

**The Port Authority of New York and New Jersey
Committee on Operations Transcripts
March 24, 2016**

[Chair J. Degnan] Good morning. I'm going to call this meeting to order. We're now convening in Public Session our Committee meeting, starting with the Committee on Operations, which also met in Executive Session earlier today to discuss matters related to the purchase, sale, or lease of real property where disclosure would affect the value thereof or the public interest. Public meetings of the Committee on Finance, World Trade Center Redevelopment Subcommittee, the Committees on Capital Planning, Execution and Asset Management, and Governance and Ethics will follow this Committee meeting of Operations. And we'll conclude the public portion of today's meetings with the Public Board meeting. Today's public meetings are also being broadcast live in the Port Authority's website, for those interested in viewing them via the internet. At this point, I'd ask the Board's Secretary to advise those present of the composition of the Committee on Operations and any Commissioner recusals on the first item before the Committee at today's Public Hearing. Thank you.

[K. Eastman] The Committee is composed of yourself, Chairman Degnan as the Chairman, Vice Chairman Rechler as Vice Chair, and Commissioners Laufenberg, Lipper, and Steiner. All Committee members are present at today's meeting. With regard to the Bathgate Industrial Park item, there no recusals required.

[Chair J. Degnan] The first subject to be discussed this morning I think is the Bathgate Industrial Park, a sale and assignment of Port Authority lease. Gerry Del Tufo is going to make that presentation. Thanks, Gerry. Ready?

[G. Del Tufo] Thank you. Good morning, gentlemen, how are you? I stand before you today seeking authorization for the disposition of the Bathgate Industrial Park, specifically I'm seeking authorization to enter into agreements with the City of New York, the EDC of New York City, to effectuate certain documents regarding the lease or leasehold at Bathgate Industrial Park. By way of background, you may recall about a year ago, just over 13 months ago, the Board endorsed the recommendations of the Special Panel Report, one of which was the disposition of Port Authority property and/or leases that are no longer or don't meet the Port Authority's core mission. This is one of those examples. Last month I came before you regarding the Teleport in Staten Island, which is a similar disposition. So you know the Port Authority built these buildings at Bathgate Industrial Park in the early '80s on property owned by the City of New York. The next slide will show you a little bit of the facility overview. So spread across about seven city blocks, there's eight buildings, about 454,000 square feet. The property is owned by the City of New York. The Port Authority has a lease with the City of New York to operate that facility. We built the buildings back in 1981 and have sublet most of them to various tenants, Perrigo Pharmaceuticals, we have a high school there, a daycare center, two distributors of dry goods and a nuts store. >> I'm not sure we need-- >> Exactly. OK. Go on to the next slide, please. It's a transaction details, a little bit of the process. National Resources is going to pay the Port Authority \$16.5 million for this privilege. NRE will then pay New York City \$3.5 million for their agreement to assign the lease from the Port Authority to them. New York, the EDC will grant certain lease extensions and support the ULURP, which is

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the Uniform Land Use Review Process. The NRE is requesting certain use changes to make this transaction viable for them. Go onto the next slide, please. So in summary, the overall transaction is a good deal for the Port Authority. It's consistent with the Special Panel Report for the future of the Port Authority to dispose of Port Authority real estate that's non-core to our business. And NRE proposes to invest about \$50 million into the infrastructure, develop a mixed use facility, provide retail, and repurpose it. They've done similar developments. One of which was our property many years ago, the Yonkers Industrial Park, we sold to NRE. And you may be aware that I.Park on the Hudson is a very vibrant, wonderful place to do business and to live. So, Commissioners, I seek your approval for this item. And I'd like to thank Matt Pedersen and our staff, who carried most of the water in negotiating this deal.

[Chair J. Degnan] Thank you. Any questions or comments by any members of the Board of Mr. Del Tufo? If not, can I have a motion from someone on the Committee who is not recused for approval of this item? >>>So moved, Mr. Chair. We're actually moving it to the full Board, approving moving it to the full Board. So with the motion made and seconded. Or do we need a roll call vote on this? No. All right. So any objections? Then we'll consider the matter approved. And we'll consider it at the Board-- Thank you. --this afternoon. Thank you. The next item on the agenda is the discussion of Port Authority leased space at New York Penn Station. And I'd ask the Corporate Secretary to advise of any recusals.

[K. Eastman] Of the Committee members, present there are no recusals. Of the other Commissioners present who are not regular Committee members, Commissioner Fascitelli is recused.

[Chair J. Degnan] And we're going to ask Pat to present the matter to the Committee.

[Exec. Dir. P. Foye] Thanks, Chairman. Jim, let's stay will this slide for a second. And I just want to describe to the Board and my colleagues and the public what we're seeing. So this is the southwest corner of 31st and 8th Street. Phase 1 of Moynihan Station will be completed later this year in August or September. What you're looking at is a street-level pedestrian access to what will ultimately be the Moynihan Train Hall. There's a similar street level access, which has not existed in the past, on 33rd and 8th Avenue. In addition to that, the West End Concourse, the Port Authority is overseeing the construction of this. It's a Phase 1, \$270 million fully funded, and I'll get to the reason we're discussing this today. Phase 1 importantly also includes life safety enhancements at existing Penn Station, includes the doubling in length and width of something called the West End Concourse. Governor Cuomo and others have observed Penn Station as being the seventh level of hell. Part of that is the West End Concourse, which is used by Long Island Railroad and New Jersey Transit commuters. And that concourse will soon be open to Long Island Railroad and New Jersey commuters and, including your speaker on the Long Island Railroad commuter as well, and will be dramatically better than at present. Jim, let's go to the next one if you would. You're going to hear a great deal of Port Authority history at this meeting. And this one's going to take us back to the year 2000. So in the year 2000, the Port Authority Board and the Committee on Operations several months later approved a couple of actions. First the Board back in 2000, unanimously authorized that then Executive Director to enter into a 35-year lease of 40,000 square feet at a to-be-built train hall. It has not yet been built. But it is being contemplated and obviously a significant part of Governor

Cuomo's transportation infrastructure that there be a new train hall built in what was the Farley Post Office, a post office facility purchased by a subsidiary to State of New York in 2007. The 35-year lease that was approved in 2000 authorized, related rather, with respect to 40,000 square feet in that new train hall to be built at a rent of \$8.3 million a year. The premises were to be used for enhanced airport access, this was obviously before 9/11, including passenger check-in and baggage service in connection with AirTrain service to JFK and rail service to Newark. And the Board, as it often did back then too, delegated to the Committee on Operations approval of the final terms. Couple of months later in September of 2000, the Committee on Operations unanimously approved to then Executive Director to enter into a 35-year lease for 250 square feet for ticket counters and a kiosk, together with non-exclusive right of access to 40,000 square feet that would assure future airport passengers would have direct access to the train platforms below, non-exclusive rights that had red caps at the entrances, nonexclusive use of the loading docks, and the right for the Port Authority to place signage on the exterior of this historic building. How realistic that is, I have my doubts. Rent was increased to \$10.5 million a year. To date, no lease has been negotiated or certainly signed. And, Jim, let's go to the next slide. These are a series of Board authorizations or Board actions or Port Authority actions subsequent to the 2000 Board authorization. Among other things, the Port Authority contributed, approved by this Board a long time ago, \$128 million from the New York Transportation, Development and Infrastructure Renewal funding toward the purchase of the Farley Building by Empire State Development Corporation, which actually occurred in 2007. The Port Authority also provided \$17 million towards Moynihan Station Development Corporation design, planning, and staff cost from, use the colloquial term, a regional bank. And the Port Authority also provided \$6 million payment from the regional banks for Phase 1 design. The construction work the Port Authority is overseeing that I described at the beginning of this presentation is the Phase 1 work. That amount is to be repaid to the Port Authority upon the commencement of Phase 2, which was to be 2010. Phase 2 has not been commenced but is being planned now. As I mentioned, Phase 1 on Moynihan Station is under way. It's under the management and oversight of the Port Authority. It'll be completed in August or September of this year. I described already what Phase 1 includes. Phase 2 is contemplated to include a brand new train hall, where the Port Authority leased facilities would be located. And as I noted, construction has not yet begun on Phase 2. No lease has been finalized or executed by the Port Authority. It is clear there were a number of legal, financial, valuation issues with respect to these leases from oh so many years ago. For instance, one question that has been fairly raised is whether the Port Authority is receiving adequate value for the substantial lease payments that it's making over a period of years. That's an important question. Another question is whether the Port Authority has the legal authority to make significant lease payments for a facility in a new Moynihan Station, given that it is not a Port Authority facility. And there are a significant number of questions such as those. What I'm going to suggest is that the Board direct staff, Chairman, to review the legal authority financial issues, including consistency with the Port Authority's mission and financial return to the Port Authority and return back in a month or two with a report and recommendations with respect to future action. Thank you, Chairman.

[Chair J. Degnan] Resolution also includes, Pat, a rescission of the 2000 resolution authorizing the Executive Director to enter into this lease?

[Exec. Dir. P. Foye] That's correct. As I've indicated to you, I have not signed and would not

sign such a lease until coming back to the Board and getting Board approval. Yes, sir.

[Chair J. Degnan] Thanks, Pat. First of all, I'd like to commend Pat for the complete recitation of all the monies spent on Penn Station over the last 15 years. It's my wish and hope that the Port Authority will be transparent and clear on all projects of all the amounts that have been spent on that project from the beginning of the authorization to the date of the approval of the resolution. And in this instance, Pat has done a good job of listing them. Secondly from my perspective, something the Executive Director was not within his presentation nor needed to be, I believe, that this original lease was infected by a serious conflict of interest in respect of the Chairman, the Vice Chairman, of the Port Authority.

[V. Chair S. Rechler] Not this Vice Chairman.

[Chair J. Degnan] No. A long since Vice Chairman of the Port Authority also being the Chairman of the Empire State Development Corporation, which was the other side of the transaction and not recusing himself on one vote but recusing himself on another vote. I think by rescinding that resolution, we're curing a defect in the original proposal that's important for us to step up to. Under our standards today, no such lease could have been entered into without recusal on the part of the individual involved. And the last point I will make, and it's just a judgment on my part, there's no question that \$10.5 million a year for 35 years or \$350 million, even by Port Authority standards, is a lot to pay for 250 square feet. I recognize that we get other rights in the facility. But the actual lease is \$350 million for 250 square feet. I look forward to the staff bringing this back to the Board in good order and making a recommendation consistent with the Capital Plan. Are there any other Commissioners that have comments or questions about it? Tony.

[Comm. H. James] Yeah, I do. Just personally, I just want the rest of the Commissioners to understand, I have serious questions about this. I don't see any practical use for having a staging baggage handling check-in area in this place for us anymore given current security requirements and other things. We've paid \$150 million already into this thing. I think that's ample. And I saw a resolution, which kind of I thought was-- I'm all for studying it and coming back to answer. I have questions whether it's legal. I have questions whether it's appropriate. If it is legal and even if it's legal and appropriate, I have questions whether it's affordable given our other requirements and whether this percolates to the top list. Because we're going to have to cut some things. And this looks like something that should be a candidate. So I would prefer to see a resolution which was much less leaning forward than the resolution here, although I can't argue with the legality of the terms, something along the lines that said that the staff is going to study whether or not any further support from the Port Authority is appropriate, is affordable, is legal, and if so, what form and amount. So I would have had something that was a little more standoffish. I'm not sure this resolution doesn't work. But it wouldn't been the way I drafted it.

[Chair J. Degnan] Thanks, Tony. I actually have the same concerns you do. And I know that you will guarantee but I'll join you in ensuring that those issues get addressed when we discuss this next time. Anybody else? OK. Is there a motion then from a Commissioner who's not

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recused on the matter to move it forward to the full Board? I make a motion. Second? Second.
Any opposition? Then we'll deal with it at the full Board.