

**Schedule 13**

**Funding Request for the FY 2016-17 Budget Cycle**

Department of Higher Education

Request Title

**HC-01 Investment in Cumbres & Toltec Railroad Sustainability**

Dept. Approval By: <u>Michael Z...</u>	<input checked="" type="checkbox"/>	Supplemental FY 2015-16
	<input type="checkbox"/>	Change Request FY 2016-17
	<input type="checkbox"/>	Base Reduction FY 2016-17
OSPB Approval By: <u>Grand N...</u> 10/29/15	<input type="checkbox"/>	Budget Amendment FY 2016-17

Summary Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$1,623,500	\$0	\$202,500	\$1,421,000	\$1,421,000
	FTE	0.0	0.0	0.0	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$1,295,000	\$0	\$202,500	\$1,092,500	\$1,092,500
	CF	\$328,500	\$0	\$0	\$328,500	\$328,500
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Line Item Information	Fund	FY 2015-16		FY 2016-17	FY 2017-18	
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$1,623,500	\$0	\$202,500	\$1,421,000	\$1,421,000
	FTE	0.0	0.0	0.0	0.0	0.0
09. History Colorado - Cumbres and Toltec Railroad Commission	GF	\$1,295,000	\$0	\$202,500	\$1,092,500	\$1,092,500
	CF	\$328,500	\$0	\$0	\$328,500	\$328,500
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$0	\$0

Letternote Text Revision Required? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	If Yes, describe the Letternote Text Revision:
Cash or Federal Fund Name and CORE Fund Number:	
Reappropriated Funds Source, by Department and Line Item Name:	
Approval by OIT? Yes <input type="checkbox"/> No <input type="checkbox"/> Not Required <input checked="" type="checkbox"/>	
Schedule 13s from Affected Departments:	
Other Information:	

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## COLORADO

### Department of Higher Education

#### *Cost and FTE*

- The Department of Higher Education, History Colorado requests continuation funding for the Cumbres & Toltec Scenic Railroad from the FY 2015-16 appropriation level for FY 2016-17. This decision item for \$1,421,000 (\$1,092,500 General Fund) is associated with a companion base adjustment of -\$1,421,000 total funds (-\$1,092,500 General Fund) for a net combined impact of \$0 change in total funds and General Fund in FY 2016-17 relative to FY 2015-16.
- The decision item (and base adjustment) is made in compliance with Footnote #19 to the FY 2013-14 Long Bill (SB13-230) which stated that funding is not “assumed” to continue after FY 2015-16.
- If funding can continue for five years at current levels, the Cumbres & Toltec Scenic Railroad could move toward being self-sustaining and thereafter funding could be dramatically reduced.

#### *Current Program*

- The Cumbres & Toltec Scenic Railroad is a major economic engine for southern Colorado and northern New Mexico. It provides 76-80 direct jobs seasonally and 26-30 full-time jobs, and has a reported \$15 million impact on the local economy. Cumbres & Toltec Scenic Railroad has revamped its management, and has increased ridership and ticket revenue significantly. The railroad has produced an \$182,000 operating profit for the first time in the 44 years of State ownership. A five year strategic plan has been created and implemented. The Cumbres & Toltec seeks the means to become significantly more self-sustaining.

#### *Problem or Opportunity*

- In FY 2012-13, Cumbres & Toltec Scenic Railroad had approximately 40 years of deferred maintenance. Cumbres & Toltec scenic railroad received funding that allowed three years of funding “catch up” in its capital needs. The railroad now seeks a final phase of funding which will allow it to fulfill its strategic plan goal of greater sustainability.

#### *Consequences of Problem*

- The Cumbres & Toltec Scenic Railroad seeks to meet its business objective of building a sustainable operation and reducing its reliance on the state. If the Cumbres & Toltec Scenic Railroad does not have the continuing capital funding it will not be able to turn a profit and move toward becoming self-sustaining.

#### *Proposed Solution*

- Continuing the FY 2015-16 funding level into FY 2016-17 will give the Cumbres & Toltec Scenic Railroad a reliable funding plan to address capital needs for the next five years and ensure its efforts toward long-term funding sustainability. The emphasis of the capital investment will be in the areas of track and roadway structures, locomotives, passenger cars and facilities for five years.
- After the railroad is brought to a condition enabling a move to a maintenance mode, the annual cost of capital maintenance will be significantly lower. Ultimately the goal is to have the cost of annual capital maintenance supported by operating revenues.



**COLORADO**  
Department of Higher Education

FY 2016-17 Funding Request | November 1, 2015

John W. Hickenlooper  
Governor

Lt. Governor Joseph A. Garcia  
Executive Director

Edward C. Nichols  
President and CEO, History Colorado

Dan Love  
CTSRR Commission Chair

**Department Priority: History Colorado-1**  
**Request Detail: Continued Investment in Cumbres & Toltec Scenic Railroad Sustainability**

Summary of Incremental Funding Change for FY 2016-17	Total Funds	General Fund
Cumbres & Toltec – Total Request	\$1,421,000 *	\$1,092,500 *

\*Note: this request is a continuation of the FY 2015-16 funding and does not represent a year over year change.

The Department of Higher Education, History Colorado requests continuation funding for the Cumbres & Toltec Scenic Railroad in FY 2016-17. To effectuate this funding level, the Department submits this decision item for \$1.4 million total funds (\$1.1 million General Fund and \$328,000 cash funds) and an associated companion base reduction of -\$1.4 million total funds (-\$1.1 million General Fund and - \$328,000 cash funds) for a net combined impact of \$0 change in total funds/General Fund in FY 2016-17 relative to the FY 2015-16 funding level. The decision item and the associated base adjustment are submitted in the spirit of the General Assembly’s intent expressed in Footnote #19 to the FY 2013-14 Long Bill (SB13-230), as follows:

*Footnote #19 Department of Higher Education, History Colorado, Cumbres and Toltec Railroad Commission -- The amount in this line item is calculated based on the following assumptions: (1) This line item includes \$202,500 for annual Commission operating expenses and other routine ongoing costs including controlled maintenance; (2) the balance of this appropriation is for capital projects including locomotive boiler repair, passenger car upgrades, and track, bridge and tunnel upgrades; and (3) amounts above the \$202,500 ongoing operating support are based on an analysis of the Railroad's capital outlay needs over a three-year period and are not assumed to continue after FY 2015-16. Amounts in this line item that are not expended by June 30, 2014 may be rolled forward for expenditure in FY 2014-15.*

While the funding is requested in FY 2016-17 at a continuing funding level from FY 2015-16, this decision item is structured to reflect a request for funding above the \$202,500 Footnote #19 “base”. The Cumbres & Toltec Scenic Railroad funding above the \$202,500 base is the \$1.4 million total funds requested (including \$1.1 million General Fund and \$328,500 cash funds).

Cumbres & Toltec Funding	Total	General Fund	Cash Funds
Footnote #19 FY 11-12 "base"	202,500	202,500	-
SB15-234 Long Bill	<u>1,623,500</u>	<u>1,295,000</u>	<u>328,500</u>
Difference	(1,421,000)	(1,092,500)	(328,500)
FY 2016-17 request:			
FY 16-17 base adjustment	(1,421,000)	(1,092,500)	(328,500)
FY 16-17 decision item	<u>1,421,000</u>	<u>1,092,500</u>	<u>328,500</u>
Total change from FY 2015-16	-	-	-

While the request seeks five-year funding levels at this FY 2015-16 funding level, we expect that this funding need would be reduced starting in FY 2020-21 and further thereafter as the Cumbres & Toltec becomes increasingly self-sufficient and sustainable. Additionally in making this request the Department and History Colorado also seek Joint Budget Committee approval of the Cumbres & Toltec Scenic Railroad's newly defined strategic direction.

***Problem or Opportunity:***

The General Assembly approved a funding level of \$1,295,000 General Fund in FY 2013-14 noting projects to be funded over a period of three years (FY 2013-14, FY 2014-15, and FY 2015-16). This total funding level of \$1,295,000 General Fund was authorized to address annual capital budget needs and to provide reliable funding for the Cumbres & Toltec management to operate the railroad and to work toward a strategic vision of future sustainability. Thanks to the consistency and level of funding authorized by the General Assembly for this period of time, the goals of the three-year plan have been met and exceeded.

The Cumbres & Toltec railroad now seeks a final phase of funding which will allow it to fulfill its strategic plan goal of greater sustainability. The funds are needed to meet its overall business objective to build a sustainable operation. The Cumbres & Toltec Scenic Railroad's overall strategies for the immediate future are to build on its financial operating performance, to continue to address its long neglected capital improvement work, to dramatically enhance the railroad's historical image and to promote it as the finest example of steam era railroading in the United States.

***Highlights of Recent Operational and Strategic Changes:***

- The railroad has now completed two years of operation under the new business model; it is operated by an LLC formed by the Commission rather than a third party operating company. This new structure and a strong management team resulted in substantial operating savings.
- The Commission has streamlined its administrative and direct management functions by eliminating the formerly separate position of Executive Director and consolidating those duties under the President/General Manager of the operating company. The new structure allowed the railroad to manage more effectively and efficiently. An experienced Finance Manager was hired who has completely restructured the financial reporting system, affording better control and timeliness and resolving issues that were raised in prior audit reports.
- The railroad produced an \$182,000 operating profit in FY 2013-14. The unaudited results for FY 2014-15 indicate an operating profit between \$50,000 and \$100,000. These are the first profits in the 44 years of State ownership.
- A five year strategic plan has been created, implemented, and updated.

- Cumbres & Toltec is working in concert with the Colorado Tourism Office to better establish the organization in the Colorado markets.

Underfunding the track and cars ends up increasing maintenance costs and costs more money in the long run. Cumbres & Toltec have moved beyond that stage with recent funding. It is vital that Cumbres & Toltec continue to operate and sustain its role as a major economic engine for southern Colorado and northern New Mexico. The train's operation is a cornerstone of tourism in Conejos County and contributes to tourism in Alamosa and Archuleta counties of Colorado. It also helps support the economy of Rio Arriba County, New Mexico. It provides 76-80 direct jobs seasonally, and 26-30 full time jobs. Indirectly it supports many more jobs in the restaurant, hospitality, and retail industry. The Commission has completed an economic impact study that found that the railroad produced a \$15,000,000 impact on the local economy.

Education is becoming an increasingly important component of the Cumbres & Toltec mission. The railroad is a living history experience. All the regularly scheduled trains have docent narrators. They share natural, cultural, and technological history with the passengers. For the past four years special Geology trains have been operated. These trains narrated by professional geologists are for the purpose of educating future geologists and interested amateurs about the geologic history of the Tusas Mountains. Beginning in 2016 a similar program covering mountain environments and ecology will be operated.

#### ***Proposed Solution:***

Continuing the FY 2015-16 level of funding (\$1,295,000 General Fund and \$328,000 cash funds) will allow the Cumbres & Toltec railroad the assurance of a funding plan for five years and ensure its efforts toward long-term funding sustainability. The request is structured with a base adjustment of -\$1,421,000 total funds including -\$1,092,500 General Fund and a decision item of \$1,421,000 total funds, including \$1,092,500 General Fund. The base reduction and the decision item result in a net zero change as compared to the FY 2015-16 appropriation. However, structuring the request this way most complies with legislative intent in Footnote #19 and in consultation with JBC staff.

The emphasis of the capital investment will be in the areas of track and roadway structures, locomotives, passenger cars and facilities for five years. Once the program is completed, the railroad will then be in the position of shifting the emphasis of the capital program to maintaining itself on an ongoing basis. The following items will be addressed in the requested five-year period of continuing appropriation support:

1. Track and right-of-way rehabilitation and improvement;
2. Passenger car safety, ADA accessibility, customer comfort and amenity upgrades;
3. Federal Railroad Administration required locomotive boiler, running gear, and brake equipment maintenance; and
4. Building and equipment improvements.

#### ***Anticipated Outcomes:***

After the railroad is brought to a condition enabling a move to a maintenance mode, the annual cost of capital maintenance will be significantly lower. Operating income will begin contributing to build the Commission's capital/maintenance fund in FY 2018-19. Ultimately the goal is to have the cost of annual capital maintenance supported by operating revenues.

With the 5 year investment for Cumbres & Toltec railroad beginning in FY 2016-17, the railroad would require less General Fund support beginning in FY 2020-21, further reduced in FY 2021-22, and only a small operational component thereafter (approximately \$247,000, down from \$1,295,000).

On January 15<sup>th</sup> of each year of this funding period, the Board of the Cumbres and Toltec Scenic Railroad will report to the Governor, History Colorado, the Department of Higher Education, and Joint Budget Committee on the annual operations of the railroad. This report shall include a summary of the prior season's operations, including ridership (broken out by category where possible). The report should also include a summary of the multi-year maintenance plan, including a listing of projects completed and planned future projects (projected where possible.) The report shall also discuss the outlook for greater self-sufficiency.

In addition, the Department requests that Cumbres & Toltec receive authority to roll forward unexpended funds each year in this budget and that the Joint Budget Committee add an annual footnote to that effect.

**Assumptions and Calculations:**

Cumbres & Toltec 5 Year Needs						
PROJECT TITLE	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	TOTAL
Locomotive Rehab Program - CO 1/2	250,000	245,000	250,000	250,000	250,000	1,245,000
Passenger Car Program - CO 1/2	326,000	326,000	327,000	225,000	225,000	1,429,000
Track, Bridge & Tunnel Program - CO 1/2	500,000	500,000	490,000	450,000	300,000	2,240,000
<b>CONTROLLED MAINTENANCE</b>						
Building Rehab/upgrades	0	0	0	137,000	139,000	276,000
Commission Operating	129,000	134,000	138,000	143,000	147,000	691,000
Property & Liability Insurance - CO 1/2	90,000	90,000	90,000	90,000	90,000	450,000
<b>TOTALS</b>						
Annual General Fund	1,295,000	1,295,000	1,295,000	1,295,000	1,151,000	6,331,000

