MEETING MINUTES

EMPIRE STATION COMPLEX
COMMUNITY ADVISORY COMMITTEE WORKING GROUP

DATE/TIME:	**May 25, 2021 / 4:00pm EST**	SUBJECT:	**Funding & Financing Options**
WEEK #:	**5**	MEETING LEADER:	**Ernst & Young Infrastructure Advisors, LLC and ESD**

The following minutes prepared by Empire State Development (ESD) are a summary of the meeting and are intended to capture only the main points made in the meeting. Discrepancies should be reported to Gabriella Green at ESD ***within three (3) calendar days*** *of distribution of this document.*

PARTICIPANTS:

NAME	ORGANIZATION / AGENCY	NAME	ORGANIZATION / AGENCY
Shelby Garner	U.S. Congresswoman Carolyn Maloney	Clayton Smith	Community Board 5
Betsy Schmid	U.S. Congresswoman Carolyn Maloney	Julia Campanelli	Hell's Kitchen Block Association
Maia Berlow	NYS Senator Brad Hoylman	Eugene Sinigalliano	Resident Representative
Jacob Priley	NYS Senator Brad Hoylman	Basha Gerhards	Real Estate Board of New York
Dario Quinsac	NYS Senator Robert Jackson	Jessica Walker	Manhattan Chamber of Commerce
Phil Marius	NYS Assemblyman Richard Gottfried	Dan Biederman	34th Street Partnership
Wendi Paster	NYS Assemblyman Richard Gottfried	Dan Pisark	34th Street Partnership
Matt Tighe	NYS Assemblyman Richard Gottfried	Tom Wright	Regional Plan Association
Lizette Chaparro	Manhattan Borough President's Office	Wendy Hilliard	Women's Sports Foundation
Matthew Washington	Manhattan Borough President's Office	Liam Blank	Tri-State Transportation Campaign
Laurie Hardjowirogo	NYC Councilman Corey Johnson	Felicia Park-Rogers	Tri-State Transportation Campaign
Andrew Lassiter	NYC Council	Renae Reynolds	Tri-State Transportation Campaign
Raju Mann	NYC Council	Louis Bailey	WE ACT for Environmental Justice
Kevin Finnegan	Labor lawyer, formerly 1199	Tokumbo Shobowale	New School
Denis Johnston	32BJ	Marilyn Taylor	University of Pennsylvania
Marrissa Williams	32BJ	Larry Lennon	MTA
		Peter Matusewitch	MTA
Santos Rodriguez	Building & Construction Trades Council of NY	Robert Paley	MTA
Brook Jackson	Partnership for New York City	William Schwartz	MTA
Elizabeth Goldstein	The Municipal Art Society of NY	Petra Messick	Amtrak
Christine Berthet	Community Board 4	Ryan Morson	Amtrak
Paul Devlin	Community Board 4	Sharon Tepper	Amtrak
Jeffrey LeFrancois	Community Board 4	Jennifer Sta. Ines	NYC DOT
Lowell Kern	Community Board 4	Edith Hsu-Chen	NYC Department of Planning
Vikki Barbero	Community Board 5	Josh Kraus	NYCEDC
Layla Law-Gisiko	Community Board 5	Jeremy Colangelo-Bryan	NJ Transit
EJ Kalafarski	Community Board 5	Joseph Quinty	NJ Transit

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NAME	ORGANIZATION / AGENCY	NAME	ORGANIZATION / AGENCY
Tom Rousakis	Ernst & Young		
Matthew Tester	Ernst & Young		
Toby Snyder	FX Collaborative		
Terence Cho	ESD		
Anabel Frias	ESD		
Matthew Gorton	ESD		
Gabriella Green	ESD		
Holly Leicht	ESD		
Phil Maguire	ESD		
Marion Phillips	ESD		
Angel Santana	ESD		
Rachel Shatz	ESD		
Noura von Briesen	ESD		

Location: Zoom

Item # **Description / Discussion**

1. **INTRODUCTION AND HOUSEKEEPING MATTERS**
   - Marion Phillips, Senior VP of Community Relations at ESD, reminded all attendees to list their full name and affiliation in the Zoom Participant List.
   - Marion reminded CACWG members dialing in by phone to alert Angel Santana, Assistant VP of Community Relations at ESD, in order to be admitted to the meeting. In addition, CACWG members who are inviting staff members from their organizations for the first time should also alert Angel.
   - Marion advised the CACWG that any members who are having difficulty logging into Huddle should contact Angel Santana for further assistance. All CACWG members are encouraged to review and download the materials posted to Huddle for a summary of the discussions during the CACWG meetings, copies of the presentations, and follow-up materials.
   - Marion requested that CACWG members ask their questions verbally rather than in the Zoom Chat window so nothing gets missed.
   - Gabriella Green, CACWG Facilitator, informed the CACWG that ESD and the Steering Committee are modifying the remaining CACWG meeting schedules and adjusting the order of some topics. An updated schedule will be posted to Huddle.
   - Gabriella also informed CACWG members that ESD posted the Meeting Minutes for CACWG #4 (Through-Running and Penn Expansion) to Huddle.

2. **EY PRESENTATION: INTRODUCTION**
   - Tom Rousakis, Senior Managing Director & US Infrastructure Leader at Ernst & Young Infrastructure Advisors, LLC ("EY"), began the presentation by explaining the difference between funding and financing.
     - Financing pays for the cost of a project with money borrowed through a vehicle such as a loan or bond and carries associated borrowing costs such as interest.
     - Funding pays for the cost of a project or repays the financing used for a project with money that is directly obtained from its source with no borrowing involved.
   - The current administration has put a spotlight on infrastructure spending, notably through the American Jobs Plan. While there are expected to be opportunities in the American Jobs Plan for funding for Empire Station, many details are still unknown. Because of this uncertainty and indications that these funds will most likely be run through some kind of program structure, EY's presentation will give an

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overview of the federal funding and financing programs currently available and historically used for similar projects.

3. <u>**EY PRESENTATION: COST SHARING MODEL FOR LARGE-SCALE RAIL INFRASTRUCTURE PROJECTS**</u>

- Funding and financing for large-scale rail infrastructure projects generally is done through a combination of federal and local/state contributions usually derived from multiple sources.
- Examples of the federal and local/state split of funding and financing include:
    - **Hudson Tunnel Project (part of Gateway Program ("Gateway"))**
        - The plan to fund and finance the Hudson Tunnel Project proposes a 50% federal share and a 50% local/state share split among New York, New Jersey and The Port Authority of New York and New Jersey ("PANYNJ").
        - Of the federal share, 38.9% of the funding is projected from the Federal Transit Administration's ("FTA") Capital Investment Grant New Starts program, and the remaining 11.2% from Amtrak.
    - **Portal North Bridge (part of Gateway)**
        - An approximately $2 billion project, the Portal North Bridge project will receive 43.3% of its funding from the FTA Capital Investment Grant Core Capacity program, 11.8% from Amtrak, 41.8% from New Jersey, and 3% from other sources.
    - **BART to Silicon Valley II**
        - The BART to Silicon Valley II project will connect the BART train from San Francisco to the regional CalTrain in San Jose, CA. Of the estimated $6-7 billion project cost, only 25% of the funds will come from FTA, and 75% will come from state and local partners.
- ***Historically, the more expensive the project, the lower the federal share since federal funds are limited and must be allocated nationwide.***

4. <u>**EY PRESENTATION: CAPITAL INVESTMENT GRANT PROGRAM OVERVIEW**</u>

- A highly competitive program and subject to annual U.S. Congressional appropriations, there are two main discretionary funding components of the FTA Capital Investment Grant ("CIG") program:
    - **CIG New Starts ("NS")**
        - NS grants go towards projects that are new fixed guideway projects or extensions to existing systems with a total estimated capital cost of at least $300 million or a minimum CIG request of $100 million.
        - By statute, maximum federal share is 60% under NS; ***per actual policy implementation, maximum federal share is <u>50%</u>***.
        - Federal share tends to decrease with an increase in project costs.
    - **CIG Core Capacity ("CC")**
        - CC grants go towards projects that are substantial corridor-based capital investments in existing systems that increase capacity by not less than 10% of an at- or near-capacity corridor.
        - By statute, maximum federal share is 80% under CC; ***per actual policy implementation, maximum federal share is <u>50%</u>***.
        - Like NS, federal share tends to decrease with an increase in project costs.
- Since 2015, there have been more requests for CIG funding than the ~$2.5 billion maximum amount that Congress has been able to annually appropriate for this program.
- From 2018-2020, FTA, under the Trump administration, was not moving many projects and therefore not requesting funding for many new projects (e.g., the Hudson Tunnel Project was not advanced during this time period), which suggests there was more funding available than project demand – but this was an anomaly.

- During a typical budget year, there are over 30 projects receiving funding from the CIG program. When new projects apply for CIG funding, the funds available are only those funds from the annual appropriation not already committed to an existing project – so a fraction of the total appropriation.
- In order to award as many grants as possible to projects across the U.S. in any given year, FTA usually disburses payments annually both during construction and after construction is completed. As a result, many projects receive funding payments from the CIG program after the project is done as reimbursement – requiring the locality/state to front payment through construction.

5. EY PRESENTATION: BIDEN INFRASTRUCTURE PROPOSAL

- The Biden Infrastructure Proposal ("Infrastructure Proposal") proposes $2 trillion total investment spread over eight years for infrastructure and job creation investments.
- Of this amount, $165 billion would be devoted to public transit and passenger and freight railway spending, with an average annual spend of $21 billion nationwide.
  - Most of the public transit funding in the Infrastructure Proposal is formula-funding to be distributed to transit agencies across the U.S. for maintenance and operations of existing transit systems and completion of smaller projects than those eligible for CIG funding. Funding for the CIG program is also part of the public transit funding category.
  - The funding for passenger and freight railway in the Infrastructure Proposal will be distributed among Amtrak, high speed rail initiatives, freight projects and other projects for intercity travel.
- The Infrastructure Proposal does not yet specify how much funding would be directed to existing (e.g., CIG) versus new funding programs yet to be created.
- It is expected that an infrastructure bill will be passed by Congress no earlier than fall 2021.

6. EY PRESENTATION: CIG PROGRAM MECHANICS AND TIMING

- The process to obtain CIG funding is highly competitive and long, with final decisions on grant and commitment amounts not made until the start of construction, up to six years after initially applying. Overall, the various stages (shown below) of the CIG application process are designed to vet the costs and risks of a project along the way, evaluate the applicant's readiness to begin the project, and assess the applicant's capacity to deliver and operate the project before any funds are released.
  - **Project Definition (no timing constraint)**
    - This stage involves a preliminary project definition, review of the Alternatives Evaluations Report conducted as part of the required National Environmental Policy Act ("NEPA") environmental review, and corridor studies.
  - **Project Development (complete within two years)**
    - In this stage, design work by the applicant is advanced, a preferred alternative is selected by the NEPA lead agency, ***initial local funding commitments are secured by the applicant***, and USDOT is engaged for validation of the project.
  - **Final Design & Funding (complete within 3-4 years of start of Project Development stage)**
    - In this stage, the applicant has completed design and engineering requirements, secured NEPA environmental approvals, ***secured all necessary local funding commitments***, and has received approval from DOT for project funding.
  - **Construction (project-dependent timing)**
    - In this stage, the applicant is approved to draw CIG funds in annual amounts determined by FTA.
- Because the CIG application process can take up to six years, it is important to note that all projects require spending well before any CIG funds are committed to the project, which is why local funding commitments are required early on. Before approval to receive CIG funds, a project sponsor will need to spend local dollars for activities such as design work, work to engage with FTA, property or right-of-way acquisitions, and enabling or early works. With Empire Station, such costs amount to billions of dollars.

7. **EY PRESENTATION: FINANCING CONSIDERATIONS**

- When developing a strategy for financing major infrastructure projects, timing and the types of revenues necessary to secure financing for the project need to be considered.
  - **Timing**
    - What federal grant programs would be available for the project, and what is the timing of funding availability and requirements for application?
    - In terms of securing federal and local funding, what are the conditions precedent to financing? (e.g., for ESC, approval of General Project Plan ("GPP"), agreements with funding partners, property acquisition, sequencing of project components, etc.)
    - What are expectations for when funds need to be received vs when funds need to be spent for a project?
  - **Revenue Streams**
    - How do the size, nature and timing of revenue streams and project uses impact ability to borrow against revenue streams, amount that can be borrowed, taxability of bonds, funding agreements, and project delivery strategy?
    - What is the investment quality of the revenue streams?
    - Will the financing require credit enhancement to achieve investment-grade quality?
    - What are precedent structures for credit enhancing similar projects/revenue streams?

8. **EY PRESENTATION: TIMING CONSIDERATIONS**

- Development-related revenues from the Empire Station Complex GPP sites can potentially serve as New York's share toward the Penn projects' capital costs.
- However, the timing differences between project spend and receipt of these revenues is key in bridging the gap between long-term revenue streams and the project costs that need to be incurred prior to those revenues being generated.
- Although some funds may be generated by the GPP projects during the Penn Projects' construction period (projected to be 2022-2028), most of the revenues generated by the GPP project will be available after construction is complete.

9. **EY PRESENTATION: REVENUE PROFILE CONSIDERATIONS**

- Tax revenues related to potential future development carry uncertainty around timing and amount.
- Because an investment-grade rating is necessary to finance a project, credit enhancement mechanisms are usually required to address this uncertainty around future development and achieve investment-grade ratings.
  - Credit enhancement is a form of governmental financial support that will take the rating of debt from a sub-investment-grade rating to an investment-grade rating.
- E.g., financing for the No. 7 subway line extension relies upon Interest Support Payments (i.e., payments to cover the difference between interest owed and revenues generated by the project) from the City of New York (the "City") to bridge the timing gap between project needs and development-related tax revenues in order to make the bonds issued an investment-grade credit.

10. **EY PRESENTATION: FINANCING TOOLS FOR LOCAL CONTRIBUTIONS**

- The following three financing programs are typically used by states and localities to finance large rail infrastructure projects:
  - **Transportation Infrastructure Finance and Innovation Act ("TIFIA")**
    - TIFIA is a federal loan program with favorable interest rates based on 30-year Treasury rates (plus 1 basis point ("bp") statutory margin)
    - Flexible capitalization/amortization terms with the ability to defer payments and lock in an interest rate over the life of the loan; 35-year term beyond project completion
    - TIFIA can finance up to 33% of eligible project costs
    - Federal government subsidizes credit risk

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- Investment-grade rating required
- TIFIA was used for Moynihan Train Hall ("Moynihan") and secured by future Payments In Lieu of Taxes ("PILOT") revenues; was credit enhanced despite having a private developer partner

- **Railroad Rehabilitation and Improvement Financing ("RRIF")**
  - RRIF is a federal loan program with favorable interest rates based on 30-year Treasury rates (plus 1 bp statutory margin)
  - Flexible capitalization/amortization terms and 35-year term beyond project completion
  - RRIF can finance up to 100% of eligible project costs
  - RRIF has a higher cost to borrow than TIFIA, with a credit risk premium ranging between 0% and 5+%, depending on the credit risk of the project
  - Planned to be used for Hudson Tunnel Project
- **Tax-Exempt Bonds**
  - Tax-Exempt bonds enjoy a current flexible low-yield environment, helping to reduce overall financing costs
  - Not subject to cap requirements
  - Term of bonds limited by useful life of projects
  - Tax-exempt bond financing must include public payments or public use
  - Used by City to finance the extension of the No. 7 subway line

11. <u>EY PRESENTATION: CASE STUDIES</u>

- **Moynihan Train Hall**
  - The first step in the development of Empire Station Complex, the $1.6 billion Moynihan Train Hall transportation project reached commercial close in 2017. A unique long-term lease structure was developed which provided the project with both an up-front lease payment by the Related-Vornado development team and a stream of future PILOT payments which ESD used to secure long-term financing.
  - A combination of funding and financing sources were used for Moynihan including:
    - $526 million TIFIA loan
    - $230 million developer up-front payment
    - $475 million contribution from ESD
    - $150 million contribution from PANYNJ
    - $105 million contribution from Amtrak
    - $55 million contribution from MTA
    - PILOT during construction
    - $62 million from Federal Highway Administration programs
  - Despite strong developer and commercial incentives to complete the project, it was necessary to credit enhance the TIFIA loan to get an investment-grade rating.
- **Denver Union Station**
  - Denver Union Station is a multimodal train station development project that included substantial transit-oriented real estate development on a former freight yard. This project was completed at an estimated cost of $481 million and used both TIFIA and RRIF financing.
  - Similar to Moynihan, both funding and financing sources were used for this project including:
    - $155 million RRIF loan (senior lien)
    - $146 million TIFIA loan (subordinate lien)
    - $79 million federal grants
    - $51 million contribution from local Regional Transportation District ("RTD") transit agency funded by a "FasTracks sales and use tax"
    - $29 million from land sales
    - $21 million in state grants

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- The TIFIA and RRIF loans were contingent on credit enhancement provided by local property taxes generated by development in and around the footprint of the project redevelopment site, as well as annual obligations from RTD.

- **Hudson Yards/No. 7 Subway Line Extension**
  - The Hudson Yards/No. 7 subway line extension was 100% locally funded by the City.
  - This project leveraged the growth anticipated in the Hudson Yards District and was able to use $3.1 billion in financing from tax-exempt bonds and bond premium.
  - However, similar to Moynihan and Denver Union Station, the bond financing used for this project needed credit enhancement to appeal to investors. As a result, the City provided Interest Support Payments to cover any interest payment shortfalls not covered by local development-related revenues including PILOT, Tax Equivalency Payments, District Improvement Bonus payments, Transfer of Development Rights payments, and Payments in Lieu of Mortgage Recording Taxes ("PILOMRT").

12. <u>ESD PRESENTATION: EMPIRE STATION COST SHARING SCENARIOS</u>

- Holly Leicht, Executive VP of Real Estate Development & Planning at ESD, introduced the current assumed agreement for the cost sharing of the Penn Station Projects based on the funding agreement reached during the Obama administration for Gateway.
- As mentioned during CACWG #3, the Gateway funding agreement is based on a 50% federal, 25% New York, and 25% New Jersey cost share. The Railroads (Amtrak, MTA and NJ Transit) are assuming that this cost share will apply to the Penn Projects, though all are hopeful that the federal share may be more in light of the infrastructure bill. The Railroads are in close consultation with federal agencies and await guidance from them as to the form and amount of any federal funding.
  - The current estimated project cost for the Hudson River tunnels (Hudson River Tunnel and North River Tunnel), Penn Expansion, and Penn Reconstruction (together the "Railroad Projects") is roughly $30-40 billion. This total project cost includes property acquisition necessary for the Penn Expansion, related relocation of tenants, demolition, and construction of a new service building to support existing Penn Station and the Penn Expansion.
  - Under the 50-25-25 Gateway cost sharing split, the anticipated federal and local funding contributions would be approximately:
    - Federal: $15-20 billion
    - New Jersey: $7.5-10 billion
    - New York: $7.5-10 billion
- Of the two primary FTA CIG programs, NS appears to be the most likely program for which the Railroad Projects would qualify. As mentioned above, NS allows for up to 60% federal share, though in practice the federal share has been a maximum of 50% for past projects in this program.
  - Under a best-case scenario, the funding could be split 60% federal, 20% New Jersey, and 20% New York, so the $30-40 billion total project cost would be divided as follows:
    - Federal: $18-24 billion
    - New Jersey: $6-8 billion
    - New York: $6-8 billion
- Holly reiterated that any revenue generated by the GPP projects would be dedicated to the Railroad Projects and is expected to help fund New York's local share.

13. <u>ESD PRESENTATION: FUNDING TOOLS FROM GPP-RELATED DEVELOPMENT</u>

- To help fund New York's share of the Railroad Projects, the GPP could generate the following sources of revenue:
  - **Land Value Payments ("LVP")**
    - LVPs are upfront and/or periodic payments received through a land sale agreement or a long-term lease agreement with a developer.

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- LVPs would only apply to Sites 1-3, the proposed sites for Penn Expansion, as ESD would most likely own those sites after property acquisition.
- ESD would most likely lease the land for Sites 1-3 and require a single upfront lease payment from the future developer(s) of those sites in order to maximize upfront funds available for the Railroad Projects.

➢ **Additional Development Rights ("ADR") Payments**
- ADR are payments for the additional development rights above the as-of-right density allowed on Sites 4-8. These payments would be made by Vornado Realty Trust ("Vornado") or whatever entity owns or controls Sites 4-8 at the time each site is ready to be constructed.

➢ **PILOT**
- ESD, as a state government agency, is exempt from paying municipal property taxes on property it owns. When ESD enters into long-term leases with private entities, those entities are typically required to make payments equivalent to municipal property taxes, but those payments may be directed for some period of time toward specific projects or uses through a PILOT agreement with the municipality (typical time period is 40 years.)
- The City can also dedicate property taxes toward specific projects through a PILOT structure, as was done to fund the No. 7 subway line extension project.
- ESD has been in consultation with the City to discuss potential PILOT structures for some or all of Sites 1-8 to help finance the Railroad Projects.

➢ **PILOMRT**
- PILOMRT is a one-time payment in lieu of mortgage recording tax paid by a developer at the time of construction. Like PILOT, PILOMRT may be directed toward a specific project.
- Sites 1-8 could generate PILOMRT that may go towards funding the Railroad Projects.

➢ **Payments in Lieu of Sales Taxes (PILOST)**
- PILOST is a one-time payment in lieu of sales and use tax on construction materials for development. Like PILOT, PILOST may be directed toward a specific project.
- Sites 1-8 could generate PILOST that may go towards funding the Railroad Projects.

14. <u>ESD PRESENTATION: EMPIRE STATION COMPLEX TIMING CHALLENGES</u>

- In the current construction phasing schedule, Penn Expansion and Penn Reconstruction are scheduled to be completed in 2028, and the work for the Hudson tunnels ("Hudson Tunnels") is projected to be completed in 2030. However, the GPP real estate projects are not scheduled to be completed until at least 2038.
- This presents a timing challenge, in that the Railroad Projects will incur costs imminently, while the real estate projects and the funds that they could generate are mostly on a longer timeline.
- As shown above, assuming a best-case scenario with NS funding, the New York local share of the total $30-40 billion project cost would be $6-8 billion for which New York would be responsible for committing to the Railroad Projects.
- By 2030 (the Hudson Tunnels projected completion date), only a few of the GPP sites will have begun construction. Under a best-case scenario, up to two sites are likely to begin construction before 2030. Specifically:

  ➢ Site 7 – owned by Vornado and planned to begin redevelopment first; most likely to generate ADR, PILOST and PILOMRT for the Railroad Projects before 2030.

  ➢ Site 1 - to be eventually owned by ESD. With the new Hudson River Tunnel tracks coming from the west, Site 1, the westernmost site of Sites 1-3, is presumed to start construction first among the Penn Expansion sites.
  - If the NEPA process is complete and has selected Sites 1-3 as the preferred alternative, ESD may be able to sell Site 1 via a Request for Proposals (RFP) before 2030. In that case, Site 1 may generate some LVPs to go towards the Railroad Projects.

- ESD estimates that if the above conditions occur, about $2 billion of the $6-8 billion needed would be generated.

- While other revenues would be generated by the GPP (PILOT, LVPs for Sites 2 & 3, and ADR payments for Sites 4-6 and 8), those revenues most likely would not be received until after 2030. As a result, New York State has a funding gap of $4-6 billion assuming a $6-8 billion share of the Railroad Projects.
- To cover this funding gap, the State would likely rely on financing programs like TIFIA, RRIF and tax-exempt bonds.
  - Under this plan, New York would borrow against those future revenues generated by the GPP sites after the completion of the Railroad Projects in order to obtain funds before 2030.
- FTA will review and ensure that all funding and financing sources are identified and committed for the entire New York share before approving any federal funding.

15. ESD PRESENTATION: CONCLUSIONS

- Best case scenario: a portion, likely less than half, of the billions of dollars necessary for New York's share of the Railroads Projects' cost could be generated by ESC real estate by 2030, when the Penn and Hudson Tunnel Projects are projected to be completed.
- A portion of these early funds will be dedicated to the GPP's transit and public realm improvements, such as the underground pedestrian network, to support the Railroad Projects.
- The urgency of the GPP is highlighted by the timing gap between when funds need to be identified to construct the Railroad Projects versus when significant real estate revenues will be generated and federal funds will likely be received.
- The funding gap caused by this timing problem will be closed, at least in part, by financing against future revenues, particularly PILOT.

16. Q&A AND COMMENTS

- Basha Gerhards, REBNY
  - When was the last time the federal government funded an infrastructure project 100%?
    - Tom Rousakis stated that he has never seen the federal government provide 100% funding for any infrastructure project.
- Elizabeth Goldstein, MAS
  - Do the TIFIA and RRIF loan amounts shown for the case studies include interest and carrying costs?
    - The amounts shown for the TIFIA and RRIF sources for the case studies only include project costs. However, interest is capitalized.
  - Will the TIFIA and RRIF loans only pay for portions of the Railroad Projects that are considered "federal" or can these financing tools be used for any portion of the Railroad Projects, particularly Penn Reconstruction?
    - The TIFIA financing program is limited to 33% of the project costs and requires a project to meet certain eligibility criteria related to the project's scope, scale, cost, and size. If a project is not eligible for TIFIA, a project sponsor may use RRIF financing, which can finance up to 100% of the project costs. However, given that Moynihan received a TIFIA loan, it is likely that at least some portion of the Railroad Projects will qualify for TIFIA financing.
    - The federal government has some leeway in determining a project's eligibility for federal funding or financing assistance as well as the amount of federal dollars going into a project. These decisions will be discussed among the Railroads and the federal agencies before any final determination is made as to the form and amount of any federal funding. Thus, the Railroads will likely have a sense of the federal programs for which the Railroad Projects will be eligible fairly early in the process.

- Many projects combine multiple financing tools, as in the case of Denver Union Station, which used both TIFIA and RRIF. For the Railroad Projects, all financing programs typically used to finance large rail infrastructure projects, including TIFIA, RRIF, and tax-exempt bonds, will be considered.

➢ Was there ever any consideration of doing the Penn Station projects with a private developer as a public-private partnership ("P3")?
- A P3, where a developer might be responsible for both Penn Expansion and the above-ground development, has not been ruled out. This model was used at Moynihan.
- Peter Matusewitch, VP at MTA Construction & Development and Project CEO for the Penn Station Master Plan, stated that a P3 could be an attractive option given the scale of Penn Expansion. However, this option would need to be balanced against the possible loss in efficiencies of using a non-Railroad partner to complete the Penn Expansion project.

➢ Are the subway station improvements included in the $30-40 billion project cost?
- The subway station improvement costs are roughly included in the $30-40 billion project cost. There may be a little overage beyond $40 billion as MTA continues costing out the work for these improvements.

- Christine Berthet, CB4

➢ Can you provide a breakdown of Penn Expansion, Penn Reconstruction, the Hudson Tunnels, and the above ground development?
- The cost for the Hudson Tunnels was estimated at $11.6 billion when the federal review commenced. The Railroads will be updating this cost after the issuance of the Hudson Tunnel Project NEPA Record of Decision on May 28.
- The initial rough estimated cost for Penn Expansion is $10 billion.
- The initial rough estimated cost for Penn Renovation is $6 billion.
- Conservatively, ESD and the Railroads are assuming an estimated cost range of $30-40 billion for the Railroad Projects to account for new cost estimating and future cost increases.

➢ How will you fund the mitigation measures described in the ESD Empire Station Complex Draft Environmental Impact Statement (DEIS)?
- Some mitigation measures will be funded by GPP-related revenues (e.g., LVPs, ADR payments, PILOT) and some will be paid for by the developers of the GPP sites as development costs.

➢ How will the Railroad Projects pay for construction cost overruns?
- At this point, it is still very early in the process of planning, and the Railroads are using very rough estimates and large cost ranges for the project costs. As the plans for the Railroad Projects get refined, the Railroads will build in contingencies and cost-monitoring mechanisms, as is done for any project of this scale.

➢ Why are you combining the costs for the Hudson Tunnels and the Penn Station projects?
- The Hudson Tunnels and Penn Expansion are both part of Gateway, however, it is possible (even likely) that the components will be individually funded/financed, just as other components of Gateway have been. The same is true of the Penn Renovation. We are presuming that the cost share structure will be similar for all three components, though that has not been determined.

➢ Who will own the new station at Penn Expansion?
- Ownership of the new Penn Expansion has not yet been determined by the Railroads.

➢ In the past, the City implemented a new hotel tax to fund projects. Why can't we implement a surcharge on commuter fares since they would direct see the benefit?
- While a surcharge has not been ruled out as a possible funding source, the Railroads would have to analyze the impacts a surcharge would have on the cost to commute and

potential decline in use of transit. In addition, such surcharges may not be seen as a reliable credit backstop for financing without credit enhancement.

- Would we have a better chance at receiving federal funding if we broke up the Railroad Projects into three separate projects?
    - Each of the Railroad Projects will have a separate financing plan with different sources of funding and financing. In the near future, the Railroads will present their financial plan for Hudson River Tunnel to FTA and will present financial plans for Penn Expansion and Penn Reconstruction when those projects commence their federal review process.

- Layla Law-Gisiko, CB5
    - Will FTA or Federal Railroad Administration ("FRA") be the lead regulatory agency and will having one or the other as lead affect the federal grant process?
        - FRA is the U.S. regulatory agency for all commuter rail systems and is not generally a funding agency. FRA does not have its own grant program that would apply to the Railroad Projects.
    - Will the Infrastructure Proposal funding be allocated to U.S. Department of Transportation ("USDOT") grant programs or will it flow through U.S. Department of Treasury ("Treasury") as discretionary funding?
        - It has not yet been determined how or through what agencies funds from the Infrastructure Proposal will be allocated. However, it is expected that most will go through existing USDOT programs.
        - While there is discussion in Congress about the return of member discretionary spending, so-called "earmarks" that would flow through Treasury would be for much smaller amounts than what would be required for the Railroad Projects or than what would be available through the CIG program.
        - Shelby Garner from Congresswoman Maloney's office indicated that projects applying for CIG funds <u>will not</u> be eligible for additional congressionally directed funds.
        - If the Infrastructure Proposal passes through a reconciliation process between the House and the Senate, which seems likely, the funds will flow through existing USDOT programs like CIG.
    - How much money will the various GPP revenue sources generate?
        - As shown in the presentation, ESD estimates that roughly $2 billion will be generated by LVPs, ADR payments, PILOST, and PILOMRT from Sites 1 & 7 up to 2028.
        - The terms for any PILOT agreements still need to be negotiated by ESD and the City, and various terms such as the duration of the PILOT and the split of PILOT payments between the City and the State, will affect total revenues available.
        - In addition, ESD and Vornado need to complete negotiations for Sites 4-8, including PILOT and other GPP revenue sources.
        - It is likely that New York will need additional funds beyond the GPP revenue sources to fully fund its share of the Railroad Projects.
    - The 2022 New York State budget had an appropriation of $1.3 billion for the Railroad Projects. If this appropriation could be replicated annually for 5-6 years, would this obviate the need for other sources of funding?
        - The federal CIG program requires local funding sources be identified and committed early in the application process and years before federal funds would be received. Future appropriations that must be authorized through the annual state budget process are not guaranteed funds, and this scale of funding would be extremely difficult to negotiate in a single budget cycle.
    - Do you have commitments from Vornado to develop and build its sites?

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- o Those negotiations are still underway, but agreements will be struck by final approval of the GPP.
- Paul Devlin, CB4
  - ➢ How will the ADR value be determined, and will it reflect market values and escalate as time goes by?
    - o ESD and its consultants and lawyers will negotiate with Vornado to maximize value for the ADRs.
    - o The value of ADRs will reflect market values at the time construction is ready to start.
  - ➢ Would we be better off applying for the CC program that funds up to 80% of the project cost instead of NS which only funds up to 60%?
    - o That is unlikely to be the Railroads' decision, as the FTA generally determines which program is applicable for projects. A project's size and scale relative to the amount of available funding in each program also guides whether NS or CC will be used. The large scale and high cost of the Railroad Projects will likely result in a lower federal share than the maximum percentage allowed in either NS or CC. As an example, the value of all projects currently in the entire NS program is $24 billion, which is less than the total cost of the Railroad Projects.
  - ➢ How will New Jersey be funding its local share of the Railroad Projects?
    - o Jeremy Colangelo-Bryan stated that New Jersey is undertaking its own analysis.
- Raju Mann, NYC Council
  - ➢ Density of the GPP sites should not be determined solely by the amount of money they can generate.
    - o The density levels proposed in the GPP reflect a holistic planning effort and are based primarily on the area's status as a lagging central business district in the exact location where New York City can best accommodate future growth, given its rich transportation resources. The densities of several of the Vornado sites were derived from past plans that Vornado worked on with the City, including 15 Penn (Site 7) and Penn West (Site 4). We will delve into a deeper discussion on density and the overall planning approach to the GPP at future CACWG meetings.
  - ➢ What kinds of other revenue streams have you explored? For example, have you looked at a broader PILOT district, user charges or additional taxes?
    - o Tom Rousakis stated that essentially every significant transit project across the U.S. relies on some form of value-capture. Examples include raising or creating new sales or property taxes, establishing a Tax Increment Financing ("TIF") or a Business Improvement District ("BID"), or adding a user fee to a transit fare.
    - o Generally, the larger the scale of the project, the more a project sponsor must focus on established funding and financing approaches with a proven track record, like development-generated revenue sources. The financing of the No. 7 line extension was one of the most creative approaches at the time, and ESC is likely to be similarly innovative.
- Dario Quinsac, NYS Senator Jackson
  - ➢ Have you polled the financial markets for a prospective bond issuance?
    - o Financial advisors are confident there would be a market for financing the GPP sites.
  - ➢ Are the GPP revenue sources the main tools to address the funding gap for the Railroad Projects?
    - o While it is premature to opine on the exact financing approach, the GPP would establish a value-capture framework that would provide financing opportunities to close any funding gap for New York's share of the Railroad Projects.

- Will you require legislative approval to provide credit enhancement on bonds in order to make them investment-grade?
  - Any credit enhancement provided by New York State would most likely need to be approved in the State Budget.

- Felicia Park-Rogers, TSTC
  - Who will be the developer for Site 1?
    - Developers for Site 1-3 have not been identified. ESD will likely designate developers for these sites through future RFPs, starting most likely with Site 1. Site 1 could have potentially two developers, since it would likely contain two separate buildings. In addition, one or more of the existing owners of these sites could be involved in the redevelopment of these sites.
  - Will Amtrak be contributing funds towards the Railroad Projects?
    - To date, Amtrak's contributions (part of the federal share) have ranged from 10-20% of the project costs for each project in Gateway, and it expects to contribute along these same lines to both the Hudson Tunnel Project and Penn Expansion. All funding commitments from Amtrak have been funded with dollars at-hand and not through financing.
  - Did City Planning provide feedback and input on the GPP?
    - ESD has been in close consultation with both City Planning and NYC Department of Transportation ("DOT") throughout the GPP process.
- Eugene Sinigalliano, Resident Representative
  - What is your contingency plan if the federal contribution is lower than what you hope for?
    - The Railroads are already engaged in active dialogue with the federal agencies regarding funding for the Railroad Projects. As this dialogue continues, the Railroads will get a better sense of the federal contribution to plan accordingly. We hope for clarity on the Infrastructure Proposal and future infrastructure bill by this fall. The State will be able to design a financial plan that incorporate available funding sources and financing opportunities in accordance with what is needed for the local share.
  - If Penn Expansion will be primarily used by NJ Transit, why would New York be expected to contribute an equal share as New Jersey?
    - The 50-25-25 cost-sharing formula is a broad framework for Gateway. There are some projects within Gateway that may have slightly more commitments from one of the states or may be used more heavily by one of the states, but in the end, all three Railroads will be using and will benefit from an integrated Empire Station Complex.
    - The vision for Empire Station Complex is one integrated station that offers operational flexibility for all three commuter railroads at Penn Station (NJ Transit, Long Island Railroad and Metro-North). While, NJ Transit may be the primary user of Penn Expansion, the benefits of having a shared integrated station will be felt by all three commuter railroads.
    - Also, Penn Expansion will be used by some New York trains, including the Metro-North service from Orange and Rockland counties and possibly Metro North Hudson Line service in the future.
    - Tokumbo Shobowale pointed out that New York benefits enormously from NJT commuters coming into NYC, and both states' economies will be enhanced by additional income and sales tax revenues, increased economic activity, and creation of jobs.

17. <u>POST-CACWG FOLLOW-UP</u>

- Louis Bailey, WE ACT for Environmental Justice (via Zoom Chat)
  - How does the ULURP process play a role?

- ESD projects are not subject to ULURP, though ESD does consult closely with local municipalities and community stakeholders throughout its process. See the presentation and minutes from CACWG Meeting 1 for more information about ESD's GPP process.

18. CONCLUSION

- Marion Phillips closed CACWG #5.

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