

The Port Authority of New York and New Jersey
Committee on Operations Meeting Transcripts
August 5, 2010

[Chair A. Coscia] ...attention and we'll 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 personnel and personnel procedures

and matters related to purchase, sale, or lease of real property or securities

where public disclosure would affect the value thereof or the public interest, and to discuss and act upon matters related to collective bargaining or negotiations. In addition, the public portion of the meeting is being broadcast live on the Port Authority's website, for those interested in following today's proceedings via the Internet.

Today the first item is an item we're very excited about which is the expansion of Terminal 4, demolition of Terminal 3,

and the use of passenger facilities charges for a significant enhancement to our facilities at JFK, and for that, I will turn to Sue Baer.

[S. Baer] Good morning, Commissioners. We also are very excited to present today a project and the associated lease agreements to accommodate Delta Airline's future terminal operations at JFK. Delta currently handles about 25 percent of JFK's operations from Terminals 2 and 3. These terminals are the last to be replaced or substantially renovated at the airport. The item for your consideration today would expand Terminal 4 to accommodate the relocation of Delta's Terminal 3 operations. It would also demolish Terminal 3 to create an aircraft parking and staging area. As a preliminary step to this redevelopment project, you may recall that in April of this year the Port Authority consented to Delta's acquisition of an indirect ownership interest in JFK IAT, the lessee and operator of Terminal 4. As part of this consent, Delta paid the Port Authority a \$9.4 million transfer fee. As I will point out in this presentation, the proposed project will expand airport capacity, enhance the customer experience, and provide increased revenues to the Agency. Terminal 2, which is shown on the left of this aerial currently houses Delta's domestic traffic Terminal 3 on the right houses the international traffic. Both terminals opened in 1960. Terminal 3 was later expanded in the early '70s as the Pan Am World Port. The facility, however, has long since become outmoded. It was designed for pre-jumbo jet age. The terminal is unable to meet the expectations of the modern traveler and the post-911 security demands. The functionally obsolete terminal is undersized and has a problematic configuration, causing way-finding and other logistical issues for our customers. In addition, its age and condition make it very difficult to keep in a state of good repair. The air site capacity is also inadequate, requiring Delta to lease hard stand, which are parking positions from Terminal 4. In an effort to address these issues, the Board approved planning funds in May of 2008 to advance Delta's terminal redevelopment efforts. The Agency has since been working with Delta on plans to better accommodate its operations and future expansion plans. Commissioners, this

is the plan in providing an overview of the proposed redevelopment. Delta plans to become an anchor tenant of JFK IAT and construct a 3-level extension of Terminal 4's concourse B, which is shown here in the pink. In addition, Delta would renovate 7 existing gates in the concourse for its operations and modify the terminal's head house to expand the international baggage claim hall, the Federal inspection's area, the CBP area, and add a new domestic baggage claim facility and install an in-line baggage screening system which the terminal does not now have. Following construction, Delta would occupy up to 16 of the expanded building's 25 gates, while JFK IAT would continue as the management and operating entity for the Terminal 4, leasing the remaining 9 gates to other airlines, as they do now. This portion of the project is expected to be completed by the Spring of 2013. In addition, Delta would continue to lease Terminal 2, as the base for its domestic operations, and demolish Terminal 3 to construct an aircraft parking area with 16 parking positions to support scheduled operations at the expanded terminal. A secure side elevated connector would also be constructed to facilitate the transfer of passengers between Terminals 2 and 4. Together the terminals would function as a hub for Delta. This portion of the project is expected to be completed by the Summer of 2015. The estimated cost of this project is approximately \$1.2 billion. This includes approximately \$900 million in Series 8 Special Project Bonds-- which you talked about earlier--and up to \$215 million in passenger facility charges, and a minimum of \$75 million in Delta equity. Approximately \$950 million will be used on the Terminal 4 construction and another \$252 million will be used for the Terminal 3 site work and the passenger connector. In order to support the 5-year construction period, the Port Authority would invest up to \$16 million for program management resources and a project contingency funds for any undetermined infrastructure work that would fall under the Agency's obligation. With your approval of this item, an application for up to \$215 million in PFCs will be submitted to the FAA. In addition, Terminal 4 lease supplement will include terms and conditions under which the Port Authority will act as a conduit for the TSA grants to reimburse the JFK IAT for eligible costs associated with the installation of the inline baggage screening system. As you're aware, your approval for the issuance of the special project's bond was requested earlier under a separate item. Commissioners, it's at least 3 agreements that would provide for the construction work and leasing of the facilities. A supplement to JFK IAT's lease for Terminal 4 would cover its expansion and set the lease term to 30 years from the date of Delta's occupancy of the expanded terminal. This change will effectively extend the lease term to 18 years from the current expiration in 2025. A supplement to Delta's lease agreement for Terminals 2 and 3 would cover the demolition and construction work at the Terminal 3 site, and include a 3-year extension from the current expiration date of 2017 for Terminal 2. Delta would also have preferential use of the newly constructed aircraft parking area under a new agreement, which would be co-terminus with the extended Terminal 4 agreement. The agreement would also provide the Port Authority with the right to recapture a portion of the site to accommodate future terminal developments. The proposed lease agreements would provide the Agency with an estimated \$6.3 billion in aggregate rentals. This amount includes \$1.1 billion in fixed rent, comprised of ground rent from the Terminal 2, 3, and 4 sites, building rent from Terminal 2, and additional rent associated with the proposed Series 8 Debt Service. In addition, an estimated \$5.2 billion in variable rent is expected from Terminal 4. Consistent with the current lease, the Agency will receive 90 percent of Terminal 4's net revenues, after certain expenses. This project is the first phase redevelopment of the terminals that has Delta's operations at JFK. Future phases of this redevelopment are anticipated and could include the demolition of Terminal 2 and the possible relocation of its domestic flights to

a further expanded Terminal 4. Commissioners, as you can appreciate, this project is a major undertaking. The benefits to the Agency are also significant, including increased revenues and an approximate investment of \$1.2 billion dollars for an expanded Terminal 4 facility through removal of the functionally obsolete Terminal 3 and the creation of an aircraft parking and staging area, as shown on this rendering. To the direct benefit of the passengers, Delta will be able to relocate its international operations to more efficient and modern space to substantially improve the customer experience for millions of passengers. In addition, the direct and indirect benefit of the project's 5-year construction period alone will generate \$360 million in wages and \$1.8 billion in economic activity. Commissioners, I ask that you advance this item to the Board for full approval. Thank you.

[Chair A. Coscia] Thanks, Sue. I again compliment you and your staff and all on bringing this. I know these transactions are difficult to bring together, and I recall this transaction in a prior version that had a much greater exposure to the Port Authority than this one does, so it's great to see private capital coming into our facilities and generating this kind of activity, and as I said, I know it's a lot of years of hard work to kind of get to this, so I appreciate that.

[C. Ward] Pardon me, Chairman, may I acknowledge David Kagan, who is sitting to your left, who was the lead negotiator on this for some time and I don't see Cheryl Yetka.

[S. Baer] She's not here.

[C. Ward] Both of them have been consistently driving this deal to a successful conclusion, and I thank David and Cheryl for their hard work.

[S. Baer] They put in many long hours on this project.

[Chair A. Coscia] That's great. That's great.

[Comm H.S. Holmes] I just had a couple of questions about it. The first one is--if you could go back to the first slide and kind of point-- I couldn't follow on the first one. I couldn't follow exactly the location of where things are vis-a-vis the airport.

[S. Baer] The terminal up in the left corner is Terminal 1, and then Terminal 2 is existing Delta, Terminal 3, which many people know as Pan Am World Port, at Terminal 3, is mostly their international operations are out of there. Just off--you can see a couple of planes on the side, that's Terminal 4.

[Comm. H.S. Holmes] The other question is could you give us a little detail about the variable rent?

[S. Baer] Well, the variable rent is basically comprised of the lease agreement we have with JFK IAT, and that lease agreement allows us to-- we are paid--under a waterfall agreement, we are paid 90 percent of the net revenues from that building. That was based on a relatively conservative estimate of growth in the building that would accrue that amount, so we think that is the conservative estimate of the variable rentals, but that's the bulk of it, is the waterfall

payment that we currently now have under our lease with JFK IAT.

[P. Blanco] There is a certain structure--there is a certain ground rent that is paid now, about \$18 million.

[S. Baer] But that's fixed.

[P. Blanco] That's a base ground rate--

[Comm. H.S. Holmes] That's the floor?

[S. Baer] That's in the fixed rent.

[P. Blanco] In addition to that, they paid first additional rents, which is a percentage we get under Series 6 special project bonds, which really recovers us for our costs in terms of the City rent calculation. And then all of the revenues coming in from building first go to pay operating expenses, and then they go to pay debt service, and then they go to pay us. Then there is a split, and the split is what we call the waterfall. Currently, we're getting about \$28-\$30 million a year on the waterfall. This year, the Waterfall projection I think in total will be about \$60 million.

[S. Baer] That's the 90 percent of the--it's the net--on certain allowable operating expenses, we get 90 percent of the net revenue, and that's the variable piece.

[Comm D. Steiner] I want to tell you how excited I am about this whole new approach for financing and building the airports. I've felt for too long that we've been behind the curve. If we want to keep business coming there, we have to make it a pleasant and easy experience for people to travel, and this, staff, is a whole great, new response that I hope you will take this and translate it to other things at the airport.

[S. Baer] We're working on it.

[Comm. D. Steiner] I really think it's a good step forward, and using this as a model or a pattern, I'm sure you're going to repeat it, and I hope that other operating sections of the Port Authority will look to this and understand what we're there for. We're there to service the public, and we have to find a way to pay for these things, otherwise we're going to be out of business, and I think if you've come up with an imaginative plan, which I fully support and commend you for finding.

[S. Baer] Thank you, Commissioner.

[Comm V. Bauer] I too want to commend you and your staff. I also wanted to ask you how many jobs would this bring with this construction? How much--?

[S. Baer] Well, the construction--I think we have a dollar figure. I'm not sure exactly--I can find out how many jobs that was based on during the construction. It also--we don't quite yet have our arms around how much additional activity and how many more permanent jobs it will

generate. It will do that as well.

[Comm V. Bauer] Temporary construction jobs--there's also--

[S. Baer] Temporary construction jobs for the 5-year period, and then there will be additional permanent jobs. Remember, as part of this terminal expansion, you add things like concessions and services, all of which translate into jobs, as well as the additional airline jobs.

[Comm V. Bauer] In light of this economy and the unemployment, that's encouraging to see too. Thank you.

[Comm J. Moerdler] Is Delta projecting a net increase in passage volume or is this better service alone? What's your best guess?

[S. Baer] It's actually both. There is an expectation of additional--as you know, JFK is slot constrained, so that puts some downward pressure on the volume question, but they are planning--this will allow them--one of the most important aspects of this is it will allow them to bring in larger planes. The current terminal is so constrained and built for 3 generations ago of aircraft, so that this will allow them to bring in larger planes, and that's how the growth at our airports will largely come on more efficient use of the resource, the scarce air resource, bringing in people on larger planes. This terminal will allow it, as well as the airport parking which is really important for staging operations. The growth has been in the last few years, and is projected to continue to be, much faster in the international sector, and this is the kind of terminal facility they need for the international sector. It will certainly improve the passenger experience, but it will also allow them to bring planes in, take them to the parking area after they deplane. Take them to the parking area, clean them, cater them, get them ready, fuel them, and turn them around and bring them back to a gate, so they can use the gate resources much better than they are in their current configuration. It's a much more current approach of how you can take maximum advantage of an expensive resource, the gate, by just having good staging area nearby.

[Comm J. Moerdler] One other question--what about the time table?

[S. Baer] Well, they're projecting--they're very anxious to make this happen, as you know. A lot of carriers are very interested in New York, and they want to be competitive. We're working with Delta to minimize the construction schedule. They're talking about the Spring of 2013 for opening the new terminal facility. To take down Terminal 3 and do the parking, will take another year and a half to 2 years to do that.

[Comm J. Moerdler] Will you be able to operate all the new gates before the demolition?

[S. Baer] Yes, well that's the plan. That's the plan to do it that way. There's always the possibility of doing more of a split operation. Better if they could do the other. We haven't actually worked out all of the construction--we've been so busy working on the lease deal. Now we're going to turn our attention to the construction phasing and see what we can do to make it happen faster.

[Comm J. Moerdler] A 2-year time table for a project like this--I think it's fabulous.

[Comm. R. Pocino] Yeah, I just want to say that this is a great project for this Port Authority for a couple of reasons. One, as described here by Commissioner Bauer and Commissioner Steiner in reference to the new initiative in terms of financing the project, but also the jobs that are created as a second point that will be over several, a couple of years. Hopefully, it gets started as soon as possible?

[S. Baer] Absolutely.

[Comm R. Pocino] Because employment is a problem in this economy, and also, though, it's going to serve the traveling public that we're here for. That's the purpose of this Port Authority. I also want to give our Chairman kudos for his involvement in helping to initiate this project, and I also want to say--I don't want to get parochial--but there's at least one terminal in New Jersey, Terminal A, that could use this kind of a system to do much needed improvement.

[S. Baer] There's an item, the positive review NJ right now which allocates PFC money and picks an outside firm, a consulting firm to help move forward the planning for Terminal A, exactly what you said. I have a number here that our economists said that it would result in 2,700 direct regional jobs, both on site and off site, with the payroll wages of \$170 million, so that's the number that goes with that dollar figure. I knew I had it someplace.

[Comm R. Pocino] Chairman, I've got to run off to the next Committee meeting.

[Comm S. Baer] Thank you.

[Chair A. Coscia] Sue, as Ray is walking out the door, do you have a sense as to when the construction activity will start at the site?

[S. Baer] Probably--their goal would be to start it probably next Spring. I think it will take about that long to get all of the design work done, so probably next Spring.

[Chair Coscia] We went a little out of order, I assume--oh, I'm sorry, Stan.

[Comm R. Pocino] Stan, are there any other Commissioners on Construction?

[Comm S. Grayson] I'll be right over.

[Chair A. Coscia] Build it without him.

[Comm S. Grayson] I just have one very quick question. Sue, in your presentation when you talked about Terminal 2, you mentioned a 3-year lease extension. I think I know the answer, but why--I mean--it's from 2017 to 2020-- what's the rationale for that period for the 3-year lease extension?

[S. Baer] We know that it would be probably not enough time to make a decision between now and 2017 that would result in them having to already vacate that terminal, but we're hoping that once this terminal is up and running, that the next phase will kick in, and that involves--I have a whole scheme of what you do with that site-- but that would involve Delta making a decision about possibly moving their terminal to operations to expand Terminal 4, and you would need 3 more years of time to be able to both decide to do it, negotiate the lease, and build the extension, and that allows that to happen. If that isn't going to happen, we'll obviously have to come back for further extension.

[Comm S. Grayson] And I assume the 3 years gives them time to amortize their expenses that they are going to incur with this project.

[S. Baer] Yeah, that's the idea, exactly.

[Comm J. Moerdler] Are they doing any work in Terminal 2 as part of this?

[S. Baer] They last--the year before--made a reasonable investment in Terminal 2. Terminal 2 was extremely--may I say it--not in the best of condition, and so they made something in the neighborhood of about a \$35 million investment in Terminal 2, upgraded--they have all new concessions, new bathrooms, new gate holding areas, and so our expectation is they will continue to refresh Terminal 2, based on that investment and possible future investments to keep it looking good.

[Comm. D. Steiner] Do we need a motion to approve this?

[Chair A. Coscia] We do, we went a little out of order. Did someone make a motion?

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Second?

[Comm. V. Bauer] Second.

[Chair A. Coscia] Any other questions/comments?

[Comm D. Steiner] Let the record show the discussion followed the--

[Chair A. Coscia] As I said, we went out of order.

[Comm D. Steiner] In our enthusiasm for a wonderful project.

[Chair A. Coscia] We are consistent in our inconsistency on advancing items to the Board, so I'm sure the record will reflect that too. Okay, no other questions, all those in favor?

[Comms. D. Steiner & V. Bauer] Aye.

[Chair A. Coscia] Any opposed? Okay. Thank you very much. Thank you, Sue. Thank you, David. Thank you very much. Okay, our next item is the PATH rail car procurement contract regarding an exercise of an option for additional cars and Mike DePallo, Mike. M. DePallo] Thank you. Good morning, Commissioners. I'm here today to take authorization, to exercise an option under the PATH Rail replacement contract, to purchase 10 additional rail cars and provide you with a brief update on the project. The PATH railcar and signal system replacement program is a key component to the modernization of PATH. This integrated program will insure the long-term viability of PATH by bringing it into the 21st century using the latest technology and continuing to provide customers with reliable and safe service. The Board authorized a program consisting of the purchase of 340 new railcars, renovations to the PATH maintenance facility to accommodate the new vehicle technology, the replacement of the entire PATH signal system with a modern automatic train control system using communications-based train control technology. The total authorized cost for all of these program elements is \$1.38 billion dollars. Some of the advanced features in the new PA5 railcars include AC propulsion in place of DC propulsion, full ADA compliance, advanced diagnostic capability, which will significantly improve vehicle reliability, automated on-board train announcements for better audio quality, a light-emitting diode destination signs that are clearer and more energy efficient, a new safety and security feature includes on-board video recording and an integrated design to accept the new automatic train control technology in the future. The railcar manufacturer, Kawasaki Rail Car, based in Yonkers, New York, initially delivered the first 8 pilot cars to PATH in June of 2008. After an extensive testing and an initial acceptance program, production car delivery was initiated in July of 2009. As of August 2, 2010, of the 340 cars ordered, 170 cars have been delivered, of which 151 are in service. The remaining 19 cars are undergoing acceptance testing. Approximately 70 additional cars are expected to be delivered in 2010, and the remaining cars are scheduled for delivery in 2011. Under the past railcar contract, PATH has an option with Kawasaki Rail Car to purchase up to an additional 140 cars. Today we are seeking authorization to exercise an option to purchase 10 additional railcars at a total estimated cost of \$15 million, in accordance with the terms and conditions of the contract. The additional cars will provide PATH with greater operational flexibility while helping to maximize peak period capacity to meet future demand. By exercising the contract now, PATH can realize substantial cost savings since the production line and vehicle assembly are currently in progress. Commissioners, I request that you advance this item to the full Board for approval today. Thank you for your time and consideration.

[Chair A. Coscia] Okay, thanks Michael. Can I have a motion to approve?

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Second?

[Comm. V. Bauer] Second.

[Chair A. Coscia] Okay, All right. Questions? Comments?

[Comm. V. Bauer] Michael, are any of the construction of the cars done here in New Jersey or New York? Does it give any --?

[M. DePalo] There are component manufacturers that are in New Jersey, but the final assembly is taking place in New York, in Yonkers.

[Comm. V. Bauer] Okay, so our region does get the jobs. That's why I want to be sure that--

[M. DePalo] Yeah, they have also the shell assembly takes place in Lincoln, Nebraska, and then the shell is shipped over here to Yonkers, and final assembly takes place there.

[Comm V. Bauer] So our region does get some of the work?

[M. DePalo] Oh, absolutely.

[Comm D. Steiner] Mr. Chairman, a question--is 10 cars going to be enough? We have an option for 140. Why do you only want to buy 10 now?

[M. DePalo] We took a close look--

[Comm D. Steiner] You have the money to buy more than 10.

[M. DePalo] Yeah, we took a close look at our schedules, and we believe we can add--

[P. Blanco] No, the answer is no, sir (laughter).

[Comm. D. Steiner] We just chose some imaginative financing from Sue Baer. You're not going to let her do something that you can't figure out.

[P. Blanco] You can only imagine so much.

[C. Ward] If I could, let me just ask Michael to speak on 2 things. Why the additional 10 cars, that train set in the peak period provides the value that you need, given station crowding, and that Michael and Paul Blanco did have to work through a PATH capital offset for us to acquire these additional cars, so the reason why we all somewhat stepped in was this is coming out of the existing capital capacity for PATH, and Michael felt that it was critical for the overcrowding of the platforms to buy that additional morning train set.

[Comm. D. Steiner] My only question then is how long is that option for the other--will be 130 cars-- how long is that good for?

[M. DePalo] It expires in August.

[Comm D. Steiner] Can't we ask for an extension?

[M. DePalo] We can ask--

[Comm. D. Steiner] What do we have to lose by asking for it. They probably want to do good

business.

[M. DePallo] We can ask for an extension, but we probably wouldn't be in a position to buy any cars for a number of years.

[Comm. D. Steiner] Let's not think ahead with it. Let's just have it in our pocket. You know how things might change. We might come up with an imaginative way of financing it. I think it is to our advantage to have the option continue, provided it doesn't cost us any money. It's just in our bag of tricks.

[M. DePallo] We can talk to them about it.

[Comm. D. Steiner] I'd like to make sure that we do that.

[C. Ward] We can do that, but I think the main thing for Michael and the PATH system has been that this train set plugs into the early morning peak period when station crowding is really at its worst.

[Comm. D. Steiner] I'd buy that, but I would say then, look, we'd like to buy some more cars, but you've got to give us an extension on the option. I mean--

[M. DePallo] We can talk to them. We'll talk to Kawasaki about that.

[Comm. D. Steiner] I think they'll do that. If not, tell them you're not going to buy the cars for awhile.

[M. DePallo] Okay.

[Chair A. Coscia] I think, David, it's been a pretty thoughtful kind of management of needs--

[Comm D. Steiner] I appreciate that, but I just want to get something--

[Chair A. Coscia] I have no--I don't think anyone has any objection to it. My only question is whether from a procurement standpoint, we're going to run into any issues. I mean--if we're comfortable--

[L. Valenti] They could ask.

[Comm. D. Steiner] It doesn't have to be on the record.

[Chair A. Coscia] It is now.

[laughing]

[Comm D. Steiner] Don't worry about that. I'm just telling you what any--what some of us outside businessmen would do.

[Chair A. Coscia] David, you meant that comment, and we all interpret it as being in the best interests of the public, to get the most options available.

[Comm D. Steiner] Right, I meant with the Kawasaki, a good deal with Kawasaki.

[Chair A. Coscia] I understand. Okay, any other questions? Okay, all of those in favor?

[All Commissioners] Aye.

[Chair A. Coscia] Okay, any opposed? Okay, thank you very much. Michael, thank you.

[M. DePallo] You're welcome.

[Chair A. Coscia] Okay, I guess we're done with the Public Session, and I guess I would ask for a motion to go into Executive Session.

[Comm. D. Steiner] So moved.

[Chair A. Coscia] Second?

[Comm. J. Moerdler] Second.

[Chair A. Coscia] All those in favor? Okay, thank you very much.