hikers and bikers are able to experience the beauty of Carrizo Gorge, but only by hiking in extreme conditions, as well as trespassing on private property. With the prospect of increased freight traffic in the near future, it seems that only train crews will get to experience the splendor of the Desert Line.

This is why several attempts have been made to begin operating tourist excursions over the most scenic portion of the line. These attempts ended in the early 1970's by a man named Bryce Santry and his associates. They completed in depth studies, market research and operational plans for an excursion train that would operate out of Jacumba, California and proceed north for 11 miles to Coyote Wells. During that time, the owners of the Desert Line, Southern Pacific, were not open to discussions about a passenger train for unknown reasons. It appeared that the Carrizo Gorge would remain a quiet secret to tourists and locals alike. Only a small portion of the Desert Line remained active, operated by the Pacific Southwest Railroad Museum out of Campo, California. Despite the efforts by the Metropolitan Transit System of San Diego (MTS) to find a long term operator, it

seemed that the Carrizo Gorge proved too large of a task for smaller railroad companies. In the year of 2012, a new operating lease was entered between the San Diego MTS and the Pacific Imperial Railroad and plans were drawn to restore the Desert Line to operating condition. In June of 2016, a sublease was signed between the San Diego MTS, Pacific Imperial Railroad and Baja California. This agreement turned over most of the operating rights and repair duties to Baja California.

For this reason, the time is now to come to an agreement and restore passenger service through the Carrizo Gorge. With restoration work being completed, it is entirely possible to introduce a passenger service to Carrizo Gorge, and use it as another tool to keep the Desert Line Active. The purpose of this business plan is to outline the operational structure, management plan and market analysis for a tourist excursion train through Carrizo Gorge, and to use that information to reach an agreement with the Pacific Southwest Railway Museum, Baja California, Pacific Imperial and the San Diego MTS. The history of this railroad is the history of not only San Diego or California, but the history of the United States and deserves to be available for the public to enjoy.

It is the goal of this business plan to outline what a return to passenger service would like through Carrizo Gorge by extending the current operating lease utilized by the Pacific Southwest Railway Museum through the Carrizo Gorge to Coyote Wells.

Company Description

Mission Statement:

The mission of the Carrizo Gorge Scenic Railroad (CGSRR) is to preserve the history of the former San Diego and Arizona Railroad “Desert Line” through the Carrizo Gorge, and to provide visitors this history and beautiful scenery on regular excursion trains.

Goals and Objectives:

The goal of the Carrizo Gorge Scenic Railroad is to operate passenger train excursions through the most scenic section of the original San Diego and Arizona Eastern Railroad. The purpose of this company is to preserve the history of the SD&AE, while also providing the maximum economic benefit for the surrounding communities.

History of the Carrizo Gorge Scenic Railroad:

In 1875, San Diego, California was passed by the railroad boom in favor of more negotiable train routes farther north. The citizens of San Diego knew that without a railroad, their community would never prosper. It wasn't until John D. Spreckles entered the picture that San Diego was put on the map. He invested in the city's water system, newspaper, downtown, and most importantly, its transportation network. He established a streetcar system. Finally, the city offered Spreckles a wharf in the harbor as an incentive to build a railroad that would connect San Diego to the east coast.

When the U.S. Navy chose San Diego as their port, it was clear that the city had potential.

With the secret investment by E.H. Harriman of the Southern Pacific of three million dollars, the San Diego & Arizona Railroad was formed and construction began in 1902. Construction crews braved harsh weather, flash floods, political unrest, a world war, and some of the most bleak desert in North America to finish the line. On November 5th of 1919, the final spike was driven and America's last transcontinental railroad was complete. The route traveled south of San Diego to the border town of Tijuana, Mexico. After traversing the first of its climb into the Jacumba Mountains, the tracks continued back into the United States at Tecate. From there, it traversed the Carrizo Gorge, giving the SD&A a nickname of the "Impossible Railroad". The Carrizo Gorge required the construction of 17 tunnels and 13 bridges, all of which were dug using steam shovels and manual labor to complete. At a cost of 18 million dollars in 1919, or \$268,462,535 dollars today, 50 carloads a day was considered the "break even" point. The railroad averaged 11 per day, meaning that even in its early years the railroad struggled for survival. It was considered an operational nightmare, as large track crews with hand tools and steam shovels endeavored to keep the line open. In 1932, a fire in tunnel #3 would mean an entire section of the route through Carrizo Gorge would have to be rerouted. The Goat Canyon Trestle was constructed, and is to this day considered an engineering marvel. It stands 185 feet high and 633 feet long, making it the tallest and longest wooden trestle in the world. World War Two would offer a brief boom in traffic. Despite the longer travel time, passengers preferred the air conditioned and reliable service to the north through Los Angeles. Interstate 8 was finished in 1970, and allowed freight to be shipped faster, without having to dip into Mexico. Hurricane Kathleen destroyed major

portions of the line, and after being rebuilt by the Southern Pacific by order of the federal government, the tracks fell silent.

Southern Pacific sold the railroad to the San Diego Metropolitan Transit System, who manage the tracks now. The railroad fell into a state of disrepair, making it almost impossible for operations to be restored, despite interest from a number of parties. Finally, a lease agreement has been reached between the San Diego MTS, Pacific Imperial Railroad, and Baja California to revitalize the Desert Line. Baja California plans on using the Desert Line as a major transportation link to elevate truck idling times at border crossings.

Market Analysis:

It is well known that the tourism industry one the fastest growing economic drivers in the United States, and communities across the nation benefit from the growth that it provides. According to the U.S. Travel Association, over \$683.1 billion dollars is generated by leisure travel annually and over 6 million jobs are sustained as a direct result of the travel industry. Nearly four out of five domestic trips are taken for leisure purposes alone, which simply means that Americans love to travel. Everyone is looking for a way to escape from their normal lives and experience the world, which means that there is a great opportunity for communities to embrace this as an economic driver.

San Diego and Tourism:

San Diego and the surrounding are very familiar with the tourism industry and the growth that it can provide for communities. According to SanDiego.org visitors spend nearly \$10.4 billion annually and generate over \$743 million dollars in tax revenue. San Diego is one of America's top tourism destination, hosting over 34.9 million visitors each year. In several studies conducted by the San Diego Tourism Authority(SDTA), each leisure traveller spends on average \$102 dollars per day in San Diego alone and have an average positive impact of \$400 per trip. Of the overnight visitors to San Diego, 73% of people travel to San Diego on a pleasure/vacation trip and spend an average of 3.9 nights within San Diego's city limits.

These visitors travel to San Diego to experience a number of attractions, with the largest being the area's large amounts of

beaches. Over 23% of all visitors either traveled to or intended to visit a beach on their trip to San Diego. Of the other top ten attractions identified by the SDTA, six attractions all center around the history of San Diego. Places like Coronado Island, Balboa Park and Old Town all share the city's unique history as their draw and are visited by thousands of tourists each year. 10% of visitors have visited Coronado Island, home to John D. Spreckels' very own Hotel Coronado. This leads us into how a tourist railroad can flourish in the current tourism environment.

Heritage Tourism and Tourist Railroads:

Heritage Tourism is a branch off of the tourism industry, and essentially is travel that is directed towards the history of an attraction and translating that history to visitors. According to the United States Department of Commerce over 80% of all domestic tourist in the United States have visited a historic place on their travels.

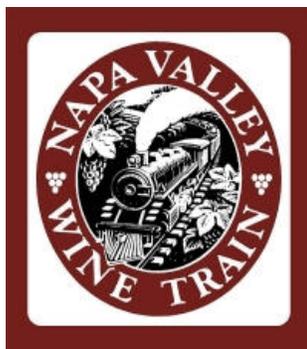
Tourists are attracted to heritage attractions because they want to experience three things. First, they want to learn something about the past. Second, they want to experience something unique from anything else that they have done. Finally, they want to experience something authentic. It is often said they heritage tourists want to find "the real America", one that isn't dominated by brands and is instead centered around stories, artifacts and locations from the past.

Historic railroads provide all of those experiences in one location. Trains were the backbone of America, and continue to connect the major cities of our nation to keep our economy moving. With the introduction of air travel, many short line railroads

disappeared, yet many were saved by local communities and concerned Americans who did not want to lose that history. Now every state has a number of tourist railroads that help keep the past alive. These tourist railroads operate in a variety of ways, both as non-profit organizations and for-profit companies, with the goal of preserving history. Examples range from small railroad museums too large, for profit, railroads such as the Grand Canyon Railway and the Durango and Silverton Narrow Gauge Railroad. These railroads see hundreds of thousands of visitors per year, and are important economic drivers for their communities. Tourist railroads offer activities for a wide array of groups including families, rail fans and international tourists.

Examples of Tourist Railroads in California

California is home to several successful tourist railroads, all of which transport thousands of passengers per year.





The Pacific Southwest Railway Museum

The Pacific Southwest Railway Museum (PSRM) operates with the goal of preserving the railroad history of Southern California, including the history of the San Diego and Arizona Railway. Their mission statement is as follows, “The Pacific Southwest Railway Museum Association, Inc. is dedicated to preserving the physical legacy, historical context, cultural landscape and experience of rail transportation. Programs address the historical, social, economic and technical impact of railroading with particular emphasis on railroads of San Diego County and the larger systems with which they connected in the United States and Mexico.” The Pacific Southwest Railway Museum operates as a non-profit, tax exempt 501(c) corporation.

In addition to physical displays at their museum location in Campo, California they also operate regular excursion trains over a portion of the “Desert Line”. In their most recent update to the San Diego and Arizona Eastern Board of Directors they explained “ the Museum ran 48 passenger trains carrying 1.945 passengers in the second quarter of 2016.” Over the past five years, the museum has seen a steady increase in passenger ridership,

ending with over 4,000 passengers in 2016. The museum also operates several special event trains throughout the year, including Christmas and Halloween trains.

An agreement and operating lease has allowed the Pacific Southwest Railroad Museum to operate, and an agreement has been reached between them and Baja California to allow those operations to continue. It was included in the operating lease with Baja California that the PSRM will maintain operating rights under the new lease with Baja California.

This business plan outlines a possible extension of the current excursion trains operated by the Pacific Southwest Railway Museum from their museum in Campo, California through the Carrizo Gorge. Trains will operate using the current equipment owned and utilized by the Pacific Southwest Railway Museum, and will also utilize current infrastructure in place at the Campo museum facility.

Business and Management Structure:

The Carrizo Gorge Scenic Railroad (CGSRR) will operate as a for-profit corporation in conjunction with the non-profit Pacific Southwest Railway Museum out of Campo, California. All railroad operations will be controlled by CGSRR, with all historic preservation efforts led by the museum association and their volunteers.

The Carrizo Gorge Scenic Railroad will be managed and operated with the following structure. This section will outline the staffing needs of a full time, year round tourist railroad excursion through Carrizo Gorge.

Officers:

The Carrizo Gorge Scenic Railroad will be lead by a Chief Executive Officer, who is responsible for overseeing the operations and business of the railroad. The CEO will be responsible for farthing the business interests of the railroad, as well as being providing the vision and the direction of the CGSRR. A management secretary will serve the entire upper management team.

The General Manager is accountable to the CEO, and is responsible for the day to day operations of the railroad, and using the CEO's vision to move the railroad forward. The Vice President of Operations and Vice President of Business Operations are accountable to the General Manager. The VP of Operations oversees each mechanical department. Each

department is lead by a manager who is responsible for hiring, training, and overseeing staff.

Departments:

Operations

The Operating Department are the staff who physically operate the excursion trains, with a train crew of four crew members per train in compliance with all FRA regulations. All operations employees are required to pass a rules exam every year. Those positions include...

- Brakeman
- Engineer
- Conductor

Locomotive and Car Maintenance

The Locomotive and Car Maintenance Department are responsible for the maintenance, restoration and inspections of the locomotives and rolling stock associated with the CGSR in full operating condition and in compliance with all FRA regulations.

Maintenance Department

The Maintenance Department are responsible for the general upkeep of railroad property including vehicles,

structures and buildings as well as servicing trains at the beginning and end of each excursion.

The Vice President of Business Operations is responsible for overseeing the hospitality side of the tourist excursions. Each department is lead by a manager who is responsible for hiring, training and overseeing staff.

On-Board Services

On-Board Services is responsible for providing first class service and hospitality to train passengers, as well as ordering, preparing, and serving food service.

Ticket and Marketing Office

The ticket and sales offices are responsible for taking train reservations, and running the railroads marketing campaigns.

Retail

The Retail Department works with the On-Board Services Department to operate the CGSRR gift shops and retail sales both on-board the trains and at the depot.

Accounting

The Accounting Department is responsible for balancing budgets, bookkeeping and managing the payroll for employees.

Staff:

Each department's manager will be responsible for determining the staffing needs of their department under the guidance of the Human Resources Manager and the General Manager. Staffing needs can be filled in the nearby population center of San Diego, El Centro and Jacumba.

A budget line of \$500,000 per operating year is to be allocated for CGSRR payroll.

Volunteers:

As there is a major interest in the Carrizo Gorge from rail fans and locals alike, the railroad will also work to recruit a volunteer staff to help with both daily operations and railroad special events.

Daily Excursion Trains and Long Term Operational Plan

Regular excursion trains will operate daily from the the Campo Depot. Excursions will continue for twenty eight miles to the Baja California Interchange at Coyote Wells. Trains will operate seven days per week in the summer tourism season and reduced as needed during the winter months. Excursion trains will operate on an eight hour schedule, including a brief layover at Coyote Wells prior to the return trip. Trains must operate with a capacity of 300 passengers, and that includes standard and first class seating. Trains will be separated into different price categories. Trains will include first class service cars that offer upgraded seating and upgraded amenities. These amenities include a meal service, full service bar, car attendant, non-alcoholic drink service, and a variety of souvenirs. Coach classes will offer access to a concession car with drinks and snack service, as well as a comfortable coach seat and large panoramic windows.

Campo, California and the grounds of the Pacific Southwest Railway Museum already contain much of the necessary facilities required to maintain, service and operate a fully functioning tourist railroad, however several upgrades will be required to accommodate a full schedule of excursions. These upgrades will include...

- Upgraded parking facilities
- Upgraded ticket office facilities and ticketing software
- Paved passenger platform
- Food and dry goods warehouse
- Upgraded mechanical shops and coach facilities

The museum has already planned many of these upgrades and are estimating a total of \$100,000 in capital projects.

Daily operations will begin with Operations Department crews arriving and preparing the locomotive and consists for operation. Operations crews will be trained prior to working with the Operating Department, and must pass a rules test every year to show competency in railroad and Federal Railroad Administration laws. Per the operating lease, CGSRR will use the General Code of Operating Rules developed by Baja California. This is to ensure that CGSRR employees follow the standards and practices of Baja California in an effort to prevent accidents. Consists will be serviced, maintained and restored in the Campo museum facilities, much like the current operations of their excursion trains.

Train departure times will be scheduled in cooperation with Baja California, and all movements will be coordinated through Baja California's main train control system. At the beginning of every year, a list with all scheduled trains for the year will be provided to Baja California, including all regular and special event trains, which will be signed and agreed upon by both Baja California and CGSRR. All CGSRR locomotives and trains will be equipped with base radio systems, programmed to CGSRR own channel and the operating channels of Baja California. Trains will continue non-stop from the Campo Depot northbound to Coyote Wells. Operations crews will be trained on how to maintain constant communication with Baja California's operations during their operating schedule. Per the operating lease with Baja California, all passenger trains will have the right of way over freight traffic in the event of an emergency or mechanical delay. All other trains will be scheduled prior to the operating season as to not conflict

with both Baja California or CGSRR operations. CGSRR is responsible for ensuring that all operations personnel are properly trained and certified for operation to Baja California's standards. On-Board Services will work with the Operating Department personnel aboard each train to ensure the safety of the passengers and crew, and will also be trained on the operation of coach vestibule steps, emergency brake application, as well as first aid and CPR. It is the responsibility of every CGSRR staff member to maintain a safe environment for train passengers.

Passengers will not disembark at Coyote Wells as it is possible for a large amount of train operations to be taking place at the same time. A study of the proposed infrastructure improvements by Baja California and Pacific Imperial will be conducted to determine the best placement of CGSRR passenger trains as to not impede freight traffic. Infrastructure upgrades conducted by CGSRR will include servicing facilities for passenger coaches, as well as basic refueling stations. Another long term goal is to construct a wye that can accommodate the full length of the passenger train. This will be essential in providing each passenger with the same experience of the Carrizo Gorge views. The master agreement between Baja California and Pacific Imperial states that Coyote Wells will be upgraded as a major transfer station for freight. It will be the goal of all CGSRR trains to enter and clear Coyote Wells Yard Limits as quickly and efficiently as possible.

Special Event Trains: Part of the long term sustainability plan for the CGSRR is to operate family centered and themed event trains multiple times per year. The goal of any family oriented event is to

introduce children to the excitement of railroading, while at the same time providing another opportunity for increasing ridership. Several special event trains will be associated with holidays such as Easter, Halloween and Christmas. The CGSRR will partner with Rail Events Incorporated to license nationally known brands such as The Polar Express. These special event trains will be included in the yearly agreement between Baja California and CGSRR. A special event manager will be responsible for the planning and execution of these special event trains, and will also be responsible for assessing the staffing needs for each event. The PSRM currently operates several popular special event trains.

Aside from branded special event trains, the CGSRR will operate a number of themed events focused on a variety of topics. These experiences could include a “wine and rails” experience using local vineyards, railroad celebrations to showcase the incredible history of the Carrizo Gorge, and photographer trains that provide opportunities to photograph trains from the ground in areas only accessible by train.

Polar Express: This Christmas event has seen incredible success internationally, taking over one million passengers to the North Pole annually. Inspired by the Warner Brothers film “The Polar Express” and the award winning book by Chris Van Allsburg, children experience an hour long train ride to the “North Pole”. On-board the train, passengers read the story, see the movies characters come to life and guide them through the story. Chefs guide passengers in a sing along and serve not chocolate

just like in the film. Santa boards the train at the “North Pole” and gives each children a sleigh bell as their first gift of Christmas.

Pricing for the Polar Express varies by day, with prices beginning at \$40 per adult ticket. The Polar Express requires major investment in event lighting, set construction, infrastructure upgrades and staffing.

Locomotives and Rolling Stock:

The Carrizo Gorge Scenic Railroad will operate using current passenger equipment utilized by the PSRM. The right to use this equipment will be included in the operating lease agreement between the CGSRR and the PSRM. Aside from the equipment currently owned by the museum, the CGSRR will partner with the PSRMM to purchase the three F-7 power units owned by the San Diego MTS and the San Diego and Arizona Eastern. These three power units will be the main power for all excursion trains.

Passenger Equipment		
Car Name/Number	Build Date	Capacity
SD&A Coaches #250-255	1925-1930	84
SD&A #350-351	1945	68
Dinner ATSF #1509	1926	40
UP #4053	1929	36
ATSF #1304	1927	34
SD&A #050 “Carrizo Gorge”	1910	20
Pullman Robert Perry	1927	20
Total Equipment:		13

Marketing Plan:

The CGSRR will consist of a multi-media approach, utilizing the major population center of San Diego and the Los Angeles that are nearby. First and foremost, word-of-mouth is extremely important to a tourist railroad and any marketing approach will be aimed at capitalizing on that and return visits.

The marketing strategy of the CGSRR will focus on telling the story of the Carrizo Gorge and the history that taking a train ride can preserve. Potential customers visit historic places because they want to experience a unique, authentic and memorable experience. The goal of the Carrizo Gorge Scenic Railroad is to provide those experiences to visitors, and that must be translated by any marketing attempts. It is often thought that train rides are only appealing to rail enthusiasts, but with the proper marketing strategies and message this audience is expanded to any tourist that is looking to create memorable experiences.

The primary marketing focus will be on social media and internet channels, including a website. Social media allows for large groups of potential customers to be contacted and high return at fairly low cost. In addition to attracting new business, social media keeps repeat riders informed of railroad events, deals and excursions throughout the year and continues the goal of increasing repeat ridership.

Online marketing will be supplemented with physical, more traditional strategies such as rack cards, brochures. Distribution of print materials will be focused in the surrounding population

centers, as well as in local hotels, restaurants within a 200 mile radius of Jacumba, California. Print advertisements will be placed in tourism magazines, railroad publications, and other publications where appropriate. National advertisements and marketing campaigns will be run as often as possible. Special event trains will be supplemented with event-specific radio ads, print materials and social media campaigns.

The long term goal for the CGSRR Marketing Department is to run balanced and effective marketing campaigns to promote the interest of the railroad and increase ridership annually.

Finances

Startup Cost and Capital Expenses:	
Expense:	Estimated Cost:
Campo Facilities Upgrade	\$100,000
Initial Lease Agreement Payment	\$100,000
Total:	\$1,200,000

Ticket Prices:	
Standard Class	First Class
Adult: \$50	Adult: \$60
Children: \$40	Children: N/A

Operating Expenses:	
Payroll	\$500,000
Fuel	\$21,000
Repair and Maintenance	\$100,000
Marketing	\$10,000
Administration	\$50,200
Lease Payment	\$100,000
Total:	\$781,200

Expected Gross Revenue:		
Type of Revenue	Projected Ridership	Projected Profit
Special Event Trains	43,900	\$1,440,000
General Excursion Trains	50,000	\$500,000
Total:	93,900	\$1,940,000

Economic Impact of the CGSRR:

The economic impact of a tourist railroad is measured in two ways. The first is through the direct spending of visitors to the railroad in the area, such as Jacumba and San Diego County. A variety of tourist railroads often see economic impacts in their surrounding communities of 3 million dollars per year on average. This figure does not include revenue collected in bed, lodging and sales taxes by tourists. The second measurement is conducted through the direct expenditures of the railroad in the local community. This includes employment, food services, hardware and the general support of local businesses.