

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BOARD OF DIRECTORS
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

MINUTES

July 17, 2014

1. Roll Call

Chairman Mathis called the Board meeting to order at 9:04 a.m. A roll call sheet listing Board member attendance is attached.

2. Approval of Minutes

Mr. McClellan moved to approve the minutes of the June 19, 2014, MTS Board of Directors meeting. Mr. Minto seconded the motion, and the vote was 10 to 0 in favor with Messrs. Alvarez, Ovrom and Misses Emerald, Cole and Salas absent.

3. Public Comments

John Wood – Mr. Wood stated that the crossing gates on Broadway and Lemon Grove Avenue come down four blocks before the trolley arrives. He commented that the westbound San Miguel approach is out of alignment. He said there are still no arrival time boards located in Lemon Grove. Mr. Wood commented that the buses still have a lighting problem and the bus drivers need to walk around the bus before driving.

Richard Thompson – Mr. Thompson stated that he is concerned about the trolley officers. He commented on two separate situations where trolley officers were demanding people for proof of their trolley fares. He reviewed statistics from the MTS transit enforcement fact sheet regarding the Code Compliance Officers and Security Officers. Mr. Thompson asked for a review of the potential use of force by the officers.

John Strain – Mr. Strain discussed his concerns regarding the bus stop at 4th Avenue and University Avenue. He thanked MTS for the increase in security guards at the bus stop. Mr. Strain referred to and discussed the photographs he handed out to the Board members of the bus stop. Mr. Strain requested that the bus stop cleaning crews clean during the day time rather than the night time as to not disturb the tenants.

Sheila Kazemaini – Ms. Kazemaini commented that this is her third time coming to the MTS Board meetings asking for the 4th Avenue and University Avenue bus stop to be moved away from her apartment building. She said that buses come to that bus stop 195 times per day. She stated that even though the bus stop has been at that location for a long time, it should still be moved. Ms. Kazemaini stated that she believes moving the bus stop down the street will not affect ridership.

Christina Meinecke – Ms. Meinecke gave up her spot to speak so Sheila Kazemaini could have a longer speaking slot.

CONSENT ITEMS

6. Investment Report – May 2014
Action would receive a report for information.
7. Increased Authorization for Legal Service Contracts to Pay Projected Expenses in Fiscal Year 2015
Action would: (1) approve increasing the dollar amount of 13 legal services contracts to cover for fiscal year 2015 expenses; and (2) ratify two legal services contract amendments with approved firms.
8. Calnet Telecommunications Amendment
Action would authorize the Chief Executive Officer to: (1) authorize funding of up to \$600,000.00 for MTS telecommunications services during the transition period between the State of California's CALNET II and CALNET III telecommunications contracts; and (2) authorize up to \$4,031,000.00 for MTS telecommunications services using the State of California's CALNET III telecommunications contract from July 1, 2015 through June 30, 2020.
9. MTS LRV Accident and Vandalism Body Repair Services – Contract Award
Action would authorize the Chief Executive Officer to execute MTS Doc. No. L1193.0-14 with Carlos Guzman, Inc. (CGI) for the provision of LRV accident and vandalism body repair services for a five-year period.
10. Wireless Infrastructure Project – Purchase Order
Action would authorize the Chief Executive Officer to issue a purchase order to AT&T DataComm, Inc. (AT&T), for the provision of equipment and professional installation services for MTS's Wireless Infrastructure Project.
11. Cisco Core and Intermediate Distribution Frame Network Equipment Five Year Maintenance Renewal
Action would authorize the Chief Executive Officer to purchase Cisco SMARTNET maintenance through AT&T Datacomm, Inc. (AT&T), and Key Government Finance, Inc. (KEY), for renewal of the maintenance services agreement for MTS's Cisco network equipment. The services will be for five years beginning on July 25, 2014 and ending on July 24, 2019.
12. Leased Bus Tires and Services – Contract Amendment
Action would authorize the Chief Executive Officer to execute Amendment No. 3 to MTS Doc. No. B0530.0-10 with The Goodyear Tire and Rubber Company (Goodyear) to accommodate additional staffing and unforeseen additional expenditures associated with the recently implemented service level increase and the contract run-out period anticipated at the end of the current agreement.
13. MTS Task Order Contract for Green Line Communication System Upgrades Design – Phase 2
Action would authorize the Chief Executive Officer to execute Task Order Contract (TOC) MTS Doc. No. G1493.0-13, Work Order 13-05.1 with Kimley-Horn & Associates Inc. to perform Design Engineering for the Green Line Communications System Upgrades Project – Phase 2.

14. Parking Lot Sweeping Services – Contract Award
Action would authorize the Chief Executive Officer to: (1) execute MTS Doc. No. L1197.0-14 with San Diego Sweeping Services for the provision of parking lot sweeping services for a three (3) year base period and two (2) one-year optional terms exercisable at MTS's sole determination; and (2) exercise each option year at the CEO's discretion.
15. Semiannual Uniform Report of Disadvantaged Business Enterprise Awards or Commitments and Payments
Action would receive a report for information.

Action on Recommended Consent Items

Mr. Roberts moved to approve Consent Agenda Item Nos. 6 – 15. Ms. Rios seconded the motion, and the vote was 12 to 0 in favor with Mr. Ovrom, Ms. Emerald and Ms. Cole absent.

CLOSED SESSION

24. Closed Session Items

The Board convened to Closed Session at 9:20 a.m.

- a. CLOSED SESSION – CONFERENCE WITH LABOR NEGOTIATORS PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 54957.6
Agency: San Diego Transit Corp. & San Diego Trolley, Inc.
Agency-Designated Representative: Jeff Stumbo
Employee Organization: Amalgamated Transit Union, Local 1309 (Representing Bus Operators and Clerical Employees at SDTC)
Employee Organization: International Brotherhood of Electrical Workers, Local 465 (Representing SDTI Flaggers)

The Board reconvened to Open Session at 9:36 a.m.

Oral Report of Final Actions Taken in Closed Session

Karen Landers, General Counsel, reported the following:

- a. The Board received a report from negotiators and gave authority.

NOTICED PUBLIC HEARINGS

25. None.

DISCUSSION ITEMS:

30. Enterprise Resource Planning / Transit Asset Management Software Contract Award (Larry Marinesi and Fred LaCroix)

Larry Marinesi, Chief Financial Officer, began the presentation by giving a brief overview of the Enterprise Resource Planning (ERP) / Transit Asset Management (TAM) Software Contract

Award and introduced Fred LaCroix, MTS ERP Project Manager. He discussed the FTA TAM requirements, project approach, project budget, project goals, project structure, and project scope. He stated that the entire project will be broken into three different phases to reduce costs and risk. Mr. Marinesi explained the competitive request for proposals process for the ERP/TAM Software. He stated that SAP America, Inc. (SAP) is the staff recommended solution. He commented that the Executive Committee received this presentation last Thursday, July 10, 2014, and forwarded the recommendation to the Board of Directors for approval. Mr. Marinesi reviewed the overall contract summary for the first phase of the project, stating that the grand total cost for the first phase of the project is estimated not-to-exceed \$2,305,000.

Mr. Ewin asked if there are any ongoing or annual licensing fees. Mr. LaCroix stated that there is a \$600,000 one-time fee and there is also a yearly fee of approximately \$132,000 for software maintenance. Mr. Ewin asked if there was a chance the estimated costs could rise in price. Mr. Marinesi stated that there is a possibility of slightly increased costs for the estimated ten year software support services due to inflation. He also stated that they are currently working with SAP to place a cap on the estimated amount as to not have any significant increase in costs.

Mr. Gloria commented that the Executive Committee had an extensive conversation on this matter and recalled that MTS confirmed the software modules have all been purchased and should not require any additional modules. He also asked for confirmation that the only possible increase in cost would be for the software support services. Mr. Marinesi stated that the base of software support services is approximately \$132,000 per year, and that cost may increase due to inflation. He also stated that they will bring back an update on this project to the Board every year to discuss progress and if there have been any significant changes to the costs. Lastly, Mr. Gloria stated that the transition the City of San Diego experienced with their new software system was difficult. He commented that MTS's research of other agencies' implementation will better prepare them in successfully transitioning to the new system. Mr. Jablonski stated that a lot was learned from MTS's previous ERP implementation with Ellipse and from observing and speaking with other agencies. He commented that the process of obtaining a new ERP system has been in the works for almost two years. He stated that every department within MTS is prepared and ready to implement the new ERP/TAM Software.

Mr. Minto commented that after speaking with employees at the City of San Diego, they are still having a difficult time with their system after their implementation. He inquired if we would receive any type of relief from SAP if the software system does not perform to our standards, instead of putting more money into the project. Mr. LaCroix stated that after speaking with managers at other organizations with the same software, their biggest issue was not managing the implementation process properly. Mr. LaCroix also stated that MTS is implementing the newest version of the software which is easier to use than the previous version. Mr. Jablonski commented on some of the lessons learned from the previous implementation with Ellipse and reviewed how we have prepared for this new software. He also stated the implementation process is the largest factor in the success of this system.

Mr. Alvarez inquired if MTS could provide some of the project information to the public via the website. Mr. Marinesi stated that once MTS selects an implementation partner, we can include that aspect into phase two of the implementation.

Action Taken

Mr. Minto moved to authorize the Chief Executive Officer to execute MTS Doc. No. G1680.0-14 with SAP America, Inc. for the provision of software, training services, and ten years of software support services for the Enterprise Resource Planning (ERP) / Transit Asset Management (TAM) Project. Mr. Mullin seconded the motion, and the vote was 13 to 0 in favor with Ms. Cole and Ms. Emerald absent.

31. An Ordinance Amending Ordinance No. 11, Providing for the Licensing and the Regulating of Transportation Services Within the City by the Adoption of a Uniform Paratransit Ordinance (Sharon Cooney and Bill Kellerman)

Sharon Cooney, Chief of Staff, provided a presentation regarding the proposed changes to Ordinance No. 11 and introduced Bill Kellerman, MTS Taxicab Administration Manager. She reviewed the genesis of the proposed changes, proposed revisions to Ordinance No. 11, screening criteria, and the Ninth Amendment to the City of San Diego contract. Ms. Cooney noted that Ordinance No. 11 also dictates the policy for the other jurisdictions and cities in San Diego for which MTS administers taxicabs. Ms. Cooney stated that one item in Council Policy 500-02 will not be recommended by MTS at this time. MTS will not be recommending a requirement for security cameras pending changes in state law.

Chairman Mathis commented on one of the screening criteria regarding the 25 percent of trips being originated from underserved communities. He inquired as to where the number of 25 percent originated and also asked how this requirement would be fulfilled due to this type of business being an on demand system or an as needed basis. Ms. Cooney stated that the City of San Diego has not yet provided a definition for underserved communities. Chairman Mathis also asked if there is documented history of complaints from people being refused service or not being able to get taxicabs when requested while in underserved communities. Mr. Kellerman stated that he spoke with his staff on that matter and they are not aware of any recent complaints of a person being refused service in a specific location. Chairman Mathis suggested obtaining clarification on this matter before including it in the changes to Ordinance No. 11.

Mr. Ewin asked how these changes would impact non-City of San Diego cities. Ms. Cooney stated that the changes would apply to all MTS permit holders, including all cities outside of the City of San Diego for which MTS administers taxicab.

Mr. Minto asked who determines the underserved areas of each city. Mr. Kellerman stated that suburban city taxicabs may drop off in any city of San Diego, however they cannot pick up in any city in San Diego besides their own city. He also stated that City of San Diego taxicabs may drop off or pick up in any city in San Diego. Ms. Cooney stated that the underserved areas of each city would need to be identified.

Ms. Denny inquired if the vehicles still need to comply with all federal and state laws. Ms. Cooney confirmed that all vehicles will need to comply with all federal and state laws. Ms. Denny also asked whether MTS was accepting any liability in adopting the language of the vehicle compliance requirements. Ms. Cooney stated that MTS does not have liability because MTS is indemnified by the City of San Diego.

Mr. McClellan also agreed that the screening criteria regarding that 25 percent of trips originating from underserved communities should be reviewed more extensively before being implemented into Ordinance No. 11. Mr. McClellan stated that the taxicab vehicles in the City of El Cajon are older vehicles. He said most of the vehicles are well maintained older vehicles and would most likely not comply with zero emissions or disability requirements.

Ms. Bragg stated that she is not comfortable with the 25 percent provision until there is a clear definition of underserved areas. She also commented on the long wait times residents were quoted from taxicabs during this past New Year's Eve.

Mr. Mullin asked for clarification on low emission and zero emission vehicles. Mr. Kellerman stated that there are many hybrid vehicles currently in service that comply with this requirement. Mr. Mullin asked if taxicab companies will have a phase-in time to purchase low emission or zero emission vehicles. Mr. Kellerman stated that all taxicabs will have to comply with this requirement by the year 2020.

Mr. Roberts commented that he believes there are other vehicles other than hybrid vehicles that would comply with this requirement.

Public Speakers

Michel Anderson – San Diego Transportation Association. Mr. Anderson commented on behalf of the San Diego Transportation Association. He said he is not sure where the 25 percent figure came from regarding underserved communities. Mr. Anderson stated that he believes that GPS should be spelled out as Global Positioning System in the Ordinance. He believes there should be a successor clause in the Ordinance stating that in the event that a permit holder passes away, the permit should be passed onto family or next of kin. Mr. Anderson said he does not see a demand for 50 percent of the vehicles to be ADA compliant. He commented that he hopes to see MTS address the unregulated taxicab companies known as the transportation network companies (TNCs). He stated that TNC drivers do not usually have background checks; however every taxicab driver is required to go through a background check.

Mr. Roberts asked Mr. Anderson if there will be an issue for the taxicab vehicles to meet requirements by 2020. Mr. Anderson stated that he does not foresee a problem fulfilling that requirement by 2020.

Margo Tanguay – Ms. Tanguay stated that she leases a USA taxicab. She said that taxicab drivers are required to have a Sheriff's permit. Ms. Tanguay said that all permit holders are required to have background checks. She stated that USA taxicab uses a program called FlyWheel which is used to determine the distance a taxicab is from a passenger. Ms. Tanguay commented on underserved areas in San Diego. She also stated that she wants to see more training for new taxicab permit holders.

Chairman Mathis proposed to not include the item regarding underserved communities in the changes to Ordinance No. 11 until further clarification.

Mr. Minto inquired whether or not time was a factor in making the changes to Ordinance No. 11. Ms. Cooney stated that this is not a time sensitive matter and that the changes were requested by the City of San Diego.

Action Taken

Mr. Minto made a motion to return Ordinance No. 11 to MTS staff for further review and to return Ordinance No. 11 to the Board at a later date with updated changes to the language. Mr. Alvarez seconded the motion, and the vote was 13 to 0 in favor with Ms. Cole and Ms. Emerald absent.

32. Board Policy 62 - First Amendment Activities on MTS Property (Karen Landers)

Karen Landers, General Counsel, provided a presentation on the proposed adoption of MTS Board Policy 62 for First Amendment Activities on MTS property. She discussed the purpose, development and elements of the MTS Board Policy on First Amendment activities.

Ms. Denny asked what percentage of MTS property is prohibited from First Amendment activities. Ms. Landers stated that she has not conducted a statistical catalog; however she did state that there are many stations where MTS only owns the trolley platforms and the areas around the platforms are owned by the city. Ms. Landers stated that the majority of MTS's permitted areas are located at larger transit stations.

Mr. Minto asked for clarification on whether or not this policy applies to posting letters and documents on MTS property. Ms. Landers stated that MTS does not allow posting of letters and documents on MTS property.

Ms. Bragg inquired if all stations had been reviewed for this policy. Ms. Landers stated that a system wide tour was conducted for the purposes of this policy. She also commented that the Blue Line is currently under construction and cannot accommodate First Amendment activities until the construction is completed.

Mr. Gloria asked if any stakeholders had been informed of this proposed policy. Ms. Landers stated that MTS has not informed any stakeholders, however in the past there have not been any issues with this matter. Ms. Landers also stated proposed changes will be brought back to the Board if MTS receives feedback from other organizations regarding the policy.

Mr. Alvarez inquired about the Blue Line stations that are prohibited from First Amendment activities. Ms. Landers stated that due to the current construction on the Blue Line, those stations are prohibited until the construction is completed. She also noted that stations that only have paid fare zones will not be permitted for First Amendment activities. Ms. Landers stated that an evaluation of the Blue Line will take place once the construction is complete.

Action Taken

Mr. Roberts moved to (1) adopt the proposed San Diego Metropolitan Transit System (MTS) Board Policy 62 governing First Amendment Activities on MTS Property; and (2) authorize the Chief Executive Officer to add, remove or modify MTS Board Policy 62 Exhibits B and C relating to the "Designated Areas" in which First Amendment Activities are permitted as necessary to maintain safe and efficient use of MTS property for transit purposes. Mr. McClellan seconded the motion, and the vote was 13 to 0 in favor with Ms. Cole and Ms. Emerald absent.

REPORT ITEMS

45. Student Pass Pilot Program (Sharon Cooney, Marcus Smith and Janelle Carey)

Ms. Cooney began the presentation by introducing Janelle Carey, Associate Transportation Planner, and Marcus Smith, Compass Card Supervisor. Ms. Carey continued the presentation by stating that Becky Philpott, Program Manager for Drop Out Prevention at the San Diego Unified School District, was in the audience and could help answer questions. Ms. Carey reviewed the background of the pilot program. Mr. Smith reviewed charts detailing the statistics of the pilot program and the number of passes distributed and used by the students. Ms. Carey reviewed the average compass card taps per day per student for March 2014. She reviewed the days and times passes were used within the pilot program. Ms. Carey also provided the next steps that will take place with the program. Ms. Cooney added that the school district indicated they have \$180,000 to contribute to this program.

Public Speakers

Maria Cortez – Mid-City CAN. Ms. Cortez stated that they would like to train the students on how to properly ride public transit. She said they are going to look into corporate funding for this program in the future. She said that cap and trade passed and included ridership programs and they will try to apply if they see an increase in ridership with this program. Ms. Cortez said they would like to extend their program to the other cities in San Diego and eventually throughout the whole state.

Barbara Navarez – Mid-City CAN. Ms. Navarez stated they are working to help educate the students on how to ride public transportation. She said that she would like to see the program expand throughout the whole county of San Diego. Ms. Navarez said that riding public transportation helps the environment and increases youth attendance in school. She said the youth are feeling more secure and have more opportunities to participate in extracurricular activities.

Richard Barrera – San Diego Unified School District. Mr. Barrera stated that the basic idea of the pilot program came about several years ago when students' families were not able to afford transit passes which resulted in higher tardiness and lower attendance. He stated that they are going to go through a second year of this pilot program and have allocated their resources to do so and are requesting a 33 percent discount from MTS to help in continuing the program.

Mr. Roberts asked Mr. Barrera if the pilot program originally planned to target students who were missing school and to try and increase their average daily attendance to increase funding to the schools to sustain the program. Mr. Barrera stated that there were multiple premises at the beginning of the pilot program, including increasing attendance and decreasing tardiness. He stated that the school district is still currently trying to calculate the data of school attendance from the first year of the pilot program. Mr. Roberts inquired on the status of the cap and trade that was mentioned by the other speakers. Mr. Barrera replied that there is language currently in cap and trade that will not explicitly require some of the money to be used for youth transit passes. Mr. Roberts inquired if the average daily school attendance statistics were available. Mr. Barrera stated that they should have that data before the beginning of the upcoming school year.

William Rodriguez – Mr. Rodriguez stated that he strongly supports the youth pilot program. He uses the transit pass and is not tardy to school. He said that his family will be able to save money with the transit pass.

Stephanie Vera – Ms. Vera said that this program has helped her get to school on time, participate in extra-curricular activities, and has saved her family money.

Diamond Andrews – Ms. Andrews stated that she would like to see the youth pass program continue. She said that she is able to do extra-curricular activities and community service.

Jasmine Andrews – Ms. Andrews said that she and her sister use the bus pass almost every day. She said that for the next six months she will be volunteering at Sharp Memorial Hospital in Kearny Mesa and will use the bus pass.

Cristian Vaquero – Mr. Vaquero said that once he obtained the bus pass he was able to attend class more regularly. He said the pass has helped his family save money every month.

Guadalupe Flores – Ms. Flores stated that the youth transit pass has helped her in many different ways including looking for a job. She said that she used to have to walk home by herself and now she feels safe because she can ride the bus home.

Margo Tanguay – Ms. Tanguay commented on the youth pilot program and said the next generation using this pass will be using transit in the future. She said that she believes looking at other outside funding could help the program continue.

Alondra Zepeda – Ms. Zepeda stated that she would like MTS to continue to support the youth pass program. She said that students are able to participate in community service programs, attend school, and feel safer going home.

Emanuel Felix – Mr. Felix said that the pass has opened up new opportunities for him and other students. He said that the pass has also saved his family money. He would also like to see the program expand to other students.

Elizabeth Segura – Ms. Segura said that she depends a lot on the bus pass because her family does not have a car. She stated that this pass saves her family money every month.

Miriam Zaragoza – Ms. Zaragoza stated that this pass helps her family save money and she is now able to do community service. She said that she is very thankful to have her bus pass.

Abdulrahim Mohamed – Mr. Mohamed discussed the history of the youth pass pilot program. He discussed the results of the independent evaluation report that was conducted on a percentage of the passes in the pilot program. Mr. Mohamed reviewed statistics found from students using the youth transit pass. He also reviewed the key lessons learned from the program. He stated they are asking MTS to discuss the following proposals at the next Board meeting: a promotional discount of 33 percent for passes sold to the program and a feasibility study on a similar discount for all other school districts.

Emily Serafy Cox – Ms. Serafy Cox gave up her spot to speak so Mr. Mohamed could have a longer speaking slot.

Adam Ward – Mr. Ward gave up his spot to speak so Mr. Mohamed could have a longer speaking slot.

Board Member Comments

Mr. Gloria commented on the truancy issue with the students and asked when we should expect to receive the truancy data. Ms. Philpott stated that the truancy evaluation period is usually completed within the year. She said that the school district wanted to extend the program through the next year so they will have more time to evaluate the truancy data more thoroughly. Ms. Philpott stated that she expects the previous year's truancy data to be available by the fall. She also clarified that the school district will not receive any additional money for more students attending school. Mr. Gloria asked if the funding going forward would be sufficient enough for the program to continue throughout the next year. Ms. Philpott stated that the funding they have will be able to help continue the program throughout the next year for the students that have been using their passes regularly. Mr. Gloria asked if the youth school passes outside of the program are given a bulk discount. Ms. Cooney stated that MTS follows the regional fare ordinance and the youth passes are not given a bulk discount.

Mr. Roberts commented on the number of passes and the amount of money that would have to be made to sustain the program. He stated that the school district is providing about 500 passes for the next year. If the amount of passes for the next year were increased from 500 to 550, the cost would raise by about \$18,000. Mr. Roberts stated that due to budget restraints, MTS may not be able to fund that additional money; however he would try and find a way to raise that money outside of MTS for the next year. Mr. Roberts stated that after the next year's program is completed, a new solution will be needed to sustain the program in future years. He stated that he would like to meet, outside of MTS, with the school district and Mr. Gloria to find a reasonable solution for the next upcoming year.

Mr. McClellan inquired if there was any data from the schools on the monthly attendance of the students who participated in the youth pass program. He stated that the initial main purpose of the pilot program was to see an increase in student attendance.

Mr. Gastil commented on student participation in community service activities. He stated that Helix High School has a community service requirement for graduation and he believes the schools in the San Diego Unified School District may have a similar requirement. Mr. Gastil recommended looking at possibly having the community service organizations contributing to the youth transit pass program.

Mr. Alvarez commented that he is interested in receiving an analysis of the 33 percent discount to the youth transit passes. He also stated that he would like to have this item come back as an action item at a future Board meeting.

Mr. Jablonski stated that increasing the passes from 500 to 750 and decreasing the price of the passes from \$36 to \$24 would have a total overall cost of \$90,000.

46. Operations Budget Status Report for May 2014 (Luke Kromer)

The report was waived.

47. Pacific Imperial Railroad (PIR) Desert Line Agreement – Status Update (Karen Landers)

Mr. Jablonski provided an update regarding the Pacific Imperial Railroad (PIR) Desert Line agreement. He stated that the contract with PIR is currently in good standing. Mr. Jablonski said the milestone payment of \$500,000 was due on July 1, 2014. PIR did not submit payment on July 1, 2014, and a notice of default was sent to PIR's attention on July 2, 2014. He stated that the contract calls for a 10-day cure period, and on July 11, 2014, PIR paid the full amount which brought the contract back into good standing. Mr. Jablonski reported that the contract is not just a lease payment, but also has required milestones that must be met for the contract to be in good standing. He stated that there have been two items since inception of the contract, other than the lease payments. One of the items, the business plan, had multiple components that were required, including the executive summary, proposed make up of management team, financing plan, marketing plan, strategy and implementation plan. The business plan was submitted according to schedule. Mr. Jablonski stated that the second item was the reconstruction plan. He said following acceptance of the business plan, PIR would expand efforts to survey the Desert Line and the numerous bridges and tunnels to create a reconstruction plan so the line could safely operate freight. Mr. Jablonski noted that many of the bridges are currently not in safe condition, which is why the line has been embargoed. He stated that PIR contracted with J.L. Patterson, a local firm that MTS uses on many construction projects, to survey the Desert Line. PIR has submitted a draft reconstruction plan and a supplemental reconstruction plan.

Mr. Jablonski stated that a total of \$1,500,000 in payments have been made to MTS since July 2013. He said the payments have been made in \$500,000 increments every six months. Mr. Jablonski stated that MTS has used two of those payments for capital improvement projects on the MTS light rail system. He confirmed that MTS has received the reconstruction plan and supplemental plan and our technical and real estate engineering staff are reviewing the plans and action will be taken soon to approve that plan. MTS will then decide if any supplemental required conditions need to be added to the plan. Mr. Jablonski stated that after the reconstruction plan is approved, a twelve month timeline will begin for the initial repairs milestone. The initial repairs milestone will consist of PIR repairing the Desert Line so a test train can be run on the line by September 2015. By December 2015, PIR will have a limited operations deadline, which includes requirements for the track to be at Class II standards and three trains must be operating on the line per week. Mr. Jablonski stated that once limited operations begin, payments will be provided on a quarterly basis in the amount of \$250,000, rather than \$500,000 every six months. He stated that by January 2017, the quarterly payments will increase by about 5 percent. Once full freight operations are in place, the payments will either be \$1,000,000 per year or 15 percent of gross revenues, whichever amount is higher.

Mr. Jablonski stated that PIR has been very active in this project over the last year and has spent real money assessing the Desert Line to prepare for the reconstruction plan. PIR is currently negotiating the freight agreement on the Mexican side of the border. He stated they have been pursuing two different options for negotiations, including a joint venture activity with Baja Rail or an option at the Lindero property, approximately 800 meters south of the border, where they could potentially develop a trans load facility. If PIR does not obtain a cooperative agreement with Baja Rail, they could develop the Lindero property. PIR would need to obtain a concession from the government to be able to operate south of the border and then goods could be shipped to the trans load facility and put on the rail for transportation across the border and eastward. Mr. Jablonski stated that negotiations have been slow and that both he and Karen

Landers, General Counsel, have met with representatives of the Mexican government urging them to try and obtain a bi-national freight agreement in order to generate the kind of revenue that will be needed to reconstruct the Desert Line. The Desert Line will ultimately cost about \$50,000,000-\$100,000,000 in repairs to generate the full freight activity that is expected.

Mr. Jablonski noted that MTS received a letter from Congressman Denham and Congressman Hunter on June 27, 2014 and a response letter was sent on July 9, 2014. He stated that MTS received a second letter from Congressman Hunter on July 16, 2014, and a response letter will be prepared. Mr. Jablonski stated that even though there is an annual lease payment for the Desert Line, it is important to understand that there are multiple milestones associated with the line and if those milestones are not completed in a reasonable time period, the contract will be in default resulting in PIR losing the Desert Line. Mr. Jablonski said the Desert Line was originally subleased to Carrizo Gorge Railway (CZRY) and MTS did not earn any revenue on the lease. He stated that the lease was originally given to Rail America to develop the line and the lease was issued until 2034. He stated that under the original contract, Rail America had an option to buy the Desert Line for approximately \$5,000,000, and that amount would have been financed over the entire length of the contract until 2034, resulting in modest payments. Rail America sold their lease rights to PIR for approximately \$100,000. Mr. Jablonski stated that at the time this contract was signed, there were no other interested parties in the Desert Line. Mr. Jablonski lastly stated again that the contract is currently in good standing and the performance milestones have been very well laid out. If the performance milestones are not met, the line will come back to MTS and be pursued in a different manner.

Board Member Comments

Mr. Mullin inquired about the financing portion of the business plan milestone and asked if PIR's plan was reasonable enough to acquire the financing they need. Mr. Jablonski said that originally the financing plan was fairly open and that PIR would have been able to obtain financing. He stated that this situation is similar to the way MTS does joint development work on our transit oriented development projects. MTS does not really focus on where the developer is getting the money, but they do have to ultimately show that they have the money for MTS to pursue the project. Mr. Jablonski said that instead of spending a lot of time getting into financials and how they were going to secure the money with terms and conditions, MTS decided to set performance milestones and let PIR be entrepreneurial and if they do not perform in a reasonable amount of time, the contract will default.

Mr. McClellan stated that he believes MTS made a great deal with this contract now that we are making \$1,000,000 per year, when there was previously no revenue resulting from the line. Mr. Jablonski added that there are no MTS dollars being put into this agreement.

Public Speakers

Mitchel Beauchamp – Mr. Beauchamp stated that there are economic interests in this rail line from the City of Tijuana, Tecate and the Mexican government. He stated that even though MTS received a lot of money, it does not mean that the line will open. He asked Mr. Jablonski several questions, including whether MTS has asked for extra legal service for this matter and if so, how much would that cost; has MTS responded to Congressman Hunter's various inquiries to his satisfaction; are any other investigations going on related to MTS or its contractors particularly

with regard to freight operations; and whether or not Mr. Jablonski plans to retain his position at MTS after the bad remarks regarding his career by the media.

Chairman Mathis asked Mr. Jablonski if he wished to respond to the questions presented.

Mr. Jablonski stated that MTS has not hired any special outside counsel for this matter. He stated that MTS has responded to Congressman Hunter's claim from the first letter and will respond to the second inquiry. He replied that MTS is not aware of any other investigations going on and the MTS Board has been well informed and the briefings have been very thorough and transparent. He also stated that he does not see the damage to his career and that he serves at the pleasure of the Board.

Hector Gonzalez – City of Tecate. Mr. Gonzalez stated that he represents the City of Tecate on its railway development project. He stated that their projects include promoting rail service to freight and rail passenger customers and supporting the State of Baja California. Mr. Gonzalez said other goals include securing rail service through the city with automatic grade crossings, warning devices with audible and visible protection which will be helped by federal funding. Mr. Gonzalez said they would like MTS to utilize the funding paid by PIR to specifically invest on the Desert Line reconstruction project so construction can be stimulated as soon as possible. He suggested for MTS to coordinate with SANDAG to allocate TransNet funds to the Desert Line and to coordinate with PIR to apply for tiger grants, which are authorized to freight railroads that have similar existing projects. He stated that this will allow more shippers to the railroad and avoid truck congestion through tax payer maintained freeways.

Board Member Comments (continued)

Mr. Alvarez stated that he had a list of questions he wanted to discuss. He inquired if a business plan had been submitted to MTS. Ms. Landers confirmed it was submitted. He asked if the business plan was a public document. Ms. Landers stated that it was not a public document. He asked if there was a financing plan as part of the business plan. Ms. Landers replied that there is a financing plan element to the business plan and it is anticipated that as the project further develops, PIR will need to supplement an amended business plan. Mr. Alvarez commented that he read that PIR presented, to MTS, that they had \$100,000,000 available to repair the line. He asked if that was true. Ms. Landers stated that was not true. Mr. Alvarez asked if the business plan was approved. Ms. Landers stated that the plan has been accepted but not yet approved and changes to the plan are expected. Mr. Alvarez commented on the language in the contract regarding the business plan. He said the contract states that the submittal of the business plan will be reviewed and approved no later than 30 days of the effective date of the lease. Ms. Landers stated that MTS reviewed the business plan and accepted it, but we have the right to go back to PIR after their project has developed and request an amended and supplemental business plan to reflect the financing obtained, the rights received to operate in Mexico, and other various features that would impact the business plan. Mr. Alvarez asked if MTS is participating in discussions with Baja Rail to figure out a joint venture. Mr. Jablonski stated that MTS is not a part of those ongoing discussions. Mr. Alvarez asked if MTS is participating in discussion with Mexican government officials. Mr. Jablonski stated that MTS has not had ongoing discussions, but has met with the Secretary of Economic Development for the State of Baja California. Mr. Jablonski also stated that as time goes on, he believes that MTS may begin ongoing discussions with Baja Rail. Mr. Alvarez commented on Congressman Hunter's allegations that the SEC is conducting an investigation of this transaction and inquired if MTS

had been contacted by the SEC. Mr. Jablonski stated that MTS has not been contacted by the SEC or any other federal agency. Mr. Alvarez inquired about the timeline of the reconstruction plan milestone. Ms. Landers stated that the reconstruction plan was due within 90 days of the contract to keep an aggressive timeline, but the repairs milestones were set to occur 12 months after approval of the Desert Line reconstruction plan, because there was no reasonable expectation that all repairs would be identified within the first 90 days of the contract. She stated that their process has been that they submitted an initial reconstruction plan, which is not a public document, and then spent time negotiating with J.L. Patterson to do field work and inspections to update the reconstruction plan report. Due to PIR's actions, MTS believes with reasonable diligence, they were pursuing that milestone. She said that MTS also wanted to wait until J.L. Patterson finalized their work to be able to approve the reconstruction plan. Mr. Alvarez commented on his concern of the payments being utilized for MTS capital improvement projects. He noted that he previously suggested that MTS should set aside funding for anything related to helping open the Desert Line. He would like to have a future discussion on setting aside money from the last lease payment to help repair the line.

Mr. Roberts commented on the fact that MTS has received virtually no money for this line in the past years and has had no progress on the line. He stated that the first substantial thing that has happened for this line is MTS receiving \$1,500,000, which has gone to a lot of MTS services that directly helps the budget. He commended Mr. Jablonski and Ms. Landers on the great job of pursuing the best interests for MTS and said that hopefully an agreement can be reached with the Mexican officials that will facilitate the operation of the line.

Ms. Salas stated that she appreciated the report and receiving the updated information regarding the Desert Line. She commented that we cannot lose sight of the broader goal, which is to have the line open and operational to bring increased economic development.

Mr. Gastil commented that he is very hopeful for the Desert Line. He stated that the potential for economic development is very large and future generations will appreciate the work that has been done. Mr. Gastil asked for clarification as to what context we are talking about the Mexican Government versus the State of Baja California. Ms. Landers stated that in general, the railroad rights in Mexico are owned by the federal government which is controlled by the Secretary of Communications and Transportation. They have granted those railroad rights to the State of Baja California and the Baja Governor's office has an agency they created called Admicarga. Admicarga has granted a concession to Baja Railroad, the current contractor for the Mexican government that has the rights over this segment of line. She reviewed the various alternatives that have been explored as to how to obtain those rights to operate on that segment of the line.

Chairman Mathis expressed his opinion on the great job that has been done on this challenging situation and appreciates the support from the Board on this issue.

60. Chairman's Report

There was no Chairman's Report.

61. Audit Oversight Committee Chairman's Report

Mr. Ewin reported that the audit process is underway.

62. Chief Executive Officer's Report

Mr. Jablonski reported on his previous travel, including his attendance at the APTA Rail Conference in Montreal; attending a conference in Honolulu, paid for by the Hawaiian Chamber of Commerce; and attending the Transportation Research Board (TRB) TOPS committee meeting in Washington D.C., paid for by the TRB and the National Academy of Sciences.

63. Board Member Communications

Chairman Mathis stated that it is intended for the August Board of Directors meeting to be cancelled.

64. Additional Public Comments on Items Not on the Agenda

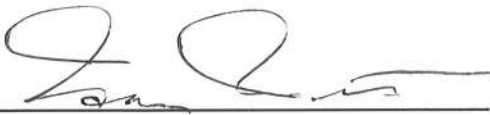
There were no additional public comments.

65. Next Meeting Date

The next regularly scheduled Board meeting is September 18, 2014.

66. Adjournment

Chairman Mathis adjourned the meeting at 12:45 p.m.



Chairperson
San Diego Metropolitan Transit System

Filed by:



Clerk of the Board
San Diego Metropolitan Transit System

Approved as to form:



General Counsel
San Diego Metropolitan Transit System

Attachment: Roll Call Sheet

SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BOARD OF DIRECTORS
ROLL CALL

MEETING OF (DATE): July 17, 2014

CALL TO ORDER (TIME): 9:04 a.m.

RECESS: _____

RECONVENE: _____

CLOSED SESSION: 9:20 a.m.

RECONVENE: 9:36 a.m.

PUBLIC HEARING: _____

RECONVENE: _____

ORDINANCES ADOPTED: _____

ADJOURN: 12:45 p.m.

BOARD MEMBER	(Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
ALVAREZ	<input checked="" type="checkbox"/> (Zapf) <input type="checkbox"/>	9:06 a.m.	12:45 p.m.
BRAGG	<input checked="" type="checkbox"/> (Bilbray) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
COLE	<input type="checkbox"/> (Zapf) <input type="checkbox"/>		
CUNNINGHAM	<input type="checkbox"/> (Mullin) <input checked="" type="checkbox"/>	9:04 a.m.	12:45 p.m.
EMERALD	<input type="checkbox"/> (Zapf) <input type="checkbox"/>		
EWIN	<input checked="" type="checkbox"/> (Arapostathis) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
GASTIL	<input checked="" type="checkbox"/> (Jones) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
GLORIA	<input checked="" type="checkbox"/> (Zapf) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
MATHIS	<input checked="" type="checkbox"/>	9:04 a.m.	12:45 p.m.
MCCLELLAN	<input checked="" type="checkbox"/> (Ambrose) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
MINTO	<input checked="" type="checkbox"/> (McNelis) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
OVROM	<input type="checkbox"/> (Denny) <input checked="" type="checkbox"/>	9:21 a.m.	12:45 p.m.
RIOS	<input checked="" type="checkbox"/> (Sotelo-Solis) <input type="checkbox"/>	9:04 a.m.	11:00 a.m.
ROBERTS	<input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:04 a.m.	12:45 p.m.
SALAS	<input checked="" type="checkbox"/> (Ramirez) <input type="checkbox"/>	9:10 a.m.	12:45 p.m.

SIGNED BY THE CLERK OF THE BOARD: _____

CONFIRMED BY THE GENERAL COUNSEL: _____