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Tappan Zee Bridge A Test of Obama's Deft Hand

By William G. Reinhardt, PWF editor

Summary:

January 2012—A decision was made in October 2011 by President Obama and New York Gov. Andrew Cuomo to speed environmental approvals and start construction next August on a replacement for the Tappan Zee Bridge over the Hudson River north of New York City. The design calls for an iconic structure built as a cable-stayed bridge, with steel pylons towering over a wide reach of the river. Many thousands of jobs would be created. It would be one of the largest infrastructure projects under construction in America. The success of Cuomo on the $6-billion Tappan Zee project would be in stark contrast to New Jersey Gov. Chris Christie's cancellation of the ARC tunnel project, which was based on the expectation of large cost overruns.

The two most powerful Democrats in the country have ordered that their megaproject be camera-ready in ten months, in time for the Democratic National Convention in Charlotte, NC, on Sept. 3, 2012.

The Tappan Zee headlines would be impressive. But by insisting on an unprecedentedly fast ground-breaking, these ambitious politicians risk following in the footsteps of Tip O'Neill and Teddy Kennedy, who used their political power to launch the "Big Dig" Central Artery/Tunnel in Boston.

The initial cost estimate in the mid-1980s for that 3.5-mile tunnel under downtown Boston was $2.3 billion. The project opened in 2002 at a cost of $14.8 billion. Cost accounting for the "Big Dig" is still going on, and the final price may end up being over $20 billion.

It typically takes five years or more for a large infrastructure project to get state and federal environmental approvals. The bidding process normally takes 18 months or more.

Instead of seven or eight years, Obama and Cuomo have ordered that all environmental permits be approved in eight months. A design-build contract would have to be signed two months later to make the Sept. 3 deadline.

"Failure is not an option," says Cuomo's project director, Karen Rae.

But there is great risk in building a three-mile long bridge whose foundation piles must be 400 feet long in places to reach bedrock. Winter ice flows in the Hudson River add considerable cost and schedule risk that will be priced in the bids. Uncertainty increases bid prices, and there's a lot of uncertainty in this hurry-up project.

The largest, most capable contractors in the U.S. plan to bid for this project. Some believe that if Cuomo can get to the groundbreaking before the DNC convention, then Obama may choose him as his vice president, grooming Cuomo for a run in 2016. So there is a lot riding on the bid prices. Being a kingmaker has obvious benefits, but there are billions to be lost if building this bridge goes off track. It could even be Cuomo's undoing in 2016.

Tappan Zee Bridge: A Test of Obama's Deft Hand

by William G. Reinhardt, PWF Editor

December 2011—Ten years dormant, the Tappan Zee Bridge replacement project is moving rapidly now with President Obama throwing the full weight of his office behind achieving an August notice to proceed on what will be the largest infrastructure project under construction in America. Environmental permitting, which began in October, is being rushed through federal and state regulatory agencies to ensure a ground-breaking before the start of the Democratic National Convention on Sept. 3, 2012.

New York Gov. Andrew Cuomo, has taken on the unprecedented eight-month development effort under the state's untested design-build law. Speculation among some bidders is that Cuomo, a rising Democratic star, may be selected as Obama's vice president, with the Tappan Zee Bridge (TZB) and the thousands of jobs it would create as the crown jewel in his portfolio as governor of a key Democratic state.

"Failure is not an option," says Karen Rae, who was hired by Cuomo in early December to run the TZB project as Deputy Director of the New York State DOT (NYSDOT).

The project, now estimated by NYSDOT to cost $5.2 billion, will be the state's first using a design-build delivery approach, which became legal under a new law passed in mid-December. As proposed now, twin cable-stayed bridges will be built 500 ft north of the existing bridge to carry eight lanes of I-87/287 three miles across the Hudson River between Nyack and Tarrytown, N.Y. Work on the environmental impact statement began in late October, 2011, and a signed Record of Decision (ROD) is to be delivered in August, 2012.

Proposals are being prepared by many of the largest builders in the world, but under unusual conditions—firms are being given just four months to prepare lump-sum, fixed-price bids. Moreover, the bid deadline in June is one month before the scheduled delivery of the ROD from the U.S. Federal Highway Administration's (FHWA) Albany office.

Unlike the predevelopment agreements used on a few large public-private transportation projects in Texas, TZB design-build teams will have no input into the preliminary design being done by the state. Cost-saving alternatives proposed by the TZB bidders will be considered by the state during the one-month period after price and technical proposals are submitted in June and a "best-value" selection is made in July.

Financing has not been arranged, but will require the close and quick cooperation of the New York State Thruway Authority board, the state legislature, the U.S. Congress and others. A key piece will be an air-tight guarantee that there will be sufficient funds to cover any changes made by the government after construction starts.

Gov. Cuomo has emphatically ruled out a public-private partnership (P3) approach, the use of private equity or any life-cycle interest stemming from private maintenance of the bridge. It took 20 years to overcome public employee union opposition to design-build legislation and the unions and their supporters are even more fearful of P3s.

Nevertheless, there is a belief among some project advisors that a P3 may be the only option for financing and delivering the bridge. Based on studies done in 2008 and 2009, a funding gap of $500 million or more is possible. Private debt-equity financing, though more expensive, may be needed to bridge the gap. Deferring some contractor payments is being considered and that in itself is a form of private financing.

Andrew Cuomo's father, former Governor Mario Cuomo, was known as "Hamlet on the Hudson" for his long deliberations on key decisions. In contrast, his son's Tappan Zee Bridge project is a bold, high-risk run for the gold. He may not succeed but no other governor in America has put so much on the table. (Certainly not New Jersey Gov. Chris Christie, who cancelled his ARC tunnel project a year ago). And nobody in the public works financing world wants Cuomo to fail.

There are many challenges ahead:

Cuomo's point person: Karen Rae, a transit advocate, is better known for her lobbying skills than as an administrator. She was eased out of her job as Director of the Virginia Dept. of Rail and Public Transportation, and more recently as Deputy Administrator of the Federal Railroad Administration (FRA), where she was selected in March, 2009 to run Obama's flagging high-speed rail program. To be fair, FRA had little experience in the complicated work of making grants and was given the job by Obama of delivering high-speed rail to 80% of the U.S. population in 25 years.

NYS DOT design/construction oversight: Joan MacDonald was appointed New York State DOT Commissioner in January 2011 after serving as Director of Economic and Community Development in Connecticut and having held a wide range of public policy and planning jobs in New York. Among them was a three-year stint as Director of Capital and Long-Range Planning at Metro-North Railroad in the early 1990s. Metro-North's parent, the Metropolitan Transportation Authority, dominated the early planning for the Tappan Zee replacement, advocating a commuter rail link across the bridge to Grand Central Station. To reduce costs, Cuomo has deferred building all of the transit components, including express bus service, from the current project.

NYS Thruway Authority bidding/financier/owner/operator: Thomas J. Madison was appointed acting executive director of the Thruway Authority on Sept. 19 at an annual salary of $165,800. He has had a long political career in New York, including as former Gov. George Pataki's transportation advisor and Commissioner of the NYSDOT where he oversaw a $7-billion budget and $18-billion capital program. The Thruway Authority, which spends about $200 million a year on new construction, will be the owner and principal financial backer of the new bridge.

A key player in the Thruway Authority financing will be Howard P. Milstein, a major Cuomo campaign donor, who was appointed Chairman of the Thruway Authority Board last June. Among other things, Milstein runs Emigrant Bank, the largest privately held bank in the U.S., and is a major real estate developer/owner in New York, most recently in Niagara Falls.

Also appointed this year by Cuomo is Donald Rice Jr., a Wall Street municipal bond banker. The five other Board members, including Vice Chair Donna Luh, are holdovers from previous administrations. Among them is banker E. Virgil Conway, who headed the New York City Metropolitan Transit Authority (MTA) before being named to the Board in 2006 by Governor George Pataki.

FHWA funding/EIS lead: John McDade, Division Administrator of the Federal Highway Administration's (FHWA) office in Albany, will direct the preparation of the EIS and sign the ROD. In Washington, the White House appointed a TZB "Rapid Response Team" in November headed by FHWA Deputy Administrator Gregory Nadeau and Council on Environmental Quality chairwoman Nancy Sutley. Gloria Shepherd, who heads FHWA's office of environmental planning and right-of-way, will coordinate the permitting work being done by the many federal agencies involved in approving the TZB project.

N.Y. construction trade unions: the main beneficiaries of Obama's decision to build the TZB on an accelerated schedule are the unionized workers in the region who will get all of the jobs. It has been decided that the work will be done under a project labor agreement that sets work rules and pay scales at prevailing union wages in the region.

Financial advisor: Jeffrey A. Parker & Associates was hired on Dec. 6 (beating KPMG and Public Resources Advisory Group/Mercator) to provide a plan of finance for how to fund the contract cost of the bridge and contingencies. The current engineers' estimate is based on conceptual designs done by a team of NYSDOT advisors, comprising AECOM, ARUP and Earth Tech. Thruway Authority bond counsel Winston & Strawn will play a critical role as will Stantec, which will update the TZB traffic and revenue forecasts it did in 2008. Richard J. Gobeille, National Toll/Finance manager for Jacobs, among other things, will advise the Authority on the TZB financing plan, which may include conversion of the Thruway's inefficient barrier system to an open-road toll collection system for capturing free-riders.

There are no funds for the TZB replacement in the state's transportation plan or the Thruway Authority's capital budget. Early funding for the fast-track procurement appears to be coming mainly from FHWA, in the form of a promised grant of $18.6 million for the geotechnical work.

Presumably, more federal grants will be made available for the accelerated development work and the construction funding, although there is not an obvious opportunity right now for either a congressional or White House earmark of the size needed for TZB.

The preliminary financial plan and other work done in the past few years identified changes in Thruway finances and operations that could support as much as $3 billion in debt from user fees in the TZB region. Raising that amount would mean at least doubling the $5.00 TZB toll and converting the Thruway Authority's toll barriers to an all-electronic system from Route 17 east to the New York City border. Eliminating obsolete toll collectors and free riders could produce savings of up to $50 million a year, it is estimated.

Theoretically, the Thruway Authority could issue additional debt under its General Bond resolution, according to a Winston & Strawn report in November 2009. But that doesn't seem likely. The authority is carrying $3.16 billion in debt which is projected to grow to $3.68 billion by 2014. Traffic on the Thruway, and the TZB in particular, has been trending down for the past three years. So getting enough Board votes to increase tolls and issue billions more debt to help fund the TZB replacement would be difficult politically, especially on Cuomo's schedule.

Disaggregating the TZB revenues, all or part, in order to fund a large part of the TZB construction cost with debt backed by just the TZB tolls is another option. Complex legal work would be required, however, to break the system-wide toll-revenue pledge to existing Thruway bondholders. Also, refinancing the Authority's $3.16 billion in outstanding bonds under a new General Bond Resolution and then issuing new TZB debt will take time and a lot of money.

Low-interest federal loans or tax incentives would provide a boost to a TZB user-fee financing. Toward that end, the White House recently ordered FHWA to open a new solicitation for its TIFIA loan program on Dec. 30, four months ahead of schedule. It seems probable that one goal is to quickly advance a federal direct loan or guarantee for the TZB project debt. In addition to their low interest, TIFIA loans give borrowers five years before they have to begin paying interest. Project debt must be rated investment grade to qualify for federal assistance, however.

Loans under the TIFIA program are capped at 33% of eligible project costs, which would mean about $1.8 billion for TZB, by far TIFIA's largest. The average review time for a TIFIA loan is about two years so TIFIA's two loan officers would have to move faster than ever to meet Obama's directive.

An even better option is contained in a proposal by Rep. Ron Wyden (D-Ore.) to create tax-credit bonds backed by customs fees that would make available 30-year financing at 0% interest for transportation projects like TZB. If enacted, that would triple the proceeds from capitalizing TZB tolls. A possible legislative vehicle, the Surface Transportation Act, expires March 31 next year, but has no provision for tax-law changes at this point.

Gov. Cuomo is reported to be exploring ways public and private pensions funds could be induced to buy TZB debt. Pension administrators now invest in a portfolio of P3 projects around the world via private equity funds that charge substantial fees and seek returns of 12% or more. The TZB project needs low-cost debt financing, however.

NYS Comptroller Thomas DiNapoli has ruled out a direct investment from the state's Employee Retirement System. Construction trade union pensions are another potential source of funds. But Taft Hartley rules impose strict fiduciary and lending restrictions on the administrators of these funds.

Two key restrictions on trade union pension funds are: 1) investments may not be concentrated in a single asset, especially social investments like the TZB; and 2) a utility-like structure would have to be set up to guarantee that TZB tolls are increased as required to cover debt service and inflation for 20 years or more.

Much is being asked of the Thruway Authority Board and staff. Thruway tolls are among the lowest in the nation. In past years, the Thruway board's operating philosophy—and political mandate—was to minimize tolls. Its toll barriers, for example, were originally located to allow the greatest number of free miles.

The high-income commuters who are among the principal users of the TZB pay a two-way toll of $5. The comparable toll for the George Washington Bridge (GWB), 20 miles south, is $12. The Port Authority of New York and New Jersey, the GWB's operator, is paying a dear price for recently raising its tolls, however. After cutting staff for years, it is being roundly criticized for paying too much overtime, most of which goes to its police force. More staff cuts seem possible.

For the Thruway Authority, being starved of operating capital has meant that maintenance of Thruway assets typically has been short-changed. This has led Authority engineers to design structures that last decades without requiring maintenance. The new TZB design, for example, calls for a structure that will not require major maintenance for 100 years, which will add substantially to its cost.

Design-build: Nossaman LLP, has been hired to advise on the TBZ contract and bidding. David Capobianco, the Thruway Authority's project manager, says his group evaluated allowing design-build teams from two months to six months to develop their lump sum, fixed-price proposals.

Firms consulted said they wanted six months, he says. They'll get four. "We heard that in four months we'd get 95% of what we would get for a six-month period," he says, so qualifications are due Jan. 10, 2012, and final proposals from as many as five finalists will be due in late June. A notice to proceed is set for next August.

Two key issues for bidders—a stipend and an early completion bonus to offset high penalties for delayed completion—are undecided. At this point, an early completion bonus is not being considered, says a project consultant.

Public employee union ally, New York State Comptroller/CFO Thomas DiNapoli, must approve all state contracts, including whether and how much of a stipend will be paid to share TZB bidding costs with the unsuccessful teams. Without substantial stipends, bid options and cost-saving design innovation from the bidders will probably be limited.

One bidder says DiNapoli is considering a $1-million stipend for unsuccessful proposers. “That’s a drop in the bucket,” he says, considering bidding costs for such a rushed project will be in the “tens of millions” of dollars, including expensive geotechnical studies.

NYSDOT hopes to receive the FHWA grant and award a contract in January for 68 borings and three piling demonstrations—from 60 to 400 ft deep. However, one of the bidders says the information from those samples won’t be available in time to inform its bid. And none of the prospective bidders will budge “until we make sure we understand the geotechnical risk,” he says.

To speed the state’s foundation studies, one of the bidders has proposed doing the borings and pile tests itself and providing the data to the other teams.

Design work by consultants is being rushed to provide 30% of the necessary drawings to bidders as part of the RFP in February. “In terms of the bridge itself, we’re looking at a range of long-span and short-span bridges,” says Capobianco. “Both will have different impacts in terms of the river ecology, in terms of the number and size of foundations, the number of piers, and in terms of constructability there will be issues.” In either case, extensive dredging of Hudson River sediments will be required.

Final bids are due in June but important details, such as the final alignment of the twin spans, won’t be determined until the final environmental impact statement is completed in July. Important design decisions on seismic safety won’t be decided until the RFP is issued in February.

Except for the Verrazano Narrows Bridge, the most recently built, in 1964, none of the bridges in the New York City region are designed to resist predicted earthquake loads. The TZB is based on an economical design and was built for $81 million in the 1950s. It is basically a steel box floating on mud. A primary rationale for replacing the bridge, besides the $100 million spent each year to keep it safe, is to meet updated seismic design standards, which may require driving some of the foundation piles to bedrock as deep as 400 ft under water.

Concern about seismic loads and the potential cost impact on TZB was heightened by a quake last October in Virginia which shook the TZB. The unexpected quake also supported the case of anti-nuclear activists who, with Cuomo’s support, have been seeking to stop the relicensing of the Indian Point nuclear power plant, which is located on the river a few miles north of the TZB.

Seismic safety is a key concern cited by the anti-nuclear activists. If the TZB design gets caught up in that political discussion, costs may quickly spiral out of control.

Rail transit was a principal motivation 10 years ago for building the new TZB when the planning process was dominated by the New York City MTA. Costs spiraled to over $34 billion, however, so Bus Rapid Transit (BRT) lanes now are the preferred transit option of politicians on both sides of the bridge.

Cost of a full BRT system to carry an estimated 50,000 commuters per day from Suffern, N.Y., across the TBZ to Port Chester, N.Y., was estimated in 2008 to be $2.9 billion. That has been deferred for lack of funds, though enough space will be left between the two vehicular spans to build a third bridge to carry bus or rail capacity in the future.

One of the TBZ bidders based in New York is considering adding a reversible lane as a bid alternate to provide the capability for express bus service now. Accomplishing that, in addition to putting another feather in Cuomo's hat, would calm powerful transit activists who might otherwise confound the project.

Among them is Westchester County Executive Robert Astorino: "If there's not mass transit on it [TBZ], I don't know what the economic benefits are if you replace one [bridge] with another that's exactly the same. It seems to be the status quo $6 billion later."

Mega-projects, unless they are meticulously planned and executed, pose considerable risk to the private contractors who build them; less so to the politicians whose star rises quickly at the groundbreaking. The job of delivering critical public assets at a fair price onan accelerated schedule can be accomplished using a design-build delivery approach. But to succeed, design-build requires a monumental shift in the culture and behavior of government design and construction bureaucracies. Besides, it is no panacea for curing the much larger issues that arise when trying to solve complicated transportation problems.

After 20 years of planning to dig a 3.5-mile tunnel under downtown Boston, the Central Artery/Tunnel (CA/T) project was launched in 1983 by Gov. Michael Dukakis and House Speaker Tip O'Neill, who promised 90% federal funding for their $2.3-billion project. Engineers, who had been working on the CA/T since, knew it would be substantially more than that. But nearly all big public works projects start by putting the "camel's nose in the tent" and then seeking additional public funding to finish the body of the work.

With Sen. Edward Kennedy (D-Mass) leading the successful effort to override President Reagan's veto, the surface transportation bill in 1991 gave a federal guarantee of 85% funding for CA/T from the Highway Trust Fund. The CA/T cost estimate had grown to $5.2 billion by then, partly because of design changes required by FHWA during a three-year review before it would approve the Record of Decision. Also, no owner had been designated at that time to insist on cost controls and optimizing operability. In any case, the project moved ahead largely because of the federal guarantee.

The Big Dig contracts were awarded to low bidders whose prices were based on quantities taken from 100% design drawings supplied by the government and its engineering consultants. The government's lead agency on the project, Mass Highways, is faulted for lax oversight and for the opacity of that process. For those and a host of other reasons, costs spiraled out of control again.

In 1994, senior executives of Bechtel, one of the program managers, met secretly with Gov.

William Weld and told him they expected the final cost would be $14 billion. That estimate did not become public for nearly two years. When it did, the federal government took back its guarantee and ultimately reduced its funding share to 58%.

By 2002, when construction was completed, the federal government had sent $8.6 billion in Highway Trust Funds to Boston for the Big Dig. Cost accounting is still going on, but the final tally is expected to be over $20 billion.

When it was all done, at least one of the major contractors had gone bankrupt. The program management team of Parsons Brinckerhoff and Bechtel reportedly lost $150 million profits and another $200 million to settle disputes. A number of public officials lost their jobs. And there is a permanent rift between the western Massachusetts users of the Mass Pike who were forced to accept toll increases to fund the state's share of the overruns, and the commuters who live south of Boston and get the most benefit, but whose political pull keeps their highways free of tolls.

Many of the private sector players working on the TZB project are skeptical of the aggressive schedule adopted by President Obama and Gov. Cuomo. Gaining their confidence and getting the five design-build finalists to spend what could be as much together as $100 million to prepare their fixed-price bids is one of the state's greatest challenges. The less the contractors spend to prepare their bids, the greater the unknowns and the higher their bids will be.

"Moving ahead on a political schedule risks the ill-will of the construction industry," says an executive of a national design-build contractor. "If they fail, all of this will be for nothing."

# # #

Tappan Zee Bridge Seeks $2-Billion Federal Loan

January 2012—The New York State Thruway Authority submitted an letter of interest to FHWA's TIFIA office in December for a $2-billion federal loan to support the toll-revenue debt financing for a new I-287/87 bridge between Westchester and Rockland counties. The twin 3-mile-long, cable-stayed bridges over the Hudson River are a national priority project of the Obama Administration. A draft EIS was completed this month. New York Gov. Andrew Cuomo has pledged to obtain all environmental approvals and sign a design-build contract in eight months, by August 2012, before the Democratic National Convention on Sept. 3 (PWF 1/12 p. 1).

The TIFIA loan amount being sought suggests the state's cost estimate has grown from $5.2 billion to $6 billion, although some contractors have told the state the project could be built for substantially less than that.

Steel fabrication could be a major cost factor. To hold down the cost of replacing the eastern section of the San Francisco-Oakland Bay Bridge in 2006, for example, Fluor Enterprises and American Bridge bid the $7.2-billion project using Chinese steel fabricated and shipped from a state-owned yard in China. Caltrans determined that using U.S. suppliers would impact steel costs nationally. Cost savings on the 2.2-mile suspension bridge are estimated at $400 million.

At peak, according to the New York Times, 3,000 Chinese steel workers were employed at the 1.2-sq-mile fabrication yard and port where the large Chinese ships used to deliver the prefabricated pieces were loaded. Former Gov. Arnold Schwarzenegger backed the use of Chinese steel and praised the workers when he visited their fabrication yard in 2009.

Unless they choose a concrete bridge, TZB designers may also find they have to fabricate a steel bridge in China, the world's largest steel maker. Further, Chinese firms are responsible for building most of the cable-stayed bridges completed or under construction in the world, so it's possible one or more will bid aggressively to manage the TZB construction here. Bechtel teamed with China State Construction International on a unsuccessful bid last September to be prequalified on a DBFOM concession for the Knik Arm Bridge in Alaska.

A TZB executive project manager will be hired soon to direct a joint project office comprised of NYS DOT and Thruway Authority staff. Additional resources from other agencies, such as the Metropolitan Transit Authority, and consultants, will support the procurement effort by the Thruway Authority.

Gov. Cuomo's budget message on Nov. 18 included $5 billion for the TZB project from the Thruway Authority. Bankers say issuing that much new debt would require tolls on the entire system to be increased well beyond the current 4.4 cents per mile average rate. (New Jersey and Pennsylvania rates are now 10.5 cents per mile).

Adding a surcharge to the tolls on the existing bridge to help pay for its replacement is being considered. But the amounts that could be raised on the TZB probably would not offset the need for major toll increases on the Thruway's full network, bankers say.

A large surcharge on the 135,000 daily users of the existing TZB, they say, could result in unacceptable diversions by truckers to any of three alternative crossings within 18 miles north and south of the TZB. Large trucks constitute 19% of the TZB traffic but pay 37% of the $120 million in bridge tolls collected annually now.

A general plan of finance will be completed soon by consultant Jeffrey A. Parker. A more detailed plan will be presented before proposals are due in June 2012. No federal funds are expected for construction so state tax and toll revenues will back any bridge financing. Using some of the state's existing federal highway funds to help secure a TIFIA loan is not allowed.

Bonding some of the state's future federal grant obligations is a possible option, though NYS DOT has no legislated authority to issue debt. Besides, rating agonies have warned that the uncertainty of federal appropriations makes these grant-anticipation Garvee bonds risky.

State funds have never been used to help pay for Thruway Authority projects, say bankers, though providing state credit support to upgrade the TZB project debt would make sense. Other states, most recently Texas and Washington, have done that. And Alaska's legislature is being asked to provide a $150-million reserve fund as credit support during the ramp up of toll revenues on the proposed Knik Arm Bridge in Anchorage.

A test of Gov. Cuomo's political will on the TZB financing will come in June or July, 2012, when $868 million in Thruway Authority bond anticipation notes (BANS) must be rolled over or converted to long-term debt. The one-year notes have already been rolled twice so a third time could trigger a downgrade by the bond rating agencies. Converting the BANs to long-term debt would put a new obligation of close to $1 billion on the Authority's balance sheet, triggering a major toll increase, bankers say.

Finally, to qualify for a $2-billion TIFIA loan, the Thruway Authority will have to get letters from rating agencies stating that the federally subsidized toll-revenue bonds are investment grade, again requiring another major toll increase. Getting all this done by next summer seems unlikely. "This may be a case where the king has no clothes," says one banker.