

The most important US infra project (that may never happen)

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The Gateway Program is a vast transport infrastructure development that will improve and expand one of the most vital commuter rail links in the US.

Although still at an early stage, it has a level of support from multiple state authorities that other projects in the country can only dream of, and it has attracted significant private sector interest.

But proponents of the upgrade for the Northeast Corridor still face a significant hurdle: convincing the federal government to stump up around half of the funding for the first phase of the \$30 billion development. Without this federal support, the Gateway doesn't get built.

And the request for grants for Gateway runs counter to the Trump administration's desire for states to shoulder more of the burden of infrastructure funding. The [Trump infrastructure plan](#) may have talked big numbers, but is asking others to meet the bill.

Rumours circling Washington DC this weekend suggest Trump will make an example of Gateway and deny it funding. Others say he is using it as a bargaining chip, and plans to put pressure on its supporters in Congress to fund his priority policies.

This approach seems cavalier before you even consider how urgent and necessary the Gateway Program is.

No choice

Francis Sacr is the interim finance director of the Gateway Program Development Corporation (GDC), the company formed by Gateway's sponsors: Port Authority of New York and New Jersey (PANYNJ); New Jersey Transit Corporation (NJ TRANSIT); and operator of the existing rail route Amtrak.

He was appointed to lead the project last summer, after 23 years working on project finance deals at Société Générale. Sacr first joined the French bank in his native Australia. He had trained as a lawyer and was working on secondment at SG for what is now Corrs Chambers Westgarth when he decided he wanted to become a banker.

From working on early privatisations in Australia, Sacr then moved to New York and was involved in the first PPPs in Canada, including the [Sea-to-Sky Highway](#) and [Richmond Airport Rapid Transit](#). His experience of ground-breaking transport deals stretches right up to the 2016 [LaGuardia Airport](#) deal where SG advised the sponsors.

Gateway could put even these achievements in the shade. Phase one involves the construction of the new Portal North Bridge (estimated cost \$1.7 billion) over the Hackensack River, and the new Hudson Tunnel (\$12.7 billion) connecting New Jersey to Penn Station in Manhattan.

He believes the necessity of Gateway will ensure its progress: “There is no choice but to replace the bridge and the tunnel. They are both more than a century old and well past the end of their useful lives.”

The existing bridge and tunnel were constructed in 1910. Portal Bridge, partially made of wood, sits just 23 feet above the river, meaning it needs to swing open for maritime traffic using 19th century technology. Sometimes it needs to be hammered back into place. And even when the bridge is working properly, trains must slow down to cross it.

Meanwhile the North River Tunnels sustained flood damage during Hurricane Sandy, leading to a substantial increase in service disruption in recent years.

As Sacr says, “it creates a huge bottleneck” in possibly the worst place for a bottleneck in the whole of the country. The Northeast Corridor rail network runs from Boston to Washington DC, via New York, Philadelphia and Baltimore. Most of this route benefits from three-to-six track lines, but at its busiest 10 mile stretch (450 trains and 200,000 passengers a day, according to Amtrak) between Newark and New York there are only two tracks. GDC claims that 10% of the national GDP is related in one way or another to the tunnel alone.

So while phase one is just about preserving what already exists, the rest of the \$30 billion will be spent on expanding capacity, including a redevelopment of Penn Station, across numerous separate projects.

Sacr says: “We are not ruling anything out. We expect that there will not be a single solution and we are looking at everything from design-bid-build through to DBFOM, and everything in between. The trains and the systems will continue to be run by Amtrak and NJ TRANSIT but there are a lot of procurement models we can consider for the civil works.”

Federal funding

Although the justification for Gateway is solid, its funding is far less assured. As Sacr admits, GDC is very publicly searching for every dollar it can get for phase one.

Along with funding from the proponents, GDC hopes to raise several billion dollars in the form of Railroad Rehabilitation and Improvement Financing loans from the government, and more than \$1 billion from as yet unspecified capital sources which will be repaid from project revenues. But just under 50% of the funding for the first phase is due to come from federal grants under the government’s New Starts programme.

However, the crucial New Starts funding is in serious doubt. In February, USDOT released an assessment on both parts of the first phase of Gateway. To proceed to the next round of approvals, any project must maintain a medium or above rating.

Portal North had previously been rated as medium-high, but had now been relegated to medium-low. Hudson Tunnel also received a medium-low rating in what was its first ever assessment.

“We viewed those comments as surprising,” Sacr says, “both in their own right, and in the context to the additional information we have provided to the federal government since that September submittal.

“This included additional information on Portal North Bridge and that we have received \$5.55 billion of commitments from our local partners which will assist us in raising financing for construction.”

Those commitments are split between payments from PANYNJ to GDC that facilitate net financing proceeds of \$1.9 billion; a payment stream from the State of New York which facilitates net financing proceeds of \$1.75 billion; and a similar payment stream of \$1.9 billion from NJ TRANSIT.

However, USDOT’s assessment of the Hudson Tunnel described GDC’s capital cost estimate and projected operating revenues as “optimistic”, and assumed growth in capital revenues as “very optimistic”. Similar, though less critical, comments were made in relation to Portal North Bridge.

Assessment for New Starts is ongoing, and Sacr says they are in constant dialogue with the federal government in regards to both project funding and technical requirements. Discussions regarding the latter have been more fruitful so far.

The early works continue on schedule. These include the construction of huge concrete boxes to sit underneath the ongoing Hudson Yards development, which will eventually boast several skyscrapers and a giant climbing frame-like sculpture designed by Thomas Heatherwick. The concrete boxes preserve Amtrak's right of way beneath that construction site and will eventually house the new tunnel.

GDC will also shortly launch [RFPs for financial and legal advisers](#), and Sacr says that "despite all the noise you see in the news, the things that we can do - we are doing".

But the bulk of the work cannot start in earnest until an agreed funding plan is in place.

"Everything about this project is big, which is why we can't delay it," Sacr says. "In projects, time costs money. We have an estimated cost today for the tunnel that is based on 2017 dollars, but building costs escalate with inflation, and we are currently in a rising interest rate environment, so that cost will start to go up the longer we delay."

Political football

In recent days government support has seemed less not more likely. *The Washington Post* reported on 2 March that President Trump was pushing congressional Republicans to oppose Gateway. Several senior Democratic politicians, including New York Senator Chuck Schumer, have been vocal supporters of the scheme. In typically transactional style, the President allegedly does not want to help Schumer and his colleagues when they oppose so many of his own policies.

This may lead to a period of horse-trading, with concessions from Democrats the key to unlocking federal grants. But if the situation becomes intractable, it will not be the first time a redevelopment of this rail network was derailed by political point-scoring.

A predecessor project, Access to the Region's Core (ARC) was controversially cancelled by Chris Christie - New Jersey Governor in 2010. Like Gateway, ARC would have created a new tunnel under the Hudson River but in contrast entailed the construction of a new Manhattan train terminus close to Penn Station. The project costs were estimated at around \$10 billion.

Christie claimed that spiralling costs and an unfair funding burden on the State of New Jersey were the reason for withdrawing support. Critics alleged that he did so in order to keep a campaign promise of not raising gas taxes.

Either way, the project was felled on the whim of a senior politician, and the risk of history repeating itself seems very real.

Sacr would not be drawn on whether GDC would be willing to restructure the financing plan to reduce federal funding requirement, but did say: "This is a nation-building project. We can't toll or tax our way locally to find all of the money. We need a federal government contribution."

The ultimate fate of the project is outside of his control, but Sacr remains optimistic. This project needs to happen, and he believes common sense will prevail.

"Eventually there will be a funding agreement, and at that point they will turn to us and say 'when are you starting?'. So we need to be ready to start."

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