

The Port Authority of New York and New Jersey
Committee on Operations Meeting Transcripts
March 25, 2010

[Chair A. Coscia] This meeting of the Committee on Operations will be held in public session, after which the committee will meet in executive session to discuss and act upon 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 the meeting is being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the Internet. Before we get to our business, for those of you who have not had the opportunity, I wanted to introduce and welcome our new Deputy Executive Director, Bill Baroni, who I will tell you, having known Bill for a long time, we're really lucky to have him. He's going to be a great asset to the Authority. And the governor, who shares a high degree of confidence in Bill, has done us a great sell by sending a member of the team up here who I know is going to be a big part of it. So Bill, welcome.

[B. Baroni] Thank you.

[Chair A. Coscia] And as you will learn by Port Authority board meetings, where we repeat things a hundred times during the course of the day, that is probably the first of 15 times that you're going to be welcomed today. So

[laughs] by the end of the day, you'll be tired of it. Okay. First item is Newark Liberty International Airport, Terminal A and B concessions. Sue Baer.

[S. Baer] Thank you very much. Commissioners, today I would like to discuss with you the Terminals A and B concession program at Newark Airport. As you know, under your direction staff has been working with our partner, Westfield Concessions Management, on a multiphased effort to rebrand concessions in these two terminals with the goal of improving the overall experience for our customers. The first three phases of the program are under way, and I'd like to update you on the progress that's been made so far on this effort. I'm also seeking your approval on the fourth phase of leases, which will enhance concession revenues and introduce new brands to our customers in Terminals A and B. To date we've brought three phases of the program for your approval following a request for proposals which sought competitive bids as spaces became available for leasing. The first three phases have resulted in minimum annual guarantees totaling \$114 million, an increase of 57% over existing minimums for these spaces or percentage rentals ranging from 10% to 24%. In addition, each new lessee is providing significant investment to update the existing spaces or to fit out new spaces. To date many of the spaces already opened to our customers. Pictured here are two newly opened spaces in Terminal B, including a duty-free store and a coffee shop offering a selection of quick food and beverage options. Of the 17 concession spaces in Phase I, 13 are now open, 3 are under construction, and we expect these to open later this spring. The final spaces in design will be open this summer. For Phase II, which was authorized by the board last June, three concessions are expected to open this spring. The remaining spaces are in design. Most of them will open later in the summer. Phase III concessions, which you most recently approved in October of 2009, are in design and will open later in this year in the August to September time frame.

Commissioners, today I am seeking your approval for Phase IV of this program, which proposes new concepts for each space to enhance the dining and retail experience for our customers in Terminals A and B. In the last phase we added much-needed food and beverage options in all new spaces in Terminal B. These are the new spaces that were created when we widened the security checkpoints. In this current phase, we are adding two additional spaces. For one we are proposing post-security retail space where InMotion Entertainment will offer customers electronic accessories and entertainment products prior to boarding their flights. The other is a pre-security space where we propose a Wendy's restaurant. In Terminal A's existing spaces, we're adding a new mix of retail and food and beverage options, including two casual dining brands-- Ruby Tuesday's and Earl of Sandwich. Overall, this phase includes four spaces that are located pre-security and seven spaces that are located post-security. Five concessions in this phase will be operated by a certified Disadvantaged Business Enterprise, DBE, which is an increase over the existing concessions where only one was operated by a minority business. With the addition of this new group of concessions, the overall minority and woman-owned participation from Phases I through IV will be 81%. Newark always did well. We are exceeding our goals threefold, so it's 81%. I made them go back and check that number because I couldn't believe it was that high. Commissioners, before you today are the detailed terms for each of the ten agreements staff is recommending to you today. These agreements cover over 10,000 square feet of concession space. Each agreement is seven years long. During this time, tenants will pay the greater of a minimum annual guarantee or percentage rent as specified in their proposals as well as promotional fees and common area maintenance charges. In total, these leases would generate a minimum of \$17.4 million in guaranteed revenues over the terms of the leases or percentage rentals between 7% and 20%, whichever is higher. When compared to minimum guarantees just for the existing spaces, the proposed leases represent a 159% increase over current minimums. The Port Authority also has the right to terminate each agreement on 30 days' notice by buying out the unamortized investment. Each lessee will comply with the Port Authority's labor harmony policy. Tenants will make a significant investment to fit out the space with new fixtures and finishes as appropriate. We expect that renovations of these concessions will be completed by the second half of 2011. Commissioners, I ask that you advance this item to the full board for approval today.

[Chair A. Coscia] Can I have a motion?

[Comm V. Bauer] So moved.

[Chair A. Coscia] Is there a second?

[Vice Chair H. Silverman] Second.

[Chair A. Coscia] Sue, the total square footage of the 11 leases is only 10,430 square feet?

[S. Baer] Yeah.

[Chair A. Coscia] This is right along that corridor.

[S. Baer] No. There are two in Terminal B, one pre-security, one in the new spaces. They both

were created when we widened the security checkpoint. And then the others are in Terminal A, some pre- and some post-, some small and some large.

[Comm D. Steiner] There are a couple of large ones, and most of them are small.

[Chair A. Coscia] The Terminal B spaces, if your back is to the new sheetrock wall where you expanded, you're facing it, is that right?

[S. Baer] Going out to the gate in Terminal B2--

[Chair A. Coscia] There's a Chili's at one end and something--

[S. Baer] Yeah. This is in the middle. There will be a Wendy's off the food court, which is newly expanded space.

[Chair A. Coscia] It just seems like a bigger area, but you can't tell what's behind the wall. It just seemed as though--

[S. Baer] Well, behind the wall in B2 is also where there is new lounge space being created, and that's a different deal, but we created considerable lounge space.

[Chair A. Coscia] One of the airlines has a club there?

[S. Baer] That's what is being built now.

[Comm D. Steiner] British?

[S. Baer] British is going there.

[Vice Chair H. Silverman] Are we sharing any of the rent with any of the airlines?

[S. Baer] In Terminal B2 and B3, we do not because we operate that portion of the terminal. In the rest we do share it with the various airlines that are in those terminals.

[Comm D. Steiner] So when you said that net, that's after you do the sharing.

[S. Baer] No, it's before the sharing. No, that's after. No, that's after. The net is after the sharing. I'm sorry.

[Chair A. Coscia] Yeah, it's after.

[S. Baer] It's after the sharing. It's to us.

[Comm V. Bauer] Excuse me. What about jobs? How many jobs is this supposed to bring in?

[S. Baer] That's a good question, and I don't know the answer. Some of it is replacement space,

but to the extent that there are new spaces, they will of course create more jobs. There's also an expansion in this of EJE, which was Ed Holder's and is now Janus Holder's business, which is locally grown, duty-free from Elizabeth, New Jersey. He started a duty-free business in Newark Airport and now has expanded into specialty realty.

[Comm V. Bauer] But would you be able to give me an idea of--

[S. Baer] I'll get you a number of the jobs. We'll get you a jobs number. There's jobs both for the construction but then permanent jobs is what you're interested in.

[Comm D. Steiner] Mr. Chairman, question. I believe in addition to the rent we get some kind of fee where they participate for delivery charges and maintenance and all that, so they do share in the expenses. So this is not just the net; there's other contributions they make to cover our costs of operating.

[S. Baer] They absolutely do.

[Comm D. Steiner] So everybody should know there is additional income that's not specifically specified, but it's like making a net deal where they pay all the other expenses.

[S. Baer] They do. They pay common area maintenance charges. They also pay promotional fees so that Westfield can do promotions on behalf of all the shops in the terminal.

[Comm D. Steiner] And there's some delivery fees too.

[S. Baer] Yes. That's part of the common maintenance charges.

[Comm D. Steiner] So it ends up being a net rent to us.

[S. Baer] Yes.

[Comm D. Steiner] We don't have to absorb any costs.

[S. Baer] Right.

[Comm D. Steiner] That's what I wanted the board to understand. Westfield has done a great job. I would have liked to have seen more security, but we'll take the best that we can get.

[Chair A. Coscia] The retail mix is a Westfield creation?

[S. Baer] The retail mix is suggested by Westfield with a lot of conversation with us about the importance of what we think is important in our knowledge of the airports. But that's why we've hired Westfield--for their expertise.

[Chair A. Coscia] There's the pre- and post-security sort of retail elements that are kind of factored into that? Because it seems as though that's a very complicating factor in terms of

potential customer bases that exist.

[S. Baer] It does, and it's also complicated by how many in-plane passengers you have. And the area, particularly post-security, with the downturn in passenger traffic has been a little trickier for us. But these are good deals. So we've been getting good participation in the business community.

[Chair A. Coscia] Okay. Anyone have any questions? Okay. All those in favor?

[All] Aye.

[Chair A. Coscia] Any opposed?

[silence]

[Chair A. Coscia] Okay, good. I think that's all we have in open session. So this concludes the public portion of today's meeting. The committee will now adjourn to executive session to discuss and act upon 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. The Port Authority of New York & New Jersey

[S. Baer] ...estimated because we're only adding two new spaces in this. So we're assuming about the same for the rest.

[Comm D. Steiner and Comm V. Bauer]

[unintelligible]

[S. Baer] We're good? That's a good question. You're welcome.

[Chair A. Coscia] Okay. Do we want to open the door?

[female speaker] Yes. We're back in open session. The committee discussed an item in executive session relating to ongoing negotiations, and we will now have a public session on this item. Sue?

[S. Baer] Yes. You see on the slide--we'll do an abbreviated version of this--

[Chair A. Coscia] A very abbreviated version of this.

[S. Baer] This is the site that is under discussion. We are bringing before you an arrangement whereby we buy out United's current rights to this property under the terms discussed in executive session and that we enter into a deal with Pegasus LLC to lease the space, again under the terms discussed in executive session. I urge you to approve it.

[Chair A. Coscia] Okay.

[male speaker] So moved.

[male speaker] Second.

[Chair A. Coscia] Any other comments or questions? All those in favor?

[All] Aye.

[Chair A. Coscia] Okay. We are adjourned. Is there a motion to adjourn?

[male speaker] So moved.

[Chair A. Coscia] Second?

[male speaker] Second.

[Chair A. Coscia] All those in favor? Okay.

[unintelligible chatter]