M-1 RAIL
600 RENAISSANCE CENTER, SUITE 1740
DETROIT, MI 48243

CHAIRMAN
ROGER S. PENSKE

PRESIDENT & CEO
MATTHEW P. CULLEN

September 21, 2012

Dear Secretary LaHood,

M-1 RAIL is pleased to provide the following response to your letter of June 19, 2012 which outlined the issues that must be resolved before we can move forward together with the M-1 RAIL project. We deeply and sincerely appreciate your leadership and the efforts of the Federal Transit Administration (FTA), especially Sean Libberton and Administrator Peter Rogoff, in addressing these issues over the past several weeks. We equally appreciate the leadership of Governor Snyder, Mayor Bing, and SEMCOG Executive Director Tait and the efforts of their respective teams.

This letter provides an overview of M-1 RAIL's progress to date and then summarizes our response on each issue identified in your letter. The responses are followed by appendices that include supporting documentation and additional detail.

A. OVERVIEW OF PROGRESS TO DATE

As of January 2012, M-1 RAIL had $52.6 million in capital commitments. By late April, M-1 RAIL had amassed $100.1 million in capital and operating commitments. By September, M-1 RAIL's work with both private enterprises and public agencies has secured a total of $115.5 million for the project. All of these revenues were secured absent a clear Federal commitment to the project. Reflecting the depth and breadth of support for this project, M-1 RAIL's fundraising track record has proven extremely successful - and we are poised to continue.

With realization of (a) assumed New Market Tax Credits proceeds; (b) assumed advertising revenues; (c) a revised and conservative farebox recovery rate; and (d) the reprogramming of the TIGER I grant for its original purpose, M-1 RAIL's financial plan will have accounted for nearly 92% of the resources necessary to not only construct the project, but to operate it for 10 years.

In the past 60 days, in addition to securing critical support from the State of Michigan, M-1 RAIL has identified the donors needed to complete the plan. It is M-1 RAIL's expectation that all remaining fundraising will be accelerated with the securing of the TIGER I grant, which provides new investors with the confidence the project will move forward with the backing of the U.S. Department of Transportation.

Specifically, during this 60-day review period, M-1 RAIL has taken the following steps relative to the capital and operating financial plans:

- Worked with the State of Michigan to secure $15 million in State commitments and to confirm the range of the State's support for the project as outlined in Governor Snyder's letter of September 5, 2012 (See Appendix I).

- Begun work to assemble a stakeholder consortium of a minimum of 12, and up to 25, stakeholders that have a vested interest in the Woodward Corridor to support the ***operating*** budget, with a projected capacity of $13 million over 10 years (see Appendix I).

- Identified and begun working with new donor prospects representing a potential $15.5 million in new ***capital*** commitments, including an active grant request to JP Morgan Chase that will be decided later this month and new documented support from Bank of America (see Appendix II).

- Securing only slightly more than half - $16.1 million - of these funds would fully fund the M-1 RAIL streetcar project and the first ten years of operations. Any committed funds above this amount will be used as a reserve fund, first for capital (if needed), and then project operations.

- It is important to note that there is sufficient flexibility in our current donors' designation of grants to allow new donations to support either capital or operations, wherever a gap exists. The Kresge Foundation in particular is willing to provide this flexibility with its grant to the project. As demonstrated below, M-1 RAIL believes that it has been conservative in its new donor projections, assuming approximately a 56% realization rate combined for both the operating consortium and identified capital donors, allowing for further confidence that all project needs will be met.

Since beginning the validation process with FTA, M-1 RAIL has not only continued to demonstrate its fundraising capacity, but has done so in conjunction with adopting more conservative cost and revenue assumptions. With FTA's guidance, M-1 RAIL has lowered its farebox revenue projections, increased its baseline capital cost, and targeted a robust capital reserve. M-1 RAIL's fund development plans are therefore addressed to conservative targets, and against them M-1 RAIL has again secured over 90% of the required funding and identified donors to fill the remaining gap.

B. RESPONSE TO INDIVIDUAL ISSUES

1. DEVELOPMENT OF A CREDIBLE PLAN TO COVER OPERATING COSTS

The FTA-validated annual operation and maintenance (O&M) cost for the M-1 RAIL project is $5.10 million in 2012 dollars. With assumed start-up in 2015, this projected cost escalates over ten years for a total cost of $55.4 million. In addition to this core operating budget, M-1 RAIL's operating plan includes ancillary administrative costs for its own operations as a non-profit entity as well as lease payments to M-2 as called for under the New Markets Tax Credits (NMTC) structure. We anticipate receiving additional support from members of the stakeholder consortium or current or new philanthropic donors to cover these nominal costs. A summary and discussion of M-1 RAIL's ten-year funding plan follows, and the annual cash flows are provided in the Operating Source and Use of Funds document in Appendix I.

TABLE 1: SUMMARY OF 10-YEAR OPERATING BUDGET

USES	10 YEAR TOTAL
Streetcar Operations Contract	$55.4 million
Ancillary M-1 RAIL Administrative Costs	$2.8 million
Lease Payments to M-2	$1.5 million
TOTAL	**$59.7 million**

SOURCES	10-YEAR TOTAL
Farebox Recovery	$20.1 million
Naming Gift/Private Sinking Fund	$10.0 million
State of Michigan Commitments Allocable to Operations or to Supplant Flexible Capital Funds to be Used for Operating	$15.0 million
General Advertising Revenue	$4.0 million
Stakeholder Consortium Towards Core Operations (under development)	$6.3 million
Stakeholder Consortium and Other Philanthropic Support Toward M-1 Administrative Costs and Lease Payments (under development)	$4.3 million
TOTAL	**$59.7 million**

A. USES OF FUNDS

M-1 RAIL has marginally adjusted its O&M costs based on further review of, and corrections to, the April 2012 Business Plan. Each of these changes is discussed below and the resulting cost reductions as compared to the Business Plan are summarized in Table 2.

- **STREETCAR OPERATIONS CONTRACT**

- The $55.4 million ten-year cost for the streetcar operations contract reflects two changes from the FTA-validated number in M-1 RAIL's Business Plan. M-1 RAIL has removed one railcar from Year 1 – Year 3 operations and will phase in the additional railcar as ridership builds. This saves O&M costs in the first three years of operations and reduces the budget accordingly. Operating costs then increase in 2018 to reflect the addition of the final railcar. The updated budget also more accurately reflects annual escalation as the Business Plan included significant rounding, overstating the escalation. The updated budget includes the same 2% escalation rate but uses exact calculations of that factor. These changes together result in a savings of $2.6 million over ten years versus the Business Plan.

- **ANCILLARY ADMINISTRATIVE COSTS**

- M-1 RAIL has refined its understanding of the administrative functions that it will carry out directly through the 501(c)(3) organization versus those included within the core O&M budget and carried out by the private contractor under the Delegated Management Contract. The O&M

budget includes an administrative overhead rate of 20% of system operation costs covering seven management and support staff (in addition to the 35 operational staff). Under the Delegated Management contract, the General Manager and administrative staff will be responsible for all aspects of the transit system's management and administration including operations, marketing, finance, insurance, human resources and FTA grant administration.

- M-1 RAIL's ancillary administrative costs will therefore be limited to (1) a full-time Chief Administrative/Finance Officer (CAO) [with first-full-year estimated salary and benefits of $160,000] who has responsibility for private sector grant reporting and administration and management of the private operations contract; and (2) a part-time Executive Director [with first-full-year estimated salary and benefits of $90,000] who has responsibility for stakeholder/donor relations and support for the activities of the Board of Directors. M-1 RAIL will contract for financial audits and biennial, expert audits of the private contractor's operational performance [with estimated contract and other discretionary costs of $100,000 annually]. Additional support staff and associated office space requirements will continue to be provided on an in-kind basis.

- In the refined budget, M-1 RAIL administrative costs escalate with inflation but peak in 2019 as the NMTC compliance requirements expire and as private sector/philanthropic grant pay-outs and reporting obligations rapidly wind down. By contrast, the Business Plan escalated Administrative Costs on a straight line basis. The aggregate result of these changes is to reduce the cash outlays for ancillary administrative expenses to $2.8 million over ten years, a $3.8 million adjustment versus the Business Plan.

TABLE 2: SUMMARY OF REFINEMENTS TO BUSINESS PLAN

	Business Plan Costs	Updated Costs	10-Year Difference
Operations Contract	$58 million	$55.4 million	$2.6 million
Administrative Costs	$6.6 million	$2.8 million	$3.8 million
TOTAL	$66.1 million	$59.7 million	$6.4 million

B. SOURCES OF FUNDS

- **FAREBOX RECOVERY**

At FTA's direction, M-1 RAIL has lowered its farebox recovery rate in the first year of operations to 33% of total operating costs or $1.7 million. This figure aligns more accurately with the recovery rate for light rail and streetcar systems nationally and provides a conservative foundation for the operating plan. M-1 RAIL slowly escalates the recovery rate over ten years to reach 37.5% by 2020 to reflect M-1 RAIL's intent to include performance clauses in the private operations contract to drive incrementally greater farebox recovery over time.

- **PRIVATE SINKING FUND**

- M-1 RAIL has secured a naming gift and private/philanthropic commitments for a sinking fund that will provide $1 million annually over 10 years. Letters evidencing these commitments were included in M-1 RAIL's report submitted on April 20, 2012.

- **STATE OF MICHIGAN COMMITMENTS**

- The Michigan Economic Development Corporation (MEDC) has committed to providing $5 million in total funding over 7 years for support of the O&M budget. In addition, the Michigan Department of Transportation (MDOT) has documented its intent to commit $10 million in Federal Highway Administration funding (Transportation Enhancement/Alternative program, Congestion Mitigation and Air Quality Improvement (CMAQ) program) to the project. Letters evidencing these commitments are included in Appendix I. This commitment of capital funding from MDOT will free M-1 RAIL investor funds previously carried in the capital budget to be repurposed for operating expenses.

- **GENERAL ADVERTISING REVENUE**

- M-1 RAIL's operating plan calls for a flat $400,000 in general advertising revenue (station-based advertising, internal and external advertising on the rail cars). This is a reduction from the $500,000 figure (escalated over time) in M-1 RAIL's April 2012 Business Plan. , and reflects all advertising revenues above those generated by naming rights and the MEDC commitment.

- While MEDC funding will be provided over seven years, it can be used to buy advertising over 10 years or potentially longer. In addition, MEDC's commitment provides value to the State of Michigan and its economic development agency through other means than direct advertising simply by supporting this critical economic development project. As such, annual MEDC advertising will leave ample space for other advertising on the railcars, in the railcars, on the project website, on printed schedules and materials, and on certain stations.

- **STAKEHOLDER CONSORTIUM TOWARDS CORE OPERATIONS**

- M-1 RAIL is working to establish a consortium of at least 12 and as many as 25 corridor stakeholders that have not yet been asked for commitments to the project. These include major educational institutions with a presence in the corridor; local and regional business partnership organizations; a tourism and visitor organization; community foundations; professional sports teams; and several financial institutions with a presence in Detroit. Many of these groups have been strong advocates for this project and have a vested interest in the future growth and success of the Woodward Corridor.

- We have not yet sought formal commitments from this group, having instead focused on securing sponsors at the $1 to 3 million level. With what we believe to be successful mitigation of the risks identified in the Secretary's June 19th letter, M-1 RAIL, in cooperation with the Downtown Development Partnership, will convene the stakeholder group to secure the remaining gap dollars needed to augment farebox revenues per the revised operating plan.

- M-1 RAIL estimates that modest annual grants from these stakeholders, each in the $50,000 to $150,000 range, would contribute an aggregated sum of $13 million over 10 years. In that light, it is very reasonable to assume that they will have the capacity to cover the current gap for streetcar operations of $6.3 million over the ten-year period. The fundraising plan for the stakeholder consortium is included in Appendix I.

- **Stakeholder Consortium and Other Philanthropic Support Toward Ancillary Administrative Costs and Lease Payments**

- This relatively modest additional amount (totaling $4.3 million over 10 years excluding in-kind contributions) will be raised from sources that include the stakeholder consortium, philanthropic support from current and additional donors, new businesses drawn to the district through transit-oriented development, and other sources. It is important to underscore that a substantial portion of M-1 RAIL's administrative costs are to meet corporate/philanthropic grant management and reporting requirements, and thus M-1 RAIL is confident the corporate/philanthropic community will ultimately ensure this need is met.

- **Appendix I contains:**

    - New Commitment Letters from the Michigan Department of Transportation and Michigan Economic Development Corporation

    - Ten-Year Operating Cash Flow

    - Stakeholder Consortium Fundraising Plan

2. Establishment of a Capital Reserve or Some Other Mechanism to Ensure that Sufficient Capital Funds Will be Available

At each stage in the process, M-1 RAIL has demonstrated its capacity to raise significant additional funds for capital and operating costs – and has been able to do so even in the face of ongoing uncertainty about the project. In this current review period, M-1 RAIL has continued to raise funds (including the $15 million in aforementioned State funding) and build new capital donor prospects totaling $15.5 million. At the same time, M-1 RAIL has developed additional reserve strategies to meet unexpected capital needs.

Table 4: Capital Financial Plan
Capital Budget = $137 million

Source	Amount
Committed and Assumed Base of Support as of Today (includes $25 million in TIGER I funds and $16 million from New Markets Tax Credits)	$131.5 million
Identified New Capital Prospects	$15.5 million
TOTAL	**$147.0 million**

- **Existing and Assumed Commitments**

- At the conclusion of the initial review period, M-1 RAIL had secured $90.1 million in capital commitments - including $37.5 in new capital commitments raised during that review period (and more recent commitments totaling $350,000 from the Bank of America and Ford Motor

Company). Along with $25 million in federal grant funds and $16 million through New Markets Tax Credits, this brings our capital sources to $131.5 million against the $137 million capital budget.

- **ANTICIPATED NEW CAPITAL COMMITMENTS REALIZED FROM IDENTIFIED PROSPECTS**

- M-1 RAIL has identified donor prospects with a total potential for an additional $15.5 million. We are confident that we will secure at least $8.5 million from this pool because many of these requests have been tested with the prospects and two seven-figure gifts are already under formal consideration. The difference between this target and our currently projected capital cost provides a built-in $3 million capital reserve. Commitments above this assumption would increase this reserve..

- **ADDITIONAL RESERVE STRATEGIES**

- M-1 RAIL has identified strategies to establish at least $10 million in additional capital capacity on top of the contingency included in the baseline cost estimate and the built-in capital reserve identified above.

    - Raise additional and/or contingent commitments from current and prospective funders. M-1 RAIL believes the identified prospects are not exhaustive and others will emerge providing additional capital reserve capacity. Some current funders might also consider an incremental increase to their commitments if vital to the project.

    - Increase M-1 RAIL's goal for New Markets Tax Credits in the 2013 round to raise additional capital.

    - Removal of a railcar from the capital budget will marginally reduce operating frequency but will save $4.7 million in capital costs as well as $300,000 in annual operating costs in years 4 – 10 of project operations, for a total savings of $6.5 million.

- **FINAL PROJECT SAFEGUARD**

- As reflected in our efforts over the past five years, M-1 RAIL is unfaltering in its commitment to build this project and has continued at every juncture to raise additional funds and address challenges as they have arisen. As a final project safeguard, M-1 RAIL will not draw down upon the TIGER grant, nor proceed to build the project, until it has received final construction bids and confirmed that it has the resources to complete the project.

- **APPENDIX II CONTAINS:**

    - Capital Budget

    - Capital Fundraising Plan

    - New Commitment Letter from Bank of America

3. Execution of An Agreement Outlining the Roles and Responsibilities of the Project Partners

The M-1 RAIL project involves a complex project delivery structure due to the number of parties involved and various legal, policy and organizational constraints and requirements. M-1 RAIL is therefore grateful that FTA has called for the creation of a Responsibility Assignment Matrix to clarify roles and responsibilities. The Responsibility Assignment Matrix for the M-1 RAIL project is included as Appendix III and is signed by representatives of M-1 RAIL, the State of Michigan, the City of Detroit, and SEMCOG.

The Responsibility Assignment Matrix is organized around a five-part task framework which reflects the ongoing Federal Environmental Assessment and the four contract packages described in M-1 Rail's April 20 Business Plan:

- Environmental (NEPA)
- Mainline Road and Track
- Vehicle Maintenance Facility
- Vehicles
- Operating and Maintenance

Within each of the above tasks, four distinct roles are identified and assigned to each participant. The roles range from "Responsible" and "Accountable" to "Consulted" and "Informed."

"Responsible" identifies the party/parties performing the work. "Accountable" identifies the party/parties who are legally accountable for the correct and through completion of the work. "Consulted" refers to a two-way interaction among the parties in making a decision relative to a particular task. "Informed" is a one way flow of information. In assigning these functions, this matrix provides a clear and agreed-upon delineation of the respective roles and responsibilities of the project partners.

4. Assuring that SEMCOG Has the Legal Capacity to Perform the Functions in M-1 RAIL's Business Plan

M-1 RAIL understands that the source of Federal funding for the streetcar project is a re-programmed TIGER I grant originally obligated jointly to the City of Detroit and MDOT on December 29, 2010. M-1 RAIL further understands that both the City and MDOT possess the legal authority and capacity to serve all functions related to the administration of the Federal grant award. It is assumed SEMCOG will serve as the grant sub-recipient to the City/MDOT, and that upon confirmation from Secretary LaHood of the availability of the TIGER I grant for the M-1 RAIL project, SEMCOG will enter into an agreement with the City/MDOT to cooperatively carry our Federal grant requirements.

According to FTA, the use of the TIGER I grant, instead of the award of a TIGER IV grant as originally applied for by SEMCOG on behalf of M-1 RAIL, provides for an opportunity to revise – and possibly significantly simplify – the structure of the New Market Tax Credit finance scheme

previously developed for the project. It is anticipated that this revision, along with SEMCOG's subordinate grants management role to the City of Detroit/MDOT, will eliminate FTA's legal concerns with SEMCOG's role in the delivery of the project, as presented in the April 20 M-1 RAIL business plan. FTA has expressed optimism that there exists one or more successful paths forward, and M-1 RAIL continues to work cooperatively with FTA, the City of Detroit, MDOT and SEMCOG to establish a sound grants management and project financing strategy which ensures transparency, accountability, and efficiency in the delivery of the project.

5. CONSIDERABLE PROGRESS ON THE AUTHORIZATION OF A REGIONAL TRANSIT AUTHORITY

For many months M-1 RAIL has been working with representatives from the Snyder Administration to advance this project as well as the Regional Transit Authority (RTA) legislation. We provided technical and other comments on the main legislative bill (Senate Bill 909), and a number of them were included in Senate Bill 909, as introduced. We have since worked with the Administration and key state legislators in support of the RTA.

- **OVERALL ADVOCACY FOR THE RTA**

- Our team has discussed the importance of the RTA legislation with numerous state legislators including the legislative leadership in the House and Senate.

- We have organized a consortium of representatives from key stakeholders (M-1 RAIL and our business community supporters, Detroit Chamber of Commerce, Michigan Municipal League, City of Detroit, Macomb County, Michigan Infrastructure and Transportation Association and others) and are leading the effort to have specific stakeholders engage a number of targeted lawmakers. We will continue to spearhead this effort to bring strong and widespread community and business support to bear on the RTA legislation.

- Our team has participated in public events in support of the RTA, including a recent event convened by Congressman Gary Peters, and are working to continue a public advocacy campaign through editorials and similar avenues in coordination with the Congressional Delegation.

- The Senior Leadership of M-1 RAIL is prepared to meet with key legislators in both the Senate and the House, as well as other local government officials, to help ensure passage of the RTA legislation.

- M-1 RAIL and the Kresge Foundation have offered financial support for the Alternatives Analysis process being conducted by SEMCOG with other community organizations to plan the next phase of transit on the Woodward Corridor from Grand Boulevard to Pontiac.

- We are working with legislators and local leaders to ensure that the RTA legislation, when enacted, will include provisions contemplating the acceptance by the RTA of a future donation of the M-1 RAIL project.

- **ADVOCACY IN THE STATE SENATE**

- M-1 RAIL worked with Senate Majority Leader Randy Richardville and Senate Minority Leader Whitmer to submit a letter to you expressing their support for the M-1 RAIL project and commitment to moving the RTA legislation.

- We have directly engaged all members of the Senate Transportation Committee (Sen. Casperson, Sen. Kowall, Sen. Brandenburg, Sen. Pavlov, Sen. Gleason and Sen. Hood) on the importance of enacting the RTA legislation

- We have directly engaged additional key Senators (Sen. Rocca, Sen. Pappageorge, Sen. Colbeck, Sen. Hildenbrand, Sen. Proos, Sen. Booher, Sen. Walker, Sen. Nofs, Sen. Hood, Sen. Coleman Young, Sen. Marleau, Sen. Jansen, Sen. Moolenaar and Sen. Bert Johnson) in support of the RTA legislation.

- We are currently coordinating efforts with Senator Richardville in working with key undecided Senators to express the critical importance of the RTA legislation to economic development and competitiveness in Southeast Michigan, as well as to the success of the M-1 RAIL project.

- At the request of the Senate Majority Leader, M-1 RAIL's Senior Leadership is planning to present on the M-1 RAIL project and the RTA to the Senate Republican Caucus.

- **ADVOCACY IN THE STATE HOUSE**

- We have begun discussions with the Speaker of the House and have gained the support of Minority Leader Hammel.

- We have had preliminary discussions with Rep. Opsommer, Chair of the House Transportation Committee.

- We have directly engaged key representatives (Rep. Wayne Schmidt, Rep. Townsend, Rep. Kandrevas, Rep. Barnett, Rep. Olsen, Rep. Ananich, Rep. Jacobsen, Rep. Foster, Rep. Moss, and Rep. Ouimet) on the importance of the RTA legislation to the region's economy and to the success of the M-1 RAIL project.

- Principals of M-1 RAIL and other leaders of the business community will provide testimony in support of the RTA legislation at any hearings conducted by the House Transportation Committee.

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Mr. Secretary, we thank you again for your leadership and the efforts of the FTA throughout this process. We are confident that the strategies outlined in this document will successfully mitigate the issues you raised in your June 19th letter. We are eager to move forward with you and all of our partners to deliver this project and bring the benefits of new economic development and enhanced mobility to the citizens of Detroit and our entire region.

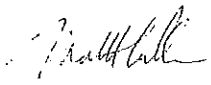
Sincere Regards,



Roger Penske
Chairman
M-1 RAIL



Dan Gilbert
Vice Chairman
M-1 RAIL



Matt Cullen
President and CEO
M-1 RAIL



Rip Rapson
President &CEO
The Kresge Foundation

Cc: Governor Rick Snyder
Mayor Dave Bing
Mr. Paul Tait

APPENDIX I

RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

KIRK T. STEUDLE
DIRECTOR

August 29, 2012

Mr. Roger S. Penske, Chairman
M-1 Rail
600 Renaissance Center, Suite 1740
Detroit, Michigan 48243

Dear Mr. Penske:

The Michigan Department of Transportation (MDOT) continues to support the Woodward Avenue streetcar project. We have been working closely with the M-1 Investor Group to develop strategies to move the project forward as outlined by Secretary LaHood's letter dated June 19, 2012. Subsequently, additional funding sources have been identified and the project delivery has been further defined. This letter summarizes the funding resources and project delivery definition to date.

MDOT is committed to providing $20 million of highway funds for reconstructing 2.87 miles of Woodward Avenue from Sibley northerly to Chandler. It is currently programmed for FY 2014, and can be moved up to FY 2013. This work includes roadway reconstruction, storm sewer replacement, utility alterations, traffic signal modernization, signing, pavement markings, and construction oversight.

The department has identified other funding sources for components of the streetcar project, including Transportation Enhancement (TE) and Congestion Mitigation/Air Quality (CMAQ). We will work with the M-1 Investor Group to ensure that these component projects meet program requirements in order to be competitive for the grant funding. It is anticipated that $5 million of TE funding will be available for eligible items of the streetcar project in FY 2013. However, the eligibility of the project items is contingent upon Federal Highway Administration approval. As you may be aware, $1.3 million of the federal funds is conditionally committed to Midtown Detroit, Inc. for a streetscape project on Woodward Avenue from I-94 to Euclid.

It is anticipated that a total of $5 million of CMAQ funding will be available for the streetcar project in the form of capital, in FY 2013 and 2104, and/or three years of operating assistance in FY 2015 through 2017. The CMAQ funding will be composed of both state and local funds. MDOT will coordinate CMAQ funding for the project with the Southeast Michigan Council of Government, the source of the local funds.

We look forward to working with you as this project advances. Tim Hoeffner, Director, Office of Rail, will continue to be the primary contact for this project. If you have any questions, please contact either me or Mr. Hoeffner at 517-373-6672.

Sincerely,

Kirk T. Steudle
Director

PURE MICHIGAN®

Michael A. Finney
President and CEO

EXECUTIVE COMMITTEE

Doug Rothwell
Chair
Business Leaders for Michigan

Jeff Noel
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Anmar Sarafa
Steward Capital Management

Marilyn Schlack
Kalamazoo Valley
Community College

David Sowerby
Loomis, Sayles & Company

Dayne Walling
City of Flint

August 30, 2012

Mr. Roger Penske
Chairman
M-1 RAIL
600 Renaissance Center
Suite 1740
Detroit, Michigan 48243

Dear Mr. Penske:

The Michigan Economic Development Corporation (MEDC) has identified an amount not to exceed $5 million dollars to support the marketing and promotional activities of M-1 Rail. The funding would be available in annual installments not to exceed $715,000 per year for 7 years, subject to: (i) annual budget approval by the MEDC Executive Committee; (ii) a detailed advertising plan agreed to between the MEDC and M-1 RAIL; and (iii) the terms and conditions of the final agreement.

In addition to the conditions noted above, prior to disbursement of any funds, the following milestones must be completed:

1. Clearance of the current review by the following three agencies: i) U.S. Department of Transportation; ii) the State of Michigan; and iii) the City of Detroit;
2. Demonstration of success in securing a $25 million federal grant for the project;
3. Demonstration of project costs which are known and based on advanced design;
4. Demonstration M-1 Rail has secured sufficient funding to build, operate and maintain an optimal streetcar system, as conveyed by binding, written commitments from external financing sources; and
5. Formal decision by the M-1 Rail Board of Directors to move forward with construction.

We look forward to seeing the M-1 RAIL line contribute to economic and community development opportunities within the City of Detroit.

Sincerely,

Michael A. Finney
President & CEO

OPERATING SOURCE AND USE OF FUNDS
DRAFT
14-Sep-12

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	TOTAL
Source of Funds											
Fare Revenue (note 1)	792,000	1,700,000	1,839,000	2,055,000	2,154,000	2,227,000	2,271,000	2,317,000	2,363,000	2,410,000	20,128,000
DDA - redirected from capital by state funds	900,000	900,000	900,000	900,000	900,000	900,000	900,000				6,300,000
DMC - redirected from capital by state funds		300,000	300,000	300,000	300,000	300,000	300,000				1,800,000
Compuware - redirected from capital by state funds	100,000	300,000	300,000	300,000	300,000	300,000	300,000				1,900,000
Penske - operations	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	2,000,000
Quicken Loans - naming	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	5,000,000
Kresge - operations (s/f)	1,500,000	1,500,000									3,000,000
MEDC Pure Michigan Promotion/Sponsorship	715,000	715,000	715,000	715,000	715,000	715,000	710,000				5,000,000
General Advertising	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	4,000,000
Stakeholder Consortium toward Core Streetcar Ops.	500,000	550,000	550,000	600,000	600,000	650,000	650,000	700,000	700,000	750,000	**6,250,000**
Projected Core Operating Funds	**5,607,000**	**7,065,000**	**5,704,000**	**5,970,000**	**6,069,000**	**6,192,000**	**6,231,000**	**4,117,000**	**4,163,000**	**4,260,000**	**55,378,000**
Philan. contributions for Admin/Lease Payments	530,000	530,000	530,000	530,000	530,000	330,000	330,000	330,000	330,000	330,000	**4,300,000**
TOTAL - Source of Funds	**6,137,000**	**7,595,000**	**6,234,000**	**6,500,000**	**6,599,000**	**6,522,000**	**6,561,000**	**4,447,000**	**4,493,000**	**4,590,000**	**59,678,000**
Use of Funds											
Streetcar Operations Contract	2,400,000	5,250,000	5,253,000	5,708,000	5,822,000	5,959,000	6,057,000	6,178,000	6,302,000	6,428,000	55,357,000
Administrative Expense and Lease Payments											
M1 Rail Administrative Expense (note 2)	350,000	357,000	364,000	371,000	379,000	185,000	190,000	195,000	203,000	206,000	2,800,000
Net Cost of Lease Payments to M2 (re NMTCs)	300,000	300,000	300,000	300,000	300,000						1,500,000
Net Funds Used in Year	**3,050,000**	**5,907,000**	**5,917,000**	**6,379,000**	**6,501,000**	**6,144,000**	**6,247,000**	**6,373,000**	**6,505,000**	**6,634,000**	**59,657,000**
EOY Cash Balance (Deficit)	3,087,000	1,688,000	317,000	121,000	98,000	378,000	314,000	-1,926,000	-2,012,000	-2,044,000	
Cumulative Cash Balance	3,087,000	4,775,000	5,092,000	5,213,000	5,311,000	5,689,000	6,003,000	4,077,000	2,065,000	21,000	**21,000**

Note 1: Fare Revenue = 33% of Streetcar Operations in 2015-16; 35% in 2017; 36% in 2018; 37% in 2019; and 37.5% in 2020-24; this represents a reduction from 50% projected in April 20, 2012 Business Plan
Note 2: Admin. Expense = supplemental staffing for nonprofit management, private sector grant reporting and public engagement; supplemented by in-kind and offset by other philanthropic support in future years

M-1 RAIL PROSPECT LIST - OPERATING/STAKEHOLDER CONSORTIUM		
14-Sep-12		
OPERATIONS/STAKEHOLDER CONSORTIUM		
Purpose: Operations 2015-2024 - payments can be paid over 10 years from 2015 to 2024		
State University	$1,000,000	Conversations initiated
State University	$1,000,000	Conversations initiated
Local foundation	$500,000	Conversations initiated
5-10 leading Detroit banks (total) (Not JPM or BOA)	$1,500,000	Not yet approached
National foundation	$1,000,000	General discussions - more to come after FTA clearance
Civic organization	$1,250,000	Invite to convening meeting
Civic organization	$1,250,000	Invite to convening meeting
Civic organization	$1,000,000	Agreed to sponsor convening meeting
Civic organization	$1,000,000	Invite to convening meeting
Private university	$1,000,000	Invite to convening meeting
Private college	$1,000,000	Invite to convening meeting
Major sports team	$750,000	Invite to convening meeting
5-10 property developers	$750,000	Invite to convening meeting
	$13,000,000	

APPENDIX II

CAPITAL SOURCE AND USE OF FUNDS
DRAFT
AUGUST 29, 2012

	2009-2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Sources of Funds	**Received**											
Kresge	2,100,000											2,100,000
Kresge Total	16,000,000	1,500,000	5,500,000	5,500,000	4,000,000	3,500,000						36,000,000
	18,100,000	1,500,000	5,500,000	5,500,000	4,000,000	3,500,000	-	-				38,100,000
DDA		900,000	900,000	900,000								2,700,000
Federal Transportation Grant			25,000,000									25,000,000
State of MI Grants			5,000,000	5,000,000								10,000,000
Compuware		300,000	300,000	300,000	200,000							1,100,000
Detroit Medical Center		300,000	300,000	300,000	300,000							1,200,000
Henry Ford Health Sys.		500,000	500,000	500,000	500,000	500,000	500,000					3,000,000
Ilitch Holdings			1,200,000	1,200,000	1,200,000	1,200,000	1,200,000					6,000,000
Quicken Loans	1,000,000	400,000	400,000	400,000	400,000	400,000						3,000,000
Penske	1,000,000	400,000	400,000	400,000	400,000	400,000						3,000,000
Wayne State Univ.		500,000	500,000	500,000	500,000	500,000	500,000					3,000,000
Ford Foundation				1,000,000	1,000,000	1,000,000						3,000,000
Kellogg Foundation			1,000,000	1,000,000	1,000,000							3,000,000
Blue Cross Blue Shield		500,000	500,000	500,000	500,000	500,000	500,000					3,000,000
Wayne County		3,000,000										1,000,000
Hudson Webber Foundation		200,000	200,000	200,000	200,000	200,000						3,000,000
Chevrolet Division of GM		600,000	600,000	600,000	600,000	600,000						3,000,000
Chrysler		500,000	500,000	500,000	500,000	500,000	500,000					250,000
Bank of America		250,000										100,000
Ford Motor Company Fund		100,000										5,550,000
Additional donors			1,550,000	1,000,000	1,000,000	1,000,000	1,000,000					
Subtotal before NMTCs	20,100,000	9,950,000	44,350,000	19,800,000	12,300,000	10,300,000	4,200,000	-	-	-	-	121,000,000
NMTC Proceeds			16,000,000									16,000,000
Total Project Revenue	**20,100,000**	**9,950,000**	**60,350,000**	**19,800,000**	**12,300,000**	**10,300,000**	**4,200,000**	-	-	-	-	**137,000,000**
Uses of Funds												
Package 1 - Vehicles		339,733	3,431,047	33,245,633	105,920							37,122,333
Package 2 - VSMF and Stations		152,826	14,644,133	1,452,102	47,647							16,296,708
Package 3 - Site, Track, MDOT Road & Bridges, OCS		1,370,083	36,368,665	19,557,925	166,826							57,463,499
Professional Services	3,800,000	4,362,919	8,429,675	4,897,639	797,739							22,287,972
Contingency		529,604										529,604
Finance Charges				1,051,391	772,923	480,209	172,518					2,477,041
Project Startup					822,843							822,843
Total Project Expenses	**3,800,000**	**6,755,165**	**62,873,520**	**60,204,690**	**2,713,898**	**480,209**	**172,518**	-	-	-	-	**137,000,000**
EOY Amount Available for Capital and Operations	**16,300,000**	**3,194,835**	**(2,523,520)**	**(40,404,690)**	**9,586,102**	**9,819,791**	**4,027,482**	-	-	-	-	-
Cumulative Cash Flow Available Before Financing	**16,300,000**	**19,494,835**	**16,971,315**	**(23,433,375)**	**(13,847,273)**	**(4,027,482)**	-	-	-	-	-	
Financing												
Loan I Proceeds				23,433,375								23,433,375
Loan I Principal Repayment					0	9,586,102	9,819,791	4,027,482				23,433,375
Principal Balance	-	-	-	**23,433,375**	**13,847,273**	**4,027,482**	-	-	-	-	-	0

Notes/Assumptions

1. $16M of equity from NMTCs in 2013.
2. No financing required for NMTCs.
3. Loan for capital expenses is 4 year terms at 5% interest.
4. M1 administrative expense included in Professional Services for approximately $500,000 per year.

M-1 RAIL REMAINING PROSPECT LIST - CAPITAL			
4-Sep-12			
LIST OF PROSPECTS TO CLOSE GAP & RESERVE	**Request Amount**	**Purpose**	**Status of Request**
Major automotive corporation	$3,000,000	Capital	Held two meetings and follow up call placed; encouraged to submit proposal for FY 2013
Multi-national bank with large Detroit presence	$2,000,000	Capital	Request submitted 8-11-2012; decision expected third week of September
Bank of America (additional years)	$1,000,000	Capital	LETTER SECURED outlining $250k this year + apply in future years for a like amount
Additional grant from current foundation donor	$1,000,000	Capital	Foundation staff working on new commitment letter
Additional grant from current foundation donor	$1,000,000	Capital	M-1 to reach out to foundation program officer who offered to consider
US EDA	$2,000,000	Capital	Multiple conversations; identifying right purpose and optimal timing for application
Utility company	$2,000,000	Capital	Initiated discussions in August; submit proposal
Economic Development collaborative	$1,000,000	Capital	Foundation members to approach
Local environmental foundation	$1,000,000	Capital	Initial discussions positive to request $1m
Large local foundation	$500,000	Reserve only	Will consider reserve commitment
Large new local foundation	$1,000,000	Capital	Not yet approached
	$15,500,000		

10 August 2012

Bank of America

Mr. Matthew P. Cullen
President and CEO
M-1 Rail
600 Renaissance Center, Suite 1740
Detroit, MI 48243

Dear Matt,

This letter will confirm Bank of America's intent to contribute $250,000 to the M-1 Rail streetcar circulator project in Detroit's Woodward Corridor. We are pleased to join other leading companies, institutions and philanthropic organizations that are responding to Detroit's challenges with innovative approaches. This level of extraordinary support conveys our strong belief that M-1 Rail will strengthen the density and vibrancy of our city's most dynamic corridor and be a first step in solving the region's longstanding transit challenges. We are deeply committed to the revitalization of Detroit and efforts to change its trajectory from decline to vibrancy for current and future residents.

Our support will be conditioned on the project advancing through the following four milestones:

1. Clearance of the current phase of review by three agencies: U.S. Department of Transportation, State of Michigan, City of Detroit.
2. Demonstration that project costs are known and based on advanced design.
3. Demonstration that M-1 Rail has secured sufficient funding to build, operate and maintain an optimal streetcar system, as conveyed by binding, written commitments from external financing sources.
4. Formal decision by the M-1 Rail Board of Directors to move forward with construction.

At the end of this process, Bank of America will provide $250,000 in 2012 toward the planning and construction of this streetcar circulator. As indicated verbally, we remain open to considering similar requests for support of this initiative in future years but we do not make multi-year commitments as our grant dollars are determined on an annual basis.

Please consider me to be our company's key contact person for this project. And please accept our very best wishes to you and the entire M-1 team for a successful project.

Sincerely,

Tiffany S. Douglas
Senior Vice President, Market Manager
Bank of America

Cc: Brett Bernard
Anna Cowenhoven

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