

MINUTES

BOARD OF DIRECTORS MEETING OF THE SAN DIEGO & ARIZONA EASTERN RAILWAY COMPANY

April 15, 2014

A meeting of the Board of Directors of the San Diego & Arizona Eastern (SD&AE) Railway Company, a Nevada corporation, was held at 1255 Imperial Avenue, Suite 1000, San Diego, California 92101, on April 15, 2014, at 9:00 a.m.

The following persons, constituting the Board of Directors, were present: Brad Ovitt, Matt Domen, and Paul Jablonski. Also in attendance were members from:

San Diego Metropolitan Transit System:	Tim Allison, Karen Landers, Wayne Terry, Erin Dunn, Traci Wutke
Pacific Imperial Railroad, Inc.:	Chas McHaffie, Don Stoecklein
Tierra Madre Railroad:	R. Mitchel Beauchamp
Private Citizen:	Geoffrey Scheuerman
Coronado Belt Line:	Tim Duttle
San Diego & Midwestern Railway Partners LLC:	Ed Kravitz
Trains Magazine:	Don Jones
Genesee & Wyoming:	Blake Jones
Pacific Southwest Railway Museum:	Michael Edwards, Diana Hyatt

1. Approval of Minutes

Mr. Jablonski moved to approve the Minutes of the January 14, 2014, SD&AE Railway Board of Directors meeting. Mr. Domen seconded the motion, and it was unanimously approved.

2. Statement of Railway Finances

Erin Dunn reviewed the financial statement for the first quarter of 2014 (attached to the agenda item). Tim Allison clarified for Mr. Jablonski that the return on personnel costs versus income generated from right of entry permits is about 60/40. Mr. Allison added that not all personnel costs are related to right of entry permits or applications and therefore do not generate revenue. He will examine cost-recovery further in regard to staff time.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

3. Report on San Diego & Imperial Valley Railroad (SD&IV) Operations

Matt Domen reviewed the report of activities for the first quarter of 2014 (attached to the agenda item). Board members congratulated SD&IV staff on over 26 years of injury-free operations.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

4. Report on Pacific Southwest Railway Museum Operations

Diana Hyatt reviewed the first quarter of 2014 report (attached to the agenda item).

Mr. Jablonski referenced paragraph 2 on page 4-3 of the report and voiced concern regarding weight loads on bridges from the motorcar carrying passengers from Jacumba to Plaster City. Mr. Allison confirmed that there have not been any issues.

Action Taken

Mr. Domen moved to receive the report for information. Mr. Jablonski seconded the motion, and it was unanimously approved.

5. Report on the Desert Line

Chas McHaffie reviewed the first quarter of 2014 report (attached to the agenda item). PIR CEO Don Stoecklein noted a correction to a public comment in the previous Minutes of January 14, 2014 (on page 3 under 5.2). Mr. Stoecklein noted that the public comments referred to two groups vying to be the owners of PIR, and he wanted to clarify that is incorrect—there is only one group, which includes Darren Barone. Mr. Stoecklein added that his job was to assist PIR's management due to significant turmoil within the prior management. He stated that the turmoil is mostly behind PIR now, and the focus is on JL Patterson inspections. Mr. Stoecklein reviewed the inspections and outstanding issues, including bridge, tunnel, and tie repairs. He discussed phasing, the reconstruction plan, and the deadline to run test trains once the bridges are repaired.

Mr. Stoecklein noted that if funds become available, PIR will go further with replacing tracks and ties. He reported that PIR has signed an agreement with Diamond Capital Advisors of Los Angeles, which is an investment banking firm. He added that there are also other individuals and groups discussing potential agreements with PIR. Mr. Stoecklein noted that a critical component of raising money is getting the plan from JL Patterson and also PIR's interconnect with Mexico.

Mr. Stoecklein clarified that the SD&AE Board should receive JL Patterson's plan no later than April 30, and it will include phasing, critical items, operating test runs, and plans beyond that to provide some service as delineated in the contract (with a completion date of December 2015).

Action Taken

Mr. Domen moved to receive the report for information. Mr. Jablonski seconded the motion, and it was unanimously approved.

6. Real Property Matters

- a. Since the January 14, 2014, SD&AE Railway Company Board of Directors meeting, the documents described below have been processed by staff.
 - S200-13-573: Easement to San Diego Gas and Electric for electric service to a new traction power substation near Beyer Blvd.
 - S200-13-574: Easement to San Diego Gas and Electric for electric service to a new traction power substation near High Street in Lemon Grove.

- S200-14-582: Right of Entry Permit to the San Diego Community College District to construct an adjacent project at Cesar Chavez in the City of San Diego.
- S200-14-584: Right of Entry Permit to Beta Engineering to construct utility crossings on the Desert Line at various locations from Jewel Valley Road to east of Jacumba.
- S200-14-589: Right of Entry Permit to San Diego Gas and Electric for maintenance and inspection of various facilities along the entire Desert Line.
- S200-14-592: Right of Entry Permit to HDR Engineering, Inc. for maintenance and inspection of various City of San Diego wastewater facilities.
- S200-14-593: Right of Entry Permit to Ramona Paving and Construction Corp. to construct street improvement along Cesar Chavez Parkway in the City of San Diego.
- S200-14-594: Right of Entry Permit to West Coast General Corp. to construct the San Ysidro Yard Expansion Project.
- S200-14-596: Right of Entry Permit to Flatiron / H&H (A Joint Venture) to construct the South Line Freight Improvement Project.
- S200-14-597: Right of Entry Permit to the City of La Mesa for its Flag Day Parade Celebration.

Mr. Allison referred to the Right of Entry Permit to Beta Engineering to construct utility crossings on the Desert Line at various locations from Jewel Valley Road to east of Jacumba. He stated that staff utilized JL Patterson to do the inspection, and the contractor from SDG&E will reimburse JL Patterson. Mr. Allison added that he feels that utilizing JL Patterson's services is a good way to handle construction and impacts to the Desert Line during the reconstruction phase.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Domen seconded the motion, and it was unanimously approved.

b. Easement Agreement with Unified Port of San Diego

Mr. Allison showed an overhead aerial view of the two crossings on the Coronado Branch line in relation to the easement agreement requested by the Port of San Diego. Mr. Allison clarified that the terms of the easement would be similar to the construction and maintenance agreement for H Street. He added that the Port would be required to upgrade the crossings, signals, etc. to MTS's standards to accommodate rail service if and when MTS decided to implement rail service. Discussion ensued regarding land ownership and maintenance.

b. Easement Agreement with Unified Port of San Diego - CONTINUED*Public Speakers:*

1. Tim Duttie – Mr. Duttie outlined his proposal for running a short line railroad over the Coronado base line from Bay Marina Blvd. to the Salt Works. He discussed potential assets and profits. Mr. Jablonski requested that a formal business plan proposal be submitted to MTS in writing for evaluation.
2. Ed Kravitz – read statement (see attachment).

Mr. Allison confirmed that if the Port had any issue with future requests for upgrades, MTS would have the right to revoke the easement, and there could be liquidated costs as well.

Action Taken

Mr. Jablonski moved to approve: (1) two public at-grade crossing easements to Unified Port of San Diego (Port) across the Coronado Branch south of J Street in the City of Chula Vista; and (2) two temporary license agreements to use the existing crossings in the same location. Mr. Domen seconded the motion, and it was unanimously approved.

7. Election to Fill Vacant Position of SD&AE Chairperson

Karen Landers, MTS General Counsel, reported that Mr. Ovitt is resigning as Chair of the SD&AE Board of Directors. She stated that the 1984 Operating Agreement that is currently with Genesee and Wyoming (G&W) establishes that there are two people appointed by SD&IV and one person appointed by MTS to the SD&AE Board of Directors. Ms. Landers added that there has been a lot of changes and turnover in overseeing the Desert Line. She stated that MTS is proposing to work with G&W in amending the 1984 Operating Agreement to include two MTS and one SD&IV designee to the SD&AE Board of Directors. Ms. Landers added that the amendment could not be approved today but an interim action could be taken. She noted that there was a proposal to nominate Blake Jones as Chairperson. Discussion ensued regarding membership. Mr. Ovitt stated that he was in agreement with the proposed amendment as long as it was done in conjunction with G&W's Legal Department.

Ms. Landers also proposed nominating Paul Jablonski for the Chairperson position so there would not be so many turnovers. Mr. Ovitt was in agreement.

Mr. Jablonski stated that it isn't easy logistically for SD&IV personnel to come to San Diego quarterly. He added that since Matt Domen is here all of the time, it makes sense to keep him as a Board member. Mr. Jablonski suggested having an alternate for the SD&IV Board position, and also proposed adding Wayne Terry, MTS Chief Operating Officer-Rail, as the second MTS Board member.

Mr. Ovitt stated that in the interim, he feels that Blake Jones would be a good replacement as Board member.

Action Taken

1. Mr. Jablonski moved to elect Blake Jones as Board member of the SD&AE Railway Company Board of Directors to replace Brad Ovitt. Mr. Domen seconded the motion, and it was unanimously approved.
2. Mr. Domen moved to elect Paul Jablonski as Chairperson of the SD&AE Railway Company. Mr. Ovitt seconded the motion, and it was unanimously approved.

8. Board Member Communications

Mr. Jablonski gave a brief overview of the current state of affairs in regard to operations on the Desert Line. He stated that Carrizo Gorge Railway (CZRy) operated on the line under a sublease (through 2014) with RailAmerica. Pacific Imperial Railway (PIR) was established out of CZRy and negotiated with RailAmerica to take over the lease in 2012. PIR asked MTS to renegotiate the operating lease beyond 2014 mainly to provide the capability to raise funds to rehabilitate the Desert Line. MTS renegotiated the lease, which is a public document, and currently the performance of the lease is in good standing.

Mr. Jablonski explained that there two basic elements to the lease: (1) annual payments due every 6 months; and (2) performance milestones that are definitive to show that real progress is being made to reconstruct the Desert Line. Mr. Jablonski reported that MTS has received the business and marketing plans. He stated that the reconstruction plan is a major milestone, and he is confident that we will get it. He stated that PIR spent a significant amount of money with JL Patterson in relation to the reconstruction plan. Mr. Jablonski added that unfortunately, management shakeups within PIR have delayed progress; however, the reconstruction plan is expected to be available soon as the next milestone. He stated that another payment is due in June. Mr. Jablonski said that the next 6 months will be challenging because there is a lot of construction needed in order for the line to be viable for train operations by December 2015. He reiterated that the current contract is in good standing.

Ms. Landers introduced Traci Wutke, who is Wayne Terry's new assistant. Ms. Wutke will be taking over the Clerk of the Board duties for Jan Gardetto beginning at the next meeting in July.

9. Public Comments

There were no public comments.

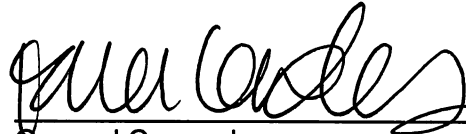
10. Next Meeting Date

The next meeting of the SD&AE Railway Company Board of Directors is on July 15, 2014.

11. Adjournment

The meeting was adjourned at 9:47 p.m.



President

General Counsel

SDAE Minutes Draft 4-15-14

Attachment: Handout from Ed Kravitz (Public Speaker comments under Agenda Item No. 6b)

To: The Board of Directors ; SDAE Railway

From: Ed Kravitz / San Diego & Midwestern Railway Partners LLC

RE: Update on Coronado Belt Line Issues

Date: 4-15-2014

Dear Board Members and Interested Parties:

It has been some time since I addressed this board regarding the Coronado Belt Line. As most of you know I have been advocating preservation of the line and in fact ; to use it for multiple purposes including a rapid transit component. A lot of things have changed since 1999 when I first started speaking publicly about this subject.

We've had 911. We've been to war in Iraq and Afghanistan. Chula Vista has built out Eastlake into one of the largest cities in California. Most of those people consider Imperial Beach as "Their Beach"!

As the wars are winding down, the Navy's role in San Diego is changing. The military population is going to increase significantly as troops return and San Diego becomes the main base on the west coast According to a recent presentation made by the Navy in Imperial Beach; Special warfare training is going to increase and Ft. Emory also known as the Radio Station or Dinosaur Cage is going to be used for P.T. with as many as 3000-4000 people per day entering and leaving the base. Currently they travel on SR-75, The congested Palm Avenue Corridor and surface streets through residential neighborhoods. The Navy is looking at alternatives and the proposed 1999 route that we proposed to Imperial Beach goes directly to the current front gate of Ft. Emory. The Navy is also giving consideration to a future rail link between Ft. Emory and the Amphibious Base up the Silver Strand. A third Carrier and support ships will be coming here soon as well.

When we proposed revitalization of the line and extending it from 7th Street in Imperial Beach to Seacoast and Carnation we were only thinking primarily about a tourist train that would bring people to the beach without cars, parking and traffic. Now it appears that we could take hundreds, if not thousands of autos and motorcycles off of I-5 and SR-75 while connecting multiple bases with a Park and Ride component around the entire bay.

Communities and Agencies along the route stand to gain from refurbishing the rail line with some modifications. The Port has multiple venues. National City has the Naval Ship Yards, Marina and Historic Depot. Chula Vista has the Nature Center, new Bayfront Development Areas, J Street Marinas and Parks. USFWS has a Wildlife Refuge with abundant bird watching. Imperial Beach is a desirable destination because it is a Beach. Now there is a new fancy hotel, pier and many shops along Seacoast and Palm Avenues. Palm Avenue SR-75 is already at gridlock twice a day and proposed changes to lane

configurations could make that even more congested . Recent "traffic calming" efforts have reduced a portion of Palm Avenue that was once 4 lanes to 2 lanes and that is the current entrance and exit route from Ft. Emory. Something needs to be done before traffic chokes everything.

Over the years the public has complained about efforts to sever a linear resource. I recently looked at the line with new City Manager Andy Hall of Imperial Beach. Andy was involved in recovering an abandoned railroad right-of-way in Salt Lake City prior to the Olympics. That line is now part of the transit system in Salt Lake City. Like Professor Joe Schweiterman of De Paul University's Transportation Studies Department illustrates in his two volume book; "When The Railroad Leaves Town"; city after city has regretted destroying these easements and right-of-way and were faced with huge costs in trying to recover them after they were chopped up and destroyed.

I would like to address the current request for crossings in Chula Vista. In the late 1990's Chula Vista removed signals and gates from the beltline without permission of the SDAE, MTS OR RAILTEX. Without freight moving to the last 3 shippers on the line, Chula Vista took it upon themselves to remove those signals and gates thinking they would never be needed again. I am concerned that because of the cost of repairing or replacing signals, gates and crossings; Chula Vista might object to revitalization of the railroad because it might cost them significant dollars if they had to replace what they destroyed. That is why I am asking that before any easements or crossings are granted to Chula Vista or other cities, that as part of the M.O.U. they be required to place in Escrow funds to replace those signals, gates and crossings when the railroad does come back. The precedent was set back around 2003 when National City Paved over the tracks on Harbor Blvd. Do not allow any of the cities to continue to build structures on the right-of-way. Let's work together to allow both the Bike Trail and the Railroad to share the right-of-way and our proposed easement to the beach. I also ask that you would support or help fund NEPA and CEQA studies to cross Federal Property to bring the railroad to the beach.

The Navy is not ready to go on record or take a public position in support of the railroad however, I can assure you that they certainly don't oppose it! As Naval Operations expand in San Diego the Navy is under greater pressure to mitigate the impact of additional vehicles and pollution.

If the South Bay Communities, The Port and SDAE were willing to take another look at these proposals, the Navy has a number of funded programs that could contribute to offsetting the cost of revitalization and upgrades. If the communities wanted this rail line or were willing to explore it further, I believe the Navy would be supportive. We will be submitting proposals for the E.I.S. for the Coastal Campus. Many of us would like to see support for funding A CEQA and NEPA studies for the proposed extension to the beach and a pledge to allow no further damage to the linear integrity of the resource.

While many in the public would prefer that Chula Vista stay off the tracks entirely; If these crossings are

to be approved Chula Vista should be required to sign an M.O.U. and place funds in escrow for future rehabilitation. Any M.O.U. should also contain a 30 day exit clause like the bike trail.

The beltline is a existing resource and with some improvements and modifications could take thousands of cars and motorcycles off I-5 , SR-75 and residential surface streets in Imperial Beach. It has potential for not just tourism and transit but, perhaps military logistics as well. All of these things are possible if we don't sever the resource into little pieces. The railroad around the bay is going to come back sooner or later out of necessity. For those who would say;" It's a train to nowhere" or dead I say; " It may be covered with weeds and asphalt but, it's just laying there waiting to run again! Let's protect it for the future and fund the studies required to get maximum utilization of the resource, so that when it's needed in the future, it will be there to serve again.

Thank you for your consideration,

Ed Kravitz

San Diego & Midwestern Railway Partners LLC