

**What's Going On With NRHS?**

How We Got Here  
Current State of Things  
Where We Are Going  
(updated version 7/10/2013)

**Note**

- Not All Of This Is "Official"
- Have Not Anticipated Every Question
- Black text: as presented 6/29/2013
- Red text: Updates or additional information (includes verbal comments from 6/29 talk)

**Some Necessary Background**

- Before we can decide where we are going, we have to understand how we got here.
- Many key decisions made decades ago
- Organization design rarely discussed directly
- Result is misunderstandings & myths
- These decisions can be changed, but these are not casual changes.

**The Basic Design**

- National programs enhance chapter offerings

Originally:

- Affiliation with national organization
- Access to excursions
  - as a trip operator (chapter)
  - as a worker or passenger (member)
- National publication
- Film library
- Convention

**The Basic Design**

- NRHS is organization of Members
  - Chapters nominated; members elected the Board of Directors
  - Fiduciary duty to members (Board and Officers)
  - Members control in legal documents

**The Basic Design**

- Chapters are independent franchisees
  - Chapters are separate entities with own incorporation and tax status
  - Chapters control own membership, programs and dues
  - Relationship is Not widely understood
  - Badly designed franchise system discussed later

### The Basic Design

- Members pay for Everything
  - Including Associate (At-Large) members
  - Chapters pay for nothing

By law, members must pay for products and services they receive directly. Payments are through dues and service fees. In NRHS, all services to chapter organizations have always been paid by member dues as well.

### The Basic Design

- Chapters control cash flow and information
  - Dues and donations flow through chapters
  - Chapters get their income first
  - Member information controlled by chapters
  - (Originally) Chapters controlled information about NRHS to members. NRHS supplied information to chapters in *News Extra* and chapters published it in chapter newsletters. There was no *NRHS News*.

### The Basic Design

- National membership is required for chapter membership.
  - Maximizes members, therefore cash
  - Keeps dues low for everyone

### The Basic Design

- NRHS is 501(c)(3) Not-for Profit Charity
  - Since at least 1960s
  - Imposes Federal standards on use of donations and dues

For example:

Donations must be used for purpose donor specified.

Donations may not be used for personal benefit of members.

### (Some of the) Myths

- NRHS is (or was) an organization of chapters
  - Chapters dominated management and culture (Entire Board of Directors and most Officers were chapter members.)
  - Some practices were inconsistent with legal design of organization (Most of these have been fixed with Bylaws changes (e.g. chapter presidents naming alternate directors))

### (Some of the) Myths

- NRHS and Chapters are the same organization
  - Separate legal organizations
  - Separate regulations
  - Tax status, postal permits, insurance do not carry over

This has been a source of bad feelings in the past. NRHS does not let chapters use our tax status, insurance and postal permits because of legal separations.

### (Some of the) Myths

- National NRHS is just like a chapter, only a bit larger
  - Different focus of work
  - Less social interaction
  - Geographic dispersal of resources
  - Quantities and costs

10,000 of anything costs a lot of money, including gathering and tracking of information.

### (Some of the) Myths

- NRHS doesn't care about costs
  - Many options investigated
  - Different circumstances often mean different conclusions
  - Economies of scale

It is hard to beat the unit cost of doing 10,000 of something all the same way.

### An Example: *NRHS News*

- Many chapters found their paper publications were over 75% of their annual cost.
- Many chapters are demanding *NRHS News* be converted to electronic or have electronic option (and reduced dues).
- The situation is completely different.
- Mailed paper all-color *NRHS News* costs only \$4/member. That's the annual cost for six issues, not the per-issue cost.

### An Example: *NRHS News*

- Over \$1 is fixed cost for content and editorial services. All still required for electronic.
- So savings potential is less than \$3.
- NRHS currently has e-mail addresses for only 25% of the members.
- Significant effort & cost to gather & maintain:
  - 10,000 e-mail addresses
  - 10,000 paper/electronic decisions

### An Example: *NRHS News*

- Added complexity of dealing with member complaints
- Lose economy of scale with dues bills
- Electronic option may actually be more expensive than paper-only.
- Electronic *NRHS News* may still be the right decision for speed of communications, but not as a cost savings or dues reduction.

### (Some of the) Myths

- Volunteers can do it all at national level
  - Mix of volunteers, moonlighters, paid professionals
  - Different nature and scale of work
  - Specialized skills required
  - Much less "fun"
  - Worst failures have come from volunteers
  - Moonlighters less efficient than professionals

– 2012 Executive Director study by Board concluded volunteers are over-worked and recommended **more** paid staff.

### Recent History with Volunteers

- Audit Committee: 4 years of requests = zero responses before 6/13; one since
- NRHS News Assistant Editors: 1 year of requests = zero volunteers to date
- Finance Committee: 3 years of requests = one expression of interest (not really qualified)
- Fundraising Manager: 4 years of requests = zero expressions of interest, so we hired a paid professional (and now get complaints)

### Recent History with Volunteers

- Public Relations: Position has been vacant half the time for last 20 years and often was done ineffectively, so we hired a paid professional (and now get complaints).
- Chapter Development: Currently vacant with zero expressions of interest
- Membership Development: Currently vacant with zero expressions of interest
- Recent examples of volunteers contributing to legal concerns (will not list).

### (Some of the) Myths

- NRHS wants to destroy the chapters
  - Or is it the other way around?
    - Chapters leaving = less income
    - Chapters allowing non-NRHS members or “friends” = less income
  - Resistance to change

### (Some of the) Myths

- NRHS is Costco
  - Value measured by personal return, not contribution to greater good (Is any other charity measured by personal financial return to its members?)
  - National NRHS contributions to rail preservation ignored by many chapters
  - NRHS not big enough to control the market (will never have size or impact of AARP or AAA)

### (Some of the) Myths

- The really weird stuff from Facebook and Chapter Newsletters (All have appeared in chapter newsletters or in public posts by chapter officers recently)
  - NRHS invented At-Large membership in 2005 (It has existed since the start of the Society.)
  - Requirement for national membership in chapters is new with 2012 Bylaws (It has existed since the start of the Society.)
  - Fernley & Fernley purchased the NRHS (It’s a separate company from which NRHS purchases services)

### (Some of the) Myths

- The really weird stuff from Facebook and Chapter Newsletters (continued)
  - Fernley & Fernley bribed (or bribes) NRHS Officers (Not true)
  - NRHS officers are paid (NRHS officers are volunteers)
  - Conspiracies (numerous – mostly to do with desire to destroy the chapters or drive out younger members)
  - NRHS financial problems are caused by spending on Personal vendettas & private investigators hired to harass those who oppose NRHS leadership.

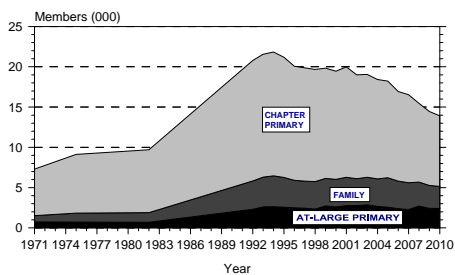
## Current State of the Business

Troubled and in Transition  
 Membership and Finances Declining  
 National/Chapter Relationship is Broken

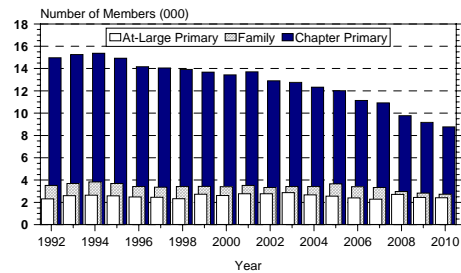
## Current State

- Membership is Declining
  - Lose 5% to 6% per year regardless of what we do
  - 57% of peak (1994) membership
  - Equal to mid-1980s
  - Still well above levels for first 50 years
  - Most of loss is Chapter Primary Members
  - Number of Chapters declining (but not as fast as membership)

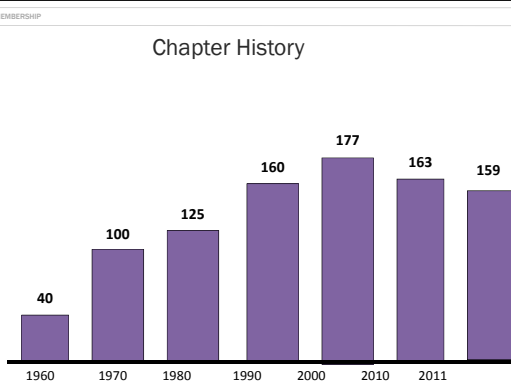
NRHS Membership



NRHS Membership

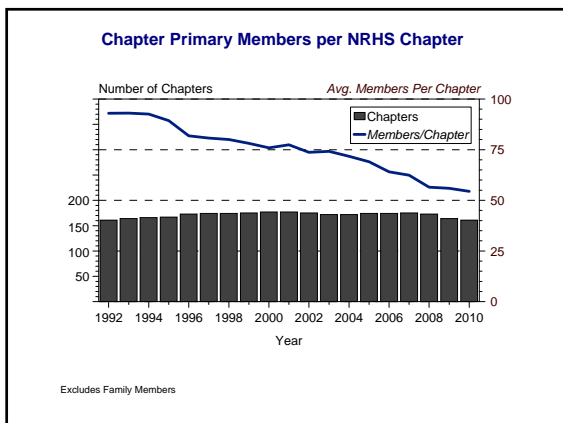


Chapter History



## NRHS Chapter History

- Previous slide from 2011 annual report
- Number of chapters has declined slower than number of members
- Today there are 149 active chapters (after departure of North Alabama)
- Number of active chapters equals mid-1990s



## Current State of the Business

- Convention Business is Declining
  - Falling patronage
  - Higher fixed costs for traditional conventions
  - Chapter-managed conventions Never was profitable business for national organization
  - Looks even worse with more rigorous accounting
  - Still has a future in different format

## Current State of the Business

- Finances are deteriorating
  - High level of fixed costs
  - Dues are primary source of income – declining
  - Donations ramping up – not as fast as dues decline
  - Added costs for transition – program changes and additions
  - Bad year in 2012 didn't help

## What Happened in 2012?

- Larger Financial Loss - \$270k vs. Planned \$70k
- A few major issues
  - Fundraising and Grants
  - Convention Results
  - Cost of Transition
  - Unplanned Issues

## What Happened in 2012?

- Fundraising & Grants
  - Fell short of ambitious goal by \$100k
  - Budget from years earlier without professional input – too ambitious
  - Systems and fundable projects just not ready yet
  - Still developing infrastructure for serious fundraising
  - Still developing culture for serious fundraising

## What Happened in 2012?

- Convention Lost \$50k vs. Planned Gain of \$50k
  - Program matched customer input
  - High fixed costs to run main line trains
  - Serious decline in attendance outside of Midwest
  - Reduced interest in premium space
  - Initial sales curve matched history
  - Cancellation would have lost more
  - All events operated and covered direct costs
  - Need to change the business model for the future

### What Happened in 2012?

- Convention design met everything members told us they wanted
  - Program included steam, diesel and electric
  - Trains covered variety of routes without regular passenger service
  - Hotel rates under \$100/night
  - Safe location without urban safety issues
  - Safe and comfortable passenger cars

### What Happened in 2012?

- Convention attendance much lower than predicted
  - Overall numbers same as Tacoma
  - Half of riders from Iowa and adjacent states
  - Locals wanted a few coach tickets, not premium service
  - Steep decline in Northeast and West Coast participation
  - Minimal participation from Southeast

### What Happened in 2012?

- Reasons for not attending (anecdotal, not scientific measurement)
  - Climate of fear in presidential election year (general discomfort, plus Rick Santorum and same-sex marriage)
  - Scared off by Internet predictions of cancellations with no refunds
  - Concerns that Iowa would be flat, boring or primitive
  - Saving money to go to Alaska

### What Happened in 2012?

- Cost of Transition was even higher than budgeted
  - Already anticipated \$70k loss
  - First national elections
  - New governance system
  - Second RailCamp venue
  - Ramping up programs for new business model

### What Happened in 2012?

- Additional Unplanned Problems
  - Operated one officer short much of year
  - Work issues and medical issues for key volunteers
  - Legal and insurance issues
  - One-year loss of CFC funds

### What Happened in 2012?

- Aggravating Factors (into 2013)
- Transition = High Stress
  - New Governance
  - Staffing & Operational Changes
  - Pushing limits on volunteerism
- Communications System Broke Down
- Broken National/Chapter Relationships Got Worse

### National/Chapter Relationship

- Chapters Seen as Greatest Asset of NRHS
  - Vehicle for membership growth
  - Source of most volunteer staffing
  - Conduit to local communities
  - Greater size and spread than other organizations
  - Many relationships go back decades

### National/Chapter Relationship

- Chapters May Be Fatal Flaw of NRHS
  - Most common reason cited to not join NRHS
  - Resistance to change
  - Stranglehold on income and information
    - More than 25% of members have e-mail but many chapters have declined to share the information
    - Know of only two chapters that published dues story from *Telegraph* when *News* was delayed. Others were asked and refused.
  - Deteriorating relationship consumes resources
  - More threats than discussion

### National/Chapter Relationship

- Franchise System is Broken
  - Not really understood
  - No franchise agreement (except Bylaws)
  - No franchise standards (except 5 member minimum)
  - No franchise fees for services to chapters (members pay for everything with dues)
  - No sunset/review/renewal process
  - Increasing violations of original design

### National/Chapter Relationship

- Perceived Diminished Roll for Chapters
  - Resentment of Role for At-Large Members
  - *NRHS News* and direct communications
  - Chapters don't sit directly on the Board
  - New Board acts much faster without required stops

### National/Chapter Relationship

- Shift in Chapter leadership model
  - More chapter leaders in chapter-focused careers
  - More view national as competition for attention and funds
  - Concerned about member focus in services and governance

### National/Chapter Relationship

- Growing Museum Focus in Chapters
  - Many shifted from excursion operator to museum
  - Increases local money needs
  - Recruiting outside Railfan community
  - National membership requirement is a barrier



### National/Chapter Relationship

- Increasing Threats to NRHS from Chapters
  - Departures put dues pressure on remaining members
  - “Do ..... or we’re leaving” (if any discussion at all)
  - Departures accelerating
  - Seen as threat to whole rail history preservation field

### National/Chapter Relationship

- Chapter Departures
  - Some grow old and die
  - Some walk out (with the assets)
  - Some circumvent the original model
    - “Friends” organization
    - Allow membership in museum only
    - Allow membership in either of two organizations
    - Personal opinion – Half of 2014 dues increase may be caused by these actions, and more chapters plan to do them next year.

### The Future

- Addressing NRHS national only
- Change is not happening fast enough
- Danger is money will run out before stability
- Technology limitations may kill us yet

### The Future

- Existential Options
  - Die
  - Divorce
    - Smaller organization focused on preservation & education programs
    - May still be a place for some chapters
  - Rebuild the Current Organization
    - Urgent need to fix communications systems
    - Requires fixing the franchise system
    - Requires common focus

### The Future

- Mission Options
  - Carve out our piece of rail heritage field
  - Determine our internal business model
  - Build contact with the rest of the field
    - NRHS, R&LHS, ATRRM and others talk with each other
    - Already evolving toward new and compatible roles

### The Future

- Getting There
  - Accept casualties
  - Get knowledgeable people involved
  - Fix the most critical leaks immediately
  - Put strategy before tactics on all the rest
  - Do it fast
  - Survive the transition