



Board of Directors Agenda

Friday, April 26, 2024
9 a.m.

Welcome to SANDAG. The Board of Directors meeting scheduled for Friday, April 26, 2024, will be held in person in the SANDAG Board Room. While Board members will attend in person, members of the public will have the option of participating either in person or virtually.

For public participation via Zoom webinar, click the link to join the meeting: <https://us02web.zoom.us/j/89952401893>

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Public Comments: Members of the public may speak to the Board of Directors on any item at the time the Board is considering the item. Public speakers are generally limited to three minutes or less per person.

Persons who wish to address the members on an item to be considered at this meeting, or on non-agendized issues, may email comments to the Clerk at clerkoftheboard@sandag.org (please reference Board of Directors meeting in your subject line and identify the item number(s) to which your comments pertain). Comments received by 4 p.m. the business day before the meeting will be provided to members prior to the meeting. All comments received prior to the close of the meeting will be made part of the meeting record.

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Vision Statement: *Pursuing a brighter future for all*

Mission Statement: *We are the regional agency that connects people, places, and innovative ideas by implementing solutions with our unique and diverse communities.*

Our Commitment to Equity: *We hold ourselves accountable to the communities we serve. We acknowledge we have much to learn and much to change; and we firmly uphold equity and inclusion for every person in the San Diego region. This includes historically underserved, systemically marginalized groups impacted by actions and inactions at all levels of our government and society.*

We have an obligation to eliminate disparities and ensure that safe, healthy, accessible, and inclusive opportunities are available to everyone. The SANDAG equity action plan will inform how we plan, prioritize, fund, and build projects and programs; frame how we work with our communities; define how we recruit and develop our employees; guide our efforts to conduct unbiased research and interpret data; and set expectations for companies and stakeholders that work with us.

We are committed to creating a San Diego region where every person who visits, works, and lives can thrive.

Board of Directors

Friday, April 26, 2024

Comments and Communications

1. Non-Agenda Public Comments/Member Comments

Members of the public shall have the opportunity to address the Board on any issue within the jurisdiction of SANDAG that is not on this agenda. Public speakers are limited to three minutes or less per person. Public comments under this agenda item will be limited to five public speakers. If the number of public comments under this agenda item exceeds five, additional public comments will be taken at the end of the agenda. Board members and SANDAG staff also may present brief updates and announcements under this agenda item.

Closed Session

+2. Closed Session: Appointment of the SANDAG Chief Executive Officer (Government Code 54957(b)(1))

Chairwoman Nora Vargas and Vice Chair Sean Elo-Rivera, SANDAG; Pam Derby, CPS HR Executive Search

The Board of Directors is asked to discuss the potential appointment of the Chief Executive Officer.

Reports

3. Appointment of the SANDAG Chief Executive Officer

Approve

Chairwoman Nora Vargas, Vice Chair Sean Elo-Rivera, SANDAG

The Board of Directors is asked to:

1. Discuss and approve the proposed salary, benefits, and other terms of employment with the Chief Executive Officer candidate selected by the Board in Closed Session on April 12, 2024; and
2. Authorize the Chair to execute an employment agreement, including such terms.

[CEO Appointment.pdf](#)
[Att 1 - Term Sheet.pdf](#)

Consent

+4. Approval of Meeting Minutes

Approve

Victoria Stackwick, Tessa Lero, SANDAG

The Board of Directors is asked to approve the minutes from its March 22, and April 12, 2024, regular meetings; and its March 29, 2024, special meeting.

[032224 BOD Minutes.pdf](#)
[032924 BOD Minutes.pdf](#)
[041224 BOD Minutes.pdf](#)

- | | | |
|-----|--|-------------|
| +5. | Chief Executive Officer Delegated Actions*
<i>Andre Douzdjian, Beth Lupu, SANDAG</i> | Information |
| | <p>In accordance with various SANDAG Board Policies, this report summarizes certain delegated actions taken by the Chief Executive Officer.</p> <p>CEO Delegated Actions.pdf
 Att. 1 - Investment Securities Transactions Activity - March 2024.pdf
 Att. 2 - 2023 RTIP Amendment No. 10 - Table 1.pdf</p> | |
| +6. | Mid-Coast Trolley Ridership Update
<i>Cindy Burke, Connor Vaughs, SANDAG</i> | Information |
| | <p>This report provides an update on ridership of the UC San Diego Blue Line Trolley with a focus on the Mid-Coast extension.</p> <p>Mid-Coast Trolley Ridership Update.pdf</p> | |
| +7. | FY 2023 TransNet Extension Ordinance Funding Eligibility Request*
<i>Andre Douzdjian, Marcus Pascual, SANDAG</i> | Approve |
| | <p>The Transportation Committee recommends that the Board of Directors, acting as the San Diego County Regional Transportation Commission, approve the TransNet funding eligibility requests of the City of Solana Beach, Metropolitan Transit System, and North County Transit District.</p> <p>TransNet Extension Ordinance Funding Eligibility Request.pdf
 Att. 1 - Discussion Memo.pdf
 Att. 2 - Letter of Request from MTS.pdf
 Att. 3 - Letter of Request from NCTD.pdf
 Att. 4 - Letter of Request from City of Solana Beach.pdf</p> | |
| +8. | 2025 Regional Plan: Draft Series 15 Growth Forecast Regional and Subregional Results | Information |
| | <p><i>Cindy Burke, Gregor Schroeder, Sarah Hudson, SANDAG</i></p> <p>This report provides an overview of the Series 15 Subregional Forecast of population, jobs, and housing that will be used for the 2025 Regional Plan.</p> <p>2025 Reg Plan Draft Series 15 Growth Forecast.pdf
 Att. 1 - Draft Series 15 Reg Grow Forecast One-Pager.pdf
 Att. 2 - Draft Series 15 Reg Grow Forecast His Comp.pdf</p> | |

Reports

- | | | |
|-----|--|------------------------------------|
| +9. | Management Response to the SR 125 Investigation
<i>Coleen Clementson, SANDAG</i> | Discussion
/ Possible
Action |
| | <p>Staff will present the management response to the Independent Performance Auditor's Report on SANDAG's State Route 125 Toll Operations.</p> <p>Mgt Response to the SR 125 Investigation.pdf
 Att. 1A - SANDAG MGMT Response to OIPA Investigation.pdf
 Att. 1B - Updated Action Plan 4-5-2024.pdf
 Att. 2 - Discussion Memo.pdf
 Att. 3 - Project History.pdf</p> | |

+10. Response by the Office of the Independent Auditor to Management's Response to the SR 125 Investigation

Information

Courtney Ruby, Independent Performance Auditor

The Independent Performance Auditor will present the Office of the Independent Auditor's (OIPA) response to the materials prepared by Management in response to the OIPA Investigation on SANDAG's State Route 125 Toll Operations.

[Response by the OIPA to Mgmt's Response to the SR 125 Investigation.pdf](#)

+11. Process for Removing Tolls on State Route 125

Discussion
/ Possible
Action

Antoinette Meier, Dawn Vettese, SANDAG

Staff will present an overview of the process and anticipated costs and schedule for removing toll only operations from State Route 125. The Board of Directors is asked to provide feedback to staff on next steps.

[Process for Removing Tolls on SR 125.pdf](#)

[Att. 1 - Board Resolution 2023-11.pdf](#)

[Supporting Materials.pdf](#)

Closed Session

12. Conference with Legal Counsel Pursuant to Government Code Section 54956.9 (D)(4) Initiation of Litigation (Three Potential Cases)

~~+13. Conference with Property Negotiators Pursuant to Government Code Section 54956.8~~

~~*Amberlynn Deaton, SANDAG; Matt Carlson and Hunter Rowe, CBRE*~~

~~The Board of Directors will be briefed on the status of the negotiation with interested parties of the sale of real property located at 5965 & 5975 Santa Fe Street, San Diego, CA (Assessor Parcel Numbers 359-010-40 and 359-010-41).~~

This item has been moved to a future meeting.

+14. Closed Session: Conference with Legal Counsel - Existing Litigation Pursuant to Government Code Section 54956.9(D)(1) – Garcia v. San Diego Association of Governments (San Diego Superior Court Case No. 37-2024-00014432-CU-OE-CTL)

The Board of Directors will be briefed regarding the status of the referenced litigation.

15. Closed Session: Conference with Legal Counsel - Existing Litigation Pursuant to Government Code Section 54956.9(D)(1) – Neel v. San Diego Association of Governments (San Diego Superior Court Case No. 37-2023-00011222-CU-WT-CTL)

The Board of Directors will be briefed regarding the status of the referenced litigation.

Adjournment

16. Adjournment

The next Board of Directors meeting is scheduled for Friday, May 10, 2024, at 10 a.m

+ next to an agenda item indicates an attachment

* next to an agenda item indicates that the Board of Directors also is acting as the San Diego County Regional Transportation Commission for that item

Appointment of SANDAG Chief Executive Officer (CEO)

Overview

The Board of Directors (Board) will consider terms and conditions of employment for the preferred candidate for the position of Chief Executive Officer (CEO).

Key Considerations

In October 2023, the Board appointed a six-member Recruitment Subcommittee (Subcommittee) and engaged CPS HR Executive Search (CPS HR) to conduct the recruitment for the CEO position. Following a month-long Stakeholder Engagement program and development of the recruitment brochure by the Subcommittee, the CEO position was advertised nationally in early January and applications were accepted during an 8-week submittal period. More than 250 applications were received.

CPS HR conducted preliminary screening interviews and identified 15 candidates for the Subcommittee to consider. Six (6) candidates were short-listed and interviewed by the Subcommittee on March 22, 2024. Based on those interviews, and subsequent reference checks conducted for the top-rated candidates, the Subcommittee recommended three (3) finalist candidates to the Board; these individuals were interviewed by the Board in Closed Session on April 12.

Following the finalist interviews, the Board identified a preferred candidate for the CEO position and authorized Chairwoman Vargas and Vice Chair Elo-Rivera, the agency's designated representatives (per Government Code section 54957.6), to negotiate terms and conditions of employment that are consistent with organizations comparable to SANDAG. A summary of the proposed salary, benefits, and other terms of employment discussed with the candidate is shown in Attachment 1.

Next Steps

If approved by the Board, the proposed terms and conditions would be incorporated into an At-Will Executive Employment Agreement to be executed by the SANDAG Chairwoman.

Nora Vargas, SANDAG Chairwoman

Attachment: 1. SANDAG Chief Executive Officer - Proposed Terms and Conditions of Employment

Action: Approve

The Board of Directors is asked to (1) discuss and approve the proposed salary, benefits, and other terms of employment with the Chief Executive Officer candidate selected by the Board in Closed Session on April 12, 2024; and (2) authorize the Chair to execute an employment agreement, including such terms.

Fiscal Impact:

Funds for the Chief Executive Officer position have been proposed as part of the FY 2025 Program Budget.

Schedule/Scope Impact:

Upon approval of the terms and conditions of employment, an At-Will Executive Employment Agreement will be executed, effective June 17, 2024.



Summary: Terms of Employment

Contract Term	Three (3) years, with automatic three (3) year renewal unless action taken by either party.
Anticipated Start Date	June 17, 2024
Termination by SANDAG	Six (6) months' notice or remainder of contract, whichever is less, and six (6) months base pay for termination without cause.
Employee Notice of Resignation	120 days
Salary	\$385,000
Salary Increases	Subject to approval by the Board of Directors, and based on the results of annual performance evaluations.
CalPERS Pension	As eligible under applicable CalPERS rules.
Management Benefit	2.5% of annual salary
457 Deferred Compensation Contribution	\$12,500
Medical	Premium paid in full by SANDAG for employee and eligible dependent/s.
Dental/Vision	Premiums paid in full by SANDAG for employee and eligible dependent/s.
Paid Holidays	12 observed holidays and 2 floating holidays
Paid Time Off	28 days (224 hours) annually
Cell Phone Allowance	\$110 per month

March 22, 2024, Meeting Minutes

[View Meeting Video](#)

Chairwoman Nora Vargas (County of San Diego) called the meeting of the Board of Directors to order at 9:02 a.m.

1. Non-Agenda Public Comments/Member Comments

Public Comments: Mike Singleton, Byron Ross, Trent St. Louis, Ben Nicholls, and Gerrie Trussel.

Member Comments: None.

Agency Updates: Chief Executive Officer Coleen Clementson.

Reports

10. Regional Housing Needs Assessment¹

Megan Kirkeby, California Department of Housing and Community Development, presented an update on the Department's efforts to develop recommendations related to the Regional Housing Needs Assessment process and methodology.

Public Comments: Truth, Mark, Michael Brando, Consuelo, The Original Dra, Paul the Bold, and Blair Beekman.

Action: Discussion.

11. Draft FY 2025 SANDAG Program Budget¹

The Board of Directors was asked to consider the Draft FY 2025 Program Budget and to either approve the draft budget as presented, or to direct staff to either make specified revisions to the draft budget or provide the Board with additional information regarding projected revenues or proposed expenditures in the draft budget.

Public comments: Mark, Truth, Michael Brando, Paul the Bold, Consuelo, The Original Dra, and Blair Beekman.

Action: Upon a motion by Chairwoman Vargas, and a second by Second Vice Chair Lesa Heebner (Solana Beach), the Board of Directors voted to approve the draft budget as presented.

The motion passed.

Yes: Chairwoman Vargas, Second Vice Chair Heebner, Councilmember Melanie Burkholder (Carlsbad), Councilmember Carolina Chavez (Chula Vista), Councilmember John Duncan (Coronado), Mayor Bill Wells (El Cajon), Mayor Tony Kranz (Encinitas), Mayor Dane White (Escondido), Councilmember Jack Fisher (Imperial Beach), Councilmember Jack Shu (La Mesa), Mayor Racquel Vasquez (Lemon Grove), Councilmember Luz Molina (National City), Deputy Mayor Ryan Keim (Oceanside), Councilmember Raul Campillo (City of San Diego), Councilmember Ed Musgrove (San Marcos), Mayor John Minto (Santee), and Deputy Mayor Katie Melendez (Vista).

¹ This item was taken out of order.

No: Deputy Mayor Terry Gaasterland (Del Mar) and Mayor Steve Vaus (Poway).

Abstain: None.

Absent: None.

12. Closed Session: Conference With Legal Counsel - Significant Exposure to Litigation Pursuant to Government Code Section 54956.9(D)(2) (One Potential Case)¹

Public Comments: Truth, Mark, Consuelo, The Original Dra, and Blair Beekman.

Chairwoman Vargas recessed the meeting to closed session at 11:17 a.m.

Chairwoman Vargas reconvened the meeting to open session at 12:20 p.m.

General Counsel John Kirk reported out of closed session: the Board of Directors met in closed session on Item 12, and there was no reportable action.

Consent

2. Approval of Meeting Minutes

The Board of Directors was asked to approve the minutes from its February 23, 2024, meeting and March 8, 2024, Retreat.

3. Chief Executive Officer Delegated Actions

In accordance with various Board Policies, this report summarized delegated actions taken by the Chief Executive Officer.

4. 2024 Bike Month and SANDAG Bike Anywhere Day Proclamation

The Board of Directors was asked to adopt Resolution No. 2024-17, supporting May as Bike Month, and encouraging member agencies to approve similar proclamations and promote Bike Month activities including SANDAG Bike Anywhere Day.

5. Funding for Preliminary Planning Studies for a Regional Beach Sand Project III

The Board of Directors was asked to approve a budget amendment total of \$433,657 for preliminary planning studies for a third regional beach sand project.

6. Housing Acceleration Grant Program: Proposed Amendments

The Board of Directors was asked to approve changes to the Cycle 1 Housing Acceleration Program project scopes of work for the City of Santee's CEQA Analysis for Town Center Multifamily Housing Sites and the County of San Diego's Objective Design Standards.

7. Overview of Developments in the Financial Markets, Quarterly Finance Report as of December 31, 2023

This report provided an update on the latest developments in the financial markets, economy, sales tax revenues, and strategies being explored and implemented to minimize possible impacts to the TransNet Program.

8. Approval of Proposed Contract Awards: Inland Rail Trail Bikeway Project and Batiquitos Lagoon Double Track Project

The Board of Directors was asked to authorize the Chief Executive Officer to award a contract to the vendor identified in this report for the Inland Rail Trail Phase 3B Bikeway Project and a task order amendment for the Batiquitos Lagoon Double Track Project.

9. Meetings and Events Attended on Behalf of SANDAG

This report provided an update on meetings and events attended by Board members.

Public Comments: Truth, Mark, Michael Brando, The Original Dra, Paul the Bold, Consuelo, and Blair Beekman.

Action: Upon a motion by Mayor Minto, and a second by Deputy Mayor Keim, the Board voted to approve the Consent Agenda.

The motion passed.

Yes: Chairwoman Vargas, Second Vice Chair Heebner, Councilmember Chavez, Deputy Mayor Gaasterland, Mayor Wells, Mayor Kranz, Mayor White, Councilmember Fisher, Councilmember Shu, Mayor Vasquez, Councilmember Molina, Deputy Mayor Keim, Mayor Minto, and Deputy Mayor Melendez.

No: None.

Abstain: None.

Absent: Carlsbad, Coronado, Poway, City of San Diego, and San Marcos.

Additonal Non-Agenda Public Comments: Alex Wong, Mark, Michael Brando, Truth, Robert Germann, Paul the Bold, Blair Beekman, Consuelo, and The Original Dra.

13. Adjournment

The next Board of Directors meeting is scheduled for Friday, April 12, 2024, at 10 a.m.

Second Vice Chair Heebner adjourned the meeting at 12:42 p.m.

Confirmed Attendance at Board of Directors Meeting

Board of Directors	Title	Name	Attend
City of Carlsbad	Councilmember	Melanie Burkholder (Primary)	Yes
City of Chula Vista	Councilmember	Carolina Chavez (Primary)	Yes
City of Coronado	Councilmember	John Duncan (Primary)	Yes
County of San Diego	Chairwoman	Nora Vargas (Primary)	Yes
County of San Diego	Supervisor	Joel Anderson (Primary)	Yes
City of Del Mar	Deputy Mayor	Terry Gaasterland (Primary)	Yes
City of El Cajon	Mayor	Bill Wells (Primary)	Yes
City of Encinitas	Mayor	Tony Kranz (Primary)	Yes
City of Escondido	Mayor	Dane White (Primary)	Yes
City of Imperial Beach	Councilmember	Jack Fisher (Primary)	Yes
City of La Mesa	Councilmember	Jack Shu (Primary)	Yes
City of Lemon Grove	Mayor	Racquel Vasquez (Primary)	Yes
City of National City	Councilmember	Luz Molina (Primary)	Yes
City of Oceanside	Deputy Mayor	Ryan Keim (Primary)	Yes
City of Poway	Mayor	Steve Vaus (Primary)	No
City of San Diego	Councilmember	Raul Campillo (Alternate)	Yes
City of San Diego	Councilmember	Vivian Moreno (1st Alt)	Yes
City of San Marcos	Councilmember	Ed Musgrove (1st Alt)	Yes
City of Santee	Mayor	John Minto (Primary)	Yes
City of Solana Beach	Mayor	Lesa Heebner (Primary)	Yes
City of Vista	Deputy Mayor	Katie Melendez (Primary)	Yes
Caltrans		Roy Abboud (Alternate)	Yes
Metropolitan Transit System	Deputy Mayor	Matthew Leyba-Gonzalez (Primary)	Yes
North County Transit District	Deputy Mayor	Priya Bhat-Patel (1st Alt.)	Yes
Imperial County	Supervisor	Jesus Eduardo Escobar	Yes
U.S. Department of Defense	Executive Director	Anna Shepherd (Alternate)	Yes
Port of San Diego	Commissioner	Dan Malcolm (Primary)	Yes
San Diego County Water Authority	Director	Mel Katz (Primary)	Yes
SDCRAA	Director	Gil Cabrera (Primary)	Yes
Mexico	Consul General	Alicia Kerber (Primary)	No
SCTCA	Chairwoman	Erica Pinto (Primary)	Yes
Association of Planning Groups	Chair	Robin Joy Maxson	Yes

March 29, 2024, Special Meeting Minutes

[View Meeting Video](#)

Chairwoman Nora Vargas (County of San Diego) called the meeting of the Board of Directors to order at 9 a.m.

Reports

1. The Office of the Independent Performance Auditor's Investigation Report on SANDAG's State Route 125 Toll Operations

Audit Committee Chair David Zito (Solana Beach) introduced the item.

Independent Performance Auditor Courtney Ruby presented the State Route 125 Toll Operations Auditor's Report for discussion and consideration of actions to be taken.

Public Comments: Truth, Michael Brando, Phone #415, Blair Beekman, The OriginalDra, and Samsung.

Action: Upon a motion by Chairwoman Vargas, and a second by Mayor John Minto (Santee), the Board voted to accept the Audit Committee recommendation to implement the 10 recommendations identified in the State Route 125 Toll Operations Investigation Report and: 1) continue to work to confirm customer accounts are accurate; 2) validate with management that no future similar issues identified in the State Route 125 contract process will occur in future contracts; and 3) development of a policy for timely reporting on all multi-million dollar projects. The Board also requested the Office of the Independent Performance Auditor conduct an investigation to determine whether the SANDAG Legal team, Executive Team, and/or any Board members were made aware of the Toll Operations issues prior to the disclosure to the Board of Directors.

The motion passed.

Yes: Chairwoman Vargas, Second Vice Chair Lesa Heebner (Solana Beach), Councilmember Melanie Burkholder (Carlsbad), Councilmember Carolina Chavez (Chula Vista), Councilmember John Duncan (Coronado), Deputy Mayor Terry Gaasterland (Del Mar), Mayor Bill Wells (El Cajon), Mayor Tony Kranz (Encinitas), Mayor Dane White (Escondido), Councilmember Mitch McKay (Imperial Beach), Councilmember Jack Shu (La Mesa), Mayor Racquel Vasquez (Lemon Grove), Councilmember Luz Molina (National City), Deputy Mayor Ryan Keim (Oceanside), Mayor Steve Vaus (Poway), Councilmember Vivian Moreno (City of San Diego), and Mayor Rebecca Jones (San Marcos).

No: None.

Abstain: None.

Absent: Santee and Vista.

2. Adjournment

The next Board of Directors meeting is scheduled for Friday, April 12, 2024, at 10 a.m.

Chairwoman Vargas adjourned the meeting at 11:49 a.m.

Confirmed Attendance at Board of Directors Meeting

Board of Directors	Title	Name	Attend
City of Carlsbad	Councilmember	Melanie Burkholder (Primary)	Yes
City of Chula Vista	Councilmember	Carolina Chavez (Primary)	Yes
City of Coronado	Councilmember	John Duncan (Primary)	Yes
County of San Diego	Chairwoman	Nora Vargas (Primary)	Yes
County of San Diego	Supervisor	Joel Anderson (Primary)	No
City of Del Mar	Deputy Mayor	Terry Gaasterland (Primary)	Yes
City of El Cajon	Mayor	Bill Wells (Primary)	Yes
City of Encinitas	Mayor	Tony Kranz (Primary)	Yes
City of Escondido	Mayor	Dane White (Primary)	Yes
City of Imperial Beach	Councilmember	Mitch McKay (Alternate)	Yes
City of La Mesa	Councilmember	Jack Shu (Primary)	Yes
City of Lemon Grove	Mayor	Racquel Vasquez (Primary)	Yes
City of National City	Councilmember	Luz Molina (Primary)	Yes
City of Oceanside	Deputy Mayor	Ryan Keim (Primary)	Yes
City of Poway	Mayor	Steve Vaus (Primary)	Yes
City of San Diego	Councilmember	Joe LaCava (Alternate)	Yes
City of San Diego	Councilmember	Vivian Moreno (Alternate)	Yes
City of San Marcos	Mayor	Rebecca Jones (Primary)	Yes
City of Santee	Mayor	John Minto (Primary)	Yes
City of Solana Beach	Second Vice Chair	Lesa Heebner (Primary)	Yes
City of Vista	Deputy Mayor	Katie Melendez (Primary)	No
Caltrans	Acting Director	Everett Townsend (Primary)	Yes
Metropolitan Transit System	Deputy Mayor	Matthew Leyba-Gonzalez (Primary)	No
North County Transit District	Deputy Mayor	Jewel Edson (Primary)	No
Imperial County	Supervisor	Jesus Eduardo Escobar	No
U.S. Department of Defense	Executive Director	Anna Shepherd (Alternate)	No
Port of San Diego	Commissioner	Dan Malcolm (Primary)	No
San Diego County Water Authority	Director	Mel Katz (Primary)	Yes
SDCRAA	Director	Gil Cabrera (Primary)	No
Mexico	Consul General	Alicia Kerber-Palma (Primary)	No
SCTCA	Chairwoman	Erica Pinto (Primary)	No
Association of Planning Groups	Chair	Robin Joy Maxson	No

April 12, 2024, Board of Directors Minutes**[View Meeting Video](#)**

Second Vice Chair Lesa Heebner (Solana Beach) called the meeting of the Board of Directors to order at 9:03 a.m.

1. Non-Agenda Public Comments/Member Comments

Public Comments: Michael Brando, Robert Germann, Mark, Truth, and Mike.

Member Comments: Deputy Mayor Terry Gaasterland (Del Mar), Mayor Rebecca Jones (San Marcos), Gil Cabrera (San Diego County Regional Airport Authority), and Everett Townsend (Caltrans D-11).

Closed Session Public Comments: Truth, Allegedly Audra, Michael Brando, and Phone No. #813.

Chairwoman Vargas recessed to closed session at 9:36 a.m.

Closed Session**2. Closed Session: Public Employee Appointment Pursuant to Government Code Section 54957(B)(1) and Conference with Employment Negotiators Pursuant to Government Code Section 54957.6
Title: Chief Executive Officer (CEO); Agency Designated Representatives: Nora Vargas, SANDAG Chairwoman, and Sean Elo-Rivera, SANDAG Vice Chair**

The Board of Directors conducted interviews and considered the selection of a candidate for the position of Chief Executive Officer (CEO) and provided information to the agency designated representatives regarding negotiations with any selected candidate.

Rod Betts, Paul Plevin Quarles, reported out of closed session: The Board met in closed session on Agenda Item No. 2 and made a decision, and the authority is now with the Chair and Vice Chair for negotiations.

Consent**3. Review of Draft Board Agendas**

The Board of Directors was asked to approve the draft Board of Directors agendas for the April 26, 2024, meeting, as amended, and May 10, 2024, meeting.

Public Comments: Michael Brando, Truth, Allegedly Audra, and Paul the Bold.

Action: Upon a motion by Mayor Steve Vaus (Poway), and a second by Councilmember Vivian Moreno (City of San Diego), the Board voted to approve the Consent Agenda, as amended.

The motion passed.

Yes: Second Vice Chair Heebner, Councilmember Melanie Burkholder (Carlsbad), Councilmember Carolina Chavez (Chula Vista), Councilmember John Duncan (Coronado), Deputy Mayor Gaasterland, Mayor Tony Kranz (Encinitas), Councilmember Joe Garcia (Escondido), Councilmember Jack Fisher (Imperial Beach), Councilmember Jack Shu (La Mesa), Councilmember George Gastil (Lemon Grove), Councilmember Luz Molina (National City), Deputy Mayor Ryan Keim (Oceanside), Mayor Vaus, Councilmember Raul Campillo (San Diego), Mayor Jones, and Mayor John Minto (Santee).

No: None.

Abstain: None.

Absent: County of San Diego, El Cajon, and Vista.

Reports

4. Management Response to the SR 125 Investigation

This item was postponed.

5. Closed Session: Conference With Legal Counsel Pursuant to Government Code Section 54956.9 (D)(4) Initiation of Litigation (Three Potential Cases)

This item was postponed.

Continued Non-Agenda Public Comments: Allegedly Audra, Phone #415/Paul the Bold, and Phone #813.

6. Adjournment

The next Board of Directors meeting is scheduled for Friday, April 26, 2024, at 9 a.m.

Second Vice Chair Heebner adjourned the meeting at 2:31p.m

Board of Directors	Title	Name	Attend
City of Carlsbad	Councilmember	Melanie Burkholder (Primary)	Yes
City of Chula Vista	Councilmember	Carolina Chavez (Primary)	Yes
City of Coronado	Councilmember	John Duncan (Primary)	Yes
County of San Diego	Chairwoman	Nora Vargas (Primary)	Yes
County of San Diego	Supervisor	Joel Anderson (Primary)	No
City of Del Mar	Deputy Mayor	Terry Gaasterland (Primary)	Yes
City of El Cajon	Mayor	Bill Wells (Primary)	Yes
City of Encinitas	Mayor	Tony Kranz (Primary)	Yes
City of Escondido	Councilmember	Joe Garcia (Alternate)	Yes
City of Imperial Beach	Councilmember	Jack Fisher (Primary)	Yes
City of La Mesa	Councilmember	Jack Shu (Primary)	Yes
City of Lemon Grove	Councilmember	George Gastil (Alternate)	Yes
City of National City	Councilmember	Luz Molina (Primary)	Yes
City of Oceanside	Deputy Mayor	Ryan Keim (Primary)	Yes
City of Poway	Mayor	Steve Vaus (Primary)	Yes
City of San Diego	Councilmember	Raul Campillo (Alternate)	Yes
City of San Diego	Councilmember	Vivian Moreno (1st Alt)	Yes
City of San Marcos	Mayor	Rebecca Jones (Primary)	Yes
City of Santee	Mayor	John Minto (Primary)	Yes
City of Solana Beach	Second Vice Chair	Lesa Heebner (Primary)	Yes
City of Vista	Deputy Mayor	Katie Melendez (Primary)	Yes
Caltrans		Everett Townsend	Yes
Metropolitan Transit System		Matthew Leyba-Gonzalez (Primary)	Yes
North County Transit District	Deputy Mayor	Jewel Edson (Primary)	No
Imperial County	Deputy Mayor	Jesus Eduardo Escobar	No
U.S. Department of Defense	Supervisor	Dennis Keck (Primary)	No
Port of San Diego	Executive Director	Dan Malcolm (Primary)	No
San Diego County Water Authority	Commissioner	Mel Katz (Primary)	No
SDCRAA	Director	Gil Cabrera (Primary)	Yes
Mexico	Director	Alicia Kerber (Primary)	No
SCTCA	Consul General	Erica Pinto (Primary)	No
Association of Planning Groups	Chairwoman	Robin Joy Maxson	No

Chief Executive Officer Delegated Actions

Overview

Various Board Policies require the Chief Executive Officer to report certain actions to the Board of Directors monthly or upon taking specified actions.

Delegated Actions

Investment Transactions: [Board Policy No. 003](#), Section 11.2, states that a monthly report of all investment transactions shall be submitted to the Board. Attachment 1 contains the reportable investment transactions for March 2024.

Legal Matters: [Board Policy No. 008](#), Section 6.1, authorizes the Office of the General Counsel or outside counsel to file documents and make appearances on behalf of the agency in court proceedings.

In the matter of He v. Metropolitan Transit System (Superior Ct. Case No. 2021-00002319), the following actions were taken by Bremer Whyte Brown & O'Meara on behalf of SANDAG:

- On March 11, 2024, filed a Motion for Summary Judgment and/or Adjudication and supporting documents.
- On April 5, 2024, attended a Status Conference.

On-Call Task Order Awards: [Board Policy No. 017](#), Section 1, authorizes the Chief Executive Officer to enter into any agreements or take any other actions necessary to implement the budget items or other actions approved by the Board. No on-call task orders valued at \$5 million or more were executed in March 2024.

Real Property Transfer: [Board Policy No. 017](#), Section 4.3, authorizes the Chief Executive Officer to execute all real property transfer documents, including but not limited to, rights of entry, licenses, leases, deeds, easements, escrow instructions, and certificates of acceptance. The following real property agreement was approved:

- On March 22, 2024, a Second Amendment to Purchase and Sale Agreement between SANDAG and Rexford Industrial Acquisitions, LLC was executed for the properties at 5965 and 5975 Santa Fe Street, San Diego, CA 92109.

Regional Transportation Improvement Program Administrative Modification: Regional Transportation Commission (RTC) Resolution No. RTC-2020-01 authorizes the Chief Executive Officer to approve administrative modifications to the Regional Transportation Improvement Program (RTIP). Changes are authorized by the requesting agencies by resolution or approved policy. Administrative Modification No. 10 was approved on March 20, 2024. Table 1 (Attachment 2) summarizes the changes made to 3 grouped project listings in the region.

Schedule Extensions: [Board Policy No. 035](#), Section 4.3.1, authorizes the Chief Executive Officer to approve requests by grantees for time extensions on their project schedule of up to twelve months aggregate for good cause if the extension would not cause the project to miss a completion deadline. The delegated action(s) to report to the Board are summarized below:

Action: Information

In accordance with various Board Policies, this report summarizes delegated actions taken by the Chief Executive Officer.

Fiscal Impact:

Two securities reached maturity in March for \$11 million, and one security was purchased for \$6 million, providing approximately \$5 million of liquidity to SANDAG.

Schedule/Scope Impact:

None

Section 5310 Grant Program

Contract No.	Grantee	Project	Extension (in Months)	From	To
S893828	Jewish Family Service	On the Go Northern San Diego	6	9/30/2023	3/31/2024

Environmental Mitigation Program

Contract No.	Grantee	Project	Extension (in Months)	From	To
S1125496	Nature Collective	Annie's Canyon Trail Enhancement and Restoration Project	4	3/2/2024	7/2/2024

Coleen Clementson, Chief Executive Officer

Attachment(s):

1. Investment Securities Transactions Activity – March 2024
2. 2023 RTIP Amendment No. 10 – Table 1

MONTHLY ACTIVITY FOR INVESTMENT SECURITIES TRANSACTIONS
MARCH 1 THROUGH MARCH 31

Transaction Date	Security/Coupon/Maturity Date	Par Value	Original Cost
BOUGHT			
03/25/2024	F F C B DEB 4.125% 3/20/29	\$ 6,000,000.00	\$ 5,961,786.00
	TOTAL BOUGHT:	<u>\$ 6,000,000.00</u>	<u>\$ 5,961,786.00</u>
MATURED			
03/28/2024	F F C B DEB 0.300% 3/28/24	\$ 6,000,000.00	\$ 5,995,500.00
03/29/2024	F H L M C 0.350% 3/29/24	5,000,000.00	5,000,000.00
	TOTAL MATURED:	<u>\$ 11,000,000.00</u>	<u>\$ 10,995,500.00</u>
SOLD			
	NO REPORTABLE SECURITIES FOR THIS MONTH		

Table 1 - Summary of Changes Report (\$000)
2023 RTIP Amendment No. 10

Project ID	Lead Agency	Project Title	Total Programmed Before	Total Programmed Revised	Cost Difference	Percent Change	Change Description
CAL44	Caltrans	Grouped Projects for Bridge Rehabilitation and Reconstruction - Highway Bridge Program	\$218,472	\$235,007	\$16,535	8%	↑ Local Funds
CAL46A	Caltrans	Grouped Projects for Safety Improvements - SHOPP Mobility Program	\$173,830	\$174,873	\$1,043	1%	↑ SB1 - RMRA
CAL46B	Caltrans	Grouped Projects for Safety Improvements - SHOPP Collision Reduction (CR) Program	\$6,504	\$17,451	\$10,947	168%	+ SHOPP-NHS-CR - Collision Reduction

LEGEND:
 ↑ Increase
 ↓ Reduce
 ↔ Revise
 + Add new

Abbreviation

Local Funds
 SHOPP - SB1 - RMRA
 SHOPP - CR

Fund Type

Funds available from other sources such as developer fees, fare revenue or general fund
 State Highway Operation and Protection Program - Roadway Maintenance and Rehabilitation Account
 State Highway Operation and Protection Program - Collision Reduction

Mid-Coast Trolley Ridership Update

Overview

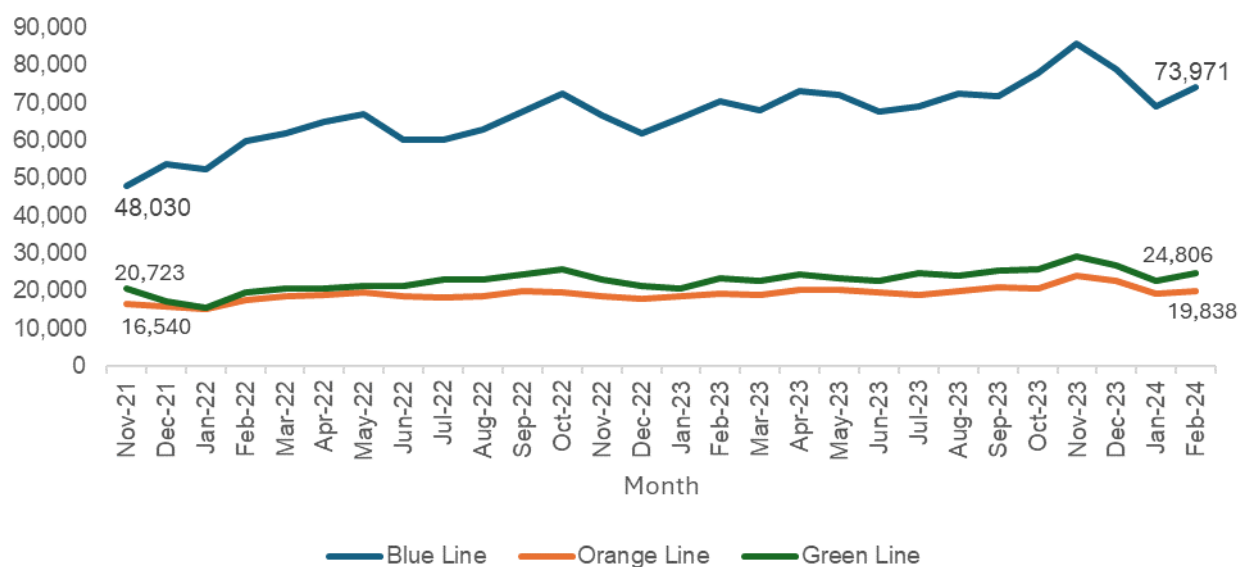
The UC San Diego Blue Line is a 26.3-mile light rail line in the San Diego Trolley system, operated by the San Diego Metropolitan Transit System. Serving San Ysidro, Chula Vista, National City, Downtown San Diego, and La Jolla, the southernmost stop is adjacent to the U.S.-Mexico Border and the northernmost stop is the University Town Center (UTC) Transit Center.

Key Considerations

The Blue Line, which first became operational in 1981, is one of three transit lines operating in the San Diego Region. The Mid-Coast Corridor Transit Project extended the Blue Line from the Old Town Transit Center north for 10.9 miles and was opened for revenue service on November 21, 2021. Metrics presented here compare how the average weekday boardings have changed over time, compared to the other two trolley lines and monthly ridership on the Mid-Coast Corridor specifically. It should be noted that a study comparing actual ridership to projected ridership will be completed in 2025.

As Figure 1 shows, the Blue Line trolley has historically had the highest number of monthly boardings, compared to the Green and Orange Lines. Since the Mid-Coast Extension was added in November 2021, the average number of monthly boardings on the Blue has increased 51%, compared to 20% for the Green and Orange Lines.

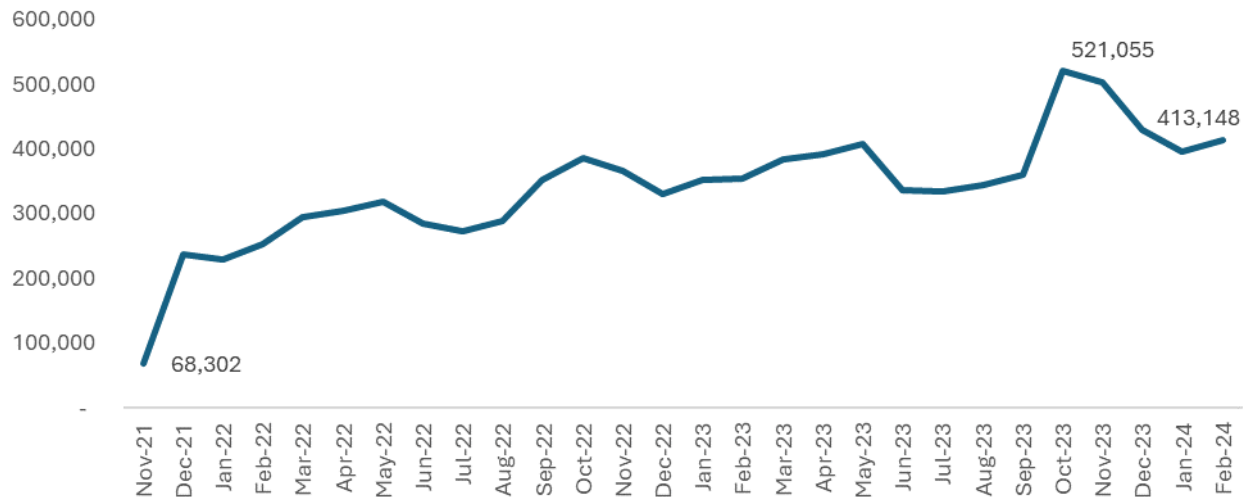
Figure 1: Estimated MTS Trolley Boardings by Line, Average Weekdays November 2021-February 2024



SOURCE: SANDAG, MTS

In terms of Mid-Coast Extension ridership specifically, data from MTS regarding monthly ridership shows that there has been a significant increase (505%) from November 2021 when these stops opened, to February 2024, the most recent month that data were available at the time of this report. The greatest number of monthly riders was in October 2023 (521,055).

Figure 2: Estimated Total Mid-Coast Trolley Boardings by Month, November 2021-February 2024



SOURCE: SANDAG, MTS

Next Steps

SANDAG will continue to monitor transit ridership and will be releasing the annual State of the Commute by June 2024. In addition, a new automated passenger ridership dashboard, funded through a Caltrans grant will be launched Fall 2024 and results from the Mid-Coast After Study are expected in 2025 highlighting the impacts from the major infrastructure project.

Cynthia Burke, Ph.D., Senior Director, Data Science

FY 2023 TransNet Extension Ordinance Funding Eligibility Requests

Overview

The TransNet Extension Ordinance (Ordinance) includes annual eligibility requirements for the transit operators and local jurisdictions to continue receiving their annually apportioned TransNet revenues. If a requirement is not met, the Ordinance provides guidance on additional steps.

For FY 2023, Solana Beach, the Metropolitan Transit System (MTS), and North County Transit District (NCTD) had requirements that were not met and are requesting to cure the eligibility requirements.

Key Considerations

Responsibility for making the final decision on these eligibility requests rests with the Board of Directors:

- Approval of these requests enables compliance and requesting agencies would be eligible to receive all apportioned FY 2024 TransNet revenues consistent with TransNet Ordinance provisions.
- Without Board Approval of Solana Beach's request, the unexpended or uncommitted portion of the City's Funding Program revenues shall be transferred to the Regional Transportation Commission (SANDAG) to be expended within three years on qualified projects within the same subregion.
- Without Board approval of MTS' request letter, the operator would remain noncompliant with the Ordinance and may not receive any additional funding under Section 4(C) in FY 2024 above the amount received in FY 2023, adjusted for Consumer Price Index.
- Without Board approval of NCTD's request letter, the operator would remain noncompliant with the Ordinance and may not receive any additional funding under Section 4(C) in FY 2024 above the amount received in FY 2023, adjusted for Consumer Price Index.

Next Steps

Pending approval by the Board, adjustments would be incorporated in the FY 2023 TransNet fiscal and compliance audits and the updated draft would be presented to the Independent Taxpayer Oversight Committee for final adoption in July.

André Douzdjian, Chief Financial Officer

Attachments:

1. Discussion Memo
2. Letter of Request from MTS
3. Letter of Request from NCTD
4. Letter of Request from City of Solana Beach

Action: Approve

The Transportation Committee recommends that the Board of Directors, acting as the San Diego County Regional Transportation Commission, approve the TransNet funding eligibility requests of the City of Solana Beach, Metropolitan Transit System, and North County Transit District.

Fiscal Impact:

Approval of the requests will allow the requesting agencies to receive their full FY 2024 TransNet revenue apportionments.

Schedule/Scope Impact:

Upon approval of the requests by the Board of Directors, the findings will be removed from the FY 2023 TransNet fiscal and compliance audits for final adoption by the ITOC as its July 10, 2024, meeting.

Discussion Memo

***TransNet* Extension Ordinance Eligibility Requirements**

Section G(4) of the Regional Transportation Congestion Improvement Program Appendix to the *TransNet* Extension Ordinance states that cities must have RTCIP funds committed or expended on Regional Arterial Systems projects within 7 years before requiring an eligibility request by ITOC and within 10 years before returning the funds to the developer.

Section 4(C)(5) of the *TransNet* Ordinance states that a transit operator must limit the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period.

City of Solana Beach

The draft FY 2023 *TransNet* fiscal and compliance audit report for the City of Solana Beach includes the following finding:

The City did not expend or commit \$754 of RTCIP funding within the seven year requirement:

<u>Project Year</u>	<u>Last Date to Commit Funds (7 Year)</u>	<u>Last Date to Commit Funds (10 Year)</u>	<u>Funds Received</u>	<u>Funds Expended</u>	<u>Funds Committed</u>	<u>Funds not Committed or Expended</u>
FY 2016	6/30/2023	6/30/2026	19,566	(18,812)		754
Total Funding not expended within 7 years						754

The City passed council resolution 2023-122 on November 8, 2023 to amend the 2023 RTIP listing of projects and commit to spending RTCIP funds in fiscal years 2024 and 2025. The ordinance allows cities to request until the 10th anniversary date to commit or expend the unexpended or uncommitted funds. Since funds have been committed as of November 8, 2023, the City is effectively requesting a 4 month extension from June 30, 2023 to November 8, 2023 to commit funds.

Next Steps

Approval of this request by the Board of Directors would enable the City of Solana Beach to keep their RTCIP funding per Section G(4) of the *TransNet* Extension Ordinance.

Should the Board of Directors choose to not approve the City's request, then City would remain in non-compliance for FY 2023 and the unexpended or uncommitted portion of the Funding Program revenues shall be transferred to the Regional Transportation Commission (SANDAG) to be expended within three years on qualified projects within the same subregion.

Metropolitan Transit System (MTS)

The draft FY 2023 *TransNet* fiscal and compliance audit report for the Metropolitan Transit System (MTS) includes the following finding:

The transit operator was not in compliance with both the bus and rail operator eligibility requirements such that the increase in operating cost per revenue vehicle hours and miles exceeded increase in Consumer Price Index (CPI).

Operating Cost per Revenue Vehicle Hour for Bus Services

	<u>2023</u>	<u>2022</u>	<u>Growth Rate</u>
Operating cost for buses	\$215,732,636	\$201,589,171	
Revenue vehicle hours	1,880,383	2,013,662	
Total operating cost per revenue vehicle hour	\$114.73	\$100.11	14.60%
Consumer Price Index	286.586	291.916	(1.83)%

Operating Cost per Revenue Vehicle Mile for Rail Services

	<u>2023</u>	<u>2022</u>	<u>Growth Rate</u>
Operating cost for rail	\$128,237,421	\$104,704,575	
Revenue vehicle miles	12,700,555	11,626,878	
Total operating cost per revenue vehicle mile	\$10.10	\$9.01	12.10%
Consumer Price Index	286.586	291.916	(1.83)%

Transit Operator Request

Section 4(C) of the TransNet Ordinance states, in part:

“...To maintain eligibility for the receipt of funds under Section 4(C), a transit operator must list the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period...”

Additionally, Section 4(C)(5) of the TransNet Extension Ordinance and Expenditure Plan states, in part:

“...If there were unusual circumstances in a given year, the operator may request the approval of the Commission to calculate the requirement as an average over the previous three years. The operator may also request the approval of the Commission to exclude from the calculation certain cost increases that were due to external events entirely beyond the operator’s control, including, but not limited to, increases in the costs for fuel, insurance premiums, or new state or federal mandates.”

In accordance with Section 4(C)(5), MTS is requesting to use the three-year average calculations for the eligibility requirements, due to unusual circumstance of negative change in CPI in the current fiscal year.

Request for 3-Year Average for Rail Services

	FY 2023	FY 2022	FY 2021	FY 2020	3-Year Average
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.77%	12.41%		9.45%
Operating costs	\$127,237,421	\$104,704,575	\$98,061,336	\$91,636,520	
Revenue vehicle miles	12,700,555	11,626,878	10,077,479	9,210,076	
Ratio	\$10.10	\$9.01	\$9.73	\$9.95	
Change in ratio	12.12%	-7.45%	-2.20%		0.82%

Request for 3-Year Average and Increase in Costs Exclusion for Bus Services

	FY 2023	FY 2022	FY 2021	FY 2020	3-Year Average
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.77%	12.41%		9.45%
Bus Services					
Operating costs	\$215,732,636	\$201,589,171	\$202,213,207	\$190,890,364	
Revenue vehicle hours	1,880,383	2,013,662	1,981,718	2,018,974	
Ratio	\$114.73	\$100.11	\$102.04	\$94.55	
Change in ratio	14.60%	-1.89%	7.92%		6.88%

Next Steps

Approval of this request by the Board of Directors would enable MTS to comply with Section 4(C) of the Ordinance by allowing MTS to calculate the eligibility requirement using the three-year average calculations as provided in Section 4(C)(5) of the TransNet Extension and Ordinance, which will then bring them into compliance.

Should the Board of Directors choose to not approve the request, then MTS would remain in non-compliance for FY 2023 and the operator may not receive any additional funding under Section 4(C) in the following year above the amount received in FY 2023 adjusted for any increase in the CPI for San Diego County. In FY 2023 MTS' transit allocation was \$45,602,380 adjusted for CPI to \$44,767,856 which is the amount they would receive in FY 2024 if their request is not approved.

North County Transit District (NCTD)

The draft FY 2023 TransNet fiscal and compliance audit report for the North County Transit District (NCTD) includes the following finding:

The transit operator was not in compliance with both the bus and rail operator eligibility requirements such that the increase in operating cost per revenue vehicle hours and miles exceeded increase in Consumer Price Index (CPI).

Operating Cost per Revenue Vehicle Hour for Bus Services

	<u>2023</u>	<u>2022</u>	<u>Growth Rate</u>
Operating cost for buses	\$70,906,316	\$62,209,246	
Revenue vehicle hours	446,040	461,315	
Total operating cost per revenue vehicle hour	\$158.97	\$134.85	17.89%
Consumer Price Index	286.586	291.916	(1.83)%

Operating Cost per Revenue Vehicle Mile for Rail Services

	<u>2023</u>	<u>2022</u>	<u>Growth Rate</u>
Operating cost for rail	\$66,964,770	\$62,854,203	
Revenue vehicle miles	917,029	877,589	
Total operating cost per revenue vehicle mile	\$73.02	\$71.62	1.95%
Consumer Price Index	286.586	291.916	(1.83)%

Transit Operator Request

Section 4(C) of the TransNet Ordinance states, in part:

“...To maintain eligibility for the receipt of funds under Section 4(C), a transit operator must list the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period...”

Additionally, Section 4(C)(5) of the TransNet Extension Ordinance and Expenditure Plan states, in part:

“...If there were unusual circumstances in a given year, the operator may request the approval of the Commission to calculate the requirement as an average over the previous three years. The operator may also request the approval of the Commission to exclude from the calculation certain cost increases that were due to external events entirely beyond the operator’s control, including, but not limited to, increases in the costs for fuel, insurance premiums, or new state or federal mandates.”

In accordance with Section 4(C)(5), NCTD is requesting to both exclude applicable cost increases in FY 2023 and use the three-year average calculations for the eligibility requirements due to the unusual circumstance that the applicable CPI does not accurately track the bulk of NCTD’s operating costs which is largely made up of wages, benefits, professional services, and purchased transportation.

Request for 3-Year Average for Rail Services

	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>3-Year Average</u>
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.78%	12.41%		9.45%
Operating costs	\$66,569,053	\$60,070,772	\$46,404,889	\$45,410,632	
Revenue vehicle miles	917,029	877,589	662,745	749,139	
Ratio	\$72.59	\$68.45	\$70.02	\$60.62	
Change in ratio	6.05%	-2.24%	15.51%		6.44%

Request for 3-Year Average and Increase in Costs Exclusion for Bus Services

	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>3-Year Average</u>
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.78%	12.41%		9.45%
Bus Services					
Operating costs	\$63,880,456	\$59,648,926	\$57,305,029	\$57,672,372	
Revenue vehicle hours	446,040	461,315	475,203	503,957	
Ratio	\$143.22	\$129.30	\$120.59	\$114.44	
Change in ratio	10.76%	7.22%	5.38%		7.79%

Next Steps

Approval of this request by the Board of Directors would enable compliance with Section 4(C) of the Ordinance by allowing NCTD to calculate the eligibility requirement using the three-year average calculations while excluding applicable cost increases as provided in Section 4(C)(5) of the TransNet Extension and Ordinance, which will then bring them into compliance.

Should the Board of Directors choose to not approve the request, then NCTD would remain in non-compliance for FY 2023 and the operator may not receive any additional funding under Section 4(C) in the following year above the amount received in FY 2023 adjusted for any increase in the CPI for San Diego County. In FY 2023 NCTD's transit allocation was \$18,481,859 adjusted for CPI to \$18,146,641, which is the amount they would receive in FY 2024 if their request is not approved.



Metropolitan Transit System

Attachment 2

February 22, 2024

Ms. Susan Huntington
Director, Financial Planning and Budgets
San Diego Association of Governments
401 B. Street, Suite 800
San Diego, CA 92101-4231

Dear Ms. Huntington,

Although the fiscal year 2023 findings reflect that MTS is not compliant with the annual Consumer Price Index (CPI) requirement (that the increase in operating cost per revenue hour or revenue mile not exceed the increase in CPI) for both Bus and Rail Services, MTS is compliant with the three-year average calculation. Due to the fact that CPI decreased by 1.83 percent for fiscal year 2023, MTS requests that that ITOC Board (Board) approve our request to calculate the eligibility requirement based on a three-year average.

The Transportation Index in the San Diego County CPI Table increased by an average of 9.45% over the last three years. Bus Service operating cost per revenue hour increased by an average of 6.88% and Rail Service operating cost per revenue mile increased by an average of .82% over the same three-year period. The table below provides the three-year averaging calculation for both Bus and Rail Services:

Bus Services	FY23	FY22	FY21	FY20	3 Year Avg
CPI	286.586	291.916	247.860	220.500	
Operating Costs	215,732.636	201,589.171	202,213.207	190,890.364	
Revenue Vehicle Hours	1,880,383.00	2,013,662.00	1,981,718.00	2,018,974	
Operating Cost per Revenue Vehicle Hour	114.73	100.11	102.04	94.55	
Increase (Decrease) in CPI	-1.83%	17.77%	12.41%		9.45%
Increase (Decrease) in Ratio	14.60%	-1.89%	7.92%		6.88%

Rail Services	FY23	FY22	FY21	FY20	3 Year Avg
CPI	286.586	291.916	247.860	220.500	
Operating Costs	128,237,421	104,704,575	98,061,336	91,636,520	
Revenue Vehicle Miles	12,700,555	11,626,878	10,077,479	9,210,076	
Operating Cost per Revenue Vehicle Hour	10.10	9.01	9.73	9.95	
Increase (Decrease) in CPI	-1.83%	17.77%	12.41%		9.45%
Increase (Decrease) in Ratio	12.12%	-7.45%	-2.20%		0.82%

By using the three-year average calculation both MTS Bus and Rail Services comply with eligibility requirements of the TransNet Ordinance. We appreciate the Board's recognition of our continued and concerted efforts to increase the efficiency of our operations and responsibly manage our costs and we request the Board's consideration to employ the three-year average calculation.

Sincerely,

Larry Marinesi
Chief Financial Officer

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San Diego Metropolitan Transit System (MTS) is a California public agency comprised of San Diego Transit Corp., San Diego Trolley, Inc. and San Diego and Arizona Eastern Railway Company (nonprofit public benefit corporations). MTS member agencies include the cities of Chula Vista, Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, San Diego, Santee, and the County of San Diego. MTS is also the For-Hire Vehicle administrator for nine cities.





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February 21, 2024

Ms. Susan Huntington
Director, Financial Planning and Budgets
San Diego Association of Governments
401 B. Street, Suite 800
San Diego, CA 92101-4231
Sent Via Electronic Mail: susan.huntington@sandag.org

Re: Fiscal Year 2023 (FY2023) *TransNet* Operator Eligibility Ratios

Dear Ms. Huntington:

The North County Transit District (NCTD), by way of this letter, respectfully requests that the Independent Taxpayer Oversight Committee (ITOC) and San Diego Association of Governments (SANDAG) provide statutory and administrative regulatory relief to NCTD as it relates to the *TransNet* requirements for the reasons stated herein.

Under Section 4(C)(5) of the *TransNet* Extension and Ordinance (Ordinance), to maintain eligibility for the receipt of *TransNet* funds under Section 4(C), a transit operator must limit the increase in its total operating cost per revenue vehicle hour for bus services or the increase in its total operating cost per revenue vehicle mile for rail services from one (1) fiscal year to the next to no more than the increase in the Consumer Price Index for San Diego County over the same period. If there were unusual circumstances in a given fiscal year, the operator may request the approval of the Commission to calculate the requirement as an average over the previous three (3) fiscal years. The operator may also request the approval of the Commission to exclude from the calculation certain cost increases that were due to external events entirely beyond the operator's control, including, but not limited to, increases in the costs for fuel, insurance premiums, or new state or federal mandates.

Following the reopening of the economy in 2021, supply chain disruptions and greater consumer demand for goods caused higher inflation. The U.S. economy was sustained by trillions of dollars of liquidity provided by multiple relief packages passed by Congress. San Diego County's 12-month inflation measured just 1.7% in January 2021, then soared to 8.3% by May 2022 (a 41-year high) and ended at 5.2% in May 2023. The Transportation CPI utilized by the Ordinance measures the change in prices for transportation costs, which includes new and used motor vehicles, motor fuel, vehicle maintenance and insurance, and airfares. The Transportation CPI does not reflect the complete makeup of NCTD's operating costs, which is largely driven by labor costs and include wages and benefits, professional services, and purchased transportation (together, these costs accounted for 83% NCTD's operating costs in FY2023). The Transportation CPI declined by 1.83% during FY2023, while the All Items CPI increased by 5.2%.

Request for 3-Year Average for Rail Services

As permitted by the Ordinance, NCTD is requesting the approval of the Commission to utilize a 3-year average for the purpose of calculating the increase in operating cost per revenue vehicle mile for rail services, which will allow NCTD to be in compliance with the Ordinance as illustrated in the calculation below:

	FY 2023	FY 2022	FY 2021	FY 2020	3-Year Average
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.78%	12.41%		9.45%
Operating costs	\$66,569,053	\$60,070,772	\$46,404,889	\$45,410,632	
Revenue vehicle miles	917,029	877,589	662,745	749,139	
Ratio	\$ 72.59	\$ 68.45	\$ 70.02	\$ 60.62	
Change in ratio	6.05%	-2.24%	15.51%		6.44%

Request for 3-Year Average and Increase in Costs Exclusion for Bus Services

During FY2023, NCTD contracted with MV Transportation (MV) for the operations and maintenance of all bus modes of service (BREEZE, LIFT, FLEX). This contract, which is largely a fixed-price contract, bears cost escalators at the maximum of the San Diego Consumer Price Index (CPI) year-over-year percentage increase or 3%. During FY2023, NCTD's contract with MV was adjusted upward by 3%. Furthermore, as result of labor shortages caused by the COVID-19 pandemic, NCTD experienced acute labor shortages of bus operators and mechanics through FY2022 and FY2023, and NCTD had to temporarily reduce the frequency on certain bus routes beginning in April 2022 as result of missed trips and cancellations due to the operators shortage. NCTD also had to fund wages and benefit increases for new and existing bus operators in order to retain and attract candidates. The changes included a new wage tier for new hires, which increased starting pay to \$22 per hour (a 19% increase).

As permitted by the Ordinance, NCTD is requesting the approval of the Commission to utilize a 3-year average and exclude the FY2023 increase in the MV contract for the purpose of calculating the increase in operating cost per revenue vehicle mile hour for bus services, which will allow NCTD to be in compliance with the Ordinance as illustrated in the calculation below:

	FY 2023	FY 2022	FY 2021	FY 2020	3-Year Average
Transportation CPI	286.586	291.916	247.856	220.500	
Change in CPI	-1.83%	17.78%	12.41%		9.45%
Bus Services					
Operating costs	\$63,880,456	\$59,648,926	\$57,305,029	\$57,672,372	
Revenue vehicle hours	446,040	461,315	475,203	503,957	
Ratio	\$143.22	\$129.30	\$120.59	\$114.44	
Change in ratio	10.76%	7.22%	5.38%		7.79%

If you have any questions, please feel free to contact me at eparklynch@nctd.org or at (760) 967-2858.

Sincerely,



Eun Park-Lynch
Chief Financial Officer

cc: Paul Ballard, Executive Director, NCTD
Lori A. Winfree, General Counsel, NCTD
Chris Orlando, Chief of Planning and Communications, NCTD
Tracey Foster, Chief Development Officer, NCTD

Imelda Kubota

From: Imelda Kubota
Sent: Wednesday, February 21, 2024 10:08 AM
To: susan.huntington@sandag.org
Subject: Fiscal Year 2023 TransNet Operator Eligibility Ratios
Attachments: SANDAG - FY23 Transnet Operator Eligibility.pdf

Dear Ms. Huntington:

The attached letter is being sent on behalf of Eun Park-Lynch, Chief Financial Officer.

Please do not hesitate to contact Ms. Park-Lynch directly via e-mail at eparklynch@nctd.org or at (760) 967-2858 should you have any questions.

Thank you.

Imelda Kubota

Senior Administrative Assistant

810 Mission Avenue | Oceanside, CA 92054 | 760.967.2882

NORTH COUNTY TRANSIT DISTRICT

WE MOVE PEOPLE
www.gonctd.com



March 5, 2023

Susan Huntington
TransNet Program Director
San Diego Association of Governments
401 B Street, Suite 800
San Diego, CA 92101

Dear Ms. Susan Huntington,

The TransNet Audit Report (agreed- upon procedures) for fiscal year ended June 30, 2023 indicates that the City did not expend or commit its RTCIP funding within the seven year requirement. The primary reason for being in non-compliance is due to RTCIP eligible project expenditures not being programmed or committed on time.

In accordance with Section G(4) of the TransNet extension Ordinance, the City of Solana Beach requests that the commission review and approve our request to allow the City until June 30, 2024, to commit the necessary amount to make up the shortfall. The Solana Beach Engineering Department submitted Resolution 2023-122 to the City Council for approval on November 8, 2023. The purpose of this resolution was to amend the 2023 RTIP list of projects and commit to spending RTCIP funds in fiscal years 2024 and 2025 and to revise the City's Capital Improvement Program (CIP) budget for the Traffic Signal Upgrades Phase 1 project by substituting Gas Tax funding with RTCIP funding. The Council unanimously approved the resolution.

<u>Project Year</u>	<u>Last Date to Commit Funds (7 Year)</u>	<u>Last Date to Commit Funds (10 Year)</u>	<u>Funds Received</u>	<u>Funds Expended</u>	<u>Funds Committed</u>	<u>Funds not Committed or Expended</u>
FY 2016	6/30/2023	6/30/2026	19,566	(18,812)		754
Total Funding not expended within 7 years						754

If you have any questions regarding this matter please feel free to contact me at rjacobs@cosb.org.

Sincerely,



Rachel Jacobs
Finance Director

2025 Regional Plan: Draft Series 15 Regional Growth Forecast Regional and Subregional Results

Overview

The 2025 Regional Plan is being developed based on a data-driven process that starts with updating the regional growth forecast. Draft Series 15 Regional Growth Forecast results for the San Diego Region overall were presented to the Board of Directors in July 2023. Since then, SANDAG staff has been working with local jurisdictions on the subregional forecast of residents, housing, and jobs (Attachment 1).

Key Considerations

To develop the long-range regional plan, we first need to understand what the region will look like in the future. To do so, SANDAG prepares a Regional Growth Forecast that considers historical data, in combination with expert opinion and jurisdiction input to forecast how the population of the San Diego Region will change, how many households and housing units there will be, and how many jobs will exist in the region.

Key points of the region forecast that influence subregional results include the following:

- The population in the region will grow from 2022 through 2042, and then begin to decrease approaching the horizon year of 2050.
- The population will get older, as median age is projected to increase from 36 in 2022 to 42 in 2050.
- Demand for housing will continue to be strong as the forecast expects households and housing units to be continually added through 2050, reflecting pent-up demand, as well as smaller household sizes reflective of an older population.

SANDAG staff has worked collaboratively with the 19 member jurisdictions to prepare a subregional forecast that allocates population, housing, and jobs. Preliminary results have been shared formally with the jurisdictions and stakeholders in a series of one-on-one meetings occurring in late 2023 as well as the December 2023 Series 15 Regional Task Force, the February 2024 Sustainable Communities Working Group, and the March 2024 Regional Planning Committee.

Next Steps

The initial concept for the 2025 Regional Plan is currently being evaluated in SANDAG's transportation model to determine if it will meet state and federal requirements. Staff will return to the Board this summer to share the results. Over the next year, staff will develop the draft 2025 Regional Plan and Environmental Impact Report which are expected to be released for public review next spring. The final 2025 Regional Plan is expected to be brought to the Board of Directors for approval in late 2025.

Action: Information

This report provides an overview of the Series 15 Subregional Forecast of population, jobs, and housing that will be used for the 2025 Regional Plan.

Fiscal Impact:

Development of the 2025 Regional Plan is funded under Overall Work Program Project Nos. 3103000.

Schedule/Scope Impact:

The 2025 Regional Plan is expected to be brought to the Board of Directors for approval in late 2025.

Cindy Burke, Ph.D., Senior Director of Data Science

Attachment(s): 1. Draft Series 15 Regional Growth Forecast One-Pager

2. Draft Series 15 Regional Growth Forecast Historical Comparison

April 26th, 2024

Draft Series 15 Subregional Growth Forecast

Disclaimer: This forecast represents one possibility for future growth in the San Diego region. It is intended to represent a likely prediction of future growth, but it is not intended to be a prescription for growth. The Series 15 Regional Growth Forecast represents a combination of economic and demographic projections and existing plans and policies.

POPULATION

	<u>Actual</u>		<u>Projections</u>		<u>Numeric Change by Increment</u>			<u>Change 2022-2050</u>		
	2022	2029	2040	2050	2022-2029	2029-2040	2040-2050	Total	Percent	Avg Annual
Carlsbad	115,585	119,072	119,283	116,825	3,487	211	(2,458)	1,240	1.1%	0.0%
Chula Vista	276,785	286,236	321,660	325,487	9,451	35,424	3,827	48,702	17.6%	0.6%
Coronado	22,277	21,561	21,299	20,741	(716)	(262)	(558)	(1,536)	-6.9%	-0.2%
Del Mar	3,929	3,786	3,786	3,709	(143)	0	(77)	(220)	-5.6%	-0.2%
El Cajon	105,638	103,044	101,079	99,234	(2,594)	(1,965)	(1,845)	(6,404)	-6.1%	-0.2%
Encinitas	61,515	61,791	60,460	59,827	276	(1,331)	(633)	(1,688)	-2.7%	-0.1%
Escondido	150,679	150,677	155,323	151,127	(2)	4,646	(4,196)	448	0.3%	0.0%
Imperial Beach	26,243	25,402	25,624	25,402	(841)	222	(222)	(841)	-3.2%	-0.1%
La Mesa	60,472	59,490	59,611	59,217	(982)	121	(394)	(1,255)	-2.1%	-0.1%
Lemon Grove	27,242	26,966	26,481	26,263	(276)	(485)	(218)	(979)	-3.6%	-0.1%
National City	61,471	62,430	62,278	61,645	959	(152)	(633)	174	0.3%	0.0%
Oceanside	173,048	177,360	187,199	183,529	4,312	9,839	(3,670)	10,481	6.1%	0.2%
Poway	48,759	50,754	50,050	48,531	1,995	(704)	(1,519)	(228)	-0.5%	0.0%
San Diego	1,374,790	1,413,162	1,447,896	1,440,135	38,372	34,734	(7,761)	65,345	4.8%	0.2%
San Marcos	93,585	97,420	112,379	110,008	3,835	14,959	(2,371)	16,423	17.5%	0.6%
Santee	59,015	59,485	62,901	62,876	470	3,416	(25)	3,861	6.5%	0.2%
Solana Beach	12,812	12,478	12,184	11,933	(334)	(294)	(251)	(879)	-6.9%	-0.2%
Vista	100,291	100,692	101,122	99,096	401	430	(2,026)	(1,195)	-1.2%	0.0%
Unincorporated	513,170	502,869	501,596	494,665	(10,301)	(1,273)	(6,931)	(18,505)	-3.6%	-0.1%
Region Total	3,287,306	3,334,675	3,432,211	3,400,250	47,369	97,536	(31,961)	112,944	3.4%	0.1%

HOUSING

	<u>Actual</u>		<u>Projections</u>		<u>Numeric Change by Increment</u>			<u>Change 2022-2050</u>		
	2022	2029	2040	2050	2022-2029	2029-2040	2040-2050	Total	Percent	Avg Annual
Carlsbad	48,104	51,867	53,935	54,257	3,763	2,068	322	6,153	12.8%	0.5%
Chula Vista	88,143	94,704	109,910	114,693	6,561	15,206	4,783	26,550	30.1%	1.1%
Coronado	9,665	9,759	9,787	9,799	94	28	12	134	1.4%	0.0%
Del Mar	2,629	2,677	2,739	2,740	48	62	1	111	4.2%	0.2%
El Cajon	36,590	37,176	37,852	38,298	586	676	446	1,708	4.7%	0.2%
Encinitas	26,665	27,990	28,324	28,783	1,325	334	459	2,118	7.9%	0.3%
Escondido	49,500	51,835	55,464	55,716	2,335	3,629	252	6,216	12.6%	0.4%
Imperial Beach	10,034	10,170	10,671	10,902	136	501	231	868	8.7%	0.3%
La Mesa	26,265	26,781	27,665	28,203	516	884	538	1,938	7.4%	0.3%
Lemon Grove	9,186	9,503	9,707	9,943	317	204	236	757	8.2%	0.3%
National City	17,776	19,022	19,791	20,268	1,246	769	477	2,492	14.0%	0.5%
Oceanside	67,676	72,882	80,735	81,630	5,206	7,853	895	13,954	20.6%	0.7%
Poway	16,782	18,235	18,711	18,711	1,453	476	0	1,929	11.5%	0.4%
San Diego	553,921	605,098	645,438	661,156	51,177	40,340	15,718	107,235	19.4%	0.7%
San Marcos	32,314	35,270	42,407	42,758	2,956	7,137	351	10,444	32.3%	1.2%
Santee	21,427	22,457	24,423	25,080	1,030	1,966	657	3,653	17.0%	0.6%
Solana Beach	6,528	6,702	6,741	6,767	174	39	26	239	3.7%	0.1%
Vista	33,663	35,250	36,710	37,099	1,587	1,460	389	3,436	10.2%	0.4%
Unincorporated	178,774	182,632	189,605	191,658	3,858	6,973	2,053	12,884	7.2%	0.3%
Region Total	1,235,642	1,320,010	1,410,615	1,438,461	84,368	90,605	27,846	202,819	16.4%	0.6%

JOBS

(WAGE & SALARY)

	<u>Actual</u>		<u>Projections</u>		<u>Numeric Change by Increment</u>			<u>Change 2022-2050</u>		
	2022	2029	2040	2050	2022-2029	2029-2040	2040-2050	Total	Percent	Avg Annual
Carlsbad	79,382	82,381	84,179	85,376	2,999	1,798	1,197	5,994	7.6%	0.3%
Chula Vista	74,728	78,474	89,875	103,201	3,746	11,401	13,326	28,473	38.1%	1.4%
Coronado	31,257	31,276	31,375	31,497	19	99	122	240	0.8%	0.0%
Del Mar	3,799	3,799	3,849	3,849	0	50	0	50	1.3%	0.0%
El Cajon	43,824	44,043	46,626	48,298	219	2,583	1,672	4,474	10.2%	0.4%
Encinitas	26,140	26,165	26,444	26,988	25	279	544	848	3.2%	0.1%
Escondido	53,869	54,930	55,589	55,977	1,061	659	388	2,108	3.9%	0.1%
Imperial Beach	5,074	5,337	6,693	7,606	263	1,356	913	2,532	49.9%	1.8%
La Mesa	25,250	25,325	26,144	27,472	75	819	1,328	2,222	8.8%	0.3%
Lemon Grove	7,972	8,048	9,024	9,403	76	976	379	1,431	18.0%	0.6%
National City	38,802	39,155	40,284	41,998	353	1,129	1,714	3,196	8.2%	0.3%
Oceanside	48,112	49,296	62,301	65,335	1,184	13,005	3,034	17,223	35.8%	1.3%
Poway	33,786	33,878	34,012	34,067	92	134	55	281	0.8%	0.0%
San Diego	876,977	893,362	921,055	944,282	16,385	27,693	23,227	67,305	7.7%	0.3%
San Marcos	40,133	42,702	49,490	52,337	2,569	6,788	2,847	12,204	30.4%	1.1%
Santee	17,838	17,947	18,719	19,304	109	772	585	1,466	8.2%	0.3%
Solana Beach	9,255	9,274	9,321	9,386	19	47	65	131	1.4%	0.1%
Vista	39,015	39,118	40,676	41,653	103	1,558	977	2,638	6.8%	0.2%
Unincorporated	156,419	157,088	165,668	174,360	669	8,580	8,692	17,941	11.5%	0.4%
Region Total	1,611,632	1,641,598	1,721,324	1,782,389	29,966	79,726	61,065	170,757	10.6%	0.4%

Draft Subregional Growth Forecast Series Comparison

Disclaimer: This document presents a comparison of the Series 15 Regional Growth Forecast and historical regional growth forecasts for the shared projection years of 2035 and 2050. Each forecast series reflects a distinct point in time, in terms of forecast development, assumptions, and methodology. In total, each forecast series presents a unique combination of economic and demographic projections, guided by the existing plans and policies of its era. Series 13 was released in 2015, with a base year of 2012; Series 14 was released in 2018, with a base year of 2016; Series 15 is anticipated to be released in Spring 2024, with a base year of 2022.

POPULATION	Projections - 2035			Projections - 2050			Comparison with Series 15 - 2050			
	Series 13	Series 14	Series 15	Series 13	Series 14	Series 15	Total	Percent		Series 14
							Series 13	Series 14	Series 13	
Carlsbad	124,351	118,719	120,047	124,518	120,313	116,825	(7,693)	(3,488)	-6.2%	-2.9%
Chula Vista	326,625	285,194	307,753	345,586	330,255	325,487	(20,099)	(4,768)	-5.8%	-1.4%
Coronado	24,165	24,802	21,595	24,219	24,991	20,741	(3,478)	(4,250)	-14.4%	-17.0%
Del Mar	4,672	4,517	3,835	4,732	4,677	3,709	(1,023)	(968)	-21.6%	-20.7%
El Cajon	109,532	107,294	102,049	115,613	110,253	99,234	(16,379)	(11,019)	-14.2%	-10.0%
Encinitas	65,264	63,360	61,328	66,670	64,136	59,827	(6,843)	(4,309)	-10.3%	-6.7%
Escondido	172,697	163,791	153,759	173,430	167,211	151,127	(22,303)	(16,084)	-12.9%	-9.6%
Imperial Beach	30,369	29,522	25,717	31,691	30,077	25,402	(6,289)	(4,675)	-19.8%	-15.5%
La Mesa	70,250	68,227	59,637	77,881	68,680	59,217	(18,664)	(9,463)	-24.0%	-13.8%
Lemon Grove	28,673	27,025	26,731	30,903	27,432	26,263	(4,640)	(1,169)	-15.0%	-4.3%
National City	73,329	72,951	62,481	85,121	76,098	61,645	(23,476)	(14,453)	-27.6%	-19.0%
Oceanside	188,597	180,624	185,875	189,377	182,311	183,529	(5,848)	1,218	-3.1%	0.7%
Poway	53,062	50,565	51,062	53,149	51,234	48,531	(4,618)	(2,703)	-8.7%	-5.3%
San Diego	1,665,609	1,594,300	1,434,438	1,777,936	1,633,002	1,440,135	(337,801)	(192,867)	-19.0%	-11.8%
San Marcos	109,095	104,365	112,223	113,015	119,098	110,008	(3,007)	(9,090)	-2.7%	-9.6%
Santee	63,812	61,897	61,597	66,313	63,070	62,876	(3,437)	(194)	-5.2%	-0.3%
Solana Beach	14,207	14,128	12,344	14,870	14,359	11,933	(2,937)	(2,426)	-19.8%	-16.9%
Vista	111,771	108,208	101,429	126,455	109,273	99,096	(27,359)	(10,177)	-21.6%	-9.3%
Unincorporated	617,570	540,840	500,462	647,233	549,584	494,665	(152,568)	(54,919)	-23.6%	-10.0%
Region Total	3,853,650	3,620,329	3,404,362	4,068,712	3,746,054	3,400,250	(668,462)	(345,804)	-16.4%	-9.2%

HOUSING	Projections - 2035			Projections - 2050			Comparison with Series 15 - 2050			
	Series 13	Series 14	Series 15	Series 13	Series 14	Series 15	Total	Percent		Series 14
							Series 13	Series 14	Series 13	
Carlsbad	50,261	51,552	53,303	50,505	52,494	54,257	3,752	1,763	7.4%	3.4%
Chula Vista	101,188	96,765	103,369	108,273	114,346	114,693	6,420	347	5.9%	0.3%
Coronado	9,697	9,641	9,772	9,801	9,716	9,799	(2)	83	0.0%	0.9%
Del Mar	2,653	2,641	2,738	2,674	2,668	2,740	66	72	2.5%	2.7%
El Cajon	38,215	39,012	37,480	40,810	40,464	38,298	(2,512)	(2,166)	-6.2%	-5.4%
Encinitas	26,765	27,249	28,240	27,686	27,746	28,783	1,097	1,037	4.0%	3.7%
Escondido	55,567	56,647	53,783	56,034	58,201	55,716	(318)	(2,485)	-0.6%	-4.3%
Imperial Beach	10,926	10,765	10,502	11,528	11,027	10,902	(626)	(125)	-5.4%	-1.1%
La Mesa	29,999	30,852	27,234	33,405	31,151	28,203	(5,202)	(2,948)	-15.6%	-9.5%
Lemon Grove	9,654	9,617	9,601	10,526	9,821	9,943	(583)	122	-5.5%	1.2%
National City	20,877	20,456	19,429	24,736	20,901	20,268	(4,468)	(633)	-18.1%	-3.0%
Oceanside	70,395	72,049	78,431	70,942	72,953	81,630	10,688	8,677	15.1%	11.9%
Poway	17,685	17,331	18,711	17,839	17,640	18,711	872	1,071	4.9%	6.1%
San Diego	640,668	661,826	627,425	695,703	686,843	661,156	(34,547)	(25,687)	-5.0%	-3.7%
San Marcos	35,795	36,113	41,479	37,337	42,050	42,758	5,421	708	14.5%	1.7%
Santee	22,776	24,064	23,508	23,886	24,611	25,080	1,194	469	5.0%	1.9%
Solana Beach	6,833	6,749	6,726	7,121	6,854	6,767	(354)	(87)	-5.0%	-1.3%
Vista	35,307	36,431	36,119	40,181	37,074	37,099	(3,082)	25	-7.7%	0.1%
Unincorporated	209,506	200,093	185,034	222,932	204,726	191,658	(31,274)	(13,068)	-14.0%	-6.4%
Region Total	1,394,767	1,409,853	1,372,884	1,491,919	1,471,286	1,438,461	(53,458)	(32,825)	-3.6%	-2.2%

Management Response to the SR 125 Investigation

Overview

SANDAG Management has closely reviewed the history of the toll operations project and found that there was a general breakdown in process, project management, and consultant support that ultimately led to the need for a new back-office system.

SANDAG Management takes full responsibility for the failure of the toll operations system, including failing to inform the Board on a regular basis on this project, and is taking decisive actions to prevent this from happening again. Among other steps, Management proposes to bring a quarterly report as defined by the Board regarding all significant internal projects.

Key Considerations

In December 2023, SANDAG leadership announced immediate steps to ensure all toll road customers are protected and the integrity of the system is restored. These actions included the assignment of new management over toll operations, increasing staff and resources to address customer inquiries, and the ongoing implementation of an action plan to resolve the current tolling system deficiencies and implement a new back-office system.

On January 12, 2024, the Board of Directors authorized the CEO to execute a sole source contract for a new back-office system and directed staff to return to the next Board meeting to discuss options to reduce costs during the transition to the new back-office system, including the roles of HNTB and ETAN.

On January 26, 2024, the Board directed staff to implement the proposed cost reduction measures, take all necessary steps to minimize continued funding to ETAN and HNTB while ensuring a functional tolling system and a successful transition to the new back-office system, accept the \$50,000 credit from HNTB, and to inform the Board in a timely manner if the expended amount approaches the credit.

On March 25, 2024, the Office of the Independent Performance Auditor released its Investigation Report on SANDAG's State Route 125 Toll Operations.

Attachment 1 is Management's Response to the Investigation Report as well as a revised version of the Toll Operations Action Plan, which has been updated to reflect the totality of recommendations approved by the SANDAG Board of Directors related to this matter.

To address questions that have been raised by the Board and outline where additional improvements are being made, a historical timeline and brief background are also included as part of this report (Attachments 2-5).

Action: Discussion/Possible Action

Staff will present the management response to the Independent Performance Auditor's Report on SANDAG's State Route 125 Toll Operations.

Fiscal Impact:

Funding for implementation of the Toll Operations Action Plan is primarily included within Overall Work Program Element Nos. 1400406 and 1400407.

Schedule/Scope Impact:

Implementation of the Toll Operations Action Plan is expected to be completed by summer 2025.

Next Steps

Staff will continue to implement the Toll Operations Action Plan. Consistent with from the Chair, staff will develop recommendations for the Board to consider the creation of an Office of Ethics and Compliance.

Coleen Clementson, Chief Executive Officer

- Attachments:
- 1A. SANDAG Management Response to OIPA Investigation
 - 1B. Updated Action Plan 4-5-2024
 2. Discussion Memo
 3. Project History
 4. Project Timeline
 5. Board Questions
 6. Documentation Supporting Statements in First Two Paragraphs to Board Questions, #5



DATE: April 8, 2024

TO: Courtney Ruby, Independent Performance Auditor

FROM: Coleen Clementson, Interim Chief Executive Officer

SUBJECT: SANDAG Management Response to the Office of the Independent Performance Auditor's Investigation Report on State Route 125 Toll Operations

Ensuring the public's trust is paramount to the work that we do at SANDAG. It is clear that additional measures should have been taken to safeguard the regional tolling system.

Management has closely reviewed the history of the toll operations project and, consistent with your findings, found that there was a general breakdown in process, project management, and consultant support that led to the current state of affairs. We are continuing to take decisive actions to prevent this from happening again.

In December 2023, SANDAG leadership announced immediate steps to ensure all toll road customers are protected and the integrity of the system is restored. These actions included the assignment of new management over toll operations, increasing staff and resources to address customer inquiries, and the ongoing implementation of an action plan to resolve the current tolling system deficiencies and implement a new back-office system.

Below are responses to the recommendations outlined in the Office of the Independent Performance Auditor's (OIPA's) Investigation Report on SANDAG's State Route 125 Toll Operations:

1. We recommend an independent assessment of the Finance Department's policies, procedures, and practice to ensure adequate internal controls including proper review and supervision over all of SANDAG's financial operations.

The Board of Directors directed OIPA to oversee this independent assessment at its meeting on March 29, 2024.

2. We recommend that SANDAG reconciles the data for the KAPSCH system to ETAN's BOS daily to ensure accurate transmission and posting of customer account data to ETAN's Fastlane.

Management accepts this recommendation and will incorporate it into the Toll Operations Action Plan presented to the Board at its meeting on January 12, 2024.

3. The Board and the public should be provided with an explanation as to why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024.

Management accepts this recommendation and will incorporate this into the Board report for the April 12, 2024, meeting.

4. The Board should consider a policy that requires a Board report when a multimillion- dollar project is failing to meet its deadlines and deliverables. Such a policy should clearly state under what conditions a report is required, as well as when a report will no longer be required.

Management accepts this recommendation and will incorporate this into the Board's next scheduled review of Board Policies and Bylaws in May 2024.

5. The Board review SANDAG's sole source awards semi-annually to ensure adherence with public procurement laws and practices.

Management accepts this recommendation and will begin presenting this information to the Board on a semi-annual basis, beginning in July 2024.

6. The Board request the Audit Committee and the IPA to include SANDAG's sole source procurement process be included in the IPA's annual work plan for FY 24-25.

The Board of Directors approved this recommendation at its March 29, 2024 meeting.

7. We recommend SANDAG immediately implements daily monitoring to ensure all systems are operating and communication with each other correctly.

Management accepts this recommendation and will incorporate it into the Toll Operations Action Plan presented to the Board at its January 12, 2024, meeting.

8. We recommend SANDAG evaluate with Deloitte and A to Be if the DMV Hold Functionality can be implemented sooner.

Management accepts this recommendation and will incorporate it into the Toll Operations Action Plan presented to the Board at its January 12, 2024, meeting.

9. SANDAG implement a daily reconciliation process between the KAPSCH roadway system and the ETAN Fastlane system be put in place immediately to verify the accuracy of customer charges going forward. This should be coordinated with toll operations and Finance.

Management accepts this recommendation and will incorporate it into the Toll Operations Action Plan presented to the Board at its January 12, 2024, meeting.

10. SANDAG establish a process to address customer concerns related to past account balances that have not been verified or that are not able to be verified. If additional discrepancies in customer account balance are identified, these accounts should be included in this process.

Management has implemented this recommendation as part of the Toll Operations Action Plan presented to the Board at its January 12, 2024, meeting.

Included is a revised version of the Toll Operations Action Plan, which has been updated to reflect the totality of recommendations approved by the SANDAG Board of Directors related to this matter.

Sincerely,



COLEEN CLEMENTSON
Interim Chief Executive Officer

Toll Operations Action Plan

Timing	Responsible Party	Action	Status
2023	SANDAG	Update procurement policies. (Audit Committee Recommendation #2)	Complete
Fall 2023 – Mar 2024	SANDAG	Provide information to DavisFarr for Annual Independent Financial Audit (FY 2023).	Complete
Dec 2023	SANDAG	Assembled new management team to assist in the assessment, transition, and implementation.	Complete
Dec 2023	SANDAG	Increase customer service staffing levels to respond to customer inquiries.	Complete
Jan 2024	Deloitte	Complete assessment of ETAN system for data migration	Complete
Jan 2024	SANDAG Deloitte/A-to-Be/Fagan	Pending Board approval, execute sole source contract for the Commercial Back Office Migration and Rapid Deployment Project. Execute contract with Fagan to provide technical support through completion.	Complete
Jan – Ongoing	SANDAG	Provide information to Office of the Independent Performance Auditor.	Complete
Jan – Mar 2024	SANDAG	Complete assessment of Toll Operations and develop Toll Operations Improvements Plan to address staffing, policies, procedures, structure, and ongoing management of the system. Phase I	Complete
Jan-July 2024	SANDAG Fagan	Complete analysis to verify past account balances. (OIPA Recommendation #10; Audit Committee Recommendation #1)	In Progress

Toll Operations Action Plan

Jan – Dec 2024	Deloitte/A-to-Be/Fagan	Transition back-office system from ETAN/HNTB to Deloitte/A-to-Be/Fagan.	In Progress
Feb 2024	Fagan	Complete reconciliation of customer records that did not balance in the general ledger.	Complete
April 2024	SANDAG	Explain to Board why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024. (OIPA Recommendation #3)	In Progress
April 2024	SANDAG	Initiate daily reconciliation of Kapsch/ETAN data to monitor and verify ongoing accuracy of customer accounts. (OIPA Recommendations #2, 7, and 9; Audit Committee Recommendation #1)	In Progress
April 2024	SANDAG	Launch Contract Management Support Unit to oversee effective administration of awarded contracts, proactively communicate, and help address any contract performance issues. (Audit Committee Recommendation #2)	In Progress
April 2024	SANDAG Deloitte/A-to-Be	Evaluate if DMV Hold Functionality can be implemented as part of New Back-Office System Launch and identify interim collection options. (OIPA Recommendation #8)	In Progress
April 2024	SANDAG Deloitte/A-to-Be/Fagan	Requirements gathering/Outcome Matrix Approval	In Progress
May 2024	SANDAG	Update Board Policies to outline reporting requirements for when a multimillion-dollar project is failing to meet its deadlines and deliverables, including whether or not errors or delays are identified, under what conditions a report is required, as well as when a report will no longer be required. (OIPA Recommendation #4; Audit Committee Recommendation #3)	In Progress

Toll Operations Action Plan

May 2024	SANDAG Deloitte/A-to- Be/Fagan	Data Migration Plan	Scheduled
June 2024	SANDAG	Complete assessment of Toll Operations and develop Toll Operations Improvements Plan to address staffing, policies, procedures, structure, and ongoing management of the system. Phase II	In Progress
June 2024	SANDAG Deloitte/A-to- Be/Fagan	Software integration Testing	Scheduled
July 2024	SANDAG	Provide semi-annual report to Board on Sole Source awards, including the project, underlying reason for the Sole Source award (and demonstrating adherence to public procurement laws), funding source/s, value of the award, and name of the Approving Official. (OIPA Recommendation #5)	Scheduled
Sept 2024	SANDAG Deloitte/A-to- Be/Fagan	User Acceptance testing begins	Scheduled
Dec 2024	SANDAG Deloitte/A-to- Be/Fagan	Launch Phase 1 Deloitte/A-to- Be Back-Office System	Scheduled
Summer 2025	SANDAG Deloitte/A-to- Be/Fagan	Complete implementation of Deloitte/A-to-Be Back-Office System.	Scheduled

Bold items indicate new actions added by staff based on project development/implementation.

Red items indicate new actions added based on OIPA and/or Audit Committee recommendations.

Toll Operations Action Plan

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Toll Operations Action Plan

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Feb 2024	Fagan	Complete reconciliation of customer records that did not balance in the general ledger.	Complete
April 2024	SANDAG	Explain to Board why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024. (OIPA Recommendation #3)	In Progress
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Toll Operations Action Plan

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Bold items indicate new actions added by staff based on project development/implementation.

Red items indicate new actions added based on OIPA and/or Audit Committee recommendations.

Discussion Memo

Attached is a brief project history and timeline of significant events related to the Toll Operations project to help identify when decisions were made, where there were breakdowns in process and/or project management, and ultimately which improvements should be made to prevent this from happening again.

This timeline is not a comprehensive or exhaustive inventory of documents or events associated with the Toll Operations project. It and the rest of this report are based on the best available information known at this time. Links to the source documents are included where possible.

Preliminary Assessment

As part of the Action Plan presented to the Board of Directors at its January 12 meeting, SANDAG management is assessing the entirety of the toll operations and will present the final findings to the Board in summer 2024. Below are preliminary findings based on information currently available.

Project Management

The absence of consistent management and internal technical expertise directly impacted the ability of the agency to oversee consultant work and ensure successful delivery of the toll operations project. There were repeated efforts by staff and regular assurances by ETAN and Kapsch that issues would be addressed; however, the level of personnel turnover and lack of standardized operating procedures resulted in continuous institutional knowledge gaps that led to an overdependence on consultant support.

For example, the back-office system project reported into 3 different CEOs, 5 Chief Deputies, 6 Toll Operation Directors, and 6 Project Managers over the span of the project. Responsibility over toll operations was segmented across the agency and shifted regularly without a recognition for the specialized expertise needed to administer a business unit like this.

To begin building the internal technical expertise needed, SANDAG hired a new Director of Regional Transportation Services in August 2022 with more than 30 years' experience in toll operations and related industries.

In December 2023, the current Chief Deputy CEO, who has more than two decades of private industry experience building and implementing software systems, took over management of Toll Operations from the Chief Financial Officer.

A PMP certified Principal Project Manager with demonstrated expertise in selecting and deploying large-scale technology solutions was designated to oversee implementation of the new back-office system in March 2024. In this role, the SANDAG Project Manager coordinates activities with Project Managers of Deloitte, Fagan and A to Be and reports to a newly formed Steering Committee that monitors project status, conducts regular risk assessments, seeks timely decisions, and strategizes solutions. On the SANDAG side the Committee is composed of The Chief Deputy CEO, CFO (or designee), Director of Toll Operations, and the Director of IT. As a primary function of the Steering Committee, the SANDAG representatives regularly interfaces with, senior representatives from Fagan, Deloitte and A to Be. This ensures a direct and regular line of communication to executive leadership, not only at SANDAG, but at the three firms responsible for implementing the new BOS.

Staff is analyzing any additional organizational structure changes that should be made to ensure successful management of the system as part of the Toll Operations Action Plan.

The steps outlined above are also being applied more broadly across the agency. Management is working with staff to right-size work efforts on all projects to ensure an appropriate level of oversight and use of consultant resources.

Process Improvements

Procurements

SANDAG's procurement process has evolved significantly since 2014 when the work to replace the SR 125 back-office and roadside systems was initiated, particularly with the selection of major technology solutions. Concerns regarding the quality of the technical specifications in the Request for Proposals (RFP) for the back-office system, which included duplicate or contradictory requirements, have been substantiated and likely contributed to the difficulties encountered on the project.

The most impactful changes that have been made since then include:

- Developing a more thorough description of system requirements for inclusion in the scope of work, including using an outcome-based approach to the project methodology;
- Engaging larger evaluation panels with members representing a broader range of subject matter expertise;
- Improved scoring criteria that emphasizes directly related experience and value of the firms being evaluated;
- Requiring custom system demonstrations as part of the selection process, with separate scoring criteria;
- Using a Requirements Traceability Matrix (RTM) that proposing firms must complete and submit as part of their proposal to ensure the solution meets SANDAG's needs.
- More in-depth reference checks, on-site visits to verify proposed system functionality, personal calls to reference contacts to develop a deeper understanding of the project details and performance feedback provided on the written evaluation form.

SANDAG's Contracts and Procurement Services Department also will be launching a new Contract Management Support Unit (CMSU) in 2024. Among its functions, the CMSU will oversee effective administration of awarded contracts. Using regular status reports submitted by project managers, the CMSU will be able to proactively communicate and help address any contract performance issues.

Consistent with the Office of the Independent Auditor (OIPA) recommendation, staff will begin providing a sole source report to the Board on a semi-annual basis that identifies the project, the underlying reason for the sole source award (demonstrating adherence to public procurement laws), the funding source/s, the value of the award, and the name of the approving official.

Financial

Currently, there are two sets of financial operations policies and procedures—one for SANDAG and the other for SR 125. Staff started revising the SR 125 procedures soon after Fastlane went live in June 2022; however, these efforts were paused in 2023 pending final implementation and testing of certain processes.

The new back-office system will include robust financial reporting features that meet or exceed industry best practices. In the meantime, SANDAG staff is implementing alternative reporting mechanisms to ensure continuity and integrity in its financial operations, which includes efforts to establish daily

monitoring and reconciliation of traffic numbers from the roadside system with customer account information. Updates to the procedures are being made to document these alternative reporting mechanisms and any other 'work-around' processes that were used to complete the quarterly and FY 2024 financial statements for toll operations.

The Board has also directed the OIPA to oversee an independent assessment of the Finance Department's policies, procedures, and practices. Pending completion of this review, additional process improvements to strengthen internal controls, including proper review and supervision over SANDAG's financial operations, will be implemented as needed.

Reporting

While there was a general awareness of challenges facing implementation of the back-office system over the past several years—different teams encountered different issues with different components of the system at varying times—there was not a defined reporting structure in place to support timely response and/or elevation of concerns, both across the agency and to the Board.

The Steering Committee in place now ensures regular access to Senior Executives so that issues can be addressed appropriately and staff will be proposing changes to Board Policy to outline reporting requirements for when a multi-million dollar project is failing to meet its deadlines and deliverables, including whether or not errors or delays are identified, under what conditions a report is required, as well as when a report will no longer be required.

Staff also will be bringing forward additional policies for the Board to determine specific procedures related to toll operations, including fees, violations, and collections policies.

Project History

Regional Tolling Operations – Back Office System and Roadside Equipment Replacement Projects

2011 – 2013

SANDAG acquired the franchise lease to operate the South Bay Expressway (SR 125 Toll Road) in December 2011. SANDAG awarded a Task Order to HNTB in August 2011 to perform the SR 125 Due Diligence Evaluation. As part of the due diligence process, it was determined that the legacy back-office system and roadside equipment was outdated and not functioning in accordance with industry standards. The due diligence assessment also considered the I-15 Express Lanes facility, which SANDAG has been operating since 1997. A different back-office system provided by Transcore was in use at the time and the roadside equipment also needed to be replaced.

Work began to replace the legacy back-office systems and roadside equipment for both SR 125 and I-15 in June 2013. As a first step, SANDAG awarded a Task Order to HNTB for Roadway Tolling – Engineering, Design & Construction Management. With technical assistance from HNTB, SANDAG staff estimated the cost to replace and integrate the SR 125 and I-15 back-office systems to be \$30.7 million; the initial cost estimate to replace the roadway equipment was \$28.9 million.

2013 – 2017

To bring the system up to industry standards and consolidate the agency's two existing customer service center systems and operations (SR 125 and I-15) into a new regional back-office system, SANDAG carried out a competitive Request for Proposals in 2016. SANDAG also carried out a competitive Request for Proposals in late 2016/2017 for roadside (toll collection) equipment.

For each procurement, four proposals were evaluated based on firm qualifications, key team qualifications, technical requirements, project plan/implementation, maintenance/software support, and price proposal. The Board approved awarding a contract to ETAN for the back-office system at its meeting on December 16, 2016, and Kapsch TrafficCom USA, Inc. (Kapsch), for roadside equipment at its meeting on December 15, 2017.

2017 – 2022

The back-office system replacement project work began in Spring 2017, with a contracted delivery date of October 2018. The work fell behind schedule due to a combination of factors, including a lack of appropriate resourcing by ETAN, ineffective project management by SANDAG, staff turnover within ETAN and SANDAG, offshore programming delays, and staffing challenges during the COVID-19 pandemic.¹

In May 2019, SANDAG issued to ETAN a Notice to Cure advising ETAN that its delays were beginning to accumulate liquidated damages in the amount of \$3,500 per day of delay and requiring ETAN to submit a cure plan and recovery schedule to reduce additional delays in delivery of the system. When delays continued to accrue, SANDAG advised ETAN on July 22, 2022, that it would begin withholding payments representing a portion of the liquidated damages owed to date. SANDAG issued a second Notice of Event of Default and Notice to Cure on October 5, 2023, to address ongoing deficiencies and delays by ETAN.

¹ ETAN was able to achieve “go live” for the I-15 facility on November 8, 2020, almost two years after the scheduled implementation date.

Work to replace the roadside system equipment began in 2017; this project was contracted to be completed in October 2019. The work on the roadside system also fell behind schedule due to inappropriate resourcing by Kapsch, ineffective project management and staff turnover within SANDAG, resource constraints at Kapsch, as well as supply chain issues, manufacturing delays, and staffing challenges during the COVID-19 pandemic. On January 21, 2020, SANDAG sought assurances from Kapsch that it would be able to achieve the contracted work and demanded that Kapsch submit a detailed recovery schedule demonstrating how it would do so. When Kapsch failed to provide the required assurances, SANDAG issued a Notice to Cure on March 13, 2020².

While the delays were concerning, SANDAG was able to continue toll collection efforts with its existing legacy systems and experienced no notable loss in revenue until late 2021.

At the Board meeting on February 25, 2022, the CEO advised the Board that the SR 125 legacy roadside system had lost critical functionality, resulting in revenue losses projected to be between \$700,000 and \$2 million, and that the cause was, in large part, attributed to delays by Kapsch in deploying the new equipment that would have replaced the deteriorating legacy system. The CEO communicated that SANDAG would be seeking damages from Kapsch to account for this loss and indicated that the agency's Independent Performance Auditor would be investigating the true financial impact.

At the Board meeting on April 22, 2022, the CEO provided an update to the Board regarding the revenue losses attributed to the outages in the legacy roadside system. In his presentation to the Board, the Deputy CEO advised that implementation of both the roadside and back-office replacement systems were delayed by almost three years. The Deputy CEO also stated that, given the urgent need to move away from the legacy systems, SANDAG's CEO and other members of Senior Executive Management, had met with the two primary vendors (ETAN and Kapsch) and had received assurances that both new systems – the roadside and back-office system – would “go live” at the end of May 2022, with full system acceptance to occur by December 2022. In conjunction with these project updates, the CEO announced that staffing changes had been made to address leadership failures within the Toll Operations department, including the termination of the former Director of Regional Tolling Operations in March 2022, and assumption of toll road operations responsibility by the CFO while a nationwide search for a qualified Director of Regional Tolling was conducted. The CEO also informed the Board that the agency had retained the services of Fagan Consulting, LLC, a toll operations consultant, to conduct a thorough review the SR 125 operations and to identify recommendations for operational improvements.

Staff worked closely with both ETAN and Kapsch to advance the systems replacement work. As noted in the OIPA Investigation Report, in the May 17, 2022 ‘Combined Roadway/Back Office System Status Report,’ SANDAG staff acknowledged that moving to “go-live” prior to ETAN fulfilling all technical requirements of its contract was not without risk. SANDAG project staff noted reservations regarding unproven elements of the ETAN system so close to “go live,” and also noted that further delays by ETAN would impact the ability of Kapsch to complete replacement of the aging and non-operational legacy roadside equipment. As the former CEO had advised the Board in February of 2022, the agency had experienced significant roadside revenue loss the previous year as the system was technologically outdated and hardware was being sourced through Ebay and other channels due to its age. SANDAG staff were also faced with the looming expiration of the PCI (Payment Card Industry) certification associated with the SR 125 legacy back-office system, meaning that the legacy system would no longer be able to process any credit card transactions for customer account holders or for individuals paying for

² Kapsch was able to achieve “go live” for the I-15 facility on October 1, 2020, one year after the scheduled implementation date and the “go live” date for the SR 125 facility was June 28, 2023, almost four years after scheduled implementation.

trips beginning on June 1, 2022, putting ~~\$450 million~~ \$50 million of revenue at risk and jeopardizing the outstanding bonds on the 125 freeway. Staff noted that it would balance these competing risks by reducing the level of functionality in the back-office system for go-live only, and continue to monitor system reports and customer service issues to identify and mitigate any resulting impacts.

The ETAN system, known as Fastlane, went live for SR 125 on June 5, 2022. In the 'Combined Roadway/Back Office System Project Status Report,' dated June 27, 2022, staff note that "*We are identifying issues, which ETAN is addressing, as they continue to turn on new functions in the back office.*" The report also notes that ETAN was working to address reporting issues and SANDAG staff were meeting with ETAN every day to discuss progress.

2022 – April 2024

As noted above, at the Board meeting on April 22, 2022, the former CEO announced that SANDAG had retained the services of an industry expert (Fagan Consulting) in the prior month to conduct an operational risk assessment of the SR 125, and to provide guidance on improving tolling operations. One of Management's significant concerns at the time Fagan was retained was the fact that ETAN's contract contained an option to develop a back-office system for the future Otay Mesa East Port of Entry (OME) project; staff expressed concerns about exercising this option given ETAN's failure to deliver a fully operational system with all anticipated functions for the SR 125 and I-15 facilities.

As part of their risk assessment, Fagan was asked to provide a recommendation as to whether SANDAG should continue utilizing ETAN for the OME project or consider other vendors. Fagan's report, included as Attachment 5, is notable in that it acknowledges that while certain features/requirements had not yet been implemented, "*the back-office system is installed and operating at SANDAG with no significant issues to date.*" Fagan recommended that SANDAG continue the current contract with ETAN while procuring a new back-office system for the OME project, with a second future phase of that work to include a transition of the existing toll facilities to the same OME back-office system.

Fagan's assessment, which also reflected SANDAG's concerns about ETAN's resourcing, also recommends that SANDAG not attempt to achieve all requirements of the ETAN contract and focus on fixing significant bugs in the system, as "*there is enough existing functionality in place to make this a feasible solution.*" Fagan further cautioned SANDAG to tread lightly on the issue of withholding liquidated damages from ETAN, as a punitive approach could force ETAN to walk away from the project at any time leaving SANDAG without any effective means of collecting tolls on the SR 125.

As the OIPA Investigation Report notes, the Fagan report was shared with Senior Executive Management in July 2022. Consistent with the Fagan recommendations, Senior Executive Management also instructed toll operations staff to continue to work with ETAN to maintain system functionality. Also, in line with Fagan's assessment and recommendations, OME project staff were informed ETAN's system was not scalable to include the facility. The work developing a RFQ *for the Regional back office technical advisor began* until it was determined that the delay in opening OME, a component of the system, provided additional time for Toll Operations to consider a vendor change because the ETAN contract was expiring.

Serious System Failures Uncovered

SANDAG staff focused on working with ETAN to identify and fix bugs in the Fastlane system. As the OIPA Investigation Report acknowledges, the volume of work tickets began to build after the implementation of SR 125 in June of 2022. These issues came to a head in Spring 2023 when SANDAG's Accounting and Finance staff began preparing year-end financial statements for the annual audit and identified issues regarding the accuracy of deferred revenue and accounts receivable. When pushed to resolve these errors on a priority basis, ETAN was unable to identify a solution and, in August

2023, ultimately admitted that it would never be able to resolve the deferred revenue and accounts receivable issues and would never be able to deliver a system to the specifications set forth in the contract.

On October 13, 2023, legal counsel met with the Board in closed session to discuss the status of the back-office system implementation and the potential initiation of litigation. The Board provided direction to counsel and on December 8, 2023, Management returned to the Board with an update on the implementation of the back-office system and advised the Board that they were unable to reconcile certain financial statement account balances, specifically regarding balance sheet items such as the accuracy of the deferred revenue (customer prepaid accounts) and accounts receivable balances. Management advised the Board that out of approximately 90,000 client accounts, approximately 45,000 did not reconcile to the accounting general ledger by a total of \$87,113. After identifying several common system errors, it was found that certain types of transactions in 45,000 customer accounts were not posted through to the General Ledger. Management informed the Board that customer balances did not appear to be incorrect; rather it was the flow of transactions to the general ledger accounting system that were not working. Management identified approximately 10,000 customer accounts that had not yet been reconciled, with a variance of \$8,771.

Management also discussed the immediate need to transition to a new back-office system, given ETAN's admitted inability to resolve the critical general ledger functions within the ETAN system. The Board authorized the execution of a sole source contract with Deloitte Consulting to develop a new back-office system. Work is underway to develop the new system, which is anticipated to be operational in late 2024.

		ETAN Procurement	Kapsch Procurement	ETAN Implementation	Kapsch Implementation	ETAN Contract Remedies	Kapsch Contract Remedies	Fagan Assessments	Presentation to Board	Milestones/Events/Other	ETAN Replacement (Deloitte/A to Be)											
Year												Date	Description	Exec. Director	Chief resp. for SR 125	Toll Ops Director	Chief Financial Officer	Finance Director	SANDAG Lead PM	SANDAG PM - ETAN	SANDAG PM - Kapsch	Supporting Document
2011	SBX Purchase Evaluation											August 25, 2011	SANDAG awards task order to HNTB to perform due diligence evaluation to purchase SBX (SR 125)	Gallegos	Wasmund	Linthicum	N/A	Warrem	Johnson	N/A	N/A	HNTB Procurement Supporting Documents
2012	SBX Purchase Evaluation											January 1, 2012	SANDAG acquires SBX	Gallegos	Wasmund	Linthicum	N/A	Warrem	Johnson	N/A	N/A	BOD Agenda-2011-12-16
	Roadway and BOS Eval											June 28, 2013	SANDAG awards task order to HNTB for Roadway Tolling Engineering, Design, and Construction Management	Gallegos	Wasmund	Linthicum	N/A	Douzdjian	Johnson	N/A	N/A	HNTB Procurement Supporting Documents
2013	Replacement Efforts Begin											June 2013	SANDAG begins efforts to replace of equipment for both SR 125 and I-15	Gallegos	Wasmund	Linthicum	N/A	Douzdjian	Johnson	N/A	N/A	
	ETAN Procurement											July 1, 2014	Kick-off meeting with Project Manager (PM) to start Back Office System (BOS) procurement process	Gallegos	Wasmund	Johnson	N/A	Douzdjian	N/A	Driesbach	Jimenez	N/A
2015	ETAN Procurement											July 24, 2015	BOD authorizes staff to begin the solicitation process for the BOS replacement	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	BOD Agenda-2015-07-24
	Kapsch Procurement											July 24, 2015	BOD authorizes staff to begin the solicitation process for the Roadway System replacement	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	
2016	ETAN Procurement											April 1, 2016	Final Regional BOS Request for Proposals (RFPs) document approved for publication	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	N/A
	ETAN Procurement											April 18, 2016	Regional BOS RFP is advertised to the public	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	5006101_SANDAG Regional BOS RFP & release info.pdf
	ETAN Procurement											May 3, 2016	Pre-proposal meeting: Interested vendors are able to ask questions about the information in the RFP	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	N/A
	ETAN Procurement											July 14, 2016	Five proposals are received	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	Proposals
	ETAN Procurement											August 22, 2016	Evaluation panel meets and scores proposal. Four firms shortlisted (firms were determined to be in the competitive range)	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	5006101 RFP BOS EC Scoring_082216_Competitive Range Short List.pdf
	ETAN Procurement											August 30-31, 2016	Reference checks performed	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	ETAN References.pdf
	ETAN Procurement											September 19, 2016	Proposer interviews: Four firms including ETAN interviewed	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	5006101 Final Ranking Summary.pdf
	ETAN Procurement											September 28, 2016	Deputy Executive Director and Department Head approves award	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	5006101_Recommendation Memo.pdf
	ETAN Procurement											September 29, 2016	Notified vendors of award, started negotiation with ETAN	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	Executive Team - 5006101_Notices of Intent.pdf
	Kapsch Procurement											October 28, 2016	BOD authorizes a change to the Roadway System replacement procurement to include replacing the I-15 Roadway System and adding an option to outfit SR 11 with tolling equipment as part of Otay Mesa East (OME)	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	BOD Agenda-2016-10-28.pdf
2017	Board Presentation											December 16, 2016	Board approves contract award to ETAN for \$28M	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	BOD Agenda-2016-12-16.pdf
	ETAN Implementation											March 27, 2017	Notice to Proceed issued to ETAN and project kick-off meeting held at SANDAG Toll Operation Center	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	Executive Team - 5006101_NTP.pdf
	Kapsch Procurement											May 19, 2017	Roadway Toll Collection Systems RFP is advertised	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	5006100_SANDAG Roadway System RFP.pdf
	Kapsch Procurement											June 2, 2017	Pre-proposal meeting: Interested vendors are able to ask questions about the information in the RFP	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	N/A
	ETAN Implementation											July 27, 2017	SANDAG requests assurance from ETAN that BOS guaranteed completion date (12/25/2018) I-15 go-live will be achieved	Gallegos	Kawada	Traynor	N/A	Douzdjian	N/A	Castro	Jimenez	Contract #5006101 - Regional Back Office System Project - SANDAG request for Assurances.pdf
	Kapsch Procurement											August 8, 2017	Four proposals are received	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	Proposals
	Kapsch Procurement											August 25, 2017	Reference checks performed	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100 SANDAG References Check_082517.pdf
	Kapsch Procurement											August 29, 2017	Evaluation panel meets and scores proposals. All four firms shortlisted (firms were determined to be in the competitive range)	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100 RFP Roadway System Short List EC Scoring_082917.pdf
	Kapsch Procurement											September 14, 2017	Proposer interviews: Price scored at 30%	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100 RFP Roadway System Interview EC Scoring_091417.pdf
	Kapsch Procurement											September 30, 2017	Deputy Executive Director and Department Head approves award	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100_Contractor Approval Recommendation_Procurement
2018	Kapsch Procurement											October 2, 2017	Notified vendors of award, started negotiations with Kapsch	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	Executive Team - 5006100_Notices of intent.pdf
	Board Presentation											December 15, 2017	Board approves contract award to Kapsch for \$63M	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100_SANDAG Board Approval_121517.pdf
	Kapsch Procurement											December 29, 2017	Contract finalized and Notice to Proceed issued to Kapsch	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Castro	Jimenez	5006100_AGMT_Roadway System Standard Agreement with
	ETAN Implementation											April 18, 2018	Status meeting with ETAN regarding assurances for project completion	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	Draft - ETAN Assurances Follow Up Meeting for 4 18 18 - Proposed
	ETAN Implementation											October 1, 2018	ETAN planned Go-live for I-15 is missed; liquidated damages begin	Vacant	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	N/A
	Event/Other											April 1, 2019	Technology Project Management Office Created initial focus restricted to ERP	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	N/A
	Notice to Cure (ETAN)											May 30, 2019	First Notice to Cure issued to ETAN demanding they meet their obligations and prevent further schedule slippage and reduce the cumulative delays to the maximum extent possible	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	Notice to Cure Letter to ETAN 1.pdf
	Kapsch Implementation											June 26, 2019	Kapsch planned systems acceptance date for SR 125 is missed; liquidated damages begin	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	
	Kapsch Implementation											September 1, 2019	Kapsch planned Go-Live for I-15 Roadside system is missed; liquidated damages begin	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	
	ETAN Implementation											September 24, 2019	BOS implementation agreement (TO No. 1 under Agrmnt No. 5006101) is amended (Amend No. 1) to extend time (from 06/26/2019 to 12/31/2020); no change to contract value	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	BOD-2024-04 Amendment to Task Order ETAN 12/26-5006101-toO1-am1.pdf
2019	Kapsch Implementation											October 1, 2019	Kapsch planned Go-Live for SR 125 Roadside system is missed; liquidated damages begin	Ikhrata	Kawada	Traynor	N/A	Douzdjian	Driesbach	Zeng	Jimenez	
	Staffing Changes											November 1, 2019	Agency leadership reorganization: Chief Deputy Director assumes responsibility for toll road; Director of Toll Operations is vacant; Director of Finance is appointed CFO	Ikhrata	Linthicum	Schwarting (acting)	Douzdjian	(No position)	Driesbach	Zeng	Jimenez	New-sandag-dept-structure-2019-11.pdf
	Schedule											December 3, 2019	Director of IT informs Schwarting, Lithicum, Ross of Back-Office System Project Delay	Ikhrata	Linthicum	Schwarting	Douzdjian	(No position)	Driesbach	Zeng	Jimenez	
2020	Notice to Cure (Kapsch)											January 21, 2020	SANDAG seeks assurance on project completion and remedy of Kapsch project performance issues	Ikhrata	Linthicum	Schwarting (acting)	Douzdjian	(No position)	Driesbach	Zeng	Jimenez	Kapsch Assurances Letter 01212020.pdf
	Notice to Cure (Kapsch)											March 13, 2020	SANDAG serves Kapsch with Notice to Cure defaults	Ikhrata	Linthicum	Schwarting	Douzdjian	(No position)	Driesbach	Zeng	Jimenez	SDG-KAP-013_Notice to Cure 20200313.pdf
	Board Presentation											April 10, 2020	SANDAG Board votes to suspend all toll violations on the I-15 and SR 125 due to COVID-19	Ikhrata	Linthicum	Ross (acting)	Douzdjian	(No position)	Driesbach	Zeng	Jinks	BOD Meeting Minutes-2020-04-10.pdf
	Notice to Cure (Kapsch)											June 1, 2020	Notice of resource and comms deficiencies Kapsch	Ikhrata	Linthicum	Ross (acting)	Douzdjian	(No position)	Driesbach	Zeng	Jinks	Kapsch Staffing and Communications Deficiencies-SDG-KAP-024.pdf

Year		ETAN Procurement	Kapsch Procurement	ETAN Implementation	Kapsch Implementation	ETAN Contract Remedies	Kapsch Contract Remedies	Fagan Assessments	Presentation to Board	Milestones/Events/Other	ETAN Replacement (Deloitte/A to Be)	Date	Description	Exec. Director	Chief resp. for SR 125	Toll Ops Director	Chief Financial Officer	Finance Director	SANDAG Lead PM	SANDAG PM - ETAN	SANDAG PM - Kapsch	Supporting Document
2020	Notice to Cure (Kapsch)											September 8, 2020	Kapsch served with Notice of Intent to recover liquidated damages	lkh rata	Linthicum	Ross (acting)	Douzdjian	(No position)	Driesbach	Zeng	Jinks	
	Kapsch Implementation											October 1, 2020	I-15 roadside system (Kapsch) actual go-live	lkh rata	Linthicum	Ross	Douzdjian	(No position)	Driesbach	Zeng	Jinks	
	ETAN Implementation											November 8, 2020	ETAN FastLane system goes Live on I-15 (system up and running)	lkh rata	Linthicum	Ross	Douzdjian	(No position)	Driesbach	Zeng	Jinks	
	ETAN Implementation											December 1, 2020	BOS implementation agreement (TO No. 1 under Agrmnt No. 5006101) is amended (Amend No. 2) to extend time (from 12/31/2020 to 12/31/2021); no change to contract value	lkh rata	Linthicum	Ross	Douzdjian	(No position)	Driesbach	Zeng	Jinks	ETAN AM2 to TO1 under 5006101.pdf
2021	Event/Other											January 5, 2021	Reinstatement of toll violations (COVID): Board approved at its December 18,2020 meeting	lkh rata	Linthicum	Ross	Douzdjian	(No position)	Driesbach	Zeng	Jinks	BOD Meeting Minutes-2020-12-18
	ETAN Implementation											March 16, 2021	Payment Card Industry Data Security Standard (PCI) Audit: Passed with compensating	lkh rata	Linthicum	Ross	Douzdjian	(No position)	Driesbach	Zeng	Jinks	SANDAG - 20220316 - ROC_Final.pdf
												June 14, 2021	Finance supervisor confirms via email daily reconciliation is occurring on I-15	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	Email - daily payment reconciliation.pdf
	Event/Other											June 21 - Sept. 21, 2021	SANDAG's roadway system \$1.8M revenue loss toll collection equipment displacement	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	
	Event/Other											September 22, 2021	Ryan Ross, Dir. RTS notifies Jim Linthicum, Chief Dep Eng & Const of revenue loss on SR 125 due to toll collection equipment displacement	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	Ross_Timeline_125.pdf
	Board Notification											September 24, 2021	CEO notifies Board OME open by 2024	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	
	ETAN LD Strategy											September 30, 2021	SANDAG retains outside counsel to support liquidated damages recovery	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	
	ETAN Implementation											December 30, 2021	BOS implementation agreement (TO No. 1 under Agrmnt No. 5006101) is amended (Amend No. 3) to extend time (from 12/31/2021 to 12/31/2022)	lkh rata	Linthicum	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	S954478_ETAN AM3 to TO1 under 5006101.pdf
2022	Staffing Changes											February 1, 2022	Executive management structure modified: Project management Office Reorganization Toll Operations Ray Major (PMO) and Andre Douzjian, Operations	lkh rata	Douzdjian	Ross	Douzdjian	Wallace	Driesbach	Zeng	Jinks	
	Board Notification											February 11, 2022	CEO notifies Board OME open by 2024	lkh rata	Douzdjian	Ross	Douzdjian	Wallace	Parris (acting)	Zeng	Jinks	
	Assessment											March 1, 2022	Fagan Hired to do an SR 125 Toll Operational Risk Assessment	lkh rata	Douzdjian	Ross	Douzdjian	Wallace	Parris	Zeng	Jinks	S1000973_Fagan RON.pdf
	Event/Other											March 17, 2022	OME team notified that ETAN will not be able to be used for OME and that an alternate solution will need to be procured	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	
	ETAN Implementation											April 21, 2022	Meeting with ETAN Execs Steve Levine CEO, Georgio Fondoni CTO, Tom Shivers Atty, Ben Clarke, and Michael Sinha; SANDAG Team Ray Major and Coleen Clemenson, Dep CEOs; Andre Doudjiain, CFO, Bill Parris, Jiqin Zeng; HNTB Theresa Weeks	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	
	Board Presentation											April 22, 2022	Ray Major notifies Board of issues with Tolling System and new PMO processes	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	BOD Meeting Minutes-2022.04.22
	ETAN Implementation											May 1, 2022	ETAN Back-Office Go Live 1 - SR 125 - SCRAPPED - Data Quality Control	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	
	Assessment											May 6, 2022	Agreement is executed w/ Fagan for the SR 125 Toll Operational Risk Assessment	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	S1000973 agmt_Fagan.pdf
	ETAN Implementation											June 5, 2022	ETAN Back-Office Go Live 2 - SR 125	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	
	Fagan Findings											June 30, 2022	SR 125 Discussion: Hasan discussed preliminary findings form Fagan report with the Executive Team	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	June.30.2022 SR 125 dicussion meeting.pdf
	Fagan Findings											July 5, 2022	CFO email to FAGAN about preliminary findings report and ETAN	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	July.5.2022 email_Draft report.pdf
	Assessment											July 7, 2022	Fagan report (dated 07/07/2022) issued: recommends continuing with ETAN while procuring a new BOS for OME	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	SANDAG BOS Assessment and Recommendations Fagan.pdf
	ETAN - LD Retention											July 20-26, 2022	HNTB 2022 notification regarding ETAN invoice	lkh rata	Douzdjian	Vacant	Douzdjian	Wallace	Parris	Zeng	Jinks	HNTB notification emails.pdf
	Staffing Change											August 15, 2022	Lucinda Broussard hired as Director of Regional Transportation Services	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Zeng	Jinks	
2023	ETAN Implementation											January 1, 2023	BOS implementation agreement (Task Order No. 1 under Agrmnt No. 5006101) is amended (Amend No.4) to extend time (from 12/31/2021 to 12/31/2023)	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Zeng	Jinks	S1111476_ETAN AM4 to TO1 under 5006101.pdf
	ETAN Replacement											April 20, 2023	Market Research/Deloitte/A2B Demo: Andre Douzdjian, Lucinda Broussard, Bill Paris, Bill Mount, Michael Bertram, Ian Castellana, Stan Glowacki, Lisbeth Howard, Alex Estrella, Allan Kosup (DOT), Karen Jewel (DOT), Maurice Cunanan	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	Toll System Demos - Deloitte & AtoBe.pdf
	ETAN Replacement											May 9, 2023	Toll system demo: Emovis/Andre Douzdjian, Lucinda Broussard, Bill Paris, Bill Mount, Michael Bertram, Ian Castellana, Stan Glowacki, Lisbeth Howard, Alex Estrella, Allan Kosup (DOT), Karen Jewel (DOT), Maurice Cunanan	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	Toll System Demos - Emovis.pdf
	ETAN Replacement											May 11, 2023	Neology Demo- Andre Douzdjian, Lucinda Broussard, Bill Paris, Bill Mount, Michael Bertram, Ian Castellana, Stan Glowacki, Lisbeth Howard, Alex Estrella, Allan Kosup (DOT), Karen Jewel (DOT), Maurice Cunanan	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	Toll System Demos - Neology.pdf
	Kapsch Implementation											June 28, 2023	Kapsch Go Live SR 125	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	
	Kapsch Implementation											May 2022 - Jun 30, 2023	Kapsch operational revenue losses on SR 125 (\$1.8M)	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/Warrem	Parris	Bertram	Jinks	Kapsch Lost Revenue Summary 2023-12-04
	Kapsch Implementation											August 1, 2023	Kapsch starts Operational Acceptance Testing (OAT) for I-15	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/Warrem	Parris	Bertram	Jinks	
	ETAN Implementation											August 25, 2023	Met with ETAN and was told they would never produce financial reports (Attendees: SANDAG: Andre, Lauren, Lucinda, Mabelle, Lisbeth, Leeanne; HNTB: Theresa Weeks; ETAN: Pam Jones Accountant, Michael Sinha President, Tom Shivers Atty	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/ Warrem	Parris	Bertram	Jinks	
	Board Meeting											September 8, 2023	Board meeting OIPA's (Mary K) review, Courtney's appointment, Hasan's review	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/	Parris	Bertram	Jinks	BOD Meeting Minutes-2023-09-08
	Board Meeting											September 22, 2023	Board meeting road user charge alternative	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/	Parris	Bertram	Jinks	BOD Meeting Minutes_2023-09-22
	Kapsch Implementation											September 30, 2023	Kapsch completes OAT for I-15	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/ Warren	Parris	Bertram	Jinks	ETAN Notice 2_10 05 23.pdf
	Notice to Cure (ETAN)											October 5, 2023	Second Notice to Cure letter issued to ETAN	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/ Warren	Parris	Bertram	Jinks	ETAN Notice 2_10 05 23.pdf
	Board Presentation											October 13, 2023	Informed Board in closed session regarding ETAN's inability to produce financial reports	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/ Warren	Parris	Bertram	Jinks	BOD Meeting Minutes-2023-10-13

		ETAN Procurement	Kapsch Procurement	ETAN Implementation	Kapsch Implementation	ETAN Contract Remedies	Kapsch Contract Remedies	Fagan Assessments	Presentation to Board	Milestones/Events/Other	ETAN Replacement (Deloitte/A to Be)											
Year												Date	Description	Exec. Director	Chief resp. for SR 125	Toll Ops Director	Chief Financial Officer	Finance Director	SANDAG Lead PM	SANDAG PM - ETAN	SANDAG PM - Kapsch	Supporting Document
	ETAN Replacement											October 15, 2023	Site visit to A to Be to validate replacement system functionality meets SANDAG tolling requirements Lucinda Broussard, Ray Major	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace/ Warren	Parris	Bertram	Jinks	
	Board Presentation											December 8, 2023	CFO's presentation to the Board regarding general ledger issues (Item No. 15)	lkh rata	Douzdjian	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	Agenda Item 15 - Toll_Road_Operations_Assessment.pdf
2024	Board Presentation											January 12, 2024	Board approves extension of ETAN contract to support system migration and continue operations (\$100k per month)	Vacant	Major	Broussard	Douzdjian	Wallace	Parris	Bertram	Jinks	BOD Meeting Minutes-2024-01-12
	Board Presentation											January 26, 2024	Board approves \$50k credit for HNTB support	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Bertram	Bertram	BOD Meeting Minutes-2024-01-26
	Staffing Changes											February 1, 2024	Implemented changes to PM structure	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	
	Kapsch Implementation											February 1, 2024	Kapsch starts OAT for SR 125	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	Letter - SR 125 Operational and Acceptance Testing – Entry Criteria App
	ETAN Implementation											February 20, 2024	ETAN extension (Add scope, terms, and date)	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	5006101 AM4 Contract Amendment - signed.pdf
	ETAN Implementation											March 5, 2024	BOS implementation agreement (TO No. 1 under Agrmnt No. 5006101) is amended (Amend No. 5) to extend time (to 11/30/2024)	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	SANDAG Control 5006101 AM5 Contract Amendment_ 03-01-24 - signed.pdf
	Deloitte Implementation											March 9, 2024	SANDAG signs contract for replacement system to replace ETAN with Deloitte	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	Agreement 6000052_Deloitte Consulting.pdf
	ETAN Implementation											March 26, 2024	Original ETAN contract end date	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	
	Kapsch Implementation											March 31, 2024	Kapsch completes OAT for SR 125	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	
	ETAN Replacement											April 8, 2024	Deloitte responds to SANDAG's request to fastrack DMV Holds	Clementson	Major	Broussard	Douzdjian	Vettese	Parris	Rumbolo	Bertram	

*This timeline is not a comprehensive or exhaustive inventory of documents or events associated with the Toll Operations project.

Responses to Board Questions

1. How was ETAN selected?

On July 24, 2015, and in accordance with Board Policy No. 016 (Procurement of Services), the Board authorized staff to begin the solicitation process for the back-office system replacement. The solicitation documents were developed by SANDAG staff with technical assistance from HNTB and the Request for Proposals (RFP) was released on April 18, 2016.

Almost 900 vendors were notified of the opportunity and 56 vendors downloaded the proposal documents. The following five vendors submitted proposals:

- Cofiroute USA, LLC
- Cognizant Technology Solutions US Corporation
- Cubic Transportation Systems, Inc.
- ETAN Industries, LLC
- TransCore, LP

On August 22, 2016, the evaluation panel met to consider the proposals and, based on criteria set forth in the RFP, select the vendors to advance for interviews and further evaluation. The evaluation panel for this solicitation was composed of three SANDAG staff members and, in compliance with Board Policy No. 016, one member from outside the agency:

- Principal Technology Program Manager, SANDAG (Separated employment in Jan. 2022)
- Business Operations Program Manager, SANDAG (Separated employment in Mar. 2022)
- Senior Accountant, SANDAG (Separated employment in Aug. 2019)
- Toll Operations Manager, Riverside County Transportation Commission

The written proposals submitted by the responsive vendors were evaluated using the following criteria, as determined by the contract analyst and project manager, and set forth in the RFP:

- Firm qualifications (0.5 weight)
- Key team qualifications (1.25 weight)
- Approach to technical requirements (3.0 weight)
- Approach to project plan and implementation (1.25 weight)
- Approach to maintenance and software support service and performance requirements (1.0 weight) and
- Price proposal (3.0 weight).

The following four firms were short-listed by the evaluation panel to proceed to the interview stage:

- Cofiroute USA, LLC (Total weighted short-list score = 257.5)
- Cubic Transportation Systems, Inc. (Total weighted short-list score = 274.2)
- ETAN Industries, LLC (Total weighted short-list score = 262.4)
- TransCore, LP (Total weighted short-list score = 283.1)

On September 19 and 20, 2016, the evaluation panel conducted interviews with the four firms. Again, using the criteria set forth in the RFP, the panel members each scored the four firms which resulted in the following rankings:

- 1 – ETAN Industries, LLC (Total weighted score = 355.5)
- 2 – TransCore, LP (Total weighted score = 239.6)
- 3 – Cubic Transportation Systems, Inc. (Total weighted score = 228.1)
- 4 – Cofiroute USA, LLC (Total weighted score = 216.4)

The Lead Contracts and Procurement Analyst assigned to this project conducted reference checks on the four short-listed firms in accordance with Board Policy No. 016 and the solicitation requirements. The highest-ranking vendor after interviews, ETAN Industries LLC (ETAN), received the highest scores from references, with one former client noting, *“ETAN Industries is a very professional organization, and the staff is easy to work with. The staff understood the project and deliverables. Our project was very successful from the customer service level to reports and customer reconciliation.”*

The Lead Contracts and Procurement Analyst also conducted debarment checks to ensure that all firms were eligible to enter into a public contract and performed a fiscal responsibility analysis utilizing an “Altman Z-Score” methodology, which takes into account profitability, leverage, liquidity, solvency and activity to predict whether a company has a high degree of probability of being insolvent. No issues were identified.

Once all responsibility requirements were met, SANDAG staff sought and received approval from the Chief Deputy Executive Director at the time to engage in cost negotiations with the highest-ranking proposer, ETAN Industries, LLC.

At its meeting on December 16, 2016, the Board approved the contract award to ETAN in the amount of \$28 million, which was \$2.7 million less than the SANDAG cost estimate. ETAN met all insurance and bonding requirements for the contract; the contract was fully executed on March 27, 2017.

2. How was Kapsch selected?

On July 24, 2015, and in accordance with Board Policy No. 016, the Board authorized staff to begin the solicitation for the Roadway Toll Collection System replacement, known as roadside equipment. After the Board’s approval, staff identified additional projects that would benefit from the solicitation so returned to the Board to request to add these to the scope of services.

At its meeting on October 28, 2016, the Board authorized a change to the planned solicitation which increased the cost estimate and expanded the scope of services to include replacing the Interstate 15 (I-15) Express Lanes Roadway Toll Collection System and adding an option to outfit State Route 11 (SR 11) with roadway tolling equipment in conjunction with the development of the Otay Mesa East Port of Entry. The solicitation documents were developed by SANDAG staff with technical assistance from HNTB, and the RFP was released on May 19, 2017. Almost 2,000 vendors were notified of the opportunity and 70 vendors downloaded the proposal documents. The following four vendors submitted proposals:

- Kapsch TrafficCom IVHS Inc.
- Neology, Inc.
- Parsons_Indra Joint Venture
- TransCore, LP

On August 29, 2017, the evaluation panel met to consider the proposals and, based on criteria set forth in the RFP, select the vendors to advance for interviews and further evaluation. The evaluation panel for this solicitation was composed of four SANDAG staff members and, in compliance with Board Policy No. 016, one member from outside the agency:

- Principal Technology Program Manager, SANDAG (Separated employment in Jan. 2022)

- Senior Technology Program Analyst, SANDAG (Separated employment in Mar. 2020)
- Associate Systems Engineer, SANDAG
- Maintenance and Facilities Supervisor, SANDAG
- Project Engineer, California Department of Transportation

The written proposals submitted by the responsive vendors were evaluated using the following criteria, as set forth in the RFP:

- Firm qualifications (0.75 weight)
- Key team qualifications (1.0 weight)
- Approach to technical requirements (3.5 weight)
- Approach to project plan and implementation (1.0 weight)
- Approach to maintenance and software support service and performance requirements (1.25 weight)
- Price proposal (2.5 weight)

During the week of September 11-14, 2017, interviews of the four firms were conducted by the evaluation panel. Again, using the criteria set forth in the RFP, the evaluation panel members each scored the firms which resulted in the following rankings:

- 1 – Kapsch TrafficCom IVHS Inc. (Total weighted score = 394.2)
- 2 – TransCore, LP (Total weighted score = 337.6)
- 3 – Parsons_Indra Joint Venture (Total weighted score = 313.9)
- 4 – Neology, Inc. (Total weighted score = 310.9)

The Lead Contracts and Procurement Analyst assigned to this project conducted reference checks on the four short-listed firms in accordance with Board Policy No. 016 and the solicitation requirements. The highest-ranking vendor, Kapsch TrafficCom IVHS Inc. (Kapsch), received satisfactory to excellent scores on key facets of projects for the Washington State Department of Transportation (ORT Express Lanes and Maintenance) and the Rhode Island Turnpike and Bridge Authority (Mixed Mode Toll System and Maintenance).

The Lead Contracts and Procurement analyst also conducted debarment checks to ensure that all firms were eligible to enter into a public contract and performed a fiscal responsibility analysis utilizing an “Altman Z-Score” methodology, which takes into account profitability, leverage, liquidity, solvency, and activity to predict whether a company has a high degree of probability of being insolvent. No issues were identified.

Once all responsibility requirements were met, SANDAG staff sought and received approval from the Chief Deputy Executive Director to engage in cost negotiations with the highest-ranking proposer, Kapsch.

At its meeting on December 15, 2017, the Board approved the contract award to Kapsch for a total amount not to exceed \$63 million. Kapsch met all insurance and bonding requirements for the contract; the contract was fully executed on December 29, 2017.

3. Why go live with the ETAN Fastlane system if it was not ready to be deployed?

ETAN implemented its Fastlane system in two phases. The first was on the I-15 Express Lanes facility with a go-live date in November 2020. Staff started identifying issues regarding ETANs ability to produce

financial reports from November 2020 through 2021; thus, staff used some of the reliable reports from Fastlane and other source documents for financial reporting while ETAN was continuing to fix bugs.

In a May 2022 project report, staff noted that they had reservations regarding unproven elements of the ETAN system so close to “going live.” However, staff also recognized that further delays to launch would impact the ability of Kapsch to complete the replacement of the legacy roadside equipment on SR-125 (which could result in revenue losses if the old equipment continued to fail) and beginning December 2022, the legacy system could no longer be certified to transmit or store credit card information resulting in SANDAG losing the ability to process credit cards transactions. This would lead to a potential loss of \$50 million in tolling revenue per year. Eventually SANDAG would not have sufficient funds to make principal and interest payments on the bonds and would trigger a payment default. The Agency would most likely lose its AAA rating making future borrowings much more expensive for other SANDAG projects.

Countering this was the fact that ETAN had provided the critical elements needed for the system to function; such as the ability to set up accounts, hold deposits, process payments, send out notices/correspondence/statements, track transactions, interface with banks, track inventory, etc.

Ultimately, staff concluded that they would balance these competing risks by reducing the level of functionality in the back-office system for go-live only, and continue to monitor system reports and customer service issues to identify and mitigate any resulting impacts going forward.

4. What happened between July 2022 and October 2023? Why wasn't the Board made aware and why wasn't an RFP prepared?

There have been ongoing challenges with implementation of the back-office system since before it was launched. At the same time, there was also a general expectation and assurances that ETAN would be able to resolve the issues to the extent needed to operate the system until another vendor could be identified.

The July 2022 report from Fagan Consulting, LLC (Fagan), a tolling-industry expert who had conducted an SR 125 Toll Operational Risk Assessment for SANDAG, confirmed this understanding. Fagan outlined four options for addressing Management's concerns about the ETAN Fastlane system, and for achieving a back-office system for the existing I-15 and SR 125 facilities, and the soon-to-be constructed Otay Mesa East (OME) project.

After considering the pros and cons of the various options outlined by Fagan, the former CEO decided to pursue a parallel process which included 1) preparing for a procurement to select and implement a new regional back-office system, and 2) continuing the current contract with ETAN, focusing on fixing significant bugs and ensuring core functionality of the Fastlane system, but not attempting to achieve all requirements of the ETAN contract as *“there is enough existing functionality in place to make this a feasible solution.”*

Path 1: At the time, the former CEO had announced that the OME project was expected to open in September 2024. This established the timeline for conducting a procurement and implementation of the replacement back-office system. However, ongoing negotiations with our federal partners regarding the OME project continues to delay the finalization of the specifications of the OME back office. However, ongoing negotiations with our federal partners regarding the OME project continue to delay the finalization of the specifications of the OME back office.

Path 2: To hold ETAN accountable, SANDAG began to withhold payments (liquidated damages) from ETAN in July 2022 due to the delay of delivery of the back-office system. A new Director of Regional Transportation Services was also hired to oversee the ongoing implementation and acceptance of the new system. The Director established project goals and expectations for consultant performance, and in

2023, started exploring options for contracting with another California Toll Operators Committee (CTOC) vendor to assume operations.

SANDAG staff worked diligently and in good faith with ETAN for an extended period of time to achieve the expected system functionality. In the months following go-live of Fastlane in June 2022, Accounting and Finance staff, and other project team members, continued to meet with ETAN on a regular basis to discuss and address functional issues that were preventing them from obtaining data necessary for periodic reconciliations and other accounting functions. There were also monthly project status meetings between SANDAG Management, SANDAG staff, and HNTB representatives. At ETAN's continued assurance, staff trusted that the system issues would eventually be resolved.

In early July 2023, SANDAG staff began to express serious doubts about ETAN's ability to produce the necessary financial reports and were concerned about upcoming FY 2023 year-end reporting activities. SANDAG's Chief Financial Officer (CFO) intervened and immediately instructed ETAN to prioritize the financial reporting components of the Fastlane system. ETAN responded by assigning additional resources to the project. As part of this response, a lead accountant from ETAN worked onsite at SANDAG for three days in late July 2023, side-by-side with Accounting and Finance staff, to fully understand the issues and requirements. In addition, a senior-level certified public accountant from HNTB who had also been the CFO of SBX and had a unique depth of familiarity with SR125 financial operations and the Fastlane system issues, was asked to work exclusively on assisting and overseeing the accounting reconciliation work until it was complete¹.

Despite these additional resources and work efforts, ETAN was unable to resolve the programming errors in the Fastlane system. ETAN executives informed the SANDAG CFO and other SANDAG staff on August 25, 2023, that the Fastlane system would never be capable of producing the financial reports that had been specified in the project requirements. This admittance by ETAN prompted the CFO to immediately report the magnitude of the issue to the former CEO, and steps were initiated to advise the Board. A closed session item was held during the October 13, 2023, Board meeting regarding this matter.

When ETAN notified SANDAG that it would never be able to deliver a system to the specifications set forth in the contract in late August 2023, staff determined that a sole source would be necessary to mitigate the risk of continuing work with ETAN.

5. What is the status of customer accounts? Who is affected by the tolling software failures?

SANDAG has implemented a robust and thorough sampling process to confirm customer account balances to a 99% confidence level. Since early January 2024, staff have been analyzing, confirming, and resolving any discrepancies or anomalies in customer accounts to ensure they are accurate. This work is expected to be completed in July 2024.

During the June 2022 migration to the ETAN Fastlane system, the technology used to transfer customer account balances functioned as expected and the moment-in-time transfer from the old system was successful. Although it is an industry standard, moment-in-time approaches require review and correction of accounts that had transactions during the migration. The transfer period contained a three weeks lag where customer transactions weren't initially captured. Consequently, we made corrections to reflect the accurate activity in this period, ensuring the beginning account balances were updated to include all transactions that occurred during the migration process.

We are aware of isolated incidents of customers being mischarged, which we addressed as soon as we were made aware (i.e. the 100 transactions cited in the Investigation Report and December 8, 2023,

¹ Accounting and Finance staff performed FY 2022 year-end financial reporting activities using data from the prior legacy system; this explains the 12-month timeline between go-live and the determination of system failure.

Board report). However, based on the information we have at this time, it appears that the software failures are primarily a general ledger issue and not a customer account issue.

The December 8, 2023, Board report on this item explained that:

“SANDAG staff reviewed approximately 90,000 customer accounts and found that 55,000 accounts had transaction(s) that did not match between what the customers see on their account statements and what the internal accounting system document (known as the general ledger) was showing. Based on further review of approximately 45,000 of those customer accounts, it was confirmed that the error was on the internal accounting side of the system; the customer account balances were accurate.”

The Fagan assessments and Investigation Report are consistent with this finding.

6. What is HNTB’s role? Did HNTB notify SANDAG staff in July 2022 that they would no longer recommend ETAN's invoices for approval? If so, why did SANDAG continue approving invoices?

SANDAG does not currently have an active contract with HNTB related to toll operations. Below is a history of their prior contract awards related to the project.

Consulting Services – SR 125 Transition Services Support

In August 2011, HNTB was selected to document the ongoing services needed to operate the SR-125 facility, provide recommendations on delivery of those services, and support with onboarding any contracted services or staff. HNTB was selected as the most qualified On-Call firm based on reviewing the Statement of Qualifications submitted at the master contract level which was in line with current practices and procedures in 2011. This work was issued under HNTB’s competitively awarded On-Call Engineering Services contract (5000923 Task Order 73). The period of performance was 08/25/2011 to 12/31/2012.

The work under this task order included determining the physical nature and condition of the roadway/bridges, building facilities and other assets; the preliminary costs for additional construction work planned as part of the franchise or contractually agreed to by SBX, such as a new flyover ramp to SR-11 and SR-905 connector; the validity of costs and structure for the operations and maintenance program; and a life-cycle and gap assessment for the tolling system including violation processing and all aspects of revenue collection.

Consulting Services – SR 125 Program/Project Management & General Engineering Support Services

In December 2012, HNTB was selected to provide program management and general engineering support related to SR 125. HNTB was selected as the most qualified On-Call firm based on reviewing the Statement of Qualifications submitted at the master contract level which was in line with current practices and procedures in 2012. This work was issued under HNTB’s competitively awarded On-Call Environmental Planning and Architect and Engineering Design Services contract (5001901 Task Order 1). The period of performance was 12/18/2012 to 05/30/2018.

The work under this task order included developing engineering scopes of work; coordinating the phasing and implementation of projects within the corridor; providing technical review of engineering documents; right-of-way, utility coordination, asset management; providing program/project schedule tracking, progress reports, and budget/financial tracking.

Consulting Services – Roadway Tolling, Design & Construction Management Services

In June 2013, HNTB was selected on the justification that it was logical follow-on work since HNTB had performed initial work on 5000923 TO 73 and 5001901 TO 1 (SR 125 Program/Project Management & GEC Support Services). This justification and HNTB’s qualifications were documented in the A&E Firm Recommendation Form in accordance with the policies and procedures in place in 2013. This work was

issued under HNTB's competitively awarded On-Call Environmental Planning and Architect and Engineering Design Services contract (5001901 Task Order 8). The period of performance was 06/28/2013 to 10/31/2018.

The work required under this task order scope of services included the required plans, designs, and specifications for tolling roadway components and control systems (inclusive of customer service and violations capture/processing operations); as-needed negotiations/procurement support; and construction/implementation management of the identified tolling improvements to facilitate the immediate need to address SR 125 deficiencies, integrate the I-15 and SR 125 facilities, and to provide plans for construction of future priced roadways.

This work continued under HNTB's competitively awarded On-Call Architect and Engineering Design Consulting Services contract (5007812 Task Order 9). The period of performance was 03/05/2018 to 08/02/2022.

In summer 2022, Contracts & Procurement staff determined that the remaining work was more suited to a non-A&E contract, so the work was transitioned to HNTB's competitively awarded On-Call ITS Category A, Tolling Systems Advisory Services contract (5004863 Task Order 5) utilizing a sole source justification. The ITS contracts were designed specifically for systems, and the language around intellectual property and data was more robust than the language in the A&E contract. The period of performance was 08/03/2022 to 02/28/2024.

The work required under this task order scope of services included continued efforts on the Roadway System project system design, testing, field installation, commissioning, and system acceptance of the new Roadway Toll Collection System for the I-15 Express Lanes and SR 125 South Bay Expressway.

Consulting Services, Toll Violation Collection Business Process Improvement Services

In September 2018, HNTB was selected based on a secondary task order competition where 2 proposals were received. This work was issued under HNTB's competitively awarded On-Call ITS Category A, Tolling Systems Advisory Services contract (5004863 Task Order 1). The period of performance was 09/17/2018 to 06/30/2021.

The work required under this task order scope of services included identifying violation collection best practices, developing recommendations and plans for the implementation of identified best practices, drafting administrative policies and user guides to improve tolling business processes, and examining the full revenue cycle including in-lane processing with an emphasis on the improvement of violation collection processing.

Owner's Representation Services for the Regional Back Office System Implementation

In September 2018, HNTB was selected on the justification that it was logical follow-on work since HNTB had performed initial work on 5000923 TO 73 and 5001901 TO 1 (SR 125 Program/Project Management & GEC Support Services). This work was issued under a new sole source contract (5005573). The period of performance was 09/21/2018 to 01/31/2024.

The work required under this contract included implementation support services for the BOS project including additional oversight tasks for installation, training, testing, transition, Go-Live and post Go-Live support services.

Notice to Cure

On May 30, 2019, SANDAG issued a Notice to Cure, notifying ETAN that liquidated damages would be assessed. SANDAG determined that it was appropriate to deduct from the invoiced amounts a portion of the liquidated damages owed by ETAN and opted to retain 50% of the invoiced amounts as liquidated damages.

2022 Notification

The SANDAG PM was notified by email on July 20, 2022, that HNTB had concerns about signing cover sheets included in the requests for payment/invoices submitted by ETAN due to ETAN's statement in the invoice submittal that all work reflected in the invoice had been completed to contractual specifications while HNTB and SANDAG had concerns about ETAN's performance. HNTB recommended adding an explanatory note to the invoice cover sheets to clarify that the authorization to invoice did not constitute approval of the milestones referenced in the invoice, and that SANDAG had approved the deferral of certain requirements to after go-live but before system acceptance. Additionally, HNTB recommended that the cover sheet note the liquidated damages incurred to date.

HNTB's recommendations were shared by the PM with a SANDAG attorney and the SANDAG CFO. As a result, neither SANDAG nor HNTB signed the ETAN invoice. Instead, SANDAG stated its concerns about ETAN's performance on the work reflected in the invoice in a letter dated June 22, 2022, to ETAN, noting that because of ETAN's deficiencies SANDAG was withholding fifty percent of the invoiced amount as liquidated damages and reserving all rights to pursue additional amounts including additional liquidated damages, damages for breach of contract and damages for defective workmanship.

7. How was the 64/36 revenue split between SR 125 and I-15 determined?

There is documentation that shows the history of the 64/36 split between the SR-125 and I-15 which is updated on an annual basis based on the active FasTrak accounts on each roadway. There has been turnover in the Accounting Department and the accountant that was asked to provide the documentation was not aware of the split. Once the question was elevated to the Manager, the documentation was provided to OIPA.

8. Why was the DMV hold not operational?

The DMV hold process does not work in the ETAN Fastlane system. SANDAG continues to issue debt notices to violators and these amounts are being recorded in SANDAG's financials (Aging Report). If the debt goes unpaid by violators, SANDAG will send notices to the DMV in the future to assist in recovering payment. Once DMV accepts the violations for the hold, they are added to the car registration for that year. The hold will prevent customers from obtaining a valid registration unless all fines and fees are paid.

We have asked Deloitte/A to Be to provide options and related costs to expedite the DMV Hold functionality in the new system and will keep the Board updated. It is currently scheduled to be available in 2025.

9. Can we stop tolling on the SR 125? / Bond Situation?

SANDAG currently has \$167 million in Series A SANDAG South Bay Expressway Revenue Bonds. One of the legally binding covenants of those bonds is that SANDAG maintain at least 1.5 times debt service coverage ratio (DSCR); that is, at least \$1.50 in net toll revenues (after the payment of operating and maintenance costs) against \$1.00 in annual debt service. If SANDAG stops collecting tolls on the roadway, the agency would not be able to maintain its DSCR and would be in default on its bonds. Additionally, SANDAG eventually would not have sufficient funds to make principal and interest payments on the bonds and would trigger a payment default.

If SANDAG defaults on our bonds, the agency would be downgraded by the rating agencies (Fitch and S&P) and subject to lawsuit(s) from the Trustee on behalf of bondholders to exercise the rights and remedies available to them. A default event could also make future borrowings much more expensive.

SANDAG

OIPA

**Office of the Independent
Performance Auditor**

DATE: April 24, 2024

TO: Chair Nora Vargas, Board of Directors
Chair David Zito, Audit Committee
SANDAG Board of Directors
SANDAG Audit Committee
Coleen Clementson, Interim Chief Executive Officer
Ray Major, Chief Deputy CEO
Andre Douzajian, Chief Financial Officer
Residents of San Diego County and Toll Users

FROM: Courtney Ruby, Independent Performance Auditor

SUBJECT: SANDAG Management Response to the OIPA's Investigation Report
on SANDAG's State Route 125 Toll Operations

INTRODUCTION

SANDAG Executive Management (Management) provided a timely response to the Office of the Independent Performance Auditor's (OIPA) [SR 125 Investigation](#) released on March 25, 2024. In their response, Management acknowledged and agreed with all the report's findings and recommendations as well as accepted full responsibility for the failures of the toll operations system. In addition, Management provided a detailed discussion memo, project history, timeline, and response to SANDAG's Board of Directors' questions.

According to [Board Policy No. 039](#), the Independent Performance Auditor serves as the Board of Directors oversight function. As such, the purpose of this Memo is to identify areas in Management's response to the investigation that are inconsistent with the SR 125 Investigation findings and which require further clarification or additional information from Management.

To assist the Board, OIPA developed **Questions** included in called out boxes below, for the Board to consider during its discussion of Management's response to the OIPA's SR 125 Investigation. Each key area begins with the **Question** called out and is followed by information provided in Management's response or referenced in the

SR 125 investigation.

Management's responses have also been reproduced within the document and the corresponding pages from Management's actual response can be found in Attachments A and B. **Attachment A** includes pages from Management's response, *Attachment 3 - Project History* and **Attachment B** includes pages from Management's response, *Attachment 5 - Responses to Board Questions*.

AREAS OF MANAGEMENT'S RESPONSE THAT ARE INCONSISTENT WITH THE SR 125 INVESTIGATION

There are two attachments, as identified above, in Management's response that are inconsistent with the investigation's findings.

Management's responses in these attachments attempt to answer two key questions noted in the investigation: Why wasn't the Board made aware? and Why wasn't an RFP (request for proposals) prepared? However, their responses contradict themselves or are contrary to the investigation findings.

1

Management's response (Attachment A) states:

As noted above, at the Board meeting on April 22, 2022, the former CEO announced that SANDAG had retained the services of an industry expert (Fagan Consulting) in the prior month to conduct an operational risk assessment of the SR 125, and to provide guidance on improving tolling operations. One of Management's significant concerns at the time Fagan was retained was the fact that ETAN's contract contained an option to develop a back-office system for the future Otay Mesa East Port of Entry (OME) project; staff expressed concerns about exercising this option given ETAN's failure to deliver a fully operational system with all anticipated functions for the SR 125 and I-15 facilities.

As part of their risk assessment, Fagan was asked to provide a recommendation as to whether SANDAG should continue utilizing ETAN for the OME project or consider other vendors.

Fagan recommended that SANDAG continue the current contract with ETAN while procuring a new back-office system for the OME project, with a second future phase of that work to include a transition of the existing toll facilities to the same OME back-office system.

However, Fagan's recommendations are broader than the OME project. Fagan's SR 125 Toll Operational Risk Assessment report, Introduction section (Attachment C, page 1) states:

There are **four paths** forward for the SANDAG back office for I15, SR125, and Otay Mesa:

Fagan's report, Recommendations section (Attachment C, page 4), goes on to outline the pros and cons of each path and concludes:

We recommend SANDAG continue the current contract with ETAN while procuring a new back office. Continuing with ETAN is an interim step until you acquire and stand up a new back office system.

2

Later, Management's response (Attachment A) further states:

"The work developing a RFQ (request for qualifications) for the Regional back office technical advisor began until it was determined that the delay in opening OME, a component of the system, provided additional time for Toll Operations to consider a vendor change because the ETAN contract was expiring."

Question 1

Did Management determine the back-office system would only need replacement if it was a part of the OME project? If not, why did the OME project dictate the procurement timeline and implementation for a new system?

The first three paragraphs below are consistent with Fagan's report recommendations. However, the last paragraph below indicates the OME project opening date was being used to establish the timeline for conducting the procurement and implementation of the replacement back-office system. As previously stated, Fagan's recommendations were broader than the OME project alone.

3

Management's response (Attachment B) states:

There have been ongoing challenges with implementation of the back-office system since before it was launched. At the same time, there was also a general expectation and assurances that ETAN would be able to resolve the issues to the extent needed to operate the system until another vendor could be identified.

The July 2022 report from Fagan Consulting, LLC (Fagan), a tolling-industry expert who had conducted an SR 125 Toll Operational Risk Assessment for SANDAG, confirmed this understanding. Fagan outlined four options for addressing Management's concerns about the ETAN Fastlane system, and

for achieving a back-office system for the existing I-15 and SR 125 facilities, and the soon-to-be constructed Otay Mesa East (OME) project.

After considering the pros and cons of the various options outlined by Fagan, the former CEO decided to pursue a parallel process which included 1) preparing for a procurement to select and implement a new regional back-office system, and 2) continuing the current contract with ETAN, focusing on fixing significant bugs and ensuring core functionality of the Fastlane system, but not attempting to achieve all requirements of the ETAN contract as “there is enough existing functionality in place to make this a feasible solution.”

Path 1: At the time, the former CEO had announced that the OME project was expected to open in September 2024. This established the timeline for conducting the procurement and implementation of the replacement back-office system. However, ongoing negotiations with our federal partners regarding the OME project continues to delay the finalization of the specifications of the OME back office.

Additionally, Fagan informed SANDAG (see slide below) that the RFP and system implementation takes 36 months. Based upon Fagan’s suggested timing, if the OME’s opening remained as 2024, the RFP would have needed to be initiated in 2021 and a procurement to replace ETAN’s BOS would have required immediate attention.

FAGAN’s June 23, 2022 briefing to SANDAG included the following slide:

INITIAL CONSIDERATIONS

- Begin to research alternative procurement options:
 - 1) Leverage other agencies back office. Sample questions:
 - Are they willing to consider processing SANDAG’s trips in their back office?
 - If yes, how and what would you charge for processing?
 - Would you have issues with SANDAG performing image review and posting fully formed rated trips to your back office?
 - What is your violation process?
 - What is the timeframe for transition completion?
 - 2) Streamline RFP Process to procure a new back office system
 - RFP and system implementation is usually 36 months
 - Phase 1: Core BO functionality including support for Otay Mesa plaza
 - Phase 2: Complete BO functionality, data migration and transition off ETAN BO

Question 2

What policies and procedures was Management following that prompted them to notify the Board in October 2023 of ETAN's inability to meet contractual requirements?

The investigation found ETAN was not able to produce required financial reports and was dependent upon workarounds and queries from the initiation of ETAN's SR 125 BOS through today.

4 Management's response (Attachment B) further states:

ETAN executives informed the SANDAG CFO and other SANDAG staff on August 25, 2023, that the Fastlane system would never be capable of producing the financial reports that had been specified in the project requirements. This admittance by ETAN prompted the CFO to immediately report the magnitude of the issue to the former CEO, and steps were initiated to advise the Board. A closed session item was held during the October 13, 2023, Board meeting regarding this matter.

Question 3

Why was the Board not notified immediately following the July 2022 CFO email to Ron Fagan, when the CFO implied that they would be? Further, why was a procurement not initiated at that time to replace ETAN?

The July 5, 2022 full email text from the CFO to FAGAN included in the investigation states:

Good morning Ron and Christine,

I know we are not to receive the final report until October, but after Hasan discussed your preliminary findings with the Executive Team last week, it was really determined that we need to move away from ETAN (in particular for the new OME Port of Entry, but also in time for SR-125 and I-15). So we need to take an item to our BOD sooner than later so that we can get the team moving in a direction to prepare a new tolling RFP or piggy back on someone else (i.e. BATA or TCA).

So can we carve out the portion of the report related to the viability/going concern of ETAN and get a preliminary report on that aspect this/next week. We would more than likely take these items in closed session to the Board, as we would need to keep this subject confidential for now for obvious reasons.

Thanks

SANDAG CFO

Question 4

Considering the procurement timeline of approximately 8 months to conduct an RFP/Q solicitation, as stated in Management's sole source justification for Deloitte, why did Management not conduct an RFP/Q following the recommendation made by Fagan in July 2022? Why did Management wait until ETAN notified SANDAG of their inability to meet their contractual obligations?

Question 5

If Management was only researching products available to replace the current back-office system, why was Management inquiring about timelines for implementing such products? Isn't this something that should have been conducted through a formal solicitation process, like an RFP/Q to determine the most suitable approach and service provider to meet SANDAG's service needs?

Question 6


Considering that Management delayed taking action following Fagan's recommendations and that the sole source justification requirements specify that a sole source procurement cannot be the result of failure or lack of planning, what alternative policy or process was followed to allow the sole source contract award to Deloitte?

5 Management's response (Attachment B) further states:

When ETAN notified SANDAG that it would never be able to deliver a system to the specifications set forth in the contract in late August 2023, staff determined that a sole source would be necessary to mitigate the risk of continuing work with ETAN.

Through interviews and reviewing documentation, we found that in 2022 and 2023, SANDAG staff was acting with a sense of expediency given the concerns regarding ETAN's viability, poor performance, and failure to deliver system requirements. This process included SANDAG speaking with Transportation Corridor Agencies (TCA) to see if they could immediately take over transaction processing if ETAN could no longer perform. This also included contacting potential vendors, scheduling software demos, and planning on-site visits to see actual "live" tolling systems.

As previously mentioned, Management was advised by Fagan in July 2022 to initiate a solicitation. In November 2022, a procurement had still not yet begun, and Fagan was advising the department director on alternatives to shorten the procurement process. The sole source justification form for Deloitte's contract was dated October 31, 2023, 16 months after Fagan's recommendations. The form provided the following instructions for completion, and the initial section was completed as follows by the department director:

	
Version 3.0	SOLE SOURCE JUSTIFICATION
<p>Contracting without providing for full and open competition is prohibited unless justified on one or more of the bases below. This form is required if Sole Source is selected as the Competition Type in the Solicitation or Contract record in CMS. Complete the form and attach to the CMS record by uploading as the Sole Source Justification Form. The form will be routed electronically as a CMS Business Review for review/approval by the appropriate Department Director and the Director and Legal Counsel of Contracts and Grants (DLC). By approving the transaction in CMS, the Department Director certifies that the information on this form is correct and approves of the justification used for this sole source.</p>	
THE FOLLOWING MUST BE ANSWERED AFFIRMATIVELY (CAN BE USED FOR ALL FUNDING SOURCES)	
<p>By marking the boxes below, you are affirming that the following statements are true.</p>	
<input checked="" type="checkbox"/>	The need for a sole source is not due to a failure to plan or a lack of advanced planning.
<input checked="" type="checkbox"/>	The need for a sole source is not due to concerns about the amount of federal assistance available to support the procurement (for example, expiration of federal assistance available for award).

Additionally, the sole source justification form for Deloitte's contract included the following explanation provided by the department director:

SANDAG's technical staff began researching other products available in the tolling industry that could replace the existing BOS on an expedited basis and determined that only 6 vendors had systems with the ability to meet the agency's needs. Of those vendors, only Deloitte and A To Be had the ability to deliver a system within an acceptable time-frame; the remaining vendors would require several years of development before a new BOS would be operational, which would have left the region's tolling facilities with the inability to process the collected tolls for several years. The vendors noted a best case would be 24 to 36 months, the amount of time we allotted for the current vendor, to get their systems up and ready to process the collected tolls.

Deloitte and A To Be will be able to deliver a new BOS in 7 months, rather than several years, so as to minimize disruptions to toll operations and

resulting revenue losses and ensure that the agency maintains the conditions of its bonds. Deloitte and A to Be's BOS will also be able to provide migration to SANDAG's new ERP, an A-I solution to efficiently serve customers calling for assistance.

Full and open competition is not in the public's best interest. If SANDAG were to competitively procure this work, the procurement process would require approximately 8 months and the outcome would likely be no different, as Deloitte and A To Be is the only vendor able to deliver a system that meets the needs of the agency within the time required to ensure operational continuity. Given these reasons, staff believe a sole source award is justified. The Board of Directors also was briefed on this sole source award in closed session on October 13, 2023.

Lastly, Management included a timeline in its response to the investigation. We have provided an excerpt from February 11, 2022 through July 7, 2022 below. The timeline includes inconsistencies with Management's responses. Some examples include:

- On February 11, 2022, the Board is notified of the 2024 opening of OME. Per Fagan's slide above, an RFP would have needed to be initiated in 2021 to meet the timeline, 3 years prior to the OME opening.
- On March 1, 2022, Fagan was *hired* to conduct the Risk Assessment. However, the records show that the RFO (request for offers) solicitation was not sent out until March 16, 2022 and Fagan's contract was not executed until May 6, 2022.
- On March 17, 2022, staff is notified that ETAN will not be used for the OME and an alternate solution will be procured. Per Management, a part of Fagan's Risk Assessment was to determine the continued use of ETAN for the OME project or to consider other vendors. Fagan's Risk Assessment was not completed until July 2022.

Board Notification										February 11, 2022	CEO notifies Board OME open by 2024
Assessment										March 1, 2022	Fagan Hired to do an SR 125 Toll Operational Risk Assessment
Event/Other										March 17, 2022	OME team notified that ETAN will not be able to be used for OME and that an alternate solution will need to be procured
ETAN Implementation										April 21, 2022	Meeting with ETAN Execs Steve Levine CEO, Georgio Fondoni CTO, Tom Shivers Atty, Ben Clarke, and Michael Sinha; SANDAG Team Ray Major and Coleen Clemenson, Dep CEOs; Andre Doudjain, CFO, Bill Parris, Jiqin Zeng; HNTB Theresa Weeks
Board Presentation										April 22, 2022	Ray Major notifies Board of issues with Tolling System and new PMO processes
ETAN Implementation										May 1, 2022	ETAN Back-Office Go Live 1 - SR 125 - SCRAPPED - Data Quality Control
Assessment										May 6, 2022	Agreement is executed w/ Fagan for the SR 125 Toll Operational Risk Assessment
ETAN Implementation										June 5, 2022	ETAN Back-Office Go Live 2 - SR 125
Fagan Findings										June 30, 2022	SR 125 Discussion: Hasan discussed preliminary findings form Fagan report with the Executive Team
Fagan Findings										July 5, 2022	CFO email to FAGAN about preliminary findings report and ETAN
Assessment										July 7, 2022	Fagan report (dated 07/07/2022) issued: recommends continuing with ETAN while procuring a new BOS for OME

OTHER INFORMATION REQUESTS

There are areas in Management's response that include new or expanded information related to the investigation.

OIPA requested additional supporting documentation last week from Management to determine the accuracy of the statements presented below. Management provided the information on April 24, 2024 and the OIPA is in the process of reviewing it.

6

Management's response (Attachment B) states:

SANDAG has implemented a robust and thorough sampling process to confirm customer account balances to a 99% confidence level. Since early January 2024, staff have been analyzing, confirming, and resolving any discrepancies or anomalies in customer accounts to ensure they are accurate. This work is expected to be completed in July 2024.

During the June 2022 migration to the ETAN Fastlane system, the technology used to transfer customer account balances functioned as expected and the moment -in-time transfer from the old system was successful. Although it is an industry standard, moment-in-time approaches require review and correction of accounts that had transactions during the migration. The transfer period contained a three weeks lag where customer transactions weren't initially captured. Consequently, we made corrections to reflect the accurate activity in this period, ensuring the beginning account balances were updated to include all transactions that occurred during the migration process.

CORRECTION

7

Management's response (Attachment B) states:

There is documentation that shows the history of the 64/36 split between the SR-125 and I-15 which is updated on an annual basis based on the active FasTrak accounts on each roadway. There has been turnover in the Accounting Department and the accountant that was asked to provide the documentation was not aware of the split. Once the question was elevated to the Manager, the documentation was provided to OIPA.

However, the Finance manager stated the following directly to the OIPA:

"In regards to this, unfortunately no we have not been able to pull up any clear documentation of this, but we did sit down with people who were here during the transition and noted that the split was based on active FasTrak

accounts at the time the roadways were merged. Attached is a recalculation showing the percentages per year. “

CLARIFICATIONS FOR MANAGEMENT RELATED TO THE OIPA AND AUDIT COMMITTEE RECOMMENDATIONS

There were two recommendations that are broader in scope than reflected in Management’s response to OIPA. We are providing clarification so that Management may incorporate this information into future recommendation updates.

OIPA Recommendation 7:

We recommend SANDAG immediately implements daily monitoring to ensure all systems are operating and communicating with each other correctly.

Clarification: This recommendation refers to daily monitoring to ensure all systems are operating and communicating with each other correctly. This is monitoring of all tolling systems, not just between RSS and BOS.

Audit Committee Recommendation 3:

The Board should consider development of a policy for all multimillion-dollar projects that includes a timely reporting of the status of the project to the Board, whether or not errors or delays are identified.

Clarification: The Audit Committee’s recommendation, as provided above, is broader than the OIPA’s recommendation number 4.

NEXT STEPS:

QUESTIONS 1 - 6: The questions are included for the Board's consideration during its discussion of Management's response to the Office of the Independent Performance Auditor's SR 125 Investigation. Next steps will be determined by the OIPA, Board and Audit Committee.

INFORMATION REQUEST: The OIPA is reviewing information provided by Management on April 24, 2024, and will report any notable differences, or further information required to the Board, Audit Committee and Management.

trips beginning on June 1, 2022, putting ~~\$450 million~~ \$50 million of revenue at risk and jeopardizing the outstanding bonds on the 125 freeway. Staff noted that it would balance these competing risks by reducing the level of functionality in the back-office system for go-live only, and continue to monitor system reports and customer service issues to identify and mitigate any resulting impacts.

The ETAN system, known as Fastlane, went live for SR 125 on June 5, 2022. In the 'Combined Roadway/Back Office System Project Status Report,' dated June 27, 2022, staff note that "*We are identifying issues, which ETAN is addressing, as they continue to turn on new functions in the back office.*" The report also notes that ETAN was working to address reporting issues and SANDAG staff were meeting with ETAN every day to discuss progress.

2022 – April 2024

1

As noted above, at the Board meeting on April 22, 2022, the former CEO announced that SANDAG had retained the services of an industry expert (Fagan Consulting) in the prior month to conduct an operational risk assessment of the SR 125, and to provide guidance on improving tolling operations. One of Management's significant concerns at the time Fagan was retained was the fact that ETAN's contract contained an option to develop a back-office system for the future Otay Mesa East Port of Entry (OME) project; staff expressed concerns about exercising this option given ETAN's failure to deliver a fully operational system with all anticipated functions for the SR 125 and I-15 facilities.

As part of their risk assessment, Fagan was asked to provide a recommendation as to whether SANDAG should continue utilizing ETAN for the OME project or consider other vendors. Fagan's report, included as Attachment 5, is notable in that it acknowledges that while certain features/requirements had not yet been implemented, "*the back-office system is installed and operating at SANDAG with no significant issues to date.*" Fagan recommended that SANDAG continue the current contract with ETAN while procuring a new back-office system for the OME project, with a second future phase of that work to include a transition of the existing toll facilities to the same OME back-office system.

Fagan's assessment, which also reflected SANDAG's concerns about ETAN's resourcing, also recommends that SANDAG not attempt to achieve all requirements of the ETAN contract and focus on fixing significant bugs in the system, as "*there is enough existing functionality in place to make this a feasible solution.*" Fagan further cautioned SANDAG to tread lightly on the issue of withholding liquidated damages from ETAN, as a punitive approach could force ETAN to walk away from the project at any time leaving SANDAG without any effective means of collecting tolls on the SR 125.

2

As the OIPA Investigation Report notes, the Fagan report was shared with Senior Executive Management in July 2022. Consistent with the Fagan recommendations, Senior Executive Management also instructed toll operations staff to continue to work with ETAN to maintain system functionality. Also, in line with Fagan's assessment and recommendations, OME project staff were informed ETAN's system was not scalable to include the facility. The work developing a RFQ *for the Regional back office technical advisor began* until it was determined that the delay in opening OME, a component of the system, provided additional time for Toll Operations to consider a vendor change because the ETAN contract was expiring.

Serious System Failures Uncovered

SANDAG staff focused on working with ETAN to identify and fix bugs in the Fastlane system. As the OIPA Investigation Report acknowledges, the volume of work tickets began to build after the implementation of SR 125 in June of 2022. These issues came to a head in Spring 2023 when SANDAG's Accounting and Finance staff began preparing year-end financial statements for the annual audit and identified issues regarding the accuracy of deferred revenue and accounts receivable. When pushed to resolve these errors on a priority basis, ETAN was unable to identify a solution and, in August

financial reports from November 2020 through 2021; thus, staff used some of the reliable reports from Fastlane and other source documents for financial reporting while ETAN was continuing to fix bugs.

In a May 2022 project report, staff noted that they had reservations regarding unproven elements of the ETAN system so close to “going live.” However, staff also recognized that further delays to launch would impact the ability of Kapsch to complete the replacement of the legacy roadside equipment on SR-125 (which could result in revenue losses if the old equipment continued to fail) and beginning December 2022, the legacy system could no longer be certified to transmit or store credit card information resulting in SANDAG losing the ability to process credit cards transactions. This would lead to a potential loss of \$50 million in tolling revenue per year. Eventually SANDAG would not have sufficient funds to make principal and interest payments on the bonds and would trigger a payment default. The Agency would most likely lose its AAA rating making future borrowings much more expensive for other SANDAG projects.

Countering this was the fact that ETAN had provided the critical elements needed for the system to function; such as the ability to set up accounts, hold deposits, process payments, send out notices/correspondence/statements, track transactions, interface with banks, track inventory, etc.

Ultimately, staff concluded that they would balance these competing risks by reducing the level of functionality in the back-office system for go-live only, and continue to monitor system reports and customer service issues to identify and mitigate any resulting impacts going forward.

4. What happened between July 2022 and October 2023? Why wasn't the Board made aware and why wasn't an RFP prepared?

3

There have been ongoing challenges with implementation of the back-office system since before it was launched. At the same time, there was also a general expectation and assurances that ETAN would be able to resolve the issues to the extent needed to operate the system until another vendor could be identified.

The July 2022 report from Fagan Consulting, LLC (Fagan), a tolling-industry expert who had conducted an SR 125 Toll Operational Risk Assessment for SANDAG, confirmed this understanding. Fagan outlined four options for addressing Management's concerns about the ETAN Fastlane system, and for achieving a back-office system for the existing I-15 and SR 125 facilities, and the soon-to-be constructed Olay Mesa East (OME) project.

After considering the pros and cons of the various options outlined by Fagan, the former CEO decided to pursue a parallel process which included 1) preparing for a procurement to select and implement a new regional back-office system, and 2) continuing the current contract with ETAN, focusing on fixing significant bugs and ensuring core functionality of the Fastlane system, but not attempting to achieve all requirements of the ETAN contract as *“there is enough existing functionality in place to make this a feasible solution.”*

Path 1: At the time, the former CEO had announced that the OME project was expected to open in September 2024. This established the timeline for conducting a procurement and implementation of the replacement back-office system. However, ongoing negotiations with our federal partners regarding the OME project continues to delay the finalization of the specifications of the OME back office. However, ongoing negotiations with our federal partners regarding the OME project continue to delay the finalization of the specifications of the OME back office.

Path 2: To hold ETAN accountable, SANDAG began to withhold payments (liquidated damages) from ETAN in July 2022 due to the delay of delivery of the back-office system. A new Director of Regional Transportation Services was also hired to oversee the ongoing implementation and acceptance of the new system. The Director established project goals and expectations for consultant performance, and in

2023, started exploring options for contracting with another California Toll Operators Committee (CTOC) vendor to assume operations.

SANDAG staff worked diligently and in good faith with ETAN for an extended period of time to achieve the expected system functionality. In the months following go-live of Fastlane in June 2022, Accounting and Finance staff, and other project team members, continued to meet with ETAN on a regular basis to discuss and address functional issues that were preventing them from obtaining data necessary for periodic reconciliations and other accounting functions. There were also monthly project status meetings between SANDAG Management, SANDAG staff, and HNTB representatives. At ETAN's continued assurance, staff trusted that the system issues would eventually be resolved.

In early July 2023, SANDAG staff began to express serious doubts about ETAN's ability to produce the necessary financial reports and were concerned about upcoming FY 2023 year-end reporting activities. SANDAG's Chief Financial Officer (CFO) intervened and immediately instructed ETAN to prioritize the financial reporting components of the Fastlane system. ETAN responded by assigning additional resources to the project. As part of this response, a lead accountant from ETAN worked onsite at SANDAG for three days in late July 2023, side-by-side with Accounting and Finance staff, to fully understand the issues and requirements. In addition, a senior-level certified public accountant from HNTB who had also been the CFO of SBX and had a unique depth of familiarity with SR125 financial operations and the Fastlane system issues, was asked to work exclusively on assisting and overseeing the accounting reconciliation work until it was complete¹.

4 Despite these additional resources and work efforts, ETAN was unable to resolve the programming errors in the Fastlane system. ETAN executives informed the SANDAG CFO and other SANDAG staff on August 25, 2023, that the Fastlane system would never be capable of producing the financial reports that had been specified in the project requirements. This admittance by ETAN prompted the CFO to immediately report the magnitude of the issue to the former CEO, and steps were initiated to advise the Board. A closed session item was held during the October 13, 2023, Board meeting regarding this matter.

5 When ETAN notified SANDAG that it would never be able to deliver a system to the specifications set forth in the contract in late August 2023, staff determined that a sole source would be necessary to mitigate the risk of continuing work with ETAN.

5. What is the status of customer accounts? Who is affected by the tolling software failures?

6 SANDAG has implemented a robust and thorough sampling process to confirm customer account balances to a 99% confidence level. Since early January 2024, staff have been analyzing, confirming, and resolving any discrepancies or anomalies in customer accounts to ensure they are accurate. This work is expected to be completed in July 2024.

During the June 2022 migration to the ETAN Fastlane system, the technology used to transfer customer account balances functioned as expected and the moment-in-time transfer from the old system was successful. Although it is an industry standard, moment-in-time approaches require review and correction of accounts that had transactions during the migration. The transfer period contained a three weeks lag where customer transactions weren't initially captured. Consequently, we made corrections to reflect the accurate activity in this period, ensuring the beginning account balances were updated to include all transactions that occurred during the migration process.

We are aware of isolated incidents of customers being mischarged, which we addressed as soon as we were made aware (i.e. the 100 transactions cited in the Investigation Report and December 8, 2023,

¹ Accounting and Finance staff performed FY 2022 year-end financial reporting activities using data from the prior legacy system; this explains the 12-month timeline between go-live and the determination of system failure.

2022 Notification

The SANDAG PM was notified by email on July 20, 2022, that HNTB had concerns about signing cover sheets included in the requests for payment/invoices submitted by ETAN due to ETAN's statement in the invoice submittal that all work reflected in the invoice had been completed to contractual specifications while HNTB and SANDAG had concerns about ETAN's performance. HNTB recommended adding an explanatory note to the invoice cover sheets to clarify that the authorization to invoice did not constitute approval of the milestones referenced in the invoice, and that SANDAG had approved the deferral of certain requirements to after go-live but before system acceptance. Additionally, HNTB recommended that the cover sheet note the liquidated damages incurred to date.

HNTB's recommendations were shared by the PM with a SANDAG attorney and the SANDAG CFO. As a result, neither SANDAG nor HNTB signed the ETAN invoice. Instead, SANDAG stated its concerns about ETAN's performance on the work reflected in the invoice in a letter dated June 22, 2022, to ETAN, noting that because of ETAN's deficiencies SANDAG was withholding fifty percent of the invoiced amount as liquidated damages and reserving all rights to pursue additional amounts including additional liquidated damages, damages for breach of contract and damages for defective workmanship.

7. How was the 64/36 revenue split between SR 125 and I-15 determined?

7 There is documentation that shows the history of the 64/36 split between the SR-125 and I-15 which is updated on an annual basis based on the active FasTrak accounts on each roadway. There has been turnover in the Accounting Department and the accountant that was asked to provide the documentation was not aware of the split. Once the question was elevated to the Manager, the documentation was provided to OIPA.

8. Why was the DMV hold not operational?

The DMV hold process does not work in the ETAN Fastlane system. SANDAG continues to issue debt notices to violators and these amounts are being recorded in SANDAG's financials (Aging Report). If the debt goes unpaid by violators, SANDAG will send notices to the DMV in the future to assist in recovering payment. Once DMV accepts the violations for the hold, they are added to the car registration for that year. The hold will prevent customers from obtaining a valid registration unless all fines and fees are paid.

We have asked Deloitte/A to Be to provide options and related costs to expedite the DMV Hold functionality in the new system and will keep the Board updated. It is currently scheduled to be available in 2025.

9. Can we stop tolling on the SR 125? / Bond Situation?

SANDAG currently has \$167 million in Series A SANDAG South Bay Expressway Revenue Bonds. One of the legally binding covenants of those bonds is that SANDAG maintain at least 1.5 times debt service coverage ratio (DSCR); that is, at least \$1.50 in net toll revenues (after the payment of operating and maintenance costs) against \$1.00 in annual debt service. If SANDAG stops collecting tolls on the roadway, the agency would not be able to maintain its DSCR and would be in default on its bonds. Additionally, SANDAG eventually would not have sufficient funds to make principal and interest payments on the bonds and would trigger a payment default.

If SANDAG defaults on our bonds, the agency would be downgraded by the rating agencies (Fitch and S&P) and subject to lawsuit(s) from the Trustee on behalf of bondholders to exercise the rights and remedies available to them. A default event could also make future borrowings much more expensive.



Draft Report

Draft Report for the State Route – 125 (SR-125) Toll Operational Risk Assessment



Contract No: S1000973
Agency: SANDAG
401 B Street, Suite 800
San Diego, CA 92101
Date: July 7, 2022



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1. BACK OFFICE ALTERNATIVE CONSIDERATIONS AND OPTIONS

1.1 INTRODUCTION

SANDAG asked Fagan to conduct an operational risk assessment of their back office project with ETAN. The SANDAG staff is concerned about ETAN's ability to fully deliver the current system. Additionally, the Otay Mesa project is scheduled to open in two years. Given the issues encountered on the current project, the SANDAG staff has reservations that ETAN will deliver for Otay Mesa.

The Fagan team had discussions about the project with the SANDAG staff. We also reviewed project documentation extensively. After the workshop debrief, SANDAG tasked us with providing a report on their options with ETAN and recommendations. This document explores four options for moving forward with the SANDAG back office.

There are four paths forward for the SANDAG back office for I15, SR125, and Otay Mesa:

1. Continue with ETAN
2. Outsource all back office processing to an existing agency in the State of California
3. Acquire a new back office system while contracting with an existing back office provider in California in the interim
4. Continuing with ETAN as an interim solution until the new back office system is ready

In the following section, we discuss the pros and cons of each of these approaches.

1.2 CONTINUE WITH ETAN

Pro:

1. The back office system is installed and operating at SANDAG with no significant issues to date
2. Training was completed for SANDAG staff
3. SANDAG staff indicates ETAN is providing good operational support when needed

Con:

1. SANDAG staff indicates ETAN performance issues remain to be resolved
2. SANDAG staff acknowledges there are efficiency issues with some operational features of the ETAN system
3. Integration with the new Kapsch SR125 roadside system is not anticipated before December 2022
4. ETAN and SANDAG agreed to descope the delivered system to achieve an operational state
5. There is an extensive list of deferred features/requirements yet to implement
6. ETAN owes millions of dollars in LDs to SANDAG and another project
7. System delivery to SANDAG was significantly late
8. ETAN's other significant project is years behind schedule
9. ETAN required considerable support from SANDAG staff to test and bring their system online
10. ETAN software development staff is limited (possible single point of failure if that person leaves ETAN)
11. ETAN seemed to significantly under-estimate the actual development cost of the project, leaving them in a precarious financial position on this project
12. Based on a review of the project-level documents, it is not clear that ETAN knows how to manage a project of this magnitude
13. Much of the project and technical documentation is poorly written
14. ETAN has limited experience in this type of software development (i.e., only two (2) operational back office systems projects)

15. ETAN has been reluctant to commit to guaranteeing they will continue to work with SANDAG (either for the current project or for Otay Mesa)
16. It is uncertain if ETAN can deliver new development required for Otay Mesa on schedule
17. Toll system operations software is not a significant product line for ETAN
18. ETAN seriously misrepresented the amount of development needed to implement SANDAG's system (RFP compliance matrix indicated >90% of the SANDAG requirements existed in their baseline software, while SANDAG staff told us that > 90% new development was a more realistic assessment)

Continuing with ETAN for Otay Mesa and beyond creates significant uncertainties and carries significant risk. One of the most significant concerns is ETAN's viability in the toll industry. Further, based on our review of documents such as their Project Management Plan, Master Test Plan, and Disaster Recovery Plan ETAN lacks an understanding of project management and system engineering principles.

We know of at least two projects on which ETAN repeatedly failed to meet project milestones. It would be demanding for any integrator to work through existing deferred requirements while simultaneously preparing for and implementing Otay Mesa-specific requirements. ETAN appears to struggle with resources, decreasing the likelihood of a successful outcome. SANDAG's justifiable reluctance to pay ETAN any additional monies given the amount of the existing LDs owed may be the breaking point either for ETAN as a tolling company or ETAN's continued work with SANDAG. Continuing with ETAN for Otay Mesa, based on our experience, seems the riskiest of all options.

1.3 OUTSOURCE BACK OFFICE SYSTEM

Pro:

1. Immediate solution
2. Mature back office systems are available in California
3. All the specialized interfaces (e.g., print house, DMV, collection agencies, etc.) are already in place
4. Ensures the scheduled Otay Mesa opening occurs on time

Con:

1. Cost per trip unknown currently
2. Violation processing and escalation solutions may differ from SANDAG's preferred approach
3. SANDAG staff will need training on the outsource back office system
4. The back office will implement Otay Mesa-specific requirements, which will cost money and time
5. SANDAG and the partner agency would need to resolve the logistics of account management and the role of SANDAG staff
6. SANDAG prefers to have an in-house back office system
7. Outsourced entity would have to modify existing software to interface to Kapsch roadside systems, further raising costs
8. Need to work out the coordination of the ETAN transition

The cost for this option is unknown, both in any system software development and the transaction processing rates. Additionally, SANDAG would need to adjust some operational logistics, processes, and procedures to conform with the outsourced system solution. SANDAG expressed a desire to have its own back office. Moving solely to another agency's back office would not meet that objective. However, this option carries the least risk of successful completion.

1.4 ACQUIRE A NEW BACK OFFICE SYSTEM WITH AN INTERIM OUTSOURCED SYSTEM

Pro:

1. Opportunity to correct issues encountered in previous acquisition, including required features, timelines, project management, testing, etc.
2. Acquire a system (and an integrator) SANDAG can rely upon
3. Ensure the scheduled Otay Mesa opening occurs on time
4. The previous RFP identified Otay Mesa as an option, not a commitment
5. All the above Pros for an outsourced back office system

Con:

1. Additional acquisition costs may be significant
2. Costs for transitioning to an existing back office in the interim are sunk if SANDAG procures a back office later.
3. A revised (and expedited) RFP and procurement process would be required, including Otay Mesa specific requirements
4. May need to revise existing management and communication approaches to ensure the new project timelines are met
5. SANDAG staff will need training on the interim and the new back office
6. Need to work out the coordination of the ETAN transition
7. Need to assess ETAN's motivation to cooperate if SANDAG takes this path
8. Interim system provider may be reluctant to take on short-term work
9. The interim system provider may be unwilling to undertake any system software development for SANDAG
10. SANDAG may need to contract with Kapsch to adapt the output of the RSS to meet interim system interface requirements

SANDAG expressed a desire to have its own back office and this approach would achieve that goal. All funds spent on the interim back office will be sunk costs once SANDAG transitions to its new back office. The same unknowns exist concerning transaction processing costs, operational processes, logistics, and procedures. It is unclear whether any of the existing back office providers/agencies would be willing to work with SANDAG on such a short-term solution so this option might be unfeasible.

1.5 ACQUIRE A NEW BACK OFFICE SYSTEM CONTINUING WITH ETAN IN THE INTERIM

Pro:

1. Opportunity to correct issues encountered in previous acquisition, including a reduction in requirements, reduction in business rules, required features, timelines, project management, testing, etc.
2. Acquire a system (and an integrator) SANDAG can rely upon
3. Ensure the scheduled Otay Mesa opening occurs on time
4. All the above pros and cons for continuing with ETAN remain, but with a defined expiration date (i.e., Otay Mesa)

Con:

1. ETAN might cease supporting SANDAG once you make a vendor selection if it is not ETAN
2. Additional acquisition costs may be significant

3. SANDAG would need to use an expedited RFP and procurement process, including Otay Mesa specific requirements
4. Need to manage the new project to ensure the vendor meets the timelines
5. SANDAG staff will need training on the new system
6. Need to work out the coordination of the ETAN transition

SANDAG expressed a desire to have its own back office and this approach would achieve that goal. Mitigate timeline risks with careful planning to address how you will manage the new acquisition. A phased procurement could have the vendor deliver core functions for Otay Mesa online as Phase 1, with subsequent functionality in Phase 2. A significant plus is that SANDAG increases the chances of acquiring a system and an integration partner you can trust. Managing ETAN in the interim could be tricky; ETAN might walk away if they thought SANDAG would push them out eventually.

The LDs owed could cause ETAN to quit the project at any time. Contractors typically must report all terminated contracts going forward. No contractor wants that in their history as it would be the end of ETAN in the tolling industry. If ETAN foresees a long-term commitment to the toll industry, they will work out a solution with SANDAG. If ETAN does leave the project, SANDAG would need to keep the system running on its own until the new back office is ready. In either case, SANDAG should plan on minimal work with ETAN going forward, i.e., do not attempt to incorporate deferred requirements and only fixing significant bugs. This would be the lowest risk long-term solution if ETAN continues the project. Even if ETAN drops out, there is enough existing functionality in place to make this a feasible solution.

1.6 RECOMMENDATIONS

We recommend that SANDAG continue the current contract with ETAN while procuring a new back office. Continuing with ETAN is an interim step until you acquire and stand up a new back office system.

Do not authorize ETAN to fix anything beyond significant processing and customer-facing deficiencies. Do not attempt to incorporate the full set of remaining and deferred requirements. Remind ETAN that Otay Mesa was always an option in the contract and that SANDAG decided to issue a separate RFP for that project. The new procurement will incorporate lessons learned into a more efficient acquisition process. Advise ETAN that they may submit a proposal on the new procurement.

Rethink/revise the Otay Mesa BOS RFP to emphasize detailed, in-depth demonstrations showing actual system capabilities instead of brief written descriptions of how the system works. The RFP should have a focus on “show me” versus “tell me.” Develop a performance-based RFP that tells the proposer to what level the system must perform. We recommend not using a prescriptive RFP approach. Tell the vendors what you need and let them determine how best to deliver.

Finally, SANDAG may want to consider some concessions on liquidated damages. These may be enough to keep ETAN involved in the current project.

Process for Removing Tolls on State Route 125

Overview

On July 8, 2022, the Board of Directors adopted Resolution No. 2023-~~22~~11 (Attachment 1) to prioritize eliminating the debt and toll-only operations on the State Route 125 (SR 125) in a manner consistent with the principles of the Regional Plan and California State Transportation Agency's Climate Action Plan for Transportation Infrastructure (CAPTI).

SANDAG staff collaborated closely with Caltrans to determine the required processes for removing toll-only operations and transferring the facility maintenance and operations to Caltrans. Staff also conducted an initial analysis to evaluate the impacts of removing the toll, identified various operational scenarios for the SR 125 that align with the Board resolution, and conducted a financial assessment to eliminate debt on the SR 125. This report outlines the details of these various steps.

Key Considerations

Process for Removing Toll Only Operations

SANDAG operates, maintains, and tolls SR 125 subject to the Development Franchise Agreement between Caltrans and SANDAG which is scheduled to terminate in November 2042. The Franchise Agreement allows SANDAG the flexibility to terminate at any time and relinquish rights back to Caltrans with certain conditions.

Caltrans' formal process for evaluating potential changes to the SR 125 begins with the Project Initiation Phase. This includes identifying the project and potential alternatives, scoping the necessary environmental process, and developing a plan of action. Caltrans estimates that the Project Initiation Phase would take 9 to 12 months to complete and cost approximately \$400,000.

Upon completion of the Project Initiation Phase, a comprehensive environmental analysis may be required to comply with the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA). Based on current laws and regulations, any reconfiguration of the toll road would require air quality, greenhouse gas (GHG), energy use, noise, and cumulative impacts assessments. Additional studies may also be required for any options that construct additional lanes on undeveloped land. The environmental assessment phase will identify potential environmental impacts and required mitigation and potential costs to offset those impacts.

If a comprehensive Environmental Impact Report/Environmental Assessment (EIR/EA) is required, it is expected to take approximately two to three years, with an estimated cost ranging from \$1.5 to \$2 million. Upon completion of the EIR/EA, the project would move into the design phase. The cost and timeline for

Action: **Discussion/Possible Action**

Staff will present an overview of the process and anticipated costs and schedule for removing toll only operations from State Route 125. The Board of Directors is asked to provide feedback to staff on next steps.

Fiscal Impact:

The estimated cost for the initial planning work to identify options for removing tolls on SR 125 and conducting an equity analysis is \$600,000. The cost of environmental work, debt elimination, mitigation, design and construction, and ongoing operations and maintenance of the SR 125 would be determined following completion of the planning work.

Schedule/Scope Impact:

Equity analysis and the initial planning work is estimated to take 9 to 12 months.

the design phase would be determined upon the completion of the project initiation and environmental phases.

If SANDAG relinquishes the SR 125 to Caltrans, an assessment of pavement condition, drainage systems, traffic management systems, American with Disabilities Act access, and bridges would need to be completed. Elements that are not currently in a state of good repair would need to be improved prior to relinquishing the facility. The cost estimates and schedule to bring the facility into a state of good repair, construct additional project features, and maintain the facility thereafter would be determined upon completion of the Project Initiation Phase. Funds to operate and maintain the facility would also need to be identified.

Preliminary Analysis of Toll Removal

In 2022, when the SANDAG Board took action to prioritize eliminating toll-only operations, SANDAG conducted preliminary modeling analysis of removing the tolls from SR 125. The analysis was done for 2030 and revealed an increase in vehicle miles traveled (VMT), travel time, and delays along SR 125. Removing the toll on the SR 125 also did not result in a significant improvement to travel times or a reduction in delay on I-805. Although this analysis was done in an older version of SANDAG's transportation model, similar results would be expected in the new model, given the forecasted population and housing growth in the communities around the corridor.

Based on this preliminary analysis, converting SR 125 to general purpose lanes would not be consistent with SANDAG Resolution No. 2023-[2211](#), or federal and state climate law. Therefore, various managed lane options have been considered for the SR 125:

- Adding two managed lanes: The 2021 Regional Plan envisioned the addition of managed lanes by 2042. This option would take the longest to implement and the cost of construction and mitigation is expected to be high due to required bridge widenings, impacts to sensitive habitat, VMT mitigation, and necessary facility retrofits to meet compliance with Caltrans standards.
- Convert one existing lane in each direction to managed lanes: As part of developing the initial concept for the 2025 Regional Plan, staff explored converting one lane in each direction to a managed lane and one lane in each direction to a general-purpose lane. This was determined to be infeasible due to the operational challenge of monitoring and managing the lanes in the event of a crash where the facility would be narrowed to one usable lane.
- Convert all existing lanes to managed lanes: Converting the toll road to a fully managed facility is believed to be a lower cost to implement and with less environmental impacts. It also would be consistent with SANDAG Resolution No. 2023-[2211](#). A fully managed facility could be operated in a variety of ways to address specific goals related to traffic and equity, including ensuring there is always a free option. This would provide an alternative to toll-only operations, allow for debt repayment sooner, and provide funds to reinvest in the corridor for operating and maintaining the roadway into the future. As such, this is the alternative included in the 2035 phase of the initial concept for the 2025 Regional Plan.

In parallel with these options, SANDAG staff recommends conducting an equity analysis of the toll road to evaluate current equity impacts and identify near-term opportunities for addressing those impacts. A comprehensive equity analysis is expected to cost approximately \$200,000 and take a year to complete.

Elimination of SR 125 Debt

SANDAG purchased the SR 125 franchise from creditors following bankruptcy in December 2011 at a 65% discount for \$341 million. As part of the purchase price, SANDAG inherited the outstanding TIFIA loan for the facility, which, along with the TransNet loan, were the only outstanding debt obligations for SR 125. The TIFIA loan was refinanced and the TransNet loan was paid off for a total cash flow savings of \$147 million.

Based on Board feedback, four potential scenarios have been considered that would allow payment of the outstanding debt obligations as a step toward relinquishment of SR 125 to Caltrans. All scenarios account for the estimated cash that will be available through the estimated payoff timeline shown in the table below. Although the debt could be repaid as early as 2027, the EIR/EIA would need to be completed before toll-only operations could be removed. Scenario 4 is aligned with the timeline for converting the toll road to a fully managed facility as proposed in the initial concept for the 2025 Regional Plan.

	CURRENT	SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
Pay-Off Date	July 1, 2042	March 31, 2024	July 1, 2027	July 1, 2029	July 1, 2035
	Final Term	Now	Call Date	Breakeven	Breakeven
Estimated Cash Balances	\$247.7M	\$98.3M	\$114.0M	\$132.9M	\$182.4M
Debt Repayment Requirement	0	\$172.3M	\$143.3M	\$129.4M	\$130.6 78.4M
Shortfall		-\$74.0M	-\$29.3M		
Funds available to reinvest in SR 125	+\$247.7M			+\$3.5M	+\$ 51.8 104.0M
NOTE: Financial stability projections are based on current revenue trends but may change due to unforeseen events requiring financial reassessment.					

Next Steps

Pending Board direction, a portion of the funding currently allocated for the SR 125 Comprehensive Multimodal Corridor Plan could be re-purposed to start the Project Initiation Phase and conduct the equity analysis. Staff could identify additional funding to complete the planning work ~~and conduct the equity analysis~~. This work would help to define what options the Board can consider for long-term operations on the SR 125, including the level of environmental analysis, mitigation, and/or maintenance/repair work that would be required.

Antoinette Meier, Senior Director, Regional Planning

~~Andre Douzajian~~ Dawn Vettese, Interim Director of Accounting and Finance Chief Financial Officer

Attachment: 1. Board Resolution No. 2023-~~22~~11



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Resolution No. 2023-11

Resolution of the San Diego Association of Governments (SANDAG) Declaring Support of Eliminating the Debt and Toll-only Operations on the SR-125 by 2027

WHEREAS, the South Bay Expressway (SBX) Toll Road, opened in 2007, is a ten-mile stretch of State Route 125 (SR-125) that runs from Otay Mesa Road near State Route 905 to SR 54; and

WHEREAS, the San Diego Association of Governments (SANDAG) purchased the SR-125 franchise from creditors, including the U.S. Department of Transportation, following bankruptcy in December 2011; and

WHEREAS, the SBX, owned by Caltrans and leased by SANDAG, operates as a toll road pursuant to the Amended and Restated Development Franchise Agreement (ARDFA) with the State of California until 2042, which is the agreement governing the day-to-day operations; and

WHEREAS, purchasing the toll road with the intent of removing the tolls in future years meant SANDAG could reduce the number of additional lanes planned for Interstate 805 through the South Bay and instead divert that savings to the purchase of the toll road; and

WHEREAS, the City of Chula Vista (City) partnered with the State of California and Caltrans in 2003 and dedicated 270 acres of right-of-way to the State for the development of SR-125; and

WHEREAS, per ARDFA Section 11.4, SANDAG has the obligation to arrange for retirement of the debt and will have an opportunity to call its debt bonds and eliminate toll-only operations as early as 2027; and

WHEREAS, it is important that toll-only facilities not place an undue and disproportionate burden on South Bay users or hinder the City's economic development activity in areas such as business attraction and retention; and

WHEREAS, the new U.S./Mexico border crossing in Otay Mesa facilitates more than \$530 billion in bilateral trade on an annual basis; and

WHEREAS, the new U.S. border crossing will connect to State Route 11 immediately south of the SBX and is anticipated to reduce wait times throughout the San Diego regional U.S./Mexico border crossing network, supporting further economic integration and activity in the border region; and

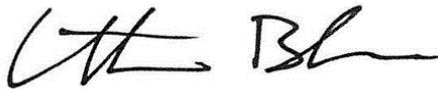
WHEREAS, a reliable north-south freeway corridor with toll free options will contribute to the bilateral trade with Mexico while providing social justice, environmental and financial benefits to the region, state and country; and

WHEREAS, the SANDAG Board of Directors has the authority to make the retirement of the debt a budgetary priority and goal.

NOW, THEREFORE, BE IT RESOLVED, that the SANDAG Board of Directors:

1. Prioritizes principles of the Regional Plan and California State Transportation Agency's Climate Action Plan for Transportation Infrastructure on the SR-125
2. Declares that elimination of debt and toll-only operations on the SR-125 is a priority;
3. Supports efforts to evaluate alternatives to toll-only operations (including managed lanes) for the SR-125;
4. Supports controlling planned operating and capital expenses in order to increase available reserve cash balances sufficient to retire the outstanding bond debt or minimize the need for additional funds to retire the remaining bond balance;
5. Supports collaborating with the City of Chula Vista and Caltrans on these efforts; and
6. Hereby directs staff to conduct a Comprehensive Multimodal Corridor Plan to analyze future options for the SR-125, develop a plan to pay off outstanding debt as early as 2027, make the SR-125 consistent with the Regional Plan, and develop strategies to revert control of the SBX to Caltrans following debt retirement.

PASSED AND ADOPTED this 8th of July 2022.



Chair

Attest:



Secretary

Member Agencies: Cities of Carlsbad, Chula Vista, Coronado, Del Mar, El Cajon, Encinitas, Escondido, Imperial Beach, La Mesa, Lemon Grove, National City, Oceanside, Poway, San Diego, San Marcos, Santee, Solana Beach, Vista, and County of San Diego.

Advisory Members: California Department of Transportation, Metropolitan Transit System, North County Transit District, Imperial County, U.S. Department of Defense, Port of San Diego, San Diego County Water Authority, Southern California Tribal Chairmen's Association, and Mexico.



Process for Removing Tolls on SR 125

Board of Directors | Item 11

Antoinette Meier, Senior Director of Regional Planning
Tracey D'Aoust Roberts, Caltrans Acting Deputy Director for Environmental
Nikki Tiongco, Caltrans South County Corridor Director
Dawn Vettese, Interim Director of Accounting and Finance
April 26, 2024

SR 125 Background and Relationship with SANDAG

- SANDAG purchased the SR 125 franchise from Creditors following bankruptcy in December 2011 at a 65% discount for \$341 million
- The SANDAG Board made the strategic acquisition to improve mobility within the southwest San Diego County region by:
 1. Expanding network capacity
 2. Reducing need for infrastructure improvements on parallel links, saving \$265M; and
 3. Lowering toll rates to grow usage of toll road
- Outstanding TIFIA loan and TransNet loan were the only outstanding debt obligations of SR 125. The TIFIA loan was refinanced and the TransNet loan was paid off for a total cash flow savings of \$147 million.

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Franchise Agreement

- Development Franchise Agreement between Caltrans and SANDAG scheduled to terminate in November 2042
- Key components of the Franchise Agreement:
 - **Exclusivity:** SANDAG has exclusive right to operate in the Franchise Zone with no threat of a competitive facility so long as certain terms, including levels of service, are maintained
 - **Maintenance:** SANDAG is responsible for maintenance in accordance with Caltrans standards
 - **Toll Rates:** SANDAG has full authority to set rates at any levels based on factors such as vehicle type, occupancy, time of day etc.
 - **Flexible Term:** SANDAG has flexibility to terminate anytime and convey rights to Caltrans with certain conditions and obligations

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Process & Timeline

SANDAG

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Process for Eliminating Toll Only Operations and Relinquishing the SR 125 to Caltrans

Project Initiation

Identify project alternatives, scope out environmental process, develop plan of action

Estimated Cost:
\$400k

Estimated Timeline: 9-12 months

Environmental & Design

Identification of project impacts, avoidance, minimization, and mitigation measures to offset impacts

Estimated Environmental Document(s) Cost: TBD

Estimated EIR Timeline: TBD

Estimated Design Cost: TBD

Estimated Design Timeline: TBD

Construction

Improve asset conditions such as pavement, bridge, drainage, and traffic management system as needed

Convert tolled lanes

Implement mitigation measures

Estimated Cost: TBD

Estimated Timeline: TBD

Maintenance & Operations

Regional funding needed for continued operations

Estimated Cost: TBD

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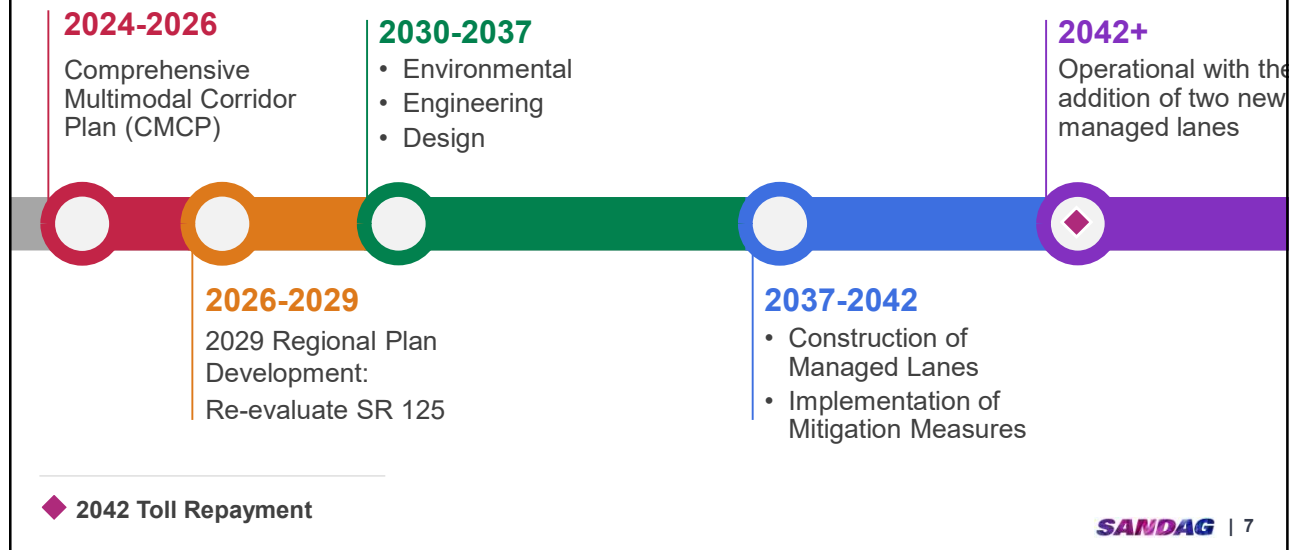
Where We Are Now

SANDAG

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Adopted 2021 Regional Plan for SR 125

Prior to Adopted Board Resolution



Board Resolution 2023-11

On July 8, 2022, the Board of Directors adopted a Resolution that:

- Prioritizes **principles of the Regional Plan** and California State Transportation Agency's **Climate Action Plan for Transportation Infrastructure** on the SR 125;
- Declares that **elimination of debt and toll-only operations** on the SR 125 is a priority;
- Supports efforts to evaluate **alternatives to toll-only operations (including managed lanes)** for the SR 125;
- Supports **controlling planned operating and capital expenses** in order to increase available reserve cash balances sufficient to **retire the outstanding bond debt** or minimize the need for additional funds to retire the remaining bond balance;
- Supports **collaborating with the City of Chula Vista and Caltrans** on these efforts; and
- Hereby directs staff to conduct a Comprehensive Multimodal Corridor Plan to **analyze future options for the SR 125**, develop a plan to pay off outstanding debt as early as 2027, **make the SR 125 consistent with the Regional Plan**, and **develop strategies to revert control of the SBX to Caltrans following debt retirement**.

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2022 Preliminary Analysis (ABM2+ Model)

If existing lanes become General Purpose (GP) lanes on SR 125:

- Vehicle miles traveled (VMT) increases
- Traffic increases in the northern section of SR 125 creating a bottleneck at the junction with SR 54
- Peak period SR 125 travel times and delay increase between Birch Rd and the City of Lemon Grove
- Peak period travel times and delay remain the same on I-805 between Orange Ave and City Heights
- High Potential Environmental Impact
- High Mitigation Cost



Draft 2025 Regional Plan: Initial Concept

Initial Concept proposes that debt will be paid off and SR 125 will be converted from toll-only operations to managed lanes by 2035.

A managed lane facility is an alternative to toll-only operations that:

- could be operated to ensure there is always a free option
- could be operated to address specific goals related to traffic and equity
- allows for debt repayment sooner
- has potentially less environmental impacts and lower cost to implement
- provides funding to reinvest in the corridor for operating and maintaining the roadway into the future

SR 125 Debt Payment Scenarios

Summary of Defeasance/Repayment Analysis

Pay-Off Date	CURRENT July 01, 2042 Final Term	SCENARIO 1 March 31, 2024 Current	SCENARIO 2 July 01, 2027 Call Date	SCENARIO 3 July 01, 2029 Breakeven	SCENARIO 4 July 01, 2035 Breakeven
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Funds available to reinvest in SR 125	+\$247.7M			+\$3.5M	+\$104.0M

NOTE: This footnote indicates that financial stability projections are based on current revenue trends but may change due to unforeseen events requiring financial reassessment.

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Proposed Equity Analysis

- Define equity within context of SR 125 corridor
- Define desired equity outcomes and performance measures
- Evaluate benefits and burdens to social equity populations
- Identify recommendations that advance equity within SR 125 corridor
- **Estimated Cost: \$200k**
- **Estimated Timeline: 12 months**

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Next Steps

Pending Board direction, a portion of the funding currently allocated for the SR 125 Comprehensive Multimodal Corridor Plan could be re-purposed to start the Project Initiation Phase and conduct the equity analysis. Staff could identify additional funding to complete the planning work.

Staff will bring tolling policies for the Board to consider at a future date.

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@SANDAGregion @SANDAG



Email: **pio@sandag.org**