

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
CONDUIT EXEMPT FACILITY BOND FINANCING**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	DesertXpress Enterprises, LLC ("Applicant" or "DesertXpress")	Par Amount Requested:	Not to exceed \$ 3,250,000,000
Applicant Description:	DesertXpress is a Nevada limited liability company, formed in 2005 to undertake the acquisition, ownership, holding, marketing, design, development, construction, financing, and/or refinancing of an intercity high-speed passenger rail system ("XpressWest" or "System") project between the Victor Valley, California and Las Vegas, Nevada.		
Type of Financing:	Conduit Exempt Facility Revenue Bonds ("Bonds")		
Project Description:	The proceeds of the Bonds will be used to (1) pay (or reimburse DesertXpress for its prior expenditures for) all or a portion of the costs of the design, development, acquisition, construction, installation, equipping, ownership, operation, maintenance, renovation and administration of a high speed intercity rail system, that includes approximately 135 miles of rail lines within California, a passenger station and related facilities in San Bernardino County, a maintenance facility located in San Bernardino County, rolling stock (train cars and locomotives), and electrification infrastructure (collectively, the "Project"), (2) fund a debt service reserve fund, (3) fund a portion of the interest payable on the Bonds during the period of development of the Project, (4) pay certain costs of issuance (collectively, the "Transaction").		
Potential Project Sites:	Station and maintenance facility in the Victor Valley, CA; track primarily within or adjacent to the I-15 freeway, stretching approximately from the Victor Valley to the California side of the Nevada state line (San Bernardino County)		
Plan of Finance:	To finance the costs of the Project. The County of San Bernardino is sponsoring this financing.		
Type of Issue:	Limited Offering		
Tax Status:	Tax-Exempt		
Maturity:	Up to December 31, 2050		
Credit Enhancement:	None		
Credit Rating:	Not Rated		
IBank Fees:	Application Fee \$5,000; Issuance Fee \$1,200,000; Initial Annual Fee \$8,000 per yr.		
STO Fee:	Agent for Sale fee to be determined		
Estimated Sources of Funds¹:		Estimated Uses of Funds:	
Tax-exempt Bonds Proceeds, (CA Allocation)	\$2,400,000,000	Rail Infrastructure (CA)	\$2,025,000,000
Tax-exempt Bonds Proceeds (USDOT Allocation)	\$850,000,000	Train Station (CA)	\$175,000,000
		Rolling Stock (Portion attributable to California)	\$650,000,000
		Pre-funded interest (3 - years)	\$360,000,000
		Costs of Issuance, CA	\$30,000,000
		Costs of Issuance, USDOT	\$10,000,000
TOTAL SOURCES	\$3,250,000,000	TOTAL USES	\$3,250,000,000

¹ The following sources and uses are expressed in the maximum potential amounts and may be less based on the determination of the Borrower at issuance.

Financing Team:		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP	
Borrower's Counsel:	Skadden, Arps, Slate, Meagher & Flom LLP	
Underwriter:	Morgan Stanley ²	
Underwriter Counsel:	Mayer Brown LLP	
Trustee:	Deutsche Bank National Trust Co.	
Agent for Sale:	State Treasurer's Office	
Public Benefits:	<p>The Project is expected to create approximately 15,871 construction jobs and when complete employ 404 full and part time workers. Annually, the Project is expected to result in approximately \$46.9 million of economic activity in San Bernardino County, \$17.3 million in labor income and \$4.8 million in federal, state, and local tax revenue.</p> <p>The Applicant anticipates the Project will benefit the environment by removing an estimated 4.5 million car trips annually, thereby eliminating 645 million pounds of carbon emission from the I-15 corridor. XpressWest trains will be self-propelled electric high-speed trains capable of a top speed of up to 180 miles per hour. The Applicant expects the entire Victor Valley to Las Vegas ride to take approximately 90 minutes, about one-half the time of car travel.</p>	
Date of Board Meeting: October 23, 2019	Resolution Number: 19-19	Prepared by: John Belmont, and Steven Wright
Staff Recommendation: Staff recommends approval of Resolution No. 19-19 authorizing the issuance of Conduit Tax-Exempt Fixed Rate Bonds in an aggregate amount not to exceed \$ 3,250,000,000 for the benefit of DesertXpress Enterprises, LLC.		

² The Applicant may add further underwriters from the California State Treasurer's list of approved underwriters as the Applicant may deem necessary for a successful marketing and sale of the Bonds.

BACKGROUND AND HISTORY

Background and History

DesertXpress was formed to develop the System. Although the System extends into Nevada, this financing request is only for the Project, which as defined above, is the portion of the System located exclusively in California.

DesertXpress is part of a corporate organization experienced in the development and operation of high-speed intercity rail systems. DesertXpress' indirect parent company is Virgin Trains USA LLC (formerly known as Brightline Holdings, LLC) ("VTUSA"). VTUSA is a majority owner of Virgin Trains USA Florida LLC (formerly known as Brightline Trains LLC, which itself was formerly known as All Aboard Florida Operations LLC) ("VT Florida"). VT Florida currently owns and operates an express passenger rail system connecting Miami and West Palm Beach Florida. VT Florida is in the process of expanding its express rail system to Orlando, Florida. Additionally, VT Florida owns three stations located in Miami, Fort Lauderdale, and West Palm Beach, Florida. VT Florida's express passenger rail system is currently the only privately-run intercity passenger rail system in the U.S.

The Nevada Secretary of State reports active status for DesertXpress. DesertXpress' current leadership is listed in Appendix A.

PROJECT DESCRIPTION

DesertXpress is developing the System, a high-speed intercity passenger rail system between the Victor Valley, California and Las Vegas, Nevada. Proceeds of the Bonds will be used to develop the Project (i.e., the California portion of the System). The System and Project will include new track dedicated exclusively to DesertXpress' trains. The track will primarily be within or adjacent to the I-15 freeway. There will be no at-grade crossings for vehicle or pedestrian traffic. The Project will also include a passenger station and a maintenance facility located in the Victor Valley.

The System trains will operate on electricity and be capable of speeds of up to 180 miles per hour. The Applicant projects that trains will leave frequently during peak-travel times. The Applicant expects that its train technology and systems will be interoperable with the California High Speed Rail System (if completed), allowing for future high-speed service into Burbank and Los Angeles.

The Applicant anticipates a high-level of demand for the System. In 2016, the High Desert Corridor Joint Powers authority commissioned Steer Davies & Gleave Ltd. ("SDG") to prepare a ridership and revenue study regarding high-speed rail in Southern California. Part of SDG's report contemplated a high-speed rail connection between Las Vegas and the Victor Valley following substantially the same route as the System's track. DesertXpress recently commissioned SDG to prepare an updated ridership and revenue study. SDG estimated that the demand for travel between California and Las Vegas in 2015 from travelers who might consider using the System was approximately 52 million one-way trips, which would make the travel market for the System one of the largest in the United States.

The System represents the only federally-authorized high speed rail corridor in the United States. DesertXpress plans to begin System construction in the second half of 2020 and

complete construction in about three years. As of July 31, 2019, DesertXpress has invested approximately \$132 Million in the development and construction of the System.

Local, state and federal authorities support the System and the Project. DesertXpress' government Sponsor for the Transaction is the County of San Bernardino. DesertXpress began the process of entitling the System and Project and aggregating the needed real estate interests about 10 years ago. In 2011, DesertXpress received a record of decision from the Federal Railroad Administration for the construction of the high-speed passenger rail system. DesertXpress has collaborated and coordinated with the Federal Railroad Administration, Federal Highway Administration, the Surface Transportation Board, Bureau of Land Management, the State of California Department of Transportation, Nevada Department of Transportation, US Department of Fish and Wildlife, California Department of Fish and Game, US Army Corps of Engineers, National Park Service, and the Environmental Protection Agency to obtain needed Project and System approvals. The Project received environmental clearance and federal approval for construction and operation within the I-15 freeway corridor and DesertXpress continues collaborating with all of the above governing bodies to update the record for decision from the Federal Railroad Administration to fit the current System design and operating plan.

In the future DesertXpress intends to "rebrand" the System from "XpressWest" to "Virgin Trains USA."

FINANCING STRUCTURE

IBank Term Sheet XpressWest Passenger Rail Project Board Meeting Date: October 23, 2019

Par Amount:	Not to exceed \$ 3,250,000,000; in one or more tax-exempt and/or taxable series, subseries, or combinations
Type of Offering:	Limited Offering in one or more series, subseries, or combinations
Underwriter:	Morgan Stanley & Co. LLC, and such other approved underwriters as the Applicant determines necessary
Credit Enhancement:	None
Expected Credit Rating:	Not Rated
True Interest Cost*:	True interest cost not to exceed 12%
Maturity:	December 31, 2050
Collateral:	Any and all assets of the Applicant subject to exclusions and a pledge of the equity interests of the Applicant
Expected Final Issuance Date*:	March 13, 2020
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Applicant under the transaction documents and certain collateral of the Applicant and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

*Please note that True Interest Cost, Maturity and Expected Final Issuance Date are subject to change.

Financing Structure

The Bonds are being issued pursuant to an Indenture of Trust, to be dated as of their closing date. The Underwriter for Bonds will be Morgan Stanley and the Applicant may add further underwriters from the California State Treasurer's list of approved underwriters as the Applicant may deem necessary for a successful marketing and sale of the Bonds. The Bonds will be unrated. Accordingly, consistent with IBank's policies on limited offerings and/or private placements, the Underwriter(s) will sell the Bonds only to "qualified institutional buyers" under Rule 144A of the Securities Act of 1933, as amended, or to equivalent sophisticated investors with a demonstrated understanding of the risks associated with the municipal market and acceptable to IBank. The Bonds will be initially issued at a specified rate and for a specified term to be determined in connection with the marketing of the Bonds. Once the initial period expires, DesertXpress may either convert the bonds to a fixed rate until maturity or remarket the bonds (through a "Remarketing Agent", who initially is intended to be the same entity as the Trustee under the Indenture) at a new specified rate for a specified term. The process of remarketing will continue until DesertXpress either converts the Bonds to a fixed rate or they mature. The term rate periods will be determined through the marketing of the Bonds and the fixed and term rates will be determined by the marketing and remarketing of the Bonds.

The Bonds are being issued as fully registered Bonds. Pursuant to IBank's policies for limited offerings and private placements, the Bonds will be sold in minimum denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

The Bonds are intended to be issued as "exempt facility bonds." "Exempt facility bonds" are used to finance private activities, but nonetheless qualify for tax exemption because the project financed is expected to provide a public benefit. It is expected that IBank will issue (1) \$2.4 Billion of the Bonds under Internal Revenue Code (the "Code") Section 142(a)(11) (the portion of the Code allowing tax-exempt bonds to finance high speed intercity rail facilities), and (2) \$850 Million of the Bonds under Code Section 142(a)(15) (the portion of the Code allowing tax-exempt bonds to finance qualified highway or surface freight transfer facilities).

The Code places limits on the volume of tax-exempt private activity bonds (such as the Bonds). Code Section 146 provides the rules for setting a "volume cap" on most categories of private activity bonds including bonds issued pursuant to Code Section 142(a)(11), in each state³. In California, the California Debt Limit Allocation Committee ("CDLAC") is the entity authorized to parcel out California's private activity bond allocation. IBank (on behalf of the Applicant) has obtained a \$300 Million allocation from CDLAC for the Project and it is expected that IBank will obtain another \$300 Million allocation in early 2020⁴. This total allocation of \$600 Million from CDLAC will permit IBank to issue up to \$2.4 Billion of the Bonds under Code Section 142(a)(11)⁵. DesertXpress intends to use the proceeds of the bonds issued under Code Section 142(a)(11) for all parts of the Transaction *other than* acquiring rolling stock.

The volume cap for the bonds issued under Code Section 142(a)(15) is allocated by the United States Department of Transportation ("USDOT"). It is expected that USDOT will allocate a bond volume of \$850 Million directly to DesertXpress and this allocation will effectively be transferred to IBank to issue a portion of the Bonds. DesertXpress intends to use this \$850 Million portion of the Bonds to acquire rolling stock as well as for other parts of the Project and Transaction.

³ The volume cap for some categories of exempt facility bonds is allocated directly by the Federal Government.

⁴ CDLAC's first \$300 Million allocation of private activity bond cap may expire prior to bond issuance. If so, IBank intends to obtain an extension of this allocation that will not expire until after the Bonds have been issued. CDLAC's second allocation will be timed so that it does not expire until after the Bonds have been issued.

By its very nature, the rolling stock will not spend all of its time in California. Bond Counsel, working in conjunction with DesertXpress will determine the proportional amount of time the rolling stock will spend in California and the Bonds will finance only that proportional amount of the rolling stock. For instance, if the total cost of the rolling stock is \$812.5 Million, and the rolling stock will spend 80% of its time in California, then the Bonds will be used to finance 80% of the rolling stock costs, or \$650 Million.

The Bonds may be issued in one or more series or subseries and may be issued at one or more times, so long as any Bonds IBank issues are issued before the Resolution expires (270 days after adoption). At the request of DesertXpress, IBank may issue Bonds as allocations are received from CDLAC and USDOT, or IBank may issue Bonds only after all of the allocations are received. In either event, IBank will issue only the amount of Bonds as permitted by the IBank Act and the Code.

To the extent all of the volume cap allocations needed to issue all of the Bonds on a tax exempt basis, and/or to the extent pieces of the Project do not qualify for the tax exempt financing, IBank may at the Applicant's request issue one or more series of the Bonds on a taxable basis.

As discussed above, the Bonds will finance only the Project, which is the California portion of the System. DesertXpress is simultaneously causing bonds to be issued through a Nevada conduit issuer to finance the Nevada portion of the System. DesertXpress may, if necessary use additional equity to finance a portion of the System.

Limited Obligations of IBank

The Bonds are payable solely from and secured solely by the pledge of the Applicant's payments under a loan agreement between IBank and DesertXpress together with other collateral provided by DesertXpress. Neither IBank, nor any of the members of its Board of Directors, nor any of its officers or employees, nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

See Appendix C for financial statements.

PUBLIC BENEFITS ⁶

The Project is expected to create a significant number of jobs and deliver considerable economic and environmental benefits to the San Bernardino County and the State of California.

⁵ Although it is expected CDLAC will allocate only \$600 Million of California's volume cap for the Project, Code Section 146(g) permits tax-exempt private activity bonds for high speed rail facilities under Code Section 142(a)(11) to be issued in an amount equal to four times the CDLAC allocation. So, if CDLAC allocates \$600 Million of private activity bond allocation for the Project (as is expected), IBank may issue Bonds in a par amount of up to \$2.4 Billion.

⁶ The source of information for the Public Benefits Section, including Jobs, Economic and Environmental Benefits is the Beacon Economics, LLC report, attached to the Borrower's CDLAC Application.

Job Creation and Economic Benefits

The Applicant projects that the System and the related construction activity between 2019 and 2023 will:

- Generate \$2.13 billion in economic output, with \$1.5 billion generated from direct spending, \$244 million from indirect spending and \$385 million from induced spending;
- Support 15,871 jobs, with 10,788 supported through direct spending, 1,922 through indirect spending and 3,161 through induced spending;
- Generate \$801 million in labor income, with \$592 million generated from direct spending, \$83 million from indirect spending and \$126 million from induced spending; and
- Generate \$274.6 million in federal, state, and local tax revenue.

Table III, displays a summary of the expected economic impact of the System during the construction phase.

Table III – Construction Impact (2019 – 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

The Applicant provides that when the System is complete, its year round operations in San Bernardino County will:

- Generate \$46.9 million in economic output, with \$30.4 million generated from direct spending, \$8.2 million from indirect spending and \$8.3 million from induced spending;
- Support 404 jobs, with 271 supported through direct spending, 65 through indirect spending and 68 through induced spending;
- Generate \$17.3 million in labor income, with \$11.7 million generated from direct spending, \$3.0 million from indirect spending and \$2.7 million from induced spending; and
- Generate \$4.8 million in federal, state, and local tax revenue.

Table IV and Table V display a summary of the expected economic impact of System operations in San Bernardino County (1) annually, and (2) over a 10-year period.

Table IV – San Bernardino County – Annual Economic Benefit of Operations

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

Table V – San Bernardino County – Ten-Year Economic Benefit of Operations

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

The Applicant anticipates that the System would offer faster travel times with greater convenience at a lower cost compared to passenger vehicle travel along the I-15 corridor. DesertXpress projects System travel time between the Victor Valley station and Las Vegas station will be approximately 90 minutes. The route is approximately 180 miles one-way. I-15 reduces from eight to six lanes in the Victor Valley, and then in Barstow reduces to four lanes all the way through to Las Vegas. During period of light to moderate traffic, a car trip from the Victor Valley to Las Vegas takes about three hours, twice the projected travel time on the System. However, due to the congestion caused by lane reductions, travelling from the Victor Valley to Las Vegas during peak travel times can take four to six hours, which at the outer-end is four times as long as travelling on the System.

Environmental Benefits

The Applicant expects the System to eliminate an estimated 4.5 million car round-trips a year, resulting in an estimated reduction of carbon emissions of 645 million pounds. By reducing automobile traffic on the I-15 corridor and allowing for public transportation via electric-powered trains, the Project is expected to result in a net decrease in energy consumption, equivalent to approximately 440,000 barrels of oil annually. According to the California Air Resources Board, transportation accounts for 41% of all greenhouse gas emissions, making transportation the largest source of air pollution in the State. The System is expected to improve and/or minimize the impact of air quality, water quality, energy efficiency, recycling of commodities, solid waste disposal, and cost savings to rail system riders and the general public by reducing the need for high-emitting auto and airplane trips, and from reduced time spent idling in traffic on busy weekends and holidays.

APPENDIX A: GOVERNANCE AND MANAGEMENT

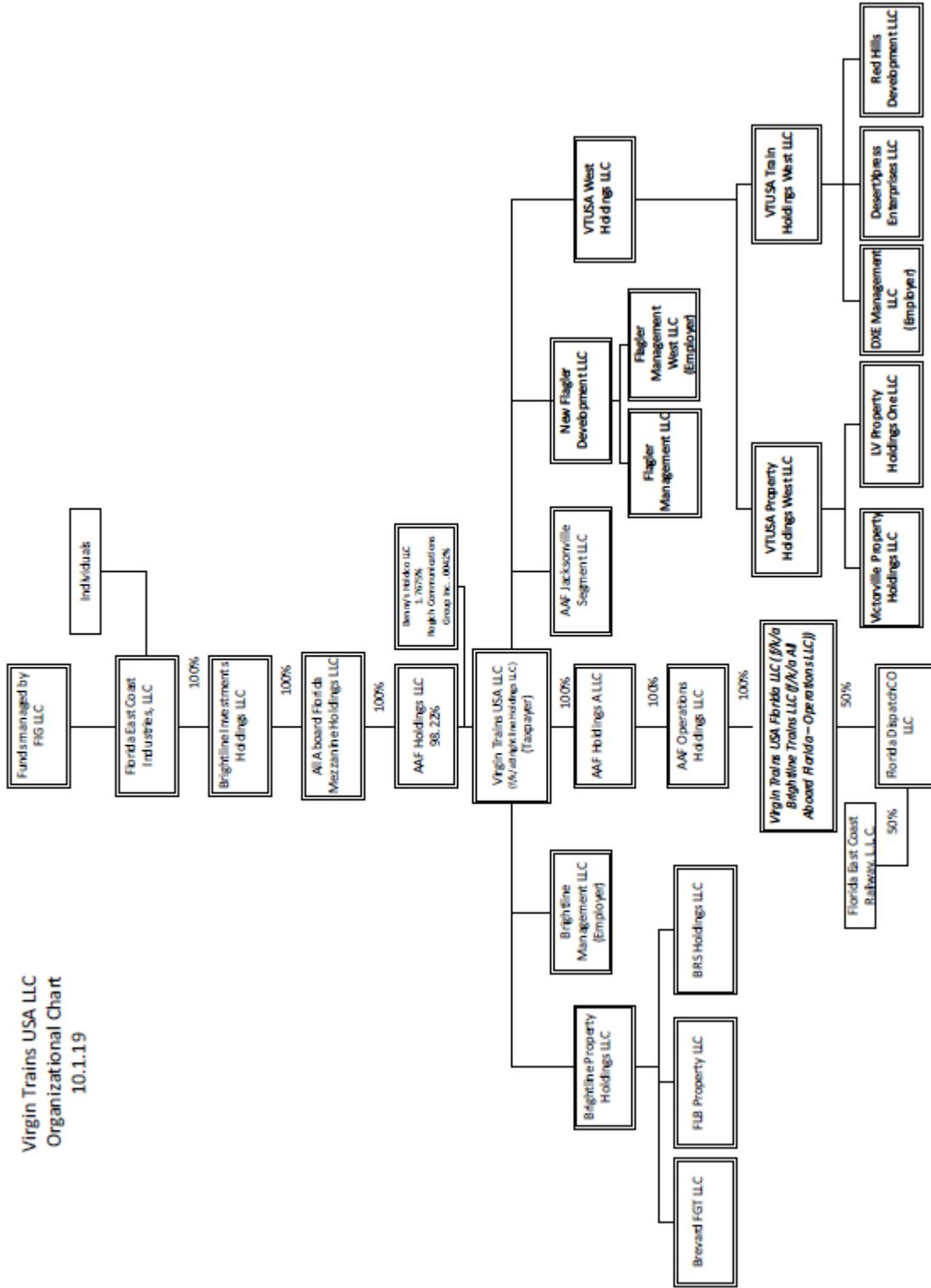
OWNERSHIP INFORMATION

See organizational chart on following page.

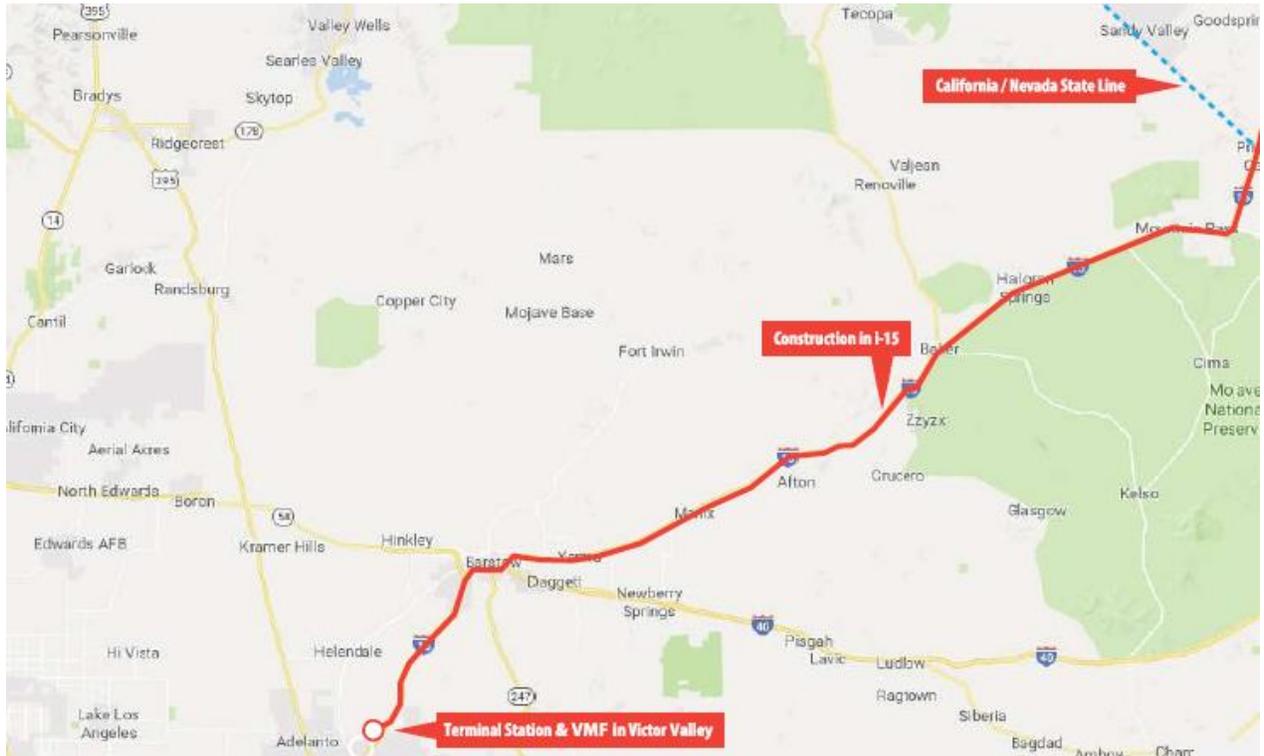
OFFICERS

Sarah Watterson	President
Myles Tobin	VP, Secretary, General Counsel
Jeff Swiatek	VP and Chief Financial Officer
Abram Blacher	VP
Kolleen O.P. Cobb	VP, Assistant Secretary

Virgin Trains USA LLC
Organizational Chart
10.1.19



APPENDIX B: PROJECT MAP AND PHOTOS



Legend

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-  Station Location & Vehicle Maintenance Facility-*Site TBD*
-  XpressWest Route
-  California/Nevada State Line



