

The Port Authority of New York and New Jersey
Joint Meeting of the Committees on Operations & CPEAM Transcript
November 16, 2017

[Board Chair K. O'Toole] Good afternoon. We're going to call this meeting to order. We are now convening our public session Committee meeting starting with a Joint meeting on the Committees on Operations and Capital Planning, Execution and Asset Management, which I will chair with Vice-Chair Lynford. A public meeting of the Committee on Capital Planning, Execution and Asset Management, which is chaired by Vice-Chair Lynford will follow the Joint meeting. We will conclude today's meeting with a Public Board meeting. Each of today's public meetings are also broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the internet. We'll now start the public session of the Joint meetings on the Committees on Operations and Capital Planning, Execution and Asset Management, which is being held in public session in its entirety. At this point, I'd ask the Board Secretary to advise those present of the composition of the Committees and any Commissioner recusals on the matters before the Committee at today's public session meeting.

[K. Eastman] Thank you. The Committee on Operations is composed of yourself as Chairman, Commissioner Lynford as Vice-Chair, and Commissioners LaBarbera and Turner. The Committee on Capital Planning, Execution and Asset Management is composed of Vice-Chairman Lynford as Chair of the Committee, yourself as Vice-Chair of the Committee, and Commissioners LaBarbera, Pocino, and Rosado. All Commissioners are present at today's meeting. No recusals are required on the two items that will be discussed.

[Board Chair K. O'Toole] Both of the topics on today's agenda will be presented by our Director of Aviation Huntley Lawrence. First up is the lease of the development of a Cargo facility at John F. Kennedy International Airport. Huntley.

[H. Lawrence] Good afternoon, Commissioners. I'm here to request that you advance a lease for the development of a State of the Art Cargo facility at JFK International Airport. In January 2017, New York Governor Andrew Cuomo's Aviation Advisory Panel

[RECOMMENDATIONS FOR A 21ST CENTURY AIRPORT] issued its Vision Plan for how to bring the airport facilities into the 21st Century through a series of transformative recommendations. The panel's report, which included input from and is supported by the Aviation Department, identified Cargo operations as one of five areas that should be improved. The bold vision for improving the Cargo landscape at JFK calls for our strategic focus on modernizing and consolidating facilities to ensure the development of a world-class airport. Authorizing the development of a state of the art Cargo facility is an important first step to fulfill the Vision Plan for JFK and it represents the first phase of the development of the North Cargo area of JFK, a key recommendation of the Vision Plan. A modern, new, and efficient Cargo Hub will help revitalize JFK's Air Cargo business to enhance Cargo operation at the nation's premier international gateway.

[JFK Vision Plan - Cargo Recommendations] JFK handled roughly 1.3 million tons of Cargo last year, putting it in the top seven airports nationwide, directly employing over 15,000 people and supporting 50,000 jobs, \$8.6 billion in sales and almost \$3 billion in wages. The JFK Air Cargo operation is critically important to the region's economy. In the area of Queens directly adjacent

to JFK, transportation and warehousing jobs account for over 1 in every 10 jobs, 4 times higher than the citywide average. Despite its built-in geographic advantages and its high volume of Cargo business, JFK's Cargo operation has been unable to achieve its full potential. JFK's leadership position in the market has eroded over the last 10 years. Existing Cargo facilities are inefficient. And over two-thirds of the facilities and the buildings do not meet best-in-class industry standards, putting JFK at a competitive disadvantage for Cargo growth and development. To address these deficiencies, the Vision Panel recommended that the Port Authority provide for new, consolidated, and expanded Cargo facilities in the north area of the airport where there is convenient road access to off-airport Cargo operations and minimize the footprint of supporting infrastructure while maintaining a superior level of service at appropriate locations.

[THE PORT AUTHORITY OF NY & NJ] As the panel noted and as you can see on this slide, Cargo operations at JFK are spread out over four Cargo areas, A through D. The size and layout of the majority of these buildings are not optimal to handle recent shifts in Cargo handling operations and trends in the industry. The existing layout causes increased transfer times which equates to a higher cost of doing business for our tenants and our stakeholders.

[Strategic Recommendations - North Cargo Area Consolidation] Consistent with the Vision Plan's recommendation, the proposed development is within Cargo Area D, an ideal location where new facilities can replace vacant buildings that are no longer suited to handle the needs of a modern Cargo operation. We expect that the consolidation and expansion in Area D will provide more convenient road access, position Cargo handlers in close proximity to forwarding communities, and free up existing Cargo Areas A, B, and C for other developments that would be consistent with long-term master planning efforts at JFK. In further support of the panel's recommendation, the Port Authority recently hired a master planner to develop short, medium, and long range plans including Cargo. Staff is working with our master planner to develop strategies and implement key tactical initiatives identified in a Joint Port Authority New York City Economic Development Corporation Cargo Study which focuses on improving marketing, airport access, and cost optimization pertaining to Cargo development. The proposed development is a key step towards fulfilling major recommendations of the advisory panel by providing state of the art Cargo facilities in the west end of the north Cargo area as shown here. Aero JFK, a leading private air Cargo facility developer that specializes in acquiring and developing on airport cargo facilities which are then subleased to airport users such as airlines, Cargo brokers, freight forwarders, etcetera, will construct and design a state of the art single story Cargo facility on a 26.5 half acre site where vacant buildings 260 and 261 are currently located. The facility will have the flexibility to simultaneously handle three of the largest air carrier cargo freighters and features two elevating traversing vehicles designed for handling and storage of cargo throughout 500 positions. The development will also have a dedicated temperature controlled pharmaceutical handling area, approximately 60 dock doors, 53,000 square feet of office space, and 450 vehicle parking spaces. The design will be flexible and incorporate elements that allow for future multi-tenant occupancy configurations as well. Subsequent development in future proposals will be analyzed under the scope of the master planning consultant in order to ensure cohesion between this and future developments in this area of the north Cargo.

[Lease Terms] The proposed lease with Aeroterm is for a 33-year term and includes one 15-year option that may be exercised at the tenant's sole discretion subject to the extension of the Port Authority's lease with the city of New York. Aeroterm will have 36 months to complete the design and construction of the estimated 346,000 square foot facility before ground rent commences. Ground rental payments over the term of the agreement would amount to

approximately \$117 million. Aero JFK would be required to invest a minimum of \$70 million to construct the facility, and the Port Authority would reimburse the tenant for certain costs including demolition and removing of existing buildings 260 and 261 at an amount not to exceed \$24 million. And once completed, we expect that the new state of the art facility will be home at JFK to worldwide flight services, a major third-party ground handler that operates around the world. Finally, I'm seeking authorization for the Executive Director to modify his existing agreement with Raytheon Company to provide for the removal and relocation of a portion of the perimeter intrusion detection system and associated equipment related to the proposed cargo development. The Port Authority's actual cost for this modification would be credited against the \$24 million. Commissioners, pending your questions, I ask that you advance the proposed lease for Aero JFK to the Board for full approval.

[Board Chair K. O'Toole] Thank you, Huntley. Just a couple of questions, Huntley. Number one, in terms of the \$70 million of investment, is your timetable when we expect that minimum investment to take place during the course of that 33-year lease?

[H. Lawrence] The investment will take place within the 36 months. Basically, it's anticipated that within 36 months the building will actually be completed, within the first 36 months.

[Board Chair K. O'Toole] How did we arrive at the \$24 million cap reimbursement number?

[H. Lawrence] We actually looked at what it would cost to demolish the two buildings 260 and 261 and also estimates and what it would take for environmental remediation for the property, and that's how we came up with an estimate as to what it would take. And also, taking a look at how we could leverage the private sector's efficiency in demolishing the building, we looked at whether we could do it or they could do it and felt it would be best for them to do the demolition on our behalf.

[Board Chair K. O'Toole] May I ask question with regard to the square footage allocation? How did we arrive at that number, 2-5-3? Is it \$2.53 per square foot for the cargo? Did I read that in one of the documents?

[H. Lawrence] Okay, so on a square footage basis, actually, the cost of construction is probably higher, somewhere around \$200 or so a square foot. It's basically a warehouse type facility and we looked at comparable rates working with the developer and it's basically within the comparable rates for the area in terms of construction policy.

[Board Chair K. O'Toole] Thank you. Any questions the Commissioners have? Okay. May I please have a motion from a Committee member who is not recused to move this matter forward?

[Commissioner] So moved.

[Board Chair K. O'Toole] Is there a second?

[Commissioner] Second.

[Board Chair K. O'Toole] Roll call please.

[Board Chair K. O'Toole] Move forward, yeah. So consensus to the Board. Thank you very

much. It's only my third meeting, Karen. Moving forward. Next up is a presentation concerning the rehabilitation and enhancements to the taxiways to support Cargo operations at John F. Kennedy International Airport.

[Board Chair K. O'Toole] Huntley?

[H. Lawrence] Sure. So following my request to advance the lease for Aero JFK to the Board for approval, I'm also here to present a project that would provide for the rehabilitation

[John F. Kennedy International Airport] and enhancement of two taxiways

[Rehabilitation and Enhancement of Taxiways CA & CB Project Authorization] CA and CB to provide pertinent airport and aircraft access and further build on our efforts to consolidate Cargo in the north area of JFK. Taxiways CA and CB

[Project Overview] were last rehabbed in the 1980s. These taxiways were designed for aircraft that predate the larger modern aircrafts operating today. This location is currently home to FedEx as well as several vacant former Cargo facilities including Cargo buildings 260 and 261 which we just discussed. The proposed project which has independent utility will advance state of good repair rehabilitation with enhancements allowing for seamless access and greater efficiencies in movements of the larger freighters and ultimately set the stage for potential development and third-party investment on the north area. Advancing necessary SGR, state of good repair, work with enhancements to the existing infrastructure not only achieves construction efficiencies and minimizes the impact to airport operations, it demonstrates the Port Authority's commitment to be an operator of world-class airports that meet the needs of customers and stakeholders.

[Project Authorization Request] The project is estimated to cost \$62.2 million. Included in this authorization request is delegation for the Executive Director to award a contract to perform construction work associated with the reconstruction and enhancements to taxiways what we call Charlie Alpha or CA and CB at an estimated total construction cost of \$41.7 million. The remaining cost for the project are for planning, engineering, support, contingency, and agency allocations including insurance, administrative, and financial expense. \$38.7 million of the \$62.2 million total project cost is included in the 2017-2026 Capital Plan. Offsets have been identified to cover the remaining \$23.5 million. Upon your approval of this project design, we'll continue with contract award estimated in the fourth quarter of 2018. Construction is expected to commence in the second quarter of 2019 and be completed by the third quarter of 2020. This project is expected to result in 270 direct job-years,

[Impacts] both on-site and off-site and direct payroll wages of \$25.7 million. The total economic activity impact amounts to 530 total job-years, \$44.5 million in wages, and \$109.5 million in economic activity over the life of the project. Construction will be approximately staged with any surrounding construction and performed to minimize operational impact. Commissioners, pending your questions, I ask that you advance this project authorization to the full Board for consideration.

[Board Chair K. O'Toole] Thank you, Huntley, 38.7 million, and this is coming out of capital?

[H. Lawrence] That's correct.

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[Board Chair K. O'Toole] And 23.5 offsets, where are the offsets coming from, the JFK Redevelopment?

[H. Lawrence] The offsets are actually coming from a couple of areas where we've been able to see some savings. In one particular project, we were able to realize some savings, and then another project has actually been delivered through an alternate means to more of a triple piece, so we were able to extract some savings there as well.

[Board Chair K. O'Toole] Great. Any questions that the Commissioners have?

[Board Chair K. O'Toole] Is there a motion?

[Commissioners] So moved.

[Board Chair K. O'Toole] Second?

[Vice-Chair J.H. Lynford] Second.

[Board Chair K. O'Toole] Consensus to move forward? So done. Okay.