

March 29, 2022

Senator Liz Krueger
NYS Capitol
Room 416
Albany, NY 12247

Dear Senators:

Thank you for your recent letter to the Board of Directors regarding ESD's Penn Station Area Civic and Land Use Improvement Project (the "Project"). It was referred to me for response in my capacity as ESD's President and Chief Executive Officer Designate.

In that capacity and in consultation with Project staff, we welcome the opportunity to provide responses to your questions and look forward to our continued dialogue as we work with our State, City and Federal partners to make much-needed improvements to Penn Station and the surrounding area (the "Project Area").

ESD expects to have a financial agreement with the City of New York finalized before the Penn Station Area General Project Plan ("GPP") is approved, and this agreement will inform future site-specific agreements with each site's owner and/or developer ("Development Agreements"). As we have said, in both public and one-on-one meetings with many of you, no development, on any site, can occur without a separate, individually negotiated and executed Development Agreement between the site's owner and/or developer and ESD, laying out financial and other material terms such as onsite public improvements the developer is required to implement. In short, approval of the GPP does not allow for as-of-right development.

Below are responses to the questions posed in your letter. We would be happy to set up one or more meetings to continue our discussions about these and other elements of ESD's proposed Project.

- *How much are Penn Station's planned upgrades projected to cost? (If we do not know how much this will cost, how can we decide how much new development we need to pay for it?)*

The MTA currently estimates that the cost for Penn Reconstruction will be approximately \$7 billion and Penn Expansion will be approximately \$12 billion.¹ Revenues from the GPP will help fund New York's share of Penn Reconstruction and Expansion, as well as other public transportation and public realm improvements within and around Penn Station.

- *Will Vornado, the project's main developer, receive subsidies?*

There will be no public dollars provided to Vornado or any private developer as part of the proposed Project. Vornado currently has an interest in five of the eight development sites identified in the GPP's Project Area. However, as referenced earlier in this letter, even after the GPP is approved, development on any site cannot commence until a site-specific Development Agreement is negotiated and executed between ESD and each site owner and/or developer. These negotiations will determine what can occur at each individual site, including public realm and transit improvements that the developer will be required to make, and how much the developer will be required to pay for development rights and annual payments in lieu of taxes (PILOT).

At this time, no such Development Agreements have been entered with Vornado or any other site owner. ESD aims to reach agreement with the City of New York prior to GPP approval on a financial framework (including for PILOT) which would inform any future Development Agreements with owners/developers (including Vornado). We anticipate PILOT paid by the developments in the GPP area to be commensurate with PILOT or property taxes paid by similarly situated properties in Midtown West, and any payments for additional development rights would be at market rates.

- *Will Vornado contribute financially to the upgrades at Penn Station?*

Yes. Development-related revenues generated by future development on the eight sites identified in the GPP Project Area would contribute exclusively to the Penn Station upgrades and related public realm and transit improvements. The specific dollar amount generated by each site would be (subject to the GPP, Design Guidelines and the financial agreement with the City of New York) memorialized in each site's Development Agreement. The GPP and its Design Guidelines will mandate certain transit and public realm improvements for each site - including new in-building transit entrances into Penn Station and the four area subway stations, an

¹ Penn Reconstruction refers to the plan to replace the current cramped Penn Station with a 250,000-square-foot, single-level facility that will be easier to navigate, have more room for passenger circulation and feature a new, light-filled train hall. MTA, Amtrak and NJ Transit are also undertaking planning for the expansion of Penn Station to accommodate additional tracks and new platforms, which is referenced here as Penn Expansion.

extensive underground pedestrian network and other public spaces - that must be delivered as part of each new development.

- *Will the payments in lieu of taxes (PILOTs) paid by Vornado be equal to or less than what New York City property tax would yield?*

While no Development Agreements have been executed, ESD's preliminary proposal to the City proposed that the City would be made whole for existing property taxes, adjusted annually, in the Project Area. The State is in ongoing discussions with the Mayor Eric Adams administration regarding PILOT and other aspects of the proposed GPP. As noted above, we anticipate PILOT paid by the developments in the GPP area to be commensurate with PILOT or property taxes paid by similarly situated properties in Midtown west.

- *How much added floor area ratio will Vornado get?*

The GPP does not guarantee additional square footage for the eight GPP sites. Each site's owner/developer would be required to pay for and/or provide public improvements in order to build more square footage than currently allowed under current zoning, as well as pay annual payments in lieu of taxes (PILOT).

The GPP proposes up to an additional ~4.8M gross square feet in aggregate across five development sites in which Vornado has a controlling or partial controlling interest, but any additional square footage above current zoning could only be built after ESD and the owner and/or developer of any site (such as Vornado) negotiate and execute a Development Agreement that defines the amount they would pay for any additional square footage and any other financial and material commitments.

- *How much tax revenue will the City lose per year in perpetuity, and what is the State's plan to make the City whole?*

As mentioned above, ESD has proposed that the City be kept whole for existing property taxes, adjusted annually, on all sites in the Project Area, so the City would not lose tax revenue. In addition, the PILOT structure would not continue in perpetuity but rather would be limited to the duration of any financing mechanism utilized to pay for the Penn Station improvements and thereafter return fully to the City.

- *What are the State's bond liabilities? ESD may borrow upwards of \$5.7 billion based on potential Vornado development revenue, requiring upwards of \$330 million a year in bond payments.*

ESD and the MTA will consider multiple potential financing programs typically used to finance large rail infrastructure projects, including credit assistance under the federal Transportation Infrastructure Finance and Innovation Act ("TIFIA"), federal Railroad Rehabilitation & Improvement Financing ("RRIF"), and tax-exempt bonds. Many significant transportation projects of this scale across the U.S., including Moynihan Train Hall and the extension of the No.

7 Line, have relied on value-capture to fund the required local share of total project cost. Common examples include raising or creating new sales or property taxes and establishing a Tax Increment Financing (“TIF”) district.

Based on precedent nationwide, the larger and more expensive the transportation project, the lower the percentage of the Federal share, and the more a project sponsor must rely on established funding approaches with a proven track record, like development-generated revenue sources. The financing of the No. 7 line extension is a highly successful example, as not only were the City’s interest support payments repaid ahead of schedule, the project has generated significant additional revenue for the City, totaling over \$300M as of fiscal year 2021.

- *What happens if the expected rents from the project don’t materialize? Will taxpayers still be on the hook?*

ESD and the MTA will explore all funding strategies to minimize public risk and ensure robust investment in the Project Area and timely repayment of any loans or bonds issued to finance the Penn Station improvements. Credit enhancement mechanisms will likely be required in the short term to achieve investment-grade ratings on any debt, as was the case for both Moynihan Train Hall and the No. 7 Subway Line extension. The City is being asked to bear absolutely no risk in the financing of the Penn Station improvements.

- *And what else is in it for New Yorkers? For example, can the plan be adjusted to bring much-needed social services and housing to people experiencing homelessness in the area? Can the plan yield much more affordable housing for New Yorkers who need it?*

The Project Area has not been substantially upgraded since the 1970s, even though urban planning best practices across the globe encourage maximizing development in and around transit hubs. In recent years, progressive cities like San Francisco, Chicago, Hong Kong, Pittsburgh and Paris have made transit-oriented development a cornerstone of their sustainable growth.

The mixed-use plan for the Penn Station Area would deliver not just sustainable, modern office space to meet businesses’ and workers’ changing needs, but also up to 1,800 apartments, at least 540 of which would be permanently affordable; new community facility spaces, including an expanded drop-in center for homeless clients; and diverse small-scale retail. The GPP requires 18 new in-building entrances into Penn Station and the four nearby subway stations, removing subway entrances from congested sidewalks, as well as new elevators and escalators and widened stairways and platforms in the subway stations. The plan also calls for a new below-grade network of pedestrian passages that would take commuters from Penn Station directly to Herald Square station and north to 34th Street from Penn Station. Other improvements to the neighborhood include over 8 acres of new public space, including a new 30,000-square foot public plaza south of Penn Station (equivalent in size to Rockefeller Plaza); wider sidewalks and multiple blocks of pedestrian-friendly shared streets; new protected bike lanes; and additional public space at every development site.

A Public Realm Task Force, comprising community stakeholders, is proposed to develop a Public Realm Concept Plan that would detail and prioritize public realm improvements to be funded by the development-generated revenues. Vehicular parking in the Project Area would be greatly reduced, while required bike parking would be more than doubled in the new buildings. In addition, we are actively engaged with Senator Hoylman and social service providers in a process to identify best practices for addressing the challenge of homelessness in the Project Area that will help inform the final GPP. In sum, the plan would catalyze transit-oriented, mixed-use growth for New York City for generations to come, generating at least 50,000 good-paying construction jobs and permanent jobs for thousands more, while helping alleviate today's congested neighborhood conditions and provide amenities and services the neighborhood sorely needs.

In closing to reiterate, we look forward to our continued dialogue as we work with our State, City and Federal partners to make much-needed improvements to Penn Station and the surrounding area.

Sincerely,



Hope Knight
President & CEO Designate, Empire State Development
Acting Commissioner, NYS Department of Economic Development

- cc: ESD Board of Directors
- The Honorable Brad Hoylman
- The Honorable Alessandra Biaggi
- The Honorable Jabari Brisport
- The Honorable Cordell Cleare
- The Honorable Leroy Comrie
- The Honorable Robert Jackson
- The Honorable John Liu
- The Honorable Zellnor Myrie
- The Honorable Roxanne Persaud
- The Honorable Jessica Ramos
- The Honorable Elijah Reichlin-Melnick
- The Honorable Gustavo Rivera
- The Honorable Julia Salazar
- The Honorable James Sanders Jr.