November 15, 2017

To: Parties listed on Exhibit A

Subject: Notice of Mutual Agreement No. 2017-6 - Request for Approval under Amended and Restated Alameda Corridor Use and Operating Agreement

Matter: Alameda Corridor Calendar Year 2018 Maintenance of Way and Operations & Maintenance Budgets

Dear Sir or Madam:

Reference is made to that certain Amended and Restated Alameda Corridor Use and Operating Agreement dated as of December 15, 2016 (the "Agreement"), by and among the BNSF Railway Company (BNSF), Union Pacific Railroad Company (UP), the City of Los Angeles, acting by and through its Board of Harbor Commissioners (POLA), the City of Long Beach, acting by and through its Board of Harbor Commissioners (POLB), and the Alameda Corridor Transportation Authority (ACTA).

The Agreement governs the use and operation of the Alameda Corridor and, among other things, contains provisions which require certain decisions to be made from time to time by either Mutual Agreement (as defined in the Agreement) or unanimous consent/approval. Mutual Agreement requires the approval from at least three of the following four parties: BNSF, UP, POLB, and POLA. Unanimous consent/approval requires the approval of all four parties. Pursuant to the terms of the Agreement, ACTA does not approve or disapprove of any such matters.

Attached as Exhibit B is Notice of Mutual Agreement (NMA) No. 2017-6, for which approval is requested with respect to the matter described therein (the "Matter"). Please advise ACTA at the address listed above, in writing via email, of your approval (or disapproval) of the Matter, no later than December 15, 2017. Once all responses are received, ACTA will send a letter to the four entities with the results.

If there are any questions, please advise.

Sincerely,

[Signature]

John T. Doherty, P.E.
Chief Executive Officer
## EXHIBIT A
### LIST OF PARTIES

<table>
<thead>
<tr>
<th>Port of Los Angeles</th>
<th>Port of Long Beach</th>
</tr>
</thead>
<tbody>
<tr>
<td>425 South Palos Verdes Street</td>
<td>4801 Airport Plaza Drive</td>
</tr>
<tr>
<td>San Pedro, California 90733</td>
<td>Long Beach, California 90815</td>
</tr>
<tr>
<td>Attn: Executive Director</td>
<td>Attn: Executive Director</td>
</tr>
<tr>
<td>Email: <a href="mailto:gene_seroka@portla.org">gene_seroka@portla.org</a></td>
<td>Email: <a href="mailto:mario.cordero@polb.com">mario.cordero@polb.com</a></td>
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<table>
<thead>
<tr>
<th>BNSF Railway Company</th>
<th>Union Pacific Railroad Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>2500 Lou Menk Drive</td>
<td>1400 Douglas Street -Stop 1160</td>
</tr>
<tr>
<td>AOG -Garden Level</td>
<td>Omaha, Nebraska 68179</td>
</tr>
<tr>
<td>Fort Worth, Texas 76131</td>
<td>Attn: Executive Vice President of Operations</td>
</tr>
<tr>
<td>Attn: Assistant Vice President - Contracts &amp; Joint Facilities</td>
<td>Email: <a href="mailto:jointfacilitycontracts@up.com">jointfacilitycontracts@up.com</a></td>
</tr>
<tr>
<td>Email: <a href="mailto:sarah.bailiff@bnsf.com">sarah.bailiff@bnsf.com</a></td>
<td></td>
</tr>
</tbody>
</table>

**Cc:**

- Email: Brian.Aman@bnsf.com
- Email: MMartinson@UP.com
- Email: tgiolello@portla.org
- Email: carlo.luzzi@polb.com
- Email: hmccloskey@portla.org
- Email: Lauren.Misajon@longbeach.gov
- Email: duane.kenagy@polb.com
EXHIBIT B
NOTICE OF MUTUAL AGREEMENT

Number: 2017-6

Subject: Approval Request for the Alameda Corridor Calendar Year 2018 Maintenance of Way and Operations & Maintenance Budgets

Recommendation:

1. Approve 2018 Special Capital Items in the amount of $1,800,638 that will be charged to the Capital Maintenance Reserve Account and included in the 2018 Maintenance of Way (MOW) Budget.
2. Approve the 2018 Alameda Corridor MOW Budget in the amount of $7,079,739, plus an additional $200,000 contingency fund to be used as deemed necessary by Ports’ and Railroads’ staff.
3. Approve the overall 2018 Operations and Maintenance (O&M) Budget in the amount of $11,719,796, containing both the MOW Budget and other estimated annual O&M expenses including the $200,000 contingency.

Discussion:

The Amended and Restated Use and Operating Agreement, dated as of December 15, 2016, (the "Agreement") requires that the Ports and Railroads through Mutual Agreement approve an Annual Maintenance and Capital Improvement Plan and Budget prior to January 1 of each year. The Plan and Budget are comprised of two documents.

The first is the Maintenance of Way (MOW) Budget as prepared by the Maintenance Contractor, which includes the projected maintenance and capital costs to be incurred by the Contractor for the coming year. The second is the overall Operations and Maintenance (O&M) Budget, which incorporates the MOW Budget, as well as other estimated O&M expenses, including but not limited to insurance, dispatching, security, utilities, and support costs. Attached for approval is the detail for both budgets for calendar year 2018.

The proposed 2018 MOW Budget was originally prepared in draft form by the Maintenance Contractor and submitted for review by the Railroads, the Ports, and ACTA. A meeting among the staffs of the Railroads, Ports and ACTA was held on October 17, 2017 to review and modify as necessary the draft budget. Discussions during and after that meeting resulted in the attached MOW Budget submitted for approval. Major items reviewed included allocation of costs between the Rail and Non-
Rail maintenance categories, Capital Expenses made in accordance with the approved definition of Capital Expenses, and proposed Contractor staffing levels. The O&M Budget includes a $200,000 contingency to be allocated as necessary during the year for unbudgeted, under-budgeted, or unplanned emergency work.

Attachment 1 contains a description of the 2018 Special Capital Items included in the MOW Budget. Attachment 2 is the 2018 MOW Budget spreadsheet and related detail, Attachment 3 is the 2018 O&M Budget spreadsheet. It is recommended that each of these items be approved.

**Summary Comparison - 2018 vs. 2017 MOW and O&M Budgets**

The proposed 2018 MOW Budget of $7,079,739 is 7.4% higher than the 2017 Amended MOW Budget (which included Redondo fire repairs) and 12.1% higher than the original 2017 Approved MOW Budget. The funding of the 2018 MOW Budget is about evenly split between ACTA Fee Revenue and direct payment by the Railroads.

The proposed 2018 MOW Budget is divided into three categories: labor positions, operations maintenance, and capital work. The labor category is up 6.8% due to annual salary increases of about 5.4% for non-management positions and an average of 9.1% increase for new managers that replaced former managers. The operations maintenance category is up 7.3% primarily due to increased signal maintenance cost based on salary increases; cleanup of homeless encampments; increased maintenance facility security and repair costs; increased fence repair; and underwater bridge inspection.

The capital costs category is up 8.1% over the Amended 2017 MOW Budget and 22.8% over the original 2017 Approved MOW Budget. Capital work can vary dramatically from year to year due to replacement needs. See Attachment 1 for 2018 Special Capital Items.

The proposed 2018 O&M Budget of $11,719,796 is less than 1% above the 2017 Amended O&M Budget and 7.7% above the original 2017 Approved O&M Budget. The 2018 O&M Budget is the sum of the 2018 MOW Budget, a $200,000 contingency, and $4,440,057 in other costs. About 96% of the other costs (insurance, dispatching, security, etc.) is paid directly by the Railroads.

**Items of Note:**

1. The current Maintenance Contract expires April 14, 2018, and if the same or different contractor is selected through an ongoing RFP process, the budget may have to be subsequently amended through a separate Notice of Mutual Agreement in the future.
2. The 2018 MOW Budget is prepared before the close of the previously approved 2017 MOW Budget, and is based on estimates of where ongoing 2017 work will stand at year’s end. Therefore, to the extent that certain 2017 work is not completed to the anticipated level, costs for that work will carry over into 2018 impacting the net 2018 expenditures.

3. The 2018 O&M Budget, similar to prior years, contains a $200,000 contingency fund. It is recommended that each Port’s rail group and each Railroad’s joint facilities staff be authorized to allocate the contingency fund as needed. The staffs will then report back to their respective entity concerning the use and possible replenishment of the fund.
Please provide your acceptance and approval by affixing your signature, name and title below:

Port of Los Angeles

By: ________________________________  
Printed Name: ________________________  
Title: ________________________________  
Date: ________________________________

Port of Long Beach

By: ________________________________  
Printed Name: ________________________  
Title: ________________________________  
Date: ________________________________

BNSF Railway Company

By: ________________________________  
Printed Name: ________________________  
Title: ________________________________  
Date: ________________________________

Union Pacific Railroad Company

By: ________________________________  
Printed Name: ________________________  
Title: ________________________________  
Date: ________________________________

Attachments:
1 – 2018 Special Capital Items  
2 – 2018 MOW Budget and Detail  
3 – 2018 O&M Budget