

**The Port Authority of New York and New Jersey
Committee on Operations Meeting Transcripts
November 18, 2010**

[Chair A. Coscia] All right, gentlemen, ladies, we can get started. The first portion of 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 related to the purchase, sale, or lease of real property or securities where the public disclosure would affect the value thereof or the public interest. In addition, the public portion of this meeting is being broadcast live on the Port Authority website for those interested in viewing today's proceedings via the internet. Our first item is the Bathgate Industrial Park --a new lease agreement--Mike Francois.

[M. Francois] Thank you. Good morning, Commissioners. I am seeking authorization to enter into a new lease agreement with Perrigo, Inc. for approximately 270,000 square feet of industrial, laboratory, and manufacturing space at our Bathgate Industrial Park in the Bronx. In addition, this authorization includes a surrender agreement for Perrigo's three existing Bathgate leases and a brokerage agreement with CB Richard Ellis and Perrigo for payment of a broker commission in the amount of approximately \$440,000. Perrigo is a leading global healthcare supplier that develops, manufactures, and distributes pharmaceuticals, nutritional products, active pharmaceutical ingredients, and consumer products. Perrigo has facilities in Israel, England, Mexico, Germany, China, India. In the U.S., Perrigo has manufacturing facilities in the Bronx, Vermont, Ohio, South Carolina, Michigan, and Florida. The Bathgate facilities are used for manufacturing and distribution of products throughout the Northeast United States. Perrigo retains CB Richard Ellis as their exclusive broker to assess their real estate interests in the United States and to identify opportunities to reduce their operating costs by relocating their facilities to more cost-effective locations. By way of background, in 2005, Perrigo bought out Clay Park Labs, which had been a tenant at Bathgate since its inception in 1984. Perrigo is the anchor tenant at Bathgate, occupying the majority--approximately 2/3 of the rentable space, or approximately 270,000 square feet of lab, manufacturing, and office space in 3 buildings. Perrigo employs approximately 420 local residents and a total of 6,000 employees worldwide. In 2009, Perrigo and CBRE saw to extend and restructure the lease with the Port Authority for its Bronx operations. Recognizing that the present rent is above market, the company asked for concessions in exchange for a lease extension. Staff determined that maintaining Perrigo as a tenant has several benefits and was in the best interest for the Port Authority and the region. Retention of the company would eliminate the need to market the space for only a 6-year term and would retain approximately 400 jobs, which represents again, about 2/3 of the employment at Bathgate. Negotiations concluded with an agreement to keep the rents in place throughout the end of 2014--their lease expiration date-- and then adjust the rents to \$6.15 per square foot through the extension period, expiring in 2020. We feel \$6.15 is approximately what fair market rent right now is for industrial space in that area. Perrigo's 3 existing lease agreements expire in December 2014 and will be surrendered under separate agreements. The proposed new lease agreement would extend Perrigo's lease through October 19, 2020, with a 5-year option to extend through 2025, subject to the Port Authority extending its ground lease with the City of New York, which expires October 20, 2020. Perrigo's existing base rent is \$8.25 per square foot, which will remain in effect through the end of 2014 with annual escalations. In January 2015, the rent will be adjusted to \$6.15 per square foot net; thereafter, the rent will increase by 2.5% per year. Aggregate rent over the 10-year term is \$19.7 million. The NPV of this deal is \$12.8 million, of which 4 million in revenues will be received between 2015 and 2020. Consistent with market standards, the Port

Authority will assume responsibility for the reasonable costs associated with the maintaining, repairing, and replacing structural elements of the lease premises as necessary. Given the sensitive nature of the laboratory space within the building, Perrigo will perform the required structural maintenance and the Port Authority will reimburse Perrigo. The Port Authority will also reimburse Perrigo for certain structural work that Perrigo performed under its existing lease, retroactive to July 1, 2009 in an approximate amount of \$106,000. 2009 is when we started bona fide negotiations with them. The Port Authority will provide Perrigo with rental credits for the structural repairs performed by Perrigo but at no time will the amount of the rental credits exceed the amount of the rental payments made by Perrigo. We estimate the total cost of these structural improvements over the term of the lease as well as the lease in commission to be approximately \$2.9 million. Perrigo will also pay a brokerage commission to CBRE in the approximate amount of \$440,000 and Perrigo will receive rental credits from the Port Authority equal to the amount of the brokerage commission. The proposed new lease will enable Perrigo to continue manufacturing operations in the Bronx. Extending this lease will ensure long-term viability of the Industrial Park by maintaining the presence of a strong, financially secure tenant and manufacturing facility with over 400 jobs in the Bronx. I request you advance this item to the Board for full approval.

[Chair A. Coscia] Thanks, Michael. Can I have a motion to advance this--do I hear a second?

[Comm. D. Steiner] Second.

[Comm. V. Bauer] Second.

[Chair A. Coscia] All right, does anyone have any questions or comments?

[Comm. D. Steiner] I would like to point out I think this is a good opportunity to-- I think they've done a good job because it'll enable us to get out of the--owning a leasehold interest in Bathgate as soon as possible at a minimum of expense and get back to putting our assets in transportation-- where our business is--and I commend you for doing it and I look forward to getting out of that and other real estate deals as soon as possible.

[Chair A. Coscia] Thank you. Any other comments? Okay, all those in favor?

[All] Aye.

[Chair A. Coscia] Any opposed? Okay, we'll advance it to the Board.

[M. Francois] Thank you, Commissioner.

[Chair A. Coscia] All right.

[J. Pearse] Commissioners, I'm here to request your approval to acquire a 4.13 acre parcel of land in order to implement runway safety area improvements for Runway 4 Left, 22 Right at JFK. Please note that the purchase of this property is fully recoverable via the flight fee formula at JFK. In 2005, Congress mandated that airports enhance passenger safety by improving Runway Safety Areas, or RSAs, no later than December of 2015. The safety area is the surface surrounding the runway that is cleared and graded in order to reduce the risk to aircraft in the event of a runway excursion. Current FAA-designed standards

call for 250 feet from both sides of the runway centerline and 1,000 feet beyond each runway end. In order to comply with these standards and improve safety, staff has been coordinating with the FAA and state-level transportation and environmental agencies to implement RSA improvements at our airports. This item will support the implementation of RSA improvements for Runway 4 Left, 22 Right at JFK. While the runway's width is up to standards, additional off-airport space is required to accommodate the safety standard area at each end. Plans include extending the runway's paved area to the north, moving up the runway thresholds, and installing 1,000 foot RSAs at each end. To accommodate these improvements, the property located north of the runway must be acquired. Logan Property, Inc. owns the site outlined in green and is in the process of developing the site to provide Logan Bus Company and its affiliates a consolidated Corporate Headquarters, Bus Maintenance Operation, and additional parking for its New York City yellow schoolbuses. This item seeks your approval to acquire the 1.43 acre parcel outlined in red in order to secure the required parcel of land before it becomes completely developed. Staff negotiated its purchase from Logan earlier this year and appraised value for the 4.13 acre site was estimated at \$2,435,000. Commissioners, the Logan site will be used to relocate North Boundary road and the aeronautical patrol road, shown in purple, in order to accommodate the runway safety areas. In addition, the navigational aids on each end of the runway will be relocated. We request your approval to purchase the land from Logan at an estimated value or cost of \$2.4 million dollars. As part of this transaction, Logan will use airport roadways to access its property until a planned traffic light on Rockaway Blvd. is installed. Under an easement agreement, Logan will provide the Port Authority with access to its future driveway, up to the traffic signal on Rockaway, in order to provide airport staff and police easier access to Rockaway Blvd. In support of its operation, Logan will connect the airport water and sanitary lines at its own expense and pay for water usage on a metered basis. In order to minimize the impact to airport operations, the RSA improvement work will be completed as part of a project to rehabilitate the runway. Staff expects to seek planning authorization for the rehabilitation in 2011. Commissioners, advancing this item at this time will allow staff to purchase the land that is necessary to perform the runway safety area improvements at JFK in accordance with FAA requirements. I ask that you recommend this item for full approval by the Board. Thank you.

[Chair A. Coscia] Thanks, Jeff. Can I have a motion to approve?

[Comm. H.S. Holmes] So moved.

[Chair A. Coscia] Is there a second?

[Comm. V. Bauer] Yes.

[Chair A. Coscia] All right, does anyone have any questions, comments?

[Comm. V. Bauer] What was the appraised value, did you say?

[J. Pearse] The appraised value was \$2,435,000, and our cost is \$2,400,000.

[Comm. D. Steiner] I just want to point out it's all recoverable, so it's no cost to us. That was my initial question when I--the evaluation-- it's really not as pertinent to us. We're gonna--we did the best we could-- we got the best deal, but we're gonna get the money back so whether it's \$2,300,000 or 400-- it's really not of issue here.

[Chair A. Coscia] Yeah, I think that's true, but not entirely. I mean, to the extent that the cost basis for operating at the airport gets higher, then our landing fees get higher and as a function of that, it has an impact on I guess the economics of the airport, and ultimately the cost to the passenger, so I mean--it's--you're right in that it's not expenditures that we're directly responsible for, but it's somewhat in our interest to keep the cost environment-

[Comm. D. Steiner] I didn't mean to infer that it wasn't in our interest, but I was thinking about our capital commitment.

[Chair A. Coscia] Yeah. Which is-

[Comm. V. Bauer] (inaudible)

[J. Pease] Right, and the cost is amortized over the life of the lease with New York City, which is up to 2050.

[Comm. V. Bauer] (inaudible)

[Chair A. Coscia] Any other questions? Okay, all those in favor?

[All Commissioners] Aye.

[Chair A. Coscia] Any opposed? Okay, I now need a motion to go into executive session?

[Comms. D. Steiner & V. Bauer] So moved.

[Chair A. Coscia] Second?

[All Commissioners]

[Chair A. Coscia] All those in favor?

[All Commissioners] Aye.

[Chair A. Coscia] All right, thank you very much.