

**FACT SHEET: Proposals to Advance the Access to the Region's Core (ARC)
Tunnel Project**

Following a meeting between U.S. Transportation Secretary Ray LaHood and New Jersey Governor Chris Christie on October 8, the U.S. Department of Transportation worked with NJ Transit and put forward a range of options for continuing the vitally important ARC tunnel project. These proposals submitted to Governor Christie addressed the need to close the ARC project's financial gap, improve connectivity for New Jersey Transit customers and ensure the ARC tunnel project would be well-positioned to serve the region for generations to come.

Background

The critical need for the ARC tunnel project cannot be overstated. In the century since the original trans-Hudson rail tunnel was constructed, New Jersey's population has more than quadrupled and New York City's has nearly tripled. The current tunnel's capacity to handle daily Amtrak and New Jersey Transit traffic has long been exceeded, and the region's residents and businesses have paid the price with unacceptable delays and other service challenges caused by antiquated infrastructure. It is for these reasons that the Obama Administration committed an unprecedented \$3 billion to the ARC project, the largest funding commitment ever provided to a project in the history of the Federal Transit Administration (FTA).

As a result of Governor Christie's decision to cancel the ARC tunnel project, inadequate transportation options will continue to choke economic growth in the region for the foreseeable future. Worse still, at a time when New Jersey and the nation is suffering from painfully high unemployment, terminating the project will eliminate an estimated 6,000 construction-related jobs now and 44,000 permanent jobs in the future. The termination of the ARC project will also forgo billions of dollars in lost revenues and wages that would support New Jersey families, their communities, and local businesses.

The ARC tunnel would have shortened the daily round-trip commute for NJ Transit's mid-Manhattan passengers by an average of more than 45 minutes per day – the equivalent of 3 hours and 45 minutes per work week. That time-savings would have also meant cost-savings for New Jersey commuters and a reduction in the region's air pollution.

In addition, Governor Christie's decision to forgo the Administration's historic \$3 billion investment in the ARC tunnel means that New Jersey will be required to repay up to \$350 million that the Federal Transit Administration (FTA) has already provided to New Jersey Transit for work under way.

The following proposals were made to Governor Christie to address budget concerns as well as connectivity and long-term transportation needs for the region.

Estimated Project Cost

During many weeks of discussions between the FTA and NJT, the agencies significantly narrowed the gap between their respective cost estimates for the project. FTA estimated that with aggressive cost control measures being applied by New Jersey Transit the project can be delivered for \$9.775 billion. This amount was only 2.9 percent higher than NJT's estimate of \$9.5 billion.

Consistent with the manner in which FTA has handled other large scale projects, FTA proposed identifying funding sources in the grant agreement that could be activated should the cost of the project rise to FTA's "mid-range" cost estimate of \$10.909 billion. FTA does not require cash commitments to deal with such contingencies, and only requires that a project sponsor identify a non-Federal funding stream that could be called upon to cover contingency costs. Over the last several months, NJT and FTA have worked on a project execution plan (PEP) to allow NJT to carefully monitor costs on an ongoing basis and mitigate cost risks as construction progresses. Aggressive adherence to the plan would have allowed NJT to ensure that additional contingent financial resources were never called upon.

The FTA and NJT discussed each of the following funding and revenue options with the mutually arrived upon figures in mind. Each of them individually had the potential to either lower the cost of the project or ease the financial challenges facing the funding partners, or both. Almost any combination of these would have served to close the gap between the original and current project cost estimates.

Cost Containment and Revenue Options

Increased New Starts Contribution

Over many years of planning for the ARC project, FTA established a structure through which the State of New Jersey, the FTA, and the Port Authority of New York and New Jersey (PANY/NJ) would each contribute a third of the cost of the project. FTA's adjusted project cost estimate of \$9.775 billion represents \$1.075 billion in cost growth since the estimate developed 21 months ago when the project entered the "final design" phase. FTA continued to commit to a third of this amount – \$3.358 billion – consistent with the adjusted cost estimate and the agency's longstanding commitment to fund a third of the project. This agreement was contingent on the continued commitment of the other two partners to matching their shares of the adjusted cost estimate. In other words, FTA's cash contribution toward the project increased \$358 million since the meeting with the Governor on October 8th.

Although FTA's New Starts budget is limited, the funding awarded to the ARC project is the largest cash commitment made to any project in FTA's history. No additional cash adjustments could be made to increase FTA's contribution beyond \$3.358 billion.

Railroad Rehabilitation and Improvement Financing (RRIF)

The FTA proposed that the Department's Railroad Rehabilitation and Improvement Financing (RRIF) program could lessen the financing burden of all or part of the ARC project. Based on a preliminary assessment, FTA found that many aspects of the ARC project would be eligible for RRIF financing. RRIF offers both direct loans and loan guarantees with repayment periods of up to 35 years at very advantageous interest rates when compared to other financing options. Given that the existing tunnel has been in continuous service for 100 years, a RRIF loan of up to 35 years would have been a very prudent investment. RRIF also has provisions that permit the deferral of payments by the borrower until *after* a project is brought into service (and, thus, generating new revenue). FTA recently approved a RRIF loan to assist the Port Authority of New York/New Jersey with the replacement of passenger cars for the PATH system. Both the ARC project itself and the south span of the Portal Bridge – a \$776 million project that New Jersey had separately committed to funding – would both have been strong candidates for RRIF financing.

RRIF was also presented as an option for the backstop financing required if the cost of the ARC project had grown beyond FTA's \$9.775 billion estimate. In this sense, a RRIF loan for cost escalation contingencies would have functioned much like a Letter of Credit, that would be called upon only if needed.

Public Private Partnerships (P3s)

FTA also suggested the potential use of a public private partnership, also known as a P3. Under this scenario, all or part of the project would have been privately constructed and financed, with the cost escalation risk shifted to the private sector. Since Governor Christie announced the termination of the ARC project on October 7, New Jersey and DOT have been approached by a number of private firms potentially interested in partnering on the ARC project.

Recent examples of P3 projects that involved DOT include the Capital Beltway HOT lanes project in Virginia and the Port of Miami Tunnel in Florida. The FTA is currently involved in finalizing a Full Funding Grant Agreement for another P3 – the Eagle Rail projects in Denver. These projects are enjoying considerable cost certainty during construction since the risk of cost overruns is being borne by the private sector.

Potential Scope Reductions

In the interest of addressing near-term affordability, engineering consultants to the FTA and NJT identified a number of elements of the ARC project that can either be deferred or eliminated entirely from the project:

Kearny Yard. The initial design of the ARC project envisioned the construction of a new rail yard at Kearny to service the additional trains also proposed under the project. Those trains could be serviced through New Jersey Transit's existing yards. While the

acquisition of the property will be required to handle the excavated material from the ARC tunnel, deferring or eliminating the yard would save \$230 million.

Land Acquisition Costs Associated with Entrances to the New Rail Station. The new rail station adjacent to the existing Penn Station envisions multiple entry points. Eliminating some of these entrances and reorienting others could result in an estimated cost savings of between \$150 million and \$300 million.

Rolling Stock. New Jersey Transit currently has enough rail cars in its inventory to handle the initial operating needs of the additional train frequencies anticipated upon completion of the ARC project. Eliminating the purchase of additional cars for the project could save an estimated \$271 million.

Loop Tracks. Through the near-term construction of the Loop tracks in Secaucus, the ARC project would ensure that the maximum number of NJT passengers can enjoy a “one-seat ride” from their originating station to mid-Manhattan. Delaying or eliminating the construction of the loop tracks from the project would require some NJT passengers to continue to change trains at Frank R. Lautenberg station but also would result in a savings of \$506 million.

Connectivity for NJT Passengers

In addition to cost-savings and alternative financing measures, FTA worked to address Governor Christie’s stated concern that the ARC project was not adequately connected to the adjacent Penn Station and could not eventually be connected to Grand Central Station and beyond. In addition to the constraints posed by the single, century-old, rail tunnel under the Hudson, there are considerable infrastructure challenges that limit the number of trains and riders that can be served at the existing Penn Station. The possibility of safely and affordably constructing a new tunnel into the existing Penn Station has been studied extensively and subsequently rejected – most recently under the leadership of former FTA Administrator Jim Simpson.

For that reason, the ARC project would have terminated at a new adjacent station to avoid any further congestion at Penn Station while still being convenient for connecting passengers. During the station’s planning and environmental process, NJT estimated that the majority of NJT customers connecting to the subway would enjoy a time *savings* when using the new station rather than the existing Penn Station.

The construction of the ARC tunnel and a brand new station adjacent to Penn Station with high-speed elevators and escalators, wide platforms and direct connections to Penn Station to serve ARC passengers would provide considerable advantages to New Jersey commuters while containing costs and avoiding risks. Even so, Secretary LaHood offered to convene all of the regional stakeholders—MTA, LIRR, Amtrak, and the City and State of New York—to focus on ways to further improve the connectivity between the two stations.

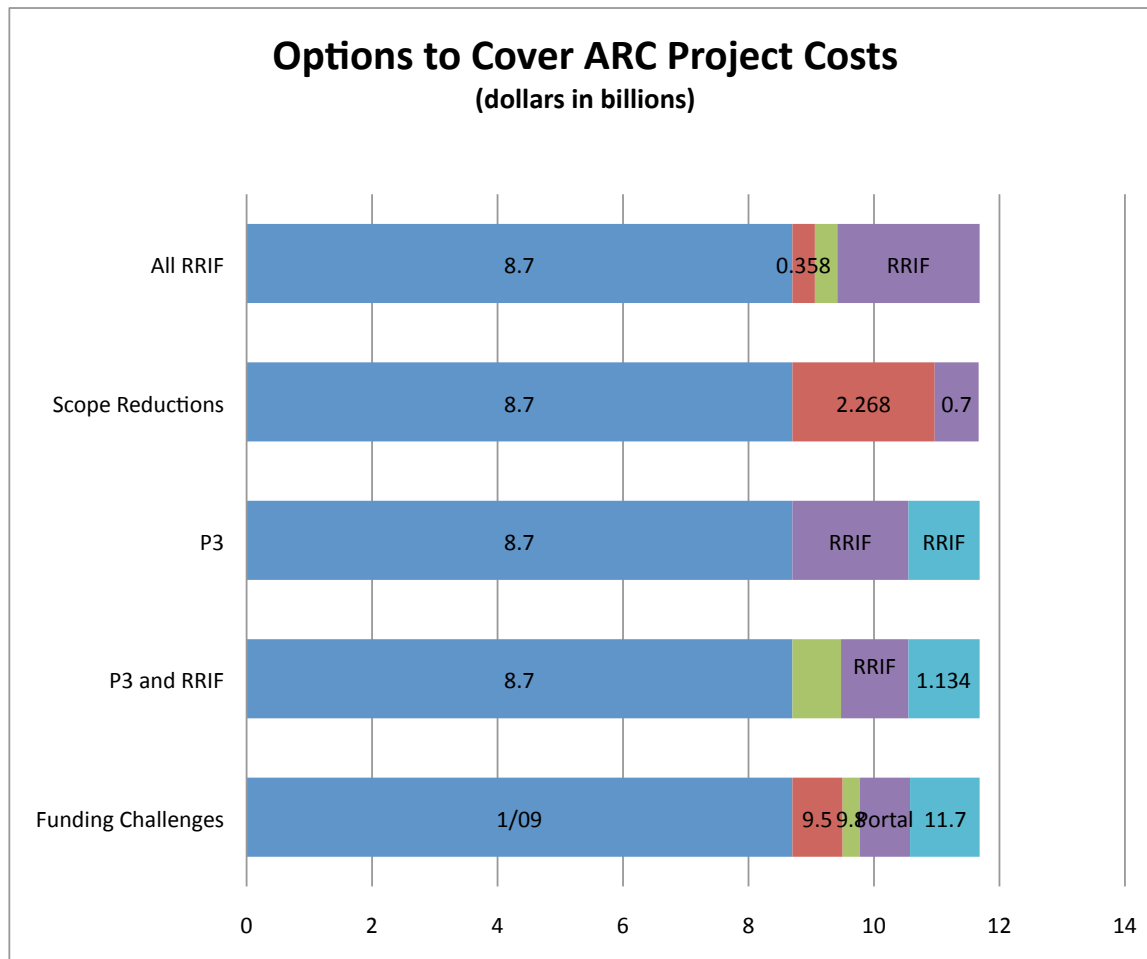
Future Mobility Improvements

In the October 8 meeting, Governor Christie raised the need to accommodate future improvements and extensions to the project. The ARC project was specifically designed to allow such future improvements, enabling New Jersey passengers to continue traveling east beyond the Grand Central Terminal (GCT), either to Long Island or New England. Secretary LaHood agreed with Governor Christie that further mobility to the east is in the long term interest of all regional travelers and in the interest of our national rail network and he committed to work all necessary transportation stakeholders to maximize those opportunities in the future.

At present, the greatest obstacle to extending the ARC project further east is the requisite excavation in close proximity to Water Tunnel #1 – which currently provides drinking water to New York City residents. Such excavation cannot commence until the new Water Tunnel #3 is complete and Water Tunnel #1 is taken out of service for repairs. Despite that obstacle, FTA expressed a willingness to work with NJT to plan a future extension eastward so that construction could begin concurrently with the repair work to Water Tunnel #1.

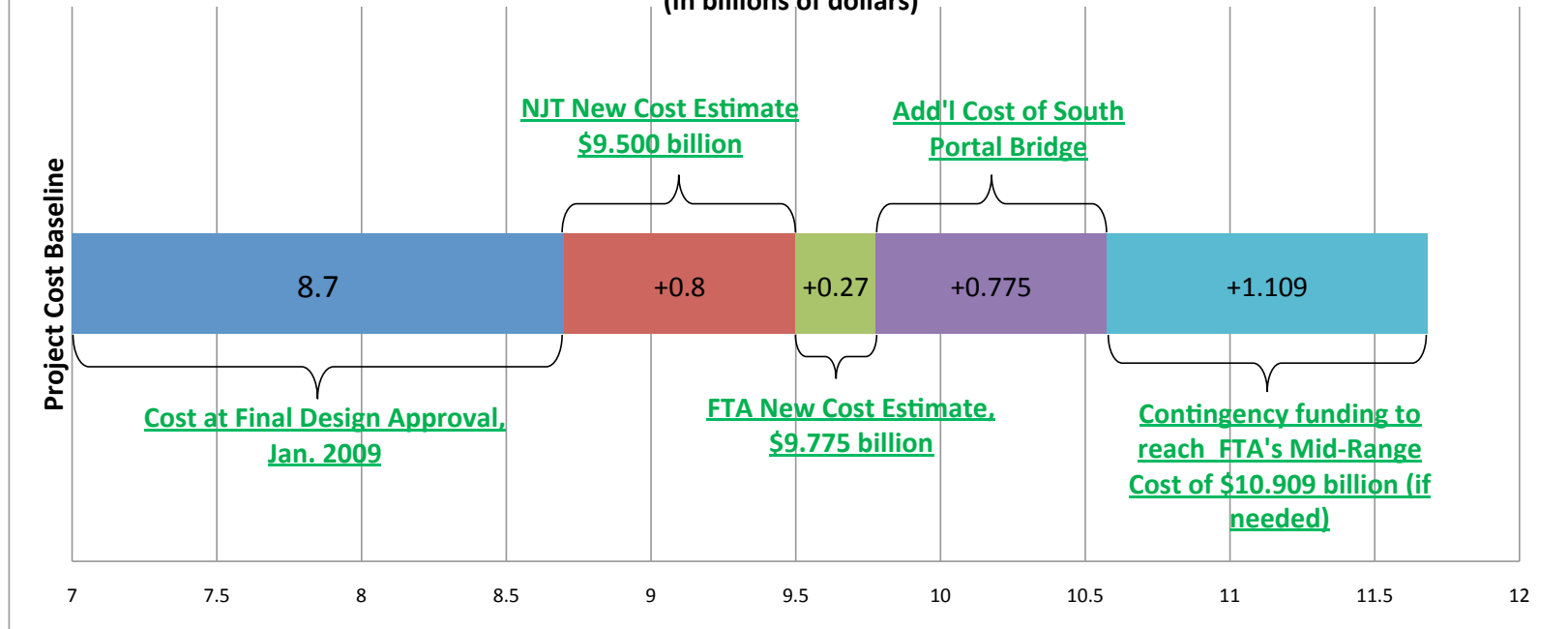
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	Current Plan	Additional FFGA contribution	RRIF	P3		
Funding Challenges	8.7	0.8	0.275	0.8	1.109	11.684
P3 and RRIF	8.7		0.775	1.075	1.134	11.684
P3	8.7			1.85	1.134	11.684
Scope Reductions	8.7	2.268		0.7		11.668
All RRIF	8.7	0.358	0.358	2.268		11.684



The Funding Challenge

New Cost Estimate + South Portal Bridge + Possible Contingency = \$11.684 B
(in billions of dollars)



Options to Cover ARC Project Costs (in billions of dollars)

