



ARC Tunnel Project - Westway Revisited by Michael De Chiara, Real Estate Weekly, May 4, 2011

Recently, Governor Christie of New Jersey, citing economic reasons, decided to terminate the ARC Tunnel Project. Numerous articles have appeared which invariably have a political or otherwise self-interested perspective on Governor Christie's actions. I was in a unique position, being part of a disinterested group of highly-regarded individuals who attempted to intercede on behalf of the ARC Tunnel with Governor Christie and would like to share my perspective on the demise of the Project. The ARC Tunnel was the victim of the failure of the New York, New Jersey and Connecticut region to come together and create a much-needed public works project for the benefit of the entire region.

The ultimate failure of the ARC Tunnel Project resulted primarily from a flawed financial structure, in which New Jersey would have been responsible for the likely cost overruns, most probably in the billions of dollars, while New York State, New York City, and the Port Authority of New York and New Jersey would have had no liability for cost overruns.

It was clear to our small working group that a financial fix could have been achieved which would have saved the ARC Tunnel Project. However, the time to analyze and construct the financial structure to support this infrastructure project was simply not available. Any financial solution would have required one or a combination of the following: (1) participation by the State of New York (in a

tunnel which would have benefited New York as much as New Jersey); (2) participation by the City of New York (which would have been the principal beneficiary of the Project); (3) increased participation by the federal government (which claims that infrastructure is a high priority); and (4) participation by the private sector, capital markets, real estate and construction companies (who were never really considered as financial participants).

I believe that the termination of the ARC Tunnel Project resulted from a failure of leadership, politically, economically and regionally to plan, fund and provide for contingencies to support the project.

The political failure wasn't the final decision by Governor Christie. Rather, it was the failure of the political leaders of the region to come together and develop a political consensus recognizing the critical need for the Project to service the short term and long term needs of the region. The billions of dollars that would have flowed into the pockets of local workers, engineers and contractors have been lost and can never be regained. Similarly, the longer term economic benefits will be forestalled indefinitely. However, this short term political failure actually creates a prime opportunity for New York's new governor to create a regional political coalition with the Governors of New Jersey and Connecticut to address the need for energy efficient and cost efficient transportation that only rail service can provide. Further, from an environmental point of view, rail service is the most eco-friendly means of moving large quantities of people and supplies in and out of the region. In providing mass transit for people and material, nothing is greener than trains, nothing is even close. The political failure, ultimately, was the failure of all the political leaders of the region to seize the multi-billion dollar opportunity by unifying the labor, construction, real estate and environmental interests in promoting the ARC Tunnel Project.

The economic failure associated with the demise of the ARC Tunnel is equally obvious. Certain potential economic impacts of the ARC Tunnel Project were cited by Governor Christie as justification for terminating the Project. As we all know, Governor Christie was properly concerned with the disproportionate risk of cost overruns on this Project being borne solely by the taxpayers of New Jersey. I am not aware of any discussions that may have occurred between Governor Christie and the Governors of New York and Connecticut regarding potentially sharing any cost overruns, and further, I am unaware of any communications between Governor Christie and any other entities, whether public or private which might have provided some cost overrun protection, other than the federal government. However, given the time constraints which governed the final weeks of the Project, I am sure the private economic alternative was not fully explored. As we all know, the short-term economic consequences of the ARC Tunnel termination was that approximately three to four billion dollars of revenue did not flow into our region. However, the real cost of the termination of the ARC Tunnel Project is the tens of billions of dollars that will not flow into our region over the next twenty

years, and the inability of the region to continue to grow and prosper.

The regional failure of the ARC Tunnel Project is that a much needed vital artery interconnecting the economic interests of the entire region will not occur for the foreseeable future. While minor political squabbles regarding parochial political and economic interests continue to monopolize the body politic of New York, New Jersey and Connecticut, the very life blood of the region is being strangled. The failure of the ARC Tunnel Project is symptomatic of a much larger problem. If this region cannot come together to properly plan and figure out how to fund the infrastructure projects required to sustain the present, let alone provide for future growth, then the Greater New York City region will, in the not too distant future, simply become a less relevant and more ordinary metropolitan region while some other regional center or centers in this country will assume New York's former primary position of prominence.

Finally, while the ARC Tunnel Project was not the perfect project, for instance, the termination point of the tunnel in New York might have not been in the optimum location, it was far far better than no project at all. The ARC Tunnel is this generation's version of the West Way Highway Project. However, rather than an undue concern for a species of bass in the Hudson, it was a total lack of regional leadership that caused its demise.

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