

**AMENDED AND RESTATED
ALAMEDA CORRIDOR
CAPITAL EXPENSE GUIDELINES
Effective January 1, 2018**

WHEREAS, Pursuant to Section 2.5 (b) of the AMENDED AND RESTATED ALAMEDA CORRIDOR USE AND OPERATING AGREEMENT, dated as of December 15, 2016 (the "Use and Operating Agreement"), by and among (i) BNSF RAILWAY COMPANY (formerly known as The Burlington Northern and Santa Fe Railway Company), a Delaware corporation (successor by merger to The Atchison, Topeka and Santa Fe Railway Company) ("BNSF"), (ii) UNION PACIFIC RAILROAD COMPANY, a Delaware corporation (which also is successor by merger to Southern Pacific Transportation Company) ("UP") (BNSF and UPRR are sometimes collectively referenced as "Railroads"), (iii) THE CITY OF LOS ANGELES, a municipal corporation, acting by and through its BOARD OF HARBOR COMMISSIONERS ("POLA"), (iv) THE CITY OF LONG BEACH, a municipal corporation, acting by and through its BOARD OF HARBOR COMMISSIONERS ("POLB") (POLA and POLB are sometimes collectively referenced as "Owner"), and (v) ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY, a joint powers authority created under the laws of the State of California ("ACTA"), rules and regulations previously established pursuant to the original Use and Operating Agreement dated as of October 12, 1998 "may be updated or modified from time to time through Mutual Agreement of the Owner and Railroads". Such previously established rules include guidelines for determining whether the replacement of components of the Rail Corridor will be treated as a capital item, and paid as a Capital Expense, or a maintenance item, and paid as an M&O Charge.

WHEREAS, the Owner and Railroads previously adopted Revised Amended and Restated Capital Expense Guidelines dated June 30 2012 (the "Prior Guidelines") pursuant to which criteria were established for determining whether the replacement of components are to be treated as Capital Expenses. The Prior Guidelines expire on December 31, 2017.

WHEREAS, pursuant to Section 7 of the Prior Guidelines such Guidelines shall be reviewed, and if appropriate, modified, to take into account (i) any departure from the anticipated performance and operations of the Rail Corridor and/or (ii) changes in accounting standards and policies related to the capitalization of component replacements.

WHEREAS, accordingly, the Owner and Railroads have reviewed the Prior Guidelines and desire to amend the Prior Guidelines as set forth in these Amended and Restated Alameda Corridor Capital Expenses Guidelines. Terms not defined herein shall have the meanings assigned to such terms in the Use and Operating Agreement.

- 1. Authorization for Amended and Restated Guidelines.** Article 1 of the Use and Operating Agreement defines "Capital Expenses" as the costs and expenses incurred in making any capital improvements or betterments, or replacements to the extent that costs and expenses of replacements are determined to be Capital Expenses to the Rail Corridor (other than the Non-Rail Components).

2. **Capital Expenses Defined.** Capital Expenses shall include the costs and expenses incurred in making any capital improvements or betterments, or the replacement of the components of the Rail Corridor listed on Exhibit A hereto. Capital Expenses shall not include the following components:
 - A. Replacement of any component that is the result of warranty work paid for or reimbursed by parties other than ACTA, POLA, POLB, UP and/or BNSF;
 - B. Except where required in connection with the installation of a capital improvement or betterment or the replacement of a component listed on Exhibit A hereto, replacement of any components or conducting any of the activities listed on Exhibit B hereto;
 - C. Replacement of any Non-Rail Component (the treatment and funding of maintenance and capital improvements and replacements of Non-Rail Components shall be determined in accordance with the relevant provisions of the Use and Operating Agreement, including but not limited to Section 7.4);
 - D. Replacement of any component that is the result of a casualty event (including any washout) for which ACTA, POLA, POLB, UP and/or BNSF (or their respective agents) is responsible; or
 - E. Replacement of any component covered under property and/or casualty insurance as described in Section 11.2 of the Use and Operating Agreement.
3. **Treatment of Related Costs.** For purposes of determining the total cost or expense of the replacement of a component under these Revised Amended and Restated Guidelines, related costs will include all material and labor charges, handling charges, shipping costs, taxes, customary overhead and other charges necessary to place such component in service. Business interruption costs, lost opportunity costs and similar costs or charges shall not be included.
4. **Treatment of Salvage Credits.** For purposes of determining the total cost or expense of the replacement of a component under these Revised Amended and Restated Guidelines, any income and/or credits generated by, or otherwise related to, the salvage of such component shall be deducted from the cost or expense of such component.
5. **Components Not Addressed Under the Amended and Restated Guidelines.** In the event a component of the Rail Corridor is not otherwise addressed under these Amended and Restated Guidelines, Mutual Agreement of the Owner and Railroads may be sought by ACTA to establish additional guidelines or procedures for the treatment of such component (either on a case-by-case basis or by amendment to these Guidelines).
6. **Annual Adjustment of Amounts.** All dollar amounts listed on Exhibit A hereto shall be adjusted annually on January 1 of each year, commencing with January 1, 2019, by gross changes in the Index Rate as compared to that Index Rate in effect on January 1, 2018 (rounded to the nearest \$500). As used herein, the Index Rate shall mean the Producer Price Index – Industrial Commodities Less Fuels Series ID WPV03T15M03 (Base Data 198200), published by the United States Department of Labor, Bureau of Labor Statistics, or such successor index.

7. **Review of Standard.** It is recognized by ACTA, Owner and the Railroads that these Amended and Restated Guidelines are adopted taking into account (i) certain assumptions with respect to the anticipated performance and operations of the Rail Corridor and (ii) current accounting standards and policies related to the capitalization of replacements. Accordingly, Owner and the Railroads shall review these Amended and Restated Guidelines, and if appropriate, be modified by Mutual Agreement of the Owner and Railroads, from time to time to take into account (i) any departure from the anticipated performance and operations of the Rail Corridor and/or (ii) changes in accounting standards and policies related to the capitalization of replacements.
8. **Expiration of Amended and Restated Guidelines.** On or about June 30, 2022, a review of these Amended and Restated Guidelines shall be conducted by Owner and Railroads to determine whether there is a need for any changes or modifications to be made by Mutual Agreement of the Owner and Railroads. If Mutual Agreement by the Owner and Railroads to extend or modify these Amended and Restated Guidelines is not met then these Amended and Restated Guidelines, including any additions, modifications or amendments hereto pursuant to Paragraphs 4 and 6 above, shall automatically expire on December 31, 2022.
9. **Annual Maintenance and Capital Improvement Plan and Budget.** These Amended and Restated Guidelines shall not, and are not intended to, modify, change or otherwise alter the annual obligation under Section 8.3 of the Use and Operating Agreement to prepare or cause to be prepared a plan and budget for the inspection, maintenance, repairs and capital improvements and replacements to the Rail Corridor. These Amended and Restated Guidelines are intended to assist in such planning and budgeting process, but in no way shall these Amended and Restated Guidelines control or otherwise restrict approval or disapproval of any such plan and budget.
10. **Inconsistency with Use and Operating Agreement.** In the event of an inconsistency between any provision of these Amended and Restated Guidelines and the provisions of the Use and Operating Agreement, the provisions of the Use and Operating Agreement shall apply.

EXHIBIT A
REPLACEMENT OF TRACK AND TRACK SUPPORT STRUCTURE COMPONENTS
TO BE TREATED AS CAPITAL EXPENSES*

GRADING

- Programmed replacements (*i.e.*, work in which grading installed exceeds 300 cubic yards per mile)
- Embankment or roadbed stabilization costing more than \$7,000

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

OTHER RIGHT-OF-WAY EXPENDITURES

- Installation of paving totaling 40,000 square feet or more
- Protecting dike
- Rip rap (complete installation)
- Retaining and crash walls
- Road crossing surface material (complete replacement)
- Road crossing track and surface material (complete replacement)
- Encasement (complete installation at each location)
- Grade Separations
- Landscaping (complete installation at each location)
- Outside lighting (complete)

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if (i) the component meets the above criteria and (ii) the cost of the component exceeds \$7,000.

BRIDGES, TRESTLES AND CULVERTS

- Bridge superstructure
- Bridge sub-structure
- Replacement of more than 50% of a bridge trestle or approach
- The complete machinery for operating a movable span
- Protecting crib
- Complete culvert, including head/wingwalls, dispersion and trap systems and liners
- Bridge deck

* As provided in Section 5 of these Amended and Restated Guidelines, the list of components and activities set forth herein is not intended to be exhaustive or all inclusive and any component or activity not otherwise covered herein shall be addressed by Owner and Railroads through Mutual Agreement by the Owner and Railroads in accordance with Section 5.

- Bridge walkways

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if (i) the component meets the above criteria and (ii) the cost of the component exceeds \$7,000.

FENCES AND SIGNS

- One continuous mile of right-of-way fence
- One continuous mile of pipeline-with or without pumps
- Signage set/program if the cost exceeds \$7,000

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

TIES

- Programmed replacements (*i.e.*, replacement of more than 300 wooden cross ties per mile or 250 concrete cross ties per mile)
- Complete replacement of a turnout or crossover
- Complete replacement of a switch section (*i.e.* from point of switch to toe of frog) if the cost exceeds \$7,000
- Replacement of all ties on a bridge deck

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

RAIL AND OTHER TRACK MATERIAL

- 1,320 continuous track feet of rail, including rail welds, first pass rail grinding and other track material
- Turnout or crossover (complete), including rail and other track material
- Complete switch section or rail crossing frog
- Rail and other track material on individual curves regardless of length, including short tangents between connecting curves
- Special items of other track material if the cost of the item exceeds \$7,000
- Track panels, if permanent and rail length exceeds 1,320 continuous track feet
- Rail lubrication applicator (complete) if the cost of the item exceeds \$7,000
- First pass rail grinding, and 50% of the cost of all other annual programmed (tangent and curve) grinding

- Rail line relocation, if the relocation is made for the purpose of reducing curves or grades or eliminating bridges or tunnels or other physical features and if the portion of line being relocated exceeds 1,320 continuous track feet (including related ties, grading and ballast)

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

BALLAST

- Ballast replacements other than “skim lift” (i.e. out of face tamping of the track required to achieve a continuous raise of up to 1 inch to restore track surface and line) and other than “spot tamping” (i.e. lifting and tamping short sections of track of up to 215 feet, or a Number 20 turnout, per location, regardless of ballast depth, to restore track surface and line)

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

DRAINAGE AND WATER IMPROVEMENTS

- Complete water supply piping system
- A holding tank
- Pump house
- Pumping Machinery – each complete pump installation
- Water tank – each complete installation
- Water treating plant
- Well (including pump)
- Machinery & equipment
- Any individual component over \$7,000
- Drainage improvements one mile or greater in length and costing in excess of \$7,000
- Fire hydrant systems-complete

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

MISCELLANEOUS STRUCTURES AND FACILITIES

- A newly completed building
- Each outside installation, water, air, etc. line installation
- Each sewer installation, storm or sanitary
- Complete heating and/or air conditioning system (without ductwork)
- Machinery & equipment
- Each outside lighting installation complete

- Vehicular road
- Pollution abatement equipment-complete
- Catenary systems-complete
- Security and cargo scanning systems-complete
- Scales

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if the component meets the above criteria.

COMMUNICATION SYSTEMS

- Complete mile section (or complete installation if less than a mile) of communication line
- Each mile or complete installation of cable with associated parts
- Each mile or complete installation of conduit and associated parts.
- Complete tower
- Complete installation at each location constituting a separate means of communication, such as radio, radar, carrier telephone, teletype, or other communication system
- Dispatching system
- Testing equipment (if purchased)
- Outside lighting (each complete installation)
- Communications equipment
- Computer software (acquisition or upgrades only)

The costs and expenses incurred in making these replacements shall be considered a Capital Expense if (i) the component meets the above criteria and (ii) the cost of the component exceeds \$7,000.

SIGNALS & INTERLOCKERS

- Interlocking plant
- Interlocking machine
- Signal bridge
- Each side of a highway crossing protection installation
- Traffic control or C.T.C. system installation
- Defect detectors/AEI readers (a complete separate system for the detection of hot-box journals, dragging equipment, high water on tracks, or hot & cold wheels on railroad cars and/or for recording car movements)
- Control board
- Computer equipment
- Stepper
- Code unit

- Signal
- Switch machine

The costs and expenses incurred in making such a replacement shall be a Capital Expense if (i) the component meets the above criteria and (ii) the cost of the component exceeds \$7,000.

EXHIBIT B

COMPONENTS AND ACTIVITIES NOT TO BE TREATED AS CAPITAL EXPENSES*

(Except as provided in Section 2.B. of the Guidelines)

- Track inspections, including visual, ultrasonic, track geometry car and hyrail.
- Signal and/or control system inspections and testing.
- Communication system inspections and testing.
- Bridge, trestle, culvert and other facility inspections.
- Pot holing and/or soil sampling.
- Vegetation control, including tree trimming/removal.
- Clearing of wrecks and rerailing.
- Right-of-way litter control/removal.
- Shifting and/or relocating of existing track.
- Rail transposition.
- Restoring chipped and/or battered rail ends.
- Track gauging.
- Replacing and/or tightening bolts and/or adjusting/replacing other rail fasteners.
- Replacing and/or resetting spikes and/or rail anchors in existing track.
- Maintaining/refilling rail lubricators.
- Adjusting switches.
- Pumping of excess water or other fluids from the right-of-way.
- Clean up/disposal of hazardous material spills and/or biohazard material.
- Cleaning switches.
- Replacement of broken or defective rails.
- Replacement of partial units or less-than-minimum quantities (as set forth in Exhibit A).
- Repairing insulated joints.
- Ballast regulating.
- Field welding and/or grinding.
- Lubricating joints.
- Repairing engine burns.
- Track shimming.
- Building and other facility maintenance, cleaning, repair, painting and/or landscape maintenance.
- Replacing signal wiring and/or relays.
- Small tools and supplies.

* As provided in Section 5 of these Amended and Rested Guidelines, the list of components and activities set forth herein is not intended to be exhaustive or all inclusive and any component or activity not otherwise covered herein shall be addressed by Owner and Railroads through Mutual Agreement of the Owner and Railroads in accordance with Section 5.

- Automotive and roadway work equipment repairs, maintenance and operation.
- Replacement of signal/communications system batteries.
- Purchase, maintenance and repair of radios, cell phones, Nextel devices, etc.
- Relocation of fiber optic cables and/or conduits.
- Updating/maintaining of signal drawings, track charts and other Facility records.
- Facility utility expense.
- Maintenance and repair of roadways, walkways, handrails and other bridge appurtenances.
- Gauge restraint testing.
- Derailment investigations.
- Work train expenses.
- Fence and gate repairs, maintenance and painting.
- Repair/replacement of crossing gates.
- Maintenance and repair of high/wide load, hot box and dragging equipment detectors and AEI readers.
- Repair of rail sun kinks and/or pull-aparts.
- M&O vehicle and equipment leases, repairs, maintenance and servicing.