

July 20, 2022

To:

U.S. Representatives Jerrold Nadler
U.S. Representatives Carolyn Maloney
Manhattan Borough President Mark Levine
State Senator Brad Hoylman
State Senator Robert Jackson
State Senator Liz Krueger
Assembly Member Richard Gottfried
Councilmember Erik Bottcher

Transmitted via email

Dear Elected Officials:

Thank you for your comments and questions regarding the Pennsylvania Station Area Civic and Land Use Improvement Project Final Environmental Impact Statement. Following are our responses, and we are, of course, happy to discuss further.

Resident Displacement

We are very disappointed that the plan calls for residential displacement and understand that any residents displaced by the Penn Expansion projects on Sites 1-3 who income certify would have a right to return to an affordable unit on Site 1A and displaced residents will receive assistance under federal regulations. There are concerns that the compensation received under federal regulations is inadequate.

The GPP must provide for the permanent relocation of residential tenants, within the immediate area, if desired, at the tenant's existing affordability levels. Current rent regulated tenants at risk of displacement should remain rent regulated in any new unit, regardless of whether they are income qualified for an affordable unit. We want to ensure that the residential buildings are the first to be built, to provide an easier transition for the residents who will be displaced. As stated above, there must be affordable and supportive housing provided on Sites 4-8, and displaced residents should have the option to move into those units before their buildings are demolished. If Site 1A is not built, residents should be relocated onto another site.

ESD Response: As you know, residential displacement in the project area could occur only on the potential Penn Station expansion sites and only if those sites are selected by the involved railroad entities (Amtrak, MTA and NJT) and approved by the federal government as the preferred alternative for the station expansion project.

ESD's General Project Plan ("GPP") does not and cannot authorize ESD to condemn, otherwise acquire, or relocate occupants of Sites 1, 2 and 3.

Federal regulations apply to projects that receive federal financial assistance and/or require federal approvals, as is anticipated for the potential Penn Station expansion project. ESD's Final Environmental Impact Statement ("FEIS") cites and discusses the applicable federal relocation law and regulations, namely, the Uniform Relocation Assistance and Real Property Acquisition Policies Act (42 U.S.C. § 4601 et seq.) and regulations promulgated under 49 CFR Part 24 (collectively, the "Uniform Act"). (See, e.g., FEIS, Chapter 26, Response to Public Comments, Response 1-39.) Any plans by the Railroads for acquiring those sites for the potential station expansion and relocating residents and businesses will be subject to additional federal reviews, approvals and compliance with the Uniform Act, and the railroad entity or entities that would carry out the potential Penn Station expansion would be the displacing agency or agencies responsible for relocating displaced residents under a relocation plan that complies with the Uniform Act and is approved by the lead federal agency, typically as part of the binding commitments enumerated under a federal grant agreement for the project.

Among other things, the Uniform Act provides that "no person shall be required to move from a displacement dwelling unless comparable replacement housing is available to such person," and "comparable dwelling" is defined to include dwellings that are decent, safe and sanitary; located in the immediate or comparable area; functionally equivalent and adequate in size; reasonably accessible to the displaced person's place of employment; and within the financial means of the displaced person." Although basic rental assistance under the Uniform Act is subject to certain monetary limits, displaced persons may be eligible to receive rental or other relocation assistance without regard to such limits under the "Replacement Housing of Last Resort" provisions of the Uniform Act regulations (49 CFR §24.404) when it can be demonstrated that "comparable replacement dwellings are not available within the monetary limits for owners or tenants." Such a program was approved by the Federal Transit Administration and successfully implemented by MTA for rent-regulated residents displaced by the first phase of the Second Avenue Subway Project. In addition, while neither the Railroads nor ESD has the legal authority to override laws and regulations that govern the status of rent regulated tenants, relocation advisory assistance that would be provided by the displacing agency would include working with agencies such as HPD, NYCHA and HCR to ascertain whether displaced residents can be preferentially placed in suitable replacement housing.

Finally, in response to comments raised during the project's public review, Sites 1A, 1B, 4, and 8 now allow up to 1,798 dwelling units, of which at least 30% would be affordable; Site 1A will require housing, with 30 percent of the units to be affordable (163) and an additional 20 percent to be supportive (108); and Site 4 will require 630

units (of which 30 percent (189) will be affordable) if the available floor area is to be utilized.

Governance Structure

We are disappointed to see that there is no current plan to create a single entity to coordinate and implement the Penn Station reconstruction, the potential Penn Station expansion, and the above-grade development. As ESD notes in the response to the previous public comments, there are multiple agencies that must approve different aspects of this project. As below ground track work progresses, there must be coordination with regard to the above-ground station improvement. Proposals must have public review. As previously requested numerous times, there should be one agency that leads the implementation of an overall integrated plan with a single project director who coordinates all agencies and developers involved, and collects community input, as was done for the rebuilding of lower Manhattan and the World Trade Center (the Lower Manhattan Development Corporation) with consolidated operation for the station once the improvements are complete.

ESD Response: We understand the value of coordinating entities to assist with neighborhood planning and created the CACWG in part to bring together stakeholders at the federal, state and local levels to develop the comprehensive plan the Penn area needs and has never had. The Governor announced a Public Realm Task Force (“PRTF”) to consult with and advise ESD on public realm improvements in the project area and vicinity. ESD in consultation with the PRFT will prepare a public realm improvement concept plan that will describe priority public realm improvements to be implemented in connection with the redevelopment of the sites. The PRTF will solicit guidance and comment from the Department of City Planning and other stakeholders during the concept plan’s development.

In addition, ESD will establish a subsidiary development corporation comprising seven directors, four to be designated by the Governor and three to be designated by the Mayor, to ensure close City-State coordination. The subsidiary will have oversight of the project-related public realm improvements. The role of the development corporation may evolve as the project is implemented.

Community Benefits

The revised November 2021 GPP included many recommendations by the CACWG. We are heartened to see that ESD would set aside space and work with the community to provide homeless services on Sites 1, 2, and/or 3, as well as soliciting and implementing innovative ideas for the provision of social services within or proximate to the project area. We hope ESD in partnership with the MTA will consider how the Penn Station redevelopment can provide a drop-in center in Penn Station for

homeless New Yorkers to provide everything from supportive and affordable housing resources to job training, addiction services and employment assistance.

It remains that many of the recommendations relating to direct community benefits are not guaranteed and are reliant on the separate approval of the southern expansion alternative for Penn Station. If the southern expansion does not occur, there would be no requirement for a community facility on any of the remaining sites as currently proposed. Additionally, if development on Sites 1-3 does not occur, requirements for housing, notably affordable housing, would also disappear. We hope to see an alternative site proposal for these benefits if the southern expansion does not occur.

ESD Response: In response to concerns raised by the elected officials and community members, the Plan now requires 630 units of housing, including 189 units of permanently affordable housing, on Site 4 if the available floor area is to be utilized, thus ensuring housing in the project area even if Sites 1-3 are not selected as the preferred alternative for the Penn expansion and are not redeveloped. To address the immediate social service needs of the area, the State is committing new investments targeted for homeless individuals in the Penn area, including exploring locations for an additional homeless drop-in center and dedicating a Safe Option Support (“SOS”) team to the subway system around Penn Station as well as an outreach team that will engage individuals who need treatment for substance use disorders. SOS teams provide intensive outreach, engagement and care coordination service to street homeless individuals.

As you know, the Penn projects are being led by the Railroads, and they will explore the feasibility of such space as part of ongoing planning and design work related to Penn Station and the surrounding area.

Affordable Housing and Density

We appreciate the significant reduction in commercial density from the original plan with consideration of shadows and sightlines. However, there is still too much office space. With commercial vacancy rates at 16%, office occupancy only at 41%, and unused office space at World Trade and Hudson Yards, pre-pandemic, more office space is not what we need. With this level of density, there must be increased residential zoning, including mandatory affordable and supportive housing, on Sites 4-8.

The only site currently required to be residential is Site 1A, with Sites 1B, 4 and 8 allowing the option for residential development. As stated earlier, if an alternative Penn Station capacity project is selected that is not the southern expansion, Site 1A may not see development at all, negating any potential affordable housing gains from this project. A project this large must confront New York’s housing crisis head-on, with 1,000 affordable units, including at least 200 supportive units. The remainder of

these units, not yet included in the proposal should be located on sites that are not reliant on the southern expansion currently under consideration. These sites must be included in the “piggybank.” Affordable housing should be included in the first phase of construction.

ESD Response: As mentioned above, we have modified the GPP to require more housing, including supportive units. Sites 1A, 1B, 4, and 8 now allow up to 1,798 dwelling units, of which at least 30 percent, or 540 units, will be permanently affordable. Site 1A would be a residential rental building, with 30 percent of its units permanently affordable (163) and an additional 20 percent supportive (108). Site 4 will require 630 units if the available floor area is utilized, of which 30 percent (189) will be affordable. The other two potential mixed-use buildings – Sites 1B and 8 – could be developed with residential uses up to the project-wide cap of 1,798 units on a “first come, first served” basis. With the construction of 1,798 housing units, the project would include 648 permanently affordable and supportive units, of which 460 are now required.

Environmental Considerations

Community representatives need to be included in the planning, scheduling, scoping, and execution of any and all construction/development to ensure clear communication and managing quality of life impacts to the existing residents, including to mitigate construction noise.

Net zero requirements for buildings should exclude the possibility of purchasing carbon off-sets.

We are pleased to see that the design guidelines will encourage exceeding LEED Gold standards for building performance and the inclusion of all electric buildings. As the construction timeline for these projects is over the course of decades, design guidelines should seek to encompass technology that may not be readily available yet. With such a great undertaking, there is a real opportunity to exceed the energy conservation requirements of Local Law 97 and achieve a carbon negative Penn District and we hope that this is reflected in subsequent guidance.

ESD Response: ESD will assign a Quality-of-Life Community Liaison to be the community’s point of contact throughout project build-out. This person will send regular email blasts to community stakeholders regarding construction activities and be the community’s one-stop-shop for any issues that need to be brought to the attention of the public and private entities involved in construction. In addition, ESD will hold Quality of Life public meetings quarterly throughout construction. In addition, the developer of each site must commit to a Memorandum of Environmental Conditions (MEC), as required by the GPP, that will outline required mitigation actions to be implemented during construction to minimize potential impacts to nearby

communities. These mitigations include an emissions minimization program and noise reduction measures, among others. ESD will monitor each developer's construction activities for consistency with the GPP and environmental commitments in the MEC.

Sustainability and resiliency are woven throughout the project, from details in the Design Guidelines to the project's macro goals. In addition to revitalizing the project area with new, energy-efficient commercial and mixed-use development, the project's improvements to the transit system, public realm and development sites focus on increasing sustainability and resiliency to benefit the local community, the City of New York, and the region. A resilient rail and mass transit system with transit-oriented development offers a low-carbon alternative to automobile travel and supports sustainable development patterns. Improvements to rail capacity, service reliability and rider experience at Penn Station are critical to getting people out of their cars and meeting regional carbon reduction goals.

The project's public realm improvements focus on making the area more pedestrian- and cyclist-friendly rather than emphasizing vehicular traffic over the needs of those who travel the area on foot and bicycle. Shared streets, bike lanes and other improvements that will exist in the public right-of-way will be designed to New York City Department of Transportation standards and will provide the opportunity to implement many of the City's social and cultural as well as sustainability and resiliency goals for the neighborhoods.

The Design Guidelines provide further details to ensure that the development sites are designed with street activation – limits on lobby and retail frontage size to encourage varied small retail uses – and navigation – widened sidewalks, more circulation space, highly visible subway and Penn Station entries – at the forefront. The Sustainability section specifically requires that all sites are constructed in accordance with evolving carbon and GHG reductions laws and LEED rating systems. It is ESD's goal that upon project build-out, buildings on the development sites will be fully electric when the NYC grid enables that.

Small Business Displacement

Any plan that results in the displacement of small businesses should offer temporary spaces during the construction period and relocation within the new towers for existing small businesses, stores and nonprofits, of similar size to current locations, at current rent levels and terms. It is important we retain the estimated 8,937 jobs attached to these spaces that contribute to the vibrancy of this area.

ESD Response: We agree that assisting small businesses is critical. Because the Penn expansion would likely include federal funding, business displacement (which would occur on Sites 1, 2 and 3 if those sites are selected for Penn Station expansion through the federal review and approval process) would be governed, as would residential displacements, by the federal Uniform Act. Should expansion go forward on

those sites, whatever entity is selected to acquire the properties would be required to assist displaced businesses with advisory services, including assistance in finding comparable replacement space in the vicinity, and would provide reimbursement for moving and related expenses and reestablishment expenses pursuant to the Uniform Act. Applicable federal and/or state eminent domain laws and procedures require that business tenants also be compensated for any trade fixtures that must be abandoned in place at the location from which they are displaced. Because the Uniform Act generally only permits compensation for one move to a new location (except for, subject to federal lead agency approval, temporary displacements of one year or less), it may not be feasible or desirable for displaced businesses to relocate back to the development sites after build-out because it is unlikely redevelopment will be completed until well past a year from displacement. In any case, it is assumed that the displacing agency will endeavor to find suitable replacement space for displaced businesses nearby at the time they are displaced.

Public Realm *We are pleased to see the creation of a public realm task force and look forward to the participation of a wide array of stakeholders. Coordinated public realm improvements should be the centerpiece of this plan, and the creation of this task force will help ensure that occurs. Concerns have been raised, which we share, regarding the funding mechanism for the Penn Station Area Public Realm Fund. We agree with Community Board Four’s request that a fixed proportion of the PILOTs be guaranteed for public realm funding. Previous testimony on this matter has received the response that specific funding arrangements for the fund have not been arranged. Until there is a set arrangement, we remain concerned over the ability of the fund to provide the promised benefits to the community.*

It is critical that all new development be designed with the pedestrian experience at the forefront, such as ensuring large commercial building entrances and unactivated street frontage do not replace any potential vibrant street life. While the November 2021 revision to the GPP reduces maximum lobby widths, it still allows lobbies to take up to 100 feet of avenue facing blocks in multiple locations, and should be further reduced. Station entrances should be required to be large, easy to find and consistent in design to ensure convenient wayfinding for transit users.

New pedestrian space should not become hijacked by other needs. Amenities such as accessible seating and tables should be available in all public spaces. Garbage, loading, utilities and other building operations must be handled inside of the building.

The multiple developments in the area, including the Port Authority Bus Terminal alongside the Penn Station redevelopment project will have significant and compounded impacts on traffic volume, pedestrians, transit, air quality, and noise in the area of the project. These cumulative impacts were not fully taken into account in the FEIS. It is essential that the GPP outline mechanisms to monitor and mitigate the impact of these developments on transit, pedestrians, traffic, and residents.

ESD Response: We have committed to an upfront contribution of \$50M to the Public Realm Fund from early project revenues, to ensure the community starts seeing public improvements as soon as possible. Additional Project Revenues will be contributed as redevelopment of the GPP sites progresses. The Design Guidelines do not allow 100-foot office lobby entrances; permitted widths range from 60 feet wide to 90 feet wide for each building's primary lobby, depending on the size of the development lot. The 90-foot option applies only to the 4 largest commercial buildings. The 60-foot option is permitted at the other 5 commercial buildings. To promote active streetscapes, the Design Guidelines require that active ground floor uses occupy at least 40% of each building's aggregate street frontage; that there be required retail use on all corners (not otherwise occupied by a transit entrance); and that each storefront is limited in size to promote a variety of retail options.

The Design Guidelines also specify locations for new entrances into Penn Station and subway stations; the size, configuration, and transit signage will be determined by the Railroads in coordination with private site developers.

The proposed City-State Development Corporation, a subsidiary of ESD, will advise ESD on public realm improvements. Final design of public spaces will need to balance the needs of the high-volume pedestrian environment with the desire for passive uses. The Design Guidelines require that loading and building operations functions be handled inside buildings, which will greatly improve the public realm conditions for pedestrians and cyclists.

Finally, the potential effects of the Port Authority Bus Terminal (PABT) project were accounted for, together with many other background projects, in the future No Action conditions in the FEIS (see Chapter 2, "Analytical Framework"). With respect to the transportation analyses, the projected increase in bus riders and trip generation from the PABT project and its development sites were incorporated into the future traffic, transit, and pedestrian peak hour baseline volumes for the Phase 1 and Phase 2 analyses in the FEIS. With respect to construction, both projects are expected to have concentrated localized effects near the respective project sites. Because the two projects are about 10 blocks away from each other, the effects of construction activities of one project on the other would be dispersed and would amount to modest and incidental background activities. For the Project, the construction transportation analysis conservatively assumes future baseline conditions that account for background projects that are not expected to be completed by the construction analysis years. Accordingly, any modest and incidental effects associated with PABT's construction activities would have been adequately considered.

Train Hall & Madison Square Garden

The gateway to New York, its largest transportation hub, should represent the City. A new grand train hall can be built if Madison Square Garden is moved to a more

appropriate site. Of the two options for a train hall on the potential southern expansion block, we have a strong preference for the avenue facing option, rather than a mid-block train hall; however, either option will be offset from the majority of tracks. We continue to demand that Amtrak, MTA and New Jersey Transit engage the users of Penn Station and the surrounding community in discussions on the renovation of the station and the Penn Station Master Plan. As evidenced by this process, early engagement of key stakeholders leads to improvements.

The impact of MSG operations must be taken into account when planning for the surrounding streets and sidewalks, including customer flow and loading operations. All trucks associated with MSG and its operations, including loading and news vehicles, should be accommodated within the building, and taken off our streets, sidewalks and open spaces. While the MSG site is not included in the current GPP, the impacts of its presence and operations will continue to have an adverse impact on the surrounding streetscape that will be difficult to mitigate. Understanding the challenges of moving MSG, we maintain that moving MSG is in the best long-term interests of our city: the ability to provide for a grand above-ground train hall, enable the construction of wider platforms and realigned tracks, allow for track expansion without displacing residents, facilitate ease of public realm improvements, and provide for the addition of through running. We request that a group of stakeholders be convened to explore alternative locations for MSG.

ESD Response: ESD will continue to work closely with the Railroads to ensure that the ultimate designs for the reconstruction of Penn Station and the potential Penn Expansion are coordinated with the GPP developments, including public realm and transit improvements. Regarding a train hall on Sites 1-3, we have built sufficient flexibility into the Design Guidelines to allow for either a Seventh Avenue or a midblock train hall should the southern expansion go forward on these sites.

As you mention, MSG is not included in any proposed actions in the GPP, though nothing in the GPP would preclude moving it in the future. One goal of the Public Realm Task Force (PRTF), which will provide guidance on the public realm and help prioritize public realm improvements, is to provide a forum for coordinating among various property owners, including key private owners such as MSG, in the formation of a public realm concept plan. We anticipate working with MSG and the Railroads, among others, to address questions related to MSG operations, with the goal of creating a safer, less congested, more desirable public realm around the Garden.

View Corridors/ Shadows

While the FEIS includes improvements to view corridors from the original plan, we agree with the local community about the overall impact on views. ESD should work to minimize shadows and negative impacts from new development on sightlines.

ESD Response: As you note, in response to feedback from the CACWG, we have made significant, targeted changes to the permitted building envelopes in the Design Guidelines to preserve significant views of the Empire State Building along West 33rd Street. As developers of the sites commence design work on each site, we will ensure that those designs are shared with the CACWG to continue ongoing collaboration.

Local Hiring

The FEIS states that currently information related to prevailing wage and community benefits have not been developed and that these are outside the scope of SEQRA. Before finalizing the GPP, Project Labor Agreements should be developed and local and community benefits should be included. A provision to explore local hiring agreements during construction in partnership with the Building Trades Employer Association should be included in the plan and ESD should work towards an agreement with trade unions to establish and fund a pre-apprenticeship program that links economically disadvantaged New Yorkers to union careers in the construction trades, with outreach to the local community. As the Penn Station rebuild and expansion nears completion, a local hiring office should be opened in the vicinity to connect local community members with jobs in the new station as well as in surrounding development sites. This office would collaborate with community-based organizations on outreach to economically disadvantaged job seekers and communities.

ESD Response: The GPP will require that prior to commencement of construction on any site, the developer of such site must enter into a project labor agreement or a similar agreement for that site. ESD intends to consult with community stakeholders before issuing any RFPs for Sites 1-3, should those sites be the preferred alternative for Penn expansion, and is open to considering local hiring goals for those sites as part of that process. In addition, ESD will coordinate with the Railroads and community-based organizations to explore local hiring opportunities closer to the time of construction of the railroad projects.

Financial Framework

We appreciate ESD and MTA exploring funding strategies to eliminate the City's risk and minimize public risk and ensure timely repayment of any loans or bonds. However, more details regarding how the state will decrease risk to state taxpayers and the City are needed and there are a number of outstanding questions that should be answered before any future votes by the board:

1. *How will future PILOT agreements adjust to cost overruns of the project, which are frequent on mega projects?*

ESD Response: This is addressed in the Letter of Mutual Agreement among the City, State and ESD, in which the City and State agree to the scope of the projects that can be funded by PILOT, the percentage of each allowable project's cost (Penn reconstruction and expansion, transit improvements and public realm improvements) that can be funded by PILOT, and restrictions on changes to scope. In addition, there are set milestones for setting a ceiling on fundable project costs.

2. *How is ESD calculating potential revenues from the project? Will ESD share these projections and assumptions?*

ESD Response: ESD analyzed multiple development scenarios and “stress-tested” various assumptions as part of its modeling process, and these continue to be refined as the Penn Station projects evolve. Before ESD can enter any development agreements for any project site, ESD will share the terms of those agreements for public review.

3. *What is the total cost to city and state taxpayers of this financing plan, versus the State using conventional borrowing?*

ESD Response: It is too soon to provide specifics of how the Penn Station railroad projects might be financed, but we anticipate that a State entity will provide credit support to bridge the gap between when funds are needed for construction and when PILOT and other development-related revenues will start to flow. Under the Letter of Mutual Agreement with the City, the State can recoup most such upfront payments from future project revenues over time. The City successfully followed a similar structure at Hudson Yards and has now paid itself back fully for early outlays and has begun realizing significant net positive returns for taxpayers.

While the financing plan for the Penn Station railroad projects will not be determined until public approvals are completed, we anticipate that there could be more than one financing, potentially utilizing different mechanisms (described below) but all leveraging the future PILOT stream from the development sites and potentially other development-related revenues over the course of the project period to help minimize borrowing costs.

The State will identify the most financially advantageous sources of financing to minimize costs to taxpayers. This could include tapping into federal lending programs tailored to large infrastructure projects, such as the Transportation Infrastructure Finance and Innovation Act program (TIFIA) and the Railroad Rehabilitation and Improvement Financing program (RRIF), which have advantageous terms that may become even more so when new guidelines are implemented pursuant to the Infrastructure Investment and Jobs Act (IIJA).

A conventional borrowing structure could expose taxpayers or riders to greater risk than a public-private financing model, since it would mean that New York State (and its taxpayers) could be responsible for most of New York State's share of the project costs – billions of dollars that can be shifted to the private sector through the contemplated value capture framework. The GPP financing model would leverage the increased assessed value of up to nine privately financed developments to cover a substantial portion of the costs of the Penn Station reconstruction and expansion, as well as additional transit and public realm improvements, pledging those long-term additional revenues as support to finance the near-term construction of these major public infrastructure projects.

- 4. We understand that it is the intent of ESD to make the city whole for existing property taxes. Where will these funds come from? How does this impact the state's ability to pay back potential bonds? What is the impact on city real estate tax revenues, given the proximity to Hudson Yards? What assumptions are going into making the City "whole" in terms of projections from current tax revenues as well as increased costs for city services?*

ESD Response: Pursuant to the Letter of Mutual Agreement among the City, State and ESD, the State will make the City whole for existing property taxes on all the GPP sites, escalating by 3% each year. These payments will come out of PILOT revenues, but in the event that PILOT is not sufficient in any given year to cover those payments, the State would identify other sources, subject to State appropriations, to cover any shortfall. The State would be able to reimburse itself from future PILOT revenue for shortfall payments, within parameters set forth in the Letter of Mutual Agreement.

With regard to increased costs for City services, the Letter of Mutual Agreement entitles the City to bill, collect, and retain all City Commercial Rent Tax from all applicable tenants of the new developments, including all incremental square footage created pursuant to the GPP, to help pay for City services.

- 5. How much does the State intend to give the developer in tax breaks via discounted PILOTs? If the Hudson Yards model is used, there could be \$1 billion or more in tax breaks (see research from the [Schwartz Center for Economic Policy](#)).*

ESD Response: The State has made no commitments regarding financial incentives on any site in the GPP project area. Those determinations will be made at the time a development agreement is executed for each site and will take into consideration the market at that time.

That said, the State has committed to New York City that any abatements offered in the project area would not be greater than those available in the Hudson Yards UTEP district at the time any individual development agreement is executed. This

helps ensure that all developments in the area are on an equal playing field and incentivizes timely development of both areas.

The State is committed to limiting benefits to only what is needed to catalyze development in an area that has not seen a new office building built since the 1970s.

It is also important to note that Hudson Yards has been a resounding financial success for the City. Though the City provided \$359 million in interest support payments during the project's first six years, since 2016, the City has not had to pay any such payments because other revenues were sufficient to pay interest on the outstanding bonds and operating expenses. These revenues have returned approximately \$663 million to the City for a net gain as of 2021 of \$304 million, and such gains are expected to continue to grow in the future.

- 6. How long will taxpayers pay interest payments on project bonding before Vornado properties generate any revenue? What steps is ESD taking to mitigate risk to New York State taxpayers? Please explain the funding strategies you are pursuing to minimize public risk and ensure timely repayment of any loans or bonds issued. Please also explain the credit enhancement you foresee undergoing and how the state will financially support that process.*

ESD Response: As detailed in Question #3 above, the State is exploring multiple financing strategies, striving 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 at Hudson Yards. The form and amount of credit enhancement requirement will be determined at the time financing and will depend on the status of development and the amount of revenues being generated at that time.

- 7. How much will the State be paying in credit enhancement mechanisms?*

ESD Response: The level and structure of any required credit enhancement mechanisms will be determined at the time that one or more project-specific financings take place for the Penn reconstruction and expansion projects. Factors that will affect these determinations include, but are not limited to, the allocation of cost sharing among the federal and state parties and the terms and requirements of the specific financing tool(s) selected to pursue, which may differ (e.g., a bond financing may have different requirements than a federal loan).

- 8. What are the risks to the taxpayers if development does not go as planned, and PILOTs come in at lower levels or Vornado decides not to develop certain sites? ([See IBO's research about city payments made in Hudson Yards.](#))*

ESD Response: Development agreements with developers of the GPP sites will set the parameters for PILOT payments and other private development-related revenues that ESD and the State can leverage to obtain future financing. While it is true that the State will likely need to provide credit enhancement in the short term to mitigate financing risk, it is critical to note that in the absence of development-related revenues, the entire cost of the local share for the Penn projects would be borne by the public. A value capture framework is a means to offset some of the public cost by capturing the increased property value generated by private redevelopments.

As noted above, the Railroads and the federal government are continuing to discuss a cost sharing agreement which will likely include a substantial federal grant contribution. In order to receive any federal grant, a detailed financial plan outlining committed local funding sources must be approved by the federal government. As a result, the Railroads, ESD and NY/NJ partners will continue to work together to identify funding sources that are real and locked in and other sources that are needed so that the risk to the public is minimal.

9. *How will the sunset period for the PILOTs be determined?*

ESD Response: The Letter of Mutual Agreement limits the maximum duration of individual PILOT agreements to 40 years or 45 years (the latter only if it is a requirement of a specific financing program utilized), and all PILOT agreements in aggregate to 80 years from the year the first GPP property becomes tax exempt and subject to PILOT payments.

10. *Please provide details about how baseline projections have been modeled against potential unfavorable conditions, particularly recessions and cost overruns.*

ESD Response: See #2 above.

11. *With federal funding sources having come online within the last few months, please explain how ESD has factored these potential revenue sources into discussions and considerations about the State's share.*

ESD Response: The Railroads are engaged in discussions with the federal government about potential sources of federal funding, including new opportunities from the Infrastructure and Investment Jobs Act ("IIJA"), and ESD is in close contact with the MTA about how these discussions might affect our project assumptions. The guidelines for some federal opportunities, including the latest Federal/State Partnership program, allow, but do not guarantee, up to 80% federal funding and are subject to program rules that have not yet been published by the federal government, but MTA is pursuing the maximum federal share possible.

Regardless of how much the federal government contributes, however, it is clear that the State will have to come up with a significant local share in the billions of dollars, given the vast scale of the Penn Station projects. The GPP development-related revenues would be one of multiple sources tapped to meet the State's required contribution.

It is important to note that the public realm and transit improvements are not expected to receive federal funding or be subject to cost-sharing with New Jersey. However,

certain improvements will be required to be paid for by developers as part of future development agreements, separate from the public improvements to be funded by PILOT and other development-related revenues paid to ESD.

Sincerely,



Hope Knight
President and CEO, Empire State Development
Commissioner, NYS Department of Economic Development