

June 16, 2017

Ms. Elizabeth Kellim
Contract Specialist II
City of Phoenix Public Transit Department
302 N. 1st Avenue, Suite 900
Phoenix, AZ 85003

Re: Notice to Cure and Right to Assurance

Dear Ms. Kellim,

I am writing in response to your letter dated June 1, 2017. Thank you for expressing your concerns regarding decreases in two key operating metrics, On-Time Performance (OTP) and Revenue Miles Operated (RMO), as well as other observations noted.

Our respective organizations have generally enjoyed a successful long-term partnership that began in 2007. We are equally disappointed with these recent results and began making the adjustments necessary to restore the operating results even before we received your letter.

Before addressing specific concerns and discussing our mitigation plans, I'd like to begin by pointing out that the root of our recent issues is inextricably linked to what I would describe as "growing pains" from the two most recent service expansions (October 2016 and April 2017). Collectively these service expansions represent almost 27% increase in revenue miles over the prior contractual volume. This increase is significant and large enough to trigger a reduction in our revenue rate (as executed in 2013). As an example, the October 2016 expansion required the hiring of a significant number of additional operators, as well as additional technicians and service workers.

Compounding the challenges of expanding service is the availability of qualified candidates for both operators and technicians. As you know, this is a national challenge for transit systems in many metropolitan areas. Further, certain provisions in our current collective bargaining agreement present challenges that require adjustments to our existing language. Changes such as the requirement to provide better than 75% of the bid packs having the same run and schedule each week excluding Saturday and Sunday. Although not an issue before the first service expansion, we are now out of compliance with this provision.

The above provision is an issue that remains open as we have been unsuccessful to date in reaching an agreement with the ATU that brings the requirement in line with the Transdev agreement, which states Monday through Thursday. In fact, the ATU has recently grieved our lack of compliance with

this requirement. It's truly unfortunate that we did not have the visibility to the Prop 104 service expansion at the time of our last negotiations to address this. The ATU is currently using this clause as a bargaining chip in our current negotiations.

Lastly, the CBA provides for additional Paid Time Off (PTO) at the beginning of this past January (2017) thus decreasing operator availability further during a substantial hiring campaign.

Fleet challenges stem from similar market pressure discussed above. Competition for technicians is substantial in the marketplace. We have recently made changes to our wages and benefits (ratified a new CBA with the Operating Engineers on April 1, 2017) that will make us more competitive in the market and we anticipate a reduction in turnover.

These challenges are not insurmountable. They do however require excellent planning and execution, as well as support through additional resources. Despite compressed lead times, First Transit has been committed to implementing effective and efficient transition plans to ensure we meet and exceed expectations. We have not had the luxury of time when our planning has required mid-course adjusting, thus the need to plan more effectively.

At this point, I'd like to go over some key stats that represent the degree of change the operation has undergone over the past year and how this change compares to our original bid assumptions for Year 5 of our contract:

- Annualized revenue miles increased from 4,964,394 in July 2016 to 5,905,199 (18.9%) in October 2016 and 6,296,590 in April 2017 (6.6% since October and 26.8% since April of 2016).
 - Our proposal was predicated on 4,955,000 annualized revenue miles that were static annually over the five-year term of the contract.
- Fleet age is currently 7.16 vs 6.10 years assumed in Year 5 of this contract, representing a 17% older fleet than assumed in our staffing and cost per mile assumptions in our bid submission.
- Our Driver Staffing Target in July 2016 was 312 and was adjusted to 370 in October 2016 and 377 in April 2017.
- Our Dispatcher/Supervisor Staffing Target in July of 2016 was 14 and was adjusted to 15 in October 2016 and 17 in April of 2017. We will add an additional supervisor by October 2017, thus increasing our staffing in this category 28%.
- Our Technician Staffing Target July 2016 was 25 and was adjusted to 26 in October 2016 and 29 in April 2017.
- Our Service Island Staffing Target June 2016 was 13 and was adjusted to 14 in October 2016 and 17 in April 2017.

I hope you agree that the variables have changed substantially since our original assumptions. Having said this, the City of Phoenix selected First Transit to provide solutions which we are focused on delivering. Since being made aware of your concerns, we immediately mobilized additional resources to assess and

address specific areas of concern. We have developed a mitigation plan that delivers sustainable solutions that will make a difference in improving the key trends you cite in your letter.

As we respond to the categories set forth in your letter, the following actions have taken place to date:

- Rhonda Eley-Watson, our Regional Recruiter is on site the week of June 12 to enhance our advertising in various online media outlets, and to attend career fairs, and job fairs. Rhonda is also on-site strengthening our partnerships with organizations such as AARP, both the Hispanic and Black Chambers of Commerce, the Arizona Women's Education and Employment organization, the Veterans One-Stop Center and Chicanos Por La Casa to generate interest in First Transit employment opportunities. These actions are intended to lead to an increase in applicants. Rhonda will follow up with the operation when not on site minimally three times per week by phone and will be on-site bi-weekly following up with our local partners.
- Lora Mallory, Region Director of Operations, was on-site the week of June 5 to review staffing target numbers, evaluate dispatch functionality and to establish the daily General Manager's Report that will be used to manage performance against targeted key performance indicators (KPI's).
- Jason Hartong, Regional Operations Manager, was on-site June 2 to evaluate the use of existing VMS equipment by our window dispatch staff. Jason is also on-site the week of June 12 to follow up on items identified as part of the dispatch evaluation work conducted by Lora.
- Margie Conklin, Regional Safety Director, was on-site the week of June 5 to evaluate our training program effectiveness and to make changes to the program adding efficiency in the training process.
- Christina Bock, Director of Corporate Operations Support was on-site June 6 to evaluate the application of a new third party dispatching software solution for use at the WTF.
- Dave Larsen, Vice President of Maintenance for First Transit was on site the week of June 5 to assess current situation and to organize region and corporate maintenance resources to support the maintenance function during the transition.
- Rodney Booth, Engineer is on-site the week of June 12 to diagnose long-term down buses and to review road call trends and tire and battery issues.
- Steve Patterson, from our Vehicle Diagnostic Support group, will assist with ordering new diagnostic laptops and will provide technician training.
- Dick Tejano, Director of Training is on site the week of June 12 to conduct Preventive Maintenance Inspection (PMI) training for the recently hired technicians.
- Scott Hansen, Region Director of Maintenance, and Doug Montez, Region Maintenance Manager, will each cover two weeks each month and will be on site supporting the maintenance operation by monitoring performance against key performance indicators until the Cure Notice is lifted.
- Mark Rogers, our National Maintenance Support Manager, will be on-site to provide maintenance manager training, supervisor training, and training on Lean Desktop Audit (LDA), a quarterly desktop review of trends to drive action planning; and Road Call Accountability (RCA), a tool in our maintenance software used in evaluating cause.
- Stephen Bono, Inventory Administrator, is on-site the week of June 12 to work with the Parts Department to get back-ordered parts, to ensure proper stocking levels are present and to ensure parts are readily available for deferred work and auto-reordering.

These additional resources were brought on site to address specific areas of concern, and we believe their actions will make a difference in improving performance against targeted KPI's.

As it is important to address the areas of concern outlined in your letter, the following represent specific challenges with a description of our efforts to address.

Route Coverage

As stated earlier, operator staffing levels are a lead cause of many of the cited deficiencies, and route coverage issues are certainly a direct result. Recruiting and retention remain a top priority, and our actions will generate significant improvement in our staffing levels over the next 30 to 60 days. It's also important to note that certain provisions that kicked into effect at the beginning of the current fiscal year have increased absenteeism, causing the need to increase our staffing levels to protect service delivery.

Late Pullouts

Like route coverage above, the driver staffing levels directly affect the late pullouts. Drivers are scheduled for specific time frames each day, including an extensive extra-board. As our driver levels decline, it directly affects our extra-board volume, therefore making it more challenging to cover for late and missing drivers. Like improving the route coverage, we anticipate seeing significant improvements in late pullouts as we can increase our extra-board levels.

Late pullouts are also attributed to vehicle availability and often coordination challenges amongst our frontline leadership. At the local level, we are temporarily assigning members of our management team to be on-site early morning to monitor the pull-out and to assist operators troubleshoot issues they may encounter. We are also calling attention to specific activities required by yard supervisors to respond to issues and to provide solutions quickly to minimize any delay in departing on-time. With this continued focus, good habits will develop and a stronger sense of urgency will manifest itself into the operation.

We currently require 300 drivers to cover all the current runs daily. Our Driver Staffing Target (DST) was set to 377. As of the date of the Cure Notice, we were at 342 active and available drivers. We have revised our DST to 390 and are hiring against this number. Before speaking to specific actions, it's important to note that the hiring and training process takes roughly 2 to 4 weeks from the time of hiring until the beginning of revenue service (depending on the candidate's experience and licensing).

To expedite training and recruitment and to ensure maximum efficiency, we have implemented the following changes:

Training Class

- Our staff began performing CDL permit training weekly on June 12.
- Two training buses have been permanently dedicated to on-site course training along with up to 25 decommissioned vehicles available for use as needed.
- We assigned 10 of our current roster of 17 Behind-The-Wheel trainers (BTW) to be available daily to conduct training. We will use 4 to as many as 7 of the remaining staff daily during the

week to support Operations if needed. These individuals will be available weekends and will be used as required to ensure that service is met when absences are above anticipated levels.

- We consolidated the Orientation/Welcome meetings with other elements of classroom training and are now conducting background checks and DOT physicals immediately, which eliminates the lag time between hire date and the start of training.

Status of Current Trainees

- One driver was released from LOA June 8; one more was released June 12.
- One driver was released from LOA June 6, one released from LOA June 8.
- June 6 Class commenced with 14 new hires, 9 with CDL's are scheduled to be released to operations by June 20, and 5 more on June 28.
- June 12 class commenced with 9 new hires, 1 with a CDL scheduled to be released on June 28, 8 to be release by June 30
- June 19 class is scheduled currently with 11 new hires, 2 with a CDL's targeted for release on July 3, and 9 to by July 10
- July 10 class will be scheduled with 11 trainees. We are actively recruiting for this and subsequent classes.

Staffing numbers are currently as follows:

	Current	Target	+/-
Drivers	342	390	(48)

At our current pace, we anticipate increasing the drivers staffing number by 6 (net) per week, and will be fully staffed by August 31, 2017.

Communications with the OCC

As you know, until the change in dispatching methodology, First Transit maintained direct dispatch control over our operated fleet. The direct control expedited communications. We support the change to a full centralized mode, but it's important to recognize the change did add an additional layer in communicating with our drivers. We believe that this has been a contributing factor in the degradation of on-time performance (OTP).

To address this, we are working through your office to establish stronger relationships with OCC staff to help educate both yard operations and OCC dispatchers on understanding each other's concerns to combat this occasional communication challenge. We have had members of our corporate staff visit the OCC to see the operation first hand. We will continue to bring staff through there and will coordinate with members of your staff in doing so. We are also requesting that an OCC representative attend our monthly contractor meetings to help resolve open issues through positive dialogue. We are also requesting the ability to assign a First Transit representative to work out of the OCC during service changes when change may be a contributing factor to service quality, or during major events such as the Super

Bowl. Our commitment is to continue to work with the OCC and the City of Phoenix to foster a stronger working relationship between both entities.

We would also like to include managers from the OCC to attend our monthly Driver Safety Meetings to have dialogue with our drivers. We believe making this connection narrows any gaps in understanding how each component of the service works together.

Management Team

Our management team has been consistently presented with the challenges of growing the service for the past year. The pressure of meeting these challenges has contributed to communications breakdowns not only with the OCC, but with other members of the City's staff. Our local team has been less effective in working collectively with the City, and this is an area that we are addressing through added training, mentoring and the assignment of additional resources. We will continue to provide this added level of oversight until such time that we reach the conclusion that proper protocols are in place to consistently deliver the service at a high level of performance. Proper protocols include both reporting mechanisms (daily, monthly) and communications methods (required escalation and normal written documentation). Effective Monday June 19, we will share our daily General Manager's Report and monthly during the Contractor's meeting, our local management team will present our month-end results to City of Phoenix staff.

Vehicle Availability and Reliability

The combination of falling behind in paying market wages, and substantial staff turnover has led to decreased technician productivity. In the past year, half of our technician workforce has turned over (13 of 26 technicians). The available pool of candidates in the market more recently tend to be lower skilled, normally in the Technician C classification. Unfortunately, the new staff hired came into the organization at a lower level of skill which brought down the "tool time" from target of 32 hours per week (80% productivity) to 20 hours.

Through our recently ratified CBA which raises technician wages as well more aggressive recruitment, we have brought our staffing vacancies down to three. We are currently using a combination of staffing services and more selective vendor usage to address outstanding non-safety sensitive repairs. We are also applying the following measures in conjunction with or in addition to those mentioned above:

- Corporate purchasing intervention to increase turn-around time on vehicles waiting on vendors for repairs
- Corporate maintenance trainers deployed to assess skill level and to train accordingly
- Using third party tech provider and internal techs to catch up.
- Use of third party staffing firm to provide skilled technicians while recruiting for open vacancies.

Requests and Recommendations

Addition of Technology

It is First Transit's intent to install a fully functioning window dispatch software application designed to decrease the reliance on paper and to streamline our operational management capacity and record keeping. We however cannot proceed without approval and support from the City of Phoenix. The dispatch software we have selected comes from Bishop Peak Technologies, a First Transit preferred vendor.

To enhance both our use of Bishop Peak dispatching software and our access to operational data by obtaining the vehicle's location, we request permission to install Geotab AVL devices at our expense. The benefit of using Geotab with the Bishop Peak dispatching solution include:

- Use of tablets for road supervisors to more effectively manage schedule adherence
- Use of collected data allows First Transit to more effectively track operational hours, mileage, and average speed so that we can manage route performance more dynamically (including any necessary route deviations).
- The ability to utilize geofencing in the yard to better monitor pull outs.

For First Transit to maximize the use of this technology, we request permission from the City of Phoenix to install Geotab devices on the fleet. Recognizing that the City is moving towards the installation of a new regional GPS and communications system from Clever Devices in July 2018, Installation of the Geotab device can be done behind the dash if the City prefers to leave the external ports open for use by other devices.

Should the City see value in this solution longer term, we can make this available for all City contractors should it be of interest.

If the City does not grant First Transit authorization to use the Geotab AVL device, we would alternatively request permission to install the devices in the interim until such time that the Clever Device products installed and accepted by the City. Alternatively, we request consent to access the data from the City-owned Orbital AVL devices currently on the buses (inclusive of real-time access to APC data) if both requests are denied. Access to the data is necessary to maximize dispatching software effectiveness.

Formalizing Contractor Input into Schedule Development

To ensure the most effective schedules and run cuts are prepared for service delivery, we would like to have a regular review with the City's scheduling staff in advance of finalizing their work. Our staff has recommendations that may be in the best interest of the City's residents. We believe it's best that we vet these recommendations within the appropriate review window and prior to the schedules going final.

As mentioned in this letter, we recognized performance has not met our mutual expectations; however, we firmly believe progress can be and will be evident over this cure period. Our region and

corporate resources have consistently supported the local team both remotely and on-site. These resources will intensify to bring a highly targeted response desired by our respective organizations. Our commitment to the City of Phoenix is unwavering and you have my assurance that First Transit will utilize all its resources to ensure improved performance.

Our team is available to discuss further at your convenience.

Respectfully submitted,



Nick Promponas
Senior Vice President
West Region