

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
April 14, 2020
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN
EXEMPT FACILITY PROJECT

Prepared by: Richard Fischer

Applicant:	California Infrastructure and Economic Development Bank (I-Bank)
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Allocation Amount Requested:	\$600,000,000
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Project Information:

Name:	XpressWest Passenger Rail Project
Project Address:	TBD
Project City, County, Zip Code:	Victorville, San Bernardino, 92307

Project Sponsor Information:

Name:	DesertXpress Enterprises LLC or Affiliate
Address:	6700 Via Austi Way, Suite B Las Vegas, NV 89119
Principals:	VTUSA Train Holdings West, LLC
Contact:	Jeff Swiatek
Phone:	(305) 521-4899

Project User Information:

Name:	Same as Project Sponsor
Address:	Same as Project Sponsor
Contact:	Same as Project Sponsor
Phone:	Same as Project Sponsor

Project Financing Information:

Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriter:	Morgan Stanley
Credit Enhancement Provider:	N/A
Private Placement Purchaser:	N/A
TEFRA Adoption Date:	August 12, 2019

Project Sponsor's Principal Activity:

According to the Applicant, they will be operating a high speed, intercity rail service between Victorville and Las Vegas.

First Tier Business (Yes/No):	No
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Regulatory Mandate (Yes/No):	No
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Details of Transaction:**Sources of Funds:**

Tax-Exempt Bond Proceeds	\$	2,400,000,000 *
California USDOT tax-exempt proceeds	\$	850,000,000
Total Sources	\$	3,250,000,000

Uses of Funds:

CA Rail Infrastructure	\$	2,025,000,000
CA Station	\$	175,000,000
Rail Rolling Stock	\$	650,000,000
Pre-funded interest (3 yrs)	\$	360,000,000
Cost of Issuance (incl. discount)	\$	40,000,000
Total Uses	\$	3,250,000,000

*IRS Publication 4078 allows 4 times the Tax-exempt allocated amount

Description of Proposed Project:

Please see Exhibit A below from the Application:

- 1) This will be a high speed, intercity rail service between the Victor Valley Area, CA (“Victorville”) and Las Vegas, NV. There will be up to 32 trains daily that will travel the 180 mile corridor in approximately 90 minutes. Ancillary services onboard the trains and in the stations include the sale of passenger tickets, food and beverage, merchandise, parking and other related services.
- 2) This passenger rail service will be substantially similar to the service currently provided in South Florida. This service will offer business, convention, leisure and personal travelers, safe, sustainable, fast, reliable, convenient, and comfortable travel between Victorville and Las Vegas, Nevada. The Project Sponsor expects to have multiple classes of service, and travelers will be able to reserve specific seats on trains and at times that fit their specific travel needs. Passengers will enjoy free high-speed Wi-Fi and food & beverage services on board and other amenities at both of the stations, such as business centers with print and copy services.

The Project Sponsor intends to have partnerships with major Las Vegas resorts and convention centers, and may offer customers the ability to check in to their Las Vegas hotel, and/or pre-register for a specific convention at the Victorville station. They also intend to offer baggage transfer services for customers. Additionally, they intend to allow resort/hotel partners to charter specific trains or dedicated coaches to transfer any of their VIP guests.

Passengers will be able to continue to travel car-free to their destinations; train stations will be conveniently located near major travel destinations, and will offer connections to other modes of transportation such as public ground transportation and ride sharing services.

- 3) Approximately 225 acres will be acquired for the train station in North Victorville. The potential growth for housing and retail/commercial development around the station is an additional benefit.

- 4) The station, including the track area, will be approximately 80 acres.

- 5) They will purchase state-of-the-art high-speed rail passenger trains that are reasonably expected to be capable of reaching maximum speeds over 150 mph. The selected train technology will be made compliant with current Federal Railroad Administration requirements. The trains will accommodate up to 600 passengers per train set. They will also purchase a sufficient quantity to run hourly service with spare back-up and equipment for operations and maintenance.

Public Benefit:

Public benefit synopsis provided by Beacon Economics

The high-speed rail line will not only benefit Southern California, Las Vegas, and the communities in-between during construction and operations, there will also be multiple ancillary benefits from the high-speed rail's construction. One of the most prominent will be reduced traffic on Interstate 15. Southern California has some of the worst highway traffic in the nation, as well as one of the busiest airports, and is likely to become even more so in the coming years because of continuing population growth. As a result, not only will the high-speed rail line provide time savings to passengers traveling on the rail line, it will also provide time savings to those traveling between Southern California and Las Vegas by airplane and car. The reduction of private automobiles from the I-15 will also increase capacity for goods movement from the Ports of Los Angeles and Long Beach.

Another benefit of the high-speed rail line will be a reduction in air pollution. This benefit will come from the reduction in vehicle miles traveled and airplane trips, and from reduced time spent idling in traffic on busy weekends. The reduction in air pollution will be of particular importance to Southern California, which has some of the worst air quality in the nation.

The high-speed rail will also raise property values near each of its stations. This will also encourage and facilitate denser development, which will further reduce automobile traffic in the two regions. The rail line will also help attract companies and industries to the two regions. The areas around the station in Las Vegas will be of particular interest to developers as the first gaming opportunity for passengers arriving from California.

Drivers in Southern California and Las Vegas remaining on the freeways will also benefit from the high-speed rail line. With reduced congestion, less fuel is burned per mile traveled. These savings free up resources that drivers can spend on other consumption or investment. The initial direct savings will "ripple" through the economy in the same ways highlighted earlier.

Environmental impact information has been coordinated through Federal Railroad Agency and the Surface Transportation Board. Both entities have more detailed requirements than cited in the CDLAC regulations. Both Agencies have approved a reevaluation. It is currently being reviewed by the Federal Railroad Agency and Surface Transportation Board with the expectation that results will be published in 2020.

Jobs Impact:

Taken from the Beacon Economics Report for Virgin Trains USA

Construction Impact Study 2019 to 2023			
IMPACT	OUTPUT (\$ MILLIONS)	EMPLOYMENT	LABOR INCOME (\$ MILLIONS)
DIRECT	\$1,501	10,788	\$592
INDIRECT	\$244	1,922	\$83
INDUCED	\$385	3,161	\$126
TOTAL	\$2,130	15,871	\$801

San Bernardino County Operations Impact Annually			
IMPACT	OUTPUT (\$ MILLIONS)	EMPLOYMENT	LABOR INCOME (\$ MILLIONS)
DIRECT	\$30.4	271	\$11.7
INDIRECT	\$8.2	65	\$3.0
INDUCED	\$8.3	68	\$2.7
TOTAL	\$46.9	404	\$17.3

San Bernardino County Ten Year Operations Impact			
IMPACT	OUTPUT (\$ MILLIONS)	EMPLOYMENT	LABOR INCOME (\$ MILLIONS)
DIRECT	\$295.3	2,705	\$113.4
INDIRECT	\$79.4	629	\$28.9
INDUCED	\$81.1	666	\$26.4
TOTAL	\$455.8	4,000	\$168.7

Local Government Support:

Letters of support have been received from the Office of the Governor for the State of Nevada, High Desert Corridor Joint Powers Authority, US High Speed Rail Association, City of Palmdale, the City of Los Angeles, the Brotherhood of Carpenters and Joiners of America, Associated General Contractors of California, Inc., Transportation California and Senator Scott Wilk of the Twenty-First Senate District.

Legal Questionnaire:

No information was disclosed that raised any question regarding the financial viability or legal integrity of the Project Sponsor.

Recommendation:

Staff recommends that the Committee conditionally approve \$600,000,000 in tax exempt bond allocation. We withdrew the \$300 million allocation approved in September, and previously transferred that allocation to CMFA. We also tabled discussion of the second \$300 million in January in order to determine whether (1) the project had USDOT support (2) the current status of the environmental process. The concerns that have been addressed as follows:

(1) On March 6th the USDOT issued their \$1 Billion allocation of PAB's to Virgin Trains. This was the last \$1 Billion of allocation left from a fixed \$15 Billion program.

- (2) The body that makes the allocation includes;
- a) the Federal Rail Road Administration (FRA)
 - b) Deputy Secretary of Transportation (DOT)
 - c) Federal Highway Administration
 - d) Deputy Chief of Staff and other Senior DOT officials - each with direct knowledge of the project and its environmental status.

The Federal Railroad Administration oversees the environmental process and would not have approved dedication of this precious last bit of allocation if they had any concerns regarding the environmental process.

- (3) In addition, an FRA spokesman announced publically that they expect to issue their record of decision for that project this year.