

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

STAFF REPORT

EXECUTIVE SUMMARY

DesertXpress Enterprises, LLC (“Applicant” or “DesertXpress”) requests that the IBank Board of Directors (the “Board”) adopt a “reimbursement resolution” to facilitate the reimbursement of capital expenditures for an intercity rail system with the proceeds of future IBank-issued conduit revenue bonds.

DesertXpress is in the process of constructing a passenger rail system from Victorville, California, to Las Vegas, Nevada (the “Project”). The Project is in the early development stage, but DesertXpress currently intends to finance the Project through IBank’s issuance of approximately \$3 Billion of tax-exempt conduit revenue bonds, which would be equal to the capital expenditures for the California portion of the Project.

DesertXpress will incur significant capital costs developing the project in advance of IBank’s bond issuance. DesertXpress desires to reimburse its early capital expenditures with the proceeds of IBank’s subsequently-issued tax-exempt conduit revenue bonds. To achieve such reimbursement, the bond issuer must adopt a reimbursement resolution. Because IBank would be the future bond issuer, the IBank Board would be the entity required to adopt the reimbursement resolution.

A reimbursement resolution would not bind the Board to actually approve the future issuance of bonds on DesertXpress’ behalf. The matter of whether to approve a bond issuance for the California portion of the Project will be the subject of a future Board meeting. The sole purpose of the Reimbursement Resolution currently before the Board is to leave open the possibility of capital expenditure reimbursement from a future IBank bond issuance.

BACKGROUND AND HISTORY

DesertXpress is a Nevada limited liability company, established in 2005 for the purpose of developing, constructing, owning, and operating a high-speed passenger rail project between Victorville, California and Las Vegas, Nevada.

BL Vegas Holding LLC is in the process of acquiring DesertXpress’ membership shares. BL Vegas Holding is a special purpose entity formed to acquire DesertXpress. BL Vegas Holding’s parent company, Brightline Holdings Inc., is an experienced and successful passenger train system developer. Recently, Brightline Holdings successfully completed construction of an express inter-city passenger train running from West Palm Beach, Florida, to Miami, Florida and currently is in the process of extending service to Orlando, Florida. Following its acquisition of DesertXpress, BL Vegas Holding intends to change DesertXpress’ name to Brightline Trains – Las Vegas LLC (“Brightline Trains”).

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

The future share purchase and name change of DesertXpress would not affect IBank’s adoption of a reimbursement resolution. The company for whose benefit the reimbursement resolution would be adopted will not disappear or be merged into another company; the entity will continue as a validly - constituted and existing company. The only difference will be in the identity of the shareowners and the company’s name. As discussed above, the future shareholder will be BL Vegas Holding LLC, a subsidiary of a successful passenger rail

developer, and so the future share purchase will likely contribute to the successful completion of the Project.

PROJECT DESCRIPTION

The Project will include the development, design, and construction of an express rail system running between Victorville, California and Las Vegas, Nevada, along the I-15 corridor. DesertXpress will seek IBank conduit bond financing for only the California Portion of the Project. In addition to track construction, the California portion of the Project will include a train station and maintenance facilities in Victorville. The Project will also include the acquisition of rolling stock with the capability of travelling at a rate of as much as 150 miles per hour. The below table includes the projected timeline and costs for the California portions of the Project.

Expected Time-Line of the XpressWest Construction

Project Site	Construction Start Date	Expected Construction Completion Date	Estimated Project Cost
Victorville Station	Q2 2019	Q4 2021	\$100,000,000
Victorville Maintenance Facilities	Q2 2019	Q4 2021	\$160,000,000
I-15 Construction (Victorville to CA/NV State Line)	Q2 2019	Q4 2021	\$2,430,000,000
Rolling Stock (Trains)	Q2 2019		\$320,000,000
Total			\$3,010,000,000

PROPOSED FUTURE IBANK FINANCING AND NEED FOR REIMBURSEMENT RESOLUTION

The Applicant intends to request in the near future that IBank issue approximately \$3 Billion in conduit, tax-exempt, bonds for the Applicant’s benefit, to finance the California portion of the Project. The proposed future bonds would be issued as “exempt facility bonds” under Internal Revenue Code Section 141(a)(11) [high-speed intercity rail facilities] and/or Section 141(a)(15) [qualified surface freight transfer facilities]. Bonds that would otherwise constitute private activity bonds, and therefore be taxable, nonetheless qualify for tax-exemption when they meet the requirements of, and are issued as, exempt facility bonds. Because the Applicant is a for-profit entity, and the Project will be a for-profit enterprise, the only achievable means of borrowing at a tax-exempt rate is for exempt facility bonds to be issued by a conduit issuer on the Applicant’s behalf. Accordingly, IBank expects that the Applicant will sometime in the first calendar quarter of 2019 submit an application for IBank’s assistance in issuing conduit exempt facility bonds on behalf of the Applicant.

As with the development of any revenue-generating facility, time is of the essence for the Project. The sooner the Project is complete, the sooner it will generate revenue. To complete the Project as quickly as possible, the Applicant must begin the design, development, and construction process in advance of IBank’s future tax-exempt conduit revenue bond financing. The Applicant would like to reimburse its earlier capital expenditures with the proceeds of IBank’s future tax-exempt conduit revenue bonds. Treasury Regulation 1.150-2 requires that

in order for the proceeds of tax-exempt bonds to be used to reimburse earlier capital expenditures, the issuer must declare its official intent that the future bond proceeds be used for such purposes. Because IBank would be the issuer of future bonds, it would be the entity required to declare its official intent to reimburse the Applicant's capital expenditures with the proceeds of a future tax-exempt bond issuance. Accordingly, the Applicant requests that the Board adopt a resolution to permit the reimbursement of its Project capital expenditures with the proceeds of future IBank conduit exempt facility revenue bonds.

The Board's adoption of a reimbursement resolution would not, in any way obligate the Board or IBank to adopt a future resolution approving a conduit financing, or issuing bonds, on the Applicant's behalf. Whether to approve a future bond issuance is a matter for the Board to decide at a future meeting. The only purpose of the reimbursement resolution is to enable the Applicant to reimburse its capital expenditures from the proceeds of a potential future IBank tax-exempt conduit bond issuance.

RECOMMENDATION

Staff recommends approval of Inducement Resolution No. 18-20, expressing IBank's official intent to reimburse, solely with the proceeds of bonds that IBank may issue for the Borrower's benefit pursuant to a subsequent IBank Board Resolution, the Borrower's original capital expenditures.

APPENDIX A: GOVERNANCE AND MANAGEMENT

OWNERSHIP INFORMATION

Anthony A. Marnell II (DX, LLC is 70% owner of DesertXpress, Enterprises, LLC)	Title: 100% Owner Company Name: DX, LLC City, State: Las Vegas, Nevada
François Badeau (Transmax, LLC is 10% owner of DesertXpress, Enterprises, LLC)	Title: Majority Owner Company Name: Transmax, LLC City, State: Las Vegas, Nevada
Gary Tharaldson (TXE, LLC is 20% owner of DesertXpress, Enterprises, LLC)	Title: Majority Owner Company Name: TXE, LLC City, State: Las Vegas, Nevada

OFFICERS

Tony Marnell II	Managing Member
Anthony Marnell III	Managing Member