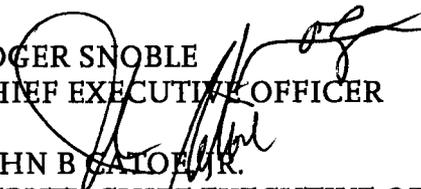
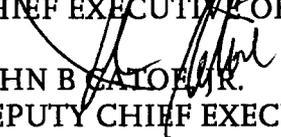


**Metro**

August 23, 2005

TO: BOARD OF DIRECTORS

THROUGH:  ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM:  JOHN B. SATOE, JR.
DEPUTY CHIEF EXECUTIVE OFFICER

SUBJECT: UPDATE ON CONTRACTED BUS LABOR ISSUE
NORTH REGION (CONTRACT NO. OP31501624)
TRANSPORTATION CONCEPTS, INC.

ISSUE

This memo provides further information and an update on the ongoing labor issue at Transportation Concepts, Inc. A board box issued on August 18, 2005 provided the background on the contract issue (Attachment A).

DISCUSSION

In April 2005, Transportation Concepts, Inc. (TCI) was awarded the contract to operate the North Region that consists of contract lines 96, 167, 218, and 603. The start date for the new contract was August 1, 2005.

Prior to August 1, TCI was the contractor operating Lines 218 and 603, and no collective bargaining unit represented any of their employees. Prior to August 1, First Transit, Inc. was the contractor operating Lines 96 and 167, and its bus operators were represented by Teamsters Local 848. None of the remaining First Transit employees (mechanics, clerical staff, etc.) were represented by any collective bargaining unit.

Under the California Labor Code, authorities that put out a bid for public transit service are required to provide a 10% bidding preference to service contractors who agree to retain the employees of the prior contractor/subcontractor for a period of at least 90 days. TCI and all other proposers for the North Region accepted the bidding preference. The Labor Code requirements were incorporated into the final contract between TCI and Metro.

TCI was required to extend employment offers to the 57 supervisors, bus operators and mechanics at First Transit who provided services under the previous contract for Lines 96 and 167, unless TCI determined that fewer employees are required than

were required under the First Transit contract. TCI extended employment offers to interested First Transit employees who had completed employment applications. A number of them decided to remain employees of First Transit or left First Transit's employment. Thirty of First Transit's employees submitted employment applications, completed the background checks, had physical exams and drug screens and were hired by TCI. Twenty-eight of the thirty people also successfully completed the mandatory paid training and became TCI employees.

In early August, Metro received several inquiries regarding TCI's compliance with California Labor Code sections 1070-1074. In addition, Metro was recently served with a lawsuit (Case No. BC 338098) filed in Superior Court by Teamsters Local 848 against TCI and Metro. Teamsters Local 848 alleges that TCI failed to make required written offers of employment to former employees of First Transit after TCI certified to Metro that it would comply with the requirements of Labor Code sections 1070-1074.

On August 19, 2005, Metro sent a letter to Mr. John Helm, Vice President of TCI, requesting a narrative description and copies of supporting materials concerning how TCI met the Labor Code requirements and the subject contract. The letter specifically requests information on how they complied with Labor Code section 1072(c)(3):

The successor contractor or subcontractor shall make a written offer of employment to each employee to be rehired. That offer shall state the time within which the employee must accept that offer, but in no case less than 10 days. Nothing in this section requires the successor contractor or subcontractor to pay the same wages or offer the same benefits provided by the prior contractor or subcontractor.

On August 23rd, TCI replied to the August 19 letter. In its response, the contractor informed Metro of the steps it took to retain the First Transit employees. This included posting numerous flyers at First Transit facilities regarding employment opportunities and holding an orientation meeting at the Airtel Hotel in Van Nuys that was attended by thirty-eight people. Of the thirty-eight attendees, TCI indicated that thirty submitted employment applications, completed the background checks, had physical exams and drug screens and were hired by TCI. Twenty-eight of the thirty people also successfully completed the mandatory paid classroom training and driving proficiency test and became TCI employees.

In addition to the above, TCI indicated that its management team held oral communications with many First Transit employees who indicated they were interested in employment with TCI. The employment offers were not made in writing to each employee, but were made to all First Transit employees through the various communications. To limit its' potential liability under the litigation, TCI subsequently issued individual certified letters on August 17 to all of the effected First Transit employees again making them specific job offers (Attachments B-1 & B-2).

On August 23rd, Metro's County Counsel advised Metro Executive Management that TCI's failure to personally provide a "...written offer of employment to each employee to be rehired," would likely be considered a technical violation of Labor of Labor Code section 1072(c)(3). However, Labor Code section 1074 requires a showing that the contractor "substantially breached the contract" for the awarding authority to terminate the contract for a violation of section 1072(c)(3). Unless there is evidence that the failure of TCI to give personal written notice to each First Transit employee resulted in an actual lack of knowledge on the part of First Transit employees that they were being offered employment by TCI, it is unlikely that TCI's method of giving notice would be found to be a substantial breach of its contract with Metro. Moreover, since TCI has now sent individual employment offer letters, there no longer appears to be any basis for claiming even a technical non-compliance with the Labor Code.

On August 23rd, Metro Executive Management contacted the Federal Transit Administration (FTA) to request an interpretation of the federal guidelines related to contracting, specifically whether the California Labor Code's bidding preferences violated these guidelines. The representative advised that the guidelines prohibit preferences based on geographic location of contractors. The intent is to even the playing field for all contactors, regardless of their geographic location. As such, the Labor Code does not appear to be in conflict with federal guidelines.

NEXT STEPS

Staff will update the board as additional events occur.

ATTACHMENTS

- A. August 18, 2005 Board Box
- B. Employment offer Letter from TCI

**Metro****ATTACHMENT**

August 18, 2005

TO: BOARD OF DIRECTORS

THROUGH: ROGER SNOBLE
CHIEF EXECUTIVE OFFICER

FROM: JOHN B CATOE, JR.
DEPUTY CHIEF EXECUTIVE OFFICER

SUBJECT: BACKGROUND ON CONTRACTED BUS LABOR ISSUE
NORTH REGION (CONTRACT NO. OP31501624)
TRANSPORTATION CONCEPTS, INC.

ISSUE

This memo provides a background on the ongoing labor issue at Transportation Concepts, Inc. Metro has received notification that Teamsters Local 848 has commenced legal proceedings in Los Angeles Superior Court against Transportation Concepts and Metro regarding TCI's compliance with the Labor Code.

BACKGROUND

At the April 2005 Board Meeting, Transportation Concepts, Inc. (TCI) was awarded the contract to operate the North Region that consists of contract Lines 96, 167, 218, & 603. TCI has provided contract services for Metro for the past eight years and the firm has performed satisfactorily. The start date for their new contract was August 1, 2005.

Prior to August 1, 2005, TCI was the contractor operating Lines 218 & 603 and no collective bargaining unit represented any of their employees. Prior to August 1, 2005, First Transit, Inc. was the contractor operating Lines 96 & 167 and Teamsters Local 848 represented the First Transit bus operators. None of the remaining First Transit employees (mechanical, clerical staff, etc.) were represented by any collective bargaining unit.

Under the California Labor Code, which was amended in 2003 through Senate Bill 158 (Displace Public Transit Employees), authorities that put out a bid for public transit service are required to provide a 10 percent bidding preference to service contractors who agree to retain the employees of the prior contractor/subcontractor for a period of 90 days. The Labor Code states, "Nothing in this section requires to successor contractor or subcontractor to pay the same wages or offer the same benefits provided by the prior contractor or subcontractor."

As part of their proposal, contractors were required to choose whether they would meet the employee retention requirements in the Labor Code. If they elected to meet the requirements, they received the 10 percent bidding preference. All of the proposers accepted the bidding preference. The requirements from the Labor Code were incorporated into the final contract between TCI and Metro.

TCI posted flyers at First Transit facilities regarding employment opportunities and held a series of informational meetings for employees.

The following chart summarizes the salary rates and benefits offered by TCI to the First Transit Bus Operators as compared to their existing compensation package with First Transit.

	TCI	First Transit
Hourly Rates	\$10 - \$11.25 per hour depending on length of employment with First Transit	\$10 - \$14 per hour
Training Rate	\$9 per hour	\$8 per hour
HMO/PPO Medical Premium Per Month (paid by employee)*	Employee only: \$40	Employee & Dependents: \$94 Employee: \$12
Dental/Vision Premium Per Month (paid by employee)*	Employee & Dependents: \$16	Employee & Dependents: \$39.01 HMO; \$65.15 PPO Employee: \$12.74 HMO; \$20.08 PPO
Vacation	One week after one year of employment	One week after one year Two weeks after 2 years 3 weeks after 6 years 4 weeks after 12 years

*These medical and dental/vision benefits were offered to new TCI employees transitioning from First Transit immediately upon employment. Normally, new TCI employees must wait six months for such benefits.

Interested First Transit employees filled out applications, and TCI extended employment offers to the 57 supervisors, bus operators and mechanics who provided services under the previous contract for Lines 96 & 167. A number of them decided to remain employees of First Transit providing service under other contracts they operated or left First Transit's employment. Seventeen of the former First Transit bus operators accepted employment with TCI and were paid for completing the necessary training required.

The week before the contract was to begin, TCI informed Metro that these same 17 bus operators previously employed by First Transit were threatening to not report to work on August 1st. TCI then put together a contingency plan to ensure that they would be able to provide service if the 17 bus operators did not report for work.

On August 1st, the bus operators and representatives from the Teamster Local 848 began picketing the TCI operating division from which the Metro services operated. The 17 bus operators from First Transit who did not report to work represented only a portion of the 90 operators TCI needed to provide the service on Lines 96, 167, 218, & 603. TCI was able to cover these bus operator assignments with employees from other locations and supervisory staff. TCI has subsequently begun recruiting additional operators to fill the positions vacated by the First Transit drivers.

NEXT STEPS

Staff will continue to monitor the services provided by TCI to ensure that our customers remain unaffected by the labor issue. Staff will send a formal request to TCI requesting supporting information on how they met all the requirements of the Labor Code that were incorporated into their contract with Metro.

TRANSPORTATION CONCEPTS

3345 Medford Street
Los Angeles, CA 90063
(323) 268-2202

August 17, 2005

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Glenda Rivas
12301 Asborne St., #28
Pacoima, CA 91331

Re: Employment with Transportation Concepts

Dear Glenda Rivas,

We have recently been advised that, despite you being apprised of such by First Transit, you are uncertain or unclear if Transportation Concepts has offered you employment.

To remove any possible doubt or uncertainty, this letter shall constitute a written offer of employment to you, qualifications and required jobs available permitting.

If you wish to pursue employment with Transportation Concepts, please contact me within ten days of receipt of this letter so that appropriate arrangements can be made to process your employment. If I do not hear from you within this time frame, I will assume that you are not interested in becoming an employee of Transportation Concepts.

Very Truly Yours,



Brett Baum

TRANSPORTATION C

3345 Medford Street
Los Angeles, CA 90063
(323) 268-2202

August 17, 2005

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Janice Cambell
5032 San Rafael Ave
Los Angeles, CA 90042

Re: Employment with Transportation Concepts

Dear Janice Cambell,

This letter is being sent to you to remove any possible doubt or uncertainty regarding your employment status with Transportation Concepts. Our records reflect you were not only offered a position with the company but you were paid and/or you will be paid shortly for participating in mandatory training prior to August 1, 2005.

In that regard, you completed and filled out at Transportation Concepts' initiative and request an application for employment; completed and signed the background check authorization form; filled out a physical examination and drug screen authorization form and thereafter successfully completed the physical examination and drug screen; and submitted a satisfactory H-6 report; and completed the necessary training and driver proficiency test by August 1, 2005.

By engaging in the above conduct and being employed and paid for training, we assumed you knew you had been being offered employment with Transportation Concepts.

In any event, you have been and are again offered employment, qualifications and required jobs available permitting, and if you wish to resume your active employment with Transportation Concepts, Inc., please do not hesitate to contact me for that purpose.

Very Truly Yours,



Brett Baum