

# KEEPING THE REGION MOVING

*A report prepared by*

**The Special Panel on the Future of the  
Port Authority**

*for*

**The Governors of New York and New Jersey**

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***The Port  
Authority of  
New York and  
New Jersey***





**Special Panel**  
**on the**  
**Future of the Port Authority**



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## 1. Executive Summary

The Port Authority of New York and New Jersey (“Port Authority” or the “Authority”) plays a vital role in the economy of the nation’s largest and most dynamic metropolitan area, managing an array of airports, ports, and bridge, tunnel and transit facilities that are among the world’s most extensive and heavily used. For more than a decade, the Port Authority has dedicated enormous effort and resources to the rebirth of the World Trade Center site following the tragic events of September 11, 2001. That rebirth is now a reality and, in the years ahead, the Port Authority must recommit itself to its core mission of facilitating transit through the region for the millions of commuters, visitors, and cargo carriers who rely on its transportation infrastructure, ensuring that these facilities are worthy of the people and businesses they serve. To fulfill this mandate, the Authority must avail itself of the most advanced engineering, financial and managerial approaches available, from innovative public-private partnerships to state-of-the-art financing techniques, while never losing sight of its daily obligation to keep people and goods moving safely and dependably through the region. The recommendations that follow are offered to position the Port Authority for success while maintaining the trust of the public that it serves.

### 1.1. Background

On May 6, 2014, the Governors of the States of New York and New Jersey commissioned a *Special Panel on the Future of the Port Authority* (“Special Panel” or “Panel”) to “review and evaluate reforms of the Port Authority’s mission, structure, management, operations, and overall governance.” The Governors’ action followed well-publicized questions regarding the Port Authority’s focus, effectiveness, and commitment to ethical and transparent governance. For reasons discussed below, the creation of the Panel is a turning point for the Port Authority, an auspicious opportunity to build on the Authority’s historic strengths and address its more recent failings. The Governors’ charge to this Panel is thus timely, and the Panel offers its recommendations recognizing the unique conditions that now exist for meaningful improvements at the Authority.

The Port Authority of New York and New Jersey is a public authority established in 1921 as a bi-state compact under Article I, Section 10 of the U.S. Constitution. Originally charged with facilitating the development and effective operation of the Port of New York, the Authority went on to build and manage a complex of vehicular bridges and tunnels, operate the region’s three major airports and its cargo ports, rehabilitate a Trans-Hudson commuter rail line (Port Authority Trans Hudson Corporation and commonly referred to throughout this Report as “PATH”), and construct a historic commercial and transit hub at the World Trade Center (“WTC”). The Port Authority has since led the rebuilding effort at the World Trade Center site in the wake of the September 11 terrorist attacks. With these successes have come challenges: the sheer scope and complexity of the Authority’s operations, not to mention their expense, have tested the Authority’s ability to maintain its aging transportation assets. A governance structure intended to safeguard the interests of both states has instead produced internal division and a lack of managerial accountability.

The Special Panel engaged Promontory Financial Group, LLC (“Promontory”) to assist it in analyzing the Port Authority’s mission, governance, and asset management. The Panel first addressed the Authority’s mission statement, most recently updated in 1995, and agreed that **reform at the Port Authority must begin with a recommitment to its core transportation mission**. The Panel believes that such a recommitment must be accompanied by internal governance reforms that ensure the responsive, accountable, and efficient pursuit of this mission. Accordingly, the Panel next considered institutional changes necessary at the Port Authority to promote a disciplined adherence to its core mission. Assisted by Promontory’s experts, the Special Panel compared the Port Authority’s governance structure and internal policies to “best practices” at other large organizations, including public authorities, multi-state authorities, and large corporations in the private sector. The focus of this analysis was to identify **governance reforms that will enhance the Authority’s operational performance, regional focus, and public standing**. The Panel’s governance recommendations, with which this report begins, range from rationalizing the Port Authority’s chain of command to increasing the transparency of the Authority’s activities.

The Panel then directed Promontory to develop a standardized methodology to analyze the Authority’s significant assets for alignment with a core transportation focus. This approach not only has helped the Panel place the Port Authority’s current holdings in perspective, but also will provide a useful standard for ensuring future adherence to the Authority’s core mission.

The Panel recommends that the Port Authority now **apply the financial capacity and creative drive that have helped restore a national landmark at the World Trade Center to the modernization and expansion of the region’s aging airports, bus terminal facilities, and other vital transportation assets**. The Authority must once again take the lead in delivering world-class airports, an efficient port network that serves as the premier cargo gateway to the United States, and an interstate transportation network capable of meeting the needs of a growing regional economy.

The Panel further recommends that **real estate holdings that are no longer central to the Port Authority’s transportation mission, including commercial real estate at the World Trade Center, should be divested in an orderly way** that recognizes their monetary value, as well as the national significance of the World Trade Center site. The Panel acknowledges the important role played by the Port Authority in spurring economic growth in Lower Manhattan with the original World Trade Center development, and applauds the leadership shown by the Authority in rebuilding the site in the years since the September 11 attacks. As that rebuilding nears completion, however, the Port Authority must refocus and recommit its efforts to the transportation needs of the region.

As Governor Christie and Governor Cuomo recognized in appointing the Special Panel, the time has come for reform and re-dedication of the Port Authority. The Special Panel believes the recommendations that follow will position the Port Authority better to serve the region and, in so doing, regain the public’s trust in its expertise and integrity.

## 1.2. Recommendations

### A. GOVERNANCE AND ACCOUNTABILITY

Governance reform is the necessary first step toward a Port Authority that is more effective and responsive. The Authority's Board of Commissioners has begun a process of internal reform designed to increase the transparency of the Authority's operations and the accountability of its leadership. The Special Panel supports this ongoing effort and its recommendations seek to build upon and expand that process.

#### **Governance Recommendation #1:**

***Reorganize the leadership of the Board of Commissioners and the executive management of the Port Authority to increase accountability and foster regional focus in its day-to-day operations.***

- a) **Create a single Chief Executive Officer ("CEO") position to replace the office of the Executive Director and Deputy Executive Director;** the CEO will be hired based on a national search and will be directed by and accountable to the Board of Commissioners.
- b) **Replace the current Chair and Vice Chair with two Co-Chairs,** one recommended to the Board by the Governor of each state, **or rotating Chairs.**
- c) **Establish an "Office of the Chair,"** comprised of the Co-Chairs, or the Chair and the Vice Chair, and the CEO, to function as a senior operating committee of the Port Authority.
- d) **Increase Board and Board Committee focus** on Port Authority and Department strategy, capital planning, risk mitigation and significant long-range projects.

#### **Governance Recommendation #2:**

***Continue reforms to promote a culture of transparency and ethical conduct at the Port Authority.***

- a) **Continue ongoing initiatives to increase transparency** of the Port Authority's deliberations and operations.
  - *FOI Reform*<sup>1</sup>—Implement the previously announced January 1, 2015 adoption of broader New York or New Jersey disclosure provisions or standards similar to those contained in recently passed legislation.

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<sup>1</sup> Freedom of Information ("FOI") Reform.

- *Open Meetings*—Continue the recent practice of strictly limiting the use of executive sessions for Board deliberations; use public meetings whenever possible.
- b) **Issue a new Port Authority Code of Conduct**, as previously directed by the Board of Commissioners, to drive a renewed focus on ethics and compliance throughout the Authority.
- c) **Create a Chief Ethics and Compliance Officer position.**

## **B. MISSION AND STEWARDSHIP OF ASSETS**

The Port Authority's mandate has expanded considerably since its founding. As it nears its centennial, however, the Port Authority must refocus and return to its core mission of investing in the region's airports, port facilities and the Trans-Hudson transportation network. This must be accomplished even as the Authority recognizes that its traditional revenue sources, bridge and tunnel tolls and airport landing fees, will not by themselves support the transportation investments the region requires. The Authority must therefore modernize its approach to the financing, design, and construction of new transportation infrastructure, while managing its existing assets more effectively and efficiently, in order to meet the region's needs for the 21<sup>st</sup> century.

### **Mission Recommendation #1:**

***Refocus the Port Authority's mission statement, strategic vision and capital plan to return the Port Authority to its core mission of facilitating the efficient movement of people and goods through the region.***

#### ***A MISSION STATEMENT FOR THE FUTURE:***

***"MEET THE CRITICAL TRANSPORTATION INFRASTRUCTURE NEEDS OF THE BI-STATE REGION'S PEOPLE, BUSINESSES, AND VISITORS BY PROVIDING THE HIGHEST QUALITY AND MOST EFFICIENT TRANSPORTATION AND PORT FACILITIES AND SERVICES TO MOVE PEOPLE AND GOODS WITHIN THE REGION, PROVIDE ACCESS TO THE NATION AND THE WORLD AND PROMOTE THE REGION'S ECONOMIC DEVELOPMENT."***

- a) **Reinstate the Port Authority's regional leadership role** by initiating a comprehensive planning effort in 2015, at the direction of the Governors, to develop a 21<sup>st</sup> century strategic vision focused on expanding and developing new regional transportation capacity:
  - **21<sup>st</sup> Century Airports**—In the spirit of Governor Cuomo's innovative 2014 New York airport design competition, introduce a similar concept to lead a public "visioning process" in 2015 to help guide the ongoing modernization of all Port Authority airports;
  - **Trans-Hudson Transportation**—Convene stakeholders in the bi-state Interstate Transportation Network, including the Port Authority, MTA, NJ Transit and Amtrak, to initiate a long-term planning process for the expansion of Trans-Hudson transit capacity, including river-crossing and terminal facilities; and

- **Ports as the Nation’s Gateway**—With the Port Authority’s historic “Raise the Roadway” project at the Bayonne Bridge opening the region’s ports to a new generation of “mega” container ships, lead a study involving regional and international shipping interests aimed at enhancing the competitiveness of the Port of New York versus rival East Coast facilities.
- b) **Reassess and update the Port Authority’s 10-year capital plan** to reflect more focused investment in the region’s transportation needs.
- c) **Redeploy \$600 million in unallocated “regional development” funds to specific transportation projects that align with the Authority’s core mission** and are part of its Capital Plan, working with the Governors to identify the most pressing transportation needs in the Port area.
- d) **Deliver a more efficient and modern organization.**
  - **Establish management processes that measure alignment with the Port Authority’s core mission** by adopting standardized tools and metrics for assessing the current portfolio of assets, potential asset acquisitions and divestitures and investment in future projects.
  - **Expand performance reporting relating to the Port Authority’s mission**, providing for more transparency to the public and stronger Board oversight.

**Mission Recommendation #2:**

***Revitalize the Port Authority’s core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal (“PABT”), Port Commerce and the PATH.<sup>2</sup>***

- a) **Invest in the region’s airports in a manner that ensures that** these vital facilities are equipped to serve as the gateway to the region for travelers and goods from around the world.
  - **Continue to prioritize reinvestment of the proceeds of airport revenue sources in the redevelopment of the region’s three major airports**, consistent with the needs of the broader regional transportation system.
  - **Manage modernization efforts in close cooperation with the Governors** in each state to ensure that the Port Authority’s airport redevelopment efforts are consistent with related state development initiatives.
  - **Coordinate with New York, New Jersey and federal officials to address regulatory constraints** that stunt growth, stifle competition and harm the regional economy.

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<sup>2</sup> LaGuardia Airport, John F. Kennedy International Airport, and Newark Liberty International Airport, respectively.

- b) **Pursue construction of a new Port Authority Bus Terminal**, utilizing the embedded value of the Port Authority's real estate holdings at that location and other sources of funding, to meet the increasing requirements of this vital element of the Trans-Hudson transportation network.
- c) **Modernize Port Commerce facilities to increase their efficiency** and maximize the potential of the ports as the premier portal for cargo entering the United States, building on the successful reconstruction of the Bayonne Bridge to accommodate the most modern mega-container ships.
- d) **Seek an improved operating model for the PATH rail system**, including partnering with a third-party operator, to enhance the PATH's operational performance and reduce its financial deficit.

**Mission Recommendation #3:**

***Phase out real estate ownership and development as an element of the Port Authority's mission.***

- a) **Prudently divest existing real estate holdings** and restrict future real estate investments to those integral to the Authority's core transportation mission.
  - **Divest and monetize the Port Authority's commercial real estate holdings at the World Trade Center** pursuant to a plan taking into account both the value of these assets and the site's national significance.
  - **Divest and monetize other commercial real estate holdings** not necessary to the Authority's core mission in a manner that maximizes proceeds available to support transportation infrastructure.
  - **Assess future real estate opportunities using standardized metrics** to ensure consistency with the Port Authority's core mission.
- b) **Repurpose, redevelop or sell underperforming assets**, including obsolete facilities such as the Red Hook Container Terminal.

**Mission Recommendation #4:**

***Employ innovative and flexible financing techniques to increase operational flexibility and financing capacity while maintaining the Authority's high standing in the credit markets.***

- a) **Update the Port Authority's 1952 Consolidated Bond Resolution** to increase operational flexibility, including facilitating the divestment of non-core assets.
- b) **Employ public-private partnerships, tax increment financing, value capture and other innovative financing tools** to provide funding alternatives and enhanced operational opportunities.

- c) **Utilize the most up-to-date financing techniques available to public authorities**, including project-specific and subordinated debt financing, to augment the Authority's traditional sources of capital and provide greater financing flexibility, while maintaining a strong credit rating and access to the capital markets.
- d) **Retain a leading global investment advisory firm** to assist Port Authority staff in ensuring maximum returns on the Authority's invested funds, consistent with the conservative investment approach appropriate for a public authority.

## 2. Introduction

### 2.1. History of the Port Authority

#### A. FOUNDING

The Port Authority is one of the oldest and largest public authorities in the United States. Established in 1921 by the New York-New Jersey Port Authority Compact (“Compact”), the Port Authority was formed to facilitate closer coordination in the development of the Port of New York.<sup>3</sup> The Compact entered into by and between the States and approved by Congress created a bi-state institution that has served as a model for other multi-state authorities.<sup>4</sup> The Port Authority in many respects has no comparable peer, either in the diversity of its transportation facilities or the volume of passengers and cargo that pass through the Port of New York District (“Port District”). The Port Authority enjoys a long and proud history of employing public servants delivering on visionary plans and strategic transportation projects in one of the most densely populated and economically vibrant areas of the United States. The Port Authority is responsible for iconic port facilities, bridges, tunnels, airports and skyscrapers that stand at the world’s gateway to the United States.

The Compact that defined the Port District prescribed the geographic boundaries of the Port Authority’s operations. According to the Compact, the Port Authority was entrusted “with full power and authority to purchase, construct, lease and/or operate any terminal or transportation facility...and to make charges for the use thereof.”<sup>5</sup> The Compact also authorized the Port Authority, as a separate corporate entity, to issue bonds to finance its development and operations without impinging on either state’s creditworthiness.

At the time of the Port Authority’s founding, interstate cooperation, particularly in transportation and trade, was necessary to enhance not only the economic development of the region, but also that of the nation. In fact, in the early 1900s a significant portion of the United States’ international commercial activity touched the Port District, as described in Jameson Doig’s *Empire on the Hudson: Entrepreneurial Vision and Political Power at the Port of New York Authority*:

“By 1915, nearly half of the nation’s international commerce – counting both export and import commodities – passed through the Port of New York ... generating thousands of

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<sup>3</sup> 2012 New York Consolidated Laws PNY – Port of New York Authority 154/21. *Justia U.S. Law*. Web. 2 Oct. 2014. <<http://law.justia.com/codes/new-york/2012/pny>>.

<sup>4</sup> Doig, Jameson W. *Empire on the Hudson: Entrepreneurial Vision and Political Power at the Port of New York Authority*. New York: Columbia University Press, 2001. Print.

<sup>5</sup> 2012 New York Consolidated Laws PNY – Port of New York Authority 154/21.

jobs directly tied to the transport system and thousands more in retail commerce, home and office construction, and industrial development.”<sup>6</sup>

However, by the early 1920s the Port of New York was in decline due in large part to overcrowding and congestion in the harbor. The harbor was plagued by two key problems. First, outdated docks and piers were unable to handle the vessels used at the time that offloaded cargo along the Hudson and East Rivers. Second, over 90% of the docking facilities were located in New York City, while most inbound railroads terminated in New Jersey, making the port structurally unfit to handle rail shipment into New York.<sup>7</sup>

The States of New York and New Jersey created the Port Authority both to address the port’s underlying problems as well as to foster the region’s economic vitality through delivering more efficient and effective transport of people and goods. The premise was that a bi-state authority would better enable the coordination of terminals, transportation, and other facilities of commerce to benefit the states, the region, and the nation.

Upon signing the Compact, the states agreed to “break down political barriers [and] put aside petty rivalries” for the betterment of the region.<sup>8</sup> Closer coordination, the Port Authority’s founders hoped, would replace conflict with cooperation in the quest for regional economic growth.<sup>9</sup>

## B. EARLY DAYS

In accordance with the Compact’s requirements, the Port Authority developed a *Comprehensive Plan for the Development of the Port District* (“Comprehensive Plan”) that presented a “blueprint for vast new rail and freight-terminal investments.”<sup>10</sup> While the modernization of the entirety of the Port District’s transportation infrastructure was essential to accommodate the region’s growth, in 1921 Port Authority officials determined that the most significant transportation issues of the day could be solved most effectively through enhancing rail service. Accordingly, the Comprehensive Plan was designed to extend rail freight service into all parts of the bi-state region, and envisioned replacing tugboat and lighter barge operations with direct rail service from New Jersey into Brooklyn and Manhattan.<sup>11</sup>

The Comprehensive Plan, which required approval by the states prior to the Port Authority exercising its operating powers, contained five key elements: 1) the establishment of a rail line connecting all railroads coming into the New York-New Jersey area; 2) a rail line running through Hoboken and Jersey

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<sup>6</sup> *Id.*, at 27.

<sup>7</sup> *Id.*, at xvi.

<sup>8</sup> *Id.*, at 44.

<sup>9</sup> *Id.*, at 1.

<sup>10</sup> *Id.*, at 77.

<sup>11</sup> *Id.*, at 88-89.

City to Bayonne; 3) rail lines extending across northern New Jersey; 4) a rail loop bringing freight into Manhattan; and 5) a series of twelve freight terminals in Manhattan.<sup>12</sup> The plan was adopted in full by the New York and New Jersey state legislatures in 1922.

However, due to the Great Depression as well as technologies that emerged in the years following its ratification, the Port Authority never fully executed the Comprehensive Plan.<sup>13</sup> In fact, the only element of the plan fully effectuated was the development of the Inland Freight Terminal. The deviation from the Comprehensive Plan was due, in large part, to the increasing popularity of vehicular transport (auto and truck), which the states and the Port Authority quickly embraced. In fact, bi-state legislation in 1924 and 1925 authorized the Port Authority to construct and operate four bridges in the Port District: 1) the Outerbridge Crossing; 2) the Goethals Bridge; 3) the Bayonne Bridge; and 4) the George Washington Bridge.<sup>14</sup>

Due to the timely, cost-efficient, and successful completion of these important projects, in 1931 the Port Authority was granted control of the Holland Tunnel (which had been built and was then operated by competing New York and New Jersey Bridge and Tunnel Commissions), was authorized to construct an additional midtown vehicular tunnel and was given control of all revenues generated from interstate crossings.<sup>15</sup> Within 10 years (and as outlined in Figure 1 below), the Port Authority controlled five major bridges and tunnels and was in the process of constructing its new midtown tunnel, the Lincoln Tunnel, which was completed in 1937.

*Figure 1. Bridges and Tunnels Constructed in the First Decade of Operation*

<b>Bridge / Tunnel</b>	<b>Opened to Traffic</b>	<b>Points of Connection</b>
<b>Holland Tunnel</b>	Nov. 13, 1927	Jersey City and lower Manhattan
<b>Outerbridge Crossing</b>	Jun. 29, 1928	Perth Amboy and Staten Island
<b>Goethals Bridge</b>	Jun. 29, 1928	Elizabeth and Staten Island
<b>George Washington Bridge</b>	Oct. 25, 1931	Fort Lee and upper Manhattan
<b>Bayonne Bridge</b>	Nov. 15, 1931	Bayonne and Staten Island

In granting the Port Authority such expansive control, the New York and New Jersey state legislatures deviated from the initial projects contemplated by the Comprehensive Plan, but this change in the Authority's planned activities, state officials believed, aligned with the broad mission outlined in the

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<sup>12</sup> *Id.*, at 89-90.

<sup>13</sup> *Id.*, at 118-119.

<sup>14</sup> *Id.*, at 274.

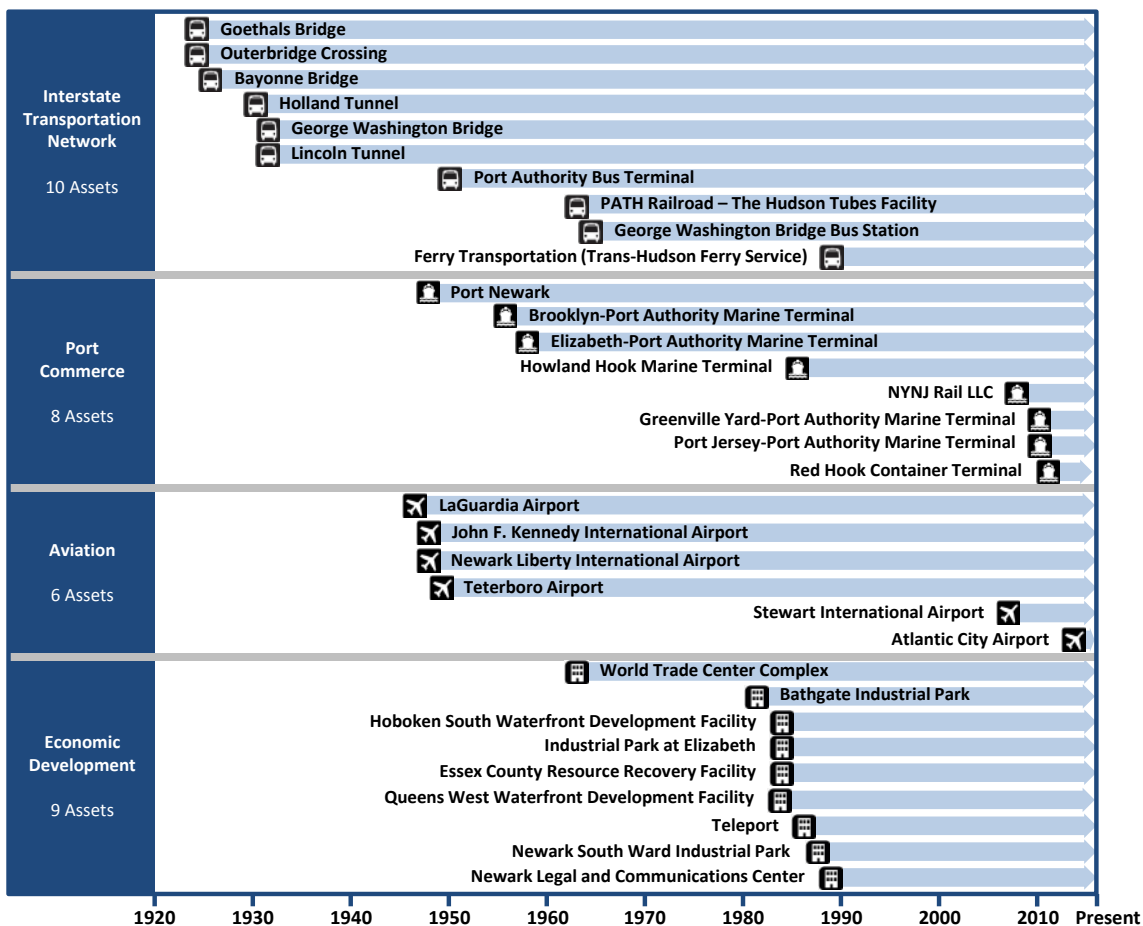
<sup>15</sup> *Id.*, at 99.

Compact: to foster economic vitality in the bi-state region through the efficient movement of people and goods.

### C. EXPANSION OF PORT AUTHORITY ACTIVITIES

Over subsequent years, the Port Authority diversified its assets from its initial portfolio of bridges, tunnels, and ports; consequently, it grew from approximately 300 employees in 1927 to more than 9,100 by 1994. Figure 2 below sets out the timeline for key elements of the diversification and expansion of the Port Authority operations. While not exhaustive, these elements illustrate the significant impact of the Port Authority on the transportation services and economic development of the bi-state region over time.

Figure 2. Key Asset and Portfolio Evolution



In the late 1940s, the cities of Newark and New York entrusted the Port Authority with the responsibility for operating their airports, due to the increasing importance of airport services to the region's economic vitality and the need for a unified approach to their development. Although formal bi-state legislation

was not required, there was a need for cooperation between the Port Authority and state, county and local officials in determining available sites for airports in the metropolitan area to accommodate anticipated increases in postwar air traffic.<sup>16</sup> The Port Authority entered into long-term leases with the City of Newark for Newark Airport (later renamed Newark Liberty International Airport, and commonly referred to throughout this Report as “Newark Liberty” or “EWR”), the City of New York for LaGuardia Airport (“LaGuardia” or “LGA”) and with New York International Airport (later renamed John F. Kennedy International Airport, and commonly referred to throughout this Report as “Kennedy” or “JFK”).<sup>17</sup> The addition of these airports significantly expanded the Port Authority’s asset profile and mandate.

Construction of a unified midtown Manhattan bus terminal was also initiated in the 1940s to safely and efficiently accommodate growing interstate bus traffic, culminating in the opening of the Port Authority Bus Terminal in 1950. The city streets had been crowded and congested by the movement of 4,800 short haul buses carrying 50,000 people daily; the new Port Authority Bus Terminal (“PABT”) replaced eight separate terminals in Manhattan.<sup>18</sup>

As the region expanded in the post-war 1950s, the Port Authority’s mandate grew in tandem. In addition to expanding the region’s airports and the Lincoln Tunnel during this period, the Port Authority was “particularly active in the work of port promotion” and focused intently on modernizing New York’s ports to accommodate the growth of international cargo traffic.<sup>19</sup> Given the importance of the Port of New York to the bi-state region at the time, it is fitting that the Port Authority would focus so intently on its port facilities. Its history provides the context: even in 1895, the Port of New York handled 64% of all U.S. imports, and the export capacity of New York Harbor far outstripped that of any other United States port, reaching nearly 12,000,000 tons in 1925, more than the aggregate tonnage capacity of the three next most important domestic ports combined.<sup>20</sup> During the post-war era, the Port Authority also spearheaded the development of marine terminal facilities in New York Harbor, replacing smaller wharves throughout Manhattan, Brooklyn, and the New Jersey waterfront that did not have the space or facilities to handle the increasing flow of goods into the region. In addition, three of the Port Authority’s “Trade Development Offices” (located in Chicago, Cleveland and Washington) were engaged in port

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<sup>16</sup> The Port Authority of New York and New Jersey. *1944 Annual Report*. New York: 1944. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 28. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1944.pdf?year=1944>>.

<sup>17</sup> The Port Authority of New York and New Jersey. *1946 Annual Report*. New York: 1946. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 11-12. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1946.pdf?year=1946>>.

<sup>18</sup> The Port Authority of New York and New Jersey. *1940 Annual Report*. New York: 1940. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 60. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1940.pdf?year=1940>>.

<sup>19</sup> *1944 Annual Report*. 25.

<sup>20</sup> The Port Authority of New York and New Jersey. *1926 Annual Report*. New York: 1926. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 36. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1926.pdf?year=1926>>.

promotion. The Port Authority's London office was a primary source of information on containerization, which was introduced in 1956 and revolutionized the shipping industry;<sup>21</sup> the Port Authority led the way in addressing this innovation with the opening of the world's first "all container" facility at the Port of Elizabeth in 1962.<sup>22</sup>

These Trade Development Offices—nine offices in both the United States and overseas—evidenced the Port Authority's strong and growing reach, both domestically and internationally. The offices were meant to increase the competitiveness of the New York-New Jersey Port by providing support and services to shippers and others involved in international trade. The four foreign offices each performed specific functions: the London Office provided technical aid and information on shipping through the Port of New York; the Continental Office in Zurich performed extensive trade development work and solicited cargo in Europe; the Rio de Janeiro office worked with American firms operating in South America; and the Puerto Rico Office promoted the Port in Central America. The Port Authority's five domestic offices also widely solicited trade and covered "all or parts of" 31 states, the District of Columbia, and the provinces of Quebec and Ontario.<sup>23</sup>

In the 1960s, the States of New York and New Jersey continued to expand the Port Authority's portfolio of operations, adding three major projects. In 1960, the Downtown-Lower Manhattan Association suggested that the Governors and the Mayor of New York should instruct the Port Authority to conduct a study on the feasibility of a "World Trade Center."<sup>24</sup> Subsequently, government and business leaders supported the creation of the World Trade Center as it was anticipated that such a project would be of great importance to the port and to the millions of residents who depended on trade for their livelihood.

"The World Trade Center [is]...of great importance to the welfare and prosperity of the Port District...[and] would greatly enhance business and employment by stimulating the movement of cargo through the [District]. It also would bolster the Port's competitive position by making port operations more effective, efficient and economical...centralize and improve the trade information services now located in scattered areas of the Port...provide a market place for United States products available for export through the

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<sup>21</sup> The Port Authority of New York and New Jersey. *1961 Annual Report*. New York: 1961. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 48. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1961.pdf?year=1961>>.

<sup>22</sup> Mysak, Joe, and Schiffer, Judith. *Perpetual Motion: The Illustrated History of the Port Authority of New York & New Jersey*. New York: General Publishing Group, 1997. 142-145. Print.

<sup>23</sup> *1961 Annual Report*. 48.

<sup>24</sup> The Port Authority of New York and New Jersey. *1960 Annual Report*. New York: 1960. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 43. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1960.pdf?year=1960>>.

Port...attract foreign buyers from around the world [and] provide an international market place for import products for United States buyers.”<sup>25</sup>

In addition, the New Jersey State Highway Commissioner requested that the Port Authority acquire, rehabilitate, and modernize the Hudson and Manhattan Railroad System (“H&M”) (subsequently renamed PATH), which was used annually by 31 million Trans-Hudson commuters and had filed for bankruptcy.<sup>26</sup> In 1962, New York and New Jersey enacted identical legislation authorizing the Port Authority to develop a World Trade Center in Lower Manhattan adjacent to the H&M Railroad’s New York terminal facility. The World Trade Center’s original development and its rebuilding in the wake of the terrorist attacks of September 11, 2001 would become a major focus of the Authority in the decades to come.<sup>27</sup>

In the early 1980s, the Port Authority assumed a new role in regional economic development as it became involved in building industrial parks and developing waterfront properties. It proposed to rehabilitate waterfront land as industrial parks in light of a multi-decade decline in manufacturing firms and jobs.<sup>28</sup> The Port Authority believed that the rehabilitation would attract manufacturers to the Port District, thereby increasing the demand for manufacturing jobs, and offer new opportunities to related enterprises.<sup>29</sup> In 1979, the United States Congress consented to bi-state legislation authorizing the Port Authority to proceed with its specific plans to build industrial parks;<sup>30</sup> additional bi-state legislation followed in 1984 which granted the Port Authority permission to build mixed-use waterfront development projects in Hoboken, New Jersey and Hunters Point, Queens.<sup>31</sup>

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<sup>25</sup> 1961 Annual Report. 40.

<sup>26</sup> 1960 Annual Report. 53.

<sup>27</sup> The Port Authority of New York and New Jersey. 1962 Annual Report. New York: 1962. Corporate Information – The Port Authority of NY & NJ. Web. 12 Dec. 2014. 48. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1962.pdf?year=1962>>.

<sup>28</sup> The Port Authority of New York and New Jersey. 1979 Annual Report. New York: 1979. Corporate Information – The Port Authority of NY & NJ. Web. 12 Dec. 2014. 9. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1979.pdf?year=1979>>.

<sup>29</sup> The Port Authority of New York and New Jersey. 1975 Annual Report. New York: 1975. Corporate Information – The Port Authority of NY & NJ. Web. 12 Dec. 2014. 9. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1975.pdf?year=1975>>.

<sup>30</sup> 1979 Annual Report. 13.

<sup>31</sup> Mysak and Schiffer. 276.

**D. PRESENT DAY**

While today the New York-Newark-Jersey City metropolitan region ranks first in the United States in terms of Current-Dollar Gross Domestic Product (“GDP”) by Metropolitan Area,<sup>32</sup> the bi-state region looks very different from the time of the Port Authority’s founding. Today, well over 12 million people call the Port District home, representing a population increase of 54% since 1920.<sup>33</sup>

*Figure 3. Port District Population*

Population	1920	2010	% Change
<b>New York</b>	5,964,484	8,294,256	39%
<b>New Jersey</b>	2,113,611	4,170,934	97%
<b>Total</b>	<b>8,080,015</b>	<b>12,467,200</b>	<b>54%</b>

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<sup>32</sup> U.S. Department of Commerce. Bureau of Economic Analysis. *Economic Growth Widespread Across Metropolitan Areas In 2013*. Washington: BEA, 16 Sept. 2014. Bureau of Economic Analysis Web. 12 Dec. 2014. <[http://www.bea.gov/newsreleases/regional/gdp\\_metro/2014/pdf/gdp\\_metro0914.pdf](http://www.bea.gov/newsreleases/regional/gdp_metro/2014/pdf/gdp_metro0914.pdf)>.

<sup>33</sup> U.S. Department of Commerce. U.S. Census Bureau. “State & County QuickFacts.” USCB, 8 Jul. 2014. Web. 12 Dec. 2014. <<http://quickfacts.census.gov/qfd/index.html>>.

Average household income has increased in New York City from \$1,556 in 1918-1919 to \$66,643 in 2002-2003.<sup>34</sup> Occupation trends in New York City have also undergone substantial change over the same period as the region’s economy evolved from its earlier focus on manufacturing sales and services.

*Figure 4. New York City Workers by Occupation<sup>35</sup>*

<b>Occupation</b>	<b>1918-1919 (%)</b>	<b>2002-2003 (%)</b>	<b>% Change</b>
<b>Production or Transportation</b>	47.1	10.9	<b>-77%</b>
<b>Sales or Office Positions</b>	15.9	27.4	<b>72%</b>
<b>Construction or Maintenance</b>	15.5	6.4	<b>-59%</b>
<b>Service Positions</b>	12.1	18.6	<b>54%</b>
<b>Managerial or Professional</b>	9.0	36.8	<b>309%</b>
<b>Agriculture</b>	<1	0	<b>n/a</b>

Today, the Port Authority plays a vital role in supporting and facilitating the bi-state regional economy through the assets under its management, and their importance to transit throughout the region. The Port Authority’s activities support more than 550,000 regional jobs and move more than 266 million passengers and 3.6 million metric tons of cargo per year.<sup>36</sup>

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<sup>34</sup> U.S. Department of Labor. U.S. Bureau of Labor Statistics. *100 Years of U.S. Consumer Spending: Data for the Nation, New York City, and Boston*. Washington: BLS, 3 Aug. 2006. 60. *Bureau of Labor Statistics*. Web. 12 Dec. 2014. <<http://www.bls.gov/opub/uscs/report991.pdf>>.

<sup>35</sup> 2002-2003 categorization of occupations aligned to 1918-1919 categorizations as follows: Production or Transportation = Manufacturing and Mechanical Industries + Transportation; Sales or Office Positions = Clerical Occupations; Construction or Maintenance = Trade; Service Positions = Domestic and Personal Service; Managerial or Professional = Professions + Public Service (*100 Years of U.S. Consumer Spending: Data for the Nation, New York City, and Boston*. 10, 60).

<sup>36</sup> The Port Authority of New York and New Jersey. *2014 Port Authority Construction Program: Bidding and Understanding Construction Contracts*. New York: 2014. *Business Opportunities – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 6. <[http://www.panynj.gov/business-opportunities/pdf/construction\\_program.pdf](http://www.panynj.gov/business-opportunities/pdf/construction_program.pdf)>.

*Figure 5. Key Assets under Operation and Management and their Impact*

<b>Asset Class</b>	<b>Key Assets</b>	<b>Impact</b>
<b>Airports</b>	John F. Kennedy International Airport	JFK, EWR and LGA are the 6th, 14th and 20th largest airports in the United States, <sup>37</sup> respectively, and collectively move roughly 112 million passengers and transport 1,802,576 metric tons of cargo annually. <sup>38</sup>
	LaGuardia Airport	
	Newark Liberty International Airport	
	Stewart International Airport	
	Teterboro Airport	
	Atlantic City International Airport	
<b>Ports</b>	Port of New York and New Jersey	The Port is the largest on the east coast and the third largest in the country, moving over 132 million tons of cargo per year. <sup>39</sup>
<b>Bus Stations</b>	Port Authority Bus Terminal	The PABT is the world's busiest bus facility and serves more than 65 million people annually. <sup>40</sup> Overall, the Port Authority's bus facilities transport roughly 81,498,000 passengers annually. <sup>41</sup>
	George Washington Bridge Bus Station	
	Journal Square Transportation Center	
<b>Bridges and Tunnels</b>	George Washington Bridge	Over 115 million cars and trucks travel over the Port Authority's six bridges and tunnels every year. The George Washington Bridge is considered the world's busiest bridge, with over 102 million car and truck crossings every year.
	Bayonne Bridge	
	Goethals Bridge	
	Outerbridge Crossing	
	Holland Tunnel	
	Lincoln Tunnel	
<b>Rail System</b>	PATH	In 2013, the PATH carried nearly 73 million passengers, ranking it as the seventh largest mass transit system in the country. <sup>42</sup>
<b>Real Estate</b>	World Trade Center	Standing at 1,776 feet, the 1 WTC Tower is the tallest building in North America.

<sup>37</sup> "U.S. Top 40 Airports." *World Airport Codes*. Fubra Limited, n.d. Web. 12 Dec. 2014. <<http://www.world-airport-codes.com/us-top-40-airports.html>>.

<sup>38</sup> The Port Authority of New York and New Jersey. *2013 Annual Report*. New York: 2013. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 48. <<http://www.panynj.gov/corporate-information/pdf/annual-report-2013.pdf?year=2013>>.

<sup>39</sup> American Association of Port Authorities. "U.S. Ports Ranked by Cargo Volume – 2012." *American Association of Port Authorities*. AAPA, n.d. Web. 12 Dec. 2014. <<http://aapa.files.cms-plus.com/2012%20U.S.%20PORT%20RANKINGS%20BY%20CARGO%20TONNAGE.xlsx>>.

<sup>40</sup> "About the Terminal." *Port Authority Bus Terminal*. The Port Authority of New York and New Jersey, n.d. Web. 12 Dec. 2014. <<http://www.panynj.gov/bus-terminals/pabt-about-terminal.html>>.

<sup>41</sup> *2013 Annual Report*. 121.

<sup>42</sup> American Public Transportation Association. *APTA Ridership Report - Q4 2013 Report*. Washington: APTA, 26 Feb. 2014. *Resource Library*. Web. 12 Dec. 2014. 2. <<http://www.apta.com/resources/statistics/Documents/Ridership/2013-q4-ridership-APTA.pdf>>.

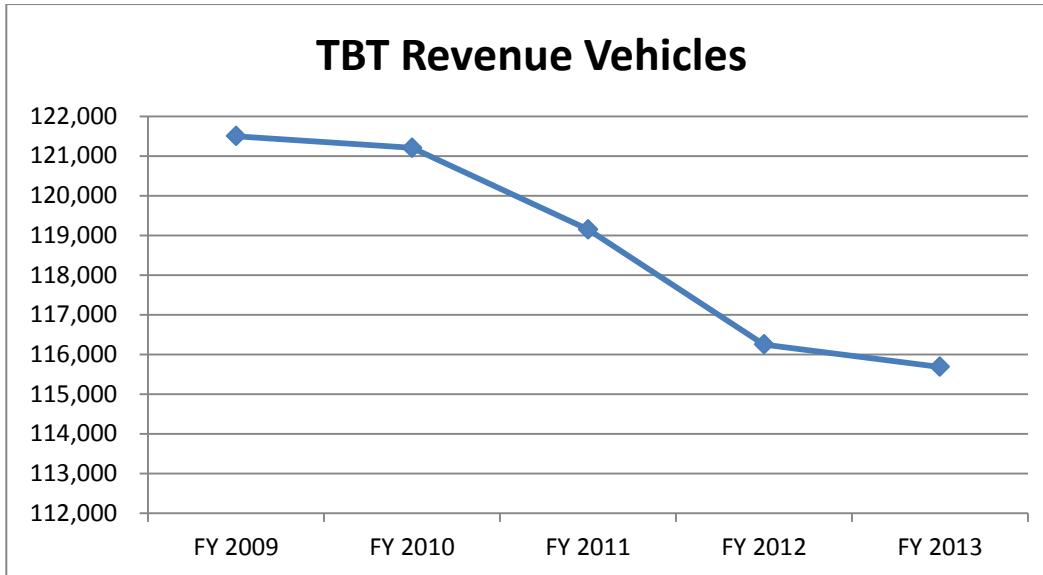
## 2.2. The Need to Evolve

In managing an array of airports, ports, and bridge, tunnel and transit facilities that are among the world's most extensive and heavily used, the Port Authority plays a vital role in the economy of the nation's largest and most dynamic metropolitan area. For more than a decade, the Port Authority has dedicated enormous effort and resources to the rebirth of the World Trade Center site following the tragic events of September 11, 2001. That rebirth is now a reality and, in the years ahead, the Port Authority should recommit itself to its core mission of facilitating transit through the region for the millions of commuters, visitors and cargo carriers who rely on its transportation infrastructure. In this effort, the Authority must overcome three significant challenges:

1. **Self-Sustaining Business Model**—The Compact established the Port Authority as a separate corporate entity and required that it “not pledge the credit of either state except by and with the authority of the legislature thereof.” The Port Authority, therefore, is expected to maintain a self-sustaining business model in which capital investments must be self-funded, primarily through tolls, fares, and airport landing fee revenue and the issuance of debt, and its financial performance must be adequate to meet bond covenants and attract additional investors, as needed. Today, the need for additional capital investments and the risk of revenue shortfalls threaten this self-sustaining model.

The Port Authority's financial performance is under significant pressure as traditional sources of revenues contract. For instance, and as illustrated in Figure 6, Tunnel, Bridge and Terminal (“TBT”) traffic—a key source of income under the Port Authority's pooled revenue model—has been shrinking over the last five years. And, thus far, actual TBT traffic through the first half of 2014 has not achieved projected growth. These revenue shortfalls may be attributed to several factors, including increases in tolls, transportation efficiencies or alternatives and, possibly, secular changes in commutation trends prompted by economic, environmental and lifestyle considerations.

Figure 6. Recent Trend in Tunnel, Bridge and Toll Revenue Vehicles<sup>43</sup>



In addition, other elements of the Port Authority's portfolio face decreasing revenue trends. For example:

- Passenger Facility Charges ("PFCs")—PFCs are per-passenger fees collected by the airlines as part of each ticket sold and remitted to the Port Authority. The PFC rate is authorized and approved by the Federal Aviation Administration ("FAA") and is currently capped at \$4.50 per enplaned passenger. The Port Authority received \$224 million in PFCs in 2013.<sup>44</sup> The \$4.50 federal PFC cap was set in 2000, and, given the diminished purchasing power after fourteen years, airports and aviation advocacy groups have called for an increase in the cap to \$8.50 with indexing for construction cost inflation to be included in the next FAA authorization bill expected in 2015.

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<sup>43</sup> The Port Authority of New York and New Jersey. *Financial Statements and Appended Notes for the Year ended December 31, 2013*. New York: 6 Mar. 2014. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. Schedule G. <<http://www.panynj.gov/corporate-information/pdf/financial-statement-2013.pdf>>.

<sup>44</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013*. Schedule E.

- Cargo Facility Charges (“CFCs”)—In 2011, the Port Authority instituted CFCs to recover the cost of infrastructure investments in improving port facilities, including the ExpressRail infrastructure, roadway projects, and post-9/11 expenses.<sup>45</sup> Although CFCs generated \$7 million in 2011 and 2012, it may be discontinued by bi-state legislation in the years to come.
  - Air and Cargo Service Capacity and Efficiency—Since 2009, the NY-NJ metropolitan area airports have operated under FAA rules limiting the number of takeoff and landing “slots” available to air carriers.<sup>46</sup> The rules impose limits on the number of landings and takeoffs allowed during each hour of operation, and thereby constrain growth in airport traffic (and airport-associated revenues).
2. **Bi-State Governance Structure**—Since the mid-1970s, New York’s Governor has selected the Authority’s chief executive, the Executive Director (“ED”), while New Jersey’s Governor has recommended the Chair to be elected by the Board of Commissioners. In 1995, it was further agreed that New Jersey’s Governor would select a “Deputy” Executive Director (“DED”) to share managerial responsibility with the New York-appointed Executive Director. Although the Executive Director has ultimate executive authority within the Port Authority as a titular matter, under this structure the Deputy Executive Director has an independent reporting relationship to the Board and occupies the same “box” in the organization chart of the Port Authority. While this structure may seem unconventional, it was adopted to ensure that the Port Authority remained appropriately responsive to the policy interests of its two sponsoring states. Requiring the Executive Director and Deputy Executive Director to balance their operational duties with “representational” responsibilities to the state from which they are appointed has, however, come at an unintended cost in organizational accountability and efficiency.

The Port Authority’s bi-state governance structure may hinder effective operation in other ways with understandable tensions between the individual interests of the states sometimes impeding a regional focus. While the current ED and DED have taken important steps to manage this issue, institutional changes are required to ensure that regional interests predominate in the Port Authority’s operations over the long run.

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<sup>45</sup> The Port Authority of New York and New Jersey. Committee on Operations. *Establishment of Cargo Facility Charge – Elimination of Intermodal Container Lift Fee and Sea Link Container Terminal Subscription Fee – Amendment of Agreements*. The Port Authority of New York and New Jersey, 7 Dec. 2010. Web. 12 Dec. 2014. <[http://www.panynj.gov/corporate-information/pdf/11\\_operations\\_port\\_of\\_ny\\_nj\\_12\\_7\\_10.pdf](http://www.panynj.gov/corporate-information/pdf/11_operations_port_of_ny_nj_12_7_10.pdf)>.

<sup>46</sup> Federal Aviation Administration. *Congestion Management Rule for John F. Kennedy International Airport and Newark Liberty International Airport*. Federal Register, 9 Oct. 2009. Web. 12 Dec. 2014. <<https://www.federalregister.gov/articles/2009/10/09/E9-24232/congestion-management-rule-for-la Guardia-airport>>.

Since its earliest days, the Port Authority has been heralded for the prowess and vision of its commissioners, executives and staff. As it conducts its operations and, at the same time, manages an enormous “change agenda” to meet tomorrow’s transportation requirements, stronger governance structures are necessary to ensure the sound management of an organization as large and complex as the Port Authority and to drive accountability across the Port Authority.

3. **Scope and Complexity of Operations**—No other bi-state authority has a portfolio of comparably diverse facilities, and no other authority provides the infrastructure to transport the volume of passengers and cargo handled by Port Authority assets. Operations of this scope and complexity require diverse, specialized expertise and an army of professional disciplines.

### 2.3. Governors’ Charge and Objectives

In light of these and other challenges, the Governors of the States of New York and New Jersey, on May 6, 2014, formed the bi-state Special Panel and charged it with reviewing and evaluating current and potential reforms of the Port Authority’s mission, structure, management, operations, and overall governance for the betterment of the region.<sup>47</sup> The Special Panel was tasked with producing a written status report within 60 days of its formation; that status report, which was presented in the form of a letter addressed to the Governors of both States, outlined the Panel’s principal objectives.

“The ultimate goal of any Port Authority reform agenda is to optimize the quality of the Port Authority’s services and facilities for the benefit of the region. That region has seen dramatic changes over the past hundred years. As such, the mission and operations of the Port Authority must be assessed in light of our region’s needs today and in the future so that the Port Authority can more effectively serve the public as it approaches its centennial. Accordingly, in carrying out our charge, we are particularly focused on those aspects of the Port Authority’s mission, structure, management, operations, and overall governance that affect the quality and cost of the services it provides for the constituents of the bi-state region in this modern era.”<sup>48</sup>

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<sup>47</sup> The Special Panel includes two Commissioners from New York, two from New Jersey, and one representative from each Governor’s office.

<sup>48</sup> Special Panel on the Future of the Port Authority. *Letter to the Hon. Chris Christie and the Hon. Andrew M. Cuomo*. New York: New York State, 3 July 2014. Web. 12 Dec. 2014. 2. <[http://www.governor.ny.gov/sites/governor.ny.gov/files/archive/governor\\_files/documents/special\\_panel\\_letter\\_to\\_governor\\_7\\_3\\_14.pdf](http://www.governor.ny.gov/sites/governor.ny.gov/files/archive/governor_files/documents/special_panel_letter_to_governor_7_3_14.pdf)>.

In addition, the status report outlined recent efforts to reform elements of the Port Authority's operating model undertaken since 2011, as well as identifying two specific areas where additional reform was necessary: (1) governance and operations; and (2) core mission.<sup>49</sup>

As a result, the Special Panel's work over the last six months has focused on these two areas. More specifically, the Panel evaluated the Port Authority's governance structure and operational reforms necessary to support the needs of the bi-state region in the 21<sup>st</sup> century as well as the Port Authority's primary assets (and each asset's overall value to the Port Authority). This report outlines the Panel's observations and findings, with a particular focus on these two areas.

The Special Panel notes that enactment of these recommendations, if approved by the Governors, will constitute a fundamental revision of the Port Authority's structure and practices. The Panel therefore recommends that the Governors ask each sitting Commissioner, including those who are members of the Special Panel, to tender his or her offer of resignation following the Governors' acceptance of this report. This will allow each Governor to obtain assurance from his appointees to the Board that they can and wish to support and faithfully execute the initiatives recommended by the Special Panel.

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<sup>49</sup> *Ibid.*

### 3. Governance and Accountability

In appointing the Special Panel, the Governors noted the need for a comprehensive review of the Port Authority's governance practices. In its initial status report of July 3, 2014, the Panel identified four specific governance areas to be assessed: leadership structure, ethics and transparency policies, the Authority's By-Laws and the make-up of its Board of Commissioners. With assistance from corporate governance experts at Promontory, the Panel has analyzed each of these areas as described below.<sup>50</sup>

- **Leadership Structure**—The Panel assessed the Port Authority's leadership structure from two vantage points. First, the Panel considered whether the current structure was optimally designed to promote efficiency and accountability in the Authority's operations. Second, the Panel addressed structural alternatives that would promote a bi-state, regional orientation in the management of the Authority and be conducive to a culture of ethics and transparency. The Panel considered both lessons from the Port Authority's own experience, as well as best practices from other public and private organizations.
- **Ethics and Transparency Policies**—The Port Authority maintains numerous policies on ethics, conflicts of interests, public-record access and financial disclosures, in addition to other standards governing the Authority's officers and commissioners. Each of these policies was evaluated for consistency with New Jersey and New York legal and regulatory provisions, and compared to similar policies at peer institutions, to determine if improvements were needed.
- **By-Laws**—The Panel considered whether the Authority's By-Laws, last amended in 2012, provide an optimal framework for the governance of the Port Authority consistent with its bi-state mission. In the Ethics and Transparency Policies review, the Panel reviewed the by-laws of peer organizations in order to identify best practices against which the Port Authority's By-Laws could be assessed.
- **Board of Commissioners**—The Board of Commissioners consists of twelve commissioners, six from each state, appointed by the Governor with the advice and consent of the State Senate for six-year overlapping terms. By tradition, the Chair is elected by the Board based on the recommendation of the Governor of New Jersey and the Vice Chair is elected based on the recommendation of the Governor of New York. The Panel evaluated whether there should be any changes to the current structure of the Board of Commissioners and its Committees in terms of selection criteria, length of service, or election of leaders to reflect best governance practices. This analysis built upon a prior study of the Port Authority's Board practices conducted by an independent consultant in 2011-2012, as discussed below.

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<sup>50</sup> At the Panel's request, Promontory conducted broad-based Governance and Ethics and Transparency reviews to evaluate the Port Authority's specific approaches in these areas against recognized "best practices" in similar organizations. The results of these comprehensive reviews will be made available to the Port Authority's Board and staff to inform their review and updating of the policies and practices addressed.

### 3.1. Summary of Port Authority Governance Reforms Enacted To Date

As noted above, the Port Authority began a process of self-reform in 2011 at the Governors' direction. Since that time, the Authority has enacted a number of governance improvements and transparency reforms.

#### **Navigant and Rothschild Studies**

In late 2011, the Port Authority engaged two independent consulting firms—Navigant and Rothschild Inc.—to conduct a comprehensive review of the Port Authority's mission, structure, management, operations and financing strategy. The review concluded in 2012 and made specific recommendations to the Authority. The Port Authority has implemented the following reforms as a result of those recommendations:

- In February 2014, the Board of Commissioners adopted a 10-year, \$27.6 billion Capital Plan, which for the first time employed a comprehensive, analytical scoring process to evaluate “State of Good Repair” (“SGR”) projects:
  - The Port Authority has installed sophisticated financial controls to continually re-evaluate the Capital Plan and to update financial (i.e., bonding) capacity on a quarterly basis, which allows the Board and the Authority to accommodate shifting priorities, emerging needs, and changing financial capacity; and
  - The Capital Plan also includes a “gates process” that requires every project to undergo a thorough examination related to design, scope, costs, and risk analysis before the Port Authority enters into a contract.
- As noted elsewhere in this report, the Port Authority has developed processes to identify “non-core” assets and has made significant progress in divesting those assets, producing proceeds of more than \$1.5 billion.
- The Port Authority has defined a set of “key operating principles” to define and guide the conduct of the Authority in the execution of its responsibilities.
- In addition, the Authority:
  - Posted online the compensation of all employees of the Port Authority and committed to providing quarterly updates;
  - Hired the first new independent auditor for the Authority in 31 years;
  - Strengthened the Port Authority's internal Enterprise Risk Management systems, to allow the Board to better anticipate and mitigate potential problems;
  - Established an Insurance Working Group to examine the Port Authority's insurance practices and costs, and has purchased Directors and Officers Liability Insurance;
  - Developed new processes for approving Operating and Capital Budgets; and

- Applied its ethics policies to vendors and provided ethics training to its significant vendors.
- The Port Authority has also made significant improvements to its security organization, including the consolidation and centralization of the Authority's security functions under a new Office of the Chief Security Officer.

### **By-Laws**

Since 2007, the Board and several of its committees and panels have made numerous enhancements to the By-Laws of the Port Authority to improve accountability and transparency of the Authority's activities. The By-Law revisions have reconfirmed the Authority's commitment to financial discipline, codified certain practices already in place, and enhanced governance of the Port Authority's activities. The enhancements have included:

- Requirements for annual independent audits;
- The expression of Board members' fiduciary duties of care and loyalty to the Authority;
- Requirements to establish Committees of the Board;
- Procedural requirements for certain public hearings, including a requirement that all Commissioners attend toll hearings; and
- Ethics training for Commissioners.

### **Board and Committee Reforms**

In September 2012, each Port Authority Board Committee created and adopted a formal charter defining its roles and responsibilities. Each charter provides guidelines that the Committee must follow in connection with the satisfaction of its responsibilities under the By-Laws and outlines its functions, authority, meetings, reports, powers, and responsibilities. Committees are now required to review and assess their charters regularly to ensure that the work of the committees aligns with the priorities and needs of the Authority.<sup>51</sup> Additionally, in response to the 2013 George Washington Bridge lane realignment, the Board created a "Special Oversight Committee" in February 2014 to focus on the need for additional governance and operational reforms. Based on the recommendations of the Special Oversight Committee, the Port Authority instituted the following reforms regarding the transparency of the Board of Commissioners and the Port Authority:

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<sup>51</sup> The Committee charters are posted on the Port Authority's website. The Port Authority of New York and New Jersey, "Board Committee Charters." The Port Authority of New York and New Jersey, n.d. Web. 12 Dec. 2014. <<http://www.panynj.gov/corporate-information/board-committee-charters.html>>.

- Replaced the “consent calendar” method of voting with individual roll call votes in public session;
- Modified the Commissioner recusal process to inform the public of any recusals prior to Board action;
- Solicited public testimony and recommendations for reform from a panel of independent experts and observers of the Port Authority (discussed above); and
- Established an email address, *reform@PANYNJ.gov*, where members of the public can submit suggestions on further reforms.

The Board has also recently made a number of adjustments to its meeting practices, designed to make the Board’s deliberations more accessible and transparent:

- The Board schedule and committee schedules have been rearranged so that public Committee meetings are continuous with the public session, therefore providing a clearer view to the public of how the Board arrives at its decisions;
- The “public comment” period at Board meetings now precedes Board action on pending agenda items; and
- Non-public “executive sessions” of the Board and its Committees are strictly limited to recognized exceptions to public meeting requirements maintained by New Jersey and New York.

### **Freedom of Information**

In October 2014, the Port Authority’s Board enacted a new Freedom of Information (“FOI”) policy, providing for disclosure of Port Authority records to the same extent records would be available from a State authority in either New York or New Jersey under those State’s freedom of information and privacy laws. It also created a two-tiered appeals process that will be available to any person who is denied access to a record of the Port Authority, first to an internal FOI Review Board appointed by the Chair of the Port Authority and, if necessary, to arbitration before a neutral third-party alternative dispute resolution provider. This policy will become effective January 1, 2015, consistent with applicable law.

### **Ethics Policies**

In July 2012, the Port Authority retained an independent consultant to conduct a review of its ethics policies and financial disclosure filing process and forms. The review included a benchmarking exercise in which Port Authority policies were compared to the policies of other comparable public and peer entities. On September 2014, the Special Panel, assisted by Promontory, built on the research and findings presented in the 2012 report to conduct its own benchmarking exercise. In conducting this review, the Panel identified several peer authorities and state ethics codes to compare with the Port Authority’s employee and commissioner ethics policies.

As part of its review, the Panel observed that the Code of Ethics applicable to Port Authority staff and Commissioners is comprised of over 70 separate “Administrative Instructions,” which are incorporated by reference and were last summarized in one comprehensive document in November 2000. As a result, the Board of Commissioners directed staff to prepare an updated, unified Code of Conduct to be reviewed by the Board and promulgated in early 2015. This revised Code of Conduct will integrate the current ethics provisions, rules and regulations, and administrative instructions pertaining to ethical conduct that apply to Commissioners, staff, vendors and consultants, and incorporate clarifications and other improvements recommended by Promontory based on its research and expertise.

The reforms described above indicate that, since the Governors’ first call for Port Authority reform in 2011, the Authority has engaged in a continuing process of self-examination. This process gained momentum in 2014 in response to the same concerns that led the Governors to establish the Special Panel, and it continues today. The Panel notes both the progress made in this area by the Port Authority Board of Commissioners and the Board’s commitment to institutionalize the ethics and transparency reforms it has undertaken as a permanent feature of the Port Authority’s culture.

### 3.2. Governance Recommendation #1: Reorganize Leadership

Based on its analysis of the Port Authority’s mission, history and future needs, the Special Panel submits the following governance-related recommendations for the Governors’ consideration. This report also notes ancillary suggestions made by Promontory, which the Board will consider as part of its ongoing process of self-reform.

**Governance  
Recommendation #1:**

*Reorganize the leadership of the Board of Commissioners and the executive management of the Port Authority, to increase accountability and foster regional focus in its day-to-day operations.*

- a) **Create a single Chief Executive Officer (“CEO”) position to replace the office of the Executive Director and Deputy Executive Director;** the CEO will be hired based on a national search and will be directed by and accountable to the Board of Commissioners.
- b) **Replace the current Chair and Vice Chair with two Co-Chairs,** one recommended to the Board by the Governor of each state, **or rotating Chairs.**
- c) **Establish an “Office of the Chair,”** comprised of the Co-Chairs, or the Chair and the Vice Chair, and the CEO, to function as a senior operating committee of the Port Authority.
- d) **Increase Board and Board Committee focus** on Port Authority and Department strategy, capital planning, risk mitigation and significant long-range projects.

Since the mid-1970s, an understanding has existed between the States of New Jersey and New York respecting the process for appointments to senior leadership positions at the Port Authority. Specifically, the states have agreed that New York’s Governor would recommend the Authority’s chief executive, the Executive Director, while New Jersey’s Governor would recommend the Chair to be elected by the Board of Commissioners. In 1995, it was further agreed that New Jersey’s Governor would select a “Deputy” Executive Director to share managerial responsibility with the New York-appointed Executive Director, and New York’s Governor would recommend the Vice Chair to be elected by the Board of Commissioners.<sup>52</sup> Although the Executive Director has ultimate executive authority within the Port Authority as a titular matter under this structure, the Deputy Executive Director has an independent reporting relationship to the Board and occupies the same “box” in the organization chart of the Port Authority.<sup>53</sup>

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<sup>52</sup> The Port Authority of New York and New Jersey. Special Oversight Committee of the Board of Commissioners. “Jameson Doig.” *Hearing on Port Authority Reform*. New York: April 21, 2014. 5, 10. Print.

<sup>53</sup> *2013 Annual Report*. 8.

## A. CREATE A SINGLE CHIEF EXECUTIVE OFFICER

There has been a rare level of unanimity among expert commentators that the ED/DED structure—although intended to balance the interests of the two States—has resulted in organizational confusion and diminished accountability within the Authority. On April 21, 2014, the Special Oversight Committee of the Board—created in the wake of the George Washington Bridge lane realignment—convened a panel of experts drawn from academia and regional good-government groups to discuss the Port Authority’s governance and mission.<sup>54</sup> Although they expressed a variety of views on the appropriate mission for the Authority, the panelists were unanimous on one point, as expressed by Carol Kellerman of the Citizens’ Budget Commission: “I take it as a given, and I think probably all of us do, that the Executive Director should be appointed by the Board, and should be responsible for all the other appointments.”<sup>55</sup> This consensus reflects the view that the Chief Executive Officer of the Port Authority should be selected by the Board primarily on the basis of relevant professional experience, as opposed to political or other considerations.<sup>56</sup>

The Special Panel’s own consultant, Promontory, has similarly advised that a single chain of command to a Chief Executive Officer, appointed by and accountable to the Board of Commissioners, is clearly a best practice.

Although replacing the Port Authority’s current bifurcated leadership structure with a single, Board-appointed Chief Executive Officer may seem uncontroversial from a corporate governance perspective, the existing structure was adopted for a reason: to ensure that the Authority remained appropriately responsive to the policy interests of its two sponsoring States. Requiring the Executive Director and Deputy Executive Director to balance their operational duties with a “representational” responsibility to those states has, however, come at an unintended cost in organizational accountability and efficiency.

The Panel suggests that the “representational” function of ensuring coordination on policy with the Authority’s sponsoring States be returned to its traditional locus: the Board of Commissioners and, specifically, its elected leaders. These Board members will be well-positioned to ensure that the policy interests of each state are appropriately addressed in the Authority’s adoption of its long-term strategies, leaving the Authority’s CEO to implement those strategies through a clear and accountable chain of command.

The expert testimony before the Special Oversight Committee in April 2014 confirms that this idea

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<sup>54</sup> The members of this panel were: Jameson Doig, Professor Emeritus at Princeton University and author of the definitive academic history of the Port Authority, *Empire on the Hudson* (2001); Robert Yaro, President of the Regional Plan Association (RPA); Carol Kellerman, President of the Citizens’ Budget Commission (“CBC”); Martin Robins, Director of the Voorhees Transportation Center at Rutgers University; and Mitchell Moss, Professor of Urban Policy & Planning at New York University.

<sup>55</sup> Hearing on Port Authority Reform, Jameson Doig. 15.

<sup>56</sup> Hearing on Port Authority Reform, Jameson Doig. 10.

continues to resonate powerfully in the regional transportation community.<sup>57</sup> Certainly, a return to this principle would promote the restoration of public confidence in the Port Authority following a period of perceived regional factionalism in its operations.

## **B. REPLACE THE CHAIR AND VICE CHAIR WITH CO-CHAIRS OR ROTATING CHAIRS**

As noted above, the current practice (whereby the Chair of the Board of Commissioners is elected by the Board based on the recommendation of the Governor of New Jersey) was explicitly intended to offset the prerogative first accorded to the Governor of New York in the 1970s to appoint the Authority's Executive Director. In light of the Panel's recommendation to replace the Executive Director and Deputy Executive Director positions with a single CEO, this offsetting prerogative would no longer be necessary. To ensure ongoing equity and collaboration between the two States, the Panel therefore recommends that the position of Chair be altered in one of two ways. Either the Chair and the Vice Chair positions should be replaced with two Co-Chairs, one recommended by each Governor, for election by the Board of Commissioners, or the chairmanship should be rotated between the two states on an annual basis. Either approach would promote a long-term balance between the policy interests of the respective states, and present a more equitable model to the public stakeholders of the Authority.

The Special Panel further recommends that the Port Authority By-Laws, and the makeup of the Board's committees, be amended as necessary to reflect the updated structure, once determined by the Governors.

## **C. ESTABLISH AN OFFICE OF THE CHAIR**

To ensure consistency and communication between the Co-Chairs, or the Chair and Vice Chair, who will oversee policy coordination with the States, and the Chief Executive Officer who will oversee the Authority's day-to-day implementation of those policies, the Special Panel recommends the creation of a new "Office of the Chair" at the Port Authority, consisting of the two Co-Chairs, or the Chair and the Vice Chair if the Chairs are rotating, and the CEO. The Office of the Chair will constitute the senior operating committee of the Authority. This institutional collaboration of the senior policy-setting and operational leaders of the organization would ensure appropriate deliberation (and gubernatorial input) on matters of public policy while freeing the CEO to establish an efficient and accountable internal organization focused on achieving operational goals. The Special Panel would further suggest that the appropriate working relationship among the Co-Chairs, or the Chair and the Vice Chair if the Chairs are rotating, and the CEO be memorialized in a written set of "operating principles."

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<sup>57</sup> "[T]he Port Authority has been protected by an unspoken political compact of mutual gubernatorial restraint [t]his gubernatorial restraint has created a nurturing equilibrium for the authority" (Hearing on Port Authority Reform, Martin Robins. 9).

**D. INCREASE BOARD AND BOARD COMMITTEE FOCUS ON STRATEGY, PLANNING, RISK AND PROJECTS**

In order to increase Board and Board Committee focus on Port Authority and Department strategy, capital planning, risk mitigation and significant long-range projects, as mentioned above, the Panel suggests that the Committee on Capital Planning, Execution and Asset Management and the Operations Committee be merged and led by the Co-Chairs, or by the Vice Chair if the Chairs are rotating. (Currently, the Chair chairs the Operations Committee and the Vice Chair chairs the Committee on Capital Planning, Execution and Asset Management.) The Panel also suggests that the Audit Committee be renamed the Audit and Risk Management Committee and that its mandate be amended to specifically include risk mitigation. Finally, the Special Panel recommends reassigning the duties of the Nominating Committee to the Governance and Ethics Committee, consistent with the practice at many large organizations. The Panel also notes that the Special Oversight Committee will expire in 2015, resulting in the following overall committee structure:

*Figure 7. Board Committee Organizational Structure*



Promontory also suggested that the Board Chair(s) and Committee Chairs develop 12-month calendars to ensure that significant strategy, capital planning, risk mitigation and long-range project issues are addressed at appropriate intervals. The following is an example of a 12-month calendar for the Board:

*Figure 8. Sample 12-month Agenda*

Topic	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
<b>Mission, Strategy, 10-year Capital Plan Sources and Uses of Funds, Significant Long-Range Projects, Annual Operating Budget, Major Risks and Delegation of Authority</b>												
<b>Port Authority of New York and New Jersey</b>		X										
Aviation		X					X					
Bridges, Tunnels, and Terminals			X						X			
Port Commerce			X							X		
PATH				X							X	
World Trade Center					X						X	
Other						X						X
<b>Central Services</b>												
HR	<b>N</b>	X						<b>N</b>		X		
Engineering							X					X
Capital Planning	<b>O</b>							<b>O</b>			X	
Security		X							X			
Procurement and Project Management						X						X
Public and Governance Affairs			X									
Inspector General					X							
Legal				X								
<b>Risk Areas</b>												
Security	<b>M</b>	X						<b>M</b>				
Talent Management			X									
Procurement and Project Management	<b>E</b>		X					<b>E</b>				
Competition and Customer Service				X								
MIS	<b>E</b>				X			<b>E</b>				
Source of Funds						X						
Asset Management and State of Good Repair							X					
Ethics and Compliance	<b>T</b>							<b>T</b>	X			
Business Continuity									X			
Procurement Process and Results										X		
Project Management Process and Results	<b>I</b>							<b>I</b>			X	
Risk Management Framework												X
<b>Other Areas</b>												
Financial Results	<b>N</b>	X		X			X	<b>N</b>		X		
Corporate Values: Assessment, Communication, Training, Results, and Reaffirmation	<b>G</b>	X			X			<b>G</b>	X		X	
Board and Committee Assessment				X								
CEO and management assessment	<b>S</b>		X					<b>S</b>			X	
Actual Board Meetings for Three Subsidiaries			X				X			X		
Internal Audit Plan												X
Results of Internal Audits, Compliance Testing and Monitoring, and IG Investigations						X						X
<b>Regular Agenda Items</b>												
Action Items from Previous Meeting		X	X	X	X	X	X		X	X	X	X
CEO and Committee Reports		X	X	X	X	X	X		X	X	X	X
Forward Calendar Review		X	X	X	X	X	X		X	X	X	X

### 3.3. Governance Recommendation #2: Promote Culture of Transparency and Ethical Conduct

The Panel has developed recommendations based on a review of the Port Authority's transparency and ethics policies for employees and commissioners:

**Governance Recommendation #2:** *Continue reforms to promote a culture of transparency and ethical conduct at the Port Authority.*

- a) **Continue ongoing initiatives to increase transparency** of the Port Authority's deliberations and operations.
  - *FOI Reform*—Implement the previously announced January 1, 2015 adoption of broader New York or New Jersey disclosure provisions or standards similar to those contained in recently passed legislation.
  - *Open Meetings*—Continue the recent practice of strictly limiting the use of executive sessions for Board deliberations; use public meetings whenever possible.
- b) **Issue a new Port Authority Code of Conduct**, as previously directed by the Board of Commissioners, to drive a renewed focus on ethics and compliance throughout the Authority.
- c) **Create a Chief Ethics and Compliance Officer position.**

#### A. INCREASE TRANSPARENCY THROUGH ONGOING INITIATIVES

**FOI Reform**—As noted above, the Port Authority will implement a new FOI policy, effective January 1, 2015, that provides for disclosure of any Authority record that would be available under the FOI laws applicable to state authorities in New Jersey or New York. The new policy also creates a two-tiered appeals process that will be available to any person who is denied access to a record of the Port Authority, where the first tier consists of the consideration of the matter by a three-person, internal Freedom of Information Review Board appointed by the Authority's Chair(s), and the second tier, if necessary, provides for binding arbitration of the dispute by a neutral, third-party alternative dispute resolution provider.

**Open Meetings**—The Panel also suggests that the Board update its Open Meeting policies. The Authority should formalize its commitment to transparency as follows:

- Adopt a single Open Meeting Policy combining existing provisions that are split between the Authority's By-Laws and a policy entitled "Open Meetings: Rules and Regulations." Together they form a strong open meeting policy, but separately they are not completely parallel, creating gaps and inconsistencies; and

- Adopt a practice for Board and Committee executive sessions where agendas indicate applicable exemptions that allow discussions to take place outside of public meetings.

## **B. ISSUE A NEW CODE OF CONDUCT TO RENEW FOCUS ON ETHICS AND COMPLIANCE**

Today, Port Authority ethics policies are not currently located in a single, easily searchable location. Employees reference the Administrative Instruction 20-1.15, *Code of Ethics and Financial Disclosure* (“Code of Ethics”), but the instruction does not include all Port Authority ethics policies. Other ethics policies are scattered among *The Guide to Port Authority Ethical Standards, Rules and Regulations of the Port Authority of New York and New Jersey*, as well as over 70 separate Administrative Instructions incorporated by reference to these documents. Although not updated since 2000, the single volume *Guide to Port Authority Ethical Standards*, the Authority’s ethics policy guidebook for employees, serves as a good example of how policies can be aggregated into a single, comprehensible document.

Commissioners receive a large binder containing a summary of general ethical considerations and applicable statutes from the Commissioner’s state. The package is thorough, but too voluminous and fragmented to provide a user-friendly reference for the Commissioners.

The Panel notes that the Board of Commissioners has already directed Authority staff to prepare a single unified Code of Conduct for employees and Commissioners that will integrate and update the current codes of ethics, rules and regulations, and administrative instructions pertaining to ethical conduct and pertaining to Commissioners, staff, vendors, and consultants. The updated Code of Conduct will be reviewed by the Board at its February 2015 meeting.

## **C. CREATE A CHIEF ETHICS AND COMPLIANCE OFFICER POSITION**

The Port Authority should appoint a Chief Ethics and Compliance Officer, consistent with emerging best practices in corporate governance.

The Chief Ethics and Compliance Officer should report to the new Office of the Chair, and have an appropriate budget and staff support. A detailed position description should be developed to define the role and clarify its relationship to existing functions such as the Law Department and Office of Inspector General (see Figure 9 for potential elements to be addressed in the position description).

*Figure 9. Example of Chief Ethics and Compliance Officer Authority, Duties, and Responsibilities*

Authority and Accountability	Duties and Responsibilities	Resources
<ul style="list-style-type: none"> <li>• <b>Direct access</b> to both the Board (through the Chairman of the Committee on Ethics and Governance) and the CEO</li> <li>• Act as <b>member of Senior Management</b></li> <li>• Approach members of the Board and Senior Managers <b>without fear of reprisal</b></li> <li>• The CECO cannot be hired or dismissed without the review and <b>approval of the Board</b></li> <li>• <b>Performance goals</b> set by CEO and reviewed by the Committee on Ethics and Governance</li> </ul>	<ul style="list-style-type: none"> <li>• Establish and maintain <b>organizational objectives</b> for ethics and compliance</li> <li>• Create, revise and <b>communicate</b> Authority ethics and compliance policies and processes</li> <li>• Conduct <b>ethics and compliance Board training</b> for Board, employees, vendors and consultants</li> <li>• <b>Assess ethics and compliance risks</b> and strength of controls</li> <li>• <b>Monitor and test controls</b> to manage ethics and compliance risks</li> <li>• Ensure <b>misconduct is investigated</b></li> <li>• Provide <b>support</b> for <b>enforcement</b> of organizational standards</li> <li>• <b>Provide reports</b> on program results and effectiveness to Senior Management and Board’s Committee on Ethics and Governance</li> <li>• <b>Encourage corporate values</b> and implement initiatives to foster an ethical culture</li> </ul>	<p>Should have staff and resources and to:</p> <ul style="list-style-type: none"> <li>• <b>Promote</b> corporate values</li> <li>• <b>Educate</b> the Board, employees, vendors and consultants</li> <li>• <b>Assess</b> ethical and compliance risks and the strength of controls</li> <li>• <b>Monitor and test</b> compliance</li> <li>• <b>Receive and respond to</b> incidents that are potential violations of corporate standards in a timely manner</li> <li>• <b>Execute</b> the CECO’s other duties and responsibilities</li> </ul>

**D. PENDING PORT AUTHORITY REFORM LEGISLATION**

The Special Panel instructed Promontory to analyze pending Port Authority reform legislation to determine which provisions of that legislation are addressed by existing Port Authority policies and practices or will be addressed through the recommendations outlined by the Special Panel.

This analysis found that, as compared to the reform legislation, the recommendations of the Special Panel contemplated far broader changes at the Port Authority, including reforms that, if adopted, will adjust the role played by the Authority in the region, the Authority’s mission for the future and its capital and operational plans. Transfers of significant assets, fundamental management reforms and compliance and transparency improvements are also contemplated. Moreover, many of the Port Authority’s existing policies, including the new Code of Ethics initiated by the Board of Commissioners--together with additional reforms recommended by the Special Panel--either meet or go beyond the proposed legislation. Such provisions include the requirement that Commissioners take oaths of office, a whistleblower policy that is managed by the Port Authority’s Office of the Inspector General, and a robust Open Meetings policy. As such, the Special Panel’s recommendations represent an opportunity for the organization to take additional steps in becoming a national model of transparency and accountability. With the creation of a new Chief Ethics and Compliance Officer, the Port Authority should continue to refine these policies and practices. The Panel therefore recommends that the Authority’s Board of Commissioners direct the Chief Ethics and Compliance Officer to submit an annual report to the Board that fully outlines the governance and transparency provisions that have resulted

from this ongoing process, and further recommends that the Special Panel, the Authority's Board of Commissioners, and the legislatures of both states work together to consider further legislative reform, with these reform initiatives as a backdrop.

## 4. Mission and Stewardship of Assets

### 4.1. Overview

The Special Panel recommends that the Port Authority adopt the following updated Mission Statement:

***“Meet the critical transportation infrastructure needs of the bi-state region’s people, businesses, and visitors by providing the highest quality and most efficient transportation and port commerce facilities and services to move people and goods within the region, provide access to the nation and the world and promote the region’s economic development.”***

In accordance with its mandate to review and evaluate the Port Authority’s mission, structure, management and operations, the Special Panel sought to determine how to update the bi-state Authority’s mission to best serve the needs of the Port District in the 21<sup>st</sup> century. The Panel included the following four major activities in this study:

- An **analysis of the evolution of the Port Authority’s mission** from its inception in 1921 to the present day, with a focus on the Authority’s primary responsibility to foster the region’s economic development through the efficient movement of people and goods;
- A structured **review and evaluation of each major asset**<sup>58</sup> to assess its role within the Port Authority’s mission, the asset’s alignment with operational and financial performance objectives, and the value derived from the bi-state element of the asset;
- A **“deep dive” exploration** of novel approaches to the management of selected assets designed to maximize the financial and operational soundness of the Port Authority without affecting adversely the Authority’s existing obligations; and
- An examination of the **Port Authority’s financial position**—its current situation and future outlook—to understand any financial constraints on the Port Authority’s operating and capital programs and identify any opportunities for innovative and stronger asset and liability management going forward.

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<sup>58</sup> Development assets have been subject to a separate, more limited review, as discussed elsewhere in this report.

## 4.2. Approach and Methodology

### A. THE MISSION OF THE PORT AUTHORITY

The Panel began by identifying the mission reflected in the original 1921 Compact, followed by a historical analysis of the Port Authority's mission from 1921 to the present day. Through the review of annual reports and over 50 source documents, the Panel created a genealogy detailing how the Authority's mission evolved over almost 95 years—from one that initially focused more narrowly on fostering economic growth through the transportation of people and goods to one more broadly focused on transportation and the region's overall economic competitiveness. The Panel also reviewed bi-state legislation enacted over the course of the Port Authority's history that authorized its ownership or management of new facilities outside of the Authority's original purview and reflected changes in the interpretation of the Port Authority's mission. The findings of this analysis prompted the Panel to construct a new mission statement that refocuses the Port Authority on its original core mission of developing and overseeing regional transportation infrastructure.

### B. STEWARDSHIP OF ASSETS

The Panel reviewed and evaluated each of the Port Authority's major assets using a tool developed for this purpose. The Asset Review Metric ("ARM") evaluates each asset's alignment with the Port Authority's core mission and its financial performance objectives. The ARM employs scoring mechanisms that quantify results and facilitate comparison of assets within and across asset classes. In addition to providing a current snapshot of the Authority's holdings, the ARM will also be available to guide future decision-making by the Authority as it considers future capital investments and divestitures. The ARM tool itself will no doubt be adjusted over time to reflect improved data and analytics—what is important is that a standard measure be used to assess all assets in the Authority's portfolio in setting priorities and maintaining adherence to the Authority's mission and performance expectations.

Board and management decision-making should hew closely to the core transportation mission of the Port Authority thus creating the imperative for management information for guidance. Information that provides a consistent and objective means to measure asset alignment with mission and financial performance allows the Board and management to make appropriate decisions about asset investment, divestment, acquisition and strategy. It also provides a basis for calibrating decisions to allow assets to perform at their ultimate highest and best use for benefit of the public. However, the ARM is not meant to provide specific recommendations about individual assets. Rather, it is intended to provide a standard frame of reference that, together with other data and strategic considerations, can assist the Port Authority's Board and staff in managing its portfolio of assets. The ARM provides information

about mission and regional alignment as well as current economic performance that the Port Authority can use in conjunction with setting its strategic and financial objectives. It is important to note that each metric is calculated based on the asset's current<sup>59</sup> rather than future operating characteristics—providing even greater rationale for using the resultant ARM to highlight areas for further consideration and discussion rather than providing definitive conclusions or recommendations.

#### **i. Asset Review Metric**

The Port Authority's large, diverse portfolio of both owned and operated assets vary in purpose, size, and value. They range from some of the busiest airports in the world to smaller, non-revenue-generating real estate parcels. The ARM serves as a management tool for evaluating the mission alignment and financial performance of the Port Authority's diverse assets.

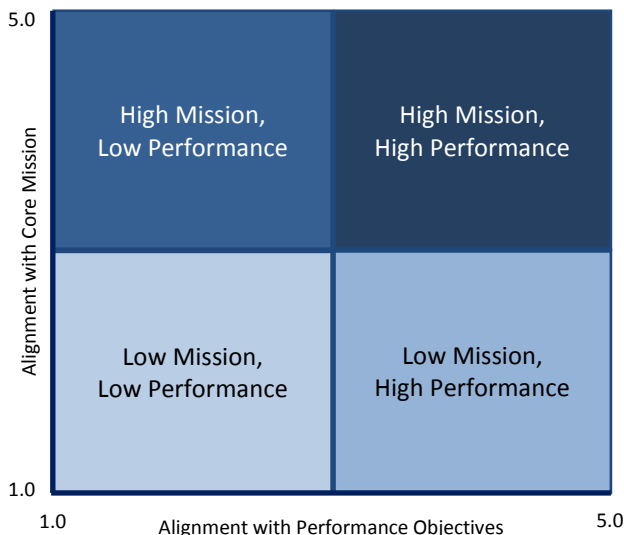
The ARM uses several criteria and metrics to measure alignment of assets with the Port Authority's mission and performance objectives. Specifically, nine criteria were evaluated for each asset to determine the asset's alignment with the Port Authority's core mission rating, and seven criteria were used to determine the asset's alignment with the Port Authority's financial performance objectives. The Panel conducted the analysis using historical asset data from 2009-2013, such as passenger and cargo volumes, asset class staffing levels, revenues, expenses, and net income. Each criterion consisted of key financial or operational data. Although the characteristics of the major assets vary widely (e.g., a major international airport vs. a transit system vs. a building at the World Trade Center site), the chosen metrics enable assets to be compared on a common basis to the extent possible. Based on these criteria, the Panel determined an asset's composite scores on a scale from one to five and plotted them on a four-quadrant matrix, as illustrated in the Figure 10.<sup>60</sup>

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<sup>59</sup> In most cases, five-year averages for the period 2009-2013 are employed to avoid data aberrations resulting from one-off events (such as Superstorm Sandy) or uneven financing obligations or capital investments.

<sup>60</sup> Because an asset's ARM rating is based on historical data, the rating does not necessarily measure the asset's potential score based on any future action that the Port Authority could take. Further, an asset's ARM rating does not necessarily indicate any immediate or definitive action that the Port Authority should take with respect to a particular asset. Finally, an asset may have low financial performance, but be firmly aligned with the Authority's core mission.

Figure 10. Asset Review Metric Quadrant Diagram



The ARM methodology accounts for differences in the primary purpose of assets: Where an asset’s primary purpose was movement of people, such as for airports, only passenger traffic was scored. Likewise, only cargo volume was scored in the ARM for the port facilities.

The Panel extracted key elements of the Port Authority’s new mission statement to determine the appropriate mission categories for the evaluation of each asset’s alignment with this mission. The two principal elements of the mission statement were determined to be:

- Quality and Efficiency
- Movement of People and Goods

The nine criteria used to evaluate each asset’s alignment with the Port Authority’s core mission are shown in Figure 11; the criteria include elements of efficiency and effectiveness to allow for a higher score for the assets that move people and goods more efficiently and effectively. For each criterion, the table identifies the data and/or metric that the Panel calculated, providing an elaborated definition of the criterion and, in some cases, an explanation of its selection for inclusion in the analysis.

*Figure 11. Alignment with Core Mission Evaluation Criteria*

	CATEGORY	CRITERION	METRIC/CALCULATION	EXPLANATION
<b>ALIGNMENT WITH MISSION</b>	<b>1. QUALITY AND EFFICIENCY</b>	<i>Passenger Movement Efficiency*</i>	Average # Passengers / Average Capital Expenditures	Passengers moved per \$ of Capital Expenditures spent. Confirms value of (return on) facility investments.
		<i>Cargo Movement Efficiency*</i>	Average # Cargo Tons / Average Capital Expenditures	Cargo moved per \$ of Capital Expenditures spent. Confirms value of (return on) facility investments.
		<i>2013 Operating Efficiency (Net Income from Operations ("NIFO") per Staff Member)</i>	2013 NIFO / Department Staff Member	Operating Income generated per staff member. Also allows indirect comparison to staffing costs.
	<b>2. MOVEMENT OF PEOPLE AND GOODS - RELATIVE</b>	<i>Movement of Passengers - Same Asset Class*</i>	Average # Passengers / Average # Passengers Moved by Asset Class	Passengers moved relative to other similar assets. Shows relative importance.
		<i>Movement of Passengers - All Port Authority Assets*</i>	Average # Passengers / Average # Passengers Moved by All Port Authority Assets	Passengers moved relative to all Port Authority assets. Shows relative importance.
		<i>Movement of Cargo - Same Asset Class*</i>	Average Cargo (Metric Tons) / Average Cargo (Metric Tons) Moved by Asset Class	Cargo moved relative to other similar assets. Shows relative importance.
		<i>Movement of Cargo - All Port Authority Assets*</i>	Average Cargo (Metric Tons) / Average Cargo (Metric Tons) Moved by All Port Authority Assets	Cargo moved relative to all Port Authority assets. Shows relative importance.
	<b>3. MOVEMENT OF PEOPLE AND GOODS - ABSOLUTE</b>	<i>Total Average Movement of Passengers</i>	Average # Passengers from 2009-2013	Total average annual passengers moved by the asset over each of the last five years. Shows absolute importance based on defined thresholds.
		<i>Total Average Movement of Cargo</i>	Average Cargo (Metric Tons) from 2009-2013	Total average cargo in metric tons moved by the asset over each of the last five years. Shows absolute importance based on defined thresholds.
	<p>* Asset characteristics vary. Consequently, the Panel scored only the metrics that it deemed most relevant to the asset's primary purpose. Where the asset's primary purpose was neither movement of people nor movement of goods, the Panel scored all metrics equally.</p>			

To analyze an asset's alignment with the Port Authority's financial performance objectives, the Panel included a number of factors, including the following:

- Strong revenues and low expenses as a percentage of revenues;
- Positive net income from operations;
- Low income volatility;
- Sustained income growth over the past five years; and
- Ability to cover capital expenditures through free cash flow.

*Figure 12. Alignment with Financial Performance Evaluation Criteria*

	CATEGORY	CRITERION	METRIC/CALCULATION	EXPLANATION
<b>ALIGNMENT WITH PERFORMANCE OBJECTIVES</b>	<b>1. FINANCIAL PERFORMANCE</b>	<i>Revenues</i>	Average Revenues vs. Average Revenues for Asset Class	Average revenue for asset relative to average revenue generated from all similar assets
		<i>Expenses</i>	Average Expenses as % of Average Revenues	Average expenses for asset as ratio to revenues from asset
		<i>NIFO Same Asset Class</i>	Average NIFO vs. Average NIFO for Asset Class	Net operating income relative to average net operating income generated for all similar assets
		<i>Net Income from Operations - All Port Authority Assets</i>	Average NIFO vs. Average NIFO for All Port Authority assets	Net operating income relative to average net operating income generated for all Port Authority assets
		<i>Growth in NIFO</i>	# Years with NIFO Growth over Last five Years	Count of number of years net operating income has grown relative to prior year; indicative of sustained gains in operating efficiency through higher revenue and/or lower costs
	<b>2. FINANCIAL STABILITY</b>	<i>Income Volatility</i>	SD of NIFO / Average NIFO	Standard deviation of asset net operating income relative to five-year average of net operating income; indicative of stability of income
		<i>Self-Funding Capability</i>	(NIFO + D&A + Grants & Contributions) / Capital Expenditures	Free Cash Flow relative to Capital Expenditures; higher ratio indicative of ability to reinvest in asset

## ii. Deep Dive Reviews

The Panel completed “deep dive” reviews of the Port Authority’s three major airports (JFK, EWR, and LGA), its port facilities, the PATH, the Port Authority Bus Terminal, and the World Trade Center.<sup>61</sup> These assets have significant impact on the Port Authority’s annual financial performance and present unique issues such as the:

- Contribution of the three major airports to the Port Authority’s pooled revenue, as permitted under a grandfather clause established by Congress in 1982;

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<sup>61</sup> The Panel undertook these intensive reviews to better assess the quality and cost of services provided for the constituents of the bi-state region, including current and future customer populations, operating performance, capital investments needed, financial value, and regulatory and legislative limitations. These factors are critical to the performance of each asset and, in turn, to the performance of the Port Authority overall.

- Unequal levels of cargo volume and financial contribution by the various New York and New Jersey port facilities making up the Port Commerce department;
- Financial underperformance of the PATH system relative to peers, despite increasing ridership; and
- Debt obligations related to the construction of the World Trade Center site and buildings.<sup>62</sup>

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<sup>62</sup> The Panel performed four levels of inquiry as part of each deep-dive review: (1) a review of the key operational and financial characteristics of the asset; (2) an exploration of the asset's future outlook, including planned capital expenditures, revenue forecasts, and potential business activity changes; (3) an exploration of possible approaches to maximizing financial and operational performance; and (4) financial valuations and modeling, to provide a quantitative framework for exploring the potential impact of various alternatives.

### 4.3. Mission Recommendation # 1: Refocus the Port Authority's Mission Statement

**Mission Recommendation #1:**

*Refocus the Port Authority's mission statement, strategic vision and capital plan to return the Port Authority to its core mission of facilitating the efficient movement of people and goods through the region.*

**A Mission Statement for the Future:**

*“Meet the critical transportation infrastructure needs of the bi-state region's people, businesses, and visitors by providing the highest quality and most efficient transportation and port commerce facilities and services to move people and goods within the region, provide access to the nation and the world and promote the region's economic development.”*

- a) **Reinstate the Port Authority's regional leadership role** by initiating a comprehensive planning effort in 2015, at the direction of the Governors, to develop a 21<sup>st</sup> century strategic vision focused on expanding and developing new regional transportation capacity:
  - **21<sup>st</sup> Century Airports**—In the spirit of Governor Cuomo's innovative 2014 New York airport design competition, introduce a similar concept to lead a public “visioning process” in 2015 to help guide the ongoing modernization of all Port Authority airports;
  - **Trans-Hudson Transportation**—Convene stakeholders in the bi-state Interstate Transportation Network, including the Port Authority, MTA, NJ Transit and Amtrak, to initiate a long-term planning process for the expansion of Trans-Hudson transit capacity, including river-crossing and terminal facilities; and
  - **Ports as the Nation's Gateway**—With the Port Authority's historic “Raise the Roadway” project at the Bayonne Bridge opening the region's ports to a new generation of “mega” container ships, lead a study involving regional and international shipping interests aimed at enhancing the competitiveness of the Port of New York vs. rival East Coast facilities.
- b) **Reassess and update the Port Authority's 10-year capital plan** to reflect more focused investment in the region's transportation needs.
- c) **Redeploy \$600 million in unallocated “regional development” funds to specific transportation projects that align with the Authority's core mission** and are part of its Capital Plan, working with the Governors to identify the most pressing transportation needs in the Port area.
- d) **Deliver a more efficient and modern organization.**
  - **Establish management processes that measure alignment with the Port Authority's core mission** by adopting standardized tools and metrics for assessing the current portfolio of assets, potential asset acquisitions and divestitures, and investment in future projects.
  - **Expand performance reporting relating to the Port Authority's mission**, providing for more transparency to the public and stronger Board oversight.

## A. HISTORY AND EVOLUTION OF THE PORT AUTHORITY'S MISSION

As noted above, the Port Authority was initially formed to facilitate closer coordination between the States of New York and New Jersey in the planning and development of the Port of New York.<sup>63</sup> While its founding documents, including the Compact, clearly set out the Port Authority's powers and scope of activities, the Authority's mission was less well defined. Without specifically defining the Authority's mission, the 1921 Compact suggests that the ultimate aim of the agreement was to facilitate "the better conduct of the commerce passing in and through the port of New York, the increase and improvement of transportation and terminal facilities therein, and the more economical and expeditious handling of such commerce."<sup>64</sup>

From 1921 to 1994, however, the Port Authority lacked a clearly defined mission statement. Annual reports from the time of the Port Authority's founding through 1978 did not contain mission statements, but did contain language about the priorities and focus of the Authority. An example of this type of language is found in the 1945 Annual Report: "One of the statutory functions and duties of the Port Authority is the promotion and development of the most efficient transport into, out of and through the Port District."<sup>65</sup>

The lack of a clearly defined mission statement enabled the Authority to retain flexibility in addressing the evolving priorities of the region as identified by the Authority in consultation with the Governors of New York and New Jersey. The Port Authority's flexibility in this respect was memorialized in the Executive Director's Letter transmitting the Authority's 1984 Annual Report: "It is central to the genius of the Port Authority that it is so constituted that each generation of leadership can rethink and reshape the Port Authority's mission."<sup>66</sup> Notably, the Executive Director's Letter accompanying the 1990 Annual Report stated that the "central mission" of the Port Authority was "to enhance the bi-state region's economic competitiveness."<sup>67</sup>

Bi-state legislation enacted throughout the Port Authority's history to authorize new activities also reflects the expansion of the Authority's mission over time. Over the last 67 years, the mission has seen a significant expansion:

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<sup>63</sup> 2012 New York Consolidated Laws PNY – Port of New York Authority 154/21.

<sup>64</sup> 2012 New York Consolidated Laws PNY – Port of New York Authority 154/21. XII.

<sup>65</sup> The Port Authority of New York and New Jersey. *1945 Annual Report*. New York: 1945. *Corporate Information – The Port Authority of NY & NJ*. Web. 22 Dec. 2014. 16. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1945.pdf?year=1945>>

<sup>66</sup> The Port Authority of New York and New Jersey. *1984 Annual Report*. New York: 1984. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 7. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1984.pdf?year=1984>>.

<sup>67</sup> The Port Authority of New York and New Jersey. *1990 Annual Report*. New York: 1990. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 11. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1984.pdf?year=1984>>.

- **1947**—Authorization to proceed with air terminal development within the Port District after declaring that the problem of furnishing proper and adequate air terminal facilities within the Port District is a regional and interstate problem and that it should be the policy of the two states to encourage the integration of air terminals so far as practicable in a unified system;
- **1962**—Authorization of the development of the World Trade Center and the purchase, rehabilitation, and operation of the Hudson Tubes (known as PATH), along with the rehabilitation of Hudson Tubes-World Trade Center areas, considered as port trade development and as promoting international world commerce;
- **1978**—Authorization of industrial development projects, including resource recovery and industrial pollution control facilities to promote, attract, encourage, and develop economically sound commerce and industry;
- **1984**—Authorization of waterfront development projects, leading to the Port Authority's involvement in Queens West and Hoboken South development; and
- **2007**—Authorization to expand the Port Authority's territory in order to incorporate Stewart International Airport.

The Port Authority's first formal mission statement appeared in the Authority's 1995 Annual Report. That mission statement, the wording of which has not materially changed over the last two decades, is as follows:

*"To identify and meet the critical transportation infrastructure needs of the bi-state region's businesses, residents, and visitors: providing the highest quality, most efficient transportation and port commerce facilities and services that move people and goods within the region, provide access to the rest of the nation and to the world and strengthen the economic competitiveness of the New York-New Jersey Metropolitan Region."*<sup>68</sup>

## **B. A MISSION STATEMENT FOR THE FUTURE**

The foregoing history demonstrates that the Port Authority's mission has expanded over time in response to the region's needs. Although the Authority is rightfully proud of the role it has played in the broader economic development of the region, the profound needs of the region's transportation infrastructure require that the Port Authority return to its core mission—facilitating the efficient movement of people and goods through the region—in the coming decades. Specifically, the Port Authority must focus its attention on its airports, its port facilities, and the region's interstate transportation network. It must spur the development of additional transit and transport capacity in the

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<sup>68</sup> The Port Authority of New York and New Jersey. *1995 Annual Report*. New York: 1995. *Corporate Information – The Port Authority of NY & NJ*. Web. 12 Dec. 2014. 2. <<http://www.panynj.gov/corporate-information/pdf/annual-report-1984.pdf?year=1995>>.

Port District, and once again design and construct significant new transportation infrastructure. Further, it must manage its assets more effectively and efficiently, never losing sight of its daily obligation to keep people and goods moving safely and dependably through the region.

The Special Panel therefore proposes that the Port Authority adopt the following updated mission statement beginning in 2015:

*“Meet the critical transportation infrastructure needs of the bi-state region’s people, businesses, and visitors by providing the highest-quality and most efficient transportation and port commerce facilities and services to move people and goods within the region, provide access to the nation and the world and promote the region’s economic development.”*

### C. REINSTATE REGIONAL LEADERSHIP

**Reinstate the Port Authority’s regional leadership role** by initiating a comprehensive planning effort in 2015, at the direction of the Governors, to develop a 21<sup>st</sup> century strategic vision focused on expanding and developing new regional transportation capacity:

- **21<sup>st</sup> Century Airports**—In the spirit of Governor Cuomo’s innovative 2014 New York airport design competition, introduce a similar concept to lead a public “visioning process” in 2015 to help guide the ongoing modernization of all Port Authority airports;
- **Trans-Hudson Transportation**—Convene stakeholders in the bi-state Interstate Transportation Network, including the Port Authority, MTA, NJ Transit and Amtrak, to initiate a long-term planning process for the expansion of Trans-Hudson transit capacity, including river-crossing and terminal facilities; and
- **Ports as the Nation’s Gateway**—With the Port Authority’s historic “Raise the Roadway” project at the Bayonne Bridge opening the region’s ports to a new generation of “mega” container ships, lead a study involving regional and international shipping interests aimed at enhancing the competitiveness of the Port of New York versus rival East Coast facilities.

The Port Authority must re-dedicate itself to strategic planning to anticipate and meet the future transportation challenges and needs of the of the bi-state region. As such, the Special Panel recommends that comprehensive planning efforts be initiated to develop a 21<sup>st</sup> century strategic vision focused on expanding new regional transportation capacity in three critical areas as outlined below.

**21<sup>st</sup> Century Airports**—As the largest regional economy in the nation, the northern New Jersey-New York Metropolitan region deserves an airport system that rivals any other airport system in the world. Unfortunately, the region’s airports are unable to meet current demands, much less the demands of the future. In the spirit of Governor Cuomo’s vision to bring 21<sup>st</sup> century airports to the Sstate of New York, the Port Authority will embark on a comprehensive “visioning process” for the Port Authority’s major airports to help guide many of the ongoing modernization efforts at the airports. This initiative will begin with the outputs of Governor Cuomo’s 2014 airport design competition and similar design efforts

ongoing at Newark Liberty, and expand on that effort to involve stakeholders in the region's airports in developing design concepts and identifying transit and commercial development opportunities, to inform Authority's plans for redeveloping its airports.

**Trans-Hudson Transportation**—From 1921 to the present, Trans-Hudson travel has grown rapidly and continues to do so, presenting significant congestion challenges for access roads, bridges and tunnels and rail links between New York and New Jersey.<sup>69</sup> From 1920 to 2010, the population of the Port District increased by 54%, and now hosts over 12 million people.<sup>70</sup> The populations of New Jersey and Rockland County alone grew by 335% over the same period.

Unfortunately, options for crossing the Hudson River have not kept pace with this population growth. The last infrastructure project that increased transportation capacity across the Hudson was the construction of the lower deck on the George Washington Bridge more than 50 years ago. The bridges and rail and vehicle tunnels connecting the two states are currently operating at capacity and passenger demand is expected to double by 2030.<sup>71</sup> The congestion created by the limitations on Trans-Hudson access creates a ripple effect across the Port District and stands as a major impediment to further economic growth. The future development of the region thus ultimately hinges on the development of new Trans-Hudson transportation capacity. A Port Authority-led regional planning effort is needed to critically explore opportunities to increase capacity, including:

- Added bus capacity;
- Additional Trans-Hudson tunnel capacity;
- Development of Moynihan Station and Penn Station;
- Infrastructure funding sources and public-private partnership opportunities; and
- Regulatory “fast track” provisions.

The Panel accordingly recommends that the Governors direct the Port Authority to initiate such a comprehensive planning effort in 2015, to include the New York City and New York State Departments of Transportation, the New Jersey Department of Transportation, New Jersey Transit (“NJT”), Amtrak, the Metropolitan Transportation Authority (including both the Long Island Railroad (“LIRR”) and Metro-North) and relevant federal authorities.

**Ports as the Nation's Gateway**—As the largest port on the East Coast, the Port Authority's maritime ports serve as a major economic driver of the entire region. With a number of critical projects currently

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<sup>69</sup> “Commuter Traffic from New Jersey Expected to Double by 2030.” *Real Estate Weekly*, Sept. 2014. Web. Dec. 12, 2014. <<http://www.rew-online.com/2014/09/03/commuter-traffic-from-jersey-expected-to-double-by-2030>>.

<sup>70</sup> “State and County QuickFacts.”

<sup>71</sup> *Real Estate Weekly*.

underway including the “Raise the Roadway” project at the Bayonne Bridge, which will open the region’s ports to a new generation of “mega” container ships and a multi-billion dredging effort, the Port Authority should lead a study involving regional and international shipping interests to ensure that the Ports continue as the premier destination for the nation’s freight.

#### D. REASSESS AND UPDATE CAPITAL PLAN

***Reassess and update the Port Authority’s 10-year capital plan to reflect more focused investment in the region’s transportation needs.***

The Special Panel commends the Port Authority for passing a 10-year Capital Plan in February 2014. The Panel recommends that the Authority revisit and revise its Capital Plan in 2015 to reflect its recommitment to transportation investments and away from real estate development and other activities not strictly linked to that mission. For example, the Panel suggests that the Authority make provision in its Capital Plan for (i) an accelerated program of investment in modernizing its three major airports; (ii) a commitment to the comprehensive redevelopment of the Port Authority Bus Terminal; (iii) focus on modern port facilities to increase capacity for larger container ships; and (iv) continued investment in the Interstate Transportation Network (“ITN”).

#### E. REDEPLOY UNALLOCATED “REGIONAL DEVELOPMENT” FUNDS

***Redeploy \$600 million in unallocated “regional development” funds to specific transportation projects that align with the Authority’s core mission and are part of its Capital Plan, working with the Governors to identify the most pressing transportation needs in the Port area.***

From time to time, the Port Authority has provided funding for certain programs which were deemed essential to the continued economic viability of the States and the region. These programs, which are generally non-revenue-producing to the Port Authority, are addressed by the Port Authority in its budget and business planning process in the context of the Port Authority’s overall financial capacity.

Within the overall context of refocusing on the Authority’s core mission, \$600 million—currently included but yet to be allocated in the current Capital Plan for regional development—should be allocated by the Port Authority to address the substantial needs of the bi-state region’s transportation infrastructure.

Additionally, the Port Authority should establish processes to ensure that the funds meet regional transportation needs. These processes should include criteria designed to assess alignment with the Port Authority’s mission and impact on transportation needs. The criteria should then be used to assess future projects prior to the commitment of funds and minimum thresholds which must be met to receive funding.

## F. DELIVER A MORE EFFICIENT AND MODERN ORGANIZATION

### *Deliver a more efficient and modern organization.*

- ***Establish management processes that measure alignment with the Port Authority's core mission by adopting standardized tools and metrics for assessing the current portfolio of assets, potential asset acquisitions and divestitures and investment in future projects.***
- ***Expand performance reporting relating to the Port Authority's mission, providing for more transparency to the public and stronger Board oversight.***

As noted above, the Port Authority has significantly upgraded its capital management processes in recent years. The Panel recommends that the Board and staff of the Authority continue this process, improving the quality, depth and accessibility of management information regarding the Authority's asset portfolio and employing new tools such as the ARM to inform strategic investment and divestment decisions. The Panel further recommends that the Board utilize the ARM, as well as other tools it may develop, to periodically assess the Authority's holdings for consistency with its core transportation mission. In this way, the Port Authority can resist "mission creep" in the decades to come.

The Panel recommends that the Port Authority Board intensify its oversight of core elements of the Authority's Capital Plan and increase the transparency of this process for the benefit of the public. As described in Section 3 on Governance and Accountability, the Special Panel recommends that the Board establish a regular cycle of in-depth reports on major capital projects as a part of its annual meeting calendar to facilitate increased strategic oversight of these core activities of the Authority. Major infrastructure investments should be discussed in detail at public Board meetings, and background materials and relevant analyses made publicly available in advance.

The Panel also suggests that the Port Authority create and post to its website detailed capital plan dashboards, such as those provided by the Metropolitan Transportation Authority ("MTA") on its website. The MTA's capital plan dashboards provide information such as the capital project descriptions, locations, budgets, and project schedules and serve as a useful example that the Port Authority should emulate as it seeks to increase the transparency of its capital investment and project management process.

#### 4.4. Mission Recommendation #2: Revitalize Core Transportation Assets

**Mission Recommendation #2: Revitalize the Port Authority's core transportation assets.**

*Revitalize the Port Authority's core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal ("PABT"), Port Commerce and the PATH.*

- a) **Invest in the region's airports in a manner that ensures that** these vital facilities are equipped to serve as the gateway to the region for travelers and goods from around the world.
  - **Continue to prioritize reinvestment of the proceeds of airport revenue sources in the redevelopment of the region's three major airports**, consistent with the needs of the broader regional transportation system.
  - **Manage modernization efforts in close cooperation with the Governors** in each state to ensure that the Port Authority's airport redevelopment efforts are consistent with related state development initiatives.
  - **Coordinate with New York, New Jersey and federal officials to address regulatory constraints** that stunt growth, stifle competition and harm the regional economy.
- b) **Pursue construction of a new Port Authority Bus Terminal**, utilizing the embedded value of the Port Authority's real estate holdings at that location and other sources of funding, to meet the increasing requirements of this vital element of the Trans-Hudson transportation network.
- c) **Modernize Port Commerce facilities to increase their efficiency** and maximize the potential of the ports as the premier portal for cargo entering the United States, building on the successful reconstruction of the Bayonne Bridge to accommodate the most modern mega-container ships.
- d) **Seek an improved operating model for the PATH rail system**, including partnering with a third-party operator, to enhance its operational performance and reduce its financial deficit.

At its core and since its inception, the Port Authority's overarching mission is focused on providing efficient means of transportation through the Port District. In order to meet this charge moving forward, the Special Panel recommends that the Port Authority refocus on revitalizing its portfolio of transportation assets with a particular emphasis on the three major airports (LaGuardia, Kennedy, and Newark Liberty), the Port Authority Bus Terminal, Port Commerce, and the PATH. In line with this renewed focus, the Special Panel proffers several recommendations aimed at addressing some of the most exigent needs and challenges among the Port Authority's assets. Specifically, the Special Panel recommends the following:

- **Invest in the Region’s Airports**—The Port Authority should invest in the region’s airports in a manner that ensures that the region’s airports are equipped to serve as the gateway to the region for travelers and goods from around the world. The Special Panel also recommends that the Port Authority work in close cooperation with the Governors and their staff to ensure that redevelopment efforts remain consistent with and complementary to related state development initiatives. Finally, the Special Panel recommends that the Port Authority coordinate with New York, New Jersey and federal officials to address regulatory constraints that stunt growth, stifle competition and harm the regional economy.
- **Pursue the Redevelopment of the Port Authority Bus Terminal**—The Port Authority Bus Terminal is a vital component of the region’s Trans-Hudson transportation network, serving over 65 million passengers annually, with traffic expected to continue to grow over the next 10 years. Despite its importance and the critical function it serves, the Bus Terminal has long been functionally obsolete and over-stressed during peak hours, severely restricting its ability to serve the region’s commuters. Given the Bus Terminal’s essential function, the Special Panel recommends the development of a new Bus Terminal by leveraging the intrinsic value of the Port Authority’s real estate holdings in its vicinity and other innovative financing opportunities to fund its redevelopment.
- **Modernize Port Commerce Facilities**—The Port Authority’s ports handle millions of tons of cargo every year, providing an indispensable portal for the movement of goods throughout the Northeast United States. As the global economy continues to evolve and new opportunities to move cargo—such as the expansion of the Panama and Suez Canals and the increased use of larger container ships—develop, the ports face increased competition from other East Coast facilities. To meet these challenges, the Special Panel recommends that the Port Authority continue to increase the efficiency and competitiveness of Port Commerce by maximizing its potential through investments in new techniques and technologies.
- **Seek an Improved Operating Model for PATH**—While the PATH remains an essential service for Trans-Hudson transportation, its growing operating deficit poses challenges for the Port Authority. Therefore, the Special Panel recommends that the Port Authority, while continuing to focus on improved operating efficiency, consider partnering with a third-party operator to further enhance the PATH’s operational performance and reduce its financial deficit. A third-party operator may enjoy greater economies of scale than the Port Authority, hence the costs and resulting deficit of PATH service could be reduced.

## A. PORT AUTHORITY AIRPORTS

**Mission  
Recommendation #2:**

*Revitalize the Port Authority's core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal ("PABT"), Port Commerce and the PATH.*

- a) **Invest in the region's airports in a manner that ensures that ensures that** these vital facilities are equipped to serve as the gateway to the region for travelers and goods from around the world.
- **Continue to prioritize reinvestment of the proceeds of airport revenue sources in the redevelopment of the region's three major airports**, consistent with the needs of the broader regional transportation system.
  - **Manage modernization efforts in close cooperation with the Governors** in each state to ensure that the Port Authority's airport redevelopment efforts are consistent with related state development initiatives.
  - **Coordinate with New York, New Jersey and federal officials to address regulatory constraints** that stunt growth, stifle competition and harm the regional economy.

### i. Asset Overview

The Port Authority operates a total of five airports—LaGuardia, John F. Kennedy International, Newark Liberty, Teterboro in the New York metropolitan region and Stewart International in the southern Hudson Valley—and advises on the operations of Atlantic City International Airport in eastern New Jersey. Airports have been a significant part of the Port Authority's portfolio of assets since the late 1940s. The Port Authority's three major airports are among the busiest in the United States, collectively serving over 112 million passengers and nearly eight percent of all U.S. enplanements and handling nearly two million tons of cargo (four and a half percent of all landed cargo weight in the U.S.) in 2013.<sup>72</sup> The three major airports represent the second largest airport system in the world in passenger traffic (behind London) and the largest in flight operations.<sup>73</sup>

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<sup>72</sup> Financial Statements and Appended Notes for the Year ended December 31, 2013. Schedule G.

<sup>73</sup> Federal Aviation Administration. "Calendar Year 2013 Passenger Boarding (Enplanement) and All-Cargo Data for U.S. Airports." U.S. Federal Aviation Administration, 1 Oct. 2014. Web. 14 Dec. 2014. 1. <[http://www.faa.gov/airports/planning\\_capacity/passenger\\_allcargo\\_stats/passenger/](http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/)>.

### History and Port Authority's Role

- **LaGuardia Airport (“LGA”)**—First opened in 1939, LaGuardia has been operated by the Port Authority since 1947 under a lease agreement with New York City. LGA has five terminals—the main Central Terminal Building with 37 gates; two air shuttle terminals with a total of 14 gates, and two individual unit airline terminals with a total of 22 gates. In 2013, LGA was the 20<sup>th</sup> busiest airport in the U.S. by passenger volume (just behind Philadelphia International), serving nearly 25 million domestic and 1.7 million international passengers while processing a relatively small 7,000 tons of cargo.<sup>74</sup> LGA operates under a perimeter rule, which was imposed in 1984 to control overcrowding and shift traffic to the region’s other airports and to bar nonstop flights beyond 1,500 miles—with some exceptions, most notably Saturday flights. LaGuardia’s aged facilities, including the 50-year-old Central Terminal Building, are widely acknowledged to be in need of extensive rehabilitation to serve the air traffic needs of the region in the 21<sup>st</sup> century.
- **John F. Kennedy International Airport (“JFK”)**—Kennedy has been operational since 1948, when it was first developed as New York City’s second airport to relieve growing congestion at LaGuardia and accommodate a new generation of large commercial passenger jets. Today, Kennedy is the sixth-busiest airport in the U.S. in passenger traffic and 19<sup>th</sup> busiest in the world, having served nearly 24 million domestic and 27 million international passengers in 2013.<sup>75</sup> Kennedy’s international traffic volume is the largest in North America, and it is the sixth-largest freight gateway by cargo tons in the U.S., having processed 1.3 million tons in 2013.<sup>76</sup> Kennedy has six individual airline passenger terminals that serve over 70 airlines.
- **Newark Liberty International Airport (“EWR”)**—Newark Liberty first opened in 1928 and, for a period, was the busiest airport in the world. Constructed and initially operated by the City of Newark, the airport was leased in 1948 to the Port Authority, which has since operated the airport. At times in its history, Newark Liberty was underutilized as a major hub for the region; today, however, Newark Liberty is the 13<sup>th</sup>-busiest airport in the U.S. by passenger traffic, having served over 23 million domestic and 11 million international passengers in 2013.<sup>77</sup> In addition, Newark Liberty processed 660,000 tons of cargo in 2013, serving as FedEx Express’s “distribution central” for the Northeast corridor. Newark Liberty consists of three passenger terminals (A, B, and C) that together serve over 40 airlines. Terminal C, originally completed in 1988, was rehabilitated and expanded in 2003, and Terminal B was thoroughly renovated in 2012 as part of an ambitious \$350 million modernization effort.

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<sup>74</sup> *Ibid.* See also *Financial Statements and Appended Notes for the Year ended December 31, 2013*. Schedule G.

<sup>75</sup> *Ibid.*

<sup>76</sup> *Ibid.*

<sup>77</sup> *Ibid.*

*Figure 13. Three Major Airports Statistics<sup>78</sup>*

Airport	Year Opened	2013 Passengers	2013 Cargo (tons)
John F. Kennedy International Airport	1948	50,423,765	1,317,757
Newark Liberty International Airport	1928	35,016,236	717,099
LaGuardia Airport	1939	26,722,183	7,002

- **Stewart International Airport (“SWF”)**—Stewart International Airport is located in the Towns of Newburgh and New Windsor, New York, approximately 60 miles northwest of Manhattan, and has functioned as a public/military airport in various capacities since the 1930s. Although Stewart is located outside the Port District, legislation passed by the State of New York in 1967 and subsequently by the State of New Jersey in 2007 authorized the Port Authority to establish one air terminal in New York and one in New Jersey beyond the District’s boundaries, subject to the approval of the respective state’s governor. The Port Authority assumed control of Stewart in 2007, becoming the lessee under an agreement with the State of New York after a short-lived privatization that had occurred in 2000. In 2013, Stewart served 320,000 passengers and processed 17,000 tons of cargo.<sup>79</sup> Stewart’s one terminal currently serves four airlines, but the airport’s aircraft operations are principally dedicated to general aviation and military. Stewart’s day-to-day operations are currently managed by a private firm, AvPORTS.
- **Teterboro Airport (“TEB”)**—With its first flight in 1919, Teterboro Airport is the oldest airport in the New York City region. It was wholly acquired by the Port Authority in 1949 from a private owner and for most of its existence was leased to Pan American World Airways and its successor corporation. In 2000, the Port Authority assumed full operations of Teterboro after its private tenant, Johnson Controls, did not renew its lease. Currently, a private airport operator, AvPORTS, is responsible for the day-to-day operations of the airport, under the Port Authority’s oversight. Teterboro, with 155,000 plane movements in 2013, serves principally private and corporate aircraft operations as a reliever airport for the region, allowing the major airports to shift general air traffic.<sup>80</sup>
- **Atlantic City International Airport (“ACY”)**—Atlantic City International Airport began as a military airbase in 1942. Today, it is a civilian-military public-use airport owned and operated by South Jersey Transportation Authority (“SJTA”). In 2013, the Port Authority and SJTA entered

<sup>78</sup> *Ibid.*

<sup>79</sup> *Ibid.*

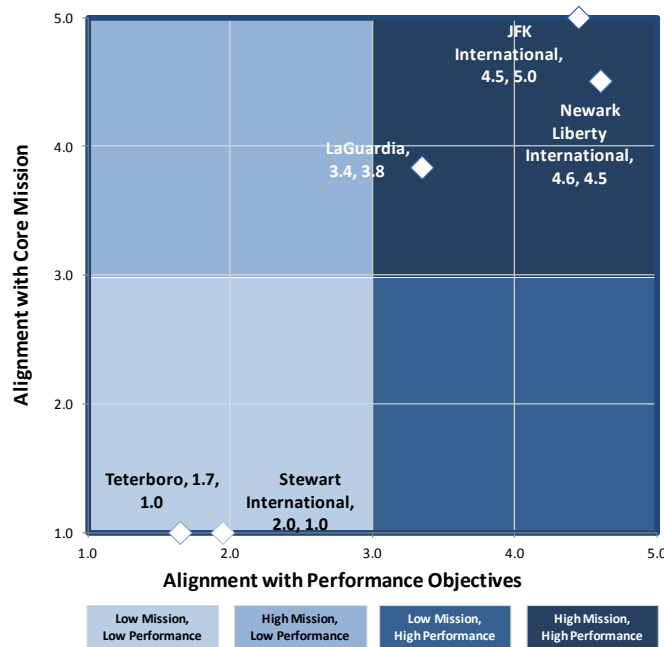
<sup>80</sup> *Ibid.*

into a management agreement under which the Port Authority provides general management services for the airport and for which it is paid a monthly fee. The Port Authority also has the option to purchase the SJTA’s interest in the airport at any point during the 15-year agreement. This arrangement represents the sole airport the Port Authority may establish in New Jersey outside the Port District pursuant to the legislation enacted by New York in 1967 and New Jersey in 2007 that also authorized Port Authority’s assumption of Stewart Airport’s lease. ACY has one passenger terminal with 10 gates, and in 2013 it served 1.1 million passengers.

**ii. Review Metric Results**

The Port Authority’s three major airports score high on alignment with the organization’s core mission and financial performance objectives, while Teterboro and Stewart Airports score relatively low on alignment with both measures based on historical passenger, operational and financial data.<sup>81</sup>

Figure 14. Asset Review Metric Results—Airports



**Alignment with Mission**—The major airports score high on alignment with the key elements of the Port Authority’s core mission due to their high passenger volume, efficiency, and economic impact.

<sup>81</sup> The Panel excluded Atlantic City Airport from the ARM analysis because the Port Authority’s only role is to advise the South Jersey Transportation Authority on the management of the airport. The Port Authority does not directly manage or own the airport.

JFK, LGA, and EWR each moved more than 24 million passengers per year, on average, over the last five years, compared to Teterboro and Stewart, which each moved less than one million.<sup>82</sup> Because their infrastructure is designed to facilitate their function as major airports, JFK, LGA, and EWR also had greater efficiency of passenger movement. The airports moved 0.4 to 0.5 passengers for each dollar of capital expenditure, or approximately two dollars in capital expenditure per passenger. Although not factored into the ARM, it should be noted that the three major airports also provide great economic impact, creating a combined \$75.8 billion in economic activity and supporting over 500,000 jobs.

**Alignment with Financial Performance Objectives**—JFK and EWR airports are by far the strongest financial performers of the Port Authority airports. On average, JFK collected more than one billion dollars in revenues over each of the last five years, while EWR collected \$766 million. Despite the variation in revenue, both airports generated approximately the same level of NIFO, at an average of \$230 million per year. LGA achieved significantly lower financial performance, largely due to the difference in the airport's size and type of operations. In 2013, LGA's NIFO was less than \$30 million, far below the \$45 million to \$50 million earned for each of the previous four years. Income has been relatively stable at JFK and EWR, while LGA earnings have experienced greater volatility as measured by NIFO standard deviation as a percentage of average NIFO. All three airports have achieved income growth for only two of the last four years.

Teterboro and Stewart Airports scored low on alignment with financial performance objectives due to relatively weak earnings and financial volatility. Both airports had negative NIFO in 2013, and annual capital expenditures at both airports also exceeded free cash flow, including grants and contributions.

### iii. Challenges Moving Forward

The Airports Department and the airports under its management present some additional challenges for the Port Authority, as well as opportunities to enhance performance and better serve the region.

**Growing Passenger Traffic but Flat Cargo Growth**—Passenger traffic is expected to grow by an average of 2.5% per year over the next two years as U.S. and global economic conditions continue to improve.<sup>83</sup> Cargo activity, however, may remain flat or contract as external factors, such as strong modal competition from shipping and rail, continue to dampen activity. The Port Authority further anticipates passenger traffic will continue to grow over the next twenty years, with the largest increase coming from international markets. By 2035, the Port Authority anticipates that total enplaned passengers will reach more than 180 million, a 60% increase over 2013 levels.

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<sup>82</sup> Although passenger volumes at Teterboro are not tracked, the airport functions as a general aviation airport. Assuming an average of four passengers for each of the airport's 155,032 plane movements in 2013 yields a passenger total of 620,128.

<sup>83</sup> Port Authority Finance Department.

**Aged, Functionally Obsolete Facilities**—The Port Authority’s three major airports have some of the oldest terminal facilities of any major domestic airport. In particular, LaGuardia’s Central Terminal Building and Newark Liberty’s Terminal A were completed over 40 years ago and were designed for a different era of air service. As a result, these and several of Kennedy’s facilities limit the airports’ ability to enhance service and improve customer satisfaction, and their age contributes to a prevailing perception of the region’s airports as poor facilities unbecoming of the nation’s largest urban area.

**Constraints on Capacity and Efficiency on Air and Cargo Service**—Opportunities to increase scheduled flights to/from the major airports are limited, as New York’s airspace is already highly congested and FAA-imposed slot constraints, which limit the number of operations during peak hours, restrict the Port Authority’s capacity to add service. These slot constraints have led to the loss of potential new international routes to other Northeast airports, including Boston, Baltimore-Washington, and Washington-Dulles. The Port Authority’s ability to add slots is also limited by physical airfield and airspace capacities. One essential requirement to increase capacity is the FAA’s NextGen air traffic control system, which will significantly enhance the efficiency of plane movements while greatly reducing congestion. However, implementation of the system has been continually delayed and has grown substantially more costly. Cargo service also faces certain physical constraints, particularly around regional roadway access and restrictions. The region’s congestion and restrictions on large trailers have long frustrated industry stakeholders, such as airlines, freight forwarders, manufacturers, and truckers, undermining the Port Authority’s ability to grow its airports’ cargo operations.

#### iv. Recommendations

Based on this analysis and in order for the Port Authority and its airports to better respond to challenges moving forward, the Special Panel proffers the following recommendations:

***Invest in the region’s airports in a manner that ensures that these vital facilities are equipped to serve as the gateway to the region for travelers and goods from around the world.***

The Special Panel believes that the region’s airports, specifically LaGuardia Airport, JFK International Airport, and Newark Liberty International Airport, undisputedly constitute a vital gateway for the regional and national domestic and international passenger and cargo traffic. However, while some improvements have been made at these airports over the past decade, many of these facilities are outdated and are ill-equipped to meet the increased passenger demands of the future. The Port Authority must provide a level of investment to these facilities to ensure that the region’s airports are equipped to meet the growing transportation demands of the 21<sup>st</sup> century.

***Continue to prioritize reinvestment of the proceeds of airport revenue sources in the redevelopment of the region's three major airports, consistent with the needs of the broader regional transportation system.***

The airports should continue to support the Port Authority's broader transportation system as required and consistent with long-standing practice, while prioritizing the reinvestment of revenues into the airports in order to grow capacity, improve passenger satisfaction, and enhance revenue-generating opportunities that will help ensure essential capital projects are advanced.

***Manage modernization efforts in close cooperation with the Governors in each state to ensure that the Port Authority's airport development efforts are consistent with related state development initiatives.***

As the Governor of New York has expressed a desire to have a more prominent role and more responsibility in the redevelopment and modernization of the airports located in his state and has unveiled his Administration's plans for this modernization and revitalization, the Special Panel recommends that the Port Authority Board ensure that its capital projects at each state's respective airports are managed in a manner consistent with the Governor's views and those of his counterpart in New Jersey.

***Coordinate with New York, New Jersey and federal officials to address regulatory constraints that stunt growth, stifle competition and harm the regional economy.***

A number of issues need to be addressed by New York, New Jersey and federal officials to enable the region's airports to grow, to generate sufficient revenues to support the modernization of the Port Authority's airport facilities, and to better serve the region's customers and economy. These issues include: 1) the FAA's slot limitations on flights at Newark Liberty, Kennedy, and LaGuardia Airports, which affect the Port Authority's ability to effectively manage the region's airspace and grow its service capacity as demand is already rapidly outpacing capacity; 2) the timely implementation of the FAA's NextGen air traffic control system, which would significantly enhance capacity and mitigate airspace congestion constraints; and 3) increasing federal funds for airports in order to keep pace with construction cost inflation and provide sufficient funds for needed capital investments at all the Port Authority's airports. The Port Authority should, therefore, coordinate closely with officials at the state and federal levels to ensure these issues can be effectively addressed to further advance the modernization efforts.

## B. THE PORT AUTHORITY BUS TERMINAL

**Mission Recommendation #2:** *Revitalize the Port Authority’s core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal (“PABT”), Port Commerce and the PATH.*

- b) Pursue construction of a new Port Authority Bus Terminal**, utilizing the embedded value of the Port Authority’s real estate holdings at that location and other sources of funding, to meet the increasing requirements of this vital element of the Trans-Hudson transportation network.

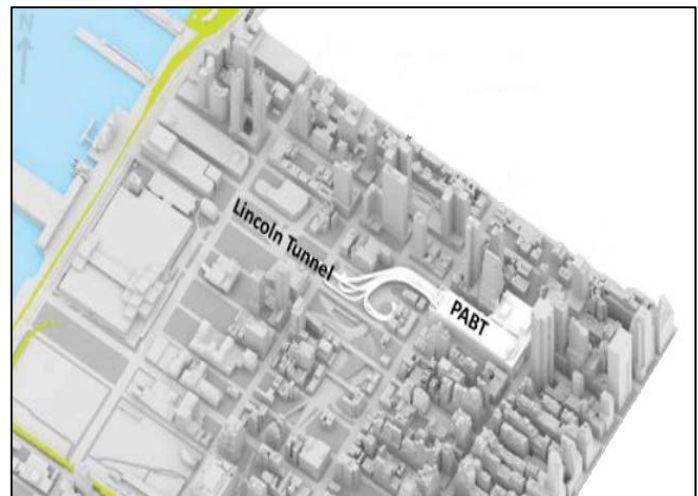
### i. Asset Overview

The PABT serves as a vital component of the region’s bi-state transportation network, providing a central hub for commuters and complementing the Port Authority’s bridges, tunnels and the PATH in providing service for high-demand Trans-Hudson travel.

### History and Port Authority’s Role

Since initiating operations in 1950, the PABT has served as the primary gateway for inter-state commuter and long-distance buses entering Manhattan. As a result of a major expansion in the late 1970s and early 1980s, the PABT is the largest bus terminal in the United States and the busiest in the world by traffic volume.<sup>84</sup> In fiscal year 2013, the PABT served over 81 million passengers with over 3.6 million bus movements.<sup>85</sup> Twenty carriers and routes service the PABT, including Express Bus Service, Greyhound, Lakeland, Martz Trailways, Megabus, NJ TRANSIT, Olympia (Coach USA), Peter Pan, Red & Tan Lines (Coach USA), Rockland (Coach USA), Shortline (Coach USA), Suburban (Coach USA), Susquehanna Trailways, and Trans-Bridge

Figure 15. The Port Authority Bus Terminal



<sup>84</sup> “About the Terminal.”

<sup>85</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013. Schedule G.*

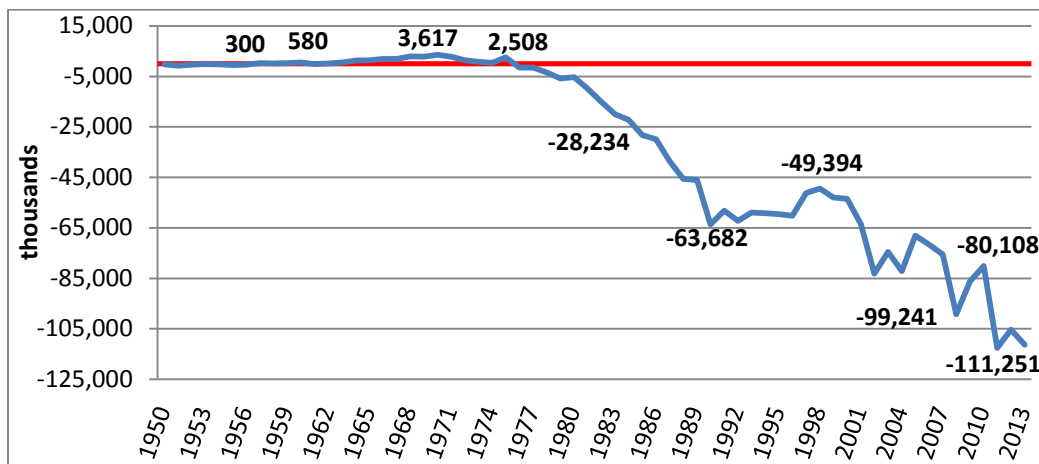
Lines. Commuter buses account for 85% of its bus movements.<sup>86</sup>

PABT demand is fueled by the Terminal’s prime location in the heart of Manhattan, one block west of Times Square, and its connectivity to other transportation modes. The Terminal is well-connected to the City’s many transit systems, providing direct access to the New York City subway and a shuttle to Grand Central. The complex includes a unique ramp system from the Lincoln Tunnel to the bus terminal that mitigates street traffic congestion by providing buses direct access to passenger gates on the terminal’s upper bus levels, and cars with a direct link to public parking on the lower levels.<sup>87</sup> The Terminal also features three levels and a wide array of shops, restaurants and services.

The PABT has experienced some of the most significant growth in traffic among all Port Authority Trans-Hudson facilities over the last decade, contrasting a decline in motor vehicle traffic. PABT passenger traffic has grown by 14% since 2004, while the PATH’s passenger traffic rose by 26% and auto/truck traffic declined by almost nine percent.<sup>88</sup>

The PABT operates at a net loss, as is typical of mass transit facilities, due to high fixed operating and capital costs. While originally conceived with the intent of being a self-sustaining operation, the terminal earned a profit only between 1957 and 1975 (with the exception of 1961).

*Figure 16. PABT Historical Net Income (Loss) 1950 - 2013<sup>89</sup>*



<sup>86</sup> “Carriers and Routes.” *Port Authority Bus Terminal*. The Port Authority of New York and New Jersey, n.d. *Port Authority Bus Terminal*. Web. 12 Dec. 2014. <<http://www.panynj.gov/bus-terminals/pabt-carriers-routes.html>>.

<sup>87</sup> Port Authority Tunnels, Bridges and Terminals Department.

<sup>88</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013*. Schedule G.

<sup>89</sup> The Comptroller’s Department at the Port Authority of New York and New Jersey. *Farley Reports – Information on Port Authority Operation 1928 – 2013*. n.d. Print. 86.

ii. Review Metric Results

The PABT was assessed as part of the ITN for the ARM. When compared to the other ITN assets for the ARM, the PABT scored high on alignment with core mission but scored lowest on alignment with financial performance objectives.

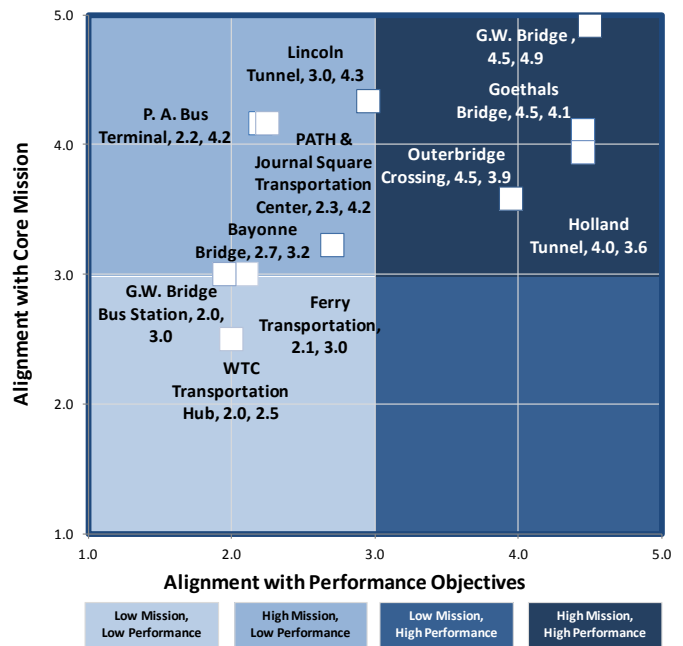
The Port Authority’s ITN assets are spread across three quadrants in the ARM diagram, reflecting varied alignment with the organization’s core mission and financial performance objectives. In general, the largest bridges and tunnels score the highest on alignment with both metrics.

**Alignment with Mission**—The majority of Port Authority bridges and tunnels score high on alignment with the organization’s core mission because they move high volumes of passengers efficiently while creating substantial economic activity in the region. Collectively, the ITN assets moved an average of 359 million passengers over each of the last five years, representing 77% of all passengers moved by all Port Authority assets. PATH led the group, moving more than 73.5 million passengers on average per year, followed by the George Washington Bridge and the Lincoln Tunnel at approximately 68 million passengers each. These assets each scored highly on the Movement of People & Goods – Relative element of the ARM. The George Washington Bridge, George Washington Bridge Bus Station, Holland Tunnel, Lincoln Tunnel, Outerbridge Crossing, and Port Authority Bus Terminal also displayed great efficiency. These assets moved more than one passenger for every dollar of capital invested in the facility on average over the past five years—more than double the rate of each of the major airports in the region.

Many of these transportation facilities move significant cargo volumes as well. The George Washington Bridge and the Outerbridge Crossing moved the most cargo, averaging 30 million and 10 million tons per year, respectively, over the past five years.<sup>90</sup> In fact, the George Washington Bridge moved more than 25% of all Port Authority cargo across all asset classes. The above bridges, bus terminals, and PATH have high economic impact as well, collectively supporting an estimated \$291 billion in annual economic activity.

Other ITN assets scored lower on the Movement of People & Goods – Absolute element of the ARM.

Figure 17. Asset Review Metric Results – Interstate Transportation Network



<sup>90</sup> Assumes eight metric tons of cargo per truck crossing each bridge, or 17,632 pounds.

For example: both the Bayonne Bridge and the G.W. Bridge Bus Station moved only 4.6 million passengers annually over the past five years. The Port Authority moved approximately three million passengers per year through its ferry operations. While these volumes are significantly lower than the levels of other ITN assets and the airports, they nonetheless demonstrate that these assets are heavily used by travelers in the region and are core to the mission of the Port Authority.

**Alignment with Financial Performance Objectives**—High passenger and cargo volumes have generated substantial and steady earnings for many ITN assets, leading them to score highly on alignment with the second metric in the ARM. For example: the George Washington Bridge has earned more than \$500 million in operating revenue per year, on average, with operating expenses of only 23% of revenues. The George Washington Bridge, Holland Tunnel, and Lincoln Tunnel have demonstrated steady income growth, made possible by toll increases as volumes of automobiles have decreased between five and seven percent over the past five years. In total, ITN assets generated an average of \$122 million in annual revenue despite consistently weak financial performance from several assets.

PATH and the PABT scored high on alignment with core mission but scored lower on alignment with financial performance objectives given PATH's and the PABT's negative annual earnings and financial instability. PATH and the PABT lost an average of \$348 million and \$88 million per year, respectively; these assets rank last in terms of earnings for all assets included in the ARM. The ratings for these assets are consistent with their status as public transit assets, which provide critical public transportation but require financial assistance for ongoing operations. The Port Authority's Ferry Transportation lost an average of \$5.6 million per year due to funding commitments to other organizations and high depreciation and amortization. The Port Authority provides funding to the New York City Economic Development Corporation ("NYCEDC") to support harbor-related facilities, such as \$1.3 million in 2013 for the rehabilitation of East River Ferry landings. The Port Authority also incurred an average of \$4.5 million in depreciation and amortization each year in Ferry Transportation, resulting from the large capital investments made by the Port Authority in the Battery Park and Hoboken ferry facilities.

### iii. Challenges Moving Forward

The PABT faces material challenges going forward as a result of the Terminal's growing traffic and deteriorated structural condition. These challenges are described further below.

**Limited Capacity and Increasing Passenger Traffic**—The PABT is operating at the limits of its capacity, as traffic and passenger volumes far eclipse the 1,500 daily buses entering Midtown through the Lincoln Tunnel in 1939, when planners first began considering its development.<sup>91</sup> The Terminal's

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<sup>91</sup> Doig, "Empire." 315.

capacity issues will only worsen if the facility is unchanged, as passenger volumes are expected to increase up to 50% while peak-hour bus traffic is expected to increase up to 39% by 2040.<sup>92</sup> The capacity and efficiency of the facility must be materially increased for the Port Authority to satisfy this demand.

**Physical and Functional Obsolescence**—The physical condition of the PABT has materially deteriorated over its 60+ years of operation. Missing ceiling tiles reveal leaking pipes, interiors are unkempt, and retail spaces are dated. In addition, the PABT is physically and functionally obsolete. Ramps, gates, and bus parking are unable to accommodate the industry’s movement to larger/heavier bus models and alternatively fueled vehicles. Costly investments for significant Terminal components will be necessary over the next 10 to 15 years, such as repair and/or replacement for the Terminal’s concrete slabs and structural framing support.<sup>93</sup>

Recognizing the increasing importance of bus transportation in the bi-state region, the Port Authority has begun to explore strategies to address these deficiencies and meet increasing capacity requirements. Solutions will likely require capital investment significantly in excess of the \$173 million for state-of-good-repair enhancements currently included in the Port Authority’s Capital Plan.<sup>94</sup> The Port Authority acknowledges that redevelopment of the Terminal is essential to meet growing passenger and bus traffic in the coming years.

#### iv. Recommendation

***Pursue construction of a new Port Authority Bus Terminal, utilizing the embedded value of the Port Authority’s real estate holdings at that location and other sources of funding, to meet the increasing requirements of this vital element of the Trans-Hudson transportation network.***

The PABT serves a critical transportation need in the bi-state region, but significant planning and investment is required to continue the facility’s operations in the coming decades. The Special Panel recommends that the Port Authority pursue redevelopment of the PABT as a priority and maximize the valuable real estate holdings, as well as other potential funding sources, such as a public-private partnership.

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<sup>92</sup> “Midtown Bus Master Plan – Project Background.” The Port Authority of New York and New Jersey. 2014. Web. 2014. <<http://www.panynj.gov/bus-terminals/pabt-master-plan.html>>.

<sup>93</sup> Port Authority Tunnels, Bridges and Terminals Department.

<sup>94</sup> \$173 million of the \$27.6 billion plan are dedicated to the PABT. The Port Authority of New York and New Jersey. *Capital Plan Summary 2014-2023. Corporate Information – The Port Authority of NY & NJ.* Feb. 2014. Web. Dec. 12, 2014. <<http://www.panynj.gov/corporate-information/pdf/2014-public-capital-plan.pdf>>.

The Port Authority is in the process of developing a Midtown Bus Master Plan to address its capacity constraints and improve the reliability and service quality. This plan should be advanced to ensure it addresses the issues of aging terminal infrastructure and physical obsolescence and the accommodation of modern bus designs, as well as operational inefficiencies and lack of terminal capacity to handle future growth in Trans-Hudson bus movement demand.

The Midtown Bus Master Plan aims to (1) address PABT functional and structural issues to satisfy current and future mobility requirements of the region, (2) integrate bus transportation improvements to complement other planned transportation and land-use investments, (3) integrate the bus facility within the urban fabric of the study area, (4) provide a superior customer experience and (5) create a phased improvement program that reflects financial considerations and challenges of improving the existing Trans-Hudson bus service under full operation.<sup>95</sup>

### C. PORT FACILITIES

**Mission  
Recommendation #2:**

*Revitalize the Port Authority's core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal ("PABT"), Port Commerce and the PATH.*

- c) Modernize Port Commerce facilities to increase their efficiency** and maximize the potential of the ports as the premier portal for cargo entering the United States, building on the successful reconstruction of the Bayonne Bridge to accommodate the most modern mega-container ships.

#### i. Asset Overview

The Port of New York and New Jersey ("PONYNJ" or "the Port") is the largest port on the East Coast, third largest in the U.S., and 22<sup>nd</sup> largest in the world. The Port serves more than 23 million regional consumers with more than 3 million containers of goods unloaded at its docks each year.<sup>96</sup> The Port is one of the largest auto ports in the country, with volumes of over 400,000 new vehicles annually.<sup>97</sup> The Port also handles "roll on-roll off" automobiles, liquid and dry bulk, break bulk, and specialized project cargo. The Port plays an integral role in the region's economy, providing critical services for

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<sup>95</sup> "Midtown Bus Master Plan – Project Background."

<sup>96</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013*. Schedule G.

<sup>97</sup> *Ibid.*

businesses and ultimately consumers who manufacture, purchase, and transport these goods, which exceed \$175 billion in value annually.<sup>98</sup>

### History and Port Authority's Role

Figure 18. Map of Port Authority of New York and New Jersey Marine Terminals



The Port Authority owns or directly oversees the operation of six marine terminal facilities:<sup>99</sup>

- **Port Newark**—The Port Authority assumed responsibility to operate Port Newark in 1948, under a lease from the City of Newark expiring in 2065. This waterfront terminal development is located on approximately 930 acres on Newark Bay, adjacent to the Newark Liberty International Airport; it includes wharves, approximately 23,600 lineal feet of deep-water ship berths, six container cranes, transit sheds, open storage areas, buildings, roadways and railroad trackage.
- **Elizabeth-Port Authority Marine Terminal**—In 1962, the Port Authority opened the world's first container port, Elizabeth-Port Authority Marine Terminal, which became known as America's Container Capital. The terminal occupies approximately 1,257 acres and has 31 container cranes serving container-ship berths on 16,934 lineal feet of wharf; it also has four

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<sup>98</sup> "About the Port." *Port of New York and New Jersey*. The Port Authority of New York and New Jersey, n.d. Web. 14 Dec. 2014. <<http://www.panynj.gov/port/about-port.html>>.

<sup>99</sup> The Port Authority of New York and New Jersey. *Official Statement, Series 186 and 187*. 7 Oct. 2014. Web. 21 Dec. 2014. II-33 – II-37. <<http://emma.msrb.org/EA654657-EA512437-EA908608.pdf>>.

cargo distribution buildings, 15 ancillary and miscellaneous service structures and is served by rail-based freight companies CSX Transportation and Norfolk Southern Corp.

- **Greenville Yards-Port Authority Marine Terminal**—Located in Jersey City, New Jersey, Greenville Yards occupies approximately 32 acres of land and pier area, of which five acres are occupied by a private tenant for barge and dredging equipment storage and 27 acres are leased by New York New Jersey Rail, LLC. Greenville Yards was certified as an additional facility of the Port Authority in 1984.<sup>100</sup>
- **Port Jersey Port Authority Marine Terminal**—The Port Authority constructed and opened the Port Jersey Port Authority Marine Terminal between 1987 and 1990 for unloading and preparation of imported automobiles and other vehicles. The terminal’s purpose has shifted since then and now serves a broader use for container cargo operations. The terminal currently occupies 388 acres on the Port Jersey Channel in Bayonne and Jersey City, New Jersey.
- **Brooklyn-Port Authority Marine Terminal**—In 1956, the Port Authority purchased waterfront properties and uplands in Brooklyn, New York, which operate as the Brooklyn-Port Authority Marine Terminal. The Port Authority also entered into an agreement with the City of New York and the State of New York in 1979 for the construction and operation of the Red Hook Container Terminal, using a portion of the Brooklyn-Port Authority Marine Terminal and additional land. The Port Authority oversees the Red Hook Container Terminal, while a terminal operator manages, operates, and maintains on behalf of the Port Authority 66 acres of the facility and approximately 30 acres at Port Newark, which support the operation of Red Hook. Together, the Brooklyn-Port Authority Marine Terminal and the Red Hook Marine Terminal occupy approximately 110 acres, of which 23 acres is pier shed space.
- **Howland Hook Marine Terminal**—The Port Authority leases the Staten Island, New York, Howland Hook Marine Terminal from the City of New York, with a term expiring in 2058. The facility currently occupies 311 acres, 124 of which were acquired by the Port Authority in 2000; the ExpressRail Staten Island facility is also located on this 124-acre parcel and is operated by the marine terminal operator.

The Port Authority also has several rail freight facilities that operate in close cooperation with these marine terminals and support the movement of freight through the Port. For example:

- New York New Jersey Rail, LLC (“NYNJ Rail”), owned and operated by the Port Authority since 2008, moves freight by rail and rail barge across New York Harbor through the Cross Harbor

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<sup>100</sup> Greenville Yard-Port Authority Marine Terminal is identified as a separate facility in the Port Authority’s Bond Issuance Official Statement dated August 14, 2014, but has been consolidated with the Port Jersey-Port Authority facility for the purposes of our analysis per conversations with the Port Commerce Department.

Car Float. This provides the most direct route between Brooklyn and New Jersey,<sup>101</sup> rather than requiring the cargo to detour hundreds of miles north through New York State before crossing the Hudson River and traveling back south to Brooklyn. NYNJ Rail leases approximately 27 acres of the Greenville Yards, which functions as an intermodal transload facility for rail freight.

- The ExpressRail System is a comprehensive \$600 million rail program that has created dedicated rail facilities—and additional support track and rail yards—for each of the Port's major container terminals. These facilities include ExpressRail Elizabeth, ExpressRail Newark and ExpressRail Staten Island. Rail services at the Port enable shippers to transport cargo to the Eastern half of the United States, Eastern Canada and beyond. The NY/NJ port region is served by the following three Class I railroads: Canadian-Pacific Railway, CSX Intermodal, and Norfolk Southern.<sup>102</sup>
- The Oak Point Rail Freight Link, a rail segment in the Bronx connecting the Hudson line with the Harlem River Intermodal Yard and the Oak Point Yard to revitalize rail freight use in the downstate region, has been a certified facility of the Port Authority since 1981 and forms a key element of the New York State Department of Transportation's Full Freight Access Program. The Port Authority has participated with the New York State Department of Transportation in this program, with approximately \$63 million of capital costs allocated against moneys made available through the Regional Development Facility and the Regional Economic Development Program.

The Port Authority has also created rail programs or corporations that support the movement of cargo by rail:

- The New York and New Jersey Railroad Corporation is a wholly owned entity of the Port Authority that effectuates rail freight projects, including rail freight access to marine terminal facilities. For example, rail freight services are provided between the Howland Hook Marine Terminal in Staten Island, New York, and the national rail system through interchanges constructed by the Port Authority.
- The Regional Rail Freight Program was established in 2001, which the Port Authority and government entities in the States of New York and New Jersey use to coordinate and develop certain regional freight projects to provide for increased rail freight capacity. The Port Authority

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<sup>101</sup> Halbfinger, David M., "Railroad Says Conrail Is Trying to Drive It Out of Business." *New York Times*. 22 July 1997. Web. 12 Dec. 2014. <<http://www.nytimes.com/1997/07/22/nyregion/railroad-says-conrail-is-trying-to-drive-it-out-of-business.html>>.

<sup>102</sup> "Intermodal Rail." *Port of New York and New Jersey*. The Port Authority of New York and New Jersey, n.d. Web. 14 Dec. 2014. <<https://www.panynj.gov/port/intermodal-rail.cfm>>.

is authorized by its Board to provide up to \$50 million of the costs of such projects (with \$25 million allocated to projects in each of the two states).

The Port Authority also has two cruise terminals—the Brooklyn Cruise Terminal and the Cape Liberty Cruise Port in Bayonne, New Jersey—that collectively served over 528,000 passengers in 2013.<sup>103</sup> This volume is lower than in 2011, when 612,000 passengers used these two cruise terminals.<sup>104</sup> Only 16% of these passengers were New York City residents, with the remainder visiting New York City as a port of departure, denoting a high regional economic multiplier.<sup>105</sup> The Brooklyn Cruise Terminal is located on land owned by the Port Authority (in the Red Hook section of Brooklyn), leased by the NYCEDC and operated by Metro Cruise Services. The 182,000-square-foot, full-service cruise terminal represents a \$52 million investment in the cruise sector by the NYCEDC, which has grown to allow New York to become the third-largest cruise market in the U.S.<sup>106</sup> The Cape Liberty Cruise Port, situated in Bayonne, New Jersey, is operated and managed by the Cape Liberty Cruise Port, LLC.

The Port Authority functions as a “landlord” port operator and is responsible for overall port planning and coordination. The Port Authority owns many of the port facilities in its portfolio, as well as much of the port facility access roads, land, and infrastructure supporting these facilities.<sup>107</sup> The leaseholders, who are private-sector companies, are responsible for terminal operations as well as the development of terminal facilities and infrastructure covered by the lease. In its capacity, the Port Authority does not direct actual facility operations.

The Port Authority also maintains and operates public berths, at which shippers can arrange to load and unload cargo. These berths process bulk and break-bulk cargo.<sup>108</sup>

The Port Authority derives revenue from a variety of fixed and variable rates and charges. Shipping operators with long-term lease agreements for port facilities pay facility rental fees, remitted monthly based on a total annual amount. Shipping companies that do not have long-term lease agreements either use the Port Authority’s public berths or pay dockage and wharfage fees to the operators who lease the wharfs from the Port Authority. The Port Authority also assesses variable charges based on

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<sup>103</sup> Port Authority Port Commerce Department.

<sup>104</sup> New York University Rudin Center for Transportation. *The Mobility Factbook: Cruise Ship*. N.d. Web. 12 Dec. 2014. <<http://nycmobility.org/cruise/>>.

<sup>105</sup> New York City Economic Development Corporation. *New York Cruise. NYCruise Economic Impact Study*. New York, 2012. Web. 13 Dec. 2014. 9. <<http://www.nycruise.com/content/uploads/2014/03/NYCruise-2013-Economic-Impact-Study1.pdf>>.

<sup>106</sup> Confessore, Nicholas. “New Brooklyn Terminal Shows It’s Fit for Queen.” *New York Times* 16 April 2006. Web. 12 Dec. 2014. <<http://www.nytimes.com/2006/04/16/nyregion/16mary.html>>.

<sup>107</sup> *Official Statement, Series 186 and 187*. II-33 – II-37.

<sup>108</sup> Bulk cargo is loose and can be poured, such as salt, grain, or liquids. Break bulk cargo consists of individual units, such as bags or crates that can be counted.

such metrics as the length of the ship, the type and amount of cargo, the infrastructure (for instance, water, electricity, etc.) used by the shipper, among other factors.

The PONYNJ has steadily increased revenues over the past five years, but net income has been consistently negative due to the significant depreciation, amortization, and interest expenses resulting from historically high capital investments.

The Port Commerce capital program for 2014–2023 totals \$1.5 billion, with \$1.266 billion (84%) designated for 51 Core Capital projects. Approximately half (54%) of Port Commerce projects are SGR projects, which include projects such as wharf and berth reconstruction or rehabilitation, pavement and utility rehabilitation, and traffic signal implementation.<sup>109</sup> SGR projects account for only \$166 million (33%) of the core budget over the next five years, as the Port is spending a greater amount (50% of the core budget, or \$262 million) on SEP/RPP projects.

*Figure 19. Port Commerce Core Department Capital Spending by Project Type<sup>110</sup>*

Core Department Capital Spending by Project Type (\$ in 000's)	Number of Core Projects	2014–2018	2019–2023	2014-2023	2014-2023 Core Dept. Spending
State of Good Repair	25	\$ 166,587	\$ 522,214	\$ 688,801	54.40%
Mandatory	7	\$ 50,714	\$ 64,830	\$ 115,544	9.10%
Security	5	\$ 15,728	\$ 4,546	\$ 20,274	1.60%
SEP/RPP	14	\$ 262,682	\$ 179,090	\$ 441,772	34.90%
<b>Total Core Projects</b>	<b>51</b>	<b>\$ 495,711</b>	<b>\$ 770,680</b>	<b>\$ 1,266,391</b>	<b>100.00%</b>
Greenville Yards Development		\$ 286,351	\$ 26,350	\$ 312,701	
<b>Total Capital Budget</b>		<b>\$ 782,062</b>	<b>\$ 797,030</b>	<b>\$ 1,579,092</b>	

Port Commerce will continue work on important programs such as harbor dredging and the Global Terminal Development project. SGR projects are critical to the ongoing operation of the ports. For example, maintenance dredging is required in accordance with lease requirements to maintain berths at certain specified depths.

The Port is also pursuing final design and construction of the upgraded Cross Harbor Car Float system and an Intermodal Container Terminal Facility, including support tracks and various site improvements, as part of the Greenville Yards Development Project. Barge facilities enable more efficient movement of goods from west of the Hudson River to east of the river. Approximately 94% to 98% of cargo

<sup>109</sup> Capital Plan Summary 2014-2023, 36.

<sup>110</sup> *Id.*, at 26 and 34.

destined for east of the Hudson is transported currently by truck. The barge-to-rail facility at Greenville Yards will provide relief on the region's tunnels and bridges as well as provide benefits for the region.

## ii. Review Metric Results

The Port Authority's largest port facilities score high on alignment with the organization's core mission due to the significant cargo volume moved annually, but only one facility (Elizabeth-Marine Terminal) scores high on alignment with the organization's financial performance objectives.

**Alignment with Mission**—Cargo movement volume at the Port is heavily concentrated in certain facilities and, as a result, ARM scores for alignment with the Port Authority's core mission vary among the assets. Elizabeth-Marine Terminal, which processes containers and motor vehicles, moves an estimated 51% of all Port Commerce cargo volume—more than double the volume of Port Newark, the next highest facility at 21%. Elizabeth-Marine also moves an estimated 23% of all cargo moved across all Port Authority asset classes, including cargo moved across bridges, through tunnels, and at the airports. NYNJ Rail, LLC and Brooklyn & Red Hook scored lowest on alignment with mission due to their low cargo volumes, which impacted their scores for both Movement of People & Goods elements (relative and absolute) in the ARM.

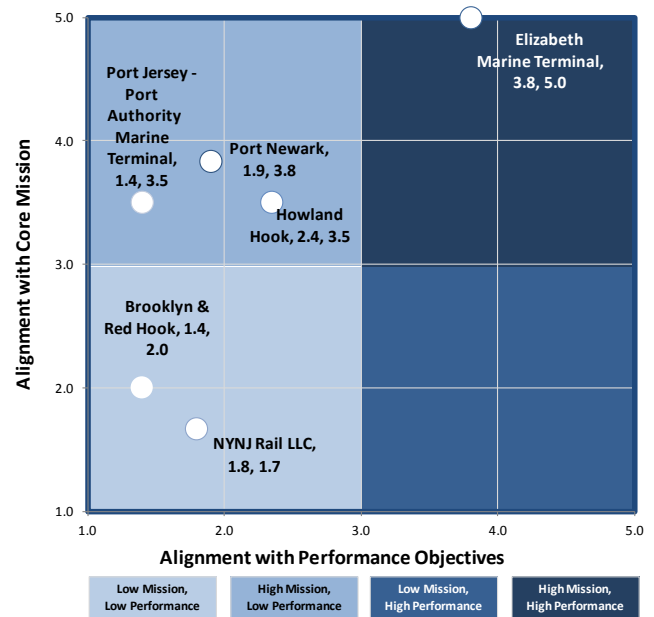
Collectively, the Port of New York and New Jersey facilities are core to the mission of the Port Authority and vital to the region's economy. According to the New York Shipping Association's 2012 Economic Impact Report, the Port Authority's port facilities create more than 296,000 jobs and over \$47 billion in personal and business income.

## iii. Challenges Moving Forward

The Port Authority's ownership, operation, and maintenance of the port facilities present numerous challenges and areas for improvement over the coming years.

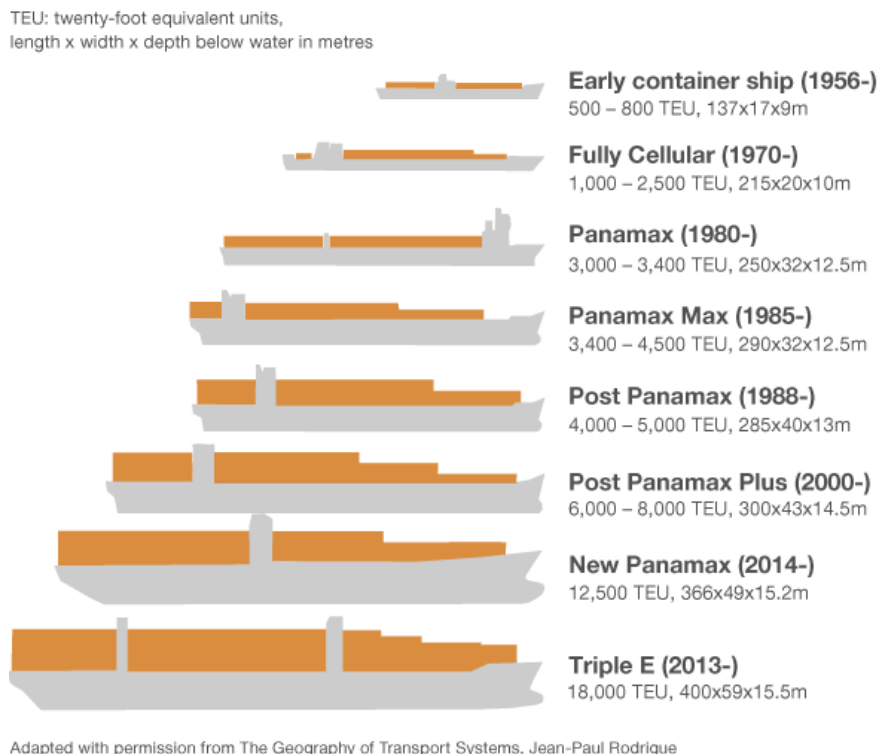
**Rapidly Changing Industry Landscape**—The maritime shipping industry is in constant flux: global markets, consumer demand and purchasing power, transportation economics, and physical infrastructure conditions are among the many variables that challenge port operators. Some of the largest impacts of the changing industry landscape are discussed below.

Figure 20. Asset Review Metric Results – Port Commerce



**Larger Vessels, Larger Cargo Volumes**—The maritime industry is moving to fewer but larger ships. This trend is expected to continue, especially for ports on the eastern seaboard with the “Class E” mega-container ships, many of which will traverse the Panama Canal once it is fully widened in late 2015 or 2016.

*Figure 21. Evolution of Container Ships<sup>111</sup>*



To be in a state of “readiness” for these larger vessels, a port must not only have waterways that provide for sufficient depth and height clearances, but the port must also have the necessary infrastructure to enable the loading and offloading of cargo and the rapid distribution of cargo once offloaded. The adage “time is money” holds especially true when considering the costs of keeping a mega-ship in port. In many senses, the port industry’s preparations for the next generation of ships resemble the airport industry’s preparations for the Airbus A380 aircraft when it was first introduced. The commercial aircraft was the largest passenger airliner in the world and required airports to widen taxiways, reinforce ramps, and construct new jet bridges, among other infrastructure upgrades.

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<sup>111</sup> Kremer, William. “How much bigger can container ships get?” *BBC News Magazine*, 18 Feb. 2013. Web. 12 Dec. 2014. 1. <<http://www.bbc.com/news/magazine-21432226>>.

The Port currently serves vessels carrying up to 9,300 twenty-foot-equivalent unit (“TEU”) containers, though these vessels (many of which come through the Suez Canal) have a different construction than Class E mega-container ships, with lower clearance and higher drafts. Once the Panama Canal is widened, the Port expects to see larger ships with greater frequency; Class E ships have capacities over 18,000 containers—over three times larger than the typical 5,000 container ship in use currently.

The development of these mega-ships reflects improvements in the efficiency, economics, and environmental impact of cargo movement. The Port Authority is expecting overall cargo volume to continue its steady growth and does not expect a sudden, dramatic growth after the completion of the Panama Canal widening project. The Port expects cargo volumes will increase only three percent to four percent.

The Port Authority has made significant capital investment to position its ports to receive these larger ships, including:

- The \$1.3 billion Navigational Clearance Program to raise the Bayonne Bridge, which will help accommodate the larger, often taller container ships that are expected to call at East Coast ports in late 2015. The Bayonne Bridge Roadway will be raised to 215 feet from the current 151 feet, addressing an ongoing concern for the maritime industry.
- With an expected completion date in March 2019, the estimated final cost of the ExpressRail Port Jersey project is \$148.9M.<sup>112</sup> The Global rail facility will give each of the major marine terminals on- or near-dock rail, a critical step in increasing the Port Authority’s discretionary cargo market share.

*Figure 22. Port Readiness for Larger Post-Panamax Vessels*

East Coast Ports by Size	Readiness
New York / New Jersey	In Process
Savannah	Not Before 2015
Norfolk	Ready
Charleston	Not Before 2015
Port Everglades	Not Before 2015
Miami	In Process
Jacksonville	Not Before 2015
Tampa	Not Before 2015
Baltimore	Ready
Mobile	Ready
Philadelphia	Not Before 2015

Other Ports by Size	Readiness
LA / Long Beach	Ready
Seattle	Ready
Houston	In Process
Oakland	Ready
Tacoma	Ready
Port Prince Rupert, Canada	Ready
Portland	Not Before 2015

Source: Collier International, Fifth Third Bank

<sup>112</sup> *Official Statement, Series 186 and 187. II-27.*

- The Port Authority and the federal government have invested approximately \$2.3 billion to complete the Harbor Deepening Project to allow for deeper channels in anticipation of future deep draft vessels. The Federal Government identified the Harbor Deepening Project as a “Project of National Significance” with national benefits estimated at \$1 billion/year and \$2.75 million/day.<sup>113</sup>

The Port must complete these planned capital investments, as well as the relocation of siphons that currently obstruct shipping lanes, to accommodate the larger ships.

**Changes in Demand and Traffic**—Market conditions can change rapidly. For example, Egyptian authorities officially announced and then almost immediately commenced constructing a second channel of the Suez Canal. The \$4 billion project will create a 45-mile long channel parallel to the current canal to accommodate growing traffic and allow ships to travel in both directions instead of conveying one way at a time, cutting wait times down to as little as three hours. The Suez Canal is expected to have higher traffic totals this year than in previous years—in part due to shippers fearing delays at the Panama Canal—and a greater percentage of the all-water eastbound shipments from Asia to North America are expected to move through the Suez rather than the Panama Canal.<sup>114</sup>

Port representatives note that in addition to the expansion of the Panama Canal, increases in traffic from the Suez Canal are likely to have a substantial impact on the Port in the long term due to the shifting of manufacturing to Southeast Asia and the Indian subcontinent. Port representatives believe this long-term trend may be more significant than the changes in the Panama Canal. However, larger global economic forces are also at play in determining the economic viability of growth in exported goods from that region. As the Port Authority plans capital and strategic investments, global infrastructure changes and economic trends should be considered. The Port and its terminal operators must monitor these trends in the industry to ensure that their rates and infrastructure remain attractive to shippers.

**Investments Needed to Maintain and Modernize**—Like many infrastructure operators, the Port Authority has spent more than \$2.7 billion in capital over the last 11 years to modernize and redevelop the Port, and tenants have also made investments to expand and modify their terminals. However, continued investment is required to maintain the state of good repair and to modernize the facilities, adapting to changing market conditions and meeting growth and logistical challenges.

The Port’s capital investment needs also include ongoing maintenance for SGR and core projects to meet regulatory requirements and provide security for the facilities. The Port’s capital investment

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<sup>113</sup> Port Authority Port Commerce Department.

<sup>114</sup> Egan, Corrine. “Construction begins on new Suez Canal channel.” *JOC.com*. JOC, 11 Aug. 2014. Web. 12 Dec. 2014. <[http://www.joc.com/maritime-news/international-freight-shipping/construction-begins-suez-channel-traffic-ticks\\_20140811.html](http://www.joc.com/maritime-news/international-freight-shipping/construction-begins-suez-channel-traffic-ticks_20140811.html)>.

challenges are exacerbated by the need to share capital funding among the Port Authority asset portfolio.

Capital investment is also needed to facilitate continued efficiency enhancements in close coordination with shippers, terminal operators, and land-based transportation companies (i.e., rail and trucking companies). The Port's ability to accept higher cargo volumes and expand its services to new markets will be dependent on its ability to increase efficiency in cargo offloading and distribution. For example, intermodal connections, such as rail connections at all port facilities, are increasingly important to enable the quick and cost-efficient transportation of cargo goods to and from locations further from the Port.

#### iv. Recommendations

***Modernize Port Commerce facilities to increase their efficiency and maximize the potential of the ports as the premier portal for cargo entering the United States, building on the successful reconstruction of the Bayonne Bridge to accommodate the most modern mega-container ships.***

Given the ports' strong alignment with the Port Authority's bi-state mission and the challenges it faces, the Port Authority must maintain its focus on modernizing Port Commerce facilities to increase their efficiency and to maximize the capacity and attractiveness of the Port as the premier entry for cargo on the east coast of the United States. The Port must continue to enhance the accessibility of the port facilities, shorten turnaround time, and extend the reach of shippers into the hinterlands. Adopting a robust capital planning process for the Port is essential. The Port must ensure that sufficient funding is devoted to SGR projects and ongoing maintenance to uphold proper safety levels and provide for regulatory compliance. The Port should also provide sufficient funding for the most forward-thinking, innovative, and beneficial major projects that will improve the financial performance of the Port and allow the Port to maintain its position as a leader in the industry.

Proper evaluation of capital investments is essential, including cost-benefit analyses to confirm that each project provides a defined and justifiable benefit to Port stakeholders that outweighs costs, including the opportunity costs of using those funds for other needed projects. The Port Authority must also consider the future impact that investments will have on Port earnings in depreciation and interest expense.

The Port Authority must continue to pursue opportunities to improve the financial and operational condition of its Port facilities. Identifying new sources of revenue, increasing volumes, and maximizing the benefit derived from each facility are key steps to accomplish this objective. In some cases, the Port Authority should pursue more dramatic strategic adjustments, such as repurposing, redeveloping, or selling obsolete or underperforming facilities.

**Increasing Access and Connectivity**—The Port Authority’s expansion capital initiatives are designed to maintain and enhance the Port’s economic competitiveness in an evolving industry. The decision to raise the Bayonne Bridge, construct the ExpressRail facility for Global terminal, and complete the 50-foot Harbor Deepening Program will enable the Port to process a greater number of larger ships that carry greater cargo volumes and, collectively with improvements made to Port infrastructure by terminal operators, should increase cargo velocity and facility reliability.

Land constraints will limit the Port’s ability to increase capacity over the longer term. The Port’s geographic location in the New York and New Jersey metropolitan region limits the land available for Port facility expansion to maximize cargo capacity and throughput as volumes increase. Since 2008, the Port Authority has added over 275 acres of marine terminal property, including two operating freight railroads (one that operates on both sides of the harbor), but growth options will be more limited going forward.

**Improving Port Efficiency and Service Reliability**—The challenges described above, as well as operating system failures, and other interruptions due to construction, extreme weather, and natural disasters led the Port Authority to form the Port Performance Task Force (“PPTF”) in late 2013. The PPTF is comprised of industry executives to (1) provide a framework for constituents of the Port to discuss areas of common interest, (2) identify challenges to efficiency and service reliability and (3) recommend potential solutions and Key Performance Indicators in order to maintain the Port’s position as a preeminent port of the United States.<sup>115</sup>

#### D. THE PORT AUTHORITY TRANS-HUDSON CORPORATION (“PATH”)

**Mission  
Recommendation #2:**

*Revitalize the Port Authority’s core transportation assets, including LaGuardia, Kennedy and Newark Liberty Airports, the Port Authority Bus Terminal (“PABT”), Port Commerce and the PATH.*

- d) **Seek an improved operating model for the PATH rail system**, including partnering with a third-party operator, to enhance the PATH’s operational performance and reduce its financial deficit.

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<sup>115</sup> The Port of New York and New Jersey Port Performance Task Force. *Port Performance Task Force Final Report: A Collaborative Effort for a Collective Change*. The Port Authority of New York and New Jersey, 2 Jun 2014. 9. Web. 13 Dec. 2014. <<http://www.panynj.gov/port/pdf/pptf-final-report-june-2014.pdf>>.

## i. Asset Overview

PATH was formed in May 1962 and several months thereafter acquired the Hudson Tubes railroad and its equipment. PATH is America's 18<sup>th</sup>-largest transit authority as measured by passenger trips and America's seventh-busiest heavy-rail system, despite operating only 28.6 miles of track.<sup>116</sup>

Despite its small size, PATH benefits from its geography and plays a critical role in connecting New Jersey with the heart of New York City and with the Wall Street financial district. Consequently, ridership is strong. The PATH carries 244,500 passengers on an average weekday<sup>117</sup> and approximately 73 million passengers each year using a fleet of approximately 350 railcars. On a typical weekday, eight out of nine riders are inter-state passengers;<sup>118</sup> 75% of all passengers are commuters and 12% are business travelers or students going to school.<sup>119</sup>

### History and the Port Authority's Role

PATH was created as a wholly owned subsidiary of the Port Authority under the jurisdiction of the Port Developments Act. Passed by New York and New Jersey, the Act authorized the Port Authority to purchase the H&M, which was operating in bankruptcy due to the growth of automobile travel and the development of new bridges and tunnels across the Hudson.<sup>120</sup> The legislation envisioned the creation of the WTC at the top end of the H&M rail-line in Lower Manhattan.

PATH has become a vital transportation alternative to the bridges and tunnels owned and operated by the Port Authority for travelers between Manhattan

Figure 23. PATH Rail System Map



<sup>116</sup> U.S. Department of Transportation. U.S. Federal Transit Administration. *National Transportation Database Transit Profiles: Top 50 Agencies*. Oct. 2013. Web. 12 Dec. 2014. <[http://www.ntdprogram.gov/ntdprogram/pubs/top\\_profiles/2012/Transit%20Profiles%20Top%2050%20Agencies.pdf](http://www.ntdprogram.gov/ntdprogram/pubs/top_profiles/2012/Transit%20Profiles%20Top%2050%20Agencies.pdf)>; American Public Transportation Association. *APTA 2013 Public Transportation Fact Book*. Washington: APTA, Oct. 2013. 8, 40. Web. 14 Dec. 2014.

<sup>117</sup> Port Authority Rail Transit Department.

<sup>118</sup> The Port Authority of New York and New Jersey. Port Authority Engineering Department, in association with VHB, ABT, and SRBI. *2014 PATH System-Wide Passenger Survey: Executive Summary Report*. n.p.: July 2014. 8. Print.

<sup>119</sup> *Id.*, at 19.

<sup>120</sup> "About PATH – History." The Port Authority of New York and New Jersey, n.d. Web. 12 Dec. 2014. <<http://www.panynj.gov/path/history.html>>.

and New Jersey, averaging 73 million annual riders for the last five years. However, ridership numbers were impacted severely in 2012, dropping more than 5% as a result of Superstorm Sandy. The storm, which disrupted activities at many of the Port Authority's facilities, caused great damage to the PATH system, significantly flooding several stations, tunnels, tracks and substations. The affected PATH stations were closed for approximately one week as the Port Authority worked to address the damage and a temporary station was set up at the WTC to restore operations more quickly. Until recently, PATH service to the WTC remained disrupted on weekends due to Sandy-related repairs.

PATH is currently implementing numerous upgrades to the system to improve capacity, address Superstorm-Sandy-related problems and repairs, and ensure continued safe operations. PATH initiatives include the replacement and upgrade of its signals system to allow for automatic train control and installation of improved tunnel and station ventilation systems. PATH is also performing station upgrades and redevelopment efforts, such as the lengthening of the platform at the Harrison station in New Jersey. These efforts are part of PATH's broader plan to provide 10-car service during peak periods instead of eight-car service to meet peak demand.

### **Comparison to Peers**

PATH's system characteristics, ridership, and regulation make direct comparisons difficult. The PATH is a heavy-rail system like other major subway systems such as the Washington Metropolitan Area Transit Authority, or the Chicago Transit Authority ("CTA"), yet the PATH is much smaller than those systems. PATH's mostly commuter ridership makes it similar to the commuter railroads of NJT, MTA's LIRR, or Metro-North. PATH's operational regulation by the Federal Railroad Administration ("FRA") is also comparable to the LIRR or commuter rail operations rather than to other heavy-rail systems, but again PATH's smaller size presents different operational and financial challenges. The LIRR, the PATH, and Metro-North are ranked 17<sup>th</sup>, 18<sup>th</sup>, and 19<sup>th</sup>, respectively, by total number of trips conducted nationally.<sup>121</sup> However, PATH carries its passengers over 370 million miles annually, a significantly shorter distance than the LIRR's 2.087 billion and Metro-North's 2.614 billion. PATH's shorter system translates to limited economies of scale and higher operating costs per mile of service.

Moreover, PATH has higher operating costs than its peer transit authorities. Measured on a per mile basis, PATH is two to three times more expensive to operate. This metric overstates PATH's relative operating expense because of the short distance, heavy usage features of the system. Measured on a per-hour basis, PATH is still more expensive than most of its peer group: 22% more expensive than NJT and 289% more expensive than MTA's Heavy Rail, but only one percent more expensive than MTA's Metro-North.<sup>122</sup> Both NJT and Metro-North charge distance-based fares, with ticket prices

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<sup>121</sup> *APTA Ridership Report - Q4 2013 Report.*

<sup>122</sup> The National Transportation Database data for PATH refers only to heavy rail only and differs slightly from PATH's internal data (*National Transportation Database Transit Profiles: Top 50 Agencies*).

increasing as the length of the journey increases. In comparison to the PATH's \$2.75 fare, both NJT and Metro-North are markedly more expensive. A one-way peak fare on NJT from Newark Penn Station to New York Penn Station costs \$5.00; a one-way peak fare on Metro-North from the Bronx to Grand Central Station would cost \$8.25 for the eight-mile trip.<sup>123</sup>

*Figure 24. PATH Peer Comparison of Expenses and Revenue*<sup>124</sup>

System	Operating Expenses			Revenue from Fares	Farebox Recovery Ratio
	Total	Per Mile	Per Hour	Total	% of Op Ex
<b>PATH (Heavy Rail)</b>	<b>\$312</b>	<b>\$31.10</b>	<b>\$576</b>	<b>\$126</b>	<b>40%</b>
NJT (Commuter Rail)	\$870	\$13.96	\$471	\$506	58%
MTA (Heavy Rail)	\$3,744	\$10.96	\$199	\$2,742	73%
MTA (LIRR)	\$1,164	\$18.54	\$571	\$581	50%
Top 50 transit Authorities Heavy Rail	\$6,834	\$10.90	\$217	\$4,470	65%
Metro-North (Commuter Rail)	\$941	\$15.38	\$560	\$587	62%

PATH's revenue also lags its peer group. PATH's farebox recovery ratio—the amount the system receives in fares relative to its costs—is only 40%, far lower than the LIRR (50%), NJT (58%), the average of all heavy-rail systems (65%) or MTA's heavy-rail system (73%). The above data do not reflect PATH's most recent fare increases over the past two years, which have improved PATH's farebox recovery ratio. PATH's internal data indicate that the farebox recovery ratio rose to 53% in 2013.<sup>125</sup> However, this data excludes administrative overhead and self-insurance expenses, which are included in the National Transit Database data cited above. Including this data, PATH's farebox recovery ratio in 2013 was 44.5%.

<sup>123</sup> "Schedules and Fares." *NJTransit.com*. New Jersey Transit Corporation, n.d. Web. 14 Dec. 2014. [http://www.njtransit.com/sf/sf\\_servlet.srv?hdnPageAction=MainTo](http://www.njtransit.com/sf/sf_servlet.srv?hdnPageAction=MainTo); "Fares and Ticket Information." *MTA.info*. Metropolitan Transportation Authority, n.d. Web. 14 Dec. 2014. <<http://web.mta.info/fares/>>. Note: Assumes purchase of ticket at station with no applicable discounts.

<sup>124</sup> "Welcome to NTD Data." *National Transportation Database*. U.S. Department of Transportation, U.S. Federal Transit Administration, n.d. Web. 12 Dec. 2014. <<http://www.ntdprogram.gov/ntdprogram/data.htm>>.

<sup>125</sup> Port Authority Rail Transit Department.

PATH is in the final year of a four-year fare increase, in which fares have increased by \$0.25 per year. As a result, fares will have increased by over 57% in a four-year period to \$2.75. Most riders do not pay the full fare, and instead purchase multiple trips at substantial discounts. These discounts total roughly \$35 million per year. Even after the fare increases, the PATH is still the most affordable means of crossing the Hudson. Bus service from Hoboken averages \$3.20 each way, and driving across the Lincoln Tunnel costs \$14.00 in cash or \$11.75 with an E-ZPass discount (although the cost is only paid one way).<sup>126</sup>

## ii. Review Metric Results

PATH was assessed as part of the ITN for the ARM. On the ITN, PATH, like the PABT, scored high on alignment with core mission but scored low on alignment with financial performance objectives given their negative annual earnings and financial instability. PATH and the PABT lost an average of \$348 million and \$88 million per year over each of the last five years,<sup>127</sup> respectively; these assets rank last in terms of earnings for all assets included in the ARM.

## iii. Recommendation

***Seek an improved operating model for the PATH rail system, including partnering with a third-party operator, to enhance the PATH's operational performance and reduce its financial deficit.***

The PATH serves as a vital transit system in the bi-state region, but its unique non-subsidized financing structure has led to large financial deficit. To address the PATH's unprofitability, the Special Panel recommends that the Port Authority (i) continue to pursue operational efficiencies in its own management of PATH and (ii) simultaneously explore an improved operating structure for the system.

The PATH is a unique asset within the Port Authority's portfolio, as the only rail system and the only asset for which the Port Authority has direct operating responsibility (e.g., at the airports, airlines and vendors provide revenue-generating services to passengers). The Port Authority derives limited to no synergies or economies of scale from operating the PATH, especially given the limited size of the system.

The Special Panel recommends that the Port Authority pursue the possibility of partnering with a third-party operator, public or private, that manages urban transit or commuter rail service in order to improve the PATH's operational effectiveness and financial efficiency. Such an operator could realize economies of scale given their existing operating, maintenance, and capital activities, and may be able

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<sup>126</sup> Port Authority Rail Transit Department.

<sup>127</sup> Financial Statements and Appended Notes for the Year ended December 31, 2013. Schedules E and G.

to reduce the PATH's expenditure levels. Furthermore, a new operator may be outside the jurisdiction of the FRA, enabling a reduction in expenses resulting from these higher regulatory requirements currently imposed on the system. PATH's current annual operating loss would likely require the Port Authority to incentivize any successor operator for the PATH system. This incentive may take various forms, including: a one-time upfront payment equal to the discounted value of the projected operating loss and required capital expenditures for a mutually agreed-upon duration; an annual subsidy provided by the Port Authority to the external operator equal to the amount of the operating loss and required capital expenditures for a defined time period; additional infrastructure assets for which the value of the land, income, future development rights, etc. are equivalent to the estimated operating loss of the PATH system; or a combination of the above.

The Port Authority must also address the PATH's financial performance.

There are several potential approaches to improve the PATH's financial performance. These range from small-scale changes in operations, service, and asset usage to large changes in operational control and revisiting PATH's relationship with the federal government. Given recent increases in PATH fares, the Special Panel focused on non-fare-based financial improvement opportunities. These are described below.

**Pursue Federal Funding**—PATH is unique among major heavy-rail operators in that it does not receive direct or indirect annual subsidies from the Federal Transit Administration ("FTA").<sup>128</sup> The FTA operates a series of annual grant programs, which distribute funds to designated recipients in urban areas based on multiple factors, including measures of transit service. Based on its system characteristics and operations, PATH may be able to qualify for \$15 million or more per year in federal grants.

**Pursue alternative regulatory oversight**—PATH is subject to more stringent regulatory requirements under the FRA than other public transit peers. Much of this FRA regulation is geared toward different types of rail service than what PATH offers—namely, commuter rail, freight rail, and intercity passenger rail, such as Amtrak. PATH would likely achieve operational and capital cost savings if it were subject to similar federal regulatory standards as other heavy-rail urban public transit systems, like the MTA's subway system.

**Implement PATH service changes**—PATH is one of only four heavy-rail systems in America to provide service 24 hours a day for seven days a week; the others are MTA, CTA (which runs only limited service overnight), and the Pennsylvania Port Authority ("PATCO"), which operates a single line from Philadelphia to New Jersey. The PATH's ridership falls substantially overnight, especially on

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<sup>128</sup> PATH received FTA grants as a result of recovery funds for Superstorm Sandy and for reconstruction of the WTC. However, these one-time grants are marked specific purposes or projects, rather than recurring annual funding.

weeknights, when overnight riders between 1:00 a.m. and 5:00 a.m. constitute less than 1% of daily riders. The cost of providing this service per passenger rises substantially, from \$0.01 to \$0.02 per passenger during weekday peak hours to an average of \$1.15 per rider overnight.

Eliminating overnight service during weekends (i.e., eliminating service on Friday night/early Saturday and Saturday night/early Sunday) would produce operational and capital expense savings. Operational savings would include savings on energy, labor, and station operations; and capital savings would result from allowing capital improvements to be conducted without train interruption. Currently, the PATH shuts down one of the two tracks in each direction during the overnight hours to allow for capital maintenance. This reduces service so that trains come every 35 minutes in each direction. PATH could achieve operational and capital savings estimated to be at least \$10 million per year from stopping service altogether between 1:00 a.m. and 5:00 a.m. on weeknights.

The impact of a service reduction would be limited. Assuming that some riders slightly alter their travel plans to ride the last train before operations cease or the first train after they recommence, approximately one-half of one percent of PATH riders during the time period (just under 1,500) would be affected.<sup>129</sup> If PATH decided to offer riders an alternative, bus service for these customers at the cost of \$4 per passenger would cost approximately \$1.5 million per year.<sup>130</sup>

**Increase advertisement revenue**—PATH has doubled advertising revenue in recent years, but there is additional room to increase this valuable revenue stream. PATH's advertising revenue increased from just under \$1.5 million in 2011 to over \$3.1 million in 2013,<sup>131</sup> and PATH is forecasting over \$4 million in advertising revenue in 2014. The large increase in PATH advertising revenue indicates that this was an underutilized source of revenue. The LIRR, a service with comparable number of passengers, appears to generate over \$14 million in advertising per year.<sup>132</sup> Additional sources of advertising revenue, such as more branding of commuter cards, wrapping of cars, and increased usage of signage could produce enhanced revenue without effecting service. Another source of advertising revenue could be to exchange free Wi-Fi service to customers advertising content. Opportunities to increase advertising revenue could realistically generate at least \$1 million to \$2 million per year.

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<sup>129</sup> These figures assume that half of riders during the 1-2 a.m. hour and the 4-5 a.m. hour changed their travel plans, while no changes were made by those riding between 2-4 a.m.

<sup>130</sup> 1,500 passengers over 260 weekdays per year.

<sup>131</sup> Port Authority Rail Transit Department.

<sup>132</sup> Metropolitan Transportation Authority. *MTA 2013 Adopted Budget: February Financial Plan 2013 – 2016*. New York: MTA, 2013. Web. 12 Dec. 2014. VI-41.

<[http://web.mta.info/mta/budget/pdf/Adopted\\_Budget\\_Feb\\_Financial\\_Plan2013-16.pdf](http://web.mta.info/mta/budget/pdf/Adopted_Budget_Feb_Financial_Plan2013-16.pdf)>.

#### 4.5. Mission Recommendation #3: Phase Out Real Estate Ownership and Development

**Mission Recommendation #3:** *Phase out real estate ownership and development as an element of the Port Authority's mission.*

- a) **Prudently divest existing real estate holdings** and restrict future real estate investments to those integral to the Authority's core transportation mission.
  - **Divest and monetize the Port Authority's commercial real estate holdings at the World Trade Center** pursuant to a plan that reflects both the value of these assets and the site's national significance.
  - **Divest and monetize other commercial real estate holdings** not necessary to the Authority's core mission in a manner that maximizes proceeds available to support transportation infrastructure.
  - **Assess future real estate opportunities using standardized metrics** to ensure consistency with the Port Authority's core mission.
- b) **Repurpose, redevelop or sell underperforming assets**, including obsolete facilities such as the Red Hook Container Terminal.

The Port Authority manages a real estate portfolio containing more than 12,000 acres of land as well as 45 million square feet of office, industrial and retail space.<sup>133</sup> This portfolio includes the WTC site, as well as many of the busiest and most important transportation links in the New York/New Jersey region. Many of the Authority's real estate operations are linked directly to its transportation assets, produce revenue to support the Authority's vital infrastructure, and provide important retail and other consumer amenities as well as local business opportunities. However, beginning in the early 1960s with the commitment to develop the original WTC, the Port Authority began to undertake real estate development activities less directly related to its core mission. While identified as important priorities by the two states, these activities have necessarily impacted the resources and attention available to manage and modernize the Authority's core transportation assets.

Following the tragic events of 9/11, the Port Authority understandably deferred reconsideration of the role of real estate activities in its mission. Now, as the WTC reconstruction effort nears completion, the Panel recommends that the Port Authority refocus its core mission on transportation—with future real estate development efforts strictly limited to projects integral to that mission. The Panel further

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<sup>133</sup> The Port Authority of New York and New Jersey. "About Real Estate & Development." n.d. Web. 12 Dec. 2014. <<http://www.panynj.gov/real-estate-development/about-real-estate-development.html>>.

recommends that the Authority manage its interests at the WTC to facilitate the ultimate divestiture of those assets in a manner that reflects their monetary value and national significance.

## A. WORLD TRADE CENTER

<b>Mission Recommendation #3:</b>	<i>Phase out real estate ownership and development as an element of the Port Authority's mission.</i>
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- a) **Prudently divest existing real estate holdings** and restrict future real estate investments to those integral to the Authority's core transportation mission.
  - **Divest and monetize the Port Authority's commercial real estate holdings at the World Trade Center** pursuant to a plan that reflects both the value of these assets and the site's national significance.

### i. Asset Overview

The WTC site was added to the Port Authority's asset portfolio in the early 1960s after bi-state legislation was enacted to authorize the Port Authority to develop the 16-acre site and assume the operations and assets of the adjacent H&M (now referred to as PATH). In the summer of 2001, the Port Authority effectively privatized the original WTC by entering into a 99-year lease of the site, in an effort to divest the facility from its managed portfolio of assets. Of course, the tragic events of September 11, 2001, which, in addition to the thousands of lives lost, included the loss of the Port Authority's Executive Director and 83 additional employees, interrupted this effort, and have profoundly affected the Port Authority's role at the site, and indeed its overall priorities in the years since.

Given the utter devastation of the site and the legal complexities to be resolved, it was years before substantial reconstruction could begin. This uniquely complex redevelopment process involved significant security concerns, numerous legal and regulatory hurdles, reconciliation of the interests of dozens of stakeholder groups—including the families of those lost in the attack—and recognition of the deep national commitment to preserving "Ground Zero" as a memorial to the victims of the largest terrorist attack in American history and to the bravery of the many heroes of that day. Once policymakers had agreed on the outlines of the new WTC, the Port Authority—as owner of the underlying property—committed itself fully to seeing the rebuilding effort to a successful conclusion.

The lengthy, complicated and enormously expensive process of restoring this national landmark to its rightful place as a thriving commercial and transportation hub in Lower Manhattan has strained the Port Authority's resources and operational capacities. Much has been learned in the rebuilding process, and in recent years the Authority has proceeded in a focused and fiscally-disciplined fashion to fulfill its obligations. A comprehensive vision of the revitalized WTC is now in place with many of its key elements, from the National September 11 Memorial & Museum to the majestic 1 WTC, already in operation.

The site plan for the new complex is shown on the map below.<sup>134</sup>

Figure 25. Map of the WTC Complex



Several of these facilities have already opened, including the National September 11 Memorial & Museum, 1 WTC, 4 WTC and 7 WTC. Other facilities will open in 2015, including the Transportation Hub and the Westfield retail complex.

<sup>134</sup> Facilities not depicted on the map include: 5 WTC to be constructed on an adjoining parcel, located at the corner of Greenwich and Liberty Streets, to be transferred to the Port Authority by the Lower Manhattan Development Corporation; 7 WTC – across Vesey Street diagonal to 1 WTC; the Performing Arts Center – to be located 60 feet from 1 WTC on Fulton and Greenwich Streets; and St. Nicholas Greek Orthodox Church – to be constructed at the intersection of Liberty and Greenwich Streets within Liberty Park.

*Figure 26. Overview and Key Information of Key WTC Site Facilities<sup>135</sup>*

Facility	Status	Port Authority Involvement
1 WTC	Open for occupancy	<ul style="list-style-type: none"> <li>• Joint venture with Durst, though Port Authority retains primary ownership (approx. 90%)</li> <li>• Durst will manage, operate and lease the building</li> </ul>
2 WTC	Constructed to street level only	<ul style="list-style-type: none"> <li>• Net lease to Silverstein</li> <li>• No Port Authority development support</li> <li>• Construction dependent on Silverstein's ability to secure financing</li> <li>• Port Authority controls planned retail areas</li> </ul>
3 WTC	Under construction	<ul style="list-style-type: none"> <li>• Net lease to Silverstein; capped Common Area Maintenance ("CAM")</li> <li>• Capped public backstop of \$390 million from the Port Authority, State of New York and City of New York; any payments to be reimbursed by Silverstein<sup>136</sup></li> <li>• Port Authority controls planned retail areas</li> </ul>
4 WTC	Open for occupancy	<ul style="list-style-type: none"> <li>• Net lease to Silverstein; also pays capped CAM (site cost allocation)</li> <li>• Port Authority master lease supports Silverstein's Liberty Bonds; any payments to be reimbursed by Silverstein<sup>137</sup></li> <li>• Port Authority headquarters</li> </ul>
5 WTC	Future plans only	<ul style="list-style-type: none"> <li>• Land currently held by Lower Manhattan Development Corporation</li> <li>• Land to revert to Port Authority under swap agreement for the National September 11 Memorial &amp; Museum land</li> <li>• Port Authority has development rights</li> </ul>
WTC Retail (Westfield)	Opening in 2015	<ul style="list-style-type: none"> <li>• In early 2014, the Port Authority transferred its remaining interest in the WTC Retail Complex to Westfield and, as a result, expects to receive payments totaling up to \$1.4 billion, subject to completion of the premises.<sup>138</sup></li> </ul>
Transportation Hub	Opening in 2015	<ul style="list-style-type: none"> <li>• Construction managed by the Port Authority</li> <li>• Port Authority providing funding to supplement FTA and other transit grants</li> <li>• Westfield sale does not impact the Port Authority's ownership of the hub, but retail space within the hub constitutes the majority of the retail complex acquired by Westfield</li> </ul>
VSC & Site Infrastructure	Continuing development	<ul style="list-style-type: none"> <li>✓ Port Authority serves as developer and operator of the Vehicle Security Center ("VSC"), common areas (e.g., central corridors) and site infrastructure (e.g., chiller plant)</li> <li>• CAM provisions in the leases with the different stakeholders at the site (i.e., Silverstein, Westfield and others) allow the Port Authority to partially recover some of its operating and maintenance costs</li> </ul>

In order to speed rebuilding and maximize value to the public, the Port Authority has managed the numerous components of the overall WTC project under a broad array of legal and economic

<sup>135</sup> Port Authority Board meeting minutes and Capital Planning Department.

<sup>136</sup> *Official Statement, Series 186 and 187*. II-28.

<sup>137</sup> *Official Statement, Series 186 and 187*. II-27.

<sup>138</sup> The \$1.4 billion is inclusive of Westfield's original equity contribution of \$612.5 million. *Official Statement, Series 186 and 187*. II-25.

arrangements. As site construction winds down over the next several years, the Port Authority’s operational role is expected to focus on managing the Transportation Hub, collecting ground rents, serving as joint venture partner with the Durst Organization on 1 WTC, maintaining the complex’s shared infrastructure, and providing site security in conjunction with the New York City Police Department (“NYPD”) and private security contractors managed by the Durst and Silverstein organizations.

As more of the WTC facilities become operational in the coming years, revenues derived by the Port Authority from the site will grow significantly and stabilize into a reliable income stream. The Port Authority forecasts that net revenue from WTC rentals, leases and other income will stabilize in Fiscal Year 2019 as occupancy levels normalize.

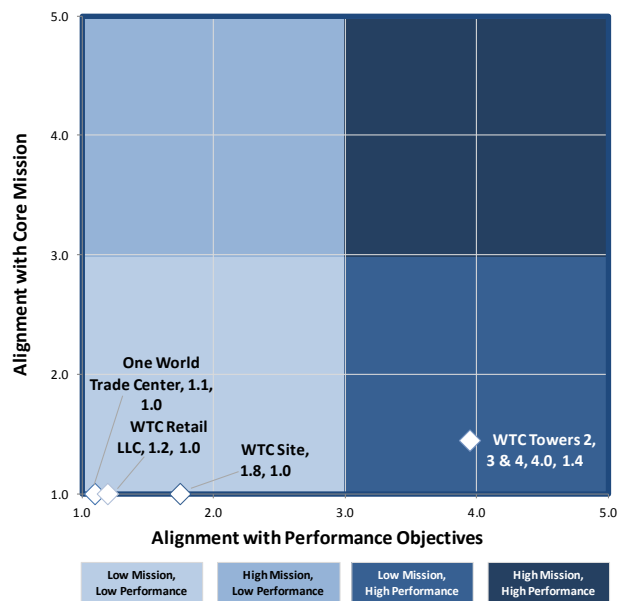
**ii. Review Metric Results**

The WTC real estate assets score low on alignment with the Port Authority’s core mission as the assets do not move people or goods. Towers 2, 3, and 4 are the only WTC assets to score high on alignment with financial performance objectives.<sup>139</sup>

**Alignment with Mission**—The WTC real estate assets are not transportation facilities and therefore score low on alignment with the Port Authority’s mission. Towers 2, 3, and 4 score above the minimum for this factor in the ARM due to the positive earnings of the towers per staff member associated with WTC development at the Port Authority.

**Alignment with Financial Performance Objectives**—Most WTC assets are under development and not yet fully operational and therefore score low on alignment with financial performance objectives. WTC Towers 2, 3, and 4, however, score high on this factor due to the net lease agreements with Silverstein. The Port Authority collected approximately \$29.2 million and \$29.9 million in revenue for WTC Towers 2,

*Figure 27. Asset Review Metric Results – World Trade Center*



<sup>139</sup> The World Trade Center Transportation Hub is included as an Interstate Transportation Network asset for purposes of analysis, consistent with the Port Authority’s financial statement reporting (*Financial Statements and Appended Notes for the Year ended December 31, 2013*. Schedule F).

3, and 4 in 2012 and 2013, respectively.<sup>140</sup> As to the WTC Retail complex, the Authority derives no recurring revenue because it sold its remaining interest to Westfield in early 2014. 1 WTC only became operational in 2014 and its financial performance metric will rise as the building opens to more tenants.

### iii. Challenges Moving Forward

The Port Authority's ownership of the WTC site and its operation and management of certain facilities present both potential challenges and opportunities for improvement:

**Alignment with Core Mission**—The Port Authority's core mission and the vast majority of its assets are focused principally on the efficient and effective movement of people and goods throughout the New York-New Jersey Metropolitan Region.

**Significant Capital Investment and Ongoing Commitments**—The Port Authority has invested significantly in WTC redevelopment over the last decade. The Port Authority has also furnished various backstops for construction and leasing overruns, senior debt service shortfalls, and operating expense deficits for the Silverstein properties of 2, 3, and 4 WTC.

**Site Security and Considerations**—Security of the WTC site is a vital consideration for all stakeholders, including the Port Authority, the City of New York, the residents and businesses of New York, and site visitors. Currently, site security is managed by the Port Authority Police Department ("PAPD") in conjunction with the NYPD and private security contractors. Given the importance and cost of essential security, the Port Authority needs to consider how to best provide this security in the long term, especially if its ownership interests change. As several facilities—such as the Transportation Hub, the VSC, common areas, and other core site infrastructure—are likely to remain under Port Authority control for the foreseeable future, the PAPD will continue to play a role and work in close concert with the NYPD and private security contractors.

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<sup>140</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013. Schedule E.*

#### iv. Recommendations

***Divest and monetize the Port Authority's commercial real estate holdings at the World Trade Center pursuant to a plan taking into account both the value of these assets and the site's national significance.***

Based on the foregoing analysis, the Special Panel recommends that the Port Authority pursue a substantial reduction of its ownership and operational role at the WTC, consistent with the refocusing of its core mission on transportation. However, in view of the enormous capital investment made by the Port Authority in the new World Trade Center—as well as the national significance of the site—the Panel acknowledges that this process must be deliberate and may require a number of years to be concluded.

#### B. OTHER REAL ESTATE HOLDINGS

**Mission Recommendation #3:** *Phase out real estate ownership and development as an element of the Port Authority's mission.*

- a) **Prudently divest existing real estate holdings** and restrict future real estate investments to those integral to the Authority's core transportation mission.
- **Divest and monetize other commercial real estate holdings** not necessary to the Authority's core mission in a manner that maximizes proceeds available to support transportation infrastructure.
  - **Assess future real estate opportunities using standardized metrics** to ensure consistency with the Port Authority's core mission.

#### i. Asset Overview

The Special Panel assessed seven additional waterfront and industrial development properties: the Hoboken South Waterfront Development Facility, Queens West Waterfront Development Facility, Essex County Resource Recovery, Teleport, Bathgate Industrial Park, Port Authority Industrial Park at Elizabeth, and the Newark Legal and Communications Center.

#### History and Port Authority's Role

**Hoboken South Waterfront Development Facility** is a 50-acre mixed-use waterfront development at the former Hoboken-Port Authority Marine Terminal. The Port Authority and the City of Hoboken entered into a municipal development agreement in 1995 for the mixed-use waterfront development

project with a commercial, residential and recreational community at the former Hoboken-Port Authority Marine Terminal.

<b>No Current Disposition Plans</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$102.9 million as of June 30, 2014<sup>141</sup> for property acquisition and clean-up</li> <li>• Development of individual properties and operating expenses are obligations of the developer</li> <li>• Property is revenue producing under current lease agreements</li> </ul>
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**Queens West Waterfront Development Facility** is a joint project sponsored by the Port Authority and the New York Empire State Development Corporation (“ESDC”) in cooperation with the Queens Borough President. In 1992, the Port Authority, the ESDC, the City of New York and the NYCEDC entered into a municipal agreement to develop a mixed-use waterfront development project on the Hunters Point site. After the Board determined that 24 acres of the southern portion of this site were no longer required, given its original intent, the Port Authority sold these acres in 2009 to NYCEDC (as assignee of the City of New York). The municipal agreement was then terminated, and the Port Authority and the ESDC entered into the current agreement for the joint project.

<b>No Current Disposition Plans</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$96.5 million as of June 30, 2014<sup>142</sup></li> <li>• Plots leased to developers to build residential and related buildings</li> <li>• Limited ability to sell given a payment in lieu of taxes and ground lease agreements, some with a 99 year term</li> </ul>
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**Essex County Resource Recovery Facility** was initially a joint undertaking of the Port Authority, Essex County and American Ref-Fuel Company of Essex County. The facility is currently operated by Covanta Energy under a long-term lease with the Port Authority. The plant processes about 2,750 tons of solid municipal waste per day and generates approximately 65 megawatts of electricity that is sold on the open market.

The facility is New Jersey's largest waste-to-energy plant and serves the refuse disposal needs of 22 municipalities in Essex County and the surrounding region. It operates 24 hours a day, seven days a week, and employs almost 90 people.

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<sup>141</sup> *Official Statement, Series 186 and 187.* II-50.

<sup>142</sup> *Ibid.*

<b>Disposition Underway</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$44.6 million as of June 30, 2014<sup>143</sup></li> <li>• Agreement with Covanta Energy recently restructured to a net lease, where ongoing obligations are passed to Covanta including an environmental upgrade requirement</li> </ul>
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**Teleport** is located at the Staten Island Industrial Park and has been managed since 1984 by the Port Authority under a long-term lease with New York City whose term ends in May 2024. Designed originally as a regional satellite communications center, the Teleport has evolved into a mixed-use industrial park that consists of data centers and support operations, commercial office space and educational facilities. The 100-acre Teleport business park includes five Class A office and specialized buildings totaling 700,000 square feet and three ready-to-build development sites.

<b>Exploration of Disposition Options Underway</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$77.1 million as of June 30, 2014<sup>144</sup></li> <li>• Port Authority obligations under a lease agreement with the City add complexity to disposition and include responsibility for a power sub-station</li> <li>• Individual lots are leased to various developers who have built office buildings and data centers</li> </ul>
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**Bathgate Industrial Park** opened in 1982 in the Bronx under joint development of the Port Authority and the NYCEDC. The 20-acre park offers approximately 454,000 square feet of space for light industrial, distribution, office and educational purposes.

<b>Exploration of Disposition Options Underway</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$50.4 million as of June 30, 2014<sup>145</sup></li> <li>• Land owned by the City of New York and ground leased to the Port Authority under an agreement expiring in 2020</li> <li>• Port Authority constructed seven buildings and now net leases the facility under various sub-leases</li> </ul>
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**Port Authority Industrial Park at Elizabeth** is a 12-acre industrial park adjacent to the Port Newark/Elizabeth Marine Terminal Complex and Newark Liberty International Airport. The Port Authority recognized that the land, sea and air access provided by this area creates an ideal

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<sup>143</sup> *Ibid.*

<sup>144</sup> *Ibid.*

<sup>145</sup> *Ibid.*

environment for retailers. As a result, between 1988 and 1977 the majority of the land was sold to IKEA, a Swedish home furnishings retailer; the remaining land consists of a building that is leased to AFI Food Service for use as a distribution facility.

<b>No Current Disposition Plans</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$12.1 million as of June 30, 2014<sup>146</sup></li> <li>• Property is leased and revenue producing</li> </ul>
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**Newark Legal and Communications Center** was undertaken by the Port Authority in cooperation with other government authorities to help revitalize the Newark business district. The Newark Legal and Communications Center Urban Renewal Corporation (“NLCCURC”) was formed in 1988 by the Port Authority to oversee the project. An adjacent parking garage and pedestrian walkway were also constructed with proceeds of a federal grant obtained by the City of Newark.

In 2001, the NLCCURC entered into a 50-year net lease with Matrix One Riverfront Plaza, LLC (“Matrix”).

<b>Disposition Underway</b>	<ul style="list-style-type: none"> <li>• Port Authority cumulative capital investment of \$97.3 million as of June 30, 2014<sup>147</sup></li> <li>• Agreement executed in 2014 for the phased transfer of the Port Authority’s interests to an affiliate of Matrix in exchange for approximately \$42 million<sup>148</sup></li> </ul>
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**Financial Impact on the Port Authority**

Notwithstanding the Port Authority’s efforts to reduce its role in these facilities consistent with their continued operation, these real estate holdings cumulatively represent a continuing drain on the Port Authority staff’s attention and the Authority’s financial resources. On a cash flow basis in 2013, the projects collectively generated approximately \$14 million in net operating revenue (i.e., Gross Operating Revenues less Operating Expenses). However, amortization and depreciation totaled \$11.6 million. As a result, Income from Operations for the seven projects approached \$2.4 million, while Net Income including net interest expense reflected a loss of approximately \$4.9 million as shown in Figure 28.

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<sup>146</sup> *Ibid.*

<sup>147</sup> *Ibid.*

<sup>148</sup> *Official Statement, Series 186 and 187. III-9.*

*Figure 28. Other Real Estate Development Net Income (Loss), 2013<sup>149</sup>*

<b>DEVELOPMENT</b>			
<b>Year Ended December 31, 2013 (\$ in thousands)</b>			
	<b>Income (Loss) from Operations</b>	<b>Interest, Grant &amp; Other Expenses*</b>	<b>Net Income (Loss)</b>
Essex County Resource Recovery	(1,398)	464	(1,862)
Industrial Park at Elizabeth	852	315	537
Bathgate	1,288	284	1,004
Teleport	(1,877)	514	(2,391)
Newark Legal & Communications Center	(397)	965	(1,362)
Queens West	184	1,638	(1,454)
Hoboken South	3,724	3,066	658
<b>Total Development</b>	<b>2,376</b>	<b>7,246</b>	<b>(4,870)</b>

\* Amounts include net interest expense (interest expense less financial income), grant, pass-through grant program payments and gain or loss generated by the disposition of assets, if any.

The Port Authority has pursued the monetization or divestiture of several of these assets, such as the Teleport, Bathgate, Newark Legal Center and the Essex County Resource Recovery Facility. This process requires coordination with numerous public and private stakeholders, and is hampered in some cases by issues, such as existing ground lease terms and conditions, real estate taxes and related PILOT Agreements, and zoning issues, which limited the financial potential of the assets. Nevertheless, the Port Authority should continue these efforts, which would reduce its operating and financial risk and enable it to pursue new projects more closely aligned with its core mission.

**ii. Recommendation**

***Divest and monetize other commercial real estate holdings not necessary to the Authority's core mission in a manner that maximizes proceeds available to support transportation infrastructure. Assess future real estate opportunities using standardized metrics to ensure consistency with the Port Authority's core mission.***

In addition to the specific assets addressed in the preceding section, the Special Panel recommends that the Authority divest and monetize all non-revenue producing real estate assets as soon as commercially practical. These real estate assets require ongoing expenditures of time and money to support development and operating commitments, physical infrastructure maintenance, and interest on debt financing, but they provide little or no offsetting revenue. As a result, these assets divert staff attention and financial resources from core transportation facilities and needed new projects.

<sup>149</sup> *Financial Statements and Appended Notes for the Year ended December 31, 2013. Schedule E.*

Furthermore, the Special Panel recommends that the Port Authority assess future real estate investment opportunities using standardized tools and metrics, such as the ARM tool, which will help to ensure that real estate developments and holdings align with the Port Authority's core transportation mission.

**C. UNDERPERFORMING ASSETS**

**Mission Recommendation #3:** *Phase out real estate ownership and development as an element of the Port Authority's mission.*

**b) Repurpose, redevelop or sell underperforming assets,** including obsolete facilities such as the Red Hook Container Terminal.

The Port Authority may wish to explore potential alternative uses for certain port facilities that move lower cargo volumes and consistently underperform financially. For example: the Brooklyn – Port Authority Marine Terminal has not moved any cargo for the last four years. Facility revenues have instead come from the Brooklyn Cruise Terminal, which moved over 100,000 passengers last year. These revenues have been insufficient to cover expenses associated with the terminal, and as a result the facility averaged operating losses of \$5 million over the past five years.

The Red Hook Container Terminal has low cargo volumes as well, averaging an estimated 900,000 metric tons of cargo per year, which is eight percent of Port Newark volume and only three percent of Elizabeth volume. The Red Hook Container Terminal's operating loss has averaged \$8 million per year and exceeded \$12 million in 2013. While the Port Authority entered into a five-year lease agreement with Phoenix Beverages in September 2013, which is expected to reduce the Port Authority subsidy to the terminal from \$13 million to \$3.75 million by 2017, the terminal continues to face a number of challenges. The Port Authority is currently performing a "highest and best use" study of the Red Hook Container Terminal that will evaluate maritime, as well as alternative, uses for the facility. The results of this study should help inform the Port Authority on the best use of this asset moving forward.

#### 4.6. Mission Recommendation #4: Employ More Innovative and Flexible Financing Techniques

**Mission Recommendation #4:**

*Employ innovative and flexible financing techniques to increase operational flexibility and financing capacity while maintaining the Port Authority's high standing in the credit markets.*

- a) **Update the Port Authority's 1952 Consolidated Bond Resolution** to increase operational flexibility, including facilitating the divestment of non-core assets.
- b) **Employ public-private partnerships, tax increment financing, value capture and other innovative financing tools** to provide funding alternatives and enhanced operational opportunities.
- c) **Utilize the most up-to-date financing techniques available to public authorities**, including project-specific and subordinated debt financing, to augment the Authority's traditional sources of capital and provide greater financing flexibility, while maintaining a strong credit rating and access to the capital markets.
- d) **Retain a leading global investment advisory firm** to assist Port Authority staff in ensuring maximum returns on the Authority's invested funds, consistent with the conservative investment approach appropriate for public agencies.

In February 2014, the Port Authority's Board of Commissioners passed a \$27.6 billion Capital Plan that included vital investments in the region's infrastructure over the next ten years. The Plan has been managed in the same fiscally sound manner in which it was developed, with an eye towards the long term financial strength of the organization while maintaining its strong credit quality, which includes AA-ratings from Standard & Poor's and Fitch and a Aa3 rating from Moody's. This responsible approach has led the Authority to benefit from ready access to the capital markets at a relatively low cost. Further, with the development of an integrated long-term financial model that is monitored quarterly, the Board of Commissioners has been given the tools and flexibility to react to revenue trends and adjust spending in the Capital Plan as appropriate. The Port Authority should be commended for its fiscally responsible management of the public's funds; however, as the Authority confronts the region's transportation challenges of 21<sup>st</sup> century, it must continue to adopt new methods of financing large capital construction projects. Simply put, the Port Authority must find new and innovative ways to raise revenue without placing an undue burden on the public or the financial health of the Authority.

While this is a challenge faced by public sector organizations across the country and there is no "silver bullet" solution to address this growing challenge, the Special Panel recommends that the Port Authority employ more innovative and flexible financing options, as set forth below.

## A. UPDATE THE PORT AUTHORITY'S 1952 CONSOLIDATED BOND RESOLUTION

***Update the Port Authority's 1952 Consolidated Bond Resolution to increase operational flexibility, including facilitating the divestment of non-core assets.***

The current operative Consolidated Bond Resolution dates to 1952. While the Port Authority's bond program has been highly successful and stable, the Consolidated Bond Resolution lacks several key provisions that are common in conventional, modern resolutions. This limits the Port Authority's ability to more strategically manage its debt and asset portfolios. As an example, current bond resolutions typically have a defeasance provision allowing the borrower to void the debt when they set aside escrow funds sufficient to service that advance refunded debt. Such defeasance allows issuers to realize savings by refinancing at lower interest rate. In order to modernize the Consolidated Bond Resolution, the Panel proposes several changes or amendments that could be proposed to give the Port Authority greater flexibility and opportunities to undertake alternative debt strategies in the future.

Specifically, these amendments could provide for the defeasance of debt (which the current Consolidated Bond Resolution lacks), cure ambiguities in certain sections and allow the Port Authority more discretion in managing its asset portfolio and the associated revenues through clearer provisions that permit the sale of assets and the use of sale proceeds. Any amendments would only become effective after securing the consent of 60% or more of the then-current bondholders. It may be possible to obtain consent through a "springing" amendment strategy by including any amendments in all new money and refunding series issued over the next five to six years, provided that an effective way is found to deal with the amendment provisions in the Consolidated Bond Resolution. Once the 60% threshold is reached, the amendments would apply to all outstanding bonds.

## B. EMPLOY INNOVATIVE FINANCING TOOLS

***Employ public-private partnerships, tax increment financing, and other innovative financing tools to provide funding alternatives and enhanced operational opportunities.***

**Public Private Partnerships ("P3s")**—In an era of increasingly constrained public financing capacity, public-private partnerships or P3s have become an indispensable tool for delivering essential transportation infrastructure projects. P3s have allowed public infrastructure owners and operators, both domestic and international, to initiate capital-intensive, desperately needed projects including highways, bridges, air terminals, and tunnels, that could not have advanced using traditional procurement and financing approaches. The Port Authority has successfully leveraged P3s to initiate critical projects including, most recently, the Goethals Bridge Replacement. Through an innovative,

\$1.5 billion design-build-finance-maintain (“DBFM”) P3 under a 40-year concession, a private consortium will construct the new bridge to replace the existing 85-year-old span.<sup>150</sup> Once the bridge is completed, the Port Authority will continue to operate the facility and set and collect tolls, but the private concessionaire will be responsible for the ongoing maintenance and receive annual availability payments of \$56.5 million.<sup>151</sup> The Goethals Bridge P3 presented several advantages for the Port Authority over conventional project delivery; specifically, it provided the funding (including a \$474 million federal loan) needed to commence the project that was otherwise unavailable at present and transferred the risks, such as potential construction overruns and the long-term maintenance cost, to the private developer.<sup>152</sup>

The Port Authority is also currently exploring a public private partnership for the LaGuardia Central Terminal Building redevelopment. Bids, which include financial, operational, and construction support from several consortia, are under evaluation.

Given these advantages, the Port Authority should continue to pursue P3 arrangements for its capital program. Increased use of P3s can help deliver projects more quickly and provide critical financing, while transferring risks to private firms.

**Tax Increment Financing (“TIF”)**—The Port Authority should also explore the use of TIF to finance essential infrastructure projects. TIF is an increasingly common innovative financing mechanism used principally in redevelopment or improvement projects, particularly around mass transit. TIF allows local governments to direct a portion of identified incremental tax revenue toward improvements in a specially established district, often for the purpose of eliminating blight, providing economic development benefit, or expanding modal alternatives or capacity. Taxes on the increases of property values yield revenue that is pledged to support a specific project or projects. TIF could present the Port Authority with another financing tool that could spur otherwise stalled or unrealized projects that are unfunded or underfunded.

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<sup>150</sup> U.S. Department of Transportation. U.S. Federal Highway Administration. “Project Profiles.” n.d. Web. 12 Dec. 2014. <[http://www.fhwa.dot.gov/ipd/project\\_profiles/ny\\_goethals.aspx](http://www.fhwa.dot.gov/ipd/project_profiles/ny_goethals.aspx)>.

<sup>151</sup> The Port Authority of New York and New Jersey. “About the Goethals Bridge Replacement Project.” n.d. Web. 12 Dec. 2014. <<http://www.panynj.gov/bridges-tunnels/goethals-bridge-replacement-about.html>>.

<sup>152</sup> *Ibid.*

### C. UTILIZE UP-TO-DATE FINANCING TECHNIQUES

*Utilize the most up-to-date financing techniques available to public authorities, including project-specific and subordinated debt financing, to augment the Authority's traditional sources of capital and provide greater financing flexibility, while maintaining a strong credit rating and access to the capital markets.*

**Issue Variable Rate Debt**—Almost all of the Port Authority's debt at present is fixed rate. The Port Authority should review opportunities to increase the amount of variable rate debt, consistent with its interest rate, balance sheet, liquidity, and rating agencies considerations.

**Utilize Subordinated Debt**—The Port Authority should consider the appropriate use of subordinated debt, after assessing the impact on the current financing and capital model, bond reserve requirements, and market appetite. Several peer authorities, including the New Jersey Turnpike Authority, Triborough Bridge and Tunnel Authority, Metropolitan Washington Airports Authority, and the Port of Seattle have issued subordinated lien bonds rated at least one rating notch lower than the respective senior lien securities. The Port Authority has successfully issued subordinate lien debt and used other subordinate lien obligations in recent years. Expanded use of subordinate lien debt in the future could potentially provide additional debt capacity to the Authority, while maintaining strong debt service coverage on the existing Consolidated Bonds. The use of subordinated debt, however, would not in and of itself provide any loosening of the restrictions on the Authority's actions relating to debt and asset management under the terms of the Consolidated Bond Resolution.

### D. RETAIN A GLOBAL INVESTMENT ADVISORY FIRM

*Retain a leading global investment advisory firm to assist Port Authority staff in ensuring maximum returns on the Authority's invested funds, consistent with the conservative investment approach appropriate for public agencies.*

While the Board and senior management effectively oversee the investment of the Authority's operating, capital and reserve funds within the guidelines established by the Board from time to time, including agreements with the Port Authority's bondholders, retaining an outside investment advisory firm, with relevant experience in working with public sector entities having comparably sized investment portfolios, to assist in the continuing review of investment strategies and allocation models, would ensure that investments continue to be made on an effective basis in the context of continuing financial markets volatility.

## 5. Conclusion

As noted at the beginning of this report, the Special Panel believes that the time is ripe for fundamental reform of the Port Authority's governance practices and an energetic return to its core transportation mission. The Port of New York area remains one of the world's most dynamic centers of economic and cultural activity, and there seems to be no end to its potential as an incubator of financial and social innovation and progress. The Special Panel wishes to thank Governor Christie and Governor Cuomo for recognizing the role the Port Authority can, and must, play in the continuing development of the region, and for setting in motion a reform process that will enable the Authority to succeed in its vital public responsibilities in the 21<sup>st</sup> century and beyond.