

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MEETING MINUTES FOR FEBRUARY 4, 2010**

A meeting of the C&TSRR Commission was held on Wednesday,
at the Hotel Santa Fe, 1501 Paseo de Peralta in Santa Fe, New Mexico, at 1:00 p.m.

Meeting was called to order at 1:10 by Chairman Lenny Martinez.

Those present were:

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| J. Leonard Martinez, Chairman | Elmer Salazar |
| Lon Carpenter, Vice-Chairman | Tim Tennant |
| Randy Randall, Secretary | Amos Cordova |
| Pete Foster, Treasurer | Marvin Casias, Interim General Manager |
| Leo Schmitz, Executive Director | Alan Loomis |
| Stephen Flowers | Chris Czmyrid |
| Dick Cowles | Jerry Hanks |
| Teresa Smith | Dr. T.C. Grove |
| Paul Uhland | Jean Leonard |
| Laura Grant | Zack Blea |
| Nick Quintana | Joe Crawford |
| Ronnica Lopez | Jim Poston |
| Craig McMullen | Vernon J. Glover |
| Steven Forney | Matthew W. Abby |
| J. W. Wimer | David Lee |
| Polly Summar | Michelle Martin |
| Jim Ward | Ashley Makolm |
| Cas Heuer | Eric Jacobson |
| Maria T. Schmitz | |

Commissioner Carpenter moved to approve the agenda, and motion carried with a second from Commissioner Foster.

Commissioner Randall then moved to accept the Commission's Minutes for November 18, 2009, as presented. Minutes were approved with a second from Commissioner Foster.

Chairman Martinez said he is pleased to rotate into the roll of Chairman. He commended the previous Chairman, Commissioner Pete Foster, for his fine year of service. He also introduced Elmer Salazar, as C&TSMC's President, and applauded the work Frank Turner did, as President,

for many years. He further added the Commission and C&TSMC need to work for the Cumbres & Toltec Railroad to keep it as a functioning, stable enterprise.

Chairman Martinez said he had four goals he wanted the Railroad to meet for 2010:

- 1.) Safety;
- 2.) Stability of the Operation;
- 3.) Economic Environment for the two terminals; This will be a tough goal to achieve, but its success depends on increasing the number of patrons coming to ride the C&TSRR; and
- 4.) To meet this exciting year of celebration with vim and vigor. This year is the C&TS RR's 40th Anniversary and New Mexico is planning for its' 100th Anniversary of Statehood.

He ended by saying together we need to meet these goals for the economic success of the Railroad and the two terminals, Chama, New Mexico and Antonito, Colorado.

Leo Schmitz, Executive Director, reported a grant application for \$300,000 had been submitted to EDA. The Commission has matching funds of \$200,000. EDA has yet to inform the Commission if they have received these monies. Chairman Martinez said he would like Leo to add the Railroad's economic impact and benefit to Chama, New Mexico and Antonito, Colorado. Leo said he would talk to John Zender.

Leo then presented the Commission with the completed copy of the 2009 Audit, prepared by Martinez & Associates. Commissioner Randall asked if there was any action to be taken with regard to the exceptions. Leo said the Commission would have to move to accept the audit at the next meeting.

Elmer Salazar, President of the C&TS RR Management Team then gave his report. Elmer began his report with an apology to the Commission for not keeping them informed of the current issues and problems facing the C&TSMC. He further elaborated he was totally responsible for not keeping the doors of communication open with the Cumbres & Toltec Scenic Railroad Commission. Also, some of the problems with the management of the C&TSMC, exist because of the lack of communication between the Board of Directors, General Manager and employees. C&TSMC Board members were interjecting themselves into the railroad operations without first directing issues be resolved through proper supervisory channels.

Elmer informed the Commission the C&TSMC's Board of Directors had accepted Soni Honegger's resignation. At the present time, Marvin Casias will be Interim General Manager. He said they were planning on advertising internally then if a General Manager cannot be found, they will seek applications from the outside. Commissioner Randall had made the recommendation at a prior meeting with Elmer Salazar to do both parallel to save time since Opening Day is not too far away. Elmer agreed with the recommendation, and he said advertising for a General Manager will be done as suggested, parallel.

Commissioner Randall said the greatest problem was not keeping the Commission informed. He feels this was a definite breach of trust the C&TSMC had with the Commission.

Commissioner Carpenter said it was imperative for the C&TSMC to bring the managing and financial problems to the surface. Commissioner Foster agreed and said the internal organization of the C&TSMC needs mending. Chairman Martinez said the finances have to be reviewed and stabilized. He further added controls need to be set and spending prioritized to meet the needs of the Railroad. C&TSMC needs to stabilize their infrastructure and accounting procedures to ensure the C&TS RR will continue being a stable enterprise for the employees, communities and the patrons.

Elmer also informed the Commission of Richard Tower's resignation from the Board of Directors. He said he will be missed, and Tim will be wearing another cap to help with the finances. He said the current Board of Directors is thinking of adding on to their Board. Currently, they are looking at two individuals: Bob Crane from Oklahoma and Bill Hume, the former editor from the Albuquerque Journal. No decisions have been made, and he will keep the Commission informed.

Commissioner Randall said Richard Tower was an asset. He kept control of the finances and worked with Leo to keep the Commission informed of expenditures and controlled the budget. Commissioner Carpenter agreed it was important to keep a strong control of the finances. He further added the management team needs to keep within the budget and not over-spend.

Elmer added, in his closing remarks, he and Tim Tennant, are committed to rebuilding the trusting relationship the C&TSMC once had with the C&TS RR Commission. They are willing to work hard to keep the Commission informed and involved with the happenings of the management team and the Railroad. Also, they were there to work with the managers and employees for the betterment of the Railroad. The C&TSMC will meet the required dates for giving the Commission all the necessary financial records and reports. Also, they will work extra hard to control the spending and keep within the budget. Elmer stated the current contract runs till December 31, 2010.

Commissioner Randall reminded Elmer and the C&TSMC the Operating Budget, for Fiscal Year July 1st 2010 through June 30th, 2011 was due to the Commissioners by the 28th of February. He added this was part of the contract agreement between the Commission and the Management Team.

Chairman Martinez stressed the importance of controlling their spending. Elmer said he and Tim were to meet with Leo, this coming Monday, to review the budget, outstanding invoices, expenditures and other financial concerns. They have already met with the managers and feel a continuous manager tutorial program will help keep the lines of communication open and the Board of Directors away from micro-managing. He said whatever it takes to get the Commission's trust back for the C&TSMC; he was willing to do to keep the Railroad in operation for the communities, employees and patrons.

Tim Tenant addressed the Review of Train Operating Budget. He said there were more employees this off-season compared to last year. Last year there were only 22 employees, and this year there are 28 employees. He, Elmer and Marvin are going to study this situation and then take the necessary action to try to correct it and cut back the over-spending.

He too agreed the lines of communication, with the Commission, most definitely need to be kept open. They will meet with Leo on the 8th of February to discuss the budgets and try to find reasons for the over-spending. Once this is done, the Commission will receive a report of their findings.

Commissioner Randall asked Leo if they were going to review the capital and operating budgets and to reassess expenditures as needed. Leo said yes this would be addressed at the February 8th work session he will have with Tim, Elmer and Marvin. Commissioner Randall said there are four months until opening day, and we need to make sure we have the monies to address the work to be done on the locomotives and other preparations needed to have the trains ready for Opening Day. Tim said this would be discussed on Monday. Commissioner Carpenter added to be sure keep the Commissioners informed.

At this time, Commissioner Randall brought to the attention of the Chair the two New Mexico lobbyists were present to give their report and could they be moved up on the Agenda, since they had to return to the legislative floor.

Chairman Martinez asked for a motion. Commissioner Randall moved to have item #11 of the Agenda, Report of Legislative Activity, be moved up before Marvin Casias would give his report. Commissioner Foster seconded the motion. Chairman Martinez asked Marvin if this would be alright with him. Marvin said he had no problem with it. The Commission voted and approved the motion unanimously.

Tom Rutherford and his son Jeremy said it was going to be tight getting any monies from the New Mexico Legislative since there were no dollars to be found. New Mexico is trying to decrease their spending and keep their budget dollars tighter. Commissioner Randall said Tom, Jeremy, Leo and himself had met with the LFC to present the Commission's request; however, he feels it was going to be hard to get any dollars for capital improvement projects.

Chairman Martinez thanked Tom and Jeremy and then asked for the report from the Colorado Legislature. Commissioner Foster said their lobbyist, Gayle Berry, Senator Schwartz, Leo and himself had met with the Capital Development Committee to obtain the \$1 million dollar stimulus monies. He also applauded the efforts of Representative McFadden, Representative Vigil, Todd Saliman and Senator Bacon for their continuous support of the Railroad.

Chairman Martinez thanked Commissioner Foster then asked Marvin Casias, Interim General Manager if he was ready to present his report. Marvin gave the Commission a review of the work being done on the different locomotives in preparation for the 2010 Season. He informed them Engine 484 #1 driver was being worked on as well as casting new driving boxes. Engine

487 was in the shop stripped down and being hydro tested. It too will have new casted driving boxes installed. He informed the Commission this work will be completed by the 15th of April.

Marvin also reported the passenger cars were being readied for the new Season. In the Chama Shop, some of the passenger cars were being made ready by replacing the brake levers. As of today, six passenger cars are ready with four more needing to convert their brake system. He also said in the Antonito Car Shop the Hopper Cars are being redone. The destroyed Hopper Car rolled out on Wednesday, and it still needs to be tested. The five Hoppers will be ready for the Season.

He also reported the Chama water cistern has been fixed on schedule. Marvin said he is working with John Matthews to review and account for invoices and purchases. Commissioner Randall asked Marvin how many locomotives would be available for the Season. Marvin said all four of the engines would be ready to go on Opening Day. As Interim General Manager, he wants to be accountable; know what is being spent and for what; have a strong line of communication with the work force and keep an eye on the budget to prevent overspending and misuse of the monies. His main concern is to keep the C&TS Railroad operable since it is the livelihood for many and for Antonito and Chama.

Gayle Martinez was at a Trade show so Chris Czmyrid presented the Marketing Report. Chris reported the website was updated and the reservation system was operable. He then informed the Commission KREZ, a radio station located in Colorado Springs, Colorado, has given them the contract to have the Railroad's ad placed six days a week for the entire season. The ads will be aired during the traffic and weather on the station five days and on the sixth day they will be aired during the report of what is there to do in Colorado. This will all be done for only \$3,000 for the 2010 Season. Chairman Martinez applauded this new venture saying this concept was meeting with his goals set for 2010.

Commissioner Randall asked Chris what marketing plan had they established for the Railroad's 40th Anniversary in collaboration with New Mexico's 100 Year Anniversary of Statehood. He also would be interested in knowing the cost effectiveness of Trade Shows drawing in patrons. Chris said they would have a Marketing Plan developed by the next meeting, and he would get those numbers of the cost effectiveness of Trade Shows tabulated for the next meeting.

Chairman Martinez thanked the C&TSMC for their reports then asked Leo to report on the Review of Capital Projects, Commission Budgets and Cash Flow. He said the monies to redo the Hopper Car were being taken from the Track Project. There is still \$236,000 left in the Track Project Budget. Leo reported ties had been purchased for the continuation of this year's Track Project.

He informed the Commission the monies, New Mexico and Colorado requested to be returned, has been cleared and taken out of the budget. There will also be enough cash flow until the ticket sales will start coming in by the end of May and June. As of today, there are enough monies to cover the Capital Projects, the Commission's Budget and Cash Flow.

Commissioner Randall asked why the budget or monies wasn't being reported on the 463 Capital Project. Leo said the Friends had acquired the funding and were renovating the 463. Chairman Randall said the 463 still belonged to the two states, and it was the responsibility of the Commission to know what is happening. Tim said he would provide Leo with the information and keep the Commission informed of the monies being spent and update on the progress of the renovation.

Commissioner Foster then asked the status of the Section House Water System. Leo said once the weather clears, it will be put out for bids. This is important since the bidders will be able to review the site to bid the project. Commissioner Foster felt it would be more feasible to have the system on the hill above Osier. Chairman Martinez directed Leo to talk to the property owner, and he should report back to the Commission at the next meeting.

Chairman Martinez then asked for the Friends report to be given. Tim Tennant invited the Commission to the Friends Banquet, which will be held on March 12th in Santa Fe. He also reported the Northern Pueblo Regional Planning Meeting, which will rank the Visitor's Center, was postponed until March. He will keep the Commission informed of what transpires.

He also presented the Commission with a copy of the CTSMC Audit report for 2008. Tim also informed the Commission of the different grants the Friends were applying for. Commissioner Randall said the Candelaria Grant was not certain that Candelaria would fund the Commission portion of the grant writer position, based on the success of the effort. They were not satisfied with the result of not acquiring grants for the C&TSRR.

Tim said the Friends purpose was the historic preservation of the Railroad. The Friends are not interested in running the C&TS RR, just preserve the history and artifacts of the Railroad for patrons and future generations. They were also responsible for keeping the history of the Railroad alive.

Leo Schmitz then presented the next item on the Agenda, Report of Grant Writing Committee. He informed the Commission John Zender asked them to re-write the EDA Grant for submission. It was submitted for \$300,000, for the Track Project, with the Commission adding another \$200,000 from New Mexico's monies committed for the project.

Commissioner Randall said it was time the Commission study other needs the Railroad has, to seek grants for other capital projects. After this Season the Track Project will be most of the way toward being stabilized and then it will be a maintenance issue. Chairman Martinez agreed, and he feels other project must be earmarked to keep the Railroad stable and functioning. He added it is imperative we keep the lines of communication open and realize there are other capital projects in need of funding.

Chairman Martinez said Item #11; Report of Legislative Activity had already been discussed earlier, and then opened the floor for Public Input. However, he did ask the audience to be courteous and address only issues concerning the Railroad and not make it a personal matter.

Cas Heuer, member of the Chama Valley Rotary, approached the Commission and asked if they were knowledgeable of the request made by Northern Rio Grande Historic Railroad located in Santa Fe to have a locomotive for use in a display promoting the historical Chile Line. Commissioner Randall said if approached he would be supportive.

Jay Wimer, publisher of the Colorado Time Table, said he wanted it to be known he published the information as it was told to him, and what he saw to be the truth. A few other audience members starting voicing their opinions; however, Chairman Martinez took control of the meeting, and reiterated what he had previously said. He re-emphasized the Commission would only acknowledge those who had something to say concerning the Railroad, pertaining to the Commission's Agenda; not personal issues or hearsay.

After other audience members expressed their concerns under Public Input, Chairman Martinez moved to the next item on the Agenda, Unfinished Business. The first item discussed was the Update on Los Pinos Siding Access. Since Robert Garcia was not going to give the Commission a written easement, Leo was now approaching Roger Eschman. Mr. Eschman wanted to sell his lot for \$25,000, providing the Commission with the right to the Los Pinos site,

After further discussion between the Commissioners, Chairman Martinez directed Leo to continue working on finding a way into the Los Pinos site.

The first item addressed under New Business was C&TSMC Performance Expectations. Chairman Martinez began the discussion by stating the Cumbres & Toltec Scenic Railroad has had four years of history with the C&TSMC. However, now the level of confidence in the C&TSMC has been reduced and the trust is not there. He does appreciate the work they have done for the Railroad, but he wants to stress the C&TSMC does not exist for profit. Their main goal is to operate the Railroad for the benefit of those who come to ride and to continue the preservation of this historic landmark which belongs to the state of New Mexico and Colorado.

He then gave the floor for the other Commissioners to speak concerning the Performance Expectations of the C&TSMC. Commissioner Randal then spoke and said he appreciated the apology given by Elmer Salazar; however, he felt it was too late for the apology. Within the last two months C&TSMC has been too busy addressing their own agendas and ignoring the true intent of their being. They have not kept the lines of communication open with the Commission. He was disappointed how the situation with the General Manager was mishandled and not informing the Commission of the problem between the C&TSMC and their General Manager.

Commissioner Randall continued many of the problems could have been avoided if the C&TSMC'S Board of Directors would have listened to the General Manager, other Board Members and involved the Commission in their discussion of how to address and resolve these

issues. He is not sure if the C&TSMC is the best Management Team for the Cumbres & Toltec Scenic Railroad. He feels they have tried to take away the Commission's authority and responsibility by trying to micromanage the General Manager and his other managers under him.

He also added it is not the Board of Directors responsibility to have the employees voice their problems and concern to them, for the Board to override the General Manager or his managers' position. He feels the present contract needs to address these issues of authority, since it is the Commission's responsibility to be the overseers of the Railroad. It is time to correct these errors in the contract, especially since he feels there is not trust for the C&TSMC.

Commissioner Randall was appreciative of the efforts and time Soni, Richard Tower and Tim Tennant have given to the Railroad. The Board as a whole has worked well with the Commission for the past three years and some months. However, the last two months has been a struggle within the C&TSMC's Board of Directors, General Manager and employees. He added he was ready to make a motion to end the contract with C&TSMC; however, Chairman Martinez is trying to work hard to find a solution to the problems. He will work with Chairman Martinez to resolve this conflict.

Also, he was pleased to hear what Tim said and the apology Elmer gave. Therefore, he feels he will work with Chairman Martinez these next thirty days to develop an amendment to the current contract; resolving the issues of trust and deterring the problems arising from the current contract for the future. He wants to know how the monies are being spent; is C&TSMC within budget; and how bad are the finance and accounting records for the operation of the Railroad. He wants to assure the Commission has the authority to keep the Railroad in operation since this is delegated by the two states.

Commissioner Carpenter then spoke on the issue. He felt the Railroad is the foundation of the stakeholders, the communities, the employees, the Friends and the C&TSMC; however, at the present time the management team has not been forthcoming, informative or trusting to communicate with the Commission the problems they have had and are having. He added the last three to four years have made great gains for the Railroad, and this needs to continue happening for all involved. Commissioner Carpenter feels it is time to resolve the issues and for all entities and stakeholders to continue working together for the betterment of the Railroad. The C&TSMC need to keep the lines of communication open and the trust needs to be there.

Commissioner Foster said he was ready to second Commissioner Randall's motion to end the contract with C&TSMC. However, he has had phone calls from Elmer and Frank Turner to try to resolve these issues. He applauds Elmer for his apology, and he wants it to be noted he does have trust in Tim and Marvin. He ended if the C&TSMC can resolve the problems, keep the lines of communication open; bring forth a cost expenditure analysis; and seal the cracks of their management team; they will have his support to continue running the Railroad. However, this needs to be done in thirty days.

Chairman Martinez says the problem needs to be discussed and to find a reasonable solution. C&TSMC needs to put aside the blame and work on the cure. This Railroad is an enterprise which should be concerned with the operation of the Railroad, keeping the lines of communication open; acquiring trust of all entities involved; and to stabilize the Cumbres & Toltec Scenic Railroad assuring all it will be a functioning museum for the future. He further added the C&TSMC needs to develop a plan, including management, finances, accounting procedures and operation of the Railroad, which will encourage the Commission to continue trusting them as well as the Friends, communities and its employees. He feels thirty days of addressing the problems and finding a cure is a necessity.

Chairman Martinez said he and Commissioner Randall would work on a draft of an addendum to the current contract with the C&TSMC which will address the issues of authority, and then the Commission would give this information to the C&TSMC for their review.

Commissioner Randall then moved to have Chairman Martinez and himself draft the addendum, on behalf of the C&TS RR Commission, keeping Commissioners Carpenter and Foster informed of the continuous process, within the next seven days. Then they would submit it to the Commission for their final review within three days. Then send it to the C&TSMC for their review and input for five days. Approval would be at a special meeting within thirty days. Commissioner Foster seconded the motion.

Chairman Martinez then opened the floor for discussion of the motion. The motion was approved unanimously.

Elmer Salazar wanted the record to reflect his concern the addendum has to be a bi-lateral agreement, and there is a possibility the C&TSMC may not accept the addendum. Chairman Martinez said he understood this possibility; however, he hopes for the stability of the Railroad and to keep this enterprise operable for all stakeholders, he hopes there may be an agreement reached. Elmer said a solution was fair; however, do not let it be a punishment for errors and mistakes made the last two months. Commissioner Randall said it was a change to a document which needed fixing not a punishment. Chairman Martinez ended the discussion by strongly emphasizing all entities must work together for the continuous operation of the Cumbres & Toltec Scenic Railroad.

Commissioner Randall then addressed the next item on the Agenda, New Mexico Centennial and C&TSRR Promotion. He said the New Mexico Tourism Department wanted the Railroad to participate in the State's Centennial celebration Promotional Program. They will have three areas of prize: the past, present and future. The Cumbres & Toltec Scenic Railroad would address the past history of New Mexico. He would like the Commission to support this idea by providing a private train for a day.

Chairman Martinez asked when this would take place. Commissioner Randall said probably in September. He said the plans had not been finalized, and the Committee was still working on the final promotional details. Chairman Martinez asked if this would be a part of the train's

marketing budget for the next fiscal year. Commissioner Randall said most definitely. Chairman Martinez said to work with the New Mexico Tourism Department, and keep the Commission informed of what transpire.

Approval of Narrow Gauge Caterer's Retail Inventory Loan, the next item on the Agenda, was also addressed by Commissioner Randall. He said Stephen Flowers, owner of Narrow Gauge Caterers, Osier's catering service, has once again asked the Commission to loan him monies to help finance stocking the gift shop inventory. He paid off the loan the Commission gave him for the 2009 Season. Today he is asking for \$30,000, preparing him for the 2010 Season, and this will assure the patrons the Osier Gift Shop will be well-stocked.

After deliberating the proposal, Commissioner Randall moved for the C&TS RR Commission loan \$30,000 to Stephen Flowers for the purchase inventory to re-stock his gift shop. Motion carried unanimously with a second from Commissioner Foster. Commissioner wanted the minutes to reflect Mr. Flowers does not compete with the Antonito and Chama gift shops since his major gift shop is at Osier, Colorado.

Next on the Agenda was the Approval to Participate in New Mexico's Surplus Property Program. Leo said this was an annual approval needed to be able to buy from New Mexico's Surplus Property Program. Some of the Railroad's inventory has been purchased at this site. At the present time the two New Mexico Commissioners, Martinez and Randall, himself and Marvin Casias are allowed to purchase inventory for the Railroad. Commissioner Randall moved to have the same four persons on the signature card giving them permission to purchase for the Cumbres & Toltec Scenic Railroad. Motion was approved with a second from Commissioner Carpenter.

Chairman Martinez asked if there was any Other Business to discuss before the Commission. Discussion ensued about the Visitor's Center to be built in Chama, New Mexico on the Railroad's property. It was asked by Mr. Heuer if there was to be a gift shop within the Center. Commissioner Randall said a gift shop was in the design; however, its inventory has not been determined. Mr. Wimer asked how far in the future before the center would be completed. Tim said there is still much work involved before the plans are even finalized. He further added New Mexico and Colorado's SHPO office still had to approve the site and monies found to build it. Chairman Martinez said the Visitor's Center was still a ways from being a reality.

Commissioner Randall asked to have an update of the Georgetown Loop's agreement of the C&TSRR's passenger cars being loaned to their premises for the next meeting. Chairman Martinez directed Leo to follow up on this request.

Chairman Martinez said he would like to have a Commission Meeting on either the 3rd of March, Wednesday, or the 4th of March, Thursday, to discuss and approve the addendum, of the C&TS Railroad Commission's performance expectations, to Cumbres & Toltec Management Company's contract. He would inform the Commission, C&TSMC and the public of when the

day and date would be. Chairman Martinez said because of the need for expediency and importance of the matter, there would be a possibility it would be a Conference Call Meeting.

There being no other business, Chairman Martinez adjourned the meeting at 5:09 p.m. with the motion for adjournment being made by Commissioner Foster and a second by Commissioner Carpenter.

/s/ 6-23-10

J. Leonard Martinez, Chairman

/s/ 6-23-10

Lon Carpenter, Vice-Chairman

/s/ 6-23-10

Randy Randall, Secretary

/s/ 6-23-10

Pete Foster, Treasurer