

The Port Authority of New York and New Jersey
Committee on Operations Meeting Transcripts
July 24, 2013

(Chair D. Samson) We're 7 minutes late. Today's meeting of the Committee on Operations is being held in public session after which the Committee will meet in executive session to discuss matters relating to the purchase, sale, or lease of real property, or securities where disclosure would effect the value thereof of the public interest. In addition the public portion of the meeting is being broadcast live on the Port Authority's website for those interested in viewing the proceedings via the Internet. First topic on today's agenda is a presentation by Rick Larrabee. Hello Admiral, how are you today?

(R. Larrabee) Good morning, Chairman. (Chair D. Samson) Regarding amendments to certain agreements about the lease and operation of Cape Liberty Cruise Terminal located at the Port Jersey-Port Authority Marine Terminal. Rick?

(R. Larrabee) Chairman, Commissioners, good morning. Today authorization is requested to amend 6 agreements with Cape Liberty Cruise Port, LLC, the Royal Caribbean Cruise Lines, the Bayonne Local Redevelopment Authority, or the City of Bayonne as successor to the BLRA to provide for the redevelopment of the Cape Liberty Cruise Terminal at Port Jersey at an estimated cost to Royal Caribbean of approximately \$50 million. This will actually result in substantial benefits, including a new state of the art cruise terminal, a 900-space parking structure, an overflow parking area, and an improved berth that would allow for a new cruise ship to call at Port Jersey next fall. It will also provide the opportunity for the Port Authority to realize additional revenues through an increase in variable rent due to the expected gains in passenger volumes and parking revenues, which would offset reduced revenues resulting in reduced terminal area, allow for the potential growth of the cruise operation, and preserve maritime jobs and activities at the Bayonne Peninsula. As background, Cape Liberty, a whole Bayonne subsidiary of Royal Caribbean, currently operates a cruise terminal at Port Jersey under 6 agreements that expire in December of 2038. The agreements, which cover the usage of the cruise terminal, parking management, revenue collection and disbursement, redevelopment, purchase, and sale, and terminal operation were inherited by the Port Authority as a result of the 2010 acquisition of the 131-acre MOTBY Peninsula from the BLRA. Under the redevelopment agreement, Royal Caribbean has the right to reduce its footprint and redevelop the cruise terminal and has expressed an interest in doing so in order to accommodate this new vessel at Bayonne by 2014. The cruise terminal currently consists of approximately 23.3 acres of open area, including approximately 120,000 square feet of terminal building, two berths—N-1 and N-2, and 255,000 square-foot parking area. Under this action and is provided for in the redevelopment agreement, Cape Liberty would surrender approximately 14.4 acres of terminal area at an approximately 2.6 acres for construction of a parking garage and operate in a new footprint of approximately 11.5 acres adjacent to Berth N-1. Royal Caribbean would redevelop the Cape Liberty Cruise Terminal in order to accommodate the new cruise ship that is currently under construction. The \$950 million Quantum of the Seas will be the largest passenger ship in the New York/New Jersey Harbor with the capacity to carry approximately 4,180 passengers. The state-of-the-art vessel is expected to call at Port Jersey in the fall of 2014 and serve the Caribbean, the Bahama, Florida, and Bermuda. Royal Caribbean proposes to develop the area

adjacent to Berth N-1 that would include improvements to the berth, a new terminal building, a new 900-space parking structure, and an overflow parking area. Royal Caribbean would obtain \$70 million in financing from the City of Bayonne through the issuance of bonds to fund the improvements. \$50 million dollars for the construction of the improvement that I just mentioned and \$20 million to reimburse Royal Caribbean for improvements previously made to the terminal and to the berth completed in 2009. These improvements will become property of the Port Authority once the financing and construction were completed. Commissioners, your authorization is requested to amend the 6 agreements with Cape Liberty Cruise Port, LLC, Royal Caribbean Cruise Lines, and the Bayonne Local Redevelopment Authority where the City of Bayonne is the successor related to the Cape Liberty Cruise Terminal at Port Jersey to provide for a 5-year extension of the agreement through 2043, provided that external bond financing necessary for the \$50 million redevelopment project is in place by January 1, 2014. If the financing provision is not satisfied or if Royal Caribbean does not move forward with the \$50 million redevelopment project, the agreements would revert back to their original terms and expiration date would remain as December 31, 2038. Royal Caribbean would surrender its first priority right to develop a second cruise terminal at Port Jersey, as currently provided for in the redevelopment agreement. However, Cape Liberty would retain the exclusive right to operate any additional cruise terminal at Port Jersey. The redevelopment of the Cape Liberty Cruise Terminal would be accomplished without Port Authority capital and would include new state-of-the-art cruise terminal, parking structure, and improved berth that would allow Quantum of the Seas to call it Port Jersey. Cape Liberty would surrender approximately half of its redevelopment area, which would allow for the potential of marketing the surrendered area to other cruise lines that may be interested in calling it Bayonne. With the expected 25% increase in passenger volume and parking revenues, it's anticipated the expected revenue increases will provide the opportunity to offset revenue reductions from the reduced terminal area. Lastly the proposed arrangement allows for the potential growth of cruise operations and the preservation of maritime jobs on the Bayonne Peninsula. Commissioners, I request you advance this item to the full Board for approval today.

(Chair D. Samson) Thanks, Rick. Do any of the Commissioners have any questions or comments? Commissioner Moerdler? (Comm. J. Moerdler) Quick question. What's the approximately net reduction in the revenue projection from this on an annual basis? You're reducing the rent, but you might offset it— but that's speculated by— (R. Larrabee) By about \$1 million. Keep in mind that the arrangement is that the revenue stream from this operation— we get the first \$2 million, and after that we split the remaining with the BLRA, and that goes through the remainder of the term. (Comm. J. Moerdler) And would that apply to new revenue from the area they give up? (R. Larrabee) No, it would not. That would be for us to develop, and our attorneys tell us they would have no right to any of the revenue stream associated with that.

(Vice-Chair S. Rechler) Can I just get a point verification? So it's \$1 million of revenue that we're losing on the amount we're giving up? (R. Larrabee) On the fixed rent, but then we believe that we'll make it up. (Vice-Chair S. Rechler) So you think you're going to make up the—? (R. Larrabee) The ship that currently calls it— they have two ships they call there now— one year round, which carries about 3,500 passengers, and the other one is a seasonal vessel. We would be replacing the larger of those two vessels with Quantum. Quantum can carry 4,200 passengers, so we're looking at a substantial increase. What we've seen over the last 3 years is a growth rate— I

guess in 2010, we handled about 390,000 passengers; in 2011 it was about 430,000, and this past year was about 490,000, so we anticipate, and so does Royal Caribbean, a substantial increase in passengers. We get a revenue stream from that. There's a head tax that goes along with that. It's about \$70. We get about 42% of that head tax. In addition to that, we get revenues from both the fixed ground rented parking plus the variable rent from the parking garage. It's a facility that very frankly that people are attracted to, because they can drive to the facility, now park their cars safely, take a cruise, get back in their car, and drive home. The nice thing about this is that we are in the second largest cruise market in the United States today, and what's happening in the cruise industry is that they're going to much larger vessels. The terminals in Manhattan are not capable—are not going to be capable of handling these larger ships. We believe this additional acreage that we'll take back will be very attractive to one of those cruise lines by 2017 when those agreements expire in New York. So we think we're putting ourselves in a terrific position to really grow this business in Bayonne.

(Comm. J. Moerdler) Just following up on Scott's question. On an overall net economic basis that million dollars is the fixed rate loss. What's your guess based on the projections of the head count increases on the net economic basis? Is this a plus, a minus? (R. Larrabee) It's a plus. (Comm. J. Moerdler) That's what I'm saying— on an overall basis, what are—ballpark—what are we projecting? (R. Larrabee) We project revenues in 2015 to be \$4.93 million compared to the \$4.8 million under the existing agreement, so 2015 is really— (Comm. J. Moerdler) Plus we have the potential on the additional land. >> (R. Larrabee) Right.

(Comm. D. Steiner) And we also get when we drive from New York to go to the Cruise Terminal (Comm. J. Moerdler) That's what I'm saying. (Comm. D. Steiner) We get the tunnel— >> (Comm. J. Moerdler) Right. I hadn't thought about that. One other question. My apologies. How does the structure of this— this is in effect a pier that it's built on. It's out in the water, built on pilings. (R. Larrabee) It's been filled. (Comm. J. Moerdler) It's filled and closed. So in order to build on it, they just add in additional pilings down through the fill into the bedrock to support the new structure? >> (R. Larrabee) Correct. (Comm. J. Moerdler) So structurally there's an ability to continue adding there. (R. Larrabee) If you've seen MOTBY, you know that there's substantial structures already in place out there. We don't anticipate the construction is going to be any challenge. (Comm. J. Moerdler) Okay. Thank you. (Chair D. Samson) Any other questions or comments by other Commissioners?

(Comm. D. Steiner) I see it as a big plus for us, and I really see the potential, and Karen assures we've solved many of the environmental problems we've discussed. The Royal Caribbean has agreed to accept those responsibilities so we have no additional liability in that area. Is that correct? (R. Larrabee) That is correct, yes. >> (Comm. Steiner) Thank you.

(Chair D. Samson) Rick, do I understand this proposal is contingent on financing by BLRA? (R. Larrabee) It's contingent on financing, yes. (Chair D. Samson) I read somewhere that BLRA has either gone out of business or is about to. (R. Larrabee) The City will take over all responsibilities for the BLRA. (Chair D. Samson) Have we discussed this with the City people about if the redevelopment authority goes out of business whether they're going to be in a position to produce the financing? (R. Larrabee) Yes, we have. (Chair D. Samson) All right, and if they don't do it for political or financial reasons, is there a backup plan or do we just go back to

square one? (R. Larrabee) We would revert back to the current arrangement. I'm not sure what Royal Caribbean would do at that point in terms of seeking financing. (Chair D. Samson) What level of confidence do you have that the City is going to produce the required financing? (R. Larrabee) You're probably in a better position than I am to answer that question— (Chair D. Samson) I have no information whatsoever about it, but I'd be glad to guess. I was just wondering—yes, Deputy Executive Director, maybe you have an answer to that? (B. Baroni) I have a very high level of confidence that the financing through Bayonne will be there. Both the City and Royal Caribbean are very motivated to conclude this arrangement in time for the Quantum to be present in 2014, and I think that the— I have a very high level of confidence. (Chair D. Samson) Because it's a significant commitment by the city. >> (B. Baroni) Correct.

(Chair D. Samson) Any other questions or comments by Commissioners? If not, I'll move this forward for approval at the public Board meeting. Can I have a second? >> (Comm.) Second. >> (Chair D. Samson) All in favor? >> (Comm.) Aye.

(Chair D. Samson) Okay, next issue on the agenda. Rick has a proposed lease, revision, or supplement for operation of a fuel service station in Port Newark.

(R. Larrabee) Today your authorization is requested to supplement the lease with Swift Fuel Stops, the operator of a service station in Port Newark. Swift has been a tenant in good standing. They provide a 24/7 operation at the Port Authority's request, and they are our only fuel station at the facility. The station was hit by Sandy, like everyone else in the Port— was reopened, but this only exasperated the need to renovate an already outdated facility. Basically the station needs investment. It has a lease that runs through 2017. The current owner wants to reinvest now and amortized over a longer term with all the associated benefits. We believe this actually will provide for the renovation of the service station without Port Authority capital, result in substantial environmental benefits including reductions in energy consumption, customer vehicle idling time, associated emissions, and environmental impact to the property. It will allow for the Port Authority to increase revenues with the introduction of a variable rent fee on the fuel sales. As background, Swift Fuel currently leases and operates the Gulf Station at Port Newark under an agreement that expires in February 2017. The lease consists of approximately 25,000 square-foot open area, including Building 151, which houses an approximately 1,000 square-foot Food Mart. Swift Fuel dispenses gasoline and diesel fuel to the Port Authority and to our tenants and customers. The tenant has proposed investing a minimum of \$600,000 to renovate the fuel station within a 30-month time frame in consideration of an extended lease. The proposed renovation would include the demolition of Building 151 and the installation of a new kiosk canopy, four additional fuel pumps, one additional fuel storage tank, and more efficient fueling capability. Swift Fuel's commitment to renovate the existing station at its own expense would also result in substantial environmental benefits for the installation of an energy-efficient lighting and electrical equipment, including new air conditioning and heating, which will reduce energy consumption by 20% to 30%. A new vapor recovery system expected to capture an additional 60% to 70% more of the petroleum vapors compared to the existing system. A new transition process system— transaction process system that allows for reduction in idling at the station, a leak-proof pump system and monitoring system that automatically shuts off all the system in the event of a leak. Lastly, the Port Authority would realize increased revenues with the introduction of a variable rental fee on fuel, which would represent a new revenue source to the facility, and

then anticipated increased fuel sales and improved efficiencies at the station. Commissioners, your authorization is requested to enter into a lease supplement with Swift Fuel. The term of the agreement would be extended for 16 years and 5 months through July of 2033, provided that the tenant substantially completes a minimum of \$600,000 in leasehold improvements and renovations by January of 2016. If the tenant does not substantially complete the renovations within that timeframe, the lease would expire as it does now in February of 2017. Should the Port Authority terminate the agreement without cause, Swift Fuels would be reimbursed an unamortized portion of its \$600,000 investment. In addition to a fixed basic rental, the tenant would pay a new variable rental fee on fuel sales, would commence on August 1, 2015, following a 2-year construction grace period. The proposed supplement would generate a total aggregate rent of approximately \$2 million over the term. Commissioners, I request you advance this to the full Board for approval.

(Chair D. Samson) Thank you. Any questions or comments by any Commissioners? Rick, have we— have you considered whether we might receive better terms if we were to put this out for an RFP? (R. Larrabee) We have considered, Chairman, and here's our thinking. We would have to wait until 2017 to do that. The station is in horrible shape right now and really needs to be—the investment needs to take place now. We looked at it from a financial standpoint and determined that we would have to give somebody at least 12 months and more likely a little longer than that of a grace period before we could collect rent while they do construction. Under this proposal, the rent stream continues for that period of time, so the net present value is actually about— is a little bit less under that alternative approach. Then finally—just from an environmental standpoint, the benefits that we get from doing this now are significant from an environmental standpoint— it really improves our overall environmental footprint. We think it's a good time to do it given everything else that's going on around us. The other benefit, I think, is that we really want to keep this capability on the Port. It serves us, but it also serves our tenants. We would prefer our tenants and our truckers not going off port, not going into the ironbound, for example to buy fuel. Looking at the whole thing both from a financial standpoint and from a standpoint of our environmental concerns, we just believe this is the best way to go right now. (Chair D. Samson) Thank you. Yes, Commissioner Pocino?

(Comm. R Pocino) (inaudible-off-mic) (R. Larrabee) That's correct. The construction has to take place. That way we have a TAA process, as you're aware, and they'll have to get all of that approved. In addition to that, we've told the terminal operator that he has to provide an alternate power supply in the event that we lose power in the Port, which is obviously critical to us. So he's being very cooperative. We think this is in the best interest of the Port. (Comm. D. Steiner) Is this one station sufficient in capacity to handle all of our needs at that Port? Do you foresee the building construction of another service station? (R. Larrabee) The next phase of the Port is going to move towards compressed natural gas and perhaps LNG. We are looking at both land vehicles as well as ships that will eventually migrate to those sources. We're talking to some of the larger suppliers of CNG and LNG. We believe we have other locations in the Port that would be suitable for that, and we're pursuing those pretty aggressively, Commissioner.

(Comm. D. Steiner) Now I would also ask that you look into charging stations for the future of electric vehicles. I don't know what the arithmetic is but it's something we should be thinking

about. As long as you're looking forward with the gas, I think we have to look forward to time when they'll be electric chargers needed, and I think it ought to go into your planning.

(Comm. J. Moerdler) I think that's an absolutely great suggestion, David, and I think that's actually something that we should require to them install and as usage increases to increase the number of stalls available and that's something we should consider with other— you know, parking operators at all of our facilities as a general rule, not just the Port's— but it's something that we ought to consider everywhere— to require a few stations— (Chair D. Samson) Like at the airports. >> (Comm. J. Moerdler) Right, like at the airports where the taxis park. (R. Larrabee) It's a good thought. My only consideration is that keep in mind— we're talking about a customer base that's primarily large trucks and although I think cargo handling equipment may move in the direction of hybrids and electric vehicles, the reality is those trucks are probably not going to move in that direction. (Comm. J. Moerdler) Maybe it's some sort of usage-based requirement. As the industry develops— if their customer base is consistent with where national usage trends are going, then they have to add the facilities.

(Comm. D. Steiner) You know, you can't look to the future. You have to be ahead of it, and you have to prepare for it, and that's our obligation as a public agency to be ahead of the curve. Whether the truckers see it or not, I don't think they know what the future brings. We don't know what vehicles will also go there, and maybe we'll get some car traffic there for the chargers, too. I wouldn't rule anything out.

(Comm. J. Moerdler) They may not have enough space there that may be more appropriate for the parking facility. (Comm. D. Steiner) I understand, and I second that idea. (Comm. J. Moerdler) And in fact it's something we ought to even consider in the garages that we're building at LaGuardia and other facilities— there may be a row of stalls in the garage that are electric charger stalls only, and somebody can park their car there— and maybe they pay more for that privilege— while they're flying out for the day and leave their car plugged in, so by the time they come back, it's charged. I think that's something that ought to be passed along to Aviation, and wherever we have parking facilities.

(Chair D. Samson) Just to followup on Commissioner Moerdler's point, Rick, has any thought been given in connection with this particular location? I understand it's a small facility, but it's located in the key area to providing CNG capabilities there. I assume that there's going to be a lot of truck traffic there. (R. Larrabee) I think that—from our perspective, CNG, which is a real possibility in the next couple of years— we have other locations that we think would be more suitable, and it's a function of not only the location— >> (Chair D. Samson) In the Port area? >> (R. Larrabee) Yes. The southern end of the Port— we've got property that we've already begun to talk to people about. We believe that they'll be a significant amount of competition to put that type of facility in the Port in the next couple of years. As I mentioned before, we're talking to some of the largest gas providers in the country right now, and there is a significant amount of interest in going in that direction. (Chair D. Samson) I would think so.

(Comm. J. Moerdler) One other question. If we're going to extend this agreement early, does that mean we are comfortable with this provider without having put this out for an RFP in terms of their quality of performance and customer service and response we get from their customers?

Are they the right provider to renew, or is the appropriate direction to go in the opposite and say if you guys aren't happen with the way things are working, we'll let you out early, and we'll let you do an RFP? What's the general sense? (R. Larrabee) We have a fairly high level of confidence that he will do what he says he's going to do. We have also had a good relationship with him. As I mentioned earlier, he's a tenant in good standing. He's always paid his bills. When we asked him— at one point, we had a fuel station in the Port. We said, "It's not working that well for us. Would you keep your station open 24/7?" He's done that for us, so he's done all the things we've asked him to do. He's been a good tenant. We really feel pretty comfortable with him. (Comm. J. Moerdler) Thank you. >>

(Chair D. Samson) Any other questions or comments? If not, I'll move this forward for approval at the Board meeting. Can I get a second? >> (Comm.) Second. >> (Chair D. Samson) All in favor? >> (Comm.) Aye.

(Chair D. Samson) So moved. The last topic is a review of overtime results. Libby McCarthy and Michael Massiah are going to make the presentation. Of course, this is a subject of continuing interest by the Board. I was comforted by my understanding that you had recently met with the Comptrollers Office, and if you could just get the Board a bit up to date on the results of that meeting and sort of tie it into your presentation, Libby, I'd appreciate it. Thank you.

(L. McCarthy) Thank you, Mr. Chairman. Yes, we did at your recommendation — the Board's recommendation have a meeting with the New York State Office of State Comptroller, and in order to address with them and brief them on the steps and actions we've taken in terms of controlling and managing overtime as well as our budgeting process. It was a very good meeting. We went through each of the recommendations that they had provided us, walked through what actions we've taken on each. We got good feedback from them, and I think we had a good dialogue. They have commented favorably on the reporting we're doing with them and have asked us— again, we approach this with them wanting to also understand best practices, get any feedback that they had, and keep it as an on-going dialogue. They received that, as well, very well, and I think we'll have a good dialogue going forward. They have asked that we consider providing dollar values as well as hours, even though I think we believe it's better to try and manage this on an hours basis.

(Chair D. Samson) And was the subject of PAPD overtime discussed as well? I know that's been a continuing subject of interest for the Board— how we best manage that in light of our plans to bring in perhaps a new class and the kind of impacts that would have on PAPD continuing overtime. (L. McCarthy) Yes, we talked about the plans that we have, specifically at PAPD. We also talk quite frankly about the challenges we have as a 24/7 operation— a workforce that has some turnover, et cetera. Most importantly as well— we made sure they understood that actions were taken today to address overtime in the long term— are going to have an immediate term or short term impact whereby overtime is going to increase. (Chair D. Samson) So it's going to get worse before it gets better. (L. McCarthy) It's going to get worse before it gets better. >> (Chair D. Samson) But it is going to get better? (L. McCarthy) It is going to get better. It's just that by taking these actions—it's with a view in the long term— they will have some implications in the shorter term. We wanted to make sure they understood that so there wasn't a surprise. (Chair D. Samson) I think as you pointed out the underlying purpose here is to engage an effective

communication with the Comptrollers Office and let them know we're sensitive to and aware of their concerns and are taking positive steps to address them. Thank you.

(L. McCarthy) Just turn it over to Mike then to walk through— (Chair D. Samson) Excuse me, Commissioner Lipper has a question

(Comm. K. Lipper) Do have flexibility as to whom you assign to overtime so that you aren't assigning the most expensive employee with the— I assume you have the same type of tale for the last three years of pension discounted for the overall hours? Do we have any ability to score to the people we assign, and do we do that, in fact, so as not to build up these massive pension liabilities? (L. McCarthy) We do track who the top—for lack of a better term—the top overtime earners are, and we work with the line departments to address the issue of the allocation of the overtime among employees. (Comm. K. Lipper) And is there any line that you could develop to make certain that we get overtime from the last in versus first in so that we keep our costs under control for the future— our liabilities under control, or is that driven by union contracts, or otherwise? (L. McCarthy) I'm going to let Mike address that. (M. Massiah) Overtime equalization clause is in some of the contracts, which requires a rotation of overtime among that particular workforce. They're not all seniority driven. They're not— they do take into consideration the whole workforce. That's under consideration as we go through the next round of negotiations to look at all options around these matters, and we'll proceed appropriately. Again, some of this stuff is already contract based. (Comm. K. Lipper) Would you come up with a report or a plan that most benefits the Port Authority as a public entity in making sure that we're using the lowest cost methods in overtime and have a formal plan adopted to keep those costs under control and maximize money for public services? (M. Massiah) We will monitor the overtime by person. We look at all those kinds of issues that you indicate, and we'll work on such a strategy. (Comm. K. Lipper) Can you present to the Board the results of your efforts and plan to further improve these efforts in the direction I'm suggesting to maybe keep the costs down and liability down? (M. Massiah). We'll follow up. (L. McCarthy) That's perfect segway. This is the report we have, and it's a continuing effort, and we're continuing to work with with PAPD—with Joe Dunn and his efforts for security as well as Stephanie and their efforts along the line departments.

(Chair D. Samson) I should just point out to Commissioner Lipper— just so you understand, which I'm sure you do, the historical context of this. The current focus on overtime performance and cost is something that has been ongoing here at the Port Authority, but it was refocused and re-energized as a result of New York State Comptrollers audit that was issued— I believe 2½ years ago—does that sound about right? Two years ago? >> (M. Massiah) About two years ago. (Chair D. Samson) Which remarked about the overtime and contained the audited—several recommendations to be followed by the Port Authority to reduce overtime. As a result of that, we've asked the CFO and Management and Budget to report to us on a quarterly basis what steps are being taken through their offices and down to the line departments to contain and reduce overtime, and your point about the seniority issue and to what extent steps can be taken to avoid unnecessary— maybe even incremental costs— I hope is a continuing part of their review. It is. I guess what I'm asking you, Libby, is to confirm that. (L. McCarthy) Yes.

(M. Massiah) This is a good time to take you through what we've done over the last year and half since we got the result from the New York State auditor, and the civilian portion of the discussion with our actual results here today and then go into police overtime efforts. What we shared with the auditor was not a series of incremental, unrelated steps that we've been taking. We shared with them an overtime management program, and we talked about the elements of the program. We looked at best practices that exist around the country, but also from our report, and we put together a four-element program— four legs of a chair, if you will. The first leg deals with ensuring that we develop and communicate overtime policies and oversight guidelines for the purpose of assigning accountability. We want, at the local level— for the local managers to ensure that they justify, approve, verify, and document why overtime is used, and those reforms went out at the beginning of 2012. We did a post policy audit, if you will, of the adherence to those reforms, and we found that last year we were about 70% compliant. I'm pleased to report that our recent assessment of the implementation of those reforms indicate a 95% adherence to those reforms. We will continue to do these random audits and lessons learned from the audits— we'll share back with the line departments through the COO's office, and that's been a very positive way of ensuring and placing accountability. The second leg of the stool: We need good data. We don't necessarily have good data. Good data provides good reports and good management tools to monitor. One of the things we were confronted with was over 200 reason codes for why overtime might take place. When you try to interpret data like that, it doesn't tell you anything, so again, working with the COO's office, we've been able to narrow down those reason codes into a couple of handfuls of meaningful, actionable, understandable reason codes. Then we're able to prepare reports— management reports that are periodic. Every month we issue reports—biweekly issue reports to the management to let them know how they're performing on overtime. Then the third element is using those reports. It's no good just doing the reports and not having some kind of analysis and then take action. So we instituted a root cause analysis effort working with the line department to use the good data we've now collected to get at why overtime's occurring in certain places that seemed higher than it should be. We found that in some cases we quite candidly did not have enough staff. We had 24/7 operations that required at least 5 people— only having 4 or 3. Built into that situation, you're incurring overtime. So last year, with the Board's approval, we added 23 positions, but we found a gap between work and staff, and we're beginning to look back at those mitigation efforts to see if they're bearing fruit, if they're reducing overtime. Some early indications show that in at least in one title, airport operations agent— we're already showing a reduction of 1,200 hours year to date from last year, and we'll continue to look at the other titles that we hired new staff into to see what the results would be. Part of the problem is, as Libby said earlier, when you add staff, you're adding promotional opportunities, and you're moving staff within the agency, so a short-term effect of adding staff is moving staff, which creates additional vacancies, which creates overtime. So as we work through this turning, you might see a little spike here and there in different class titles, but we hope at the end of the day, you'll begin to see an improvement in the various areas we've tried to mitigate. That's the third leg. The fourth leg is something I know that the Chairman and other Commissioners have asked about, "Is the budget good?" He's asked that several times. (Chair D. Samson) I may ask you again today! (laughter) (M. Massiah) We have a plan that hopefully makes it better. I think the New York State Comptroller was very encouraged by the approach we intend to use. We're going with a zero-based approach. No more incremental budgeting in the overtime world. We'll start from the bottom up. We'll build it brick by brick. The next slide sort of tries to illustrate this. You start with workload. If you take a 24/7 operation

and that is 8,760 hours of work. Then you look at available staff. Assume 5 people cover that work. Then you look at productive time, and there are elements of productive time that are important to focus on— things like absenteeism due to sick/IOD, training, other elements that might cause someone not to be at their job. We already looked at 35 titles across the agency and developed a profile on the productive time. Then you're able to do the math. It's straight multiplication and the difference is realized. If there's a gap, that becomes your base overtime course, and then you have variable overtime, things that happen that are not the constant. When there's an election year you have more presidential visits. If you have a major sports event, that's variable. If you have emergency situations, that's variable. You can look at history, and you can dialogue with the departments to come up with what they think that variable component would be, and then you add the two together. From a policy perspective, you might say that it's too much overtime for any one individual to bear. That means what are the options? Do you staff it? Do you contract it out? Do you try to effect the productive time? So you have each of the elements that you could begin to dive into to try to reduce your overtime, if possible. That's what we're moving towards. We're going to start with all of our key to key positions. We're going to start with those that have sort of a known workflow base. Some of our maintenance positions don't have that, so we may have to do a little bit more research to understand what their base workload is, but for those operations jobs that are key to key, we can start right away, and that will be part of our 2014 budget process. Ultimately what this will get down to is we'll have a solid program, and then it becomes an issue of management performance and management accountability. That becomes at the local level, because the organization has structured a program with the resources and the tools to put it to management. That's our agenda, and it looks like the New York State Auditor was looking forward to seeing how we progress in that regard, and as Libby said, they're interested in best practices and dialoguing around best practices. We hope that to be a two-way street with the New York State Auditor moving forward. Now onto how we performed in the second quarter. The first cluster of bar charts indicate without Sandy, without snow and ice, we were 1,600 hours less than the same period in 2012. We were slightly over budget, though, by 3%. This is where analytics—the data we've collected is going to come in play, because I'm going to share with you later, in the next slide exactly where that overtime incurred and what are the issues around that and what we can do to solve it. Snow and ice remain virtually the same, as you would imagine, from the first quarter. Sandy increased about 2,600 hours for a total of 60,000 hours year to date. As you know, the PATH staff doing herculean work around ensuring that the system is safe and reliable for our patrons, that work continues. The event was last year. The stations were up earlier this year, but there's a lot of work that they continue to do to ensure the reliability of the railcars and the other infrastructure systems in play. Turning to why we were over budget. We found that one of the main reasons was—and this occurred in the line departments and mostly in what we call our ops services unit that provides construction support to the rest of the agency. In the line departments, it was mainly due to vacancies. The vacancy number for this time period was ten versus four last year, and doing the straight math, that's 4,800 hours. We were 5,000 hours over budget. The data we now have—we can pinpoint why the overtime was occurring. We can work with HR and the departments to try to expedite those vacancies. In the other category—yes?

(Comm. D. Steiner) If you had overtime because you were short, do you offset overtime charges by the fact that you said you were short by ten people, offset those salaries, or that you're only talking about the delta of the overtime versus what it would have been originally—had it been

regular people? (M. Massiah) There is a reduction to budget. There's a reduction to budget on the dollar side, but we're monitoring hours, so it's an increase in hours, because some people had to back fill those positions. (Comm. D. Steiner) I understand. My only point was, do you offset it because some people weren't there? If you replace 10 people that were out, the question is not overtime. The true picture would be the delta between the two, right? (L. McCarthy). Right. At this point, we're still presenting focused on the overtime hours aspect, but you're right—the dollars—they do have an offset impact. (Comm. D. Steiner) Because that's really not accurate representation. (Comm. J. Moerdler) It depends on the reason that triggered the overtime, because if it's an employee out sick, there is no savings on that—only on the vacancies. (M. Massiah) And then quickly, the other matter was a high-priority maintenance program at the airport that employees had to be deployed to take care of—and that work is winding down. That caused the other gap in the budget. And then turning to police—

(Chair D. Samson) Before you get to the police, Mike—you said that the line departments being over budget on hours is because of vacancies, sick time, vacation time basically, right? (M. Massiah) That's generally— (Chair D. Samson) Yeah, yeah—I understand. To what extent is the vacancy factor involved there? In other words, is this a minor issue or is it a major issue in the calculation of line departments being over budget? (M. Massiah) In this instance, it was pretty much the story. (Chair D. Samson) So then why—I mean, that seems to be the easiest thing to fix, right? You can't fix sick time. You can't fix vacation time. Why are these vacancies continuing? (M. Massiah) Well— (Chair D. Samson) I'm not criticizing you. You're not the person who hires people, but why—now that we have this data, are we filling those vacancies? (M. Massiah) They've been filled, but these were 5 additional jobs we put into the system to mitigate overtime. We put 5 in, because we were 5 short. That created a promotion chain behind the jobs that we had to fill, so you have a cascading sort of vacancy issue. Now we assumed a certain level of vacancies every year in the budget, but in this particularly instance, we added—didn't have that embedded in the budget, and that's why we're over. But HR does have a program working with the department— (Chair D. Samson) So what you're saying is these vacancies are fungible—you're filling one slot, but you're creating another vacancy? (M. Massiah) Yeah, in the transition, because you're moving— (Chair D. Samson) I understand that. Why can't we walk and chew gum at the same time? Why do we have to do this in two steps? Why can't we do it in one? Again, I understand you're not that person who's doing the hiring, but am I missing something here? (M. Massiah) There's a whole process in terms of how jobs get filled, so they have to be faithful to that process, and that takes time. So there's a lag between a vacancy and the job actually getting filled. (Chair D. Samson) I think one of the problems—I don't want to beat this horse to death, but this is something I think the Board has been very concerned about, and I think it's really driven this issue after a long period of time with it not being addressed at the management level—what—we've tried to maintain—management has tried to maintain a certain level of head count for a long period of time, particularly after 2008-2009. No new hires, try to keep a lid on FTE's and all that stuff, but what we see now is that that philosophy has created other kinds of problems, and it's reflected in the overtime. I notice, of course, we still haven't—we're talking about hours to hours—we're not talking about dollars yet in this analysis. It's not a question. It's an observation. Please continue! (M. Massiah) So onto police—last quarter, we indicated that the police was over budget—they continue to be over budget. The first area that's noted there is ARFF Training, higher than anticipated work associated with perimeter patrols, supervisory vacancies, and sick/IOD. It's still working its way out, and the Chief

Security Office is working on those matters aggressively. The next two are new to this quarter. They added additional security posts at the GWB and the PABT, and here's an area where we're adding staff through the recruit process. They need investigators to look at their backgrounds, so they had to pull staff from the field to work in headquarters to do the background checks. Again, that's a result of staffing up to a new reality. They are aggressively pursuing mitigation. The Chief Security Office is continuing to hold their regular meetings with their four commanders and ensuring that where there's discretion around filling posts. They're exercising appropriate judgement. They have a very stringent review process in creating new posts. They've made advances on altering police shifts and working with court administrators as it relates to court appearances. In fact, they've saved 7,500 overtime hours as a result of those new initiatives, and they're working closely with medical personnel— 7 days a week, by the way— to review those who are out sick or IOD.

(Chair D. Samson) Thank you. Excuse me. Commissioner Steiner has a question. (Comm. D. Steiner) One of the issues with the overtime is not necessarily the total number of hours but the cost that are reflected and what type of people get the overtime and what happens to the pension system. One of the problems I think we have is in the police department. People are not required to take the overtime, so as matter of course, it's no secret that the junior people skip over and let the guys who are going to retire in the next year or two get that overtime. They're generally higher paid, and that translates into the pension course, which we pay forever, and that's one of the basic issues. It's not just the hours, but who's getting the overtime.

(Comm. K. Lipper) That's the point I was getting to before. What this has addressed so far in a very quick report— you're addressing what's happening and now we should address who? We need a report on who. Who is getting the overtime, and what can be done to maximize benefit to the Port Authority? It could be that you have an automatic rotation system so that a young person is forced to take a certain amount— this has union implications and other factors, but until we know the facts as to who is getting the overtime, we can't do that, so at the next meeting, could we have an analysis of the precise people who are getting it, what their tenure is, what the impact on the pension is, and then a plan, suggested by you, as to what could be done on either a rotation—automatic rotation basis or some other policy that mitigates that excess? Any questions?

(Comm. D. Steiner) I want to add something. I think Joe Dunn has done a superior job in getting this done. He's got a big bunch of problems. He's done an outstanding job. He's cut the overtime. I think he really understands these problems. We have a lot of problems with the police department union contract. I think that's the basis. I know you're working very hard to straighten those problems out, so I didn't want to let it go past that— since he's on, we've got a much better shake going, and I look forward to a continuation of your efforts.

(Chair D. Samson) I think we all agree with those comments, Commissioner Steiner, and thank you, Commissioner Lipper.

(M. Massiah) Finally, this is to show that these efforts are paying off quarter to quarter. Public safety decreased its overtime by 18,000 hours. You can see this reflected in this chart. Aviation's down, TB&T is down, PATH is slightly down, Port is down, World Trade is about the same.

Headquarters is up because of the inspectors that are doing the background checks. That ends the report. (Chair D. Samson) But those background checks are temporary spikes. >> (M. Massiah) That's right.

(Chair D. Samson) Okay, thanks very much, Mike. Libby, thank you. This was an informational item only, and that concludes the public portion of today's meeting. Committee will now adjourn into executive session to discuss matters relating to real property, or securities where disclosure will effect the public interest. Thank you.