

Analysis of C&TSRR Funding

Summary

Since its inception in 1970 the Cumbres and Toltec Scenic Railroad has relied for its funding upon (1) revenues from passengers and train operations, (2) grants and appropriations from its equal owners the States of Colorado and New Mexico, (3) Federal grants, and (4) grants from private institutions and individuals.

With that in mind this report from the C&TSRR Commission describes the nature and extent of funding from the railroad's key funding sources over the past five years (see Exhibit 1) and sets forth the history of appropriations from each state over the past 18 years (see Exhibit 2).

This report further examines the appropriations record of the two states under the provisions the C&TSRR Interstate Compact which specify equal funding from both states as equal owners, but which provide for variations from this standard. For instance, Exhibit 2 shows that from time-to-time in the past New Mexico has provided vital funding when Colorado could not, but circumstances have changed. As Exhibit 1 shows, from 2013 to 2017 Colorado appropriated two dollars for every dollar from NM.

Furthermore, the latest appropriations for 2018 are exacerbating this disparity, with Colorado appropriating \$1,295,000, and New Mexico only \$111,800 (with nothing for capital outlays) due to NM's severe budgetary difficulties. This disparity is not only stalling the Commission's plans to achieve self-sufficiency and likely leading to off-season layoffs of key staff, but it also could threaten the comity currently existing between the two states if it persists.

This report should also be read against the backdrop of the Railroad's noteworthy accomplishments in which the C&TSRR --

- (1) has by any operating and safety measures ***performed admirably***;
- (2) has over the past five years **turned a small operating profit**; and
- (3) has been voted the ***best Tourist Attraction in NM*** and ***the Best Train Ride in America*** in USA Today reader polls.

A later report this summer will document how the funding described in this report is being utilized by the Commission as part of its on-going ten-year plan to achieve self-sufficiency and to no longer require further funding from the two states. The key drivers of this plan are marketing programs to increase ridership at a 3% to 5% rate annually and completion of the Railroad's major track and equipment upgrade programs. Of course, the latter upgrades are dependent upon continuing state funding until completed.

The Railroad’s Sources of Funding (see Exhibit 1)

Passenger Train Revenues. The good news is that, thanks to competent management, since 2013 the railroad has realized sufficient revenue from its tourist train operations to show a small and continuing operating profit. As shown in Exhibit 1 the Commission has been able to generate approximate 58% of its funding from these operating sources over the past five years.¹ Furthermore, the Railroad recently has been able to increase its marketing budget and is projecting a 3% to 5% increase in annual ridership in the coming decade.

Exhibit 1: All Sources of C&TSRR Funding									
Fiscal Period	Colorado Appropriations	%	New Mexico Appropriations	%	Revenues from Passenger Trains	%	Other Sources of Funding	%	Totals
2013	\$1,023,000		\$387,000		\$3,107,909		\$667,902		\$5,185,811
2014	\$1,435,000		\$948,700		\$3,611,993		\$654,915		\$6,650,608
2015	\$1,295,000		\$308,200		\$3,687,836		\$640,003		\$5,931,039
2016	\$1,295,000		\$768,000		\$4,070,175		\$1,252,953		\$7,386,128
2017	\$1,295,000		\$726,800		\$4,200,000	← est. 58%	\$680,000	← est. 12%	\$6,901,800
5-Yr. Totals	\$6,343,000	20%	\$3,138,700	10%	\$18,677,913	58%	\$3,895,773	12%	\$32,055,386
2018	\$1,295,000		\$111,800						
6-Yr. Totals	\$7,638,000		\$3,250,500						

OBSERVATIONS:

1. Since 2013 the Railroad has met its funding goals from all sources, except for NM Appropriations.
2. Over that five years Colorado has appropriated two dollars for every one dollar from NM (\$6,343,000 vs. \$3,138,700), although in the past NM's funding has well exceeded Colorado's periodically (See Exhibit 2).
3. The lack of any capital funding from NM for 2018 means the Railroad's rebuilding and upgrading programs will stall, resulting in off-season layoffs of skilled staff, and threatening relations with Colorado.

Notes:

1. Colorado and NM Appropriations are totals for capital projects and Commission operations authorized in each fiscal year under the Interstate Compact, with the former accounting for 83% of the appropriations and the latter 17% on average.
2. "Revenues from Passenger Trains" include all revenues received each fiscal year from (1) ticket sales, retail sales, charters, and movie productions, and (2) fees collected each season from passengers for the Railroad's Historic Preservation Fund.
3. "Other Sources" are non-governmental or quasi-governmental sources, including (1) amounts authorized by grant-making entities, such as the Candelaria Fund and History Colorado, and (2) revenues realized each year by the unaffiliated "Friends of the C&TS" for volunteer projects and related activities in support of the Railroad. Some of these sources do not report finances on a fiscal basis, but a calendar basis, so the 2017 total is a projection.

As the region’s economic engine, the C&TSRR provides employment for 74 of the residents of the communities on both sides of the border. Furthermore, a study

¹ These passenger revenues include a 5% fee for historic preservation projects in keeping with the statutory charge by both states to preserve the Railroad “as a living museum for future generations”.

done in 2014 found that the C&TSRR had a positive economic impact of \$15 million annually on the region.²

State Appropriations. As shown in Exhibit 1, over the past five years 30% of the Railroad's funding has come from appropriations from its owners, \$6,343,000 from Colorado and \$3,138,700 from New Mexico. Of those appropriations, 17% have been for operation of the Commission and 83% for capital projects. The results of these capital investments will be reviewed more thoroughly in a subsequent report later this summer. But suffice to say for now, the funding is devoted to the Commission's ten-year capital investment program with particular emphasis on (1) establishing a well-ballasted and totally reconditioned track right-of-way over its 64-mile length, (2) periodically rebuilding its fleet of historic locomotives as mandated under Federal Railroad Administration regulations, and (3) restoring and upgrading other physical assets, such as passenger cars and other rolling stock necessary to the operation of the railroad.

Other Sources. Another 12% of funding has been realized from individual, private, and quasi-governmental sources (see Notes to Exhibit 1). What is especially noteworthy among these sources is the funding contributed by the members of the "Friends of the C&TSRR".³ For instance, in 2016 these individuals not only devoted considerable labor to preservation projects, but over 900 members and families contributed a total of \$313,255 toward such efforts on behalf of the Railroad.

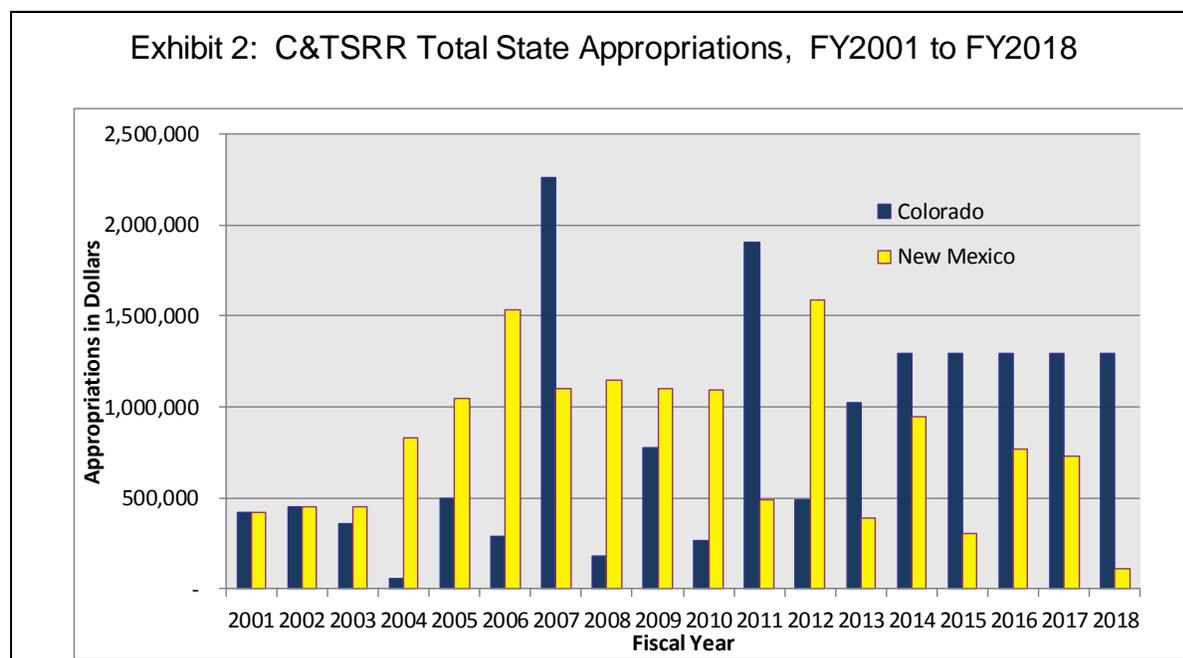
State Obligations under the Compact

The July 1977 Agreement executed by Colorado and New Mexico explicitly states in Part 1 Article III that each state owns 50% of the C&TSRR as joint tenants-in-common. The agreement further provides in Article IV (2) that the two states shall contribute equally toward the purchase of additional property and toward preserving and rehabilitating the railroad's property, but "*subject to the appropriations of the respective States.*" In addition, Article IV (3) provides that the two states shall contribute equally toward the payroll of all officers, employees and agents of the Commission, but "*subject to the availability of funds.*"

While these provisions demonstrate that the two states, as equal owners, have agreed to contribute equally to the funding of the Railroad, the framers also recognized that budgetary constraints in either state might prevent an equal match of appropriations from time-to-time. Such circumstances have occurred in the past, especially during the 2004-2010 period when New Mexico provided the bulk of the funding due to Colorado's budgeting difficulties (see Exhibit 2). As one might expect this funding disparity placed considerable strain on the finances of the Railroad as well as relations between the states back then.

² BBC Research & Consulting, "Economic Impacts of the Cumbres & Toltec Scenic Railroad".

³ The Friends currently have 2,325 members spread throughout the U.S. and overseas, with the greatest number coming from California (373), followed by Colorado (371), New Mexico (244), and Texas (216). 500-some plan to attend work-sessions at the railroad this year.



Fiscal Year	Colorado			New Mexico			Combined
	Capital	Operating	Totals	Capital	Operating	Totals	Totals
2001	410,000	10,000	420,000	410,000	10,000	420,000	840,000
2002	441,000	10,000	451,000	441,000	10,000	451,000	902,000
2003	260,000	102,000	362,000	440,000	10,000	450,000	812,000
2004	-	55,000	55,000	120,000	710,000	830,000	885,000
2005	486,000	10,000	496,000	250,000	800,000	1,050,000	1,546,000
2006	30,000	260,000	290,000	1,000,000	535,000	1,535,000	1,825,000
2007	1,750,000	510,000	2,260,000	1,000,000	100,000	1,100,000	3,360,000
2008	80,000	100,000	180,000	1,050,000	100,000	1,150,000	1,330,000
2009	675,000	100,000	775,000	1,000,000	97,500	1,097,500	1,872,500
2010	175,000	92,500	267,500	1,000,000	94,200	1,094,200	1,361,700
2011	1,701,100	202,500	1,903,600	400,000	90,700	490,700	2,394,300
2012	286,000	202,500	488,500	1,500,000	87,000	1,587,000	2,075,500
2013	818,000	205,000	1,023,000	300,000	87,000	387,000	1,410,000
2014	1,090,000	205,000	1,295,000	850,000	98,700	948,700	2,243,700
2015	1,085,000	210,000	1,295,000	185,000	123,200	308,200	1,603,200
2016	1,080,000	215,000	1,295,000	645,000	123,000	768,000	2,063,000
2017	1,076,000	219,000	1,295,000	615,000	111,800	726,800	2,021,800
2018	1,076,000	219,000	1,295,000	-	111,800	111,800	1,406,800
Total	12,519,100	2,927,500	15,446,600	11,206,000	3,299,900	14,505,900	29,952,500

The Situation Today

The major challenge facing the Railroad is that, not only will the lack of any capital funding from New Mexico in 2018 severely impact the Railroad’s on-going capital programs, but all indications are that this imbalance is likely to continue until NM solves its budgetary problems. This means that the Railroad’s drive toward self-sufficiency will stall, off-season layoffs of key staff will be necessary, and deferred maintenance will lead to higher future costs. Furthermore, this funding disparity threatens the very stability of the partnership between the Railroad’s two owners at a time when the C&TSRR is increasingly recognized as the premier scenic railroad in America.