

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
Minutes of Board Meeting Held March 20, 2004
Friends Office, Albuquerque, New Mexico

Board members present: Jim Herron, Ed Lowrance, Bob Tully, Spencer Wilson, Geof Gordon, Bill Lock, Nan Clark, Bob Craine, Bob Ross, Frank Yockey, Phil McDonald, Warren Smalley, Dick Cowles, Jerry Sahnd, Curt Bianchi, Brian Shoup, Art Nichols.

Board members absent: Dennis Sterosky, Parker Fowler.

Guests:..Marshall Smith, Mary Jane Smith, Les Clark, Fred Springer, Dan Pyzel, Mona Tully, Gwen Lotz, Tom Cardin, Mary Cardin.

1. Call to Order

Chairman Herron called the meeting to order at 8:28 a.m. MST.

2. Welcome and Introductions

Chairman Herron asked the guests to introduce themselves.

3. Approval of Board Meeting Minutes

Chairman Herron asked for corrections to the November board meeting minutes, and the minutes of the four Executive Committee meetings that have occurred since the last board meeting. There were no corrections.

M/S Tully/Sahnd to approve the minutes. **Passed unanimously.**

4. Finance Committee Report

Assistant Treasurer Lock gave the committee report in Treasurer Sterosky's absence. Lock reviewed the balance sheets as of December 31, 2003 and February 29, 2004. The balance sheet of December 31 showed total assets of \$669,447.19, which included \$380,624.84 in cash assets. Liabilities included restricted funds of \$309,581, and approximately \$101,000 in prepaid dues. The balance sheet of February 29 showed total assets of \$692,573.19, including \$402,562.54 in cash. Liabilities included restricted funds of \$315,826.60. Net income stood at \$129,449.30, with a total equity balance is \$295,360.65.

Treasurer Sterosky joined the meeting by speaker phone.

The board reviewed the profit and loss statement as of December 31, 2003. Total income was \$223,395.16, with expenses of \$242,490.76, for a net operating loss of \$19,095.60.

The board reviewed the 2004 proposed budget. It budgets \$267,500 in total income, taking an optimistic view of dues, merchandise sales, and anticipates a commission reimbursement of \$20,000--the same as last year. There is no budgeted income from charter trains. In terms of expense, the budget very closely tracks last year's expenses. The budget for salaries has been increased by \$18,118 over last year's budget, and includes incentive bonuses that may or may not be paid. Total budgeted expenses are \$265,480, for a slight budgeted operating profit.

Treasurer Sterosky reiterated that our operating margin is very slim, and that there is risk in the budget in terms of unexpected expenses or unexpected income shortfalls. Director Craine recommended that

the profit and loss statements be reviewed at least on a monthly basis, perhaps by the Executive Committee.

Director Tully pointed out that several major expenses will be incurred during the work sessions, that didn't occur last year. In addition, the Interpretation Committee expects to publish a Cumbres walking tour brochure, and this may have to be deferred.

Director Lock reviewed the 2004 cash flow projection, which is at most risk in September, when we will depend on the commission's work session materials reimbursement in order to avoid running out of cash. The projection also shows that we will again eat into next year's membership income received before the end of the year, because we do not anticipate making up the deficit that we started with this year. Sterosky again warned that we will never get out of this deficit unless we raise additional operating funds, and this will take all of our efforts.

Sterosky left the meeting.

M/S Sahnd/Bianchi to receive the report. **Passed unanimously.**

M/S Craine/Ross to authorize the Finance and Executive Committees to monitor expenses and income on a monthly or weekly basis to ensure that the organization does not run an operating deficit, and to take action as necessary. **Passed unanimously.**

5. Membership Committee Report

Committee Chair Clark presented the report. There are currently 1,601 members, versus 1,862 at this time in 2003. They have contributed \$166,466.13 in dues (\$103.97 per member), versus \$160,219 last year. This does not include pledged dues payable throughout the year, which totals \$7,375. 68% of members gave \$50 or more, versus 61% last year. Clark attributed the increase in dues per member to the shareholder concept, which was introduced with this year's membership drive. There are 64 members from outside the country, and 68 gift memberships.

Clark spoke of the 1,500 or so members who do not participate in our work sessions directly, and said that it was important that we nurture their memberships. One possibility is to provide small gifts in response to member donations.

Clark thanked Marshall Smith and Mary Jane Smith for their efforts on behalf of the committee.

Fred Springer suggested that membership renewals include a reminder of the gift memberships the member gave in the previous year.

6. Development Committee Report

Chairman Craine presented the committee report. In round, unaudited numbers, the cash contributions received since the inception of the campaign totals \$400,000. Total pledges stand at \$615,000, with \$215,000 remaining to be paid over 2004, 2005 and 2006. Total cash available stands at \$205,000. The permanent/endowment fund balance stands at \$40,000. Administrative expenses to date total \$9,000. Expenditures to date total \$142,000. An additional fund asset is a \$20,000 receivable from RGRPC.

The campaign has the funds for second half of the first EDA locomotive grant match, and to make the match of the second EDA grant in full, when called upon to do so.

Craine reviewed the original campaign goals and progress to date. Of note, the completion of the three locomotives this year, funded in part by the Friends' match to the EDA grant, is a significant

accomplishment. Now it is time for new campaign goals. The focus of the capital campaign should be on specific projects to be funded.

M Craine that we dedicate 10% of all capital contributions to go into a permanent/endowment fund.

There was some concern as to the scope of this motion. For instance, would it include an individual wanted to give a fixed amount in order to purchase a specific item or fund a specific project? After discussion, Director Craine withdrew the motion in favor of continued discussion within the development committee. **Motion withdrawn.**

Director Craine also intends to produce an investment policy statement on how the income of the permanent fund will be managed and used.

7. Publications Committee Report

Chairman Nichols gave the report. The committee met recently at the Friends office in Albuquerque. One topic covered was whether to reprint the Zuni Mountain Logging book, which was discussed at the November board meeting. Given the Friends budget situation, the committee advises not to reprint this book. There was also discussion about printing other books, and the committee recommends that this be deferred to a later date, pending the budget situation.

Regarding the *Dispatch*, Nichols presented a publication schedule and themes for the rest of the year.

8. Docent Committee Report

Committee Chairman Yockey presented the report. A goal for the coming season is to have a docent on every train--something that was accomplished last season when there were fewer trains. The committee also intends to have a docent in the Chama yard every day, and to periodically station a docent at Cumbres.

Director Yockey discussed the need to make modifications to the trip map, which needs to be reprinted due to low quantities on hand. The map contains the old membership categories, and no-longer-in-effect discount on train rides policy.

Director Yockey reported that Terri Shaw and her team have been working on several interpretive projects, including a Cumbres walking tour brochure. In addition, Director Yockey hopes to assemble a static freight train in the Chama yard for interpretive purposes.

Finally, Director Yockey also presented an idea for a series of before and after photographs, as proposed by member Mike Morris.

9. Railfan Committee Report

Committee Chairman Lock presented the report. In planning the two special trains for 2004, the commission has priced the charter trips at \$10,000, which substantially exceeds the annual revenues from previous trips. With no possibility for profit, the committee recommended that there be no railfan trips this year. The board discussed possible ways in which a charter might be feasible.

President Shoup reported on John West's offer to charter a freight train recreation on behalf of the Friends.

10. CRF Task Force Report

Director Sahnd presented the report. The task force proposed to construct a permanent car repair

facility in Antonito on the vacant lots owned by the Friends adjacent to the railroad property. They recommended an enclosed steel building as the most cost-effective approach, suggesting a size of 60 feet wide by 120 feet long, with a 24x60-foot shop extension. The height of the walls would be 16 feet, with 14-foot high doors in order to get the tallest rolling stock into the building. There would be two tracks entering the structure.

The committee received an estimate of \$54,728 from Miracle Truss of Minneapolis, MN for the materials, including the doors, and the delivery of those materials, for the structure. The estimate does not include insulation, or other installation costs such as utilities, foundation, track, etc. Director Sahnd estimated the total cost to be approximately \$150,000.

The board discussed various options for constructing the structure in phases, and the overall use that such a facility in Antonito would receive, especially beyond the work sessions. It was noted that such a facility would be very beneficial beyond the work sessions themselves, because it could house disassembled rolling stock in a secure location.

Director Clark raised concern about funding such a structure at this time, given the Friends' tight fiscal situation. The board discussed funding the facility via a capital campaign. Director Craine emphasized that when we raise funds for such a structure, that it be done in the broader context of a long-range plan.

Director Lock talked of a broader vision for Antonito, which included possibly purchasing other property surrounding the railroad. Directors Lowrance and Cowles reiterated the strategic value of having a physical, institutional presence at the railroad. Director Nichols reinforced the vision for Antonito that Director Lock expressed as much as 16 years ago, and that we now have the wherewithal to pursue that vision.

After discussion, Chairman Herron asked the board to defer any action on the matter until the business plan discussion later in the meeting.

11. Projects Committee Report

Chairman Tully presented the report. The 2004 work sessions have been planned to accommodate 30, 80, 150, 110, 110, 60 volunteers at work sessions A-F, respectively. There are also contingency projects in case more volunteers sign up for certain work sessions.

Director Tully briefly reviewed the largest expenses anticipated for this year, as well as new developments regarding projects. He also expressed concern that we still do not have a plan for our participation in the master plan.

Regarding the Florence & Cripple Creek car, Director Tully asked the board to authorize Bob Ross to sell it or give it away as best he sees fit. There are some potential candidates, and Director Tully feels that a deal could be consummated if authorized by the board.

M/S Lock/Wilson to give authority to Bob Ross and Bob Tully, in consultation with each other, to de-accession the F&CC coach, at any possible price, including zero, to any possible donee, and that the declared value be established at zero dollars. **Pass unanimously.**

At the November board meeting, the Projects Committee raised the possibility of a junior volunteer program for youngsters ages 10-12. Directors Lock and Smalley have advised that there are no legal or insurance obstacles to such a program. Director Tully described the types of projects that junior volunteers would be allowed to undertake, and the guidelines used to manage the program.

M/S Tully/Lock that the Friends approve a junior volunteer program for youngsters age 10-12, with

restrictions on their participation, and under parental care in conjunction with team leaders. Further, a task force consisting of directors Smalley, Lock, Clark, Tully produce a set of guidelines to be put in place prior to this year's work sessions. **Passed unanimously.**

12. RGRPC Report

President Shoup presented the RGRPC report. RGRPC expects three locomotives--484, 487 and 488--to be outshopped by the start of the season. There is an outside chance that 488 won't be ready on opening day, but it should be soon after. The ridership level is projected at 33,000 passengers. A very positive development has been the creation of a joint business plan between RGRPC and the commission. It describes the key goals in terms of operation and infrastructure needs over the next five years. One of the important parts of this plan involves trackwork, which consists of three phases. The first phase addresses sub-roadbed issues; the next two phases concentrate on ballast.

Director Smalley reported that the \$308,000 line of credit at First Community Bank has been paid off. There remains \$227,000 in non-recourse loans, which are being paid interest. The two notes outstanding to the Friends in the amount of \$95,000 are being paid interest. A lot of the loans have been paid down by selling assets back to the commission, but the commission will not have the capital funds this year to continue buying assets. Smalley commended John Craft for working with the railroad staff to improve the reservation system. Reservations have already exceeded ten percent of projected ridership for the season. Passenger car rehabilitation is almost completed.

Director Craine asked that the Executive Committee be given a copy of the joint business plan.

13. Government Liason Report

Director Cowles provided the report. The Friends memorial passed the New Mexico house, for which Chairman Herron thanked Cowles. Ten or so representatives gave testimonials about the Friends and the members that they had met. Soon thereafter the idea of designating the railroad as a National Scenic Railway was proposed, and a joint resolution passed both New Mexico houses unanimously. It is making its way through the Colorado legislature. There will be a coordinated effort to go to the Congressional delegations of the two states. Director Ross asked that the board be made aware of any conditions that might be imposed on the railroad as a result of designating the railroad a National Scenic Railway.

Director Cowles talked about the appropriations process. New Mexico has authorized 2004 allocations of \$250,000 for capital expenditures, and \$800,000 for operating funds. Colorado funding has not been finalized, but currently only \$10,000 in operating funding is proposed. Cowles expressed concern that Colorado's budget constraints will continue into the foreseeable future, and that New Mexico's situation may well tighten up in the next year or so.

The board entered into executive session.

M/S Smalley/Cowles to convene a task force consisting of Bill Lock, Bob Craine, Dennis Sterosky, and Brian Shoup to conduct a study regarding the possible decoupling of RGRPC from the Friends. **Passed unanimously.**

The board re-entered general session.

14. Conflict of Interest/Code of Ethics Policy

Director Yockey presented the results of his investigation regarding a conflict of interest/code of ethics policy for the Friends. In January 2004, Chairman Herron asked Yockey to make a proposal regarding a conflict of interest policy for the Friends board. Upon reflection, Yockey felt that a conflict of interest

policy was really only a subset of a broader ethics policy. In putting together such a policy, he proposed that a committee be formed with representation from the Executive Committee and RGRPC. Such a policy should encompass not only our directors and employees, but our volunteers as well. In the meantime, RGRPC has presented its own draft of a code of ethics policy for consideration by the Friends board.

M/S Yockey/Bianchi to form a task force to propose a conflict of interest/code of ethics policy, consisting of Curt Bianchi, Bob Craine, Frank Yockey, Bob Witter, Fred Springer, to report to the board at the June board meeting. **Passed unanimously.**

15. Appointment of RGRPC Directors

M/S Craine/Yockey to re-elect the existing directors of the RGRPC board to a term of one year. **Passed unanimously.**

16. Nomination of Directors for 2004-2006

Director Lock gave the committee report. All nine directors whose terms end in 2004 are willing to stand for re-election, and the committee recommends that all directors be nominated. The committee also considered whether to increase the size of the board by adding one or more nominees, but recommended that no additional nominees be added.

M/S Lock/Sahnd that the size of the board remain 18 members, and that all nine directors whose terms end in 2004 be nominated for re-election. **Passed unanimously.**

17. 2004 Business Plan

President Shoup presented his business plan. A very brief outline is described below.

The business plan called for the following major goals for 2004-2006:

- a. Construction and development of Friends restoration and interpretation facilities in Antonito and Chama.
- b. Initiation of large restoration projects requiring dedicated funding and/or facilities.
- c. Continue to develop a business culture and corporate-model organizational structure.
- d. Strengthen the public-private partnership with the commission and other entities.

Specific goals for 2004 were identified as:

1. Improve overall financial performance.
 - a. Capital development. Achieve total ACNGS contributions of \$200,000, and pledges in 2004 of \$150,000.
 - b. Membership income. Achieve a total membership of 2,100 members, and \$180,000 in annual membership dues.
 - c. Endowment/Permanent Fund Development. Achieve a fund balance of \$60,000 by the end of 2004.
 - d. Re-invigorate publication sales. Achieve \$15,000 in publications gross income against a \$5,000 cost of goods sold.
2. Provide aggressive communications and public relations efforts, including changing the corporate name to one that is more consistent with the organization's expanded mission.
3. Develop a business culture within volunteer operations, including reorganizing the traditional committee structure into corporate divisions.

4. Improve administrative effectiveness within the organization, including tightening administrative controls on financial, personnel, and reporting functions.

The board entered into discussion, particularly with respect to a possible name change to Cumbres & Toltec Scenic Railroad Foundation or something similar.

M/S Lock/Sahnd to approve the business plan, with the change that sections 2 and 3 of the 2004 goals become study items. **Passed unanimously.**

M/S Lock/Tully to form a project development team to bring into final planning a CRF facility in Antonito, to be constructed in phases, and to present the plan to the Executive Committee at its May meeting. **Passed unanimously.**

Chairman Herron convened a new task force to present a proposal regarding a Chama facility to the board at its June meeting. The task force consists of Jerry Sahnd (chair), Bill Lock (vice chair), Ed Lowrance, Terri Shaw, and Warren Ringer.

Chairman Herron appointed Bob Ross to the task force to the standing Antonito CRF task force.

18. Executive Incentive Plan/Related Matters

The board entered into executive session.

M/S Lock/Sahnd to form a task force to redefine the job description for the President/CEO position. Members of the task force to be Bob Craine (chair), Dick Cowles, Geof Gordon, and Nan Clark. **Passed unanimously.**

M/S Lock/Lowrance to adopt the incentive compensation plan excepting clauses 4.b and 4.c. **Passed unanimously.**

M/S Cowles/Lowrance that the Executive Committee review the incentive package from time to time and amend as necessary. **Passed unanimously.**

The board returned to open session.

19. Other Business

There was no new business.

20. Adjournment

The meeting adjourned at 6:29 p.m.

Respectfully submitted,

Curt Bianchi, Secretary