



CONFERENCE ON FUNDING THE NORTH SOUTH RAIL LINK
Monday April 26, 2004 Federal Reserve Bank Boston

CONFERENCE MINUTES

Mary Ann Nelson introduced herself as the Chair of the Massachusetts Sierra Club, the sponsor of the Conference. The Sierra Club is an environmental organization with over 725,000 national members and over 26,000 members in Massachusetts. She thanked the Federal Reserve Bank of Boston for hosting the event, welcomed participants and introduced John Holtzclaw, Chair of the Sierra Club national Transportation Committee, of the Sprawl Campaign who stated that the North South Rail Link (NSRL) is one of the Sierra Club's priority national campaigns. The purpose of this meeting is to advance the financing for the North-South Rail Link.

The first speaker was Eugene Skoropowski, Director of the Capitol Corridor Joint Powers Authority, responsible for the intercity train that connects coastal California with the State capitol at Sacramento. (Please see his resume in the Bios). Gene Skoropowski expressed hope that the region's decision-makers will use this discussion to think as boldly as they have in the past regarding economic investment in the region's transportation infrastructure. In 1899 South Station opened, handling 900 trains/day on 29 tracks. At that time South Station was the busiest railway station in the world, servicing the New Haven railroad, along with the Old Colony and the New York Central Boston & Albany Line, with lines radiating south, southwest and west of Boston. The Boston and Maine railroad had an extensive network north and northwest of Boston. A few years after opening, plans were made to connect the old Union Station (now North Station) on Causeway Street with South Station through a rail tunnel in downtown Boston.

The Panic of 1909 forced financing of the rail connection financing to be deferred. In 1947 the Greater Boston Chamber of Commerce published a comprehensive and visionary document called "Surging Cities" that outlined the basic highway and expressway system in place today including the Central Artery, the radial expressways and Route 128. This report also established the Metropolitan Transit Authority (now the MBTA), planned for rapid transit extensions and created the Massachusetts Port Authority (Massport) to promote shipping, port and airport development. The one clearly defined component of the 1947 Surging Cities report not yet built is the passenger rail connection between North Station and South Station. The function of this rail tunnel was to facilitate travel from points north, northeast and northwest of Boston primarily for intercity travel but also for commutation trips. This rail link was envisioned as a major economic investment in Boston and the eastern New England region just as were the highways, airport, port facilities, and transit expansion. In 1970-1972 the Boston Transportation Planning Review Study (BTPR) recommended the NSRL as the centerpiece of the expansion of the Boston region commuter rail system. Construction was to be part of the Big Dig tunnel for depressing the Central Artery. In the 1980's, because the FHWA (Federal Highway Authority) would not allow federal highway funds to be used for the rail component of the Central Artery/Tunnel project, the decision was made to cancel the rail so that the Big Dig could continue as an expanded highway project. The Intermodal Transportation Surface Equity Act (ISTEA) was passed in the early 1990's to encourage intermodal projects. In the years since the BTPR, intercity passenger rail has returned to Northern New England with Maine's successful Downeaster service between Portland and Boston. (The NSRL State Draft Environmental Impact Report/Major Investment Study was released and certified in early summer of 2003 after spending \$4.5 million voted by Congress with matching State funds. The federal Draft Environmental Impact Statement (DEIS), although complete, has never been released.) Studies are now underway for a Boston-Montreal intercity corridor serving many points in New Hampshire and Vermont. Boston and Montreal each with about 3 or 4 million people in the

metropolitan area, lie only 80 miles farther apart than Boston and New York City, yet they have no direct rail service.

Logan Airport is a model of what public investments can accomplish for air travelers and for economic competitiveness in a region. In 2001, Logan served 27.5 million passengers. In 2015, it is projected to handle 37.5 million passengers. In comparison, Boston's commuter rail system today serves over 40 million passengers.

The next speaker was Dr. Vukan Vuchic, Professor of Transportation at the University of Pennsylvania (see Bios). Dr. Vuchic stated that we've had so much new interest in commuter rail systems in recent years because 1) regional rail offers trains and networks for expanding regions and growing cities and 2) regional rail offers high quality of service and reliability so it easily competes with the automobile. One example is Munich, Germany, where in 1972 to accommodate city growth they eliminated vehicular traffic in the central city with parking outside. Munich had suburban commuter rail lines that terminated at the West Station and others at the East Station. They connected these 2 rail systems through downtown and ridership went up from 150,000 to 600,000 daily riders. There was only a 2-3 minute headway, with longer trains at peaks. There was an immediate 12% shift from autos to transit. With this, Munich had built a regional rail system; the downtown is distinctly transit oriented; and they have a very livable city. In Philadelphia in the 1960s 2 lines were connected by tunnel: the Pennsylvania RR from the West that terminated 2 levels below grade and the Reading RR which ended 2 levels above ground. With Mayor Frank Rizzo's support the connection included the development of Market East Station shopping mall. Other examples include Paris where they realized the city could not flourish without expanded rail to the suburbs, and also built a new line to Charles de Gaulle Airport. New York has by far the largest regional rail network in the US: the Long Island RR, New Jersey Transit and Metro North. There is now a serious effort to connect the Long Island Railroad to Grand Central Station, already electrified. These cities have made the transition from commuter rail to regional rail to accommodate city growth. Real transit runs all day, whereas commuter rail has an irregular schedule to accommodate morning and evening peaks. What is needed is regional transit with all day services. We need physical and organizational integration with city transit. Regional rail will competitively serve the region, attract ridership and compete with automobiles. In Boston the geography makes the North South Rail Link absolute logic. The benefit to commuters north and south and to intercity Amtrak passengers is clear. You don't have to electrify all at once. You can up-grade the system into regional rail in a step-wise approach.

John Holtzclaw next introduced Gill V. Hicks, President of Gill V. Hicks and Associates, Inc. (See Bios) and for 10 years the General Manager of the Alameda Corridor project in the Los Angeles area - a huge project connecting the 2 large ports of Long Beach and Los Angeles with the rest of the country. The corridor is 22 miles long, 10 miles in a trench that is 35 feet deep, 50 feet wide, and the walls held up by 27,000 cast and drill-holed concrete piles with about 2,000 horizontal struts over the top. The cost of the project was \$2.4 billion. It took 18 years from concept to reality. The idea of the project was to consolidate all the freight railroad activity to this 1 line and then eliminate conflicts with highway traffic by separating 200 grade crossings – significantly reducing delay. The 2 ports are the largest in the US and third largest in the world, after Hong Kong and Singapore. They handle 11.8 million 20 foot containerized cargo units per year. That's projected to increase to 36 million by 2020. The largest contract, \$780 million of the project was design-build, which saved 18 months. In the design-build approach the designers are in the same contract with the builders. To get federal attention, we had to convince everyone that this project was not just serving L.A., but the entire country by expediting cargo to all other parts of the nation. For this \$2.4 billion dollar effort, revenue bonds were substantial – about \$1.160 billion issued by the Alameda Corridor Transportation Authority: \$520 million tax exempt bonds (that were sold within the hour) and \$640 million taxable bonds. With the Federal loan of \$400 million the debt equaled \$1.5 billion. The railroad users, the Santa Fe and the Union Pacific paid the debt service and maintenance by fees on each container. The Los Angeles County Metropolitan Transportation Authority (MTA) provided \$347 million of grant funding (federal, state and local). The ports contributed \$394 million primarily to purchase the right-of-way from the Southern Pacific. The remaining \$130 million or 5% came from other sources. We completed the Alameda Corridor project on April 15, 2002. It was on time and under budget. Now we have an average of about 40 trains/day.

Mr. Hicks' advice for funding the North South Rail Link is to: 1) compete aggressively for all funding opportunities; 2) demonstrate national significance of the project; 3) reduce the risk to owners and investors particularly where you've got bondholders demanding performance; 4) avoid delay. The goal is to raise money. You need champions: people in business and key positions in power who can promote your project at every possible opportunity. They find motivation for helping you when there is a coalition requiring a diverse set of interest groups to say this can be done and to make sure this project happens. Coalitions cannot perform if there is not a consensus of what is wanted. Getting to consensus requires compromise. If you don't get an agreement then you have nothing. Credibility speaks to the skill of designers, planners, lawyers, financial analysts and everybody else working on the project. If you don't have credible figures and numbers you are in trouble to begin with. Coordination involves the teamwork of all the multi-disciplinary teams involved and what glues them together is good communication. Also, whatever external motivational messages you can come up with are all part of the communication. If you can navigate these seven "C"s you can get the capital and funding for the project.

The fourth speaker was David Seltzer to talk about private financing. Mr. Seltzer is a Principle at Mercator Advisors, LLC in Philadelphia, a firm that provides financial consulting services to governmental, corporate and non-profit organizations sponsoring major infrastructure projects. (See Bios) Mr. Seltzer was involved in designing the financial programs of TEA-21 including the Transportation Infrastructure Finance and Innovation Act (TIFIA). He started by saying that the potential benefits of private participation include faster completion, efficiency in construction and operation, risk transfer (such as design-build), use of new technologies, and attracting additional capital.

Sources of funding pertinent to the NSRL are public sector equity and debt sources such as governmental Grants and Contributed Capital, Grant Funded Loans, and Federal Credit such as TIFIA and Railroad Rehabilitation and Improvement Financing (RRIF). Private sector equity sources are Strategic equity (such as investment by the Las Vegas hotels that benefited from the mono rail stations), Tax-Oriented equity (now endangered in Congress). Private debt sources are Vendor Financing such as loans by rolling stock suppliers; Private Placements; and publicly sold Capital Markets Debt such as Tax Exempt Bonds (used in the Alameda Corridor project); Taxable Debt Bonds issued at market; and Tax Credit Bonds, which is a new form of instrument.

Federal Policy "Innovative Finance" Tools are new forms of Grant Initiatives, new Credit Instruments like TIFIA and RRIF that guarantee loans, Regulatory Reforms to streamline the process of using federal funding and private participation, and Tax Incentives that include Private Activity Bonds such as municipal bonds that have significant public participation; and Tax Credit Bonds.

Mr. Seltzer then turned to Tax Credit Bonds. A Tax Credit Bond is a bond issued by a governmental entity (could be a state, city, or a special purpose authority like the Alameda Corridor Transportation Authority) where the project sponsor, the borrower, is responsible for repaying the principle in 20 or 30 years. Where it departs from municipal bonds is that the borrower does not pay the interest, the federal government pays the interest in the form of an annual tax credit at say 6% a year that it gives the investor in lieu of a cash payment. So it's a hybrid bond where the federal government is picking up the interest expense, possibly up to 75% of the effective financial cost. An existing \$400 million a year program in the school sector called Qualified Zone Academy Bonds (QZABs) has spurred proposals in the transportation sector. There's one in the Senate version of the transportation reauthorization bill so-called "Build America Bonds" that could be a very powerful tool in driving down the effective cost. Whatever may be that revenue stream that will be needed to repay the principal: if the federal government can pick up the interest it can be quite effective in advancing large mega projects. For the North South Rail Link one possibility is one set of investors might buy the stream of annual 6% tax credits because they have other federal taxable income that they could offset. Through some technique like these Tax Credit Bonds you could also bring in an entire class of tax-exempt pension funds who have enormous resources, huge institutional investors like state teachers funds, state employee funds and other public employee retirement assets. The opportunity of this "Build America Bonds" if ultimately enacted is that an entire project of several billion dollars could be supported by the issuance of tax credit bonds, zero interest tax credit bonds.

John Holtzclaw introduced Peter Peyser, the final speaker, to talk about public financing. Peter Peyser Jr. is President of Peyser Associates, Inc., a DC based public affairs consulting firm. He worked on financing intercity rail projects, building four major light rail projects, preserving federal funds for the Central Artery here in Boston, and he has worked on the staffs of three members of Congress and the Mayor of New York City (See Bios). Mr. Peyser began by noting that there is still resistance in Washington DC to funding another Big Dig, which will make it more difficult to do the NSRL. The legislation ISTEA of the early '90s and now the current TEA21 does create a mechanism that provides for a balanced transportation system and an emphasis on making more efficient use of the existing network. Even with that change in policy the federal government is now spending more money proportionately on highways over transit compared to 20 years ago. The ratio is now 4.5 for highways to 1 for transit. We are spending \$33 billion on highways nation-wide and \$7 billion on transit. The flexibility to move highway money to transit is used in a very few metropolitan areas, changing the ratio to about 4 to 1. Hopefully this year the federal government will spend \$1.8 billion on Amtrak. Over the long term, the key to the federal government's view of this project will be to what extent it can be viewed as part of a national network of intercity passenger rail and as part of a national movement to create more options for transportation in our major metropolitan regions. The Northeast Corridor is an incredible asset to the nation. Obviously it is an important asset not just to New England, but to the Mid Atlantic States and now also to the Southern States. There is an opportunity as people are creating a vision to reenergize the Northeast Corridor to bring this project into that broader environment. The NSRL has got to be part of that national discussion, and that discussion is ongoing. Amtrak's future is being discussed all the time.

Over the study period referred to in the Executive Summary of the DEIR, about a 24-year period, the Commonwealth of Massachusetts will be getting something in the order of \$18 to \$20 billion of federal funding. All that is programmed and spent maybe 3 or 4 times when you look at the projects all over the Commonwealth - the bridges, the streets and roads, the arterials, the major interstates. There needs to be a conversation about where this project fits into that scheme of things. One of those opportunities is going to be that flexible money, some portion of that \$20 billion over the period of 24-25 years. We have to talk about accessing that huge federal resource for this project. Now, where is the new money that's going to help make this project happen? And there ARE opportunities here.

1. In the rail area, when you set a goal and you create a coalition and you push the national agenda you can make an impact. There is an on-going effort right now to create a major new program for intercity passenger rail. The House of Representatives' Transportation Committee last year passed a \$56 billion dollar program, over a 10-year period. It's still out there. In the Senate, Senator Hollings and others are working on a grant program of significant size that is making progress slowly. This project fits into the program perfectly.

2. We also have some existing credit support programs, as David Seltzer said, that ought to be explored. This is not the kind of project that's going to throw off revenues over and above what's needed for operation and maintenance.

3. While eligible for Amtrak funding, while eligible for highway funding, it is also eligible for Federal Transit Administration funding.

4. There are other new sources potentially available. David Seltzer talks about tax credit bonds. To

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project sponsor they behave like a grant. They are really just reflecting the bizarre way the federal government accounts for capital projects. It's just cash flow, annual budget, score it all in 1 year. Tax credit bonds can make this appear at low cost to the federal government but still create a significant grant. The Senate has passed legislation that includes an opener for the private activity bonds area.

5. The next one is a program that is in the pending House bill TEA21. It's referred to colloquially as Mega Projects. The formal name is "Projects of National and Regional Significance". It is a \$6.6 billion program of grants for big projects. It creates recognition at the federal level that there isn't enough money in the formula programs to support major projects like this.

Funding for this project includes money from a variety of different public sources - federal highway money, federal transit money, intercity rail funding, federal credit support, other innovative financing techniques, together with state funding and whatever portion of private sector funding David Seltzer can come up with to close the gap. That's how a project like this is going to get done. There's got to be a communications piece for this project that talks about why it's so important to the nation, why it's so

important to the states that share this corridor of the intercity rail network. There are several advocacy efforts under way nationwide such as California high-speed rail, Florida high-speed rail, and Midwest high-speed rail. It's a no-brainer. You're linking up the last gap in the Northeast Corridor. The NSRL project has to be discussed in the mix of these other efforts.

I have seen the private sector pulled in successfully many times. Pull them in as early as you can, get their ideas on how to deliver this project on using design build using innovative procurement techniques and innovative financing, because they have significant assets you can tap in the national debate. They are politically active; they have advocacy folks in states all around the nation and in Washington. They will want to be included in the discussion of an \$8.8 or \$9 billion project even before they know whether they will get any work. It's a big project and they'll want to be part of helping you think about how to deliver it and how to make the case to government and to the community that it's worth doing. These are steps that can be taken right now to put together the funding for this project.

The questions and answers session followed. The points made were:

- Other sources of funding might be Homeland Security funds, private financing of the operational equipment, real estate around the stations (Curtis Davis), leasing revenues inside the stations (Governor Dukakis), and freight (Bill Ankner).
- A stronger coalition would result from aligning with Connecticut (Kip Bergstrom) and the New York/New Jersey tunnel project for an I-95 rail improvement effort (Gene Skoropowski). The Northeast Amtrak Corridor has underutilized capacity that connects valuable economic assets (Bill Ankner). The NSRL needs to be part of a strong development plan (Dr. Vuchic).
- How to capture the value that a public sector transport entity creates and accrues to private investors? (Gene Skoropowski, Bill Ankner) The capacity cost of the NSRL can be shown to be more cost-effective than expanding highways (Curtis Davis, Dr. Vuchic). The 14.3 million commuter hours saved per work year should finance several billion dollars of value (Bob Waldner).
- The NSRL is a necessary project because the cost of NOT doing it is significant. There is no solution for the overcapacity at South Station and North Station (John Businger). Also, it will provide an increase in the capacity of the Rapid Transit lines otherwise very costly (Gene Skoropowski).
- The construction cost needs to be clarified (Governor Dukakis). You can go with \$2.5 billion and do it step-wise (Dr. Vuchic). You don't have to electrify all at once; you can put a third rail through the tunnel or a wire overhead (Gene Skoropowski). Two major components, the utilities and the environmental mitigation, have already been done for the Big Dig (Curtis Davis, Dr. Vuchic). Most of the work can be done from both ends, with little disruption (Gene Skoropowski). Design-build engineering and construction firms would come to a conference and figure out how to do the NSRL efficiently, as they did for the Alameda Project (Peter Peyser, Gill Hicks).

John Holtzclaw thanked everyone for attending. A task force of 10 participants was established to pursue the financing, build momentum, convince people that the NSRL project is worth supporting.