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Introduction

Beginning in FY 2011, the Southwest Georgia Railroad Excursion Authority (SAM Shortline) no longer received state appropriations, causing severe financial stress for the organization. The SAM Shortline has already undertaken significant budgetary reductions in order to balance its revenues and expenditures and thereby ensure its financial viability. To further assist the SAM Shortline in its transition to a fully self-funded agency, CVIOG has completed a series of financial analyses about the railroad's operations which are presented in this report and in an accompanying excel spreadsheet.

Summary of Findings

The SAM Shortline Railroad began operations in 2002 in order to bring recreational and economic opportunities to Southwest Georgia. In these efforts, the railroad has been successful. For example, the Georgia Department of Audits and Accounts estimated the economic impact of the railroad to be \$1.6 million annually in 2008. However, due to state fiscal constraints, the railroad's general fund appropriation was fully eliminated in FY 2011, causing the railroad to severely reduce its expenditures. In an effort to recalibrate financially, the agency has undertaken several efforts including developing a business plan, working with marketing staff from the Georgia Department of Natural Resources, and hiring the Carl Vinson Institute of Government to conduct this financial analyses.

For FY 2011, the SAM Shortline Railroad had a slightly positive revenue balance when only considering operating costs (\$5,852); however, when a capital set aside was included, it created a slightly negative one (-\$16,806). The average cost per excursion and per rider when all costs are included equaled \$7,464 and \$28.44, respectively while total revenues were \$7,263 per excursion and \$27.68 per rider. The ticket prices of the railroad may be bit low when compared to neighboring railroads, providing an opportunity to increase revenues. Growing revenues to balance the budget appears to be the only viable option as the agency has already significantly reduced expenditures.

The railroad's Day Out with Thomas (DOWT) special event is a highly successful revenue generator and comprised over half of the railroad's revenues (\$307,603) and ridership (11,923) in FY 2011. The profit margins for DOWT are very strong, generating \$1.91 in revenue for every \$1.00 spent. Although the railroad has received high marks for the quality of its DOWT event,¹ a lack of financial investment in marketing has resulted in the Atlanta Metropolitan area being a relatively untouched market. In order to keep attendance levels high, the railroad may want to consider investing more money in marketing and thereby expand its customer base.

¹ Event assessment from HIT Entertainment, producer of *Thomas and Friends* television series.

The DOWT money is much needed to subsidize the railroad's other excursions, which operate at a loss. The average cost per excursion and per rider for these excursions are \$8,473 and \$46.05, respectively, resulting in a losses per excursion of \$2,972 and per rider of \$16.16 when all revenues and costs are included. The losses increase by \$4.27 per rider when only ticket revenue is considered,² demonstrating the profitability and importance of the railroad's resale enterprises (i.e., gift shop, food, and drinks).

Background

The SAM Shortline began operations in 2002 in order to provide recreational and economic development benefits to Southwest Georgia communities. In 2008, the estimated economic impact of the train was \$1.6 million annually.³ The main depot is in City of Cordele and the train's excursions include stops at Georgia Veterans State Park and the Cities of Leslie, Americus, Plains, and Archery. The Georgia Department of Natural Resources (DNR) operates the entity on behalf of the authority and the railroad's permanent employees are officially under DNR. SAM Shortline owns its passenger cars but rents the engine pulling them from the Heart of Georgia Railroad (HOG). The engine rental cost is hourly based and includes a fuel surcharge which increases based on the price of diesel. Furthermore, HOG leases the rail lines from the Georgia Department of Transportation (GDOT).

SAM Shortline owns a total of six passenger cars, one commissary car, and one generator car.⁴ Of the passenger cars, three coach cars and two premium cars are regularly used with one car kept strictly for parts. The coach cars can carry 80 passengers each while the premium cars have a combined maximum capacity of 84 for a total possible ridership per excursion of 324.⁵ The railroad has a policy of not running the train unless there are least 100 reserved passengers per excursion in order to cover marginal costs and ensure the agency does not lose money on the trip. In FY 2011, the train was filled on average at 56.8 percent of capacity.⁶

The number of excursions SAM Shortline offers varies by month, ranging from three to five in FY 2012. Trains run on Fridays and Saturdays with some special excursions on Sundays (e.g., Day Out with Thomas). The total number of excursions in FY 2011 was 84, the lowest number since its initial year in operation. Concomitantly, last fiscal year had the lowest ridership as well at 22,042. The railroad experienced the greatest number of passengers FY 2008 when nearly

² Resale costs such as purchases for food, soda, and concessions are excluded as well.

³ The Georgia Department of Audits and Accounts. November 2008. Special examination 08-34.

⁴ SAM Shortline is in the process of selling four passenger cars which have been leased and located in Florida. SAM Shortline plans on taking the interior parts (e.g., chairs) from the cars prior to transferring ownership in order to have additional spare parts.

⁵ Per Kathy Odom. Number represents seats available for reservation

⁶ Excluding Day Out with Thomas event.

41,000 people road the train. However, this figure appears to be more of an anomaly as the other fiscal years had ridership in the mid-20,000 range.

SAM sells a variety of types of tickets including coach, premium, and group categories with prices ranging from \$11.99⁷ for school students and staff to \$35.99 for a premium adult fare. A coach adult fare ticket is \$27.99. The train also offers charters on an hourly basis; however, due to the economy none have been sold in FY 2011 or FY 2012. Two thousand ten (2010) was the most recent year the railroad increased ticket prices. Prior to then, the railroad increased ticket prices in 2008 and 2005. SAM appears to be pricing its tickets slightly below its competitors. The closest tourism railroad, the Blue Ridge Scenic Railway, charges \$27.00 for an adult ticket on its standard, four-hour excursion (two hours on the train) while children, seniors, and military personnel are \$14.00, \$22.00, and \$17.50, respectively. The Tennessee Valley Railroad offers a standard 6.25 hour excursion (4.5 hours on the train) at cost of \$34 for adults and \$26 for children, coach class.

In addition to ticket sales, SAM Shortline sells gifts at the Cordele Depot as well as sodas and food on the train. Most of the gift items are promotional/train related such as t-shirts, magnets, and children's materials but other items include those related to communities on the line like cookbooks. Volunteers are a critical component to the train's operation, helping to prepare and sell the food and drinks offered, serving as conductors and tour guides, and assisting the mechanic in maintaining the train.

Since its inception, state appropriations were an important component to the SAM Shortline budget. From FY 2004 through FY 2009, the average state appropriation for the railroad was \$373,000 annually with the final year of support decreasing to \$194,667 in FY 2010.⁸ In response to becoming fully self-funded, the railroad has made dramatic reductions in its operating expenditures. In FY 2009, the railroad's annual expenditures reached \$1.6 million yet the FY 2012 budget is just \$661,550, less than half of FY 2009. Staff began making budget reductions in FY 2010 in response to less state money. That year's budget was slightly less than \$900,000.⁹ The primary cost reductions have come from personnel, eliminating three of its seven permanent full-time positions. Those that remain include the railroad manager, assistant manager, administrative assistant/book keeper, and train mechanic.¹⁰ Additionally, the railroad hires two women on a part-time basis as temporary labor who serve as cashiers, answer the public's questions about train excursions, group sales, manage the food sales on the train, etc.

⁷ Walk-up fares that do not originate in Cordele and go to Plains or Archery range from \$7.00 for a coach to \$25.50 for a premium adult.

⁸ Georgia Department of Audits and Accounts, Special examination 08-34, Nov. 2008 and Follow-Up Review 11-29, November 2011.

⁹ Unaudited final year expenditures equaled \$898,519, nearly \$17,000 under the original budget.

¹⁰ FY 2011 budget and Georgia Department of Audits and Accounts, Special examination 08-34, Nov. 2008.

To assist staff during this financial transition, DNR, in conjunction with staff, developed a business plan in June 2011. Examples of recommendations include working with local partners to assist with financial contributions, partnering with local businesses for excursion packages, collaborating with county tourism committees to increase advertising, researching grant funding, working with HOG and GDOT for track restoration, creating customer satisfaction measuring tools (e.g., comment card and survey), and evaluating opportunities to increase revenues with special events. Staff are in the process of implementing several of these recommendations.

The recommendation to make use of special events is worthy of further discussion as this may provide one of the best opportunities for the railroad to increase ridership. The railroad currently holds one extremely popular and lucrative special children's event called Day Out with Thomas (DOWT) in which a replica of the popular "Thomas the Tank Engine"¹¹ provides train rides to customers. The FY 2011 event was held over two weekends in October 2010. The railroad held 29 trips across the event with each lasting approximately 25 minutes. There are four ticket prices ranging from \$18.00 to \$14.00, with the former being the general admission price and the latter for group sales.

DOWT constituted half of the SAM Railroad's revenue in FY 2011 and resulted in 50 percent of total ridership for the entire year. In October 2010 (FY 2011), DOWT ridership was 11,923 while the average ridership in the remaining months was less than 1,000.¹² The importance of DOWT to the financial viability of the railroad cannot be overstated, which makes the agency very dependent upon public television stations broadcasting the series and its continued popularity with children. Fortunately, the show remains be very popular with a new series currently in production. According to a report by a representative for HIT Entertainment¹³ who attends and oversees the event, SAM Shortline staff do an excellent job of hosting DOWT, calling it one of the best in the country. Fortunately for the railroad, competition for this special event is limited as a community must have a have tourism-based railroad in order to host it. The event draws customers from not only southern Georgia but Florida and Alabama as well; however, it does not draw large numbers from the Atlanta market. These families appear to attend the DOWT event held in Chattanooga, TN (Tennessee Valley Railroad) during the month of May.

Currently, SAM Shortline has a limited advertising budget for DOWT (less than \$2,000 was spent in 2011) which is likely a significant reason for not capitalizing on the large potential customer base of Atlanta. Staff say that some, albeit limited, marketing is done in that area. Local PBS affiliates will give limited service announcements to the event during children's

¹¹ Thomas the Tank Engine comes from the British television show, Thomas and Friends, and The Railway Series books by Reverend Wilbert Awdry.

¹² Excludes crew

¹³ HIT Entertainment produces Thomas and Friends television shows.
<http://www.hitentertainment.com/corporate/aboutUs.aspx>

programs in exchange for free tickets. Yet, the need for advertising dollars for continued attendance was expressed in 25 percent lower ticket sales for the most recent event (Oct. 2011) from the previous year, equaling approximately 2,800 tickets. Though the DOWT experience appears to be exemplary, parents first need to know about the event to purchase tickets.

Other special events center around the communities along the line with the most significant attraction being visiting President Carter's hometown. The railroad creates special trips for community festivals such as Americus' arts festival and Plains Pig Pickin' Festival. These promotional excursions benefit both the railroad and the communities who are sponsoring the events. Finally, staff have created a couple of other excursions focusing on holidays such as a Christmas event and in FY 2011 a very popular Valentine's Day dinner and train excursion. Recognizing the work involved for a limited staff, these events may be one of the railroad's best opportunities to increase ridership for both new and repeat customers. As a comparison, its closest competitors, Blue Ridge and Tennessee Valley, hold several holiday-oriented special events throughout the year with their Christmas events lasting several weeks. Furthermore, Tennessee Valley has created a train summer camp for high school students.

Review of Operating Budget

As mentioned above, the SAM Shortline has made significant budget reductions in response to its lost state dollars and can be fairly described as "tight." The largest categorical expenditures are for personnel, funding Day Out with Thomas (see below), and renting the train engine from Heart of Georgia. In fact, these three categories constituted 80 percent of the entire FY 2011 expenditures, \$604,278. Within those categories, the railroad has little flexibility to make additional reductions as the expenditures are driven by contract agreements.

Staff make use of SAM's partners to offset costs. For example, the Cordele Crisp Tourism Commission will contribute \$12,500 for advertising in FY 2012. The Commission also picked up the salary for one of its part-time (casual labor) employees for a couple of months after she had worked the maximum 1,050 hours per year allowed under state budgeting rules. Cordele Mainstreet purchases the DOWT rack cards and State Parks pays for SAM Shortline's rack cards. The Friends of SAM volunteer organization also financially contributes to larger (i.e., "big ticket") expenditures.

One of the railroad's major challenges is reaching out to customers as SAM Shortline has historically had little to no budget to market itself. One exception is the Board's recent approval of \$7,500 for marketing which is being taken from the reserve account. The Cordele-Crisp Tourism Board has donated \$12,500 for marketing for FY 2012 as well. However, the cities on the line do not market the train. To improve its outreach in as cost effective manner as possible, staff have been working with DNR marketing staff to improve its website and begun using other

social media like Facebook. Unfortunately, its current marketing budget is not large enough to significantly advertise in the Atlanta Metropolitan Area and thereby reach a very large potential customer base.

One revenue source, group sales, has suffered from the personnel reductions. SAM Shortline no longer has a permanent staff member to promote and manage group sales which is inhibiting the organization's ability to raise money from this important customer base. The office does have one part-time temporary worker who helps but she is not in the office for enough time to solicit sales and provide timely service to these customers. Group sales comprised 15 percent of revenues in FY 2011 and staff believe it could grow, given sufficient attention which would be very beneficial in increasing total ridership per excursion. However, due to the reduced pricing, particularly for school children, group sales for schools should not crowd standard adult coach and premium riders. Hiring another permanent staff person to solicit and manage group sales may not be financially prudent at this time given the unknown nature of how much revenue such a person could generate. Therefore, it may make the most sense for the railroad to hire a contractor who would be paid on a commission basis. As an independent authority, SAM Shortline likely has sufficient authority to hire this type of contractor.

The agency incurs capital costs in maintaining the train and in eventually replacing two vehicles.¹⁴ However, the staff have been every effective in minimizing train capital costs, and in particular the train's interior by utilizing parts from spare cars and acquiring donations from the Friends of Sam Shortline. For example, this organization paid to have the seats of the passenger cars recovered a couple of years ago. In addition, staff anticipate the City of Americus will pay to replace carpet its premium car (Train cars are named after the cities along the route).¹⁵ The railroad must pay to have the cars' wheels refurbished and brakes maintained on a multi-year schedule. To help offset this cost, the agency has already set aside \$50,000 from its reserve balance.

The railroad maintains a healthy reserve balance of \$226,000 (end of FY 11), which equals approximately 37 and 34 percent of its FY 11 and FY 12 operating expenditures, respectively. This ratio exceeds the best practice rule of thumb that local governments and small agencies maintain a reserve equal to three months operating expenditures. However, this balance does include the \$50,000 set aside for wheel refurbishment. Though the reserve fund is currently in good shape, the agency should be wary of relying on it to balance operating budgets as the reserve could easily become depleted in a short period of time. The board may want to develop a formal policy as to what circumstances would warrant spending from the reserve.

¹⁴ The railroad own a 2008 Chevy Silverado and a 2006 Ford Forestar

¹⁵ When the train cars were being refurbished. The City of Americus wanted its car to be a premium car and paid to have several upgrades in the car installed including a bathroom, wood paneling, and carpet.

Financial Analyses

The following financial analyses should be viewed as an unbiased information tool for the SAM Shortline Railroad Board and staff. It is not meant to be an assessment about the manner in which the railroad is managed but it does highlight some of the opportunities and challenges facing the railroad. The data in this report is not meant to be comprehensive but rather provide an overview as more detailed calculations can be found in the Excel spreadsheet provided to staff. The analyses relate to FY 2011 only as this is the latest complete fiscal year data was able at the time the report was written. The report does not include a multi-year historical analysis or financial forecasting as these analyses are beyond the scope of this report.

Costs

The operating cost data has been divided in marginal and fixed costs, with marginal costs being those items that are directly related to an excursion (see Table 1, next page) in order to better understand the marginal cost of a trip and passenger. Therefore, salaries and benefits of permanent staff, vehicle costs, electricity for the depot, office supplies, etc. are considered fixed costs. Marginal costs include engine rental from the Heart of Georgia, temporary staff that are hired to ride on the train and to sell tickets, resale items such as food, extra costs associated with special events, etc. Because of the financial significance of DOWT, the marginal costs for this special event are separated out from the more general marginal costs as well. These costs include staff for the event, licensing costs, Thomas the Train merchandise, tents, etc. The goal of separating out DOWT costs is to understand the financial condition of the railroad without DOWT and the degree to which the revenues from other train excursions meet associated costs.

Capital Replacement Fund

The railroad's current \$50,000 encumbrance for wheel refurbishment is a fiscally prudent decision and a good start to funding capital costs. However, the budget has limited flexibility to pay for large one-time expenditures and therefore, CVIOG recommends the railroad establish a capital replacement fund that annually sets aside revenues for upcoming capital purchases and repairs. To the extent the railroad is able to reserve revenue, it will be in a better position to meet these necessary expenses. The set aside should be based on annual wear and tear to capital (i.e., train wheels and vehicles). For FY 2011, the estimated total set aside that fully captures this cost is \$22,658. We ask that you refer to the provided Excel spreadsheet to learn how these costs were calculated.

Table 1 shows the total operating costs for FY 2011 and the estimated set aside needed for train maintenance and vehicle replacement. The table shows fixed costs are less than marginal costs and that nearly three-fourths of the fixed costs are attributable to four personnel. Therefore, there appears to be little that can be cut from this spending category for savings. Next, we see

that DOWT constitutes nearly half of all marginal costs, demonstrating one, the financial investment of the event and two, expenditures for the other excursions are limited. The vast majority of DOWT costs are associated with buying merchandise for resale and licensing/royalty payments from ticket sales and sold merchandise (\$120,620). Of non-DOWT marginal costs, payments to HOG were \$110,060 in FY 2011 or one-third of all marginal costs.

| Table 1: FY 2011 Costs | | | | |
|-------------------------------|------------------|-----------------------------|-----------------------------|--------------------|
| | Fixed | Marginal - All Costs | Marginal - DOWT Only | Total Costs |
| Personnel | \$205,250 | \$16,058 | \$1,977 | \$221,308 |
| Operating | \$56,548 | \$47,229 | \$24,259 | \$103,777 |
| Regulated | \$14,283 | \$264,912 | \$134,689 | \$279,195 |
| <u>Total Operating Budget</u> | <u>276,081</u> | <u>\$328,199</u> | <u>\$160,925</u> | <u>\$604,280</u> |
| Capital Set Aside | \$9,246 | \$13,412 | \$0 ¹ | \$22,658 |
| Total Costs | \$285,327 | \$341,611 | \$160,925 | \$626,938 |

Note: the budget categories Personnel, Operating, and Regulated come from the SAM Shortline operating budget. The capital category was added by the author.

Note: Differences in the figures between those above and financial data presented from SAM Shortline represent rounding errors.

1. No capital costs are assigned to DOWT as this represents money to set aside and not an actual outlay.

Table 2 (following page) shows costs on an averaged, per unit basis (i.e., excursion, rider) for all the costs incurred by the railroad in FY 2011. One important consideration in analyzing the data is to understand that the greater the value of the unit/denominator, the lower the number will be. For example, in considering the costs per rider, the greater the number of passengers, the lower the cost per passenger and the greater profit per ticket sold (or less loss). Therefore, the cost per rider will vary annually based not only on expenditures but ridership also. If we assume that costs per excursion are typically stable from year to year as are fixed costs, then the major source of fluctuation in cost per rider will be total ridership.

The table also includes the proposed capital set aside even though there were no direct expenditures for major equipment repair in FY 2011. The set aside is counted as either fixed or marginal, depending upon the purpose. Vehicle wear and tear occurs irrespective of the number of train excursions so it is categorized as a fixed cost. Likewise, train brake maintenance is based on the number of calendar days, not use, and is classified as a fixed cost. In contrast, wheel refurbishment is needed according to the actual miles the wheels travel so this cost is counted as marginal.

| Table 2: FY 2011 Costs by Excursion and Rider | | |
|--|-------------------|---------------|
| | Excursions | Riders |
| Total Number | 84 | 22,042 |
| Marginal Costs with Capital Set Aside | \$4,067 | \$15.50 |
| Fixed Costs with Capital Set Aside | \$3,397 | \$12.94 |
| Operating Costs, No Capital Set Aside | \$7,194 | \$27.41 |
| Total Costs with Capital Set Aside | \$7,464 | \$28.44 |

Note: Includes costs associated with DOWT and general resale

Note: Differences in the figures between those above and financial data presented from SAM Shortline represent rounding errors.

Revenues

Table 3 (next page) breaks down revenues into four areas in order to understand the degree to which tickets sales fully recover the costs of an excursion. The four components are:

- *Ticket Sales*: all excursions except those for DOWT
- *Resale*: concessions (i.e., items from the gift shop), food to go, and sodas for excursions other than during the DOWT event
- *DOWT* ticket sales and resale (i.e., Thomas the Train toys, videos, etc.)
- *Other* which represents contributions from Friends of SAM Shortline, communities, etc.

It should be noted that in FY 2012, the cities along the line, Crisp and Sumter Counties, Cordele-Crisp Tourism, Crisp County Power, and Friends of SAM Shortline all provided some level of financial support to the railroad for a total contribution equaling \$35,000, excluding the in-kind contributions some organizations have historically given. These contributions are very important to the financial stability of the railroad and are reasonable given the economic benefits coming to the communities from the railroad.

As discussed earlier, Table 3 shows DOWT revenues comprising half of the railroad's income for the entire FY 2011. The importance of the DOWT event to the financial stability of the organization cannot be understated as it substantially subsidizes the other excursions. Resale revenues represent approximately ten percent of total revenues.

| Table 3: FY 2011 Revenues | |
|----------------------------------|-----------|
| Ticket Sales | \$237,467 |
| Resale | \$61,600 |
| DOWT Only | \$307,603 |
| Other Revenues | \$3,462 |
| Total Revenues | \$610,132 |
| Total Revenues per Excursion | \$7,263 |
| Total Revenues per Rider | \$27.68 |

Calculations include revenues and ridership from DOWT

Note: Differences in the figures between those above and financial data presented from SAM Shortline represent rounding errors.

Profit (Loss)

Table 4 below reflects the differences between Tables 2 and 3 and the degree to which SAM Shortline was able to balance its budget in FY 2011. We see that when only operating costs are considered, the railroad experienced a small positive balance but a deficit when set asides for future capital outlays are included. The earnings ratios show how much income is earned for each dollar spent. The ultimate financial goal for the railroad would be to have an earnings ratio for total costs equaling or exceeding \$1.00.

| Table 4: FY 2011 Profit (Loss) for All Revenues and Costs | | | |
|--|--------------------------|-------------------|---------------|
| | Profit (Loss) | Excursions | Riders |
| Total Number | | 84 | 22,042 |
| All Revenues Less All Costs | (\$16,806) | (\$200) | (\$0.76) |
| All Revenues Less Operating Costs Only | \$5,852 | \$70 | \$0.27 |
| | | | |
| Total Earnings to Total Costs | \$0.97 | | |
| Total Earnings to Operating Costs | \$1.01 | | |

Note: Differences in the figures between those above and financial data presented from SAM Shortline represent rounding errors.

Day Out with Thomas

The Tables 5, 6, and 7 show the DOWT Thomas event to be highly successful in terms of overall ridership, exposure to SAM Shortline, and profit. As state earlier, the FY 2011 event resulted in 11,236 sold tickets and a total of 11,923 riders, which equaled more than half of total ridership for the train that year (54%). The difference between the two numbers comes from the free passes SAM distributes to PBS affiliates and volunteers per its agreement with HIT

Entertainment. In Table 5, we see that though tickets are the primary revenue source (66.6%), resale of merchandise is also an important financial contributor (28.9%). Prices for the event are set by HIT Entertainment.

| | |
|----------------------------|------------------|
| Tickets | \$204,990 |
| Resale - Merchandise | \$88,855 |
| Concessions – Photographer | \$2,292 |
| Food ¹ | \$5,608 |
| Parking ¹ | \$5,859 |
| Total Revenue | \$307,604 |

1. No royalties are paid to Thomas Licensing, LLC on these items

Table 6 (next page) gives a breakdown of the cost, revenue, and profit for DOWT on a gross, per excursion, per rider, and per ticket basis. The data is further divided into excursion- and resale-related revenues and costs to see how the two categories vary in their profit margins. The average profit per excursion is solid with greater profit margins coming from the excursions than resale (49% vs. 36%). It should be noted that SAM Shortline does not control the wholesale or retail costs for merchandise as these are dictated by Thomas Licensing, LLC. However, staff can try to influence the amount of merchandise spent per rider which, according to HIT Entertainment personnel, they and the volunteers have been very effective at doing. Furthermore, it should be noted that trying to increase profit margins for excursions should not come by reducing total costs. Ensuring a quality experience is a main driver for continued attendance. Rather, the focus should remain on increasing the total number of customers and thereby reducing the cost per rider/ticket.

Table 7 (next page) simply reflects the healthy profit made from the DOWT event.

| Table 6: FY 2011 DOWT Costs, Revenues and Profit by Category | | | |
|---|-------------|------------------------|---------------|
| | Cost | Revenue | Profit |
| All Revenues and Costs | \$160,925 | \$307,604 | \$146,679 |
| Per Excursion | \$5,549 | \$10,607 | \$5,508 |
| Per Rider | \$13.50 | \$25.80 | \$12.30 |
| Per Ticket | \$14.32 | \$27.38 | \$13.06 |
| Ticket Revenue Only / No Merchandise Costs¹ | | | |
| | \$103,813 | \$204,990 ² | \$101,177 |
| Per Excursion | \$3,580 | \$7,069 | \$3,489 |
| Per Rider | \$8.71 | \$17.19 | \$8.48 |
| Per Ticket (Average) | \$9.24 | \$18.24 | \$9.00 |
| Resale – Merchandise Only³ | | | |
| | \$56,883 | \$88,855 | \$31,972 |
| Per Rider | \$4.77 | \$7.45 | \$2.68 |
| Per Ticket | \$5.06 | \$7.91 | \$2.85 |

1. Excludes photography royalty of \$229. There were no costs associated with food and parking.

2. Based on financial spreadsheets provided by SAM Shortline and email correspondence with staff.

3. Also does not include photography costs. The photography cost is captured when total costs are considered

| Table 7: FY 2011 DOWT Earnings Ratios | |
|--|--------|
| All Revenues and All Costs | \$1.91 |
| Ticket Revenue Only, No Merchandise Costs | \$1.97 |
| Resale Revenue, Merchandise Costs Only | \$1.56 |

SAM Shortline Excluding Day Out with Thomas

The following four tables examine the costs, revenues, and net profit (loss) of the SAM Shortline Railroad when the Day Out with Thomas event is excluded. This information is important because DOWT heavily subsidizes the railroad's other excursions and with it, the railroad board and staff can make reasonable goals about the degree to which these excursions should be self-funded. However, in looking at the FY 2011 cost per excursion and rider, it appears that making these excursions fully self-funded (i.e., no DOWT subsidy), may be unrealistic and even unnecessary since the goal of special events is to raise money for the entire enterprise. That said the railroad may want to reduce losses from these excursions in order to provide greater financial flexibility and to allow for fluctuations in attendance or cost increases like marketing the DOWT event.

In Tables 8 and 9, we show the costs, revenues, and their differences for non-DOWT train rides on per excursion and per rider bases. The cost per rider with capital set aside is \$46.05 which is greater than any ticket price, resulting in a loss for every ticket sold. The average revenue per ticket is \$29.90 when including all sources¹⁶ and \$23.47 when only ticket revenue is considered. There is \$4.52 difference between a coach fare and the average revenue per rider (ticket fares only) which shows the impact of children group sales. Table 9 shows the losses for these excursions. With resale and “other” revenue, the losses per excursion and per rider are \$2,972 and \$16.16, respectively. The amounts increase when only ticket revenue is used, reflecting the importance of resale to the financial well-being of the railroad. Resale revenues and costs are looked at in more detail in the following section.

| Table 8: FY 2011 Non-DOWT Costs and Revenues | | |
|--|-------------------|---------------|
| | Excursions | Riders |
| Total Number | 55 | 10,119 |
| Marginal Costs with Capital Set Aside | \$3,285 | \$17.86 |
| Fixed Costs with Capital Set Aside | \$5,188 | \$28.20 |
| Operating Costs, No Capital Set Aside | \$8,061 | \$43.81 |
| Total Costs with Capital Set Aside ¹ | \$8,473 | \$46.05 |
| Costs with Capital Set Aside, Excluding Resale ² | \$8,077 | \$43.90 |
| Total Revenues | \$5,501 | \$29.90 |
| Ticket Revenue Only | \$4,318 | \$23.47 |

Note: Differences in the figures between those above and financial data presented from SAM Shortline represent rounding errors.

1. Marginal plus fixed costs

2. Costs equal marginal plus fixed costs. Resale equals the cost concessions, food, soda (total \$15,773) and \$5,994 spent on food for a special Valentine’s Day dinner event.

| Table 9: FY 2011 Profit (Loss) Non-DOWT | | | |
|--|----------------------|----------------------|------------------|
| | Profit (Loss) | Per Excursion | Per Rider |
| All Revenues, All Costs | (\$163,484) | (\$2,972) | (\$16.16) |
| Ticket Revenue Only, No Resale Costs | (\$206,779) | (\$3,760) | (\$20.43) |
| Total Earnings to Total Costs | \$0.65 | | |
| Ticket Earnings to Costs, Excluding Resale | \$0.53 | | |

In order to understand the maximum potential profit for these excursions, we briefly looked at the financial impact if the railroad had reached maximum capacity¹⁷ on all excursions in FY 2011 (Table 10). Of course, this achievement is unrealistic but it does give an idea as to whether

¹⁶ Tickets, resale, and revenue from other funds

¹⁷ 324 passengers for 55 excursions

the current ticket prices are reasonable, given the costs. The table first shows the average cost per rider at the train’s maximum capacity when all revenues are included (\$22.50). At \$27.99, the adult coach fare price is only a few dollars greater than the break-even price when only ticket revenue is used (\$24.93). Furthermore, several of the other fares are either just above or below this cost. Table 10 also includes the profit margin when considering maximum capacity with all revenues and with ticket revenue only. The difference between the two figures (8.1%) demonstrates the importance of resale to the railroad’s bottom line. Staff may want to research whether the current potential profit is reasonable or too low compared to other tourism-based railroads.

| Table 10: FY 2011 Maximum Capacity | |
|---|---------|
| Break Even Ticket Price, All Revenue and All Costs | \$22.50 |
| Break Even Ticket Price, Ticket Revenue Only and No Resale Costs | \$24.93 |
| | |
| Profit Per Excursion at Maximum Capacity, All Revenues and All Costs | \$2,451 |
| Profit Margin Per Excursion at Maximum Capacity, All Revenues and All Costs | 25.2% |
| Profit Per Excursion at Maximum Capacity, Ticket Revenue Only and No Resale Costs | \$1,664 |
| Profit Margin Per Excursion at Maximum Capacity, Ticket Revenue Only and No Resale Costs | 17.1% |

Note: Calculated assuming 324 passengers, 55 excursions, includes capital

Table 11 looks at the break-even point for the railroad sans DOWT (FY 2011 costs, 55 excursions). The train needs to have a fairly high capacity (75%) just to break even; however, reducing the number of excursions in order to increase capacity will only increase the number of riders needed per excursion to cover fixed costs. The table should be viewed as a goal for capacity. Staff currently have a policy not to run a train unless there are at least 100 riders in order to cover the marginal cost of running the train. To see if this estimate was correct, we looked at the break-even capacity for marginal operating costs only (i.e., no capital set aside). Staff were very close in their calculations. To break even with only marginal operating costs, the train needs 30 percent capacity for premium seats (30 people) and 32 percent capacity for coach seats (77 people) for a total of 107 people. Of course these numbers will shift to the extent that the passengers are either premium or coach ticket holders.

| | Premium | Coach |
|--|----------------|--------------|
| Capacity Needed to Break Even, All Revenues ¹ | 75% | 75% |
| Capacity Needed to Break Even, Ticket Revenue Only ¹ | 84% | 82% |
| Capacity Needed to Break Even, Ticket Revenue Only – Marginal Operating Costs Only | 30% | 32% |

Note: Based on 55 excursions

1. Includes capital set aside, no resale expenditures

Resale

The resale portion of the SAM Shortline enterprise is profitable across its three areas: concessions, food to go, and sodas and helps to subsidize the railroad’s non-DOWT excursions (Table 12). Part of the reason why resale can be profitable is the help from volunteers, saving salary costs for preparing and serving food. SAM Shortline staff may want to research whether these profits are better or worse than industry averages in order to assess whether retail prices can be reasonably increased. In addition, staff may want to survey riders to see if other types of food should be sold in order to increase sales. One caveat should be noted from the data below. The railroad has been selling down its inventory of concession items at the recommendation of Department of Natural Resources financial staff, which has allowed the extraordinary profit margin for these goods. At some point, the railroad will need to restock, reducing profits in this area somewhat. Railroad staff are considering whether to bid out the food and soda business to a concessionaire. CVIORG hopes that this information can be used to assess whether the railroad will be better off financially under that type of arrangement.

| | Concessions | Food to Go | Sodas | All Resale |
|----------------------|--------------------|-------------------|--------------|-------------------|
| Annual Profit | \$27,067 | \$11,491 | \$7268 | \$48,827 |
| Ave. Monthly Profit | \$2,256 | \$958 | \$606 | \$3,819 |
| Profit per Excursion | \$492 | \$209 | \$132 | \$833 |
| Profit per Rider | \$2.67 | \$1.14 | \$0.72 | \$4.53 |
| Profit Margin | 97.7% | 54.6% | 56.6% | 74.4% |

1. Excludes resale items associated with the DOWT event.

Suggestions

- Ticket prices may need to be raised in order to reduce losses.
- Consider increasing the marketing budget for DOWT in order to reach parents in the Atlanta Metropolitan Area, an extremely large and new market base. In order to dispel possible misperceptions about the proximity of the SAM Shortline Railroad, the marketing should inform these customers that driving to Cordele takes essentially the

same time as driving to Chattanooga. For example, driving to Cordele from Decatur, GA takes only 15 minutes longer than driving to Chattanooga.¹⁸

- Approach non-profit organizations to feature DOWT in their newsletters for free marketing. For example, the Georgia Municipal Association (GMA) and Association County Commissioners of Georgia (ACCG) have newsletters that could run stories about SAM Shortline and DOWT in order to promote tourism in the member communities along the line.
- Develop policies that set criteria when reserve funds may be spent.
- Develop a capital equipment fund and appropriate money annually to ensure sufficient resources are available for required train wheel and brake maintenance. The operating budgets are not large enough to absorb these costs in any one fiscal year; yet, the train will have to cease operating if maintenance is not done when needed. Annual set asides are the least financially disruptive means to pay for these expenses.
- Consider hiring, on a consignment basis, a person to help promote group sales. However, these sales should be targeted to adults rather than school groups as the latter's ticket prices are below the marginal cost of running the train.
- Continue to expand use of special events to widen the appeal of the railroad for new and repeat customers and to lesson reliance on DOWT for funding operations.
- Research whether the profit margins for resale items are better or worse than industry averages to determine if prices can be raised without reducing demand.
- Based on the excess coach capacity of the train, there appears to be no reason to eliminate premium fares. The premium fares have greater profit margins and still attract customers as evidenced by the fact that in FY 2011, the coach seating was filled at 60.3 percent of capacity while premium was filled at 46.8 percent of capacity.

¹⁸ Based on Mapquest.com