
Committee Meeting

of

SENATE LEGISLATIVE OVERSIGHT COMMITTEE

“The Committee will meet to continue its hearings on proposed Port Authority of New York and New Jersey reform legislation and the Port Authority’s revision of its 10-year capital plan”

“The Committee will hear testimony from John Degnan, Chairman of the Port Authority Board of Commissioners, and Elizabeth McCarthy, Chief Financial Officer of the Port Authority”

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: October 28, 2015
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Robert M. Gordon, Chair
Senator Loretta Weinberg, Vice Chair
Senator M. Teresa Ruiz
Senator Paul A. Sarlo
Senator Thomas Kean Jr.



ALSO PRESENT:

Patrick Brennan
Michael R. Molimock
*Office of Legislative Services
Committee Aides*

Mark Magyar
*Senate Majority
Committee Aide*

Frank Dominguez
*Senate Republican
Committee Aide*

*Hearing Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey*



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COMMITTEE NOTICE

TO: MEMBERS OF THE SENATE LEGISLATIVE OVERSIGHT COMMITTEE
FROM: SENATOR ROBERT M. GORDON, CHAIRMAN
SUBJECT: COMMITTEE MEETING - OCTOBER 28, 2015

The public may address comments and questions to Michael R. Molimock, Committee Aide, or make bill status and scheduling inquiries to Shirley Link, Secretary, at (609)847-3855, fax (609)292-0561, or e-mail: OLSAideSLO@njleg.org. Written and electronic comments, questions and testimony submitted to the committee by the public, as well as recordings and transcripts, if any, of oral testimony, are government records and will be available to the public upon request.

The Senate Legislative Oversight Committee will meet on Wednesday, October 28, 2015, at 10:00 AM in Committee Room 4, 1st Floor, State House Annex, Trenton, New Jersey. The committee will meet to continue its hearings on proposed Port Authority of New York and New Jersey reform legislation and the Port Authority's revision of its 10-year capital plan.

The committee will hear testimony from John Degnan, Chairman of the Port Authority Board of Commissioners, and Elizabeth McCarthy, Chief Financial Officer of the Port Authority.

Issued 10/22/15

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SENATOR ROBERT M. GORDON (Chair): Good morning, everyone, and welcome to the Senate Legislative Oversight Committee.

Would you all please rise and join me in the Pledge of Allegiance? (all recite pledge)

May I have a roll call, please?

MR. MOLIMOCK (Committee Aide): Senator Kean.

SENATOR KEAN: Here.

MR. MOLIMOCK: Senator Sarlo.

SENATOR SARLO: Here.

MR. MOLIMOCK: Senator Ruiz.

SENATOR RUIZ: Here.

MR. MOLIMOCK: Vice Chair Weinberg.

SENATOR LORETTA WEINBERG (Vice Chair): Here.

MR. MOLIMOCK: Chairman Gordon.

SENATOR GORDON: Here.

I'd like to welcome you -- particularly our guests today -- to the fourth in a series of Senate Legislative Oversight Committee hearings on Port Authority reform legislation, and on the priorities for the Port Authority's revised 10-year capital plan.

I would particularly like to welcome Port Authority Chairman John Degnan and Port Authority CFO Elizabeth McCarthy this morning. The timing of this hearing, I think, could not be better.

We have made great progress in recent weeks. Last month, in a significant breakthrough, Governors Christie and Cuomo sent a letter to the Obama Administration offering to have the states and the Port Authority

provide 50 percent of the \$20 billion cost of the Gateway project, if the Federal government would come up with the other half.

The New Jersey Senate passed a bipartisan resolution, sponsored by Senate President Sweeney and Senate Minority Leader Tom Kean -- our colleague on this Committee -- urging the Obama Administration to take the Governors up on their offer and move quickly to get the Gateway tunnel project underway.

Then, last Thursday, the Port Authority Board voted to go out for design on a new Port Authority Bus Terminal -- that we expect to be constructed one block west of the current terminal -- in order to meet the demand for a 50 percent increase in ridership by 2040.

Once again, the Senate joined together in a bipartisan fashion, as Senate President Sweeney joined Senators Kean, Kyrillos, Weinberg, Sarlo, and myself in sending a letter, the day before the vote, urging the Port Authority to approve the new Bus Terminal plan. That letter arose out of discussions following our Senate Oversight Committee hearings in Hackensack last Tuesday, and I'd like to personally thank Senator Kean for his help on this issue. I would like to think that our cooperation on major transportation policies issues will not only continue, but extend to other spheres in State government.

The work we have done together on the Senate Legislative Oversight Committee on transportation policy issues -- starting with our session on Gateway and Amtrak issues with Amtrak Vice President Stephen Gardner, and continuing through what is now our fourth hearing on Port Authority issues -- represents bipartisan legislative oversight at its best. One would hope Washington is watching.

Today's hearing provides an opportunity for the Legislature and for the public to delve into the details of the Port Authority's plan for a new Port Authority Bus Terminal, the agency's expected involvement in coordinating the construction of the new Gateway rail tunnel, and the making of the Port Authority's revised 10-year capital plan. We would also like to discuss the plans for divestment of nontransportation-related real estate laid out in the December 2014 Special Panel Report on the future of the Port Authority, and on recommendations for Port Authority reform legislation.

I know we will have a lot of questions; this is, I am told, the most *wonkish* Committee in the Legislature, and we take a certain amount of pride in that.

I'd now like to turn to my colleagues for any opening remarks.

Senator Weinberg.

SENATOR WEINBERG: I'm smiling at your description of the most *wonkish* Committee in the Legislature -- chaired by the most *wonkish* legislator in the Legislature. (laughter)

SENATOR GORDON: What can I say?

SENATOR WEINBERG: You set a good standard for us.

Thank you, Chairman Gordon; thank you to Chairman John Degnan for being here today. If I might, as a point of personal privilege -- I am very happy with the vote I made, some time ago, to help confirm you as a Commissioner and Chair of the Port Authority of New York and New Jersey. I think you have represented us extremely well, and you've done a great deal to move that agency toward transparency and accountability.

There is still much more to do, which is why we think we need legislation. But you've made some great steps forward.

And just a few remarks I'd like to make about the Bus Terminal, particularly. Actually, I'm going to quote some statistics from one of the documents that was given to us by the Port Authority itself.

Over 115,000 west-of-Hudson residents -- that's New Jersey, generally -- commute via bus to jobs in Manhattan. They collectively earn \$9.5 billion a year, supporting economic activity equivalent to 3 percent of New Jersey's economy. Think about that statistic, and then think why this capital project is so important to our area regionally, as well as to our particular state.

Lest we leave New York out -- more than 8,000 New York City residents commute by bus to jobs west of the Hudson. So access to expanding west-of-the-Hudson workforce is critical to New York City's competitiveness, and it is a resilient regional lifeline.

So I think -- doesn't need to say much more than this page (indicates) as to why this capital project has had this spotlight shined on it, and why we think it's so important.

So thank you, Mr. Chairman.

SENATOR GORDON: Thank you.

Senator Kean, any comments?

SENATOR KEAN: Thank you, Mr. Chairman.

I, first, would like to echo Senator Weinberg's comments regarding leadership matters; and your leadership within -- as head of that agency has been extraordinary and has changed the course of that agency already for the better. And so, thank you so much for your past efforts, and

your continued efforts. Because it's been meaningful to all of our constituents, as well as all the regional commuters and travelers who are so dependent upon the success of your agency. So first and foremost, through the Chair, thank you for your leadership. I look forward to your testimony today.

It has been a very busy month, and I am very excited about both the Bus Terminal and the efforts on the tunnel. I hope that we can also, if not off message here, talk also about nimbleness at the Port Authority regarding -- whether it's additional waterway crossings, for example, over the course of the next upcoming decade, if necessary. But to make sure that the commuters have -- whether it's by bus, by rail, by air, by boat -- what have you -- that we make sure the agency has a forward focus on making sure it is as efficient as humanly possible to the transportation needs of the region's economy.

So I want to thank you for being here, and I look forward to continuing this dialogue.

SENATOR GORDON: Thank you, Senator Kean.

I also just would like to echo the comments made about Chairman Degnan's tenure at the Port Authority. I think we sleep better at night knowing that he's there.

Senator Sarlo.

SENATOR SARLO: I'll just be real brief.

Chairman Degnan, most importantly, thank you for getting the Port Authority to pay attention to us; but, more importantly, paying attention to the commuters -- and we appreciate that. I think since you've been there, you woke everybody up there. And I've said you have great

engineers, great planners there, but the political leadership was forgetting about who they were representing -- and you changed that course and made sure the political leadership recognized who they're representing.

I know we're going to look forward to hearing from you. I'm excited about this Bus Terminal. I will have some questions later on, just about the overall cost; and we keep drawing a \$10 billion number out there. I think that scares people a little bit, and I would like to -- I have some questions on it, and some thoughts on that.

But I look forward to hearing your testimony.

SENATOR GORDON: Senator Ruiz, any questions?

SENATOR RUIZ: I'm good; thank you.

SENATOR GORDON: Okay.

Chairman Degnan, please proceed.

J O H N J. D E G N A N: Good morning, and thank you, Mr. Chairman; and thank you, Senator Weinberg, and Senator Kean, and Senator Sarlo, for those generous remarks -- and you, Mr. Chairman, as well.

I wish I had brought my family with me this morning. They would have enjoyed this hearing a lot more than they did my confirmation hearing in this room about 15 months ago. (laughter) And I hope today will be shorter, because I hope we can be responsive to your questions, concisely.

I've asked Libby McCarthy, who is our CFO, to join me today -- in part, because the Chairman was kind enough to tell me that he wanted a primary focus of this discussion to be on the capital planning process. The timing is perfect; the Board had its first three-hour session on the

capital plan at last Thursday's meeting, launching a process that will result in the Capital Plan being somewhat revised, made public, being the subject of an opportunity for public comment. And this year, I intend to ask the Board to have a public hearing on the Capital Plan, which we did not do the last time. If no one else attends that hearing, I will; but I expect that several Commissioners will do so.

As you've said, I've been Chairman of the Port Authority, now, for about 15 months. And I like to think, in that time, that much has been accomplished. But I recognize in what you said, and what I believe myself, that much more needs to be done. And I am pleased to have the opportunity today to talk to you a little bit about some of the things we've done; but more importantly, about those things we need to do.

Since assuming the Chairmanship, this is my second appearance before a New Jersey legislative committee. I've also met here in Trenton with the Senate Majority leadership, the Senate Minority caucus, the Senate President, and Assembly Speaker about PATH service; the Senate President about Atlantic City Airport and other matters. I've also conferred numerous times with Senators Weinberg and Gordon -- a couple of times in Senator Weinberg's Teaneck office -- about the reform legislation. I've conferred with Congressman Sires, and Senator Stack, and other mayors about the Lincoln Tunnel Helix; I've conferred with Mayors Baraka and Fulop on issues of concern to their respective cities; and I've had more telephone conversations than I can count with Senate President Sweeney, and Senators Weinberg and Gordon, and others.

I've always benefited from those questions, and insights, and suggestions I've received in those interactions. I'm not here as a matter of

obligation; I'm here because I believe a constructive dialogue between leaders of the Port Authority and the legislatures of both states works to all of our advantages.

All of that, though, was accomplished by way -- without any explicit legal obligation to report to the Legislature.

I'm here today to tell the current story of the Port Authority, which I believe is a better one than it has been in many years. It's a given: Senator Weinberg's comments about the importance of the Bus Terminal commutation, on both sides of the Hudson River, are key. The only thing she left out is the economic benefit to the City of New York by attracting employers, who can get the employees they want by locating in Midtown and have access through a commutation provided by the Port Authority to those workers; and the taxes paid by many New Jersey commuters into New York to work there. There is a compelling economic benefit to the City of New York and the state of New York from having a well-functioning Bus Terminal.

Last year, in addition to the Bus Terminal, our tunnels and bridges carried nearly 115 million cars and trucks across the Hudson River. Our ports, that are primarily located in New Jersey -- more than 85 percent of our volume is now done in the New Jersey part of the ports -- handled a record cargo volume of 3.3 million cargo containers. And Newark Airport served more than 35 million passengers.

The PATH rail service saw more than 200,000 daily riders in 2014, and continues to grow. And just to put one more number on the table about the Bus Terminal: 66 million trips last year, in and out of the Bus Terminal, by commuters.

Over the last year, a lot of progress was made on the building of downtown Manhattan with the openings of One World Trade Center, the 9/11 Memorial, as well as Four World Trade Center -- the Port Authority's new headquarters. Additionally, we opened new service platforms at the PATH World Trade Center station; and, in 2016, we'll open the Transit Hub, a world-class facility that will link to the City's downtown subway lines and the Hudson River ferries, providing New Jersey commuters with greater connections and options than they have ever had before.

I want to address, though, the challenges we need to take on over the coming decade. I appreciate that funding for all Port Authority facility operations and capital improvements ultimately comes from our customers -- commuters, and air travelers, and businesses. And I appreciate that this is truly a public trust. That public trust has to be earned; and once earned, it has to be nurtured through consistent and unflagging efforts to run the Port Authority in a transparent, and honest, and efficient manner by adhering to our core mission of transportation infrastructure, and providing regional leadership in identifying and providing solutions for the major challenges confronting that core mission.

So let me mention what else we've done. The recommendations of the Special Panel Report in December 2014 reflect our commitment to a new era of accountability and transparency. We have totally revised our Public Notice of Board agendas. We get them out a week beforehand, and they have supporting documentation now to explain what we're about to act on.

We allow the public -- it's almost embarrassing to say this -- but we allow the public now to speak at every meeting -- but before we vote,

rather than after we vote. In January 2015 we adopted a new Freedom of Information Act policy, committing the Port Authority to be bound by the broader of the two states' laws. And we're now acting to embed that, thanks to the legislation that was passed by New Jersey and by New York.

We have a new whistleblower statute -- as protective of the whistleblower as any I've ever seen. We've created an anonymous reporting system to allow Port Authority employees to report suspicion of wrongdoing or unethical conduct without disclosing who they are. We have new guidelines for recusals. We have authorized and are searching for our first Chief Compliance Officer. We post quarterly construction project dashboards for every single capital project undertaken by the Port Authority -- available on the website to the public.

There are a host of other similar initiatives, but I would challenge any expert out there to identify a best practice in corporate governance that we have not already implemented or are not now working on.

We're in the final stages of a search for a new CEO, hired by and accountable to the Board for the first time in its history. Together with a new Board governance structure of rotating Chairs and a very strong Office of the Chair, we are transforming the governance structure of the Port Authority.

I know some of you take exception to what I am about to say, and I look forward to discussing it. But the reform bill passed by New York institutionalizes almost all of those reforms. And I respectfully suggest that the New Jersey Legislature will be missing a very significant opportunity to legislate reform if, to get the perfect bill in your judgment, you reject a bill

that gets you almost there and has already been passed by one legislature -- I believe unanimously -- and committed to by both Governors.

Now, there are a couple of specific projects for which I very much appreciate your leadership -- as the Chairman has recited over the last several weeks -- and for the support that they reflect; and I want to update you about them today.

As you know and have said, at last week's Board meeting we unanimously passed a resolution -- a very different outcome than the previous meeting -- concerning the future replacement of the Bus Terminal. That resolution provides for an international design competition to submit concepts for a replacement terminal at the referred location, west of 8th Avenue; or to provide innovative alternative ideas -- if there are any -- for the location, function, and operation of the Bus Terminal. The design needs to be scalable and modular to allow for developments in trans-Hudson crossings -- which I hope we'll talk about today -- which could conceivably impact the demand levels, and perhaps even reduce them for a new terminal.

A Request for Proposals is also included. We want an outside consultant to advise the Port Authority on strategies to meet and manage anticipated increases in cross-Hudson commuter demand over the next 30 years.

And finally, we need a detailed review by an outside consultant of potential construction costs -- and I look forward to discussing this with Senator Sarlo -- and the projected operating costs of a new Terminal. I, too, am troubled by the \$10 billion number that is so freely tossed around about the cost of this facility.

This resolution is a significant step forward in our efforts to provide a path forward to replace the Bus Terminal. This would not have been accomplished without the concurrence of the two Governors, the support of this Legislature -- including those Senators in the room -- and particularly, candidly, without the continued and persistent focus and advocacy of Senator Weinberg. I said to a reporter last week that the first telephone call that I made to Senator Weinberg, to tell her I was going to be nominated for this position, resulted in what I would call a *tirade* about the Bus Terminal and an invitation for me to look at it seriously.

SENATOR WEINBERG: I finally found a man who listens.
(laughter)

MR. DEGNAN: To be honest, I'm not sure I would've fully appreciated the need for it as early as I did without that conversation.

Our work has now begun, and there are still many unanswered questions regarding design, and community impacts, and finances, and future operations. But I am now optimistic that the total support from my colleagues on the Board provides for ongoing progress in this vital capital project. While our goal is nothing less than the full replacement of the Bus Terminal, we know that a new facility is still many years away. Today, we still have thousands of people who, each day, pass through the Terminal, and we have an obligation to ensure their comfort, and security, and ease of commute.

Last year, the Board authorized an additional \$90 million for a Quality of Commute program; and those capital dollars have been spent for repairs and maintenance items such as new bathrooms and renovated retail spaces; even enhanced air conditioning units on the third floor, and

probably some better fans; upgraded directional signage; and the recent gate realignment program, which has provided for more efficient bus movements through the facility. And I was delighted that Senator Weinberg, and Senator Gordon, and Senator Sweeney came to the Bus Terminal recently and did a tour.

By the way, not only do I appreciate that, but the staff that runs the Bus Terminal has come to view you -- and particularly Senator Weinberg -- as a champion for their efforts there to improve the condition of the Bus Terminal while we wait for a new one. The goal, though, is to provide for a more consistent and reliable commute for our customers while they have to wait, especially in the evening.

You have all already indicated your support for the Port Authority to take a leadership role in the construction of the new trans-Hudson tunnels to replace and supplement the current tunnels owned by Amtrak, but heavily used by New Jersey Transit. Working with Senators Booker and Menendez, and in concert with Senator Schumer, Governors Christie and Cuomo have suggested a willingness to match a 50 percent grant contribution from the Federal government for a project of clear national importance, given its role in the Northeast Corridor's transportation.

I'm aware that these congressional leaders are hard at work to establish a basis for that necessary Federal commitment, and I defer to them on its status. In the meantime, the Port Authority awaits that commitment, but we are ready to start. I believe that the Port Authority is the logical entity to lead this effort -- with all of the necessary parties, however, to be involved at the table. If it helps to do so through a separate entity within

the Port Authority structure -- as Senator Schumer suggested -- we should do that. We'll have to refine cost estimates, though, and we'll have to seek a strategy for meeting whatever financial contribution is required of us. But again, we're ready to do that.

Finally, Port Authority Board members and departmental leaders are engaged in a painstaking process to review and streamline the agency's 2016 Capital Plan, and to retool the overall 10-year Capital Plan. This is meant to be a living document; the Port Authority should review it each year. But it does not always have the complete and total cost of a project plugged into the plan. Rather, it requires a continual reevaluation of the priorities based on need, financial capacity, and the facts as they develop around specific projects.

I was prepared to talk for a bit about the Capital Plan process; but in light of the Chairman's invitation to address it more specifically, I've asked Libby McCarthy, as I said earlier, to join us. And with the Committee's permission, I now turn it over to Libby and let her take the time -- she could do it so much more effectively than I could have -- to outline the planning process itself.

SENATOR GORDON: Okay, thank you.

Ms. McCarthy, please proceed.

E L I Z A B E T H M. M c C A R T H Y: Good morning, Senators.

What I want to focus on for you is the process we undertook, both in developing the 10-year plan that was adopted by the Board in February 2014; but also the continuous process that we have, how we monitor and implement what the Chairman just referred to as a *living document*. Because this plan, at the time it was adopted, recognized that

facts and circumstances change, risks change, facility conditions change, and financial affordability may change. So that we did put in a process that both helped us develop the plan, but also to monitor and adjust that plan as time progressed.

You have, in front of you, a couple of pages that might help frame this discussion. So I thought I'd start first with -- there's a timeline in front of you that shows the various facilities that the Port Authority has. And really, the take-away from this slide is just to focus you on the fact that many of our facilities are older than 50 years; and those facilities require a continuous level of investment to keep them both in a state of good repair and to improve them for increased needs and growth.

So what's missing from this slide, frankly, is some investment that's made along the way on various of these facilities. As an example, on the George Washington Bridge, the lower deck being put on the Bridge to expand its capacity; the Bus Terminal, the North Annex extension. So there are various things that have happened over time, as well, that aren't explicitly laid out on this. But this is just a frank view of how we look at the facilities and the demand we have for capital to maintain those facilities, going forward.

To start with our process, we used a disciplined approach to develop and, as I said, monitor that capital capacity in the capital plan. We really start, in the first place, with what's our affordable capacity -- capital capacity. So rather than put out a plan and then figure out how we're going to finance it, we look at -- we use an integrated financial model that helps us determine what it is in that 10-year period we can afford to do. The way we do that model is, we use various financial ratios, liquidity targets, etc.,

and then some statutory requirements -- that all allow us to maintain our current credit rating; and then determine from that, using projections with conservative assumptions that will help us determine, then, what's affordable in that period.

We run stress cases off of that base case for both macro economic events, as well as specific risks that are now (indiscernible) to the line department. That gives us -- and then we'll run an optimistic cases as well. That gives us a band of affordable capacity, which is what we then monitor, on a quarterly basis, using actual results -- no changes -- and then report on that quarterly basis to the Finance Committee about any changes that need to be made to that affordable capacity. This gives us enough lead time for the Board to take the actions it may need to take to adapt to that changing affordability. So it's a constant loop and a constant reporting out to the Board so we can either adjust the plan up or adjust the plan down. And I'll get into the mechanics, then, of how we implement that, as we go up over time.

So we took, then, back in 2014 -- we determined this affordable capacity, determined that we could do a 10-year plan; and we picked 10 years because that's a reasonable planning horizon. Frankly, the needs for the Port Authority are going to go beyond this 10 years into the next 10, and the next 10 given the age of these assets.

We determined that we could afford a plan of \$27.6 billion. So then what we used is an approach to allocate those capital dollars to the various projects -- that the line department of capital planners had put forward as projects that needed to be addressed, over time. We sort those projects into five broad categories: state-of-good-repair, system enhancing

and revenue producing projects, mandatory projects, and security projects. Those projects then go through a scoring and ranking process that's done in conjunction with our engineering department and our capital planners. And then on the basis of that, we make a determination of those projects that come into the plan.

A large part of this focus of developing this plan was ensuring that we were maintaining our assets in a state of good repair. So we made sure that all critical state-of-good-repair projects were included in this plan. And, in fact, when you look at the plan, 46 percent of the plan -- the \$27.6 billion plan -- is geared at state-of-good-repair.

So that's the process that we undertook to develop the plan. If you look on the second page of the handout we gave you, there's a map of where the various capital projects are that we are undertaking in this plan. And I'll just frame for you: overall, we have about \$8 billion to be invested in our airports; \$8 billion to be invested in our tunnels, bridges, and terminals; \$3.3 billion invested in the PATH system; about \$1.6 billion invested in the Port Commerce ports -- the seaports; and then about \$4 billion to \$5 billion was for the completion of the World Trade Center site and the developments that the Chairman talked about.

If you look at this plan -- when you look at it from where is the investment being made, it's about a third in New York, a third in New Jersey, and a third on interstate facilities -- those connecting the two states. So it's a well-balanced plan from that perspective, but also well balanced from the perspective of the state-of-good-repair -- the mandatory projects and system enhancing projects, overall.

The next slide just shows you, as well, kind of how -- what the plan looks like at this point. You can see it's up in the upper left corner. It's a fairly mature plan, and it assumes that many of the projects were well into construction at the time the plan was developed. So the dark blue is all the projects that were currently in construction. That comprises approximately \$10 billion of the plan.

We next make sure that all mandatory projects are included, and then, over that, the high-ranking security projects are included; and then, as I mentioned, that a state-of-good-repair -- making sure all critical state-of-good-repair.

On top of that, then we put some state and regional projects into the program; and then the provisions for that future state-of-good-repair spending that we know we're going to have to do. If you just apply a general formula to the age of our assets and the value of our assets, we expect that we're going to need to spend somewhere between \$700 million and \$1 billion a year in state-of-good-repair for our facilities, going forward. So that's what this is all here to represent.

So this is how the capital project was developed. Where we go from there is how do we monitor, and what changes, and how do we deal with those changes? So as time progresses, we look at our actual results -- whether or not they're tracking with that original projection, and then determine whether we can maintain that capital capacity. We also look at the progress of the spending of the various programs. We're also -- things, as I mentioned, will change. And a project that was considered less critical will become critical. So what we do is we have what we call our *gates management process*, where a project has natural breakpoints in its life cycle

where you can stop that project and put it on hold, or just cancel it all together -- although we generally just put them on hold -- where you can break them and move them through the gates. So every time a project is moving from one gate to the next gate, there is an approval and a checkpoint to say, "Is this still a critical project, and is it an affordable project?" And on the basis of that, it will be approved to move through the gate.

If something comes as a new priority, we will look for an offset within the plan as to what is a project that we can move out, defer, delay that will make room for that new higher-critical project. And we find those offsets in a plan. So we're always balancing the spending level with the capital capacity level. So we're not-- What we're trying to avoid is creating some sort of need for immediate change in things, so we're looking forward and making sure we're balancing both of that -- the need with the available capacity.

So that process is a quarterly reporting to the Finance Committee on the capital capacity, and a quarterly reporting to the Capital Planning Execution and Asset Management Committee with respect to the progress on the plan and any changes in priorities, and that -- a regular reporting to the full Board on an annual basis as we look to adopt, each year then, the one-year capital spending, going forward.

It's the capital plan as well; it's not an authorizing document. Every project still goes back to the Board for authorization as it moves through its life cycle.

So that's the program that we have. And as the Chairman mentioned, we keep the dashboard on the website for people to monitor progress on the capital plan.

SENATOR GORDON: Thank you very much.

That all sounds very logical; and so I'm baffled by something.

In going through the capital budget by project, as I understand it, there is no major allocation for a rebuilding of the Port Authority Bus Terminal. That is a decision that was just made recently. And my question is this: If this is a living document, if there is a regular review of, "Do our priorities make sense?"-- You look at various criteria, including one under the Operational Impact criteria, "Customer Service Impact -- Asset's impact on quality service to customers." Senator Weinberg, Senator Sweeney, and I, during our tour of the Port Authority Bus Terminal, encountered a woman from Marlboro, I think, who described her time in the facility every day as something that makes her commute "barbaric."

How is it that, given this very logical and apparently comprehensive approach to priority setting, that the Port Authority Bus Terminal wasn't in this plan? I mean, I just don't understand it. If it's all Senator Weinberg's efforts, I think we should name this new facility the Loretta Weinberg Bus Terminal.

SENATOR WEINBERG: I don't want it to be like the Frank Lautenberg Station. (laughter)

SENATOR GORDON: But seriously, could you help me understand how this critical investment just didn't make the list?

MR. DEGNAN: Senator, if I could take the first stab at that, and then ask Libby to amend or correct anything I said.

This is a question that's troubled me for a while, too. I wasn't on the Board at the time this Capital Plan was adopted in February 2014.

But let me put it in context. While the Port Authority had something of a capital planning process for several years prior to 2014, and there was a 10-year Capital Plan that preexisted the one that was adopted then, in 2012, the Navigant report came out and criticized the Port Authority strongly for not having a sufficiently robust capital plan. That was a report that was directed by the two Governors to be accomplished by the Port Authority, and it was at great costs. And it's still worthy of reading today, by the way.

So the process of adopting a robust, well-designed plan -- along the lines Libby has just described -- began when that report came in. In 2014, the Bus Terminal was the subject of a master planning study that was being led by Cedrick Fulton, who currently runs the Tunnels, Bridges, and Terminals aspect of the Port Authority. And with the help of outside consultants, he was studying what everybody in the Port Authority, I'm told, then recognized: the need to replace the Bus Terminal -- just given the end period of its useful life coming upon us.

But no one had an idea, at that point, what the ultimate outcome would be, where they would recommend that it be located, and what the cost would be.

So the Capital Plan had about \$170 million in it for the planning and study phase, and for some interim repairs over the next 10 years to a bus facility that everybody realized we had to replace. I'm told that because of the ongoing nature of that study, and because we didn't have a number we could plug in for the Bus Terminal, that the Board felt it

responsible, at the time, to put in enough money for the planning study to take this project down the line, and then to deal with-- Now, it's taking way too long, in my judgment -- but then to deal with actually plugging some additional sums, significant ones, into the Plan for what would become the construction phase.

So it's not that it was overlooked, or that there was political deal to take it out, as far as I understand it. It was simply that it wasn't right for inclusion in the Capital Plan yet, in a full amount.

Libby, you were there at the time. So please--

MS. McCARTHY: That's correct. There was not sufficient information to put it in, but the understanding that the master plan would move that project forward and the expectation -- a part of that was also looking at potential funding sources. So as a new project comes in, if there is a funding source for that too, that facilitates bringing new projects into the program.

MR. DEGNAN: And in order of magnitude -- Libby told me this morning, actually; I would have appreciated this -- that everyone thought that the cost of the new Bus Terminal, back in the time when this plan was being adopted in 2014, might be \$2 billion. Not that \$2 billion isn't significant, but it's a lot more manageable than what the Master Plan ultimately projected as a potential gross cost -- not net of any real estate development revenues that we might realize, or any other sources of revenue. I, frankly -- and I think Libby joined me -- almost fell out of my chair when we heard the estimate that came from the staff after the Master Plan was done.

SENATOR GORDON: I think we all have questions about the cost of this project. Before we get into that -- you start the process with some projections of what your resources are going to be. It seems very logical. How much flexibility is in that number? So my question is really directed at this: Is there enough flexibility to cover a big new project? It may not be \$10 billion, but \$1 billion of the initial cost to get a Bus Terminal project up and running? I mean, is that kind of flexibility there, in you projections, to accommodate something like that?

MS. McCARTHY: Senator, we put a \$200 million immediate, two-year contingency into the affordable capacity, and we do that in order to be able to -- for lack of a better term -- *weather* in the short-term variability in our results. And, frankly, I used *weather* because weather, oftentimes, is what gives us variability in our results.

So we do have that front-end contingency built into that capacity that gives us that ability to react in the short-term. Looking over the longer term, the 10 years is a cut-off time. And as I mentioned, our needs are going to be beyond this 10-year period through 2023; and they're going to go in from 2024 to 2033, and beyond that. So things kind of moving a little bit, here and there, among the years is something that we would look to manage and potentially have some of that. But it will affect-- The timing will affect what you can afford later as well. So it's a construct we have to use to balance this at all times.

MR. DEGNAN: I think it's fair to say though, Senator, that we couldn't plug another \$1 billion into the 10-year capital plan without either enhancing revenues from some other source, such as divestment of real estate; or more creative ways of exercising our debt-raising capacity; or

substituting, whatever is the subject -- for example, the Bus Terminal -- that billion-dollar project for something else that's in the capital plan.

SENATOR GORDON: Yes, you anticipated my next question.

The revenue streams that underlie this plan -- I'm assuming that they do not include revenues that would be derived from the sale of real estate assets that would occur if you follow the Special Panel's recommendation of divesting those assets?

MS. McCARTHY: There was an assumption of some monetization of some air rights south of the Bus Terminal, but it was a nominal--

MR. DEGNAN: By and large--

MS. McCARTHY: But most--

MR. DEGNAN: --the 2014 December Special Panel report post-dated 2014 capital plan. So it doesn't contemplate any significant increase in revenues by divestment of real estate.

But on that point, there's one-- Nothing's easy, and the devil is always in the details. So I was in an interesting discussion last week -- which Libby led -- about, "Well, could we sell World Trade Center One?" Once you get beyond the point of whether we want some commercial buyer to own an iconic building -- which, for me personally, I could tolerate if I realized revenues that would benefit commuters and consumers of our products -- you then have to consider what the revenue stream that we anticipate from that building is over the next 10 years. If, hypothetically, it were to generate \$100 million a year in free cash flow, and we could use that \$100 million a year to leverage into capital borrowing, it might support an amount of \$4 billion in additional capital -- depending on the

assumptions you make about the interest rate you're going to pay -- and that capital could then be deployed for Port Authority purposes.

On the other hand, if we were able to sell the World Trade Center outright under our bond covenants, we might generate, hypothetically, \$3 billion now in capital, but we cut off our revenue stream in perpetuity to finance capital projects. So which makes the most sense, economically? To hold onto the building, leverage the revenues into capital capacity through borrowing, or to realize the sum now and plug it immediately into capital projects?

SENATOR GORDON: This is the sort of thing one would encounter in Business School on a finance exam. (laughter). It's a capital budgeting issue, and there is nothing mysterious about it. It's a matter of how the numbers work out.

MR. DEGNAN: Exactly right. But I think it's too easy to assume -- and frankly, I was as guilty of it myself, at one point, of just saying, "Sell the darn real estate and use the money for more important purposes." What is core -- and the Board has embraced this -- is, over time, the Port Authority has to get out of the business of being a real estate developer in the City of New York or anyplace else -- whether it's the Newark Legal Center, or a solid waste transfer station in Essex County. That's not our core mission; we shouldn't be doing it. And to the extent that our massive holding of real estate -- and they are truly massive -- are now no longer relevant to that core mission and can be divested because they're not producing revenues that make them worth holding, we need to get rid of them. We need to sell them and monetize the value.

MS. McCARTHY: May I just add to that -- to follow on to your earlier question. The 10-year capital affordable capacity number assumes those rentals and that revenue stream, and it didn't assume the sale of those. But that continuing revenue stream is assumed in those models.

SENATOR GORDON: Okay. You say that your planning process, on a regular basis, looks at how the region is changing, and how that affects your needs. Can either of you, or both, comment on what changes you see occurring in the region over the next few years, and how that is affecting the capital budgeting process?

MR. DEGNAN: I'll venture a couple of comments, and then ask Libby to supplement them if she has any.

The first two are obvious: the mandate from the Governors and from the legislatures to deal with the trans-Hudson crossing crisis of a new tunnel is something that had not been adequately anticipated by the Port Authority as one of its responsibilities. That is going to require that we find ways to help meet the State's match of the Federal commitment, once that's forthcoming. That's the biggest.

The second is the Port Authority Bus Terminal. It's become much clearer to the Board members that this is a project of urgency. Some of my colleagues, like Ken Lipper from New York, have been incredibly articulate about the need for this; and frankly, he was ahead of me in the learning process about the criticality of that need. But I think it is now commonly shared by all of the Commissioners -- not just those in New Jersey -- that this Bus Terminal needs to be replaced on a more urgent basis than we had anticipated.

Third, I would say, is the larger issue of trans-Hudson crossing capabilities. We'll get into this later, I guess. But if the PATH extension to Newark Airport were to allow, through enhanced parking facilities, a one-seat ride from Newark Airport to downtown Manhattan, it would undoubtedly alleviate some of the demand -- both PATH, and to a lesser degree on the people who use the Bus Terminal. Because they're commuting from a different part of the state, they're not likely to drive to Newark Airport -- but the interstate transportation network is a single whole. There are many pieces of that whole. If we affect one, we affect the others. If the George Washington Bridge is closed or has an accident -- as it has the last couple of days -- traffic increases at the Lincoln Tunnel, and the Holland Tunnel; more people are on PATH, and more people are trying to find other ways into the City. So the interacted nature of our system is itself a challenge.

If the new tunnel gets built, and if Secaucus could be a transfer station for rail access to Manhattan by drivers who come to Secaucus and then get a one-seat ride into Manhattan on the train, that might very well impact the potential bus usage of the Port Authority Bus Terminal; and might, if it were to develop, allow us to be a little smaller in the footprint of the new Terminal.

So it's a complicated, interwoven fabric here. Those are what occurred to me, Libby. Do you see anything else?

MS. McCARTHY: I think you hit the highlights.

SENATOR GORDON: It has been suggested to me that a new Port Authority Bus Terminal, built for greater capacity, might alleviate the stress we would experience if one of the rail tunnels -- the existing rail

tunnels were to shut down. We were all thinking about this commuting Armageddon that's going to arise if one of those tunnels has to be shut down because the Sandy damage just gets beyond repair.

I assume that a Bus Terminal can be completed faster than new tunnels. So it's been suggested that if we were to face a closure of the tunnels, that the new Bus Terminal might be able to pick up some of the ridership that would shift to, presumably, buses. Is there any merit to this scenario?

MR. DEGNAN: It's a possibility. We do have the stranglehold at the Lincoln Tunnel, though, on the Bus Terminal. And our ability to move more buses through the Lincoln Tunnel, if we had the capacity at the Bus Terminal in Manhattan to discharge and embark passengers, would probably require that we do something to constrain private automobile usage at those tunnels and enhance the ability, in such a crisis -- in the Armageddon that would flow from one of these tunnels, which were built in 1910.

SENATOR GORDON: Teddy Roosevelt.

MR. DEGNAN: It staggers the mind, in the metropolitan area, to realize that no new rail access tunnel between New Jersey and Manhattan has been built since 1910; I mean, 115 years ago.

So those kinds of devices -- increased urgent ferry transportation, for example -- is by no means a solution to the loss of one of those tunnels, but it certainly would be part of a comprehensive hole that we will have to address if those happen.

I might just add, for people who don't know: Those tunnels are not ours. Those tunnels are owned by Amtrak, but 70 percent used by New

Jersey Transit. The Port Authority, effectively, doesn't use those tunnels at all; but because of what I said earlier, those tunnels have a dramatic impact on the rest of our trans-Hudson crossing facilities which we are responsible for.

SENATOR GORDON: I want to allow some of my colleagues a chance to ask some questions.

Senator Weinberg, you had questions?

SENATOR WEINBERG: Yes, I just want to follow up on your question about the Bus Terminal taking more passengers, if a rail tunnel was closed down.

We had that experience with Sandy, and they did accommodate, between the Bus Terminal and the ferries, a tremendous additional passenger load. And one of the things we were told -- just as an aside -- when we took our tour, is that of that increase in bus traffic or in passenger traffic, they actually kept a percentage of it. These are people who decided to stay, for whatever reason, with bus travel rather than going back to rail once the rail was up and operating. I thought that was kind of an interesting statistic, given that we're always talking about the downside of the Bus Terminal.

So we've had the experience; hopefully we don't have to have it again. But we have had a test run that we can look at statistics, and at passenger miles, and so on.

So I'm sorry; I don't know if you were finished, but I just wanted to follow up on that.

SENATOR GORDON: Senator Kean.

SENATOR KEAN: Thank you, Mr. Chairman.

Through the Chair, you have spoken about the-- You had the capital plan; you had the report which came after the capital plan, which talked about the potential selling off of real estate assets. And obviously the primary purposes of your agency should be the thorough and efficient transportation infrastructure system efforts within the region.

There have been some conversations regarding the ability to sell those non-important, or non-relevant, non-revenue generating -- whatever have you -- assets, and your ability to do that in the most efficient way, as well as at best value to the taxpayers and commuters. Can you describe a process -- the best possible process by which you can deleverage yourself of those assets, and how you go through the process, and then actually get rid of them in a way that's both transparent, but efficient?

MS. McCARTHY: So, Senator, the first thing I just would frame all of this with is, that all of our facilities -- the revenue from all of our facilities is pledged as security for our consolidated bonds. Our consolidated bonds are our primary means of the investing in our capital plan.

So in order for us to make a determination that we are going to dispose of a facility we have to make a determination that it's no longer necessary for its intended use.

So presuming, in your scenario, that that determination is made, then you can go through the process of disposing of the facility. Obviously, you would want to do that in a transparent manner to make sure you're getting the highest value. The proceeds from that, then, either would need to be used to pay down debt or they would need to be invested in other facilities that have that revenue pledge.

I think, then, that overlying all of that is that we have a pledge to our bondholders that the Port Authority will always raise sufficient revenues through its means -- its various means of toll-, fare-, rent-, etc., setting to have sufficient revenues to cover the operating costs of the facilities and then pay off those bonds.

So you're constantly balancing whether or not where you're reinvesting that money is going to create that revenue stream that will help support the bonds. So it's a complicated determination that would have to be made in order to do that.

SENATOR KEAN: Okay, because--

MR. DEGNAN: I'd add that I suggest the Port Authority -- I would suggest that the Port Authority learn something from Robert Moses about constructing itself in a way so that it had -- it and only it had the ability to change its assets.

Libby's right -- entirely right about the consolidated bond impact and the constraints that that imposes upon the Port Authority. There are ways, though, that the Special Panel report recommended we look at to change that, going forward, defeasing some of our existing bonds so that the restrictions on our ability to divest real estate are not reiterated in bonds, as we go forward. Finding additional subordinated debt, for example -- I don't think Libby likes this idea -- but to raise money that wouldn't be constrained by the ability to do that.

So there is a Special Panel Implementation Team within the Port Authority looking at ways to advance that agenda of divesting real estate -- which is expected to report back to the Board sometime in the next

few months. And I think we can both answer the question better -- which is a great question -- at that point, than we can now.

And one further point is there is a political overlay to a lot of these. So to touch a third rail in New York: Red Hook doesn't function as a port anymore. We lose money on it every year. It really has no rational basis for existing as a port facility. It's worth half-a-billion, a billion dollars in value. But it is strong political support, of a traditional nature, in New York that we will have to deal with and overcome before we can sell that. I was pleased that both Governors endorsed the idea, and I haven't seen rallies yet in support of Red Hook because we're not close to doing something. But that's an example of the kind of facility that's not producing revenue; in fact, it's producing a loss that we could easily divest without impairing the bond covenants, I believe. But we will have to deal with those larger issues.

SENATOR KEAN: It seems to me, through the Chair, that selling the assets, and the process thereof, should be simple, should be streamlined; and shouldn't impede bidders in the beginning part of the process, but then also the public throughout and after the process, from understanding what is going on. And my concern is, if you create a system that deters people from seeking that value from -- purchasing that for what you all are selling it, that that could impede the value that would help to get to the defeasment process, or what have you.

MR. DEGNAN: As Ed Koch used to say, "From your lips to God's ears." (laughter)

SENATOR KEAN: Okay. That's on the record. (laughter)

And I guess, finally, it seems to me that, as we're talking about the very efficient operation of your entity, going forward, it seems to me that the top-down management, thoroughness, accountability and bi-state regional focus was in evidence over the course of the last couple -- if not the last couple of weeks, the last couple of months regarding the Bus Terminal, regarding the tunnel process -- where the Commissioners came together, not as New Jerseyans and New Yorkers, but together to find the solution. The Governors came together in a way to find a solution, and the legislators came together in a way to find a solution. So that the structure that you've envisioned through the Special Panel -- or was envisioned through the Special Panel report is actually working -- starting to work, in effect, because it was a clear transparency, clear efficiency, clear way to say, "This system by which--" You don't separate into two halves; but you actually grow into something that's better for the entire region.

So it seems to me that that had some foresight regarding that process, as well as the executive ability to actually do that in a very positive way -- which obviously is evidenced through your personal efforts.

MR. DEGNAN: Thank you, Senator.

I'd like to hope, or think, that the decision made last week on the Bus Terminal was part of a dawning consensus that the region needs the project. But the history of the Port Authority -- and some would say, its genius -- is rooted in the compulsion, bred in its statute, that both states come to agree on projects. It's the reason why New Jersey got the Port Authority to take over the PATH operation in exchange for New York being able to build the first World Trade Center.

If Jim Doig could run through chapter and verse for you -- the guy who's written *Empire on the Hudson* -- of the political compromises that were struck to allow the Port Authority to do some of the great things that they did--

So the reality of last week's vote is not that the New York Commissioners all of a sudden agreed on the necessity of the Bus Terminal; but they wanted something at LaGuardia Airport to move forward. And, at the same time we passed the Bus Terminal -- I'm being very candid now -- we passed the Bus Terminal resolution, we also passed a resolution that allocated some funds to LaGuardia Airport. It was a recognition that both states have legitimate interests; that no one state should override the other. And sometimes you have to strike a compromise to move a good project forward.

I do think within that there is an enhanced recognition -- on the part of this Board, at least -- of the regional needs of the area, and the benefits -- as Senator Weinberg and others have testified to today -- to New York from a project that some people view as a benefit to New Jersey commuters. It's as much, or more, a benefit to New York City.

So I want to be honest about the--

SENATOR KEAN: But that's not-- No, there's nothing that's--

MR. DEGNAN: I don't apologize for it, no.

SENATOR KEAN: Through the Chair, the process of finding that solution is, again, finding that common ground. But I think the other end point was, you had the appropriate -- getting to the point of, you had the appropriate checks and balances to make sure if it takes six

Commissioners to get anything-- It takes seven Commissioners -- at least three from each side -- to get something done, on the votes. And then, what I'm saying is -- the concern that some have expressed is that New York will always try to take advantage of a number of certain circumstances over the course of the years. And in this instance, as long as we have Commissioners from both states who understand the needs of their states, as well as the broader mission, Governors who are involved in that process, authorities units that are paying attention, Governors' ability to sign minutes, legislatures asking questions and showing up in places that are-- Maybe this is on a Wednesday, because the Port Authority meetings are now on Thursdays. (laughter), but we can-- There are ways for-- That process works. It's not a detriment; that's saying that we can be -- we are coequals within this process as New Jerseyans. And in anything we should envision, going forward, we are coequals.

MR. DEGNAN: I agree with that. I just wish it weren't quite so messy and time consuming. (laughter) But it is the reality of what we have, and some would say the genius. The only way we could get these two states to agree is to create this kind of mechanism and force them--

SENATOR KEAN: I think you could have that question regarding a number of institutions that exist throughout this country.

Thank you, Mr. Chairman.

SENATOR GORDON: Senator Weinberg, I know you had some questions about the Bus Terminal.

SENATOR WEINBERG: Yes -- well, a couple of things.

Just as an aside: The George Washington Bridge bus terminal -- do we have any idea when it will finally be completed?

MS. McCARTHY: I believe they're looking at the-- Well, you know, I'm going to -- I don't want to guess. I will get you that. I apologize.

SENATOR WEINBERG: Okay, thank you. Because it's quite a bit overdue.

MR. DEGNAN: Yes.

MS. McCARTHY: It is.

MR. DEGNAN: It is. I don't have that, but we will get that date to you within 24 hours.

SENATOR WEINBERG: Okay. And I appreciate, Chairman Degnan, your honesty about bringing up LaGuardia Airport, because I actually had that circled here to ask you a question about that. Because in the resolution that the Board adopted, it gives some amount of money for something called *Early Action Support Work for LaGuardia Airport Redevelopment Program*.

I would like to get clear in my own mind, if I can, and then I'll go back to the Bus Terminal. Is this for work in the airport of LaGuardia Airport, or is this for new real estate in front of LaGuardia Airport?

MR. DEGNAN: That's a perceptive question, Senator. And, believe me, I've spent a lot of time understanding what that resolution was about.

As you know, the Port Authority was ready to rebuild the central terminal building at LaGuardia -- which is the worst facility in our airport constellation. Although I would argue Terminal A in Newark is a close second, having walked over duct tape last week outside the Continental terminal portion of the terminal to get to the front of the terminal. Governor Cuomo had an interest in a redesign of LaGuardia that

went beyond simply the central terminal building, and has asked us to consider building a portal or a grand hall which would connect the central terminal building and the Delta terminal. Delta, then, volunteered -- I guess is the best way to describe it -- to reconfigure its own terminal to create a consistent frontal access to the airport. But all we have allocated, in terms of funds, are the funds for the Central Terminal P3 partnership, which the Port Authority will contribute, I think, about a \$1.3 billion, and private sources will contribute about \$2 billion -- and then re-earn their money through operating the facility over the next 30 years.

The money in that resolution is being spent to allow for a costing and design of these additional enhancements that Governor Cuomo has asked us to consider. At the end of that process, when we can quantify the dollar cost of it and what the Port Authority's contribution will be, we'll then make a decision, in the context of the capital plan, whether it's worthy of proceeding relative to the other competition for those dollars. So it's a design and planning to advance us to a position where we can decide on the Governor's request that we enhance the reconstruction of LaGuardia.

SENATOR WEINBERG: Okay, thank you. Thank you for answering that.

Can you give us a little more information on the design development contest that you've authorized? Has money been set aside for that? What are the elements of that plan?

MR. DEGNAN: Another good question. I expect that the capital plan revision will include adequate sums for that plan. I don't know what that amount is yet. The best analogy I think, Senator, that Commissioner Steiner referenced when he raised this idea was the recent

convening, by Governor Cuomo, of a design competition for LaGuardia Airport. He wasn't satisfied that the Port Authority had gone far enough in redesigning Terminal B, and he actually created a contest. Two or three, more than I thought -- two or three design firms responded to that contest with conceptual pictures of what a true LaGuardia, totally rebuilt, looked like.

There were some costs, though, in doing that. Each of those design firms, rather than do it for free, wanted some reimbursement; I think it was less than \$1 million in total. Don't hold me to that.

SENATOR WEINBERG: Less than \$1 million in total?

MR. DEGNAN: In total. And I know it's contemplated that if-- To get what we want out of the Bus Terminal, we may actually have to pay something to induce internationally respected design competitors to submit conceptual designs -- and we're prepared to do that -- that, once we can quantify it, will be in the capital plan.

SENATOR WEINBERG: And will that design competition include a survey of where the Bus Terminal should best be located?

MR. DEGNAN: The design competitors are going to be asked to assume that it will be west of the 8th Avenue location so that we can continue to operate the existing Bus Terminal while the new one is being built.

Some of the earlier options that we got would have us build a temporary Bus Terminal, and then rehabilitate the old one once we got the temporary one up. That did not make a lot of sense to us; and the time involved in that was ridiculous.

So-- If I've gotten lost in my answer, I'm sure you'll tell me.

They also, though, at the request of some Commissioners, are going to be allowed to tell us if they think we're wrong in our preferred location west of 8th Avenue, and they have some alternative location. Now, I'm talking about a reconfiguration within the existing three- or four-block area; not a new location at Macy's. (laughter)

SENATOR WEINBERG: Or in New Jersey.

MR. DEGNAN: But they've been asked to come back to us and tell us if there is a cheaper or more efficient people-moving location that would enhance its value to commuters -- we want to know about it, in case we've overlooked anything.

SENATOR WEINBERG: I know in my prior discussions -- and I've had some discussions directly with Commissioner Lipper on this whole Bus Terminal issue that go back more than a year, year-and-a-half -- and he always talked about the ability to either sell the air rights over the current Bus Terminal, or selling the current Bus Terminal when a new one -- wherever -- is opened. Has the idea of revenue of either of those plans or proposals been factored into any of this?

MR. DEGNAN: It will be. We have Cushman and Wakefield working on those cost projections right now, and that will be part of the ultimate projection of cost for the Bus Terminal. I want a net cost, not a gross cost -- if \$10 billion can be reduced by having \$4 billion worth of air rights sold, and we have a \$6 billion nut, not a \$10 billion nut to do it. And the beauty of the location, to me -- one of the beauties, west of 8th Avenue -- is that the existing Bus Terminal and the North Annex to it is on some of the most valuable real estate in the City of New York.

What we found is it is very difficult to induce a developer to build air rights above a bus terminal. It's costly, in terms of construction; and it's not a very ideal location to have on a premier, iconic building. But ripping the old Bus Terminal down and developing that -- I think it's at least a couple or three acres of property that it consumes the (indiscernible) -- is going to be a bonanza of revenue. In addition to that, if we build the new Bus Terminal in an appropriate way, in my mind there is the possibility of yielding revenues from air rights from over that Bus Terminal. So this is a--

SENATOR WEINBERG: So we have a double--

MR. DEGNAN: --double benefit, if it works. Now, I'm not a real estate developer, and the City of New York needs to be directly involved in these discussions. There are all kinds of planning prerequisites that we would have to go through, and the Mayor has some of his own priorities. So I don't want to rush out of the gate here with a concept without making sure that we've dotted our *i*'s and crossed our *t*'s.

But yes, I want a net cost, and I want to reap the revenues from the development. Not that we're going to do the real estate development; we're not in that business anymore. But we should be selling our air rights and our property.

SENATOR WEINBERG: And just one last question.

Then, if we-- Have we gone to the Federal government? Do we know whether there are Federal funds available for something like a new Bus Terminal?

MR. DEGNAN: We have not yet; we hope there are, and we are looking at that as an additional potential funding source.

SENATOR WEINBERG: So even if it were \$10 billion -- and there are people, obviously, including you as the Chairperson, who are a little leery of how accurate that figure is -- but even if it were \$10 billion, there are certainly many ways that are pretty sure that we can recoup some of that money back.

MR. DEGNAN: I don't know if I would agree with *pretty sure*, but I know--

SENATOR WEINBERG: Well, selling-- I think -- you know, I'm not a real estate developer either, but I think we could get some money selling the current Bus Terminal property.

MR. DEGNAN: For sure. That, I would say, for sure.

SENATOR WEINBERG: Yes, okay. That's what I meant by *pretty sure*. Even I could figure that one out.

Okay, thank you very much. I think Senator Ruiz is kind of being impatient.

SENATOR GORDON: Senator Ruiz, do you have some questions?

SENATOR RUIZ: No, no. I'm just gathering information.

I just was-- And thank you for being here, Chairman.

I was asking a question just to be sure that if we changed the location, that it's still in an area that's accessible to the current infrastructure in the City of New York -- where people, most times, can catch a subway or another bus line, and then pop on a bus into New Jersey. I'm sure it is a factor that you are considering with the new location site.

MR. DEGNAN: That's a critical point. The current location of the Bus Terminal is ideal, virtually, in terms of its accessibility to subways.

And we need to know a little more about the commutation patterns of people coming into the Bus Terminal; what percentage of them go to what part of the City for their work? They don't all walk to work. The deficit, or one of the detractions of a site further west is we're going to have to move people one or two long blocks.

SENATOR RUIZ: It's going to be off the subway line, yes.

MR. DEGNAN: Or build a new station on the 7 Line, which is something that ought to be considered as part of this.

SENATOR RUIZ: I'm going to just shift from buses to planes, if that's okay. (laughter)

In some of the information that I've gathered here it looks like there's going to be an appropriation of \$2 billion, or a little over, to the Newark Airport Terminal A -- which brings a lot of delight. Because that is a throwback to Mr. Roper's 1970's days when he walked through that terminal. There is tape on the ground patching up the rugs in the area, and it's truly not a welcoming place, or what I want people to think of what the City of Newark is when they first land -- inside of the airport. If you could just talk to me a little bit about what the timeline for that is, and what the concept is. Is it exterior work? Is it interior work?

MR. DEGNAN: I use Terminal A a lot, and it's a lesson to me in the limitations of the power of the Chairman of the Port Authority. Because in July I walked down the central ramp, which is where the United gates are -- at the end of that ramp. I think it's A20 to 28. The exit is-- The carpet is worn out, and it's patched by duct tape.

SENATOR RUIZ: Right.

MR. DEGNAN: Which my wife pointed out to me last week: The duct tape is now coming up. (laughter)

SENATOR RUIZ: It's already up. (laughter)

SENATOR KEAN: I didn't think that was possible, through the Chair.

MR. DEGNAN: I called the Director of Aviation and asked him what we could do to fix that. And he talked to United, and they promised it would be done by September. In October, I called him and said, "It's October, and it's not done." And United now promises -- because United is responsible for that -- to do it by December. So I hope that that minor modification is made.

But Terminal A is in desperate need of replacement. And the beauty of replacing Terminal A, and why it's *only* -- which is a hard word to put next to \$2 billion, is that it can be erected -- a new terminal, side-by-side, and the old one can come down. Unlike at LaGuardia, where we have to build around the existing Terminal B because there's no space, otherwise, to put it, and keep it functioning while we're building -- it's enormously more expensive. It's a high priority item for the Port Authority; I'm not sure -- is it a full \$2 billion that's in the 10-year Capital Plan--

MS. McCARTHY: Yes.

MR. DEGNAN: --for Newark Airport? But there are planning and conceptual design steps underway, as we speak. And we're optimistic that that process will move forward.

SENATOR RUIZ: When you look to design it, since you're going to build it alongside, are you going to change the exterior of it? Because the airport-- So Terminal C, which is the most modern one -- it

still keeps getting upgraded; it's very modern inside. But the exterior of the airport doesn't seem to reflect what JFK looks like after it had its overhaul, and that kind of stuff. Would you change the exterior? Are you going to make it match? Or will you change it, and then, esthetically, as you move forward long-term, revamp the entire airport?

MR. DEGNAN: There are conceptual design pictures of the new terminal that I've seen that make it look futuristic and modern. It will require some change in the monorail system and the roadway access in one of the bridges -- which actually we've started to work on now.

SENATOR RUIZ: And I just want to say there is increased traffic out of Newark Airport and Teterboro Airport. And to a point that Senator Kean made, that New York oftentimes is the one that owns the conversation when it comes to issues -- I am completely working with a local organization that has -- is pushing forward just an agenda that deals with noise pollution. And it impacts both the state of New York and the State of New Jersey. When Senator O'Toole and I had a bill in, it was -- it didn't pass the legislature over in New York, so it would have been a moot point for us to move it here because it had to be passed by both houses, signed by the Governor in both houses (*sic*).

But the Port Authority did step up and say that they were going to do a Part 150 study to deal with the noise; it was only going to deal with New York. Fortunately, at the time, I was able to talk to the Executive Director and they included the State of New Jersey. And the Port Authority has been helpful, to date, with setting up the website for citizens and residents to track noise. There is some noise equipment in some of my neighbors' backyards to monitor, to figure it out.

My concern is that I think the FAA has been completely not helpful, in any of this, in providing any information. The noise in the North Ward in the City of Newark has dramatically increased to the point where, if you're in someone's home and a plane is flying above you, you think that you -- that there's an earthquake that's occurring. And I think it was when Teterboro started allowing jetliners to fly in and out; because that was the only recent shift -- at Teterboro -- that kind of, as lay people, we could make an assumption as to what was the increase in noise.

I'm just wanting to put on the record that noise is a critical issue with the residents in the City of Newark, and has always been throughout all the Wards -- and the South Ward with dealing with noise and regular pollution; and the East Ward, kind of which borders the bulk of the airport. And now, whatever pathways that are being set up from Teterboro, we're getting impacted heavily. And I would just say, any way that the Port Authority can intervene to be sure that there is fairness and equity -- for everyone who uses the airport -- to deal with the noise. And it's not just impacting one community, every single day, 365 days throughout the year.

MR. DEGNAN: A fair comment.

There is a study, as you've acknowledged, underway now. I'm going to ask a member of our staff to contact you directly to give you more chapter and verse than I can today about the contours of that study, and when it's expected to be done; and fold you into the process, as a Legislator critical to that area. It's an obligation we have, so I will do that.

SENATOR RUIZ: Thank you.

SENATOR GORDON: If I could, I would like to turn to the Gateway project. Chairman, could you give us the very latest on the Gateway project: where does it stand now, have we heard anything from Washington or from any of the Governors on this?

MR. DEGNAN: So it's a sensitive subject. Senator Booker's office -- I talked to this week -- believes that we're making progress toward identifying grant money that could be used for the 50 percent share. I know from Governor Christie that efforts are also being made by Senator Schumer and Senator Menendez, and they are all three working in concert to achieve that.

But frankly, until we get that commitment and an identification of the sources, we have not spent a lot of money preparing for our role -- that is *our*, being the Port Authority, role in this project. We're ready to move, and to be a leader among the relevant agencies that need to come to the table -- including New Jersey Transit, which has begun some of the environmental studies that are necessary for the project; Amtrak; the MTA; and the Departments of Transportation of the respective states.

SENATOR GORDON: And speaking of the Port Authority role in this project, what do you think the role should be? Should it be a coordinating role? Should you be the owner of the asset, the financing agency? Or should we be looking at a-- This might be difficult for you to answer, but I know Senator Schumer has proposed an independent entity just focused on this one project to get it done.

Do you have any thoughts on how this should be organized?

MR. DEGNAN: I know two things: One is that all the interested parties who have a stake in the outcome here need to be at the

table with direct input. Secondly, I believe that the Port Authority is uniquely structured to provide the leadership and construct around which that is built. So if Senator Schumer believes it should be a separate entity, I believe that ought to be under the umbrella of the Port Authority. It boggles my mind, Senator, to think about how you would create a totally independent authority that would be able to raise the money and have bonding capacity. That would, in essence, require, I think, a bi-state compact on the order of magnitude of the Port Authority. And I think that would set us back a significant amount of time, and I don't think it's necessary.

But I don't want to arrogate unto ourselves the sort of supremacy by defining how it should be structured. We need to be a partner and a leader in the process.

SENATOR GORDON: And there's been a conversation about this 30-year, low interest loan; with a payback, I think, beginning after 6 years. Is that kind of construct critical to make this work for the Port Authority?

MR. DEGNAN: I believe that that low-interest Federal loan would be a critical component of the local match for the Federal grant. The two Governors have been quite clear: they don't want the 50 percent Federal contribution to be a loan that we have to pay back; it has to be grant money. However, our match should consist of -- it must, will have to consist of a variety of financing mechanisms, including probably that highly desirable Federal program of -- I think it's a 35-year repayment period. And the first payment doesn't happen, I think, until 6 years after the construction begins. It's at a very low interest rate; and from what I

understand, it's adequately funded and underutilized by transit agencies around the country. And so it's money there, available. And what we have to decide is whether that's cheaper than raising the money ourselves through our own debt capacity, and what the impact of our raising the money with our own debt capacity would be on the other competing capital projects.

It's a complicated decision, but it should be -- I imagine it will be part of the fix, or a component of the match.

SENATOR GORDON: Could you give us an update on the Bayonne Bridge project? There have been delays there. Could you tell us about the ramifications of that?

MR. DEGNAN: So I haven't had too many angry conversations with Governor Christie since I took the Chairmanship. But I share his--

SENATOR GORDON: You should run for the Legislature.
(laughter)

MR. DEGNAN: He can be at least as strong in his opinion as Senator Weinberg is with me. (laughter)

He's not happy with the delay in the construction of the Bayonne Bridge; nor am I. By way of a partial explanation, which I hope will be taken as an excuse, this is a facility that was built in 1931. It's an engineering marvel -- that we can raise the roadway 65 feet on the existing superstructure. And it's an iconic structure, with historical value.

But all the design drawings and all the specifications of that bridge were destroyed when the World Trade Center was destroyed in 2001. So it's essentially a design-build program. The engineers knew what

they saw, but they didn't know what they didn't see. And the construction -- which is overseen by the Port Authority, but done by private entities on a contract basis -- has been replete with surprises. The structural steel strengthening was not as easy as it was expected to be. The nature of the bolts that hold pieces of the bridge together like an erector set were not of the type of material that we expected they would be.

And I know everybody says that the harsh winter should be expected in New Jersey. But very few of us expected the kind of cold we had in 2014, 2015 -- in that winter, and the delay it engendered.

What we have now is a firm date for completion, almost two years beyond what we had originally promised -- although there had been an interim update, which pushed it out somewhat. I've listened to the Governor; I'm listening to you today. Sometime within the next week or so I hope to announce some changes at the Port Authority that will enhance our supervision of the project and guarantee that we get it done for the now-elongated date, if not before.

And in the meantime, we're a burden on the City of Bayonne. And the Mayor has, rightly, protested our delay. We're doing everything we can in terms of mitigation strategies, by paying for police overtime and replacing windows in adjacent houses; we wash the cars of people whose cars we made filthy by the process. But we're doing this in the midst of a densely populated neighborhood, and I regret the impact it's had on them. But we'll continue to look for additional mitigation strategies to make ourselves a better neighbor.

SENATOR GORDON: The impetus of this project, as I understand it, is to accommodate the vessels that are going to be able to go

through the new Panama Canal. Will this delay have any impact, any kind of competitive impact on the Port of New York?

MR. DEGNAN: So actually, we have a new Director of Ports at the Port Authority; her name is Molly Campbell, who I would love to bring down with me some time when, as I expect, I'll be back to answer more questions.

SENATOR GORDON: We hope you'll be back for a long time.

MR. DEGNAN: From what I understand, right now the Panamax ships -- which are virtually 10 times the size of the container ships that come into the Port now -- can get through the Suez Canal and could use the global terminal in Bayonne, where they don't have to go under the bridge. What we need to do, obviously -- and the reason we're elevating the bridge -- is to enhance the ability of those container ships to get into Port Newark.

The Panama Canal is delayed itself; its projected completion date is now April 2016. A lot of people I respect, who know a lot about the Panama Canal, tell me they're less forthcoming than the Port Authority and it will be surprising to get it done by April 2016. But, God bless them, I hope they can.

SENATOR GORDON: We're working on transparency legislation for Panama as well. (laughter)

MR. DEGNAN: For the Panama Canal. I think there would be an easy consensus about that. (laughter)

What I'm told from the Port experts, though, is that the Port Authority does not -- there is no likelihood that we will lose container ships

to other ports on the East Coast. Our critical role in the port system on the East Coast -- because of the way in which you can move goods through the Port of New York, west -- is such that they won't start sending those ships to the East Coast until Newark is ready. And after they stop at Newark, they'll stop at Baltimore, and Norfolk, or Charleston, or Savannah. I mean, they're secondary ports; they won't like that characterization, but I think it's fair.

So look -- this is a mess. We need to get it done. I don't think the economic impact is going to be drastic on either the Port Authority-- But it is an imposition on container shipping companies that were expecting to be able to get those larger ships into the Port much earlier than we're now going to be allowing them to do.

SENATOR GORDON: Okay.

Just turning back to the Capital Plan: When do you anticipate that the revised 10-year Capital Plan will be released and ready for inspection?

MR. DEGNAN: We're aiming for a December-- We have a meeting in November and a meeting in December. I would hope at our December meeting the Board will approve it in draft form, and will then subject it to a period of public hearing and public comment.

SENATOR GORDON: Okay.

On a somewhat different tack: Can you give us an update on the search and hiring of a new CEO?

MR. DEGNAN: There is a search committee that consists of me; the Vice Chairman, Scott Rechler, from New York; and Commissioners Bagger from New Jersey and Lynford from New York. We've hired a

nationally renowned search firm, Spencer Stuart, to conduct a search. We've probably looked at over 50 résumés; we've conducted about 8 to 10 interviews. We're getting to the point where we have a few or less finalists. I expect that the Board, at the November meeting, will be told who those finalists are. And there is no more -- as one of my New York colleagues said, and he's right -- there is no more important role of a Board than to pick its CEO. So we will then create an opportunity for the Board to interview directly the candidate or candidates who are the finalists. I hope by the December meeting of the Port Authority that we will be appointing a new CEO.

SENATOR GORDON: Okay.

I see that Senator Sarlo has just entered the room. Is he there?

MR. MAGYAR (Committee Aide): Semi; he stopped.

SENATOR GORDON: Okay. I wanted to give him an opportunity to ask any questions.

Any members have other questions they would like to pose?

SENATOR KEAN: Yes.

SENATOR GORDON: Senator Kean.

SENATOR KEAN: Through the Chair; is El Niño good or bad for Port Authority construction this fall and winter? You were saying weather patterns are--

MR. DEGNAN: You know what? That's a question of first impression for me. (laughter)

SENATOR KEAN: I'm just saying, it's--

MR. DEGNAN: I don't know.

SENATOR KEAN: It was partly-- But the real question is, getting to your last point, which is-- Or I guess, first, let's start with the Bayonne Bridge construction. Part of the issue the Port Authority has had in the past is obviously dredging and everything else. So the access points into the Port Newark -- all good for Panamax ships?

MR. DEGNAN: I believe I'm right in saying that once the roadway is elevated -- which will be the end of 2017 -- that Newark can receive the Panamax ships and unload them. It's going to create some challenges because the concentration of delivery of containers will be dramatically enhanced by the fact that one ship, 10 times bigger than the others, arrives loaded, and will need that much more unloaded in a condensed period of time than six or eight ships coming in, over a stretch. So there are challenges in the operations, but I think we'll be ready for them.

SENATOR KEAN: So no lightering or anything else -- concerns.

MR. DEGNAN: I don't believe so.

SENATOR KEAN: Okay.

And then finally, to get to your last point -- through the Chair -- if, indeed, there is going to be a new CEO, come December, for the agency, I would urge this body to pass, through formal legislation, in a very timely fashion-- New York already has; it's very important that this body move so that we can actually -- so that the incoming CEO and the continuing Board members have certainty as to what their day jobs are. And so I have concerns about the delay and the actual passage of the legislation, going forward.

So if we have this timeline where executive management is coming into place, then going forward I am concerned that the delay hurts efficiency more than it helps it.

MR. DEGNAN: And in fact, the question has been raised by some candidates who I've interviewed, "Well, essentially, you're creating this CEO position by virtue of a handshake agreement between the two Governors -- that that's the governance structure that ought to lead the Port Authority on a going-forward basis. Could that change?" And the honest answer to that question is, "Unless it's embedded in legislation, it could change with a new Governor, or a change in the disposition of either of the current Governors." And in fact, those changes have taken place in the past, and sometimes, somewhat abruptly.

So it injects a level of uncertainty and job tenure on the part of a CEO, even though he or she will have a contract with the Port Authority for three to five years. Until and unless the governance structure, which I -- and I have said this until I am blue in the face -- I regard as one of the, if not *the* most critical recommendations of the Special Panel report-- If not embedded in legislation, there's always the possibility -- I'd say, even the likelihood -- that future governors will change it.

SENATOR KEAN: Thank you.

SENATOR GORDON: I will only add, as one of the sponsors of the legislation -- I believe there is a commitment on the part of everyone who has a bill before the Legislature that we're going to get this done quickly. I'm certainly sensitive to the issues that you've raised, and we do need to get this done very quickly, and to allow the new team to understand what kind of structure they're going to be working under.

And I think Senator Weinberg -- I think I speak for her as well.
Senator Weinberg.

SENATOR WEINBERG: Let me add to that, that if the reform bill -- led by Senator Gordon and that I have co-primed -- is cast, we will be making sure that, with your willingness, you'll be the one who's still sitting in that chair while the new CEO gets trained into what his or her day job should be. That is a very important aspect of our bill -- which is not contained, right now, in the New York bill -- along with this legislative oversight.

So the word seems to be out that with the -- and correct me, or don't correct me, as you see fit -- that with the hiring of a new CEO, the Chairmanship will automatically go to New York for two years. Whether Chairman Degnan decides to stay, or when he is no longer the Chair will be up to him. But that is a big point in how this Port Authority moves ahead.

Having said that, you don't have to comment on that if you don't wish to.

MR. DEGNAN: Well, I can confirm your impression. I've been told by both Governors directly that their agreement is that, at the meeting in which we elect -- the Board selects and elects a CEO, the bylaws will be amended at the Port Authority and the Chairmanship will become a rotating one between the two states on a two-year basis -- and New York will get the first Chairmanship. So if I'm invited back next year, it will not be as the Chairman of the Port Authority. And that's something that the two Governors agreed to.

I disagree with you, Senator, with some chagrin, and a little fear. I've been candid about the need to compromise in the Port Authority

on various issues. The Governor of New York has made it pretty clear that in giving up the appointment of the Executive Director-- You asked me who influences the Port Authority more, the Chairman or the Executive Director. It's the Executive Director. Who influences a corporation more -- my old corporation, Chubb -- the Board and its Chairman, or the CEO? The CEO does. So Governor Cuomo's view is that if I give up the appointment of the Executive Director, I'm sure as heck going to require that I get the Chairmanship, at least for an interim period of time.

And while I know you have misgivings about that -- and, frankly, I have a few myself -- I would say to you a couple of things: One is, I can't wait for the Board to be organized in a way so that the Chairman of the Board -- whoever he is, or she is -- can say to the CEO, "This Bus Terminal situation has got to be resolved."

SENATOR WEINBERG: There are no *shes* on the Commission, by the way -- if you haven't noticed.

MR. DEGNAN: I know it, but there should be.

And to say to the CEO, "This problem has to be resolved. Work with the staff, and come back to us and tell us how it is resolved." That's how any public or private corporation in the public sector or private sector ought to work.

Secondly, I would say to you, as I have privately -- and I say it with some chagrin -- "Nothing gets done in two years at the Port Authority." So the fact that one person is Chairman for two years -- he or she couldn't run roughshod over the other state without it being undone by the Chairman who comes in from the other state at the end of two years.

The third is, as Senator Kean has pointed out, every vote at the Port Authority requires at least three votes from each state. So there is no way one Chairman can override-- I couldn't get the Bus Terminal passed until I made a compromise on LaGuardia because I needed three votes from each state.

And the last -- as a last resort, you have gubernatorial veto. I know the Legislature probably would like to have legislative veto, but I don't think that's in the bill. But there is an oversight function there that prevents one state from entirely overrunning the other.

The question is, is the good to be achieved by the increased and enhanced governance structure worth the risk, tempered by these factors I've just mentioned -- that one state would dominate over the other?

SENATOR WEINBERG: While I admire your optimism, I don't share it. And I don't share it based upon my experience with the Port Authority over the last two, two-and-a-half years. And may I remind everybody here that, at least on the New Jersey side -- with the exception of you and one other Commissioner -- they are, in essence, the same people who sat there; are still sitting there.

So I think our legislation -- which requires a little bit of continuity by saying that when the new CEO comes in there is a year transition to keep the current Chair -- is wise, is appropriate, and would restore some of my confidence. But we will see how that plays out in the legislative process.

I have questions on the building, but I'm going to leave that to my engineer colleague on my left.

SENATOR GORDON: Senator Sarlo has returned. I know he brings an engineer's perspective to some of these issues. So I'd like to give him the option of asking the questions he might have.

SENATOR SARLO: Thank you, Mr. Chairman.

Yes, I had to step out for a round table with Senate President Sweeney. And I appreciate you giving me the opportunity.

Real quick, before I just get into the practical aspects of constructing a bus terminal -- and maybe I missed this and I apologize to the Committee. As the Port Authority goes out and recruits a top-notch CEO with great transportation expertise, is there a set year contract? Is it a multi-year contract that's being negotiated? Because in order to attract a top-notch person and to draw him from another private enterprise or another public agency, knowing that they're at the political will of two Governors, I am assuming that they're going to want a multi-year contract. Is that--

MR. DEGNAN: There's a job description on the Port Authority website, and the candidates have been told we're looking for a three- to five-year contract.

SENATOR SARLO: Okay. To give them some job stability--

MR. DEGNAN: That's right.

SENATOR SARLO: --some structure, so they know when they're leaving, and they have an opportunity to make an impact.

I try not to always put on my engineering hat here in the Legislature, but it's just common nature for me to do that.

I just have some quick questions on this \$10 billion price tag that has been put on this project. And for the life of me -- I've looked at

different numbers; there's always some rule of thumb in our business. Like, you're building a parking garage, right? The rule of thumb in building a pre-cast parking garage, with bells and whistles, and bathrooms -- regardless, it's \$15,000 to \$20,000 per parking space, right? So you build a 100-car parking garage, you're at \$1.5 million to \$2 million. No matter how many different formulas that I've applied, and through so many conservative factors, this \$10 billion number-- Has somebody sat down and put pen to paper on this \$10 billion number? It just-- For the life of me, you know -- where did this number come from?

MR. DEGNAN: So the number first surfaced, to the best of my knowledge-- And Libby and I were talking about this, this morning at the presentation made on the Master Plan for the Bus Terminal by our staff, aided by outside consultants, to the Board. I think it was at the March 2015 meeting. Most of us had been expecting a price tag in the neighborhood of \$2 billion to \$3 billion.

Secondly, it's a gross estimate, not a net estimate. It doesn't factor in revenue-producing potential of the air rights over the new Terminal, or of the demolishing the existing terminal and building a new structure over it.

SENATOR SARLO: Okay, so that's important. So there's no residual value from the existing facility -- knocking that down and developing that property.

MR. DEGNAN: Not factored into the estimated cost.

SENATOR SARLO: Okay. So there's no residual value, and there's no advertising or air rights over the new Terminal, either, factored in here, correct?

MR. DEGNAN: That's right. So at the March Board meeting, the Board basically threw up on the proposal, and created a working group of four of us to spend another four or five months with additional consultant help, and our staff, to try to put a finer point to the projection.

We still don't have a reliable cost estimate. I don't know what the basis of \$10 billion is, but the new consultants have suggested several opportunities to reduce the cost of the structure, which are now going to be the subject of a more detailed study, once the concept is agreed to.

SENATOR SARLO: You know, Chairman? I hate to question fellow engineers and planners, but the number just-- Especially since the-- Taking away all the residual values for advertising, and taking away residual recovery costs for selling the old facility -- a \$10 billion number for, literally, a structural steel, pre-cast concrete facility; not a lot of fit-out. I mean, I know there's going to be some -- we're going to have amenities such as great bathrooms and great wait areas. But even there, we're not talking about-- I mean, the square foot cost for just-- You could build a high-rise with all the amenities in the world in midtown Manhattan for less than a \$10 billion price tag. So this number, I'm concerned, is: one, it's scaring the public; and number two, it's scaring policy makers and elected officials into saying, "Is \$10 billion really worth it for a Bus Terminal?" Because, at the end of the day, this thing should be below \$2 billion, in my eyes -- and that's number one.

And the second part of that is the schedule. I know -- I've worked with the Port Authority, all right? When I'm wearing my other hat, over the years, I've done work. I understand what could be done in the private sector; or even a public sector, working for another agency -- a

project that could take six months will take a year-and-a-half at the Port Authority. I understand that; and I get that. But there's no reason why this type of structure -- I've seen some of the renderings, or conceptals -- should take us 10 years to build. It just--

I'm not blaming you, sir; please don't take this-- I'm just asking you and others who are looking down at this to really poke and push. Because this \$10 billion price tag is too high, off the charts, and it should not take 10 years. Because we all want to see it in our lifetime, quite frankly. We don't want to be talking about this forever.

MR. DEGNAN: Senator, I'm not an engineer, but I am a skeptic. Not long after I came to the Port Authority, someone told me that an elephant is a mouse built to Port Authority specifications. (laughter) So I empathize with your point of view, and I hope by doing it the right way that we-- And frankly, I would love to sit down with you when we get the conceptual design. Bear in mind that it does include increased rampage from the Lincoln Tunnel to enhance the flow of buses through. But \$10 billion sounds nuts to me too.

SENATOR SARLO: I've talked to other experts in the industry; I've run some numbers just on a napkin, right? It all starts on a napkin. We always say, in engineering school, that's where we always start. I can't come up with the \$10 billion. And I understand that there will be offsets; that number will be offset with some residual recovery costs and some advertising costs. That's all great. But we really need to get that better number, because I think, at the end of the day, when the public hears what the real number will be, there's going to even be greater excitement for this. And there is a way to reduce-- You know, with a new CEO and other

folks really focusing, we could get this schedule done a lot sooner than 10 years. There is no major environmental; you know, you're going to demolish what's existing there. They build a lot of more complicated structures in midtown Manhattan, in less than 10 years, than a bus terminal.

Thank you, sir.

MR. DEGNAN: Thank you.

SENATOR GORDON: Senator Ruiz.

SENATOR RUIZ: I just want to go back to one thing, Chairman, that I neglected.

With Teterboro Airport, they have a TANAAC, which is the Teterboro Aircraft Noise Abatement Advisory Committee -- I think is what it stands for. There is representation from, I think, a lot of the neighboring towns. And so I am making a formal request that Newark gets an opportunity to have a seat as part of that Board as well -- since we're being impacted by the noise there. And I will follow up with a letter; it's a conversation that we have been having. But since I have the opportunity to put it on the record here, I think it's important that the City of Newark has a representative as part of that Board.

And then I missed some of the other Senate Legislative Oversight Committee meetings when this project was discussed. And just briefly, if you will -- and I think I'll follow up, and we can have a more in-depth meeting -- the status and the advantage of the PATH extension into the Newark Airport, and if there are any benefits to the City of Newark.

MR. DEGNAN: So there is currently underway a Regional Planning Association study, in combination with the City of Newark, for

the impact on the Dayton Street neighborhood of a station on the extension from Penn Station out to Newark Airport.

SENATOR RUIZ: Right.

MR. DEGNAN: And I think, without a doubt, there will be significant benefits in revitalization to that neighborhood in the City of Newark.

While we're on the PATH extension: It's a plan that's been in the works for more than 10, 15 years. It has more potential than people -- for the good of the commuter than people give it credit for. As I said earlier, if we can create a one-ride train passage from Newark Airport to downtown, and enhanced parking facilities at Newark Airport, it's a piece of an overall trans-Hudson challenge.

Secondly, no major international airport-- Well, most international airports in the world -- Heathrow in London, for example -- have direct rail access to center city from the airport. It greatly enhances the value of the property and the utilization of the premises. So it's not a project I'm prepared to say, absolutely, that the Port Authority should back away from. In the end, it will have to be judged relative to the other competing demands for the limited capital dollars there are, and we'll have to make a difficult choice. And that will be vetted with everyone, and the Port Authority is subject to oversight -- so it may not be only our choice.

SENATOR RUIZ: Thank you.

SENATOR KEAN: If I may, through the Chair.

SENATOR GORDON: Senator Kean.

SENATOR KEAN: Getting to Senator Ruiz's point: While the Port Authority is not going to be involved in real estate purchases,

enhancements -- what have you -- there is an extraordinary benefit to the citizens of Newark if that extension is completed for a whole host of reasons: everything from getting in on McCarter, getting into -- having -- where the construction is, where the buildings are, the ease of access. I mean it, to me, is a very important effort for not only that city, but the entire region around that city. And I was concerned months ago -- and I know we've said the public in the past and the regional transportation officials -- the Regional Planning Association and everything else was talking about the extraordinary ripple effect of that extension.

But to the extent that there was ever an effort that we should delay that extension, \$1.7 billion coming in, to me was antithetical to the purpose of the Authority.

MR. DEGNAN: The planning is ongoing; and I respect the concerns that have been raised by people about it. But I don't see that as a reason to stop continuing to plan the process with money that's already been allocated and consultants who are already at work. At some point, this will be said: There's a gating project at the Port Authority. We're going to have to look at the Port Authority PATH extension to Newark Airport in the context of competing demands at that time. But all of the considerations you just raised need to be weighed heavily.

SENATOR KEAN: I was just hoping I could associate myself with Senator Ruiz's comments, but also echo them in a way that said that it's as important -- the Bus Terminal, and the Tunnel, and the other things. If you're truly looking at this Authority and its responsibility as a living, breathing asset needing to enhance the transportation, commuting value,

part of our region's existence -- I think this is part of that entire conversation.

SENATOR RUIZ: Through the Chair, thank you, Senator. I just-- And if I didn't make myself clear earlier-- It was only from reading reports; I just didn't want you to think that there weren't legislators who-- And I'm not fully aware of the entirety of the project, so I look forward to spending time and evaluating it.

But just on the concept level, for me, as someone who represents a city that's really turning the corner and thriving -- I think it's a great opportunity for jobs; it's a great opportunity to bring people to our downtown corridors; plus it enhances the greater infrastructure for transportation. So there are other people in the Legislature who potentially feel different than, perhaps, what was echoed in the past.

MR. DEGNAN: Thank you, Senator.

SENATOR GORDON: Just a question on that subject.

Do the flight patterns around Newark affect building heights, and are there restrictions on development because of the flight pattern, to your knowledge?

MS. McCARTHY: My limited understanding is, yes.

SENATOR GORDON: I thought there might be a four-story height limitation as a result of the approaches to Newark Airport.

SENATOR KEAN: The Prudential Tower is pretty tall.

SENATOR GORDON: Yes.

SENATOR KEAN: Gateway is pretty tall. I mean, Gateway is 20, 30 stories.

SENATOR RUIZ: Yes. And the hotels--

SENATOR GORDON: Any other questions from members?

(no response)

Seeing none, I'm going to bring this hearing to a close.

I want to thank you, Chairman and Ms. McCarthy, for being here and devoting all the time that you did. I thought it was a very substantive and informative meeting. And I hope there will be many in the future.

So with that, I will bring the meeting to a close. Thank you all very much.

(MEETING CONCLUDED)