



**SAN DIEGO & ARIZONA
EASTERN RAILWAY
COMPANY**

A NEVADA NONPROFIT
CORPORATION

1255 IMPERIAL AVENUE,
SUITE 1000
SAN DIEGO, CA
92101-7490
(619) 231-1466

BOARD OF DIRECTORS
BRAD OVITT, CHAIRPERSON
MATT DOMEN
PAUL JABLONSKI

OFFICERS
PAUL JABLONSKI, PRESIDENT
MATT DOMEN, SECRETARY
ERIN DUNN, TREASURER

LEGAL COUNSEL
KAREN LANDERS

AGENDA

04-10-15 A08:37 IN

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

9:00 a.m.

Executive Committee Room
James R. Mills Building
1255 Imperial Avenue, 10th Floor

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**ACTION
RECOMMENDED**

1. Approval of the Minutes of January 27, 2015
Action would approve the SD&AE Railway Company Minutes of January 27, 2015. Approve
2. Statement of Railway Finances (Larry Marinesi)
Action would receive a report for information. Receive
3. Report on San Diego and Imperial Valley (SD&IV) Railroad Operations (Matt Domen)
Action would receive a report for information. Receive
4. Report on Pacific Southwest Railway Museum (Diana Hyatt)
Action would receive a report for information. Receive
5. Report on the Desert Line (Chas McHaffie)
Action would receive a report for information. Receive
6. Real Property Matters (Tim Allison)
 - a. Summary of SD&AE Documents Issued Since January 27, 2015
Action would receive a report for information. Receive
7. Board Member Communications
8. Public Comments
9. Next Meeting Date: July 14, 2015
10. Adjournment

San Diego and Arizona Eastern Railway Company

4-14-15

Sign-in Sheet (VOLUNTARY)

Name	Company
1. Geoffrey T. Scheerman <i>Geoffrey T. Scheerman</i>	
2. Blake C Jones	GEW/SDIU
3. MATT DORCEY	SDIU
4. Diana Hyatt	PSRM
5. Don Stoecklein	PIR
6. CHAS McHaffie	QZRY
7. Arthur Kennedy	PIR / ALHISON.
8. Don Jones	Trains magazine
9. Lorrain M. Leighton	Disabled Public
10.	
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MINUTES

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

January 27, 2015

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 January 27, 2015, at 9:00 a.m.

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

San Diego Metropolitan Transit System:	Tim Allison, Karen Landers, Wayne Terry, Erin Dunn
Pacific Southwest Railway Museum:	Diana Hyatt
Pacific Imperial Railroad, Inc.:	Dan Neveau, Jeff Kinsell, Charles McHaffie
San Diego & Midwestern Railway Partners, LLC.	Ed Kravitz
FPN USA, Inc.	Geoffrey Scheuerman
Ferrocarriles Peninsulares del Noroeste	R. Mitchel Beauchamp

1. Approval of Minutes

Mr. Jablonski moved to approve the Minutes of the October 21, 2014, SD&AE Railway Board of Directors meeting. Mr. Jones seconded the motion, and it was unanimously approved.

2. Statement of Railway Finances

Erin Dunn reviewed the financial statement for the second quarter of Fiscal Year (FY) 2015 (attached to the agenda item).

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 fourth quarter of 2014 (attached to the agenda item).

Mr. Jablonski inquired about a potential change in the amount of liquid petroleum gas (LPG) being transported. Mr. Domen responded that he anticipates an increase due to Conoco Phillips acquiring a permit from Mexico to import once again. Mr. Domen has been notified that by April 2015, the amount of cars will increase to nearly 100. Mr. Domen also stated that other LPG shippers will also be continuing their imports.

Action Taken

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

4. Report on Pacific Southwest Railway Museum Operations

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

Diana Hyatt requested that the Board grant PSRM possession of a gang car that is chained to the track outside of Jacumba. Diana Hyatt presented to the Board a report from Midland Rail Road Enterprises regarding the repair of a bridge structure at M.P. 66.77, and commented on the desire to have SD&AE assist in the funding of said project. Karen Landers notified the Board that this particular project is in the scope of work covered by the agreement between SD&AE and PIR.

In regards to the PSRM agenda item, Diana Hyatt, Paul Jablonski and Karen Landers agreed that SD&AE would issue PSRM a one year lease. This lease would be revocable on a 30 day notice as to not interfere with the PIR project.

Action Taken

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

5. Report on the Desert Line

Chas McHaffie gave an oral report for the fourth quarter of 2014. Mr. McHaffie reported that PIR had made their \$500,000 payment within the allotted time frame. Mr. McHaffie notified the Board that a new investor group supplied a \$5,000,000 cash letter to PIR to support ongoing negotiations with Mexico.

Chas McHaffie reported that the majority control of PIR has been transferred from The Nevada Group, to Kinsell Enterprises, with Jeff Kinsell being the new CEO of PIR. Mr. McHaffie introduced Dan Neveau as the new president of PIR.

Mr. Jablonski noted that the lease with PIR is in good standing. Mr. Jablonski also noted that the transfer of ownership does not alter the lease in any way. He went on to report that in early December there was a mediation hearing between all parties, and hosted by the US Consul General in Tijuana. The mediation was attended by San Diego Metropolitan Transit System (MTS), Pacific Imperial Railroad (PIR), and Baja Rail, and the governor of Baja's office. The mediation was held for the purpose of furthering the idea of a potential agreement between the railroad entities on both sides of the border for establishing a bi-national railway. PIR had requested of Baja Rail that there be a 50 year operating concession in Mexico. Baja Rail requested that PIR supply working capital for repairs. PIR showed proof of \$5,000,000 in assets assigned to Jeff Kinsell to show that they had working capital. All parties expect to continue mediation in this matter.

Action Taken

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

6. Real Property Matters

A. Summary of SD&AE Documents Issued since October 21, 2014.

Since the October 21, 2014, SD&AE Railway Company Board of Directors meeting, the documents described below have been processed by staff.

- S200-09-383.1: Lease extension to Cox Communications for a billboard at Euclid Ave. and Market St. in San Diego.
- S200-09-413.1: Lease extension to Cox Communications for a billboard at Harbor Drive and Civic Center Drive in National City.
- S200-09-414.1: Lease extension to Cox Communications for a billboard at 28th Street and Harbor Drive in San Diego.
- S200-09-415.1: Lease extension to Cox Communications for a billboard at Imperial Avenue and Merlin Drive in San Diego.
- S200-09-416.1: Lease extension to Cox Communications for a billboard at 32nd Street and Harbor Drive in San Diego.
- S200-15-609: Construction and Maintenance Agreement to SDG&E for at-grade private crossings along the Coronado Branch in Chula Vista.
- S200-15-610: Easements to SDG&E for at-grade private crossings along the Coronado Branch in Chula Vista.

B. F Street Underpass Crossing Interstate 5 in Chula Vista

Mr. Tim Allison submitted and reviewed an informational report regarding the F Street Underpass crossing Interstate 5 in Chula Vista.

Public Comment – Ed Kravitz

Mr. Kravitz addressed the Board regarding the Coronado Belt Line and the crossing at F Street. Mr. Kravitz went on to say that he has plans to work with The City of Chula Vista, The City of Imperial Beach and The City of National City to renew interest in the Coronado Belt Line due to growing traffic issues. Mr. Kravitz expressed concern about the proposed bike lane because if the diamonds are removed at F Street, there are very few options left for rail traffic to enter the Coronado Belt Line. Mr. Kravitz urged the Board to either not go through with the bike trail, or find another way for rail traffic to enter the Coronado Belt Line. Mr. Kravitz followed up by asking the Board to consider leasing or selling the right of way in question for the purpose of revitalizing the Coronado Belt Line.

Action Taken

Mr. Domen moved to receive the reports for information. Mr. Jones seconded the motion, and they were unanimously approved.

7. Board Member Communications

Mr. Jablonski asked Mr. Domen about the steep decline of cars originating in Mexico with SD&IV. Mr. Domen commented that the number of originating cars has always been very low. Mr. Domen commented that he and his marketing director recently met with rail officials in Mexico in order to educate them that the line is in service five (5) days a week. Mr. Domen reported that there is a warehouse and yard being built in Mexico and that he is anticipating some increase in traffic.

8. Public Comments

Reena Deutsch – Ms. Deutsch inquired about the status of the PIR repair bids.

Karen Landers responded to Ms. Deutsch stating that the milestones for PIR are as follows: September 1, 2015 is the deadline for initial repairs and October 1, 2015 is the deadline for the first test train. Karen Landers reported that MTS will be working with the new control group at PIR to get the updated construction schedule.

9. Next Meeting Date

The next meeting of the SD&AE Railway Company Board of Directors is on Tuesday, April 14, 2015.

10. Adjournment

The meeting was adjourned at 9:41am.



President



General Counsel

SDAE Minutes Template.doc

Attachments: Campo Creek Railroad Structure – M.P. 66.77



MIDLAND RAILROAD ENTERPRISES
(A division of Sierra Northern Railway)

341 Industrial Way
Woodland, CA 95776-6012
Tel: 530-666-9646
Fax: 530-666-2919

Contractor's License No. 7538386

January 26, 2015

Mike Edwards, Director of Railroad Operations
Pacific Southwest Railway Museum
4695 Nebo Drive
La Mesa, CA 91941

Re: Campo Creek Railroad Structure – M.P. 66.77

Mr. Edwards;

Midland Rail has completed a comprehensive on-site evaluation of the M.P. 66.77 railroad bridge structure and consulted with the Pacific Southwest Railway Museum representatives concerning the amount and availability of direct participation by the PSRM in labor, materials and equipment use.

The on-site evaluation determined that the bridge structure is in generally fair condition with needed repairs and the replacement of some deteriorated timber components is necessary.

Midland Rail established a list of needed materials at the time of the evaluation. It was determined in co-operation with PSRM that all needed bridge timber and bracing materials are available to perform the repairs to this structure. The needed timber materials are located in Campo and Jucumba, and require sorting and transport to the Campo Yard and prepared for use. A list of those needed components will follow in this document.

Midland Rail has prepared the following scope of work and a projection of administrative, labor and equipment time to carry out the determined repairs. A budgetary cost estimate has been prepared to include, but not limited to, the administration, labor and equipment to carry out the projected scope of work on the Mile Post 66.77 railroad bridge structure crossing Campo Creek.

Scope of Work – Mile Post 66.77 structure repairs

1. Replace 1 each, 12"x 14"x 14' defective cap at Bent #5 with in-stock relay bridge timber.
2. Remove the existing bridge deck components including but not limited to the running rail and deck ties. Secure all track components for reuse.

3. Upon removal of the bridge deck, all stringers will be evaluated and those components found defective will be prepared for replacement.
4. Replace all determined defective 8"x 17"x 30' stingers as necessary throughout the bridge structure from in-stock relay bridge timbers.
5. Reconstruct the bridge deck using the removed bridge deck components, new materials will include but not limited to tie plugs, track spikes, bolts, nuts and washers as needed. All track components to reconstruct the bridge deck will be taken from on-site stock.
6. Bent #1 – West end – replace two each defective 12"x 12" posts, replace defective 3"x 12"x 28' head wall timbers, install missing sway and sash bracing
7. Bent #2 – Replace defective and missing sway and sash bracing as needed.
8. Bent #3 – Shim post #2 at the cap, replace deteriorated sway bracing.
9. Bent #4 – Replace defective 3"x 8" sway braces and 6"x 8" sash braces.
10. Bent #5 – Replace defective cap as noted in item #1 of the scope of work.
11. Bent #6 – Replace defective sash braces.
12. Bent #7 – Replace defective sash brace.
13. Bent #8 – Install missing sway and sash braces.
14. Due to several bents that appear to be out of plum and are subject to down grade braking by operations, longitudinal bracing will be installed the full length of the bridge on both sides. Longitudinal bracing to be installed will be 6"x 8" bridge timbers taken from stock.
15. Surface approaches as necessary.
16. Remove all repair generated excess materials and debris from the structure site.
17. Replace all defective and or deteriorated bridge stringers with in-stock relay bridge timbers.
18. Prepare a comprehensive materials list determined by the current evaluation and potentially available bridge timbers that may be in stock.
19. Prepare a cost estimate for Administration, Labor and Equipment necessary to perform the determined Scope of Work with consideration to PSRM participation.
20. Midland Rail to prepare a Budgetary Cost Estimate based on the current evaluation, best available information and material needs to include, but not limited to the Administration, Labor, Equipment and Material costs to perform the established Scope of Work.

Budgetary Cost Estimates – Midland Rail has prepared the following budgetary cost estimates to reflect the Administrative, Labor and Equipment costs to perform the above scope of work.

Administration and Labor - Administration and Labor including but not limited to all projected wages and expenses to perform the determined scope of work. The duration of the project is approximately 7 project work days and 2 days for mobilization and demobilization. Projected budgetary lump sum cost for Administration and Labor.....**\$38,055.00.**

Equipment – Support vehicles and bridge tools are included in the estimated administration and labor costs. The project will require the use of a fairly large backhoe, (John Deere 710, 4 wheel drive, or similar) to perform the needed repairs. This equipment would be sourced locally. The estimated cost for a 7 day or 1 week plus rental with jobsite delivery and pick up is estimated at.....**\$4,067.00.**

Materials – It was determined that all materials needed to perform the repairs to the bridge structure at M.P. 66.77 are available in stock on Pacific Southwest Railway Museum property. Some sorting and preparation will be necessary to make those materials ready for use. The following is an approximate list of those needed materials:

392 linear feet of 6"x 8" treated timbers, sash braces
160 linear feet of 4"x 8" treated timbers, sway bracing
7 each – 8"x 17"x 30' treated timbers, stringers
1 each – 12"x 14"x 14', cap
Head wall timbers – 4 each, 3"x 12"x 28' treated timbers
412 each - new 5/8"x 6" track spikes
2 bundles of tie plugs
Replacement track bolts, if necessary
Assorted shim stock
8 pc - of 3/4" all thread, new in 16' to 20' lengths to cut for bolts
2 pc - of 3/4" cold roll for drifts
60 each - 3/4" nuts
60 each – 3/4" bridge washers

All materials needed are in PSRM stock or are available locally. All thread, cold roll material, hex nuts and bridge washers may not be available in stock.
Contingency cost for materials not known to be in stock.....\$500.00

Lump sum budgetary estimate to complete the projected scope of work....\$42,622.00

This estimate is based on the on-site evaluation of the M.P. 66.77 bridge structure and takes into account the available materials and or any equipment or labor made available by the Pacific Southwest Railway Museum. Reduction in the estimated cost may occur based on actual contributions made to the project by the PSRM. A final proposal can be made when the scope of work and resources are finally determined.

Midland Rail awaits your response, any questions or further discussion should be directed to Steven Lackner, Midland Rail Enterprises, ph 530-681-1038 or email midlandrail8@gmail.com

Thank you,
Steven D. Lackner
Project Manager

Agenda

Item No. 2

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

SUBJECT: STATEMENT OF RAILWAY FINANCES

RECOMMENDATION:

That the SD&AE Railway Company Board of Directors receive a financial report for the quarter ending March 31, 2015.

Budget Impact

None

DISCUSSION:

Attached are the financial results for the third quarter of Fiscal Year (FY) 2015, which includes the periods ended March 31, 2015 and 2014.

The current year-to-date revenues are \$762,000 favorable to budget primarily due to the Desert Line Lease revenue not included in the budget, as well as an increase in Lease and Operator Income. Income has decreased by \$76,000 compared to the same period last year primarily due to the decrease in Right of Entry Permit revenue.

Expenses are \$3,000 favorable to budget primarily due to the favorable variance in Outside Services slightly offset by an unfavorable variance in Personnel Costs. Expenses have increased by \$4,000 over the same period last year primarily due to the increase in Outside Services.

The Net Income for the first three quarters of FY15 was \$732,043 compared to net income of \$812,409 for the same period in FY14.

Attachments: SD&AE Operating Statement 3rd Quarter FY 2015

SD&AE Operating Statement FY2015-14

	FY 2015						FY 2014	
	Q1 Actual	Q2 Actual	Q3 Actual	YTD Actual	YTD Budget	Variance	Q1 - Q3 Actual	Variance
Revenues								
Right of Entry Permits	\$ (11,600)	20,506	3,750	12,656	\$ 16,430	\$ (3,774)	\$ 94,678	\$ (82,022)
Lease Income	18,881	17,623	22,236	58,740	48,677	\$ 10,063	49,705	\$ 9,035
Desert Line Lease Revenue	250,000	250,000	250,000	750,000	-	\$ 750,000	750,000	\$ 0
Operator Income - SD&IV 1% Freight Fee	9,000	9,000	2,225	20,225	11,724	\$ 8,501	48,902	\$ (28,677)
Other Income			25,500	25,500	27,875	(2,375)	-	25,500
Total Revenue	266,281	297,129	303,711	867,121	104,706	762,415	943,285	(76,164)
Expenses								
Personnel Costs	32,925	28,889	23,818	85,632	82,425	(3,207)	98,668	13,056
Outside Services	8,050	25,998	3,864	37,912	43,737	5,825	20,569	(17,343)
Risk Management	3,480	3,895	3,850	11,225	11,581	356	10,885	(340)
Misc. Operating Expenses	284	-	25	309	500	191	734	425
Total Expense	44,739	58,782	31,557	135,078	138,243	3,164	130,876	(4,202)
Net Income/(Loss)	\$ 221,542	\$ 238,347	\$ 272,154	\$ 732,043	\$ (33,537)	\$ 765,579	\$ 812,409	\$ (80,366)

Reserve Balance 2014	\$ 1,576,036
Allocated Interest Earnings - Estimated	3,750
Operating Profit/(Loss)	732,043
Reserve Balance 2015 - Estimated	\$ 2,311,829

Agenda Item No. 3

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

SUBJECT:

REPORT ON SAN DIEGO AND IMPERIAL VALLEY (SD&IV) RAILROAD OPERATIONS

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

A report will be presented during the meeting.

Attachment: Periodic Report for the 1st Quarter of 2015



SD&AE Board
C/O MTS
1255 Imperial Avenue, Suite 1000
San Diego, California 92101

April 6 , 2015

Periodic Report

In accordance with Section 20 of the Agreement for Operational Freight Service and Control through Management of the San Diego and Arizona Eastern Railway Company activities of interest for the 1st Quarter of 2015 are listed as follows:

1. Labor

At the end of March 31, 2015 the San Diego & Imperial Railroad had 9 employees:

- 1 General Manager
- 1 Trainmaster
- 1 Manager - Marketing & Sales
- 1 Office Manager
- 1 Mechanical Manager
- 1 Maintenance of Way Employee
- 3 Train Service Employees

2. Marketing

Volume in the 1st Quarter declined 24% as compared to 2014. Bridge traffic had a 40% decrease, primarily driven by a decrease in LPG going into Mexico. Traffic terminating or originating on the SDIY was up 88% versus last year. Increase is due to the addition of two new customers, a ethanol transload operation in San Ysidro, and a plastic storage customer in National City.

3. Reportable Injuries/Environmental

Days through year to date, March 31, 2015, there were no FRA Reportable injuries or Environmental incidents on the SDIV Railroad.

Days FRA Reportable Injury Free: 6570

4. Summary of Freight

	2015	2014	2013
Total rail carloads that moved by SDIY Rail Service in the quarter.	906	1185	1227
Total railroad carloads Terminating/Originating Mexico in the quarter.	621	1033	1043
Total railroad carloads Terminating/Originating El Cajon, San Diego, National City, San Ysidro, California in the quarter.	285	152	184
Total customers directly served by SDIY in the quarter	12	10	10
Regional Truck trips that SDIY Railroad Service replaced in the quarter	2718	3555	3681

Respectfully,

Matt Domen

General Manager

Agenda Item No. 4

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

SUBJECT:

Report on Pacific Southwest Railway Museum

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

A report was not submitted in time for the mail-out.

Attachment: To be provided at the meeting



Pacific Southwest Railway Museum

La Mesa Depot 4695 Nebo Drive La Mesa, CA 91941 619-465-7776

April 7, 2015

SD&AE Board
c/o Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

Re: First Quarter 2015

Dear SD&AE Board:

During the first quarter of 2015, utilizing all volunteer crews, the Pacific Southwest Railway Museum ran 56 passenger trains carrying 2,333 passengers with no FRA reportable accidents or injuries. Total income from SD&AE property for first quarter, 2015 was \$36,462.69. Our check for \$729.25 is enclosed. By comparison, PSRM carried 2,223 passengers during the first quarter of 2014 and total income from SD&AE property was \$36,566.33.

Passenger ridership by comparison to the same quarter in previous years:

2,333 passengers during the first quarter of 2015;	\$36,462
2,223 passengers during the first quarter of 2014;	\$36,566
3,081 passengers during the first quarter of 2013;	\$20,932
3,001 passengers during the first quarter of 2012;	\$27,281
924 passengers during the first quarter of 2011;	\$19,192

Passenger ridership remains steady. Bunny Trains were the only special event trains of this quarter.

PSRM continues to maintain both signalized railroad crossings within our right of way limits performing the monthly and quarterly inspections. PSRM also performs twice-weekly track inspections between MP 59.9 and 66.77. Likewise, our volunteer track crew continues to perform track maintenance tasks, particularly tie replacement on the mainline. During the first quarter, 72 ties were replaced.

On Saturday, January 17th the 14:30 departure of the westbound Golden State train derailed, due to wide gauge near MP 61. The passenger cars on the train did not derail, only the locomotive. It is believed that the heavy rains earlier in the month caused the ties to swell and as they dried out the spikes loosened. There were no injuries or damage, however Golden State trains were cancelled on Sunday, January 18th in order to effect track repairs. Eight gauge rods were installed and six ties replaced allowing for the rerailing of the locomotive and the return of the consist to the museum's yard. Since then, an additional thirty ties were replaced in this curve and the slow order has been removed. This was not an FRA reportable accident as there were no injuries and damages did not exceed \$10,500 in accordance with 49 CFR part 225.19.

Other events during this quarter included the Three Kings Train event in Tecate, B.C., Mexico on Sunday, January 4, 2015. Unfortunately, the daylighting of tunnel 3 and the restoration of the roadbed at Lindero was not completed in time for the museum to provide the train aspect. This year marks the sixth year without a train. Fortunately, progress is being made and we are optimistic that the Three Kings Train aka The Christmas Train will arrive in Tecate on Sunday, January 3, 2016 by train from Campo replete with volunteers, the Three Kings and Santa.

I would also like to take this opportunity to request the donation of two first generation San Diego Trolley cars. We believe such an acquisition complies implicitly with our mission of preserving the physical legacy of railroads in San Diego County. Your consideration in this respect is greatly appreciated.

Sincerely,



Diana Hyatt
President

Agenda Item No. 5

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

SUBJECT:

REPORT ON THE DESERT LINE

RECOMMENDATION:

That the SD&AE Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

A report will be presented during the meeting.

Attachment: Quarterly Report



PERIODIC REPORT

April 14, 2015

The periodic report to the SD&AE Railway Company is produced quarterly by the Pacific Imperial Railroad, Inc. for the SD&AE Board, in fulfillment of contractual requirements and to document activity in the restoration of the line to regional service along with its ongoing improvement for future generations.

Pacific Imperial Railroad, Inc.

First Quarter 2015

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- I. CHANGES IN MANAGEMENT**
- II. GOVERNMENTAL RELATIONS**
- III. DESERT LINE**
- IV. REPORTABLE INJURIES / ACCIDENTS /
ENVIRONMENTAL INCIDENTS**
- V. FREIGHT ACTIVITY**
- VI. MTS OPERATING AGREEMENT REQUIREMENTS**

**APPENDIX A: Letter to MTS dated March 10, 2015 regarding
Incident Report**

I. CHANGES IN MANAGEMENT

- a.** At this time, PIR reports no change in management.

II. GOVERNMENTAL RELATIONS

- a.** PIR has engaged the services of Arturo Alemany, the Founding Partner of B2G, to assist in negotiations with Baja Rail, which are intended to result in a Bi-National Railroad. In the interim, Mr. Alemany is coordinating a Freight Haulage Agreement with Mexico which would allow the movement of Freight upon completion of the improvements on the Mexican and US side of the border.

III. DESERT LINE

a. Reconstruction Plan

- i. Inspections-** PIR submitted its Desert Line Reconstruction Plan Supplement (DLRPS) during the second quarter in 2014 and MTS approved the DLRPS on August 28, 2014.
- ii. Approval-** Karen Landers, General Counsel of MTS, submitted a letter to PIR Approving the Desert Line Reconstruction Plan and Initiation of Initial Repair Milestones. PIR's current plan is to complete the repairs

required to run a Test Train by September 1, 2015, and actually run the Test Train by October 1, 2015, with Limited Operations commencing in late December, 2015.

b. Commencement of Reconstruction-

- i. As a result of the approval on August 8, 2014 of the Reconstruction Plan, PIR coordinated discussions with civil engineering and environmental contractors to commence demolition and reconstruction of the "Priority One" bridges, commencing with the Miller Creek Bridge at MP 66.77.

IV. REPORTABLE

INJURIES/ACCIDENTS/ENVIRONMENTAL INCIDENTS

- i. There have not been any reportable accidents; however during early March of 2015, PIR submitted a response to an inquiry in regards to a train car which had been released by vandals and had jumped the track. A copy of the correspondence and photos is attached.
- ii. There have not been any reportable injuries.
- iii. There have not been any reportable environmental incidents.

V. MARKETING

- a.** PIR is working with Baja Rail in an effort for both PIR and Baja Rail continuing to access the revenue model generated from the flow of products on the Desert Line out of the maquiladoras in Baja California.

VI. FREIGHT ACTIVITY

- a.** Currently, PIR has not commenced revenue generation pending completion of the Construction required to move freight on both Baja Rail and the Desert Line. A tour, led by Fernando Beltran, President and CEO of the railroad line in Baja provided a look, by PIR representatives, at the significant amount of work done in rail crossings, rail and tie replacement, bridge repairs, spur construction, and the daylighting of Tunnel No. 3 in Baja Mexico.

VII. MTS OPERATING AGREEMENT REQUIREMENTS

- a.** Pursuant to the Amended and Restated Desert Line Lease and Operating Agreement between PIR, San Diego and Arizona Eastern Railways Company and the San Diego Metropolitan Transit System, PIR was required to make a \$500,000 payment

during the First Quarter of 2015, which payment was made in early January 2015.

- i. Initial Repairs.** Initial Repairs shall be completed within 12 months after approval, by SD&AE of the Desert Line Reconstruction Plan (“DLRP”). The DLRP was approved on August 28, 2014 commencing a 12 month window in which to complete the Initial Repairs. PIR has obtained a bid for 14 of the bridges required to meet the “Test Train” milestone in addition to a bid from an additional 37 bridges to commence limited operations.
- ii. Rent/Lease Payment:** PIR shall pay SD&AE semi-annually, a lump sum payment of \$500,000.

 - 1. The January 1, 2015 \$500,000 payment was made to SD&AE.



PACIFIC IMPERIAL RAILROAD, INC.

March 10, 2015

Ms. Karen Landers
General Counsel
Metropolitan Transit System
1255 Imperial Avenue, Suite 1000
San Diego, California 92101-7490

RE: Pacific Imperial Railroad-MTS Status

Dear Ms. Landers:

As General Counsel, I have been requested by PIR to prepare this letter in response to your email inquiry dated March 9, 2015 in reference to a derailment on Pacific Imperial Railroad's ("PIR") Desert Line.

First, PIR became aware of the derailment through Diana Hyatt, who understood that the event was discovered by a hiker in the vicinity of the derailment, and reported the event to the police. As we have no investigatory ability, it is unknown as to whether the event was due to railroad trespassing and vandalism, or merely the age of the cars, and defective equipment, which should be scraped. PIR has taken steps to inquire as to scraping the cars through the appropriate means. Additionally, and pursuant to MTS's interest in preventing a safety risk, PIR is assessing other safety issues regarding the Desert Line; however the public should be generally aware that trespassing on a railroad's private property and along railroad rights-of-way are illegal when not pursuant to appropriate permission. In addition, the Desert Line railroad, in particular is inherently a hazardous one.

Since the Federal Railroad Administration (FRA) has jurisdiction of a railroad's reporting obligations, PIR sought the advice of the FRA's office to determine if an Accident/Incident Report was required to be filed pursuant to FRA F 6180.54. As indicated in the Form's guidance, "A railroad need not report the following: Cars derailed on industry tracks by non-railroad employees or non-railroad employee vandalism, providing there is no involvement of railroad employees." Therefore,

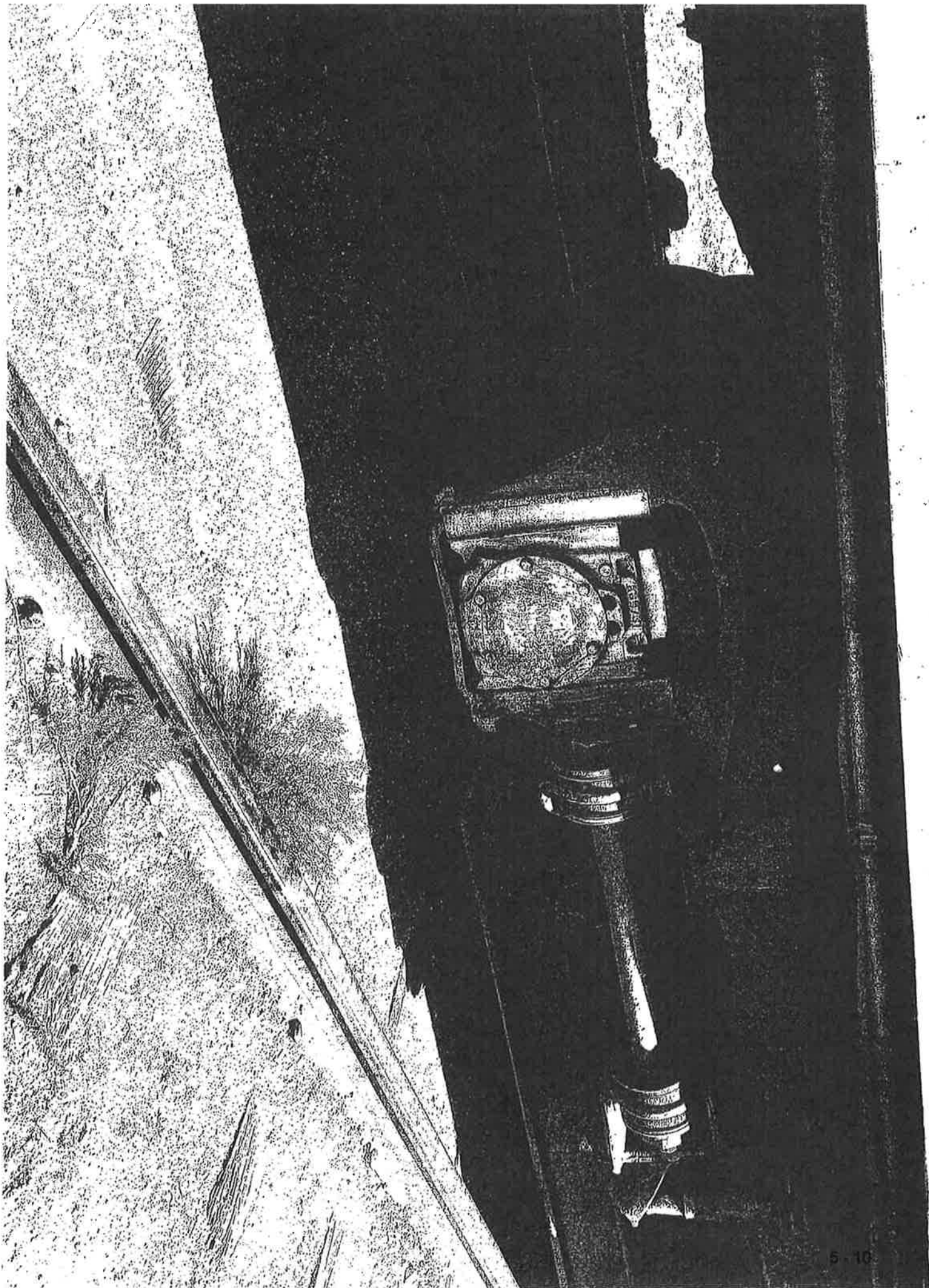
on the advice of the FRA, PIR chose not to report the incident. Additionally, we do not believe the incident was of such value as to require any other form of reporting.

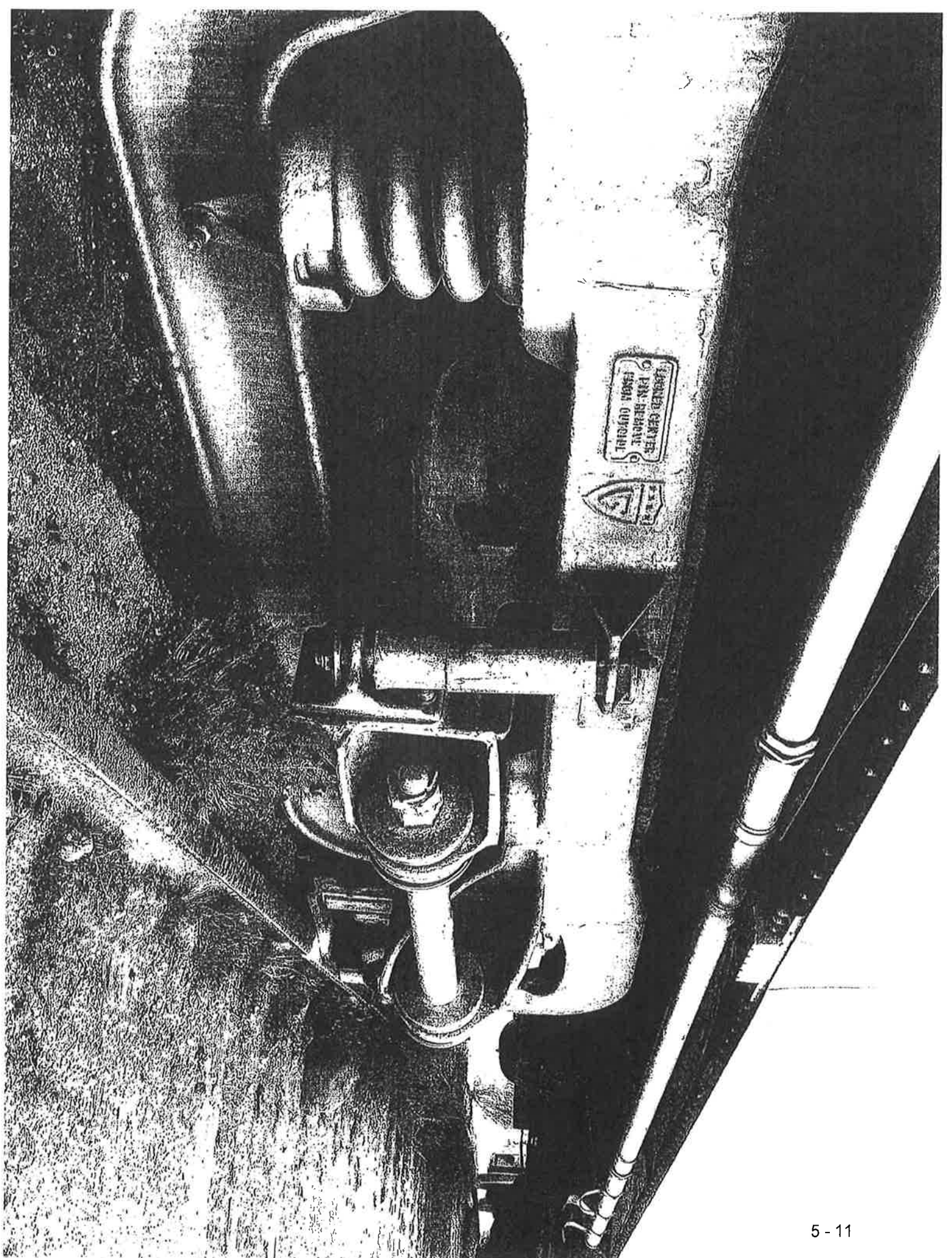
We are enclosing, with this correspondence, pictures of the derailed car for your files. We will keep you informed of any new information on the above as events unfold.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald J. Stoecklein", written over a horizontal line.

Donald J. Stoecklein, General Counsel





Agenda

Item No. 6

San Diego and Arizona Eastern (SD&AE)
Railway Company
Board of Directors Meeting

April 14, 2015

SUBJECT:

SUMMARY OF SD&AE DOCUMENTS ISSUED SINCE JANUARY 27, 2015

RECOMMENDATION:

That the SD&AE Railway Company Board of Directors receive a report for information.

Budget Impact

None.

DISCUSSION:

Since the January 27, 2015, SD&AE Railway Company Board of Directors meeting, the documents described below have been processed by staff.

- S200-15-607: Right of Entry Permit to the Fishel Company to construct underground fiber optics north of Palomar Street on the Coronado Branch in Chula Vista.
- S200-15-613: Property Access Agreement with the U.S. Fish and Wildlife Service for access to the Coronado Branch near Gunpowder Point for environmental testing.
- S200-15-614: License Agreement to the U.S. Fish and Wildlife Service for a birding and walking trail near Imperial Beach on the Coronado Branch.
- S200-15-615: Right of Entry Permit to O'Donnell Construction, Inc. to retrofit the Old Highway 80 Bridge crossing over the Desert Line near Jacumba.
- S200-15-616: Right of Entry Permit to KTA Construction, Inc. to access and perform maintenance on sewer manholes in Hollister Street, south of Main Street in Chula Vista.

- S200-15-618: Right of Entry Permit to Anza-Borrego Desert Natural History Association for a hike along the Desert Line in eastern San Diego County into the Carrizo Gorge.
- S200-15-620: Right of Entry Permit to the City of La Mesa for their Flag Day Parade.