



Office of the Secretary
Of Transportation

December 18, 2000

The Honorable Frank Wolf
Chairman, Subcommittee on Transportation and Related Agencies
Committee on Appropriations
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your letter of November 15, 2000, the Office of Inspector General initiated a follow-up review of the Pennsylvania Station Redevelopment Project and conditions in the tunnels below the station. Your letter requested updated information in five specific areas: (1) the status of required emergency safety repairs and life-safety improvements in the river tunnels leading into the station; (2) the feasibility of expediting life-safety improvements so that these necessary repairs can be completed at the same time the station redevelopment project is concluded; (3) the costs to complete this work earlier than the 2014 timeline currently agreed to by Amtrak, Long Island Rail Road, and the New Jersey Transit Corporation; (4) the current cost, scope, funding, and timetable of the Pennsylvania Station Redevelopment Project; and (5) recent problems facing the project that may have resulted in cost growth or slippage in the project's completion date.

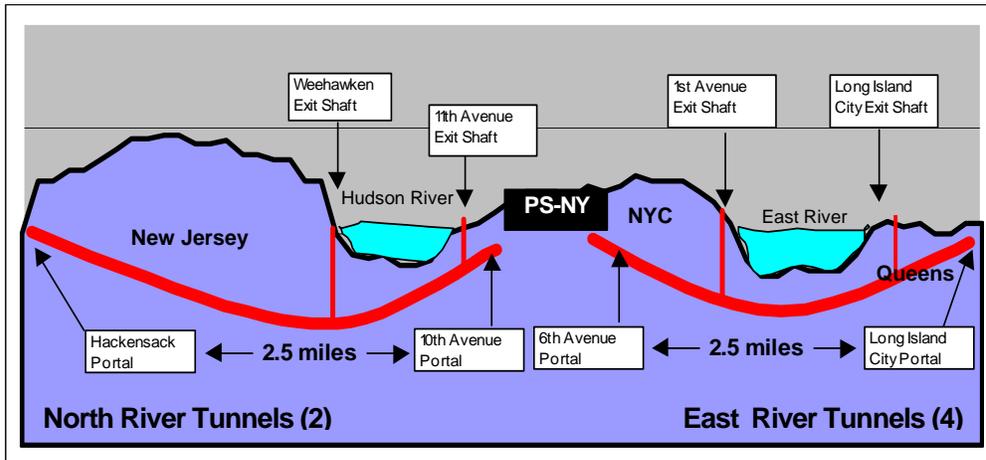
We have completed this review and this letter will serve to communicate our results. We wish to extend a special thank you to the Fire Department of the City of New York, whose assistance was invaluable in responding to your questions. Many of their opinions were expressed in correspondence dated November 28, 2000, which we have included as an enclosure to this letter.

Results in Brief

Fire and Life-Safety Needs in Pennsylvania Station Tunnels. Penn Station-New York (PSNY) is the busiest railroad station in the United States hosting over 750 commuter and intercity trains each day. Although Amtrak owns PSNY and the 15 miles of tunnels that connect PSNY to New Jersey and Queens, its trains account for less than 20 percent of the traffic. The two North River tunnels¹ and the four East River tunnels, completed in 1910 serve as a vital commuter link between New York City and the surrounding area.

¹ The North River tunnels are the two tunnels beneath the Hudson River that connect New York City to New Jersey.

Profile of North and East River Tunnels and PSNY*



*Artist rendition and not to scale.

Last March we raised concerns about the longstanding fire safety needs in the six North and East River tunnels that Amtrak, as the owner of the tunnels, had not adequately addressed. Narrow, winding, spiral staircases and crumbling benchwalls are inadequate to support the successful evacuation of what could potentially be thousands of passengers in the event of a serious tunnel fire. Ventilation systems that cannot remove sufficient amounts of smoke or heat could further jeopardize the success of such an operation.

The spending plan developed by Amtrak, Long Island Railroad, and New Jersey Transit that was in place last March identified \$654 million in needs with an anticipated completion date of 2014². The three railroads have subsequently updated the project spending plan and timeline to reflect an accelerated schedule with work completed by 2010, assuming no funding constraints. The three railroads have also updated the cost estimate from 1997 dollars to expenditure year dollars. *The current cost for completing all work by 2010 is \$898 million.* However, this schedule is dependent on significantly higher annual investment by the three railroads. In recent years, the average annual investment has been \$27.5 million. *At this rate of annual investment, these needs will not be met until 2030, and may carry a much higher price tag.*

Absent sufficient funding to fully address the safety needs in the tunnels, Amtrak, Long Island Rail Road, and New Jersey Transit have prioritized expenditures to date on projects intended to prevent the kinds of incidents that would expose passengers to the hazardous tunnel conditions. The local fire departments in New York and New

² All years are Federal Fiscal Years unless otherwise noted.

Jersey have also worked with the railroads to develop an emergency response protocol to tunnel fires that emphasizes alternatives to a tunnel evacuation. However, the New York Fire Commissioner believes that the extraordinary pre-planning and training, “may not be enough to prevent a catastrophic outcome.”

A number of options are available for funding improvements in the PSNY tunnels. Funds could be made available in a supplemental 2001 appropriation or a separate 2002 appropriation. Transit discretionary funds could be earmarked to Long Island Rail Road and New Jersey Transit to fund all or a portion of the repairs. Or a bond bill similar to the High-Speed Rail Investment Act introduced in the last Congress could be passed with provisions for spending on the tunnel improvements.

Although Amtrak owns PSNY and the tunnels, improvement costs in the PSNY area have been historically shared with other users. It will be important to determine the likely cost sharing responsibility of the respective entities as a prerequisite for identifying a permanent funding solution. *Regardless of the instrument used, we believe it is essential that funds be specifically earmarked for fire-safety needs in the PSNY tunnels. Earmarking the funds would ensure that they could not be diverted for any other purpose.* A significant effort has been made to secure funding for the redevelopment of Pennsylvania Station, but a like effort has not been undertaken to address the needs below the station and in the tunnels. Such an effort will be required in order to expedite the completion of critical fire-safety needs.

Pennsylvania Station Redevelopment Project. Since April 2000, the estimated total cost of the Pennsylvania Station Redevelopment Project has grown from \$768 million to \$817.5 million. The \$49.5 million increase resulted primarily from added costs for U.S. Postal Service (USPS) renovation work, additions to project reserves, and inclusion of costs for previous Amtrak work. The only major project actions completed during the past 8 months were obtaining a \$20 million advance appropriation in October 2000, and signing a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement in November 2000 that provides funds up to \$140 million. Leases still have not been signed with the landlord or the two principal tenants planned for the project; an updated bond rating has not been obtained so bonds can be issued; a finance plan has not been completed; neither a developer nor a builder has been selected; and preconstruction has not begun. Delays in completing these actions could postpone the project’s completion date of February 2005, which is already 6 years later than originally planned.

Safety Needs in Pennsylvania Station-New York Tunnels

On November 11, 2000 one of the worst Alpine disasters ever claimed the lives of more than 150 people as a funicular train in Kaprun, Austria caught fire less than one-half mile into a 2-mile long tunnel. Many of the victims died from smoke inhalation

as they tried to escape the blazing train through billowing smoke being forced up the tunnel by a chimney-like wind effect.

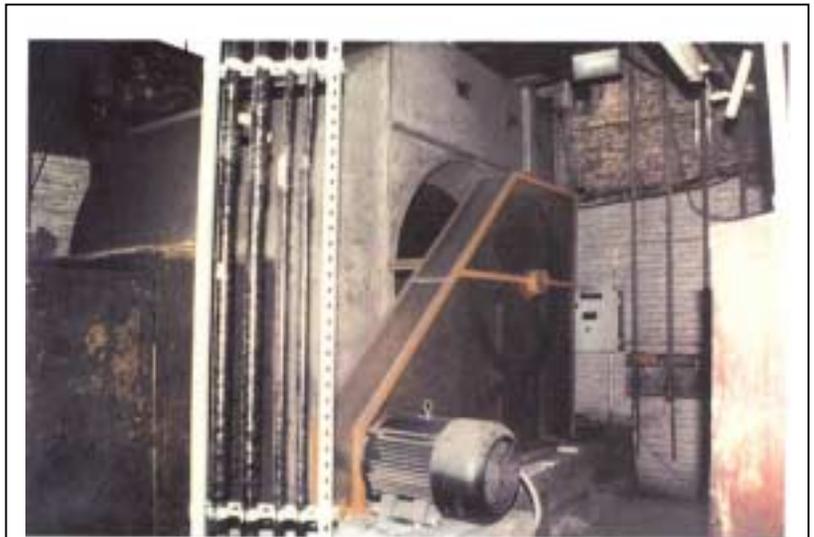


Police inspect the wreckage of a train inside a tunnel in the Austrian Alps near Kaprun where 155 people were killed on November 11 from fire and smoke inhalation.

Although the operating conditions in Kaprun, equipment, and safety features are far different from conditions in the PSNY tunnels, Amtrak officials acknowledge that the few similarities that exist related to ventilation and evacuation facilities have caused new attention to be directed to the serious longstanding fire-safety needs in the tunnels beneath PSNY. The critical factor in the Kaprun incident was the “chimney effect” that drew smoke and heat up through the evacuation route. While this effect is not present in the PSNY tunnels, there is not an adequate ventilation system capable of directing and removing smoke away from passengers’ evacuation route.

Longstanding Fire Safety Needs in PSNY

PSNY is the busiest railroad station in the United States, with 21 tracks, 11 station platforms, 14 miles of track in the station, and 15 miles of tunnels connecting PSNY to New Jersey and Queens. More than 750 trains and 500,000 transit, commuter, and intercity passengers pass through the station each weekday. Although Amtrak owns PSNY and the tunnels, its trains account for less than 20 percent of the traffic.



Outdated ventilation fans present in the East River tunnels are not capable of adequately exhausting heat and smoke, nor can they reverse direction to bring fresh air to passengers and rescue workers.

Last March, we raised concerns about the longstanding fire and safety needs in the six North and East River tunnels connecting PSNY to Queens and

New Jersey. The Pennsylvania Station fire and life-safety project began in 1976, and Amtrak, Long Island Rail Road and New Jersey Transit will have spent more than \$161 million through 2001 on projects intended to improve the safety of operations in the tunnels. Included in these improvements were critical infrastructure restoration projects, including platform rehabilitation and lighting, replacement of sump pumps, replacement of cross passages and fire doors, and installation of fire extinguishers. Also nearing completion is the installation of a wayside communications system that allows emergency voice communications between supervisory control and sections of the tunnels.

Although this spending has resulted in significant improvements to existing structures, funding has not been secured for some of the more critical tunnel projects. These

include rehabilitating benchwalls to provide a stable walking surface, installing standpipes to carry water through the tunnels for firefighting purposes, installing wider “scissor” staircases at exit shafts, and installing an adequate bi-directional ventilation system. In 1998, Amtrak warned Congress that unless improvements were made rapidly, the age and condition of the tunnels, coupled with



the projected growth in traffic would raise the potential for a serious and consequential accident. The plan in place last spring identified \$654 million in remaining needs (in 1997 dollars) with an anticipated completion date for all projects by 2014.

Fire Department Criticizes Delays in Eliminating Safety Deficiencies

Emergency response professionals in the New York and New Jersey area have also raised concerns about the dangerous condition of the tunnels and the protracted timeline for eliminating the risks. A letter last month from the Fire Commissioner of the City of New York expressed the Department’s view that the, “timetable for eliminating serious fire and life safety deficiencies present in the underground tunnels ... [is] ... completely unacceptable and a further exacerbation of problems that have gone uncorrected far too long.”

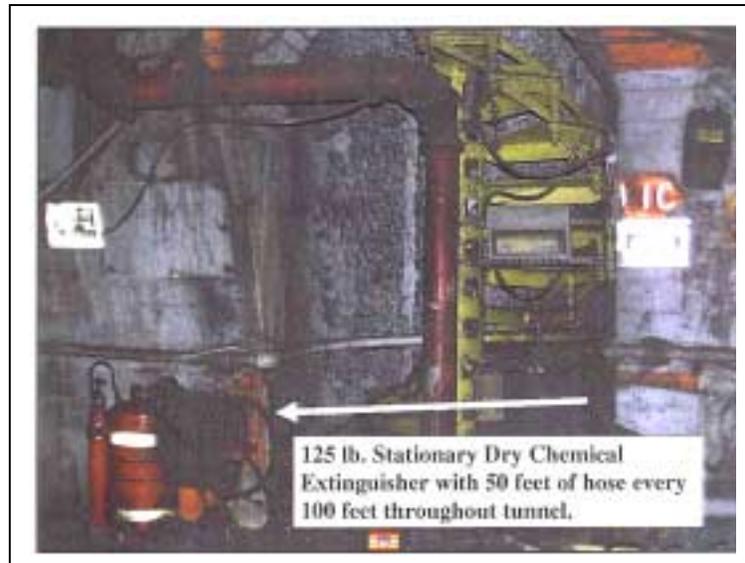
Although the Fire Department has not reviewed and cannot comment on the adequacy of the proposed spending plan and project schedule, Fire Department officials agree with Amtrak, Long Island Rail Road, and New Jersey Transit in their prioritization of

needs. All agree that ventilation, standpipe installation, evacuation facilities, and communications are of critical importance.

- **Ventilation.** Existing ventilation equipment in the tunnels does not provide sufficient air flow to control smoke and heat. The blowers are only effective in moving air in one direction. A mechanical ventilation system needs to be installed with reversible fans that are capable of either supplying fresh air to the tunnels or exhausting heat and smoke.

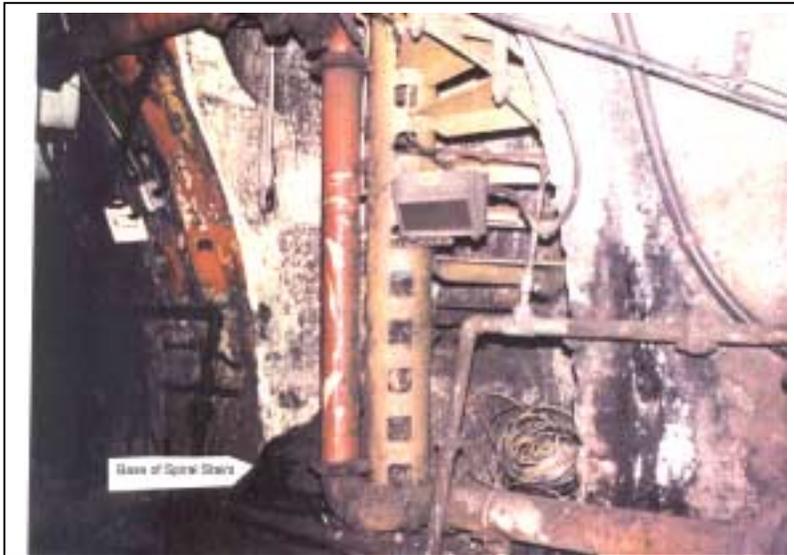
- **Standpipe Installation.**

Standpipes, which are the permanent pipes through which water is directed to the location of a fire, extend only to the base of the two escape shafts in the East River tunnels. In the North River tunnels, there is no standpipe system at all. With limited options for bringing water to a tunnel fire, the temporary solution has been to install stationary dry chemical



extinguishers with 50 feet of hose every 100 feet throughout the tunnels. These may be adequate for fighting a small fire, but they would do little to combat the heat and flames of a large fire. Fire Department officials claim that, “the absence of a standpipe system greatly reduces the department’s ability to attack a fire rapidly in its incipient stage. This delay would add immeasurably to the department’s operational difficulties and to the dangers to which passengers are subjected.”

- **Evacuation Facilities.** Poorly designed exit stairways and limited connections between tubes hinder the rapid and safe removal of passengers in the event of a tunnel evacuation. Each of the six tunnels has four possibilities for entrance and evacuation – the portals at each end and two escape shafts – one on each side of the river -- with vertical staircases rising from the tunnels to the ground. In the East River tunnels, the staircases are steep, single-width, spiral staircases that rise as high as 90 feet, or the equivalent of 10 flights of stairs.



A narrow 10 flight spiral staircase serves as an evacuation route for passengers as well as a means for rescue workers to enter the tunnels.

The spiral staircases are not necessarily the only means out of the tunnels, but depending on the location of the incident, they may prove to be the only feasible evacuation route. Both the East River and North River tunnels are about 2.5 miles long and the distance between portals and escape shafts is a minimum of three-quarters of a mile. The proposed improvements include adding two wider

“scissor” staircases with landings that would allow two-way traffic or two exiting columns of people. The landings would allow individuals to break a fall or would allow slower moving individuals to step out of the flow of traffic without interfering with others attempting to evacuate.

Benchwalls, which are the raised platforms that run parallel to the tracks inside the tunnels are narrow and crumbling. Repairs and resurfacing must be done to provide a safe walking surface. Current conditions place passengers at risk of tripping during an evacuation.

- **Communications.** A “wayside” communications phone system, providing routine and emergency voice communications between supervisory control and selected wayside sections, as well as strobe lights, electrical power, and Emergency Medical Services/Fire interface capabilities, has been largely installed and is operational in the East River tunnels. The system has been installed but is not yet operational in the North River tunnels. According to the Fire Department, “A functional, dependable communications system is critical to operations in [the] tunnels especially in the under river portion.”

Operational and Funding Constraints Have Delayed Improvements

Despite Amtrak’s longtime realization of the severity of problems in the tunnels, it has been unable to address them in an expeditious manner for reasons that Amtrak’s former Chief Engineer for Fire and Life Safety attributes to, “a daunting array of needs, a severely constrained financial capability...and the impracticality of shutting down the systems or major portions of them to accomplish the work.” With 500,000 passengers passing through PSNY and the tunnels on a daily basis, there are limits to

how quickly the fire-safety investments can be made without widespread disruptions for commuters and intercity passengers.

Preventative Actions in Lieu of Permanent Fixes

Amtrak, Long Island Rail Road, and New Jersey Transit have attempted to balance the needs against funding and operational constraints by prioritizing funding for projects intended to prevent the kinds of incidents that would expose passengers, employees, and response crews to the hazardous tunnel conditions. These projects include minimizing the probability of an incident by keeping track, signals, and equipment in a state of good repair as well as substantially upgrading the flammability characteristics of equipment that operates through these tunnels.

In the past 5 years, there have been four incidents of note in the tunnels and station area that have resulted in fires and/or smoke conditions necessitating emergency response actions. In the most severe incident – an explosion and fire aboard a Long Island Rail Road train in one of the East River Tunnels – 33 people were treated for smoke inhalation and 16 passengers required more extensive hospital care. While there have been no fire or smoke-related fatalities to date in the tunnels, these incidents clearly indicate the remaining potential for a serious fire incident. Prevention is a good first line of defense, and containment a good second line, but efforts must continue to improve the likelihood that if these two lines fail, conditions are at least minimally adequate to preserve life in a large scale emergency evacuation.

The discussion of needs has focused to date on the likely outcome in the event of a serious tunnel fire. Amtrak also noted that these same systems necessary to preserve life in the event of a fire – ventilation, communication, and adequate evacuation facilities – are essential to the effective response to other incidents unrelated to an equipment- or train-related fire, including a terrorist act or act of nature.

Recent Equipment Fires Underscore Need To Improve Safety Systems in the PSNY Tunnels

Since August 2000, three of Long Island Rail Road's 23 new dual-mode locomotives have been disabled as a result of fires in the locomotives' shoe beam assemblies. The third rail shoe beam is an apparatus that holds the skate that draws high-voltage electric power from the third rail to drive the locomotives. One of these fires occurred just after the train exited the East River



Firefighters fight a blaze aboard one of Long Island Railroad's new dual mode locomotives. Three locomotives have been disabled since August because of shoe beam fires.

tunnels and the most recent fire required a complete passenger evacuation. Following the fires, Long Island Rail Road implemented both temporary and permanent equipment modifications and procedures to protect against the possibility of further fires. However, Long Island Rail Road acknowledges that, “without determining the root cause of the fires, a permanent solution cannot be determined.”

Long Island Rail Road is currently operating eight scheduled trips daily with the dual mode locomotives. Without these locomotives, which are capable of operating in diesel mode and then switching to electric power, passengers must transfer from diesel-powered trains to electric powered trains to enter PSNY, since trains are not permitted to operate under diesel power in the tunnels.

Long Island Rail Road and the locomotive manufacturer are in the process of identifying the causal elements behind the shoe beam fires and then will design, develop, test, and implement a permanent fix on all of the locomotives. The Federal Railroad Administration (FRA) and Amtrak are satisfied with the solutions that have been identified and implemented and do not believe the locomotives significantly increase the risk of a serious tunnel fire. The Fire Department disagrees, although its position also reflects a general opposition to operating dual mode locomotives through PSNY.

We did not evaluate the adequacy of the measures being taken to prevent the occurrence of future fires, nor the legitimacy of risks associated with operating dual mode locomotives in the tunnels in general. However, the fact that there have been recent incidents, whether resolved or not, underscores the need to have systems in place to prevent a negative outcome in the event of a serious fire.

Emergency Response Protocol Reflects Structural Challenges

The three railroads have also worked with the local fire departments in New York and New Jersey to develop an emergency response protocol to tunnel fires that emphasizes alternatives to evacuating passengers in the tunnels. Alternatives include operating or towing a train out of the tunnels to a designated evacuation site or using cross passageways to move passengers to a rescue train in an adjacent tunnel. The training manual clearly states that under fire and smoke conditions, “Evacuation is a last resort. Done only if remaining on train is more hazardous than leaving.”

The City of New York Fire Department recognizes the exceptional challenges that would be involved in a large scale fire rescue effort in the tunnels and has developed a comprehensive training program to ensure that its field forces are thoroughly familiar with all aspects of operations in PSNY and the tunnels. However, despite these extraordinary efforts to “pre-plan and train its personnel for potential incidents in those

facilities,” the Fire Commissioner believes that “the serious deficiencies that continue to go unaddressed,” could compromise the Fire Department’s ability to successfully fulfill its mission. “Should a major fire or emergency occur, the skill, dedication, courage and commitment of [the Department’s] firefighters may not be enough to prevent a catastrophic outcome.”

Current Estimate To Meet All Fire-Safety Needs in PSNY by 2010 is \$898 Million

At your request, we asked Amtrak to coordinate with Long Island Rail Road and New Jersey Transit to review the existing spending plan and project schedule and to develop an alternative accelerated schedule that eliminates delays attributable to funding constraints. The spending plan and schedule is a joint effort because, although Amtrak owns the tunnels, it is by far the minority user of them. In fact, two of the four East River Tunnels are used exclusively by Long Island Rail Road. As such, the improvements in the tunnels to date have been funded jointly by Amtrak, Long Island Rail Road, and New Jersey Transit which operates trains through the North River tunnels to New Jersey.

The three railroads have developed a draft plan that updates the earlier plan with expenditure-year dollars and prioritizes funding for projects that are of critical importance (see table below). The initial estimate for completing all projects on a compressed, accelerated schedule is \$898 million through 2010. The difference between this figure and the \$654 million identified in outstanding needs last March represents a conversion to expenditure-year dollars from 1997 dollars and the inclusion of projects that were delayed from 2000 and 2001 because of funding constraints.

Fire and Life Safety Program										
Revised Spending Plan and Schedule										
Escalated Project Costs (\$ in millions)										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Projects for Entire Complex	\$ 18	\$ 57	\$ 81	\$ 77	\$ 50	\$ 43	\$ 36	\$ 27	\$ 7	\$ 396
East River Tunnels	\$ 41	\$ 55	\$ 61	\$ 55	\$ 33	\$ 32	\$ 28	\$ 3	\$ 0	\$ 309
PSRC life-safety	\$ 4	\$ 11	\$ 28	\$ 23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66
North River Tunnels	\$ 13	\$ 12	\$ 9	\$ 6	\$ 4	\$ 6	\$ 17	\$ 18	\$ 11	\$ 96
PSNY	\$ 3	\$ 1	\$ 2	\$ 1	\$ 1	\$ 6	\$ 8	\$ 5	\$ 3	\$ 31
TOTAL	\$ 80	\$ 137	\$ 181	\$ 162	\$ 88	\$ 88	\$ 89	\$ 52	\$ 22	\$ 898

Note: Some columns may not sum to totals due to rounding

To verify the accuracy of the accelerated spending plan, the three railroads caution that detailed project designs, costs, and schedules, and contract packaging and prioritization must be performed. The acceleration reflected in the new spending plan must be coordinated with other work ongoing or scheduled in PSNY in order to ascertain the feasibility of the required track outages and impacts on labor forces. The railroads caution that a detailed, integrated, resource-loaded schedule for all of the projects in PSNY, Farley, and other regional projects must be developed to determine the feasibility of performing all projects in parallel.

Funding is Essential to Accelerate Completion of Tunnel Safety Needs

It should be noted that accelerating the schedule to complete all work by 2010 and prioritizing more critical projects to be completed within the next 5 years can only be accomplished if funding is available. Amtrak's available funding in recent years, coupled with contributions from Long Island Railroad and New Jersey Transit has been insufficient to meet minimum investments necessary to support the spending plan, resulting in several projects being pushed out further in the schedule. These include lighting upgrades, third rail replacement in the North River tunnels, and replacement of handrails and signage. The average investment in the tunnel project during 2000 and 2001 was \$27.5 million each year. If investments continue at this rate, the needed improvements will not be completed until 2030. An annual average investment of \$90 million (in 2002 dollars) would be required to adhere to the accelerated 2010 schedule.

Multiple Options for Funding Improvements in the PSNY tunnels

The required safety investments in the PSNY tunnels could be financed in a number of ways. Although Amtrak owns PSNY and the tunnels, improvement costs in the PSNY area have been historically shared with other users of the station, and it will be important to determine the likely cost sharing responsibility of the respective entities as a prerequisite for identifying a permanent funding solution. *Regardless of the instrument used, we believe it is essential that funds be specifically earmarked for fire-safety needs in the PSNY tunnels. Earmarking the funds would ensure that they could not be diverted for any other purpose.* Following are four possible funding options.

- The approximately \$900 million in project costs could be provided in a supplemental 2001 appropriation or 2002 appropriation that would be available until expended (the last portion in 2010, or sooner if possible). Because Long Island Rail Road and New Jersey Transit will share in the costs of the project, the Federal appropriation would be less than the full \$900 million. As a result, the average outlay impact on the Federal budget would be less than \$100 million each year over the 9-year period, 2002 through 2010. A full appropriation at the start would be preferable to annual appropriations, and perhaps necessary to expedite

completion. Because of the multi-year nature of many of the projects, uncertain or uneven levels of funding may delay the start of projects until full funding is assured. By appropriating the full amount up front and removing any uncertainty over funding, the safety projects should be able to proceed as quickly as operationally feasible.

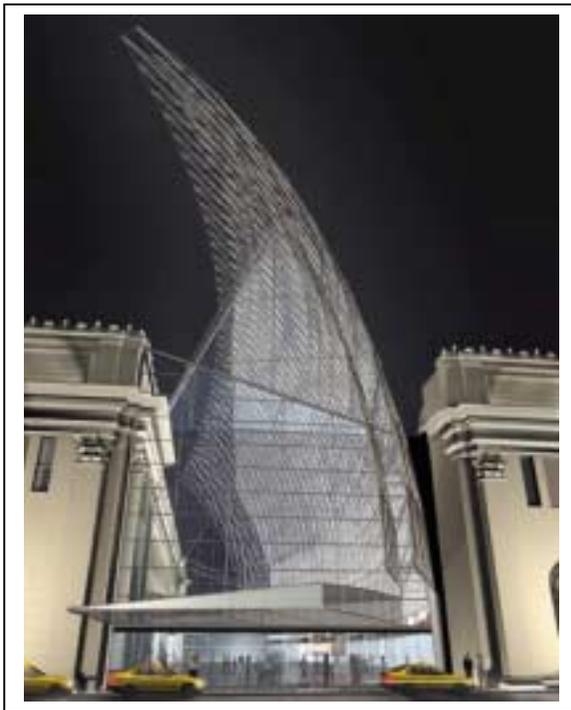
- Transit discretionary funds could be earmarked to Long Island Rail Road and New Jersey Transit to fund the safety projects. This approach could substitute for a separate appropriation as outlined above, or could be used in conjunction with it to help fund Long Island Rail Road's and New Jersey Transit's share of the projects' costs. The disadvantage of this approach is that appropriations would be done on an annual basis, which could affect the long-range planning for and start of multi-year projects.
- If the High-Speed Rail Investment Act (HSRIA) is reconsidered in the next Congress, funds to complete the tunnel safety work could be earmarked in the legislation. The Senate version of this bill, S. 1900, earmarked \$92 million for the Pennsylvania Station Redevelopment Project. Given this precedent, earmarking for vital safety investments would be appropriate. This approach has the benefit of ensuring the long-term funding necessary to expedite the work, however, that funding is somewhat less certain than a direct appropriation. Because the share of the projects that are the responsibility of Long Island Rail Road and New Jersey Transit would be used, in part, for the escrow account to pay off the bonds, if Long Island Rail Road or New Jersey Transit have trouble securing the necessary funds, projects could be delayed.
- A separate bond bill, similar in design to the HSRIA, could be enacted specifically and only to pay for the tunnel safety investments. This approach would provide the same benefits and limitations as earmarking the HSRIA.

A number of proposals have been made regarding the possibility of transferring of the Northeast Corridor infrastructure, including the tunnels, from Amtrak to another entity. That entity would then assume responsibility for funding and completing the fire safety projects. While this option may appear attractive from a capital funding perspective, it should be noted that such an option could significantly affect Amtrak's operational abilities in the PSNY area and extensive analysis of this proposal would be necessary before presenting this as a viable solution. For example, a complete evaluation of the acquiring entity's safety history, project management abilities, and funding availability would be necessary. Other plans would need to be in place regarding integration of emergency response, construction planning, shared usage of facilities and dispatching. These tunnels represent one of Amtrak's greatest assets, valued between \$4 billion and \$6 billion and appropriate compensation would need to be a consideration in any divestiture proposal. Until these issues have been resolved,

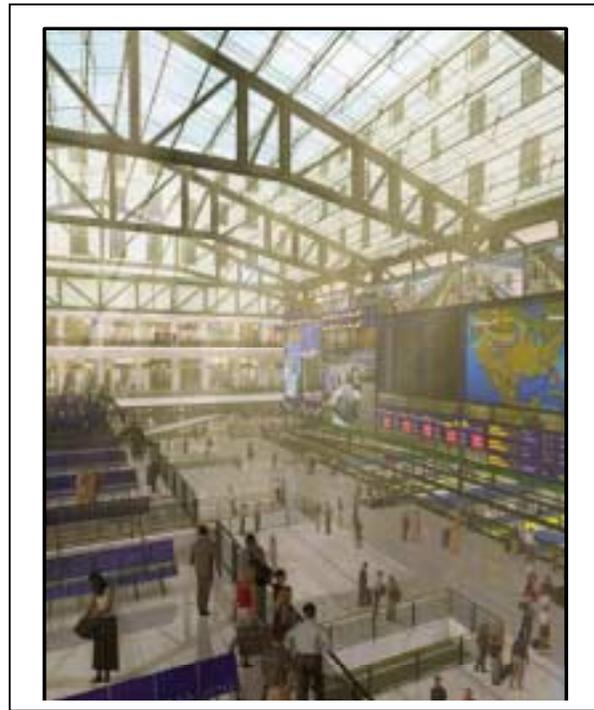
we do not consider transferring ownership of the PSNY infrastructure, in part or total, to be a viable alternative.

Pennsylvania Redevelopment Project Update

In the 8 months since our audit report on the project was issued, the estimated total cost and funding of the project has increased approximately \$49.5 million. In addition, the design for the current project is only 60 percent complete, and, as the design comes closer to completion, project costs could rise even higher. Furthermore, the only major actions completed during this time were obtaining a \$20 million advance appropriation in October 2000, and signing the project's Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement in November 2000 which will provide a maximum of \$140 million for the project. The Pennsylvania Station Redevelopment Corporation (PSRC), established in 1995 by New York State to construct and manage the project, has not signed leases with any of the principals, issued bonds, completed a finance plan, selected a developer or builder, or even begun preconstruction. We believe further delays in completing any of these interconnected actions will result in slippage in the project's completion date of 2005.



Glazed Roof Structure



Electronic Media Wall

Project Cost and Funding

The TIFIA loan agreement dated November 6, 2000, estimated the cost of the project and the total funding needed at \$812.1 million. However, this did not include \$5.4 million that Amtrak had spent previously for fire-safety projects at Pennsylvania Station. Therefore, the current estimated cost of the project is \$817.5 million, an increase of approximately \$49.5 million from the \$768 million cited in our April 2000 report.

The cost increase included \$20 million of added costs for U.S. Postal Service (USPS) renovation work at the Farley building.³ According to USPS officials, the scope of the postal work planned for the project remained the same, but the cost estimate increased from \$125 million to \$145 million. The remaining increases represented \$18 million more for project reserves; \$5 million for Amtrak-related work; \$3 million for tunnel ventilation work;⁴ and \$3 million for additional construction, consulting and legal costs.

Increased funding for the added project costs will be provided from three sources. USPS will provide an extra \$25 million for its portion of project work.⁵ In addition, PSRC expects to earn approximately \$19 million from interest on temporary investment of money obtained from New York State bonds. (PSRC did not identify this funding source during our previous review.) The remaining increase in funding will be provided from an additional \$5 million of New York State bonds.

No Other Major Required Actions Completed

Principal Leases Not Signed. PSRC has not signed leases with any of the three principal parties for the project. The project's landlord (USPS) and the two major tenants planned for the project (Amtrak and the Port Authority of New York and New Jersey [Port Authority]) could not provide a firm date for when the leases would be signed. In June 2000, the Port Authority Board of Commissioners approved entering into a lease, commencing in January 2003, with PSRC for 40,000 square feet of redeveloped project space. The lease, however, is still being negotiated and has not been signed. In addition, between June and September 2000, the Port Authority's Committee on Operations increased the annual rent for the 35-year lease, from \$8.3 million to \$10.5 million, due to interest rate changes, a later payment start date, and other financing shifts.

³ USPS is currently reviewing the proposed \$20 million cost increase for postal work.

⁴ PSRC estimates the cost of tunnel ventilation under the Farley building at \$9 million. However, Amtrak and PSRC have not agreed upon design, cost and funding for this work.

⁵ The \$25 million includes approximately \$5 million that was originally to be funded by PSRC, but will now be reimbursed by USPS.

Bonds Not Issued. In July 1999, PSRC received a preliminary bond assessment from Standard & Poors (S&P). At that time, S&P provided the lowest investment grade opinion as to the potential bonds and expressed concern with the Port Authority's commitment to the project, projected revenues, and forecasted retail occupancy levels. Bonds for the project cannot be issued without an acceptable rating, but a final rating will not be provided until the principal leases have been signed.

Finance Plan Not Completed. Although FRA and PSRC had agreed on the need to prepare a finance plan for the project, none was submitted prior to signing the TIFIA loan agreement, and none has yet been prepared. PSRC officials advised us that the plan cannot be prepared until details regarding the bond issuance have been completed. As we recommended in our audit report, a finance plan is important to establish cost-containment strategies, realistic project milestones, and contingency plans. According to the TIFIA loan agreement, PSRC cannot draw funds from its TIFIA loan until a finance plan is submitted to the Department of Transportation.

Developer and Builder Not Selected. To complete the project, PSRC needs an architect, developer, and builder. Currently, PSRC has only an architect. PSRC started the process to select a developer nearly a year ago but has not made a selection as of December 2000. The developer will be responsible for developing and leasing the retail space, and will also select the construction contractor (builder) for the project jointly with PSRC. PSRC's architect estimated that construction will take 49 months to complete.

Preconstruction Work Not Started. Before project construction can begin, the builder must prepare a small staging area near the platforms below Pennsylvania Station and install electricity and lighting. As of December 2000, no construction or preconstruction contracts have been awarded for the project. PSRC continues to maintain that the project will be completed in 2005, but even this date is 6 years past the completion date originally planned. The TIFIA loan agreement did not provide a completion date for the project.

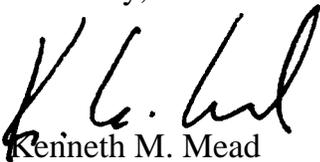
Project Staffing Not Adequate. Nearly a year ago, the president of PSRC vacated the position. A permanent replacement has yet to be selected, and PSRC currently has only five employees, none with a professional architectural or engineering background. Even with the services of an architect, developer, and builder, PSRC needs to provide strong oversight and management of costs over a 4-year construction period.

PSRC's lack of substantial progress in completing required actions in a timely manner and in the proper sequence, has the potential for creating even more cost growth and slippage in the project's completion date. Until the finance plan is submitted to the Department of Transportation, PSRC cannot draw down TIFIA funds. Until the bonds

are issued and TIFIA funding released, the project cannot begin construction. Postponement of the start of construction would add to costs due to inflation and could delay final completion of the project.

If I can answer any questions or be of any further assistance, please feel free to contact me at (202) 366-1959, or my Acting Deputy, Todd J. Zinser, at (202) 366-6767.

Sincerely,

A handwritten signature in black ink, appearing to read "K. M. Mead". The signature is written in a cursive style with a large initial "K" and a long, sweeping underline.

Kenneth M. Mead
Inspector General

Enclosure