

The Port Authority of New York and New Jersey
Committee on Operations Meeting Transcripts
December 7, 2010

[Chair A. Coscia] This meeting of the Committee on Operations is being held in public session in its entirety. In addition, the meeting is being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the Internet. We have an item that Mr. Larrabee will present, regarding the ports.

[R. Larrabee] Mr. Chairman, Commissioners, good morning. As we've discussed over the past year, cargo volumes are up for the Port although not yet back to our pre-2009 levels. What vestige of the economic recession and the port industry is a greater focus on cost. Port competitiveness, particularly as it relates to discretionary cargo has become a primary concern. Increasing the operational efficiency for the movement of goods at the Port and throughout the region is a key strategic goal in our effort to keep the Port competitive. In addition as a landlord, the Port Authority is faced with a number of responsibilities and mandates. We must provide efficient and secure facilities with sufficient capacity to effectively accommodate cargo destined for our region, the nation, and international markets, while doing it in a financially sound manner. As we've re-evaluated our capital program, operational practices, and fee structures, in view of our focus on Port competitiveness, as well as our environmental and safety goals, we believe that changes are needed to better align our actions with our needs. To help achieve our goals, your authorization is requested to establish a new Cargo Facility Charge to be assessed on all cargoes that benefit from capital investments in the security, rail, roadway improvements, and, in turn, we will eliminate the Intermodal Container Lift Fee and the sea-Link Container Terminal Subscription Fee. In 2004, we implemented an Intermodal Lift Fee and a Marine Terminal Tarrif to recover the capital investments in our port-wide ExpressRail facilities. Movement of cargo by rail removes trucks from our terminal gates and the Port's and region's highways, and benefits regional cargo with increased roadway and gate capacity that they provide. The ExpressRail System is an important link to our Port's logistics chain, the existence of which creates a more efficient transportation network for the movement of containers, while also mitigating negative environmental impacts on the region. As the agency continues to invest in our rail system, we must provide sufficient capacity on our Port's roadway system, since the truck is and will remain the dominant mode of transportation in our port, due to the large local market that we serve. Lastly, since September 11, 2001, the Port Authority has been and has continued to be faced with the need to make the ports safer and more secure by implementing a number of operational and physical security improvements at the Marine Terminal facilities, including those required by federal mandates, which today amounts to about \$82 million. The agency accepts these responsibilities; however, in today's financial environment, the costs associated with these improvements must be shared with the beneficiaries of the ports. The proposed Cargo Facility Charge would be comprised of 3 components. One component of the fee would recover capital expenditures incurred to construct our ExpressRail infrastructure. In addition to those directly utilizing the rail system, given the longstanding issues of road congestion in the Port, those who ship by truck have benefited from the investment in the ExpressRail System and continue to do so. Accordingly, it is fair and appropriate that they share in the cost of the investments in the ExpressRail System. The second component of the proposed cargo facility charge would be charged proportionately to recover the cost of important roadway projects at the Port, to reduce truck idling times, and to mitigate the attendant negative environmental impact caused by idling and roadway congestion. Under the third component of the

proposed Cargo Facility Charge, all cargoes would be charged proportionately for the partial recovery of the Port Authority's non-reimbursed, incremental, post-9/11, security-related, operations and maintenance costs, and to recover a portion of the previously unamortized capital investments. The security component of the Cargo Facility Charge may be adjusted in the future, to reflect future investments of security-related capital costs. Commissioners, today your authorization is requested to amend the Marine Terminal Tariff to establish a new Port Authority cargo-based port infrastructure and security fee, to be known as the Cargo Facility Charge, in order to foster a more efficient, secure, and productive Port of New York and New Jersey. The proposed Cargo Facility Charge would be applied to waterborne cargo discharged from or loaded onto vessels at Port Authority leased and public berths, namely containers, vehicles, bulk, break bulk general, heavy lift, and specialty cargoes. The timing of the fee's implementation would be determined by the Executive Director and the Chairman, consistent with our by-laws. The Cargo Facility Charge would be collected by the Port Authority's Marine Terminal tenants that operate private berths, and the Port Authority would directly collect the charges at our public berths. The establishment of the Cargo Facility Charge would require the elimination of the Intermodal Container Lift Fee and the Sea-Link Container Terminal Subscription Fee from the current Marine Terminal Tariff, as cost recovered from these fees would now be recovered by the Cargo Facility Charge. In order to reflect the elimination of the Intermodal Container Lift Fee from the tariff, the railroad operating agreements with our terminal intermodal rail facility operators would be amended. Lastly, authorization is also requested for the Executive Director to approve future adoption of, and adjustment to the rates, with respect to the Cargo Facility Charge, as well as, other existing fees contained in the Marine Terminal Tariff. Commissioners, the implementation of the Cargo Facility Charge would allow a fairer and broader sharing of the cost of capital investments for the actual beneficiaries. It would provide a source of funding to increase the operational efficiency for the movement of goods at the Port and throughout the region. It would allow for the advancement of important Port roadway projects to reduce congestion and truck idling times and mitigate their attendant negative environmental impacts. It would partially recover the Port Authority's non-reimbursed incremental, post-9/11, security-related operations and maintenance costs, and it would recover a portion of the previously unamortized capital investments and future related capital costs. And, finally, would create a simplified and adjustable fee structure to meet future infrastructure needs. Commissioners, I request that you advance this item to the full Board for approval today. Thank you.

[Comm. V. Bauer] Rick, what would the fee be?

[R. Larrabee] It would be, on average, less than \$9 per container. It would be \$1.11 per automobile, and it would be 13 cents per metric ton on bulk cargo.

[Comm. V. Bauer] How does that compare with the--oh, I'm sorry. How does that compare with the previous fee, the Marine Tariff Fee?

[R. Larrabee] That fee was only for our rail fee, and that fee had grown to \$57.50.

[Comm. V. Bauer] Okay, but we're comparing apples to oranges, right, so how much more revenue will this bring for us?

[R. Larrabee] The present value of the revenue stream that we've calculated is \$720 million. It covers all of the current projections for the current rail fee. It covers our projections for what we need for security,

and it covers the current roadway projects that are going to be advanced.

[Comm. V. Bauer] It should be good.

[R. Larrabee] McCluster Street curve, the widening of McCluster Street, and the area around the Port Street-- those three projects are covered today.

[Comm. V. Bauer] Then it shouldn't be obstructive to anyone because the cost seems relatively reasonable--I mean--in my mind. I don't have a--

[R. Larrabee] Our feeling is that today the cost of moving a box from China to New York is about \$2,000. So we're talking about a very small increment of that cost. If you break it down to a TV, for instance, it amounts to less than a penny a TV.

[Comm. V. Bauer] Wow. Thank you.

[Vice-Chair H. Silverman] Excuse me--is this--go ahead.

[Comm. H. Holmes III] Among the fees we're eliminating, I assume that we'll be taking in more than we were taking in?

[R. Larrabee] That's correct.

[Comm. V. Bauer] That's what I meant.

[Vice-Chair H. Silverman] I was going to ask is this similar to our other ports like Baltimore, or any of the ports we compete with? Do they do something similar to this?

[R. Larrabee] Today there are 70 other ports that recover a security fee, so we're in the minority, when it comes to security fees. The other example I would give you is that the ports of Los Angeles and Long Beach collect \$50 per TEU, or \$100 per box fee, for something called Pier Pass. It basically does the same thing that we're trying to do, which is improve the efficiency of the Port. In that case, that fee is collected for a box picked up during daylight hours. If you don't pick it up until nighttime, you don't pay that fee. In our case, we're trying to improve the overall efficiency of the Port. A good example would be today, by eliminating the \$57 rail fee, we think we can make shorter rail hauls much more competitive than we've been able to do in the past.

[Comm. V. Bauer] So I guess the answer is it does make us more competitive?

[R. Larrabee] We believe it will dramatically improve the efficiency of the Port, and by paying this fee, we're then going to be able to do things that will improve efficiency and ultimately reduce the cost of operating here.

[Comm. H. Silverman] Okay, if there are no other questions, I guess we need a motion to advance it to the full board?

[Comm. D. Steiner] I'll move it.

[Comm. V. Bauer] I'll second it.

[Comm. H. Silverman] All in favor, aye. Any other items for this meeting? If not, we're adjourned. Thank you. You're the chairman of this meeting. Why am I--?