

November 30, 2015

Phillip Washington, Chief Executive Officer  
Los Angeles County Metropolitan Transportation Authority  
One Gateway Plaza, 25<sup>th</sup> Floor  
Los Angeles, CA 90012

RE: Locomotives (BNSF Lease and Expansion Purchase)

Dear Mr. Washington,

Thank you for your letter dated October 19, 2015 regarding Metrolink's request for additional FY 2015-16 (FY16) funding for the BNSF locomotives lease. Metrolink has worked closely with all of our member agency partners to address their concerns raised about the lease and associated costs. Three of the member agencies' Boards have approved budget amendments for their share and one agency will take an item to their Board in early December.

Over the past several weeks, Metrolink staff have discussed on multiple occasions with Metro staff potential opportunities within FY16 and prior years' authorized funding to address the BNSF lease costs. Potential opportunities discussed include the following areas:

- Deferred revenue – \$3-4 million is available to apply to Metro's share of the BNSF costs.
- Rehab funding – approximately \$1 million balance of eligible funding identified but would require defunding projects scheduled for completion in early 2016. This is not being considered further at this time.
- Fuel cost estimates – likely possible to reduce in future update of cost estimates.
- Capitalization of certain BNSF lease costs – not appropriate since assets are not owned.
- FY16 operating budget – projected \$7 million in fuel savings already used to offset BNSF costs, otherwise on budget overall based on first quarter actuals.
- Operating surplus – confirmed no surplus from prior years.
- Delayed PTC implementation – Metro requested to consider removing PTC from the BNSF locomotives to reduce costs. Metrolink is very far along in PTC implementation. Metrolink already has PTC equipment on the existing fleet and is operating PTC on all Metrolink-owned lines. We are currently in revenue service demonstration and we are working closely with the FRA to obtain final certification. Not having the entire fleet PTC-equipped would put our entire PTC program at risk and would impact our safety plan.
- Status of \$18 million loan – Metrolink will provide Metro with a repayment plan by January 2016.



- Allocation formulas – At the Metrolink member agencies CEO meeting on November 20, 2015, the CEOs agreed to a study of all funding allocation formulas in the coming months.

As you know, Metrolink acted swiftly to lease the BNSF locomotives as an immediate and intermediate measure out of an abundance of caution for the safety of our riders. Since receiving Metrolink Board authorization to proceed with the lease in early October, numerous tests on the locomotives have been conducted and we have obtained new operations data. We have refined the cost estimates based on available operations data and identified cost savings in several areas that will reduce the anticipated costs to all of the member agencies.

As a result of the discussions outlined above, the amount of additional FY16 funding required at this time for Metro's share of the BNSF locomotives lease costs is reduced from \$9.8 million to \$3.3 million:

Metro cost:	\$9.8 million
Cost savings:	-\$3.5 million
Deferred revenue:	-\$3.0 million
Metro net cost:	<u>\$3.3 million</u>

As previously communicated, Metrolink requests Metro Board action before the end of the calendar year authorizing an amount not to exceed \$3.3 million for the BNSF locomotives lease and associated costs.

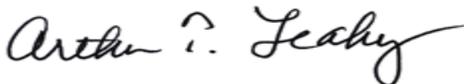
In addition, Metrolink and Metro staff met to discuss potential sources of funding for the purchase of two F125 locomotives for future expansion of service in LA County. If an option is exercised to purchase these locomotives by January 31, 2016, the total cost is \$12.9 million. This purchase would be subsidized by State grants, and Metro's share is \$3.75 million. Metrolink staff identified a balance of project funds that can be used for this purpose, which would reduce the funding needed to \$3.0 million:

Total cost:	\$12.9 million
Subsidy:	-\$9.15 million
Project balances:	-\$0.75 million
Metro cost:	<u>\$3.0 million</u>

Metrolink requests Metro Board action before the end of the calendar year authorizing an amount not to exceed \$3.0 million for the purchase of the two expansion locomotives.

I look forward to continuing to work with you and your staff to address these important matters. We appreciate your consideration of taking these matters to the Metro Board for approval.

Sincerely,



Arthur T. Leahy  
Chief Executive Officer