

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

[Chair A. Coscia] 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 disclosure would affect the value thereof or the public interest. In addition, the Public Session 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 for action involves the Hudson-Raritan Estuary Resource Program. Mr. Francois. >>

[M. Francois] Good morning. Today I am requesting your authorization to amend an existing Memorandum of Agreement with Essex County to fund the acquisition of property located in Newark under the Port Authority's Hudson-Raritan Estuary Resources Program. The site is known as the Riverbank Park Extension. The Port Authority's objective is to fund property acquisitions within the Hudson-Raritan Estuary and Port District that may be suitable for conservation, ecological enhancement, public access, or environmental mitigation in support of port development, economic development, and other Port Authority capital programs. In July of 2009, as part of the Hudson-Raritan Estuary Resources Program, the Committee authorized a Memorandum of Agreement with the County of Essex to acquire three parcels of property totaling 12.25 acres. The County plans to develop the property as a public park in Newark with waterfront access. At that time, the Committee authorized up to \$7 million towards the acquisition, which was consistent with the Port Authority appraisal for fair market value of the property at that time. Subsequently, the County initiated proceedings in the Superior Court to acquire the property via condemnation. These proceedings required that an updated appraisal be performed on the properties. The updated appraisals performed on behalf of the County and the Port Authority both determined that the fair market value would be \$7,660,000. As such, staff is requesting that the Committee authorize a \$660,000 increase to the amount reimbursed to the County for the actual acquisition cost of \$7,660,000 through condemnation. Protecting this property supports the Port Authority's sustainability goals of protecting approximately 60 acres of property per year from development. Including this increase, the Port Authority will have authorized approximately \$24 million of New Jersey's \$30 million allocation for land acquisitions under the Hudson-Raritan Estuary's program. To date approximately \$21 million has been authorized in New York for its \$30 million allocation under the program. Commissioners, your approval of this action is requested.

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

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Is there a second?

[Comm. H.S. Holmes] Second.

[Chair A. Coscia] Anyone have any questions or comments?

[silence]

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

[All Commissioners] Aye.

[Chair A. Coscia] Any opposed?

[silence] Okay, Thank you. The next item is for discussion, and that is the Greenville Yard Port Authority Marine Terminal. Mr. Larrabee.

[R. Larrabee] Good morning.

[Comm. D. Steiner] I own stock in some railroad company. I've got three chairs, so you want to

[inaudible]

[Chair A. Coscia] So noted.

[Comm. D. Steiner] Do you want me to leave the room?

[Chair A. Coscia] Where is our general counsel? I don't think that's necessary.

[C. Hartwyk] It's not necessary.

[Comm. V. Bauer] I recuse myself.

[Chair A. Coscia] Okay. Just so everyone knows, the Law Department here is actually very, very good at staying on top of recusals, so they actually know it way before we do most of the time. So in any event-- Okay, Rick?

[R. Larrabee] Commissioners, good morning. This morning I seek your approval of an item that represents the next step forward in the Port Authority's efforts to improve the movement of freight across the Hudson River, namely the revitalization of the cross harbor car float system operated by the Port Authority's wholly owned affiliate, New York New Jersey Rail, LLC, including the development of Greenville Yards in Jersey City, New Jersey. The item on today's calendar builds on previous Board actions and authorizes a series of investments to ensure the ongoing viability of the cross harbor car float system, including the use of \$89 million in federal and state funds to rehabilitate the car float system and to purchase certain real property at Greenville Yards to secure it for use for rail freight purposes, the consummation of an agreement with the city of New York to create a new, modernized terminal for the cross harbor car float in Brooklyn, and the further development of plans for intermodal freight facility at Greenville. The item also authorizes the negotiation of a transaction to construct and operate barge-to-rail transfer facilities for New York City containerized municipal solid waste at Greenville in response to Governor Christie's request for the Port Authority to help take trucks

off the road in New Jersey. By way of background, the operation that we're talking about today, as you can see in this slide, is the New York New Jersey Rail's car float system, which moves goods in loaded corral cars from Greenville Yards in Jersey City to the 51st Street in Brooklyn and we hope eventually to the newer and larger rail yard at 65th Street, also in Brooklyn. Historically, the decline of railroads in the Northeast, the car float operations previously operated by railroads one by one either ceased to exist or fell into disrepair. Today only one operation is left--that under the control of the New York New Jersey Rail, and it handles about 1,500 loaded cars per year. To give you a better idea of the layout of Greenville Yards, here is the aerial photo of the Greenville Yards outlined in red and the adjacent facilities. Greenville is located near the Port Jersey Port Authority Marine Terminal and existing Global Marine Terminal and not far from the former Military Ocean Terminal at Bayonne. It lies within the boundaries of Jersey City and has been used as a rail yard for well over a hundred years. There are four lift or transfer bridges at Greenville. These devices allow the loaded rail cars to be loaded onto or taken off from barges. Only one transfer bridge is operational today, and it requires constant care and attention due to age. In October of 2007, the Board authorized the sponsorship by the Port Authority of an Environmental Impact Statement to examine how goods should best be moved across the harbor, including car float systems, a rail freight tunnel, a multimodal tunnel, or some combination of these measures. That effort has been started and is ongoing through August of 2011. The Board also authorized the acceptance of federal grant funds in the amount of approximately \$100 million intended to support the EIS process and to improve regional rail goods movement. However, at the time, the Board only authorized the expenditure of \$10 million in support of the EIS and required that the staff come back to the Board with any plans to further utilize the funds. In August of 2008, the Board authorized the Port Authority to acquire the New York New Jersey Rail and its operating rights in Greenville and Brooklyn, and it also authorized the staff to pursue the acquisition of Greenville Yards from its owners, Conrail. Today we're asking the Board to authorize the Executive Director to execute a new operating agreement to provide an appropriate governance structure for the New York New Jersey Rail, LLC, required of a wholly owned entity of the Port Authority. We're also asking the Board to authorize a project to stabilize and improve the cross harbor car float operation, which is estimated to cost \$118.1 million and includes a state of good repair investments in both Greenville and Brooklyn, the making of certain improvements to operations such as the purchase of new, larger rail barge and the ultra-low emitting locomotives and the acquisition of approximately 47 upland and 72 riparian acres of land at Greenville to assure Port Authority control over the property and its preservation for rail use. Final terms and conditions of the property purchase would be subject to the approval of the Chair of the Committee on Operations. Of the \$118 million project, approximately \$89 million is expected to be covered by the remaining SAFETEA-LU grant funds and other federal and state grants. And we are therefore also asking that you authorize the application of these funds for those purposes. In addition, we're asking the Board for authorization to complete an agreement with the City of New York, subject to the approval of final terms and conditions by the Chair of this Committee, for operating rights at the city-owned 65th Street Rail Yard in Brooklyn. And finally, we are asking that the Board authorize the Executive Director to identify and negotiate with a third party operator to design, construct, and operate a barge-to-rail transfer facility at Greenville capable of handling shipments of containerized New York City municipal solid waste. New York City is in the final stage of its own project to shift the transport and disposal of solid waste from truck to water and rail. It's important to note that no specific transaction is being

authorized, and any proposed agreement for the construction and operation of a barge-to-rail transfer facility for municipal solid waste at Greenville would require staff to come back to the Board for final approval. As this slide shows, the total project to stabilize and improve the New York New Jersey Rail car float operation is estimated at approximately \$118.1 million, with approximately \$89 million being reimbursed to the Port Authority from federal and state grants. The net Port Authority outlay would therefore be approximately \$30 million. Commissioners, this slide shows how we intend to ultimately use the Greenville Yards to accommodate three types of cargo movement. Going from north to south, the first use would be for the traditional cross harbor car float shipments, loaded rail cars being moved on a barge between Greenville and Brooklyn. That's this facility right here, and that's where we're going to spend the \$118 million. The other two dimensions of the Greenville Yards would be a load-on, load-off facility that would be used for municipal solid waste. And then finally, this is the intermodal rail facility, which would be used in conjunction with container operations in Port Jersey and would be integrated into the remainder of the express rail system. Commissioners, the project to stabilize and improve the cross harbor car float system and the plans to develop Greenville to handle three types of waterborne cargo both offer several important benefits to the region. These activities would further encourage the shipment of goods by rail as opposed to truck, which would reduce congestion on area roads, improve air quality, and lessen the wear and tear on Port Authority's trans-Hudson crossings. Both activities will generate additional employment during construction and for operations and maintenance. With particular reference to New York City municipal solid waste and the plan to handle barge-to-rail transfers of City waste to Greenville, the environmental benefits in particular are striking and underscore why Governor Christie has called on the Port Authority for assistance. Reduced truck traffic equals reductions in harmful greenhouse gases and criteria pollutants. Reduced truck traffic equals less congestion on our roads such as Route 1, New Jersey Turnpike, Route 78, and Route 80, less wear and tear on infrastructure including Port Authority bridges and tunnels. We know that rail is four times more efficient than truck. New York City waste shipments by truck today represent 45 million vehicle miles traveled per year, of which one-third, or 15 million miles, take place in New Jersey. Shipments of New York City municipal solid waste by barge and rail via Greenville will significantly reduce these vehicle miles traveled. Put another way, usage of Greenville to handle municipal solid waste will help take nearly 360,000 truck trips off New Jersey's roads each year. Commissioners, for the above reasons I request that you advance this item to the full Board.

[Chair A. Coscia] Thanks, Rick. Can I have a motion to--

[Comm. V. Bauer] So moved.

[Chair A. Coscia] Okay. Second?

[Comm. H.S. Holmes] Second.

[Chair A. Coscia] Again, we'll be advancing this to the full Board, but I wanted to open it up for discussion. Let me start, Rick, by thanking you and your staff and Mark Hoffer and all those who have been working on this very hard for a long time. I also wanted to take a minute and, as Rick mentioned, this Board approved a plan relative to trying to enhance our goods movement

operation. And the use of waterborne systems in order to do that is something that we viewed as something that made a lot of sense on a lot of levels and took us to some of our roots. We've had our bumps and bruises along the way on implementation, and today is a good day in that we've gotten over that. I guess I'd also like to very much thank our Executive Director, Chris Ward, and our Deputy Executive Director, Bill Baroni, because in order to realize what the Board's vision was for enhancing our ability to move freight around the region using waterborne resources as a way of enhancing that, their ability to respectively reconcile interests on both sides of the river and highlighting the benefits of this program is the reason why we were able to do this today. It took the Governor and his leadership to get us to that point, and so I'm personally grateful after two years of sort of staring at the same picture having someone who was able to get us to that point. I think Rick did a pretty good job at presenting what we're doing here. Does anyone have any questions?

[Comm. V. Bauer] I do. Rick, I understand the environmental impact in terms of getting more trucks off the road. But in terms of the barges, my only concern is solid waste, the possibility of an accident and this waste going in the water. Is there any assurances, any protections that we have in that respect?

[R. Larrabee] The containers that hold the waste are sealed containers, and to my knowledge, we've never had an accident with one of them. What they're basically doing is containerizing the waste at transfer facilities in New York City, loading them on a barge, floating them across, and then taking them off, and then loading them on a rail car. That operation is--

[Comm. V. Bauer] They're sealed tight.

[R. Larrabee] Yes.

[Comm. V. Bauer] There's no chance of debris falling in the water.

[R. Larrabee] If the container somehow fell in the water, the whole container would go. But in general, there's no open garbage, and this is a technology that's been used very successfully for quite a while. We do it now in a number of locations.

[Comm. V. Bauer] Thank you.

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

[Comm. H.S. Holmes & Comm. V. Bauer] Aye.

[Chair A. Coscia] Our next item is at Kennedy Airport, the American Airlines lease. Sue Baer?

[S. Baer] Good morning, Commissioners. Today I'm here to seek your approval for a new lease agreement with American Airlines for the continued operation of an aircraft maintenance hangar and flight kitchen at JFK. The new lease agreement will provide additional revenues to the Port Authority and retain a long-term tenant whose operations contribute considerably to the region's economy. Today JFK Airport serves as one of four hubs for American Airlines, a

leading international carrier with more than 10,000 employees living in the New York area. Following nearly 60 years of operating terminal and cargo facilities at JFK, the airline has recently increased its commitment to the airport and the New York region. In 2007, American began full service from its new \$1.3 billion Terminal 8. This past March, American announced plans to add 31 new flights from JFK and LaGuardia, including 7 new destinations. Efforts to further enhance the customer experience include upgraded aircraft and an interline agreement with JetBlue Airways that will leverage American's international market and JetBlue domestic market to provide customers with additional, more convenient connections out of both JFK and Boston. American's long-term operations at JFK covered under its existing lease include an eight bay, 470,000 square foot aircraft maintenance hangar, shown here as Hangar 10, a 100,000 square foot cargo building, 123, just north of the hangar, and a 54,000 square foot flight kitchen in Buildings 121 and 122, shown here on the bottom left. Leading up to this new agreement, staff has been working with American to establish a leasing strategy that is aligned with the airline's recently developed position on growth at JFK. As a result, the proposed lease provides increased rentals to the Port Authority, ensures the continued operations of aircraft maintenance and flight kitchen facilities, and retains 740 on-airport jobs that are associated with this back-of-the-house operation, the cargo and maintenance operations. The leasing strategy also accommodates the carrier's need for a modern and efficient cargo facility. Staff consented to the relocation of American's cargo operations from Building 123 to Building 79, located in another quadrant of the airport. Nippon Cargo Airlines is currently subleasing to American this modern cargo facility, resulting in the Port Authority receiving subleasing fees from Nippon Cargo. In connection with this relocation and as part of our property demolition program authorized by the Board last month, American has begun to demolish Building 123, a 50-year-old obsolete cargo building. Its demolition will provide for future commercial development of this site. Commissioners, the proposed agreement with American will cover the rental of the 50-acre site and generate approximately \$57.6 million in aggregate fixed rentals over the lease term, which represents a 12.2% increase. This doesn't include the rentals beyond year two from the anticipated lease with Sky Chefs. American would lease Hangar 10 for a 5-year period with an additional 5-year option to renew. Buildings 121 and 122, which house the Sky Chefs flight kitchen, would be leased for a 2-year period. These buildings are presently subleased to Sky Chefs, and staff anticipates entering into a direct lease with Sky Chefs at the end of this 2-year term. Advancing this item would provide for increased revenue to the Port Authority and continue American's aircraft maintenance and cargo operations, including the associated on-airport jobs. I ask that you recommend this item for approval to the full Board.

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

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Second?

[Comm. H.S. Holmes] Second.

[Comm. D. Steiner] Discussion?

[Chair A. Coscia] Yes.

[Comm. D. Steiner] I met with Sue Baer and reviewed all the real estate aspects of the transaction and the financial, and I think it's very well thought out, and I commend you for coming up with this unique plan.

[S. Baer] Thank you.

[Comm. D. Steiner] I think it addresses our long-term real estate considerations and plans for the airport.

[S. Baer] Thank you very much.

[Comm. D. Steiner] So I recommend approval.

[S. Baer] Thank you. Those aircraft maintenance jobs are the only significant numbers still at JFK, and they are 500 really good jobs. It was real important to us to work with them to make this happen.

[Chair A. Coscia] Okay. Jeff, did you have any questions? I know you had some in the interim, but they've all been--

[Comm. J. Moerdler] (inaudible).

[Chair A. Coscia] Okay, good. No other questions? All those in favor?

[All Commissioners] Aye.

[Chair A. Coscia] Any opposed? Okay. Our final item is the Port Authority Bus Terminal and the retail management agreement and amendment to the exclusivity agreement for the north wing air rights.

[M. Francois] Thank you. Today I am seeking authorization to enter into a 5-year retail management agreement with 20X Square for the management and operation of retail space in the north and south wings of the Port Authority Bus Terminal. I am also seeking authorization to extend for two years the existing north wing exclusivity arrangement between the Port Authority and 20X Square Associates, which is a joint venture between Vornado Realty and Lawrence Ruben Company, for the development, construction, and operation of an office tower above north wing of the Port Authority Bus Terminal. In December 2007, the Board authorized two exclusivity agreements with 20X Square for the redevelopment of the Port Authority Bus Terminal. The first gave 20X Square the right to prepare a leasing, management, and improvement plan for retail in the south wing. The second provided for the development of a tower above the north wing and renovations to the retail space. Several extensions to the agreements have been executed, the last of which expired in August of 2009, although 20X Square has continued to advance this project. 20X Square has submitted a definitive schedule for project developments, conceptual design plans, and schematic level drawings, selected an architect, Richard Rogers, to design the project, and executed a completion guarantee. 20X

Square has invested approximately \$6.3 million in due diligence and has paid the Port Authority option fees totaling \$4 million for the continuance of the exclusive negotiating rights. The Port Authority and Vornado have agreed to new plans for the overbuild on the north wing. As a result of the economic downturn, negotiations for the development of an office tower were suspended at the end of the exclusivity period. However, the Port Authority has negotiated terms of a retail management agreement under which 20X Square would manage the retail in both the north and south wings through August 2014. The Port Authority has the right to terminate this agreement without cause upon 30 days' notice. As part of this agreement, the Port Authority would extend the north wing exclusivity agreement through August 7, 2011. We feel there are a number of benefits to extending the exclusivity agreement with 20X Square and executing a retail management agreement. There is definitive synergy between retail and office overbuild which would make it desirable for one firm to be involved in both projects. Vornado is well positioned to move the project forward with office development when the economy turns around based on its investment of due diligence and the plans that have been prepared to date. And Vornado has extensive retail experience. They're the largest retail street owner in Manhattan at 1.8 million square feet and have 22 million square feet of retail development nationwide. As you know, the area surrounding the bus terminal has undergone a transition with substantially more residences, office space, and other commercial activity. The retail management agreement with 20X Square will reposition the retail program to capture this new market. As retail manager for Port Authority Bus Terminal, 20X Square's services would include preparation of annual retail operating and capital budgets for the Port Authority to review and approve, perform a market analysis, prepare a leasing plan, develop marketing materials, develop a website, and conduct weekly marketing meetings, conduct open houses, and review offers by potential tenants as well as ensure consistency with Port Authority terms and conditions, negotiate leases on behalf of the Port Authority, perform credit worthiness checks on prospective tenants, prepare potential tenant packages for Port Authority review and approval, and conduct bimonthly tenant meetings, review variance reports on retail revenues, prepare quarterly reports of retail performance, as well as set up an office on site with dedicated staff. Under the retail management agreement, each year 20X Square will submit estimated project costs and a leasing plan for review and approval by the Port Authority. 20X Square has estimated that over the 5-year term the Port Authority will pay approximately \$3.1 million in reimbursable operating expenses, \$540,000 in management fees, and approximately \$2.9 million in leasing commissions to 20X Square and other brokers. In addition, the Port Authority will invest approximately \$985,000, annual budget permitting, to make vacant spaces ready for occupancy. Staff anticipates that over the 5-year term the Port Authority will receive an estimated \$54 million in retail revenues. On an incremental basis, the NPV of the net revenues is approximately \$1.8 million. The fees under this agreement reflect terms not found in typical market arrangements. For example, 20X Square will receive its 5% management fee only on the additional revenue it produces for the Port Authority. In a typical management agreement, the manager would receive 5% on all revenue. Also, total leasing commissions paid on a deal are capped at 125% of full commission, which also reflects a discount off the standard market arrangements. Entering into a 5-year retail management agreement with 20X Square will now provide an opportunity for the Port Authority to optimize revenue potential for the Port Authority Bus Terminal until the office market returns. Extending the option on the air rights above the north wing with 20X Square will enable the Port Authority to respond quickly when the market rebounds and development opportunities arise. The benefits from this proposed

relationship with 20X Square include enhancement of retail and service amenities for bus patrons and the public at large. Commissioners, I request that you advance this item to the full Board for approval.

[Chair A. Coscia] Is there a motion?

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Second?

[Comm. V. Bauer] Second.

[Chair A. Coscia] Anyone have any questions or comments?

[Comm. D. Steiner] The real estate aspects--I compliment you on doing a good job. I think the choice of continuing with Vornado is very wise because they're very competent and very capable in this thing. I have a lot of respect for their staff, and I think they'll do a better job than anybody else we could have chosen in this. Thank you.

[M. Francois] Thank you.

[Chair A. Coscia] Anything else?

[silence] Okay. All those in favor of advancing it?

[Comm. H. Silverman] Aye.

[Chair A. Coscia] Any opposed?

[silence] Okay. This concludes the public portion of today's meeting. The Committee will now adjourn to 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.