



THE CITY OF NEW YORK
OFFICE OF THE MAYOR
OFFICE OF THE COUNCIL SPEAKER
NEW YORK, NY 10007

July 7, 2006

Mr. Peter S. Kalikow
Chairman
Metropolitan Transportation Authority
347 Madison Avenue
New York, New York 10017

Re: Proposed transactions concerning MTA's John D. Caemmerer West Side Yard –
Western Rail Yard and Eastern Rail Yard

Dear Chairman Kalikow:

During the past four years, the City, the MTA, and the State have collaborated on extraordinary initiatives to transform Manhattan's Hudson Yards area into a vibrant mixed-use and transit-oriented commercial and residential district that will allow the expansion of Midtown's central business district and help accommodate the City's growing population. These initiatives include the rezoning of Hudson Yards and the adjacent West Chelsea area, planning for the extension of the #7 subway line to a new terminus at 34th Street and Eleventh Avenue, the proposed renovation and expansion of the Javits Convention Center and development of a convention center hotel, development of the High Line and extension of the Hudson River Park, and the Moynihan Station project.

As you know, the two sections of the MTA's John D. Caemmerer West Side Yard are among the most important development sites in the Hudson Yards area. With the MTA's integral involvement, plans were developed for both the Eastern and Western Rail Yards. Though the New York Sports and Convention Center (NYSCC) project for the Western Rail Yard has been withdrawn, the Eastern Rail Yard rezoning for a mix of commercial and residential development, a cultural facility, and public open space has set the stage for its immediate development.

To spur development of the Eastern Rail Yard, and ensure that future development of the Western Rail Yard is consistent with the comprehensive plan for Hudson Yards, we are now proposing two major transactions among the City, the MTA and the Hudson Yards Infrastructure Corporation (HYIC) relating to the rail yards.

The City is aware that the MTA's five-year 2005-2009 Capital Plan anticipates that the MTA will realize \$1 billion from the disposition of its real estate assets. The transactions described below will make a significant contribution toward achieving that goal.

Western Rail Yard

The City proposes to purchase from the MTA a fee interest in a development parcel to be created over the Western Rail Yard for the amount of \$300 million. The City understands the MTA will use the \$300 million to fund projects eligible for tax exempt financing contained in its approved 2005-2009 Capital Program. This amount reflects the fair market value of the development parcel, considering the costs of constructing a platform and other public infrastructure over the active rail yard. This purchase price also takes into account the City's assumption of substantial financing costs and market risk. In addition to the initial payment from the City, the MTA will retain the right to a share of the revenues generated by development of the Western Rail Yard if the size of the development exceeds a floor-to-area ratio of 12.

We recognize that the John D. Caemmerer West Side Yard is currently used as a commuter rail yard and locomotive storage yard with support facilities by the Long Island Rail Road (LIRR), an MTA subsidiary. As such, construction of a platform over a working rail yard will pose significant engineering challenges. Enclosure of the yard will require the design and installation of adequate ventilation, lighting and fire-life safety systems. Understanding that LIRR will continue to use the yard during construction of the platform, construction will be scheduled so that it does not compromise the reliability of LIRR's service to its customers or otherwise interfere with LIRR's operational needs.

Simply stated, the purpose of this acquisition is to afford the City control of the future planning and development of the Western Rail Yard. With the demise of the NYSCC project, there is no plan for the Western Rail Yard. The current zoning only allows low-density commercial development which would not support the costs of a required platform and which is not consistent with the City's vision for the Hudson Yards. Therefore, the Western Rail Yard must be rezoned and a new plan created. The City, working closely with the MTA and other agencies, created the comprehensive plan for the Hudson Yards area, which involved several years of urban design, construction feasibility, zoning, and environmental review work, hundreds of community meetings, and an extensive public review process. This resulted in public consensus and the adoption of the rezoning and development plan. The City's acquisition will insure that any future development plan is the result of the same type of consensus building process, including the City's Uniform Land Use Review Procedure (ULURP), and City Environmental Quality Review (CEQR), all of which culminate in City Council review and approval of the development plan. The City is uniquely positioned to undertake such a planning process for the Western Rail Yard, and the Administration and the City Council will begin to collaborate on this process immediately following the City's agreement to acquire the Western Rail Yard development parcel.

Eastern Rail Yard

Unlike the Western Rail Yard, the City's planning for the Eastern Rail Yard is completed and contained in the City's Zoning Resolution. Therefore, the City is proposing that the MTA retain the right to develop the Eastern Rail Yard according to the existing plan. HYIC will receive from the MTA 3.42 million zoning square feet of transferable development rights (TDRs) allocated to the Eastern Rail Yard. HYIC will authorize Hudson Yards Development Corporation (HYDC) to manage the sale of such

development rights to facilitate the development of the planned commercial district to the north of the Eastern Rail Yard, with the proceeds of such sales being pledged to support HYIC's financing of the #7 subway extension and other district-wide improvements. HYIC and HYDC are local development corporations set up by the City for financing and project management of the Hudson Yards redevelopment, respectively. Further, the MTA will receive a \$200 million contribution from the HYIC to fund projects eligible for tax exempt financing contained in its approved 2005-2009 Capital Program. The HYIC will make an initial payment of \$100 million, with the balance paid over the next five years in equal installments.

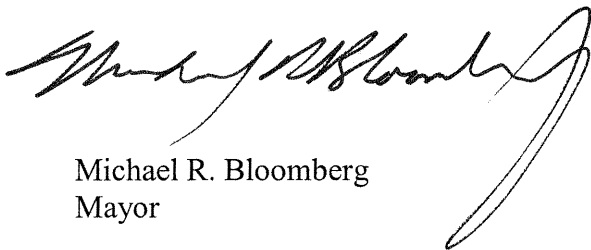
These two transactions will be beneficial to both the MTA and the City. Under this proposal the MTA will receive fixed payments totaling \$500 million from the City and HYIC. It also retains a participation in the development potential on the Western Rail Yard, the right to revenues derived from development of the Eastern Rail Yard, and a portion of the TDRs attributable to the Eastern Rail Yard. The combined value of the fixed payments plus the proceeds of the development rights the MTA retains will enable the MTA to make substantial progress in meeting its goal of generating \$1 billion from the dispositions of its real estate assets.

The City benefits by taking control of the planning and development of the Western Rail Yard, and, through HYIC and HYDC, by obtaining control of the process of selling the Eastern Rail Yard TDRs to Hudson Yards commercial development sites. This will facilitate private development of those sites and, more generally, the financing and implementation of the Hudson Yards redevelopment program.

The City Council has reaffirmed in the recent budget adoption process its support for interest payments on HYIC debt. HYIC requires resolution of the issues with the MTA outlined above in order to enter into full scale discussions with the ratings agencies by the end of July. This will permit HYIC to come to market with its first bond financing to fund the initial costs of the #7 subway extension as early as September.

We look forward to immediately commencing negotiations so that the MTA can act on these proposals at its July board of directors meeting. These rail yard transactions will allow the City and the MTA to move forward expeditiously on our shared goals of improving the City's transportation infrastructure and insuring the future economic vitality of the region as a whole.

Sincerely,



Michael R. Bloomberg
Mayor



Christine C. Quinn
Council Speaker