



CITY OF NEW YORK

MANHATTAN COMMUNITY BOARD FOUR

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JEAN-DANIEL NOLAND
Chair

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District Manager

February 8, 2008

Elliot G. Sander
Executive Director and Chief Executive Officer
Metropolitan Transportation Authority
347 Madison Avenue
New York, New York 10017

Robert C. Lieber
Deputy Mayor for Economic Development
New York City Economic Development Corporation
110 William Street
New York, NY 10038

Re: No.7 Subway Extension – Financial Implications

Dear Mr. Sander and Deputy Mayor Lieber:

At the meeting of Manhattan Community Board 4's (CB4) Transportation Planning Committee on January 16, 2008, MTA staff made a presentation concerning the No.7 subway extension. The presentation was focused on potential surface impacts in our neighborhood during construction; our comments on that aspect of the presentation will be provided in a separate letter. But the presentation also provoked lively discussion about the financial implications of this project.

CB4 is profoundly concerned that the MTA and the City are beginning the first phase of the extension of the No.7 subway line without having the funding in place for the completion of the project, including the stop at Tenth Avenue and West 41st Street or a provision for cost overruns.

In December, the MTA approved a \$1.145 billion contract for the 1.5-mile of tunneling work for the No.7 subway extension and creating the shell for a station at Eleventh Avenue and West 34th Street. The contract includes a \$450 million possible add-on, which must be funded within nine months to be feasible, for the build-out of the shell for a station at West 41st and Tenth Avenue. The City has committed the \$1.145 billion from the sale of bonds that are expected to be repaid primarily through Payments in Lieu of Taxes (PILOT's) from the development in the Hudson Yards Financing Area expected as a result of the 2005 Hudson Yards rezoning.

The City and State continue to maintain that the entire project can be completed for \$2.1 billion, which is the budget that was established in 2003 in connection with the Hudson Yards Financing Plan.

We understand that the tunneling contract was originally budgeted at \$800 million to \$1 billion. Additional contracts are expected to be approved for track, signal and systems installation; ventilation and systems facilities buildings, station entrances and station finishes, and it would be reasonable to expect that those contracts will be similarly over budget. Revised MTA projections for the full build out of the No.7 line extension are now projected to be \$2.615 to \$3.3 billion, and that is without the necessary subway cars the cost of which could exceed \$200 million (based on the MTA's July 2007 contract for the purchase of cars).

CB4 believes that proceeding with the construction of the No.7 subway extension in this fashion is not responsible.

- **No provision for cost overruns:** MTA Chairperson Dale Hemmerdinger was quoted as stating that “We’re just in the middle of a construction inflation crisis.” (1/29/08 NY Times) The sole bid that was submitted for the No.7 subway tunneling work was, in fact, above initial estimates. MTA leadership has been consistent in stating that the No.7 line extension is being paid for by the City and should not tap MTA capital funding, however the City has made no commitment to cover any cost overruns, which are plainly inevitable;
- **The tunneling contract must include the installation of a station shell at West 41st Street and Tenth Avenue:** If the No.7 extension is to be built, the inclusion of this second stop is crucial, for the reasons stated by Senator Schumer and many others in their letter dated December 21, 2007 (which CB4 has endorsed). We understand that it will be impossible to add the stop at a later date;
- **Availability of financing for the full build-out of the No.7 line extension:** As noted above, revised MTA projections for the full build out of the No.7 line extension are now projected to be \$2.615 to \$3.3 billion, far above the budgeted \$2.1 billion and potentially above the \$3.1 billion estimated for all improvements to be funded by the Hudson Yards Infrastructure Corporation (HYIC). CB4 has expressed its concern that the proposed financing scheme for HYIC ultimately puts city tax revenue at risk. Recent national real estate trends, which have already begun to affect New York City, call into question the timeline used for the projected PILOT's and other development-dependant financing required to repay HYIC bonds. Without these revenues in the timeline projected, the City's general revenue will likely be at risk for covering these bond payments.

We believe the change in environment – both in terms of spiraling construction costs threatening MTA projected capital projects and the likely slowing of commercial development during the next several years threatening the already risky HYIC financing

scheme the city intended to fund the No.7 line extension – requires that the MTA and City not proceed with this project until there is an honest plan in place to pay for the entire project. To do otherwise risks wasting \$1.145 billion on a tunnel that can not be turned into a subway extension because money runs out, or saddling the taxpayers and fare payers with a \$1 billion cost overrun. Neither alternative is acceptable.

Sincerely,



Jean-Daniel Noland
Chair
Manhattan Community
Board No. 4



Jay Marcus
Co-Chair
Transportation Planning
Committee



Christine Berthet
Co-Chair
Transportation Planning
Committee

Cc: U.S. Senator Charles Schumer
U.S. Representative Jerrold Nadler
NYS State Governor Eliot Spitzer
Governor's Office: Rich Baum, Paul Francis, Sean Patrick Maloney, Timothy J. Gilchrist
NYS Senator Thomas Duane
NYS Assemblyman Richard Gottfried
NYS Assemblyman Richard Brodsky
NYC Council Speaker Christine Quinn
NYC Comptroller William Thompson
Manhattan Borough President Scott Stringer
Pat Foye, Downstate Chair, Empire State Development Corporation
Ann Weisbrod, President, Hudson Yards Development Corporation