February 27, 2012

The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance
317 East State Capitol
Madison, WI 53702

The Honorable Robin Vos, Co-Chair
Joint Committee on Finance
309 East State Capitol
Madison, WI 53702

Dear Senator Darling and Representative Vos:

Summary of Request
Pursuant to Section 85.061(3)(b), Wisconsin Statutes, the Department of Transportation is requesting that the Joint Committee on Finance approve the use of $2,500,000 in Rail Passenger Route Development bonding under s. 20.866(2)(up), Wis. Stats., for final design of a maintenance facility for state-owned passenger rail cars. The Department requests this funding to meet the contractual obligation to maintain the state-owned passenger rail cars.

Background of Request
In July 2009, the State of Wisconsin entered into a contract with Talgo, Inc. to purchase two passenger rail train sets, plus three spare cars for $47,489,000. On August 4, 2009, the Committee approved the use of up to $47,500,000 of Rail Passenger Route Development bond funds, under s.20.866(2)(up), Wis. Stats., for the purchase. The Committee also approved a supplementary request on July 19, 2011 to use an additional $21,404,300 in bonding for change orders, technical assistance, and maintenance related capital expenditures.

To date, the Department has incurred costs exceeding $40.5 million in capital expenditures related to the purchase of the trains. These costs include the manufacture of the passenger rail cars including change orders, technical assistance, capital improvements to the temporary maintenance facility, and a portion of the required spare parts and maintenance equipment needed to operate and maintain the passenger cars.

The purchase contract required a subsequent 20-year maintenance agreement, which was executed on December 30, 2009. The maintenance agreement requires start-up costs of $299,767 per month beginning three months prior to the start of dynamic testing of the passenger cars. Per the agreement, routine maintenance begins at the start of dynamic testing. The cost of routine maintenance is set for the first year at $4,563,500, payable in monthly installments of $380,252.
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The start of dynamic testing is currently scheduled to begin March 15, 2012. Per the requirements of the maintenance agreement, the Department has paid Talgo $749,418 for start-up maintenance costs for the period of December 16, 2011 through February 29, 2012. The remaining start-up maintenance cost of $149,883 covering March 1 – 15, 2012 will be paid in early March. Under the existing contractual obligations, the Department will begin paying monthly maintenance costs of $380,292 on March 16, 2012. The Department is also incurring costs of approximately $75,000 per month for a sub-lease of a temporary maintenance facility. These costs were included in the Department’s request for the 2011-2013 Biennial Budget and subsequently approved in 2011 Wisconsin Act 32.

Maintenance of the state-owned passenger rail cars under the maintenance agreement with Talgo is much different than maintenance currently provided by Amtrak and, therefore, costs significantly higher. Amtrak provides light cleaning and “spot” maintenance on a routine basis with “full” cleaning and maintenance on a less regular basis. The routine maintenance provided by Talgo through the maintenance agreement includes full cleaning, maintenance, and diagnostics on a nightly basis.

The purchase contract and maintenance agreement require that the State provide a maintenance facility and that Talgo use Wisconsin labor and supplies to the extent practicable. The contracts allow for a temporary facility to be used until a permanent facility can be established. A temporary maintenance base has been established at the Century City assembly facility in the City of Milwaukee. However, because of a number of logistical issues, railroad track conditions, and other restrictions, the Century City location is not suitable for a permanent maintenance facility.

On November 17, 2011, the Department requested $5,000,000 in funding from the balance of the Transportation Fund to begin preliminary engineering and final design of a permanent maintenance facility. At the time, the Department had begun preparatory work on a permanent facility, including a feasibility study which resulted in two viable site alternatives and an environmental study.

On December 7, 2011, the Committee approved Motion 551 in relation to the Department’s request. Motion 551 stated:

“Move to approve the use of up to $2,500,000 in passenger rail development bonds for a permanent maintenance facility for the state’s passenger rail cars. Specify that the Department of Transportation (DOT) may proceed with the engineering to develop a construction cost estimate for constructing a facility in the City of Milwaukee. Further, specify that DOT may not proceed with additional engineering and design, or with construction on the facility, until they submit a report to the Committee that provides a comparison of the estimated total cost of building a permanent maintenance facility in Milwaukee for the state’s passenger rail cars with the total cost of any necessary improvements to Amtrak facilities in Illinois to accommodate maintenance at those facilities.”
Require DOT to include in the comparison, a discussion of any potential differences in the annual costs of performing maintenance at the different facilities, as well as any relevant non-fiscal considerations in choosing a site for the permanent maintenance facility. And, require that the report include an analysis of the costs and savings of not proceeding with the construction of any permanent maintenance facility and maintaining current rail operations."

The report required by Motion 551 includes three main elements:

1. The estimated total cost of building a permanent maintenance facility in Milwaukee.
2. The total cost of any necessary improvements to Amtrak facilities in Illinois to accommodate maintenance at those facilities.
3. A comparison of costs between constructing a permanent facility and maintaining current rail operations.

**Milwaukee Permanent Maintenance Facility**

Since the December 7, 2011 meeting, the Department has completed additional environmental review, held a public information meeting, and concluded a public comment period which closed on February 15, 2012. The preferred alternative will be chosen once all comments received have been reviewed with the environmental report completed soon after.

Upon the approval of funding for preliminary engineering, the Department contracted with a consultant for preliminary engineering services. While a decision on a preferred alternative has not yet been made, there are common cost elements regardless of location. The consultant has completed some work on those common elements, however a full preliminary engineering estimate is not yet available.

Despite this, the Department feels there is enough information to report to the Committee given a number of timing issues with development of the facility. An agreement with the owner of the rail line to the Century City facility (Canadian Pacific Railroad) allows use of the tracks between the Milwaukee Intermodal Station and the Century City facility through December 31, 2012 for maintenance purposes. While a permanent facility would not be completed by that time, the railroad has indicated that they may allow an extension if progress is being made on a permanent facility. The cost of access to the tracks will be paid through the operating contract with Amtrak.

In addition, there are several decisions regarding the purchase of maintenance equipment for the permanent facility, scoping of final design, and operational issues that must be made by mid-March 2012. Based on the environmental work and initial preliminary engineering, the Department is confident that we have a reliable cost estimate range for construction of a permanent train maintenance facility in Milwaukee.

The cost to construct a permanent train maintenance facility in Milwaukee is estimated to be between $55 million and $63 million. This estimate includes construction of the facility, purchase of real estate, an access road, railroad track work, signaling upgrades, hazmat mitigation, utility work, and construction management. The estimate also includes a 20%
contingency given a number of uncertainties, most notably real estate acquisition and hazmat mitigation.

It should be noted that, based on the current estimate, there is not sufficient Rail Passenger Route Development bonding authorized to build the facility. Currently, $40,595,700 in bonding authority remains. Therefore, construction of the permanent maintenance facility will require the Committee to approve the use of the remaining bonding for construction of the facility and either approve a supplemental appropriation of funds from the Transportation Fund or transfer funding from another Department appropriation to the Rail Passenger Service appropriation. Alternatively, the full Legislature could approve additional Rail Passenger Route Development bonding with the Committee subsequently approving the use of that additional bonding authority for construction of the facility.

Amtrak Facilities in Illinois
Pursuant to Motion 551, the Department contacted Amtrak regarding a cost estimate of improvements to their facilities in Illinois to accommodate permanent maintenance of the state-owned trains. On January 17, 2012, Amtrak replied to the Department’s request (attached). In their response, Amtrak did not provide a cost estimate. Amtrak did express a recommendation that the state-owned trains not be maintained at Amtrak’s Illinois facilities:

“Because of geographic (space) constraints, the existing layout of Amtrak’s Chicago maintenance facility, and capacity limitations, we do not recommend that the current Talgo transets be maintained at Chicago since that is not likely to be a cost effective arrangement. However, we continue to be interested in working with WisDOT on a permanent equipment maintenance arrangement in Wisconsin.”

In their letter, Amtrak references a November 23, 2009 letter from Amtrak to Talgo regarding the feasibility of Amtrak performing temporary maintenance of the state-owned equipment at Amtrak’s Illinois facilities (attached). In that letter, Amtrak also recommended not pursuing the use of Amtrak’s facilities for maintenance for the same reasons mentioned in their January 17, 2012 letter. Further, they indicated in the November 23, 2009 letter that they did not believe temporary maintenance of state-owned rail cars at Amtrak’s Illinois facilities would be cost effective. However, they did provide an estimated range of the cost of capital improvements that would be needed to provide temporary maintenance. That range was $9-17 million, in 2009 dollars. This estimate did not include any of the specialized equipment necessary for maintaining Talgo passenger rail cars.

In the 2009 letter, Amtrak estimated that operating costs for temporary maintenance would be $3 million per year, in 2009 dollars. This estimate was for Amtrak personnel and operations of the facilities. It did not include Talgo personnel, spare parts, consumables, or training of Amtrak personnel.

In the January 17, 2012 letter, Amtrak indicated that they would be willing to provide a full cost estimate if the Department would pay for development of the estimate:
"If this latter proposal is not acceptable to the legislature and they wish to continue to pursue a Chicago maintenance base for the Talgo trains, we would have to devote considerable staff time and initiate detailed engineering and environmental work to determine the scope and initial capital costs, as well as annual operating expenses, of such an arrangement. While the information provided previously by … indicates "ballpark costs" in 2009 dollars, the support of an outside engineering consulting firm to develop an actual layout and more precise capital and operating costs would now be necessary.” “Please advise if WisDOT is willing to enter into an arrangement with Amtrak to absorb the cost of retaining a consulting firm to study this request, as well as other related expenses.”

In addition to capital costs, maintaining state-owned train cars in Illinois would create operational issues due to circumstances at Amtrak’s Illinois facilities and that maintenance of the Talgo trains would require specialized and unique training, parts, and equipment as compared to the other rail cars being maintained at the facility. Determining those additional operating costs would be included in the engineering study Amtrak mentions.

There would also be an impact on Wisconsin jobs under this option. Approximately 25 jobs would be transferred from Wisconsin to Illinois for maintenance of the trains and approximately two jobs related to facility management would be “lost.”

Based on the Department’s own costs for environmental and engineering work, the costs associated with studying maintenance operations at Amtrak’s Illinois facilities could range from $2 million to $6.5 million. These costs and any subsequent capital improvement costs would not be an eligible use of bond funds as the activities would be outside the state and the state would not own the facility. Given the cost to acquire an estimate and Amtrak’s recommendation that the state-owned trains not be maintained in Illinois, the Department does not consider this to be a viable option.

Cost Comparison
The Department has sufficient information to provide a cost comparison of maintaining current rail operations (interpreted as continuing the Hiawatha service with Amtrak equipment) with operating state-owned passenger rail cars maintained at a permanent maintenance facility. A simple 20-year annualized average cost was estimated for Hiawatha service operating costs based on continuing the service with Amtrak equipment and state-owned Talgo equipment.

The estimated average annual cost using Amtrak equipment is $13,385,787 per year compared to $23,419,907 per year with Talgo equipment. These figures include debt service costs. Removing the debt service costs results in annual operating costs of $8,542,991 per year with Amtrak equipment and $13,639,525 with state-owned Talgo equipment. For comparison, Hiawatha service costs in Fiscal Year 2012 are $8,880,510 including debt service and $6,063,381 without debt service.

The table compares 20-year annualized cost estimates in relation to the expected FY 2012 costs for operating the Hiawatha service. Notes and assumptions that should be considered in reviewing the cost comparison are attached.
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<td>State of Wisconsin Annual Cost</td>
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How the Request Meets Statutory Criteria
This request is consistent with the legislative finding, program, and approval requirements under s. 85.061, Wis. Stats. It is also meets the requirements of Motion 551 approved by the Committee on December 7, 2011. Finally, the request is consistent with the contractual obligations entered into by the State of Wisconsin in July 2009 and January 2010.

Planned Activities
Upon approval by the Committee, the Department will execute a contract for final design. It is likely that the Department will request additional funding from the Committee for the
construction of the facility in the Fall of 2012. At that time, preliminary engineering will be complete and final design well underway so that a final estimate of the costs to construct the facility will be available. That timing will also allow funding to be secured to meet the current timeline of a construction let for the project in early calendar year 2013.

If the Committee denies this request, the Department will not be able to meet its contractual obligation with Talgo to provide a permanent maintenance facility. Failure to provide a permanent maintenance facility will result in a less than required level of maintenance for the state-owned passenger rail cars. As a result, the Department will not be able to fulfill the contract to maintain and operate the state-owned passenger rail cars.

Thank you for consideration of the Department’s request. Please contact Paul Hammer, Director of the Department’s Office of Policy, Budget, and Finance at (608) 267-9618 if the Committee requires additional information.

Sincerely,

Mark Gottlieb, P.E.
Secretary

xc: Governor Scott Walker
    Secretary Mike Huebsch, Department of Administration
    Legislative Fiscal Bureau
    Joe Malkasiyan, Committee Clerk
Notes and Assumptions to Cost Comparison

- Assumes Amtrak is the service operator regardless of equipment used.
- There is no assumption of fare increases, food service changes, or other customer related operational changes.
- There is no inclusion of Transportation Fund funded capital costs related to change orders on the Talgo passenger cars and environmental work on the maintenance facility.
- Assumes Illinois will continue to provide 25% of the Amtrak operating contract, but does not assume any Illinois payment related to maintenance of state-owned passenger rail cars.
- Under the Amtrak scenario, it is assumed the state-owned passenger rail cars are not put into revenue service and will be put into storage.
- Amtrak requires $250 million in liability insurance related to operating of the state-owned passenger rail cars. As owner of the cars, the state will be responsible for that payment when placed into service.
- It should be noted that the capacity of the state-owned Talgo passenger rail cars is less than that of the Amtrak-owned cars currently used in the Hiawatha service. Currently, capacity is an issue on the current service on peak period trains. The lower capacity of the state-owned trains will limit ridership and revenues at some point. Addressing the capacity issue will require the purchase of additional passenger cars from Talgo.
- Under the State-Owned Talgo scenario, it is assumed that a state-owned passenger rail car facility will be built and operated and that the costs of construction of the facility will be funded with Rail Passenger Route Development bonds. Currently, $40,595,700 in bond authority remains. Therefore, it is further assumed that the Legislature will authorize additional bonding and the Committee will approve the use of that bonding for the facility. Note that debt service for this bonding is paid by the state’s General Fund.
- Debt Service estimates are provided by the Department of Administration based on approval of the use of debt by the Committee to date ($47,500,000 on August 4, 2009, $21,404,300 on July 19, 2011, and $2,500,000 on December 7, 2011), actual debt issued to date, and an estimated debt issuance schedule for the remaining and additional debt. The debt service estimate for the Permanent Maintenance Facility includes the $2,500,000 in debt approved by the Committee for preliminary engineering on December 7, 2011 and $55,000,000 in additional debt issued for final design and construction of the permanent maintenance facility.
January 17, 2012

Mr. Ronald E. Adams, P.E.
Chief, Railroads & Harbors Section
Wisconsin Department of Transportation
4802 Sheboygan Avenue
Madison, WI 53707

Dear Ron:

This refers to your email of December 15, 2011, transmitting a copy of a letter dated November 23, 2009 from Amtrak’s Stephen Gardner to Mr. Antonio Perez of Talgo, regarding the feasibility of Amtrak performing temporary maintenance of Wisconsin’s Talgo equipment. Your email advises that the Wisconsin legislature has now requested you to investigate the possibility of performing this trainset maintenance on a permanent basis at Amtrak’s Chicago maintenance facilities.

We have reviewed your latest request and the conclusion is essentially the same as indicated in Mr. Gardner’s letter. Because of geographic (space) constraints, the existing layout of Amtrak’s Chicago maintenance facility, and capacity limitations, we do not recommend that the current Talgo trainsets be maintained at Chicago since that is not likely to be a cost effective arrangement. However, we continue to be interested in working with WisDOT on a permanent equipment maintenance arrangement in Wisconsin. If this latter proposal is not acceptable to the legislature and they wish to continue to pursue a Chicago maintenance base for the Talgo trains, we would have to devote considerable staff time and initiate detailed engineering and environmental work to determine the scope and initial capital costs, as well as annual operating expenses, of such an arrangement. While the information provided previously by Mr. Gardner indicates “ballpark costs” in 2009 dollars, the support of an outside engineering consulting firm to develop an actual layout and more precise capital and operating costs would now be necessary.

Please advise if WisDOT is willing to enter into an arrangement with Amtrak to absorb the cost of retaining a consulting firm to study this request, as well as other related expenses. This would also include consideration of the car wash and wheel lathe. As information, I do not yet have any information on modifications or costs associated with the car wash and the wheel lathe estimate provided by you. Please advise if you have any questions or if you would like to discuss further.

Sincerely,

Michael W. Franke
Assistant Vice President, Policy and Development (Central)

MWF/yb
November 23, 2009

Mr. Antonio Perez  
President and CEO  
Talgo, Inc.  
505 Fifth Avenue South  
Suite 630  
Seattle, Washington 98104

Dear Mr. Perez:

On behalf of Amtrak, I wish to thank you for your request of November 4, 2009 to Mario Bergeron for an assessment of the operational feasibility and funding requirements associated with the contemplated maintenance of two, 14-car Talgo trainsets at Amtrak’s Chicago Mechanical facilities. In response to your request, Amtrak undertook and completed a thorough analysis of a multi-tiered range of potential mechanical servicing alternatives. The results of this analysis are attached for your review and consideration, including, as requested, separate price quotations for both Amtrak’s provision of required mechanical staff, as well as for each of three potential scenarios for Talgo’s usage of Amtrak’s Chicago Maintenance Facility.

In summary, we’ve concluded that, due to a variety of factors, the potential daily servicing of the proposed two Talgo trainsets at Amtrak’s Chicago Maintenance Facility presents significant cost and operational challenges and is not a solution that we would recommend to you at this time. The primary challenge is the initial capital costs associated with maintaining these trainsets in Chicago, which range from $9-17 million, made necessary because of the unique requirements of Talgo trainset maintenance and existing capacity constraints at Amtrak’s Chicago facilities. Additionally, due to both the scarcity of Amtrak-owned vacant property available at Chicago on which to erect additional facilities and the future mechanical servicing demands that may arise in Chicago from the potential implementation of new Midwestern rail passenger services, any new facilities on Amtrak-owned property and/or maintenance arrangements solely to support these trainsets would be of a temporary nature and subject to potential removal and termination, respectively, should the circumstances so warrant. With this in mind, we don’t believe that the maintenance of this equipment in Chicago is likely to be a cost-effective or desirable solution for your company.
In lieu of a maintenance scenario at Chicago, Amtrak is interested in working with Talgo on a temporary equipment maintenance arrangement at Milwaukee and a long-term permanent arrangement at Madison, WI. We believe that a collaborative effort of this type would afford Talgo the benefit of Amtrak’s extensive mechanical maintenance and servicing capabilities for its trainsets without unnecessary capital investment. Further, as a result of new agreements in principle with our labor organizations, Amtrak now has the ability to enter into teaming arrangements similar to what is currently in place in Seattle at other locations around the system. Consequently, it is our belief that Amtrak can offer very economical, competitive and highly-experienced equipment maintenance services.

Accordingly, we would like to take this opportunity to propose that Talgo consider using our extensive labor, design, engineering and maintenance services to assist Talgo in the development and operation of future temporary and/or permanent facilities in either Milwaukee or Madison, Wisconsin, which we understand are also being considered as maintenance locations. With your concurrence, we’d like to meet further with you to discuss this possibility and how Amtrak can assist Talgo in delivering the highest quality product and service to the State of Wisconsin.

I thank you again for your request and for your continued partnership with Amtrak. I am hopeful that the enclosed information will prove helpful in your evaluation of potential equipment maintenance alternatives for Talgo’s planned delivery of new rolling stock to the State of Wisconsin. Please do not hesitate to contact me at (202) 906-2486 in the event of questions or should you wish to discuss this matter further.

Sincerely,

Stephen J. Gardner
Vice President, Policy and Development

cc: Joseph Boardman
    William Crosbie
    Mario Bergeron
    Michael Franke
ANALYSIS SUMMARY – TALGO OPTION 1
USE OF AMTRAK CHICAGO MAINTENANCE FACILITY

Cost of Direct Labor.
Consistent with the labor specifications contained under Option 1 of your November 4th request, providing Talgo with daily, 7-day per week mechanical staffing at our Chicago Maintenance Facility would cost an estimated annual total of $3 million per year. As specified in your request this staffing would encompass a total of 15 positions consisting of the following craft personnel:

- 6 mechanics
- 4 electricians
- 5 coach cleaners

The above price quotation is reflected in FY 2009 dollars and includes all necessary relief coverage for rest days, vacations and holidays. Further, as specified in your request, the above quotation assumes that Talgo, Inc. will provide any and all required managerial and supervisory personnel necessary for daily supervision of the above 15 person labor contingent.

Usage of Amtrak Chicago Maintenance Facilities
In an effort to consider all practical options by which Amtrak could provide Talgo with the requested maintenance services, Amtrak identified three (3) different potential facility usage alternatives. Each alternative differs in both facility size, scope of proposed service amenities and level of estimated capital funding required. In addition to the specified capital funding requirements associated with each option, an annual facility service charge of approximately $41,000 per year would apply to each of the 3 options. Additional charges for the cost of utilities and maintenance-related materials and supplies, if purchased by Amtrak, would also apply.

Facility Overview
The Chicago Service and Inspection (S&I) building has two enclosed tracks (3 & 4), each measuring approximately 1,085 feet in length, capable of accommodating a 14 car Talgo Trainset. Each track is equipped with inspection pits, 480 volt ground power stations on each end, potable water and a vacuum driven waste removal system along the entire length. To accommodate the wheel lathe, truck changer and the wheel changer required to service Talgo equipment, Amtrak would locate these machines on the east side of the Service and Inspection building in a structure south of the Roosevelt Road bridge built in the same footprint currently occupied by tracks 5 and 6. A single track would be constructed from among tracks 5 and 6 for this purpose.

Facility Option 1*
A 600 foot building would be constructed over the new track 5 that would contain the wheel changer, lathe and truck changer, all storage, office space, conference room and break room, as well as 2 waste removal stations and 2 potable water stanchions. Inclusion of these components offers the option to perform various servicing activities in multiple locations, thereby reducing
ANALYSIS SUMMARY – TALGO OPTION 1
USE OF AMTRAK CHICAGO MAINTENANCE FACILITY

the dependence on the Service and Inspection building when wheel work is required during daily servicing. This building would also utilize 400 feet of pedestal track providing similar access to the trainset undercarriage currently enjoyed in the S & I inspection pits. The estimated cost of Option 1 is $17 million.

Facility Option 2*
A 300 foot building would be constructed over the new track 5 that would contain the wheel changer, lathe and truck changer, all storage and office space, as well as a conference room and break room. This building would have one potable water stanchion and one waste removal station reducing the servicing capability of Option 1 but still affording a small degree of flexibility. This building would not utilize pedestal track however. The estimated cost of Option 2 is $11 million.

Facility Option 3*
A 200 foot building would be constructed over the new track 5 that would contain the wheel changer, lathe and truck changer only. All storage and office space, as well as a conference room and break room would be constructed between tracks 3 and 4 on the northern end of the Service and Inspection building. This building would not include any water stanchions, waste removal stations or pedestal track. The estimated cost of Option 3 is $9 million.

* A detailed cost analysis sheet and conceptual layout drawing for each of the above three potential facility usage options can be made available upon further request.