

January 12, 2010

Ms. Holly Ostdick
Chicago Metropolitan Agency for Planning
Manager, CMAQ Program
233 S. Wacker Blvd.
Suite 800
Chicago, IL 60606

Re: Acquisition of four (4) GenSet low emissions locomotives by Indiana Harbor Belt
RR Company

Village of Franklin Park
Cook County
Section 09-00069-00-RR
Project CMM-9003(245)
Job No. C-91-332-09

Dear Ms. Ostdick:

This letter is a follow-up to the brief discussion we had last month regarding the difference in the amount of funding granted IHB as a result of its original application for funds under the CMAQ program for GenSet locomotives (Diesel Emissions Reductions) and the amount of the Request for Proposal (RFP) quote from the selected vendor, National Railway Equipment Company of Dixmoor, IL. Please consider this as an official request for CMAQ to reconsider the amount of funding granted to the IHB for the aforementioned project due to the increase in cost per locomotive in today's marketplace versus the cost when the original application was made. Due to the increase in cost per locomotive, there becomes a shift from a 65/35 split to a split of 55/45. IHB is requesting that CMAQ consider increasing the funding of this project to help close the gap caused by the delay in reaching an agreement with IDOT in order to proceed toward purchase of the locomotives.

IHB original application (02/08) for four GenSet locomotives:	\$ 5,668,000
IHB original application (02/09) for one GenSet locomotive:	\$ 1,474,000
CMAQ 2009 award:	\$ 4,251,000
CMAQ 2010 award:	\$ 1,474,000
Total Award	\$ 5,725,000
NRE Bid (9/17/10)	\$ 6,784,000
<i>Difference in bid versus application</i>	<i>\$ 1,059,000*</i>

* IHB understands it is liable for the additional cost unless additional CMAQ funds are made available.

In order to help in the process of rendering a decision for this request I have offered the following as background information in summary format. However, if you have any questions or need additional information please advise and I will get you what you need as soon as possible.

Background:

1. IHB made two applications to CMAQ for funding to assist in the purchase of eight (8) GenSet Locomotives in February of 2008. Four of the units were sponsored by the Village of Franklin Park and four were sponsored by the Village of Riverdale.
2. The Franklin Park application was to replace four (4) Switch type locomotives. That application was for \$ 5,668,000 or \$1,417,000 for each locomotive.
3. The Riverdale application was to replace four (4) General Purpose locomotives. That application was for \$ 6,588,000 or \$ 1,647,000 for each locomotive.
4. In November of 2008, IHB was awarded a grant based for the purchase of three (3) GenSet locomotives (Franklin Park sponsorship) at the amount of the application per locomotive unit. ($\$1,417,000 \times 3 = \$4,251,000$) The CMAQ grant was for 65% with IHB providing 35% of the total anticipated cost. (CMAQ contribution to be \$2,763,150.)
5. In November of 2008 the IHB application with Riverdale was declined.
6. In February of 2009 IHB reapplied for one (1) locomotive from its original Franklin Park sponsored ** application and the same four (4) from its original Riverdale sponsorship. ***
(**) 1 Year Increase in price went from \$1,417,000 to \$1,474,000/ locomotive.
(***) 1 Year Increase in price went from \$1,647,000 to \$1,785,000/ locomotive
7. In November of 2009 IHB was awarded a grant for the purchase of one (1) locomotive (Franklin Park.) for FY 2010 at \$1,474,000. (CMAQ contribution to be \$958,100.)
8. In November of 2009 IHB was also awarded the grant for the other four (4) locomotives (Riverdale) for FY 2011 at \$ 7,140,000. (CMAQ contribution to be \$ 4,641,000.)

9. At this point let me just try to summarize the gap from November 2008 to the present as being a very complex and frustrating time for the IHB trying to reach an agreement with IDOT and then NRE for the purchase of the first four locomotives. I would be glad to share the details but there are three critical events that are worth noting in this chronology.
- a. In December of 2008 IHB was offered 5 GenSet locomotives by a vendor for the price of four. The five locomotives had become available because of a cancelled order. IHB contacted IDOT with the details of the offer but could not convince IDOT that it was in our mutual best interest for IDOT to grant IHB an order to process.
 - b. In February of 2009, IHB furnished an agreement patterned after a similar agreement between IDOT and another class one railroad. That agreement was not acceptable to IDOT. In May of 2009, IDOT supplied an agreement for the Village of Franklin Park and IHB to sign. The Village and IHB signed the agreement but "after further review" IDOT changed their mind and withdrew the agreement in July. A second proposed agreement was not offered to IHB until November of 2009.
 - c. IDOT and IHB could not reach an agreement on the contract language of the revised agreement until July of 2010.
10. IHB put out its RFP and the only bid meeting the specifications of the RFP comes in at \$ 6,784,000 for four locomotives or \$1,696,000 for each one.
11. IDOT State agreement states a project cost not to exceed \$ 5,725,000. **** The NRE bid total is \$6,784,000 or \$1,059,000 above the original application.
- (****) Formula to get that number came from three (3) locomotives at the original application rate of \$ 1,417,000 per locomotive and then adding the application of the single locomotive for FY 2010 which was \$ 1,474,000.
- $(\$ 1,417,000 \times 3 = \$ 4,251,000 + \$ 1,474,000 = \$ 5,725,000)$
12. IDOT State agreement per locomotive \$1,431,250. **** NRE bid \$1,696,000 per locomotive.

The IHB believes it proceeded through this process in good faith. IHB believes that the difference in the application pricing and the bid pricing can be attributed to three items. The first is a factor for inflation. The second is the market place in which the locomotive manufacturing takes place; simple supply and demand. Lastly, changes in government regulations have added to the cost to manufacture an individual locomotive.

Lastly, IHB states that all of the information provided herein is factual and accurate to the best of our knowledge. IHB is requesting that CMAQ consider that difference between IHB's original application and the current bid price by NRE and grant IHB on the same 65/35 basis an increase in funding. If you have any questions, please call or email me.

Thank you very much for your time and consideration and I look forward to your response.

Respectfully yours,

David H Nelson
General Superintendent – Operations
Indiana Harbor Belt Railroad

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cc: Ross Patronsky