

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
Minutes of Board Meeting Held March 18, 2006
La Fonda Hotel, Santa Fe, New Mexico
Draft Pending Board Approval

Board members present: Curt Bianchi, Jim Herron, Dennis Sterosky, Bob Craine, Tim Tennant, Bob Ross, Phil McDonald, Art Nichols, Bill Lock, Nan Clark, Bob Tully, Dan Pyzel, Richard Tower, Warren Smalley,

Board members absent: Parker Fowler, Ed Lowrance, Jerry Sahn, Frank Yockey, Spencer Wilson.

Guests: Les Clark, Geof Gordon, Terri Shaw, Howard Bunté, David Lee, Roger Briggs, Mona Tully, Ted Smith, Linda Smith, Frank Turner, John Engs and Dick Cowles.

1. Call to Order

Chairman Craine called the meeting to order at 8:31 a.m. MST.

2. Approval of Meeting Minutes

Chairman Craine asked for approval of the October board meeting minutes previously distributed. Director Clark noted that the amount of the Department of Transportation grant on page 7 should be changed to \$500,000.

M/S Pyzel/Nichols to approve the October board meeting minutes as corrected. **Passed unanimously.**

Although Secretary Bianchi sent the Executive Committee meeting minutes via email, the board members reported that they did not receive them, so approval of the Executive Committee minutes was deferred to the June board meeting.

3. President's Report

President Tennant reviewed the report that he prepared for the board, which is very briefly summarized here. Membership stands at over 2,300 members. David Lee is taking over editorship of the *Dispatch*; former editor Art Nichols will have the title Editor Emeritus. The Grant Writing Committee met in January, and assembled a number of grants. The 2005 end-of-year appeal yielded \$10,912.15 in contributions from 62 donors.

Per the October board meeting, we have negotiated an agreement with Richard Dorman relative to the acquisition/donation of his photo collection. President Tennant asked the board to approve the terms of this agreement.

M/S Sterosky/Herron to approve the acquisition of the Dorman collection per the terms of the agreement (described in the deed of gift) negotiated with Mr. Dorman. **Passed unanimously.**

Chairman Craine briefed the board on developments related to operation of the railroad in 2006. In early November, the commission asked the Friends to help find solutions relative to operating the railroad in 2006. A working group was created to help the commission in this effort, consisting of President Tennant, Frank Turner, Richard Tower, Elmer Salazar, and Chairman Craine. At the urging of the commission and others, including the staff of the New Mexico Legislative Finance Committee, the working group developed a proposal to manage the railroad under the auspices of a newly formed non-profit corporation. Negotiations with the commission resulted in a management agreement between the

commission and the proposed C&TS Management Corp. (CTSMC), in which the latter will manage the railroad in 2006. CTSMC has been incorporated in New Mexico by Frank Turner as an independent, non-profit corporation. The initial directors of CTSMC are Frank Turner, Richard Tower, Elmer Salazar, Tim Tennant and Amos Cordova. There is no legal or corporate connection between the Friends and CTSMC. Tim Tennant will take a formal leave of absence from the Friends and assume the role of CTSMC general manager, effective April 15 to October 31, 2006. Frank Turner will serve as CEO of the new company.

Regarding the contract between CTSMC and the commission, the commission proposed using the same business model and form of contract that it had with RGRPC. The working group proposed changes to this contract, several negotiating meetings were held, and most of the proposed revisions were eventually incorporated into the contract in some form. Mr. Craine noted that he believed the final agreement was fair, balanced and commercially reasonable for both parties given the difficult financial and operating circumstances facing the railroad. The management agreement, signed by Mr. Schmitz and Mr. Turner on March 16, 2006, provides for CTSMC to manage the operations of the railroad in 2006 only, under the terms of the agreement and the business plan and operating budget agreed on by the parties.

A critical issue is the fixed assets owned by RGRPC, which have been offered to the commission for approximately \$130,000. The commission has counter offered \$85,000. These assets include equipment that is needed now, and could not be easily replaced, including track equipment, such as the tamper and tie inserter. Mr. Tennant expressed hope that the parties would come to a quick resolution of the matter since the assets are critical in the operation of the railroad. Mr. Tennant noted that, to his knowledge, the RGRPC was in the process of assembling documentation for its cost and ownership of the assets.

Working with Mr. Schmitz, Mr. Turner took the lead in negotiating the commission's purchase of 13,000 used ties from the Union Pacific Railroad. He would like to install enough ties and ballast in the approximately eight miles of tangent track out of Antonito and Chama to improve the track conditions to allow for faster speed in these areas.

The commission, working with CTSMC, has engaged Circus, Inc. for marketing and public relations. Mr. Tennant has been working with them, using funding provided by the Friends via a grant from the Another Century of Narrow Gauge Steam campaign. Mr. Turner noted that a good portion of the budget is going for advertising that will have an impact on 2007, so whoever is running the railroad then will have a head start in advertising. Lack of advance advertising is a handicap that CTSMC faces this year.

Mr. Turner said that he and the management company board have established four major goals for the railroad in 2006:

1. No employee or patron is injured.
2. Increase the average running speed through track improvements.
3. Increase train ridership by 15 percent over 2005.
4. 100 percent on-time train performance.

Mr. Schmitz worked with Richard Tower to create an operating budget for the 2006 operation. The budget, which will guide CTSMC in the management of the railroad in 2006, is predicated on an assumption of 32,500 riders, which is about the same number as rode the train last year. However, in order to provide the capacity for increased ridership and revenue, there will be additional trains this year, requiring a budget that forecasts increased services and associated costs. The budget projects \$2 million in gross revenue, with net revenue of about \$1.8 million after deducting credit card fees and the Osier meal expenses. Expenses are budgeted at about \$2 million, leaving a \$200,000 net railroad

operating deficit. In addition, cash expenditures for insurance, the reservation system and the assets to be acquired from RGRPC will increase the deficit to about \$577,000 for the twelve month period ending in March 2007. The budget calls for this shortfall to be covered by the operating appropriations of the two states, which totals about \$685,000, leaving approximately \$100,000 in contingency funds. Director Tower noted that labor is the biggest expense in the budget, and that some labor costs are classified as capital rather than operating costs, and can therefore be funded by capital appropriations from the states. In summary, the budget is very tight, with a razor thin margin to work with.

Chairman Craine asked for the board's approval of the terms of President Tennant's participation in CTSMC. In order to assume the duties of CTSMC general manager, the Friends have agreed to a leave of absence for President Tennant, for the period April 15-October 31, 2006. During this time he will be an employee of CTSMC only, dedicated exclusively to his duties and responsibilities as GM of CTSMC. Upon conclusion of this term, Mr. Tennant will return to his role as Friends president. The Executive Committee proposed that Director Smalley act as interim executive director (and CEO) on a part-time basis, which Director Smalley has agreed to do. Director Herron recommended that Director Smalley take a leave of absence from the board of directors while he is engaged as the interim executive director.

M/S Ross/Tully to approve the terms (described in the memo distributed to each board member) of President Tennant's leave of absence. **Passed unanimously.**

M/S Lock/Herron to accept Director Smalley's temporary leave from the board of directors, and to accept the terms (described in the memo distributed to each board member) of his engagement as interim executive director and CEO. **Passed unanimously.**

Chairman Craine noted that over the past five months Mr. Tennant had expended approximately 300-400 hours working (on behalf of the Friends) on this project to keep the railroad operating in 2006, and that each of Frank Turner and Director Tower had expended hundreds of hours of effort helping the commission, without compensation. He thanked them, as well as the others who have helped, including Elmer Salazar and Dick Cowles, for their service on behalf of the railroad. There have been a number of other individuals who have donated their time as well, including Chairman Craine himself; Director Clark, who put together a public relations package for the railroad and sent it to over 400 media outlets across the country; and Curt Bianchi, who updated the railroad's web site for the 2006 season, and fielded questions from web site visitors. Mr. Craine wanted the board to know what kind of effort has gone into the project to assist the commission, and that in spite of this the Friends had continued to make progress in a number of important areas, such as membership development, corporate governance, fundraising, and 2006 work session planning.

Mr. Tennant noted that in addition to funding the cost of him and the office staff in these efforts, the Friends have incurred approximately \$7,300 in out-of-pocket expenses related to this effort, and there will probably be an additional \$500 or so on top of that for expenses since March 1. Chairman Craine recommended that the Friends absorb these costs as part of our good faith effort to help the commission establish an operating plan for 2006, and the board agreed. There was also discussion that CTSMC would incur some short-term startup expenses. Treasurer Sterosky recommended making a line of credit available to CTSMC for this purpose, with details and paperwork to be worked out by the EC.

M/S Lock/Sterosky to extend a line of credit loan from the Friends general fund to CTSMC of up to \$10,000 for startup and operating costs on terms approved by the Executive Committee. **Passed unanimously.**

4. Finance Committee Report

Treasurer Sterosky reviewed the unaudited 2005 year-end financial reports. We budgeted an operating

deficit of \$10,600, but actually ended up with an excess of revenue over expenses of \$32,055. The bulk of this difference came from increased membership dues and grants. We have liquid assets of \$345,000, most of which is restricted.

M/S Smalley/Bianchi to accept the unaudited 2005 year-end financial reports. **Passed unanimously.**

Regarding the 2006 year-to-date financials, Treasurer Sterosky reported that we are in good shape so far. Actual income is approximately tracking the budgeted income. This year we are renewing members year-round instead of all at once at the end of the year, so we need to track the income carefully. Cash and operating performance remains strong through the end of February.

M/S Lock/Bianchi to accept the financial statements through February 2006. **Passed unanimously.**

5. Development Committee Report

Director Ross reviewed the status of the Another Century of Narrow Gauge Steam campaign. Cash received to date totals \$550,234.94. In addition, \$18,785.56 in expended funds was reimbursed by a Gates Foundation grant, and there has been \$6,158.67 in interest earned.

ACNGS cash expended to date:

10% transfer to permanent fund	\$55,023.49
Administrative expenses	\$10,873.95
EDA matching funds for locomotives	\$125,000.00
Capital purchases (locomotive 489)	\$15,679.91
Antonito CRF	\$79,653.72
Management fee to commission	\$125.25
Grants to the commission	\$69,874.74
Grants to RGRPC	\$50,000.00
Loan to RGRPC	\$20,000.00

In addition, the board has committed \$12,000 in campaign funds to complete the Antonito CRF, and up to \$10,000 for the purchase of historic rolling stock, as such opportunities arise. This leaves \$136,948.11 in available cash on hand.

Director Ross then discussed the need to establish plans to reinvigorate our fundraising efforts. The Development Committee proposes a new campaign with a goal to raise \$1.5 million over five years. Unlike the original ACNGS campaign, we intend to approach foundations and other sources of funds, in addition to our membership. The committee proposed five purposes for the funds generated by the campaign:

1. Preservation and restoration of historic structures.
2. Helping to rebuild the railroad's locomotive fleet.
3. Interpretation and education.
4. Preservation and interpretation of historic rolling stock.
5. Funding for railroad operations, where deemed appropriate.

Director Ross asked for board approval of this plan, with the details to be forthcoming at the June board meeting.

M/S Lock/Sterosky to approve the general concept of embarking on a five-year, \$1.5 million fundraising campaign. **Passed unanimously.**

Director Clark reviewed the progress of the Grant Writing Committee. The committee met in

Albuquerque in January. A grant application of \$25,000 was submitted to the Boettcher Foundation to help with phase two of the Antonito CRF construction. The committee anticipates submitting a grant request to the Gates Family Foundation in the amount of \$20,000 for restoration of RPO X54 and cook car 053. At the end of 2005, we received a \$20,000 grant from the Candelaria Fund, of which \$10,000 is earmarked for interpretation, and \$10,000 for the Antonito CRF.

6. **C&TS Dispatch**

New *Dispatch* editor David Lee gave the report. He worked with Editor Nichols on the production of the fall and spring *Dispatches*, and will take over fulltime editorship going forward, with Art Nichols assuming the title of Editor Emeritus. The spring issue of the *Dispatch* went to the printer last Friday, and Mr. Lee anticipates that it will be mailed next week.

There has been some discussion of advertisements in the *Dispatch*. It was felt that it would not be appropriate to have advertising in the *Dispatch* itself, but that we would like to have a vehicle to allow the Chama and Antonito merchants to advertise to our membership. To that end, we have included an insert in the last couple of *Dispatches*, consisting of a single double-sided page. The printing cost for the single page insert is \$600, and we have made this available to merchants at cost.

Mr. Lee also proposed creating a statement of purpose for the *Dispatch*, which he will develop and present to the board in June.

7. **Nominating and Governance Committee Report**

Director Smalley presented the committee's report. For a year or two we have talked of formalizing the charter and responsibilities of the board of directors and standing committees. Drafts of these documents were presented to the board in October 2005. The intent is that these would be board-approved policies, binding on the board, but without requiring changes to the bylaws. The Nominating and Governance Committee reviewed the Oct. 25, 2005 draft of the Executive Committee Charter, and recommended passage as-is. The committee also reviewed the Oct. 25, 2005 draft of the Board of Directors Charter of Governance Responsibilities document, and recommended passage as-is. The committee reviewed the Oct. 25, 2005 draft of the Nominating and Governance Committee Charter, and recommended some changes, which Director Smalley reviewed with the board.

M/S Tully/Pyzel to approve the Nominating and Governance Committee's report, and to amend the Nominating and Governance Committee Charter as proposed, and to provide the board of directors with the opportunity to review the final documents for approval at the June board meeting. **Passed unanimously.**

The board entered into executive session to review candidates for the 2006 Board of Directors election. The board returned to open session.

M/S Lock/Ross to delegate to the Executive Committee the approval of the final report of the Nominating Committee, and to approve the nomination of the eight returning directors (Craine, Ross, Bianchi, Fowler, Nichols, Smalley, Tully and Yockey) for election to the board for a two-year term. **Passed unanimously.**

Chairman Craine appointed a task force consisting of Bill Lock, Bob Ross and Jim Herron, to create a bylaw amendment to create the position of Advisory Director, and an Advisory Board of Directors.

8. **Railfan Committee**

Director Lock presented the committee's report. The railfan train is scheduled for August 21, in conjunction with the National Narrow Gauge Convention in Durango. The moonlight train is scheduled

for August 5, and Director Lock has talked with Marvin Casias regarding possibilities to handle more passengers on the moonlight train.

9. Restated Triad Agreement

Director Lock updated the board of directors on the status of the restated Triad Agreement. There has been no progress given the indeterminate status of the railroad operator. The agreement has already been approved by the Attorney Generals of both states, and was signed off by commissioners Carol Salisbury and Carl Turner. Chairman Craine asked Director Lock to pursue getting the agreement signed by the commission and the new management company. Director Lock will pursue this.

10. Interpretation Committee Report

Terri Shaw presented the committee's report. Thanks to funding from the Candelaria Fund, plans are moving forward for an interpretive kiosk to be placed in the parking lot at Cumbres. The committee hopes to have it mounted by the end of the summer. The committee continues to work on interpretation projects on two cars in the Chama yard. Ms. Shaw discussed the nomination of the C&TS for *national* historic status (The C&TS already is registered as a National Historic Site of *local* significance.) The nomination was presented by Director Tully to the state of Colorado, which favorably received it.

Other projects scheduled for the summer include putting up the first telephone polls as part of a long-range effort to re-establish a telegraph line from Chama to Cumbres, and interpretation of the pipe train in Chama.

11. Chama Interpretive/Visitor Center

Director Clark presented the report. The interpretive center has been on the backburner, given the activities related to the operation of the railroad. She intends to pick up the plans that were previously in progress, and hopes to have something to present to the board in June and October.

12. Projects Committee Report

Director Tully presented the committee's report. This summer the committee intends to inventory and survey the condition of the rolling stock and structures, in order to create a priority list and to direct long-range planning.

A special work session, designated session S, has been scheduled for the week before session A in order to do prep work for the installation of water and sewer services in the Antonito CRF, as well as track and concrete work. At the same time, a project will be undertaken in Chama to replace the wood in the cab of locomotive 487. Later work sessions will continue the work at the Antonito CRF, including the installation of overhead lights, storage, and a restroom and shower, as well as creating a level spot with concrete pads to perform work outside of the building.

In terms of volunteer needs for the 2006 work sessions, Director Tully estimates that we will need 15 volunteers for session S, 37 for A, 50 for B, 160 for C, 83 for D, 67 for E, and 66 for F. He also noted that we will need some heavy equipment for certain projects, and he would like to have this in place at the start of the sessions.

Director Tully tentatively proposed the following starting dates for the 2007 work sessions: May 14, May 21, June 18, June 25, August 6 and August 13.

Directors Lock and Tully have worked out the acquisition of a standard gauge refrigerator carbody from the estate of Carl Heflin, at a cost of \$1,500. Director Tully expects to use it for the storage of wood,

positioned near the Antonito CRF.

M/S Lock/Sterosky to approve the payment of \$1,500 to the estate of Carl Heflin for the purchase of a standard gauge refrigerator carbody, and to accept the Projects Committee report. **Passed unanimously.**

13. Old Business

Chairman Craine reviewed the proposed conflict of interest policy, including the changes suggested by Jim Herron, and asked for adoption by the board.

M/S Lock/Sterosky to adopt the Mar. 15, 2006 draft of the conflict of interest policy. **Passed unanimously.**

14. New Business

Secretary Bianchi presented his rolling stock book, copies of which he had previously made available to the Projects Committee members. The book is essentially a printed form of the rolling stock database that he created on the Friends web site. He described some options for printing it. One option would be print-on-demand, and he has found a printer that would print, bind and mail them for \$21 each, with no commitment to quantities, and would do so as orders were received. This was thought to be a very good price, given the book's size and that it would be printed in color. But the board also felt that we could sell enough copies of the book to justify a quantity commitment in return for a reduced per-book cost, and asked Secretary Bianchi to look into this.

15. Adjournment

At the conclusion of the meeting, Chairman Craine had some final comments regarding our decision to help the commission define an operating plan for 2006. He again thanked the board for its support during the past several months. Playing any type of role in the operation of the railroad--even only a planning role--was not something that we expected or sought, especially given that the commission's request for our help came on the heels of our completing the severing of our corporate ties with RGRPC. Nevertheless, with RGRPC's contract termination, with no continuity in the commission's executive director position and with no other viable options, the commission was in a bind. We responded with our help because we felt it was the best thing for the railroad. It has exposed us to criticism, and we will continue to be criticized. But there was a need to exercise leadership, and we were in a position to do that.

He described it as a courageous but difficult move, not without risk, but ultimately the right thing to do, and he noted that the Friends had received support and encouragement in this from a number of parties. Mr. Craine expressed appreciation to the CTSMC board and management team and noted that the Friends, with the help of others, had played an important role in keeping the railroad running in 2006, while also remaining focused on its core historic preservation mission.

The meeting adjourned at 2:44 p.m.

Respectfully submitted,

Curt Bianchi, Secretary