A Port Authority That Works



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Executive Summary

The Port Authority of New York and New Jersey has been a vital force in the physical and economic growth of the New York-New Jersey region. During the past few years, however, public attention has focused on the Port Authority's spending, management, and political interference in the agency's operations. In recent weeks, several sources have called for reform, restructuring, or even abolition of the Port Authority.

However, the critical problem facing the Port Authority today is not mismanagement, political abuse, or rivalry between New York and New Jersey. The fundamental challenge is that the business model under which the Authority has operated for the past thirty years is no longer sustainable. For the New York-New Jersey region to grow over the next fifty years, the Port Authority must rethink not only how it manages its business, but also how it defines what that business is.

Evolution of the Port Authority's Business Model

Since the 1930's, the Port Authority's consolidated funding structure has allowed it to use surplus revenues from its most profitable facilities (such as the George Washington Bridge and John F. Kennedy International Airport) for two important purposes:

- To help meet the capital and operating needs of Port Authority facilities that don't generate sufficient revenue to cover their own costs;

- To allow the Port Authority to invest in new facilities that over time will help to grow both its own revenues and the region's economy.

While this basic framework remains in place today, the ways in which it is used have evolved over time.

- In the late 1960's the Port Authority took on responsibility for rehabilitation and ongoing operation of the PATH system – a rail transit system that, as the PA and leaders of both states realized, would never cover its operating costs, let alone provide a return on the PA's investment.

- In the early 1980's (and with the approval of both states), the Authority's mission expanded again, as the Port Authority took on a series of economic development projects. While it was hoped that these projects would be self-sufficient, they were not expected to generate significant new revenues.

- At the same time, the PA began to allocate a portion of its surplus revenues and its limited capital capacity to projects selected by the governors of the two states, many of which bore little or no relationship to the Authority's mission or its existing businesses. These projects were not required to achieve the rates of return the PA normally required on its own projects; and many of them generated no revenue at all.

An Era of Growth – but an Eroding Base

Throughout the 1980's and 1990's, this arrangement appeared to be working well, as the Port Authority invested in upgrading the PATH system, oversaw the development of new terminals at its airports and rail links to Newark and JFK, and improved the competitive position of the region's ports. Air passenger traffic at the three airports has more than doubled since 1980; and since 1991, the volume of container cargo moving through the region's ports has tripled.

Fundamental changes undermined the assumptions on which the Authority's early-1980's business model were based – in particular, assumptions about the Authority's own operating and capital needs, and its revenue-generating capacity.

- Since the early 1980's, the burden that the PATH system's operating deficits and zero-return capital requirements impose on the Port Authority's revenue-generating businesses have grown larger. PATH's deficit in 2012 totaled $370 million; and during the same year Port Authority capital spending on PATH (excluding the cost of the new PATH station at the World Trade Center) totaled $179 million.

- The combined operating deficits of the Port Authority Bus Terminal and the bus station at the George Washington Bridge have also risen to $112 million in 2012.

- During the past fifteen years, the Port Authority's marine terminals have gone from a nearly break-even business to one that in 2012 had an operating deficit of more than $100 million.

- In 2012 the World Trade Center – which in 2000 generated more than $33 million in net revenue for the Port Authority – incurred a net loss of $46 million. In the years since the September 11 attack, the Port Authority has invested billions of dollars in rebuilding the World Trade Center.

- Even as the Port Authority's financial foundations were eroding, the Authority continued to finance projects chosen by the governors. Between 2002 and 2012, the Port Authority spent more than

$800 million on such "regional projects." During the next few years, PA spending on zero-return state projects will increase even further, as a result of the Authority's agreement to provide $1.8 billion to fund the rehabilitation of state highways and bridges in New Jersey.

As a result of these trends, the Port Authority has, year by year, become more reliant on the revenues generated by its money-making facilities – its network of interstate bridges and tunnels, most notably the George Washington Bridge, and John F. Kennedy, LaGuardia and Newark Liberty airports – to subsidize the operation of, and investment in, those that can't cover their costs, and to help finance state capital projects that provide no return to the Port Authority.

The increases in bridge and tunnel tolls that the Authority has implemented in recent years are a direct result of its continuing reliance on its bridges, tunnels, and airports to fund its money-losing operations and to finance both its own and the states' capital projects.

New Rules for the Port Authority

The current leadership of the Port Authority deserves credit for its renewed focus on effective management of the Authority's operations and financial resources. But management reforms are not enough. It is essential to reconsider the purposes the Port Authority should serve, and how its limited resources can be used most productively. The leadership of the state governments and the Port Authority should consider these proposed guidelines:

- The Port Authority's financial resources are to be used solely for facilities, services, projects, and programs that are clearly aligned with its core mission. This doesn't mean the Port Authority can't take on new projects – but those that it takes on should be closely aligned with the PA's core businesses.

- It is no longer possible for the Port Authority to adequately fund its own facilities and services while simultaneously allocating hundreds of millions for non-revenue-generating state projects. The governors of New York and New Jersey and the leadership of the Port Authority should agree to end the practice of using the Port Authority to fund zero-return state projects.

- At the same time, the Port Authority should subject its own investment decisions to rigorous cost-benefit analysis. Any proposed projects that are not self-sustaining must be strategically justified. Several projects included in the Authority's recently approved ten-year capital plan – such as the proposed extension of the PATH system to Newark Liberty Airport – have yet to be evaluated on a cost-benefit basis.

- To focus on protecting the health of its revenue-generating facilities, the Port

Authority must give heightened attention to its three major airports. They are essential not only to the Authority's financial health, but to the continued growth of the region's economy as well. The priorities should include: redevelopment of the Central Terminal at LaGuardia, modernization of Newark Terminal A, runway improvements at JFK and LaGuardia, accelerated deployment of next-generation air traffic control technology, and ground access improvements at all three airports.

- While redevelopment of the World Trade Center must remain one of the agency's top priorities, most of the Port Authority's other commercial and industrial properties are peripheral to its core businesses. It may be time to dispose of these properties.

- The Port Authority and the two states need to consider the long-term future of the PATH system. PATH is today the only major rail transit system in the U.S. that is funded entirely through a combination of farebox revenues and subsidies from other transportation facilities, without any support from broader-based tax revenues. Without some broader base of support, the next decade is likely to see continued escalation of bridge and tunnel tolls and PATH fares, increased pressure to cannibalize revenues from other Port Authority businesses to further subsidize PATH, sharp reductions in service – or some combination of all three.

- It will be difficult to pursue the policies proposal in this report unless the states agree to end the division of the Port Authority into separate political fiefdoms. This will require multiple changes in the way the agency is run, but there is probably one change on which the success of all others depends – reintegration of full responsibility for management of the entire organization in the position of Executive Director.

  It should be stipulated, for example, that the Deputy Executive Director (even if nominated by the Governor of New Jersey) works solely for the Executive Director. Moreover, elected officials (of either state) should rely on the Executive Director to appoint qualified individuals to high-level management positions at the Port Authority.

The leadership of the Port Authority must recognize that its current business model and division into separate political fiefdoms are undermining the organization's capacity to fulfill its mission. It may be easier to ignore these problems than to fix them. But with each passing year, ignoring them will only make them worse.

Challenges for the Future

The Port Authority of New York and New Jersey, created in 1921, is a vital force in the physical and economic development of the New York-New Jersey region. In the 1920's and 1930's, it built the bridges and tunnels that connected the two states more closely than they had ever been connected before.

After the Second World War, it developed and managed the airports that made the New York region the nation's leading gateway for international air travel. In the 1950's it built the world's first container port, and what is now the world's busiest bus terminal. In the 1960's and 1970's, it built the World Trade Center – and is now building it again. On both sides of the Hudson, hundreds of thousands of people depend on the infrastructure of trade and transportation built and managed by the Port Authority.

During the past few years, the Port Authority has been the focus of public attention for other reasons, with various proposals for its reform, abolition, and restructuring. In 2011, the governors of New York and New Jersey criticized the agency for construction cost overruns at the World Trade Center, for poor management, for having strayed from its core mission, and for excessive perks awarded to senior managers. A report prepared by Navigant Consulting Inc. at the request of both governors characterized the Port Authority as:

> ….a challenged and dysfunctional organization suffering from a lack of consistent leadership, a siloed underlying bureaucracy, poorly coordinated capital planning processes, insufficient cost controls, and a lack of transparent and effective oversight of the World Trade Center ("WTC") program….[1]

In the fall of 2013, the reconfiguration of traffic lanes on the New Jersey side of the George Washington Bridge caused massive traffic jams in Fort Lee, New Jersey. This incident has been the impetus for investigations by several governmental entities. There is now broad recognition that the Port Authority (especially in New Jersey) has served as a source of patronage for political appointees, and that there are conflicts within the agency between those who see themselves as serving the interests of either New Jersey or New York, rather than the mutual interests of both.

Many of the charges leveled at the Port Authority are justified. Cost overruns at the World Trade Center are serious – although they are in part a result of flawed planning decisions made by New York State in the five years after the September 11 attacks, before

1. Navigant Consulting Inc., Phase I Interim Report, Presented to the Special Committee of the Board of Commissioners of the Port Authority of New York and New Jersey, January 31 2012, p. 5.

the Port Authority took back responsibility for redevelopment of the site. The longevity bonuses and other benefits awarded to some top managers were hard to justify, given the agency's financial problems and the austerity measures that other public agencies had been forced to adopt. Like other large, politically insulated organizations, the Port Authority was overdue for a management shake-up.

However, the critical problem facing the Port Authority today is not mismanagement, political abuses, or rivalries between New York and New Jersey. The fundamental challenge is that the business model under which the Authority has operated for the past thirty years is no longer sustainable. To fulfill its mission and to help the New York-New Jersey region thrive over the next fifty years, the Port Authority needs to rethink not only how it manages its business, but how it defines what that business is.

The Evolution of the Port Authority's Business Model

To understand why this is the case, some history is in order. When the Port Authority was created in 1921, it was charged with developing facilities needed to support the flow of commerce in the 1,500 square-mile Port District; but it initially lacked the financial resources needed to fulfill its broadly defined mission.

Within a few years, however, the rapid growth of automobile and truck traffic created both a need for and a way to finance new infrastructure. The agency assumed responsibility for the operation of the Holland Tunnel and in quick succession built the Goethals, Bayonne, and George Washington bridges as well as the Outerbridge Crossing.

Starting in the 1930's, the Port Authority operated under the assumption that these facilities would generate sufficient revenue to enable the agency to finance the development of new projects, which would eventually become self-sustaining, and would in turn contribute to the financing of still other new investments.

Following this model, the Authority from the 1930's through the 1950's undertook infrastructure projects that have contributed to the growth of the region's economy, and to its day-to-day functioning, including the Lincoln Tunnel, Idlewild (now John F. Kennedy) International Airport, the Elizabeth Marine Terminal, and the Port Authority Bus Terminal.

A significant change in this model occurred in the 1960's, when the Port Authority developed the World Trade Center. In exchange for his sign-off on the project, New Jersey Governor Richard Hughes persuaded New York's Governor Nelson Rockefeller to have the Port Authority take over, rehabilitate and operate the privately-owned Hudson & Manhattan Railroad (now PATH).

The World Trade Center represented a significant expansion of the Port Authority's scope – but it followed a well-established approach to financing new projects, with surplus revenues from existing facilities being used to underwrite the up-front cost of developing new facilities, which were expected to become net revenue generators in the future. The Port Authority's assumption of responsibility for the PATH system, however, represented a significant departure from its past practice. The Port Authority was not merely getting into another line of business – it was taking on an ailing rail transit network that (as all parties acknowledged up front) would never cover its operating costs, let alone provide any return on the Authority's investment.[2]

2. The Port Authority's initial resistance to taking on this new commitment was reflected in an insertion into the Authority's bond covenants of a provision prohibiting any further PA involvement (beyond PATH) in the operations or financing of deficit rail transit systems. While this provision was dropped from new PA bond covenants after 1974, it remained in effect until the 1990's.

An Expansive Agenda

In the late 1970's and early 1980's, under the leadership of former Executive Director Peter Goldmark, the scope of the Port Authority's business was expanded to include: industrial parks in the Bronx, Yonkers, and Elizabeth, a satellite communications and office complex on Staten Island, a new office building, and a waste-to-energy plant in Newark and mixed-use waterfront development projects in Hoboken and in Hunters Point, Queens.

All of these projects were envisioned as new ways for the Port Authority to contribute to the revitalization of the region's economy. While they were generally expected to be self-sustaining, none were expected to generate significant new net revenues for the Port Authority or to add to its capital capacity. Their primary purpose was economic development.

The early 1980's also saw another major change at the Port Authority. As demand for World Trade Center office space surged, Goldmark saw an opportunity to replace New York State government agencies – which since the early 1970's had occupied several million square feet of space at the Trade Center – with higher-paying private-sector tenants. But instead of having the Port Authority keep the additional rent revenues, Goldmark proposed that they be used to fund a "regional bank" program, under which the Port Authority would finance a series of capital projects that would be chosen by the governors of New York and New Jersey. Both states readily accepted the proposal.

The concept of using surplus Port Authority revenues to fund state projects was expanded a few years later, when the Authority and the states agreed that a portion of the new revenues generated by a proposed toll increase would also be set aside to fund "regional development" projects of the governors' choosing. These projects – like those funded out of World Trade Center revenues – would not be required to achieve the rates of return the PA normally required on its own projects. In fact, they would not be required to generate any revenue at all.

An Eroding Base

For several decades the Port Authority business model seemed to work well. In the 1980's and 1990's and into the present, the agency recorded some notable achievements.

- Much like the rebuilding of New York's transit system (although on a much smaller scale), the Port Authority's commitment to rebuilding PATH and providing reliable, low-cost, trans-Hudson rail service contributed to the revitalization of Lower Manhattan, and helped make possible the redevelopment of the Hudson County waterfront.
- Major capital improvements at the region's airports – new and expanded terminals, new airport rail systems at JFK and Newark, and other improvements – helped build a foundation for continued growth of the region's aviation industry. Between 1980 and 2013, air passenger traffic at JFK, Newark, and LaGuardia more than doubled – from 53.5 to 112 million passengers.

- The New York-New Jersey port significantly improved its capacity to compete effectively with other U.S. ports. Improvements included modernized terminal facilities in Newark and Elizabeth, the dredging of the harbor to accommodate larger ships, a major expansion of the Howland Hook terminal on Staten Island, and major investments in intermodal rail freight facilities serving the port.

  As a result of these improvements, the New York-New Jersey port was well positioned to take advantage of the continued growth of world trade. Between 1991 and 2012, the volume of containerized cargo moving through the New York-New Jersey port nearly tripled, from 1.87 million to 5.53 million twenty-foot-equivalent units.

- Despite a slow start, by the mid-1980's the World Trade Center had become a solid commercial success, a major contributor to the revitalization of Lower Manhattan, and a money-maker for the Port Authority.

- The two states used Port Authority regional development funds to finance a variety of worthwhile projects, including improvements in New Jersey Transit's rail infrastructure that improved the connectivity on NJ Transit's rail network, rail freight improvements in New York City – as well as some others of lesser merit.

But even as the Port Authority was recording these and other successes, changes were occurring – both at the Port Authority itself and in the wider world in which it operates – that undermined the assumptions on which the Authority's early-1980's business model were based – in particular, assumptions about the Authority's own operating and capital needs, and its revenue-generating capacity.

- The burden that the PATH system's operating deficits and zero-return capital requirements impose on the Port Authority's revenue-generating businesses has, since the early 1980's, steadily grown larger.

  – Year by year, the gap between PATH's costs and revenues has increased. Between 2000 and 2012, PATH operating revenues grew at an average annual rate of 4.5 percent, while its operating costs grew at an average of 5.9 percent. As a result, the system's net operating deficit rose during the same period from $158 million to $370 million – an increase of 133 percent, or an average of 7.3 percent annually.

Since 2011, the growth of the PATH deficit has been slowed by fare increases, with the single-ride fare rising from $1.75 to $2.50 as of December 2013, with additional increases scheduled for December 2014 and 2015. Nevertheless, even with these increases, PATH operating deficits will continue to impose a growing burden on the Port Authority's net-revenue-generating facilities.

– Net capital investments in the PATH system have also risen sharply, from $70 million in 2002 to a high of $393 million in 2011. Between 2002 and 2012 the Port Authority's investments in PATH – excluding the cost of developing a new PATH station at the World Trade Center – cumulatively totaled nearly $2.1 billion.

In addition to this eleven-year total, from 2010 through 2012 the Port Authority spent nearly $1.4 billion on construction of the new PATH station at the World Trade Center.

- The cost of operating and maintaining the Port Authority's midtown bus terminal and the George Washington Bridge bus station has also escalated, with the combined deficit generated by these two facilities rising from about $59.5 million in 2000 to $112 million in 2012. This deficit is in effect a subsidy provided by the Port Authority's money-making businesses to those who commute across the Hudson River by bus.

- During the past thirty years, the maritime industry's shift toward ever-larger container ships, competition among U.S. ports, and heightened concerns about security have led the Port Authority to increase investments in its marine cargo terminals. At the same time, competition with other ports has constrained the agency's ability to raise rents and other charges to levels that would cover its increased costs. As a result, the Authority's port business has gradually shifted from one that was solidly self-sustaining to one that now generates a substantial annual deficit – going from a net loss of $8.9 million in 2000 to a loss of $100.2 million in 2012 – and like PATH, must be subsidized by the Authority's money-making businesses.

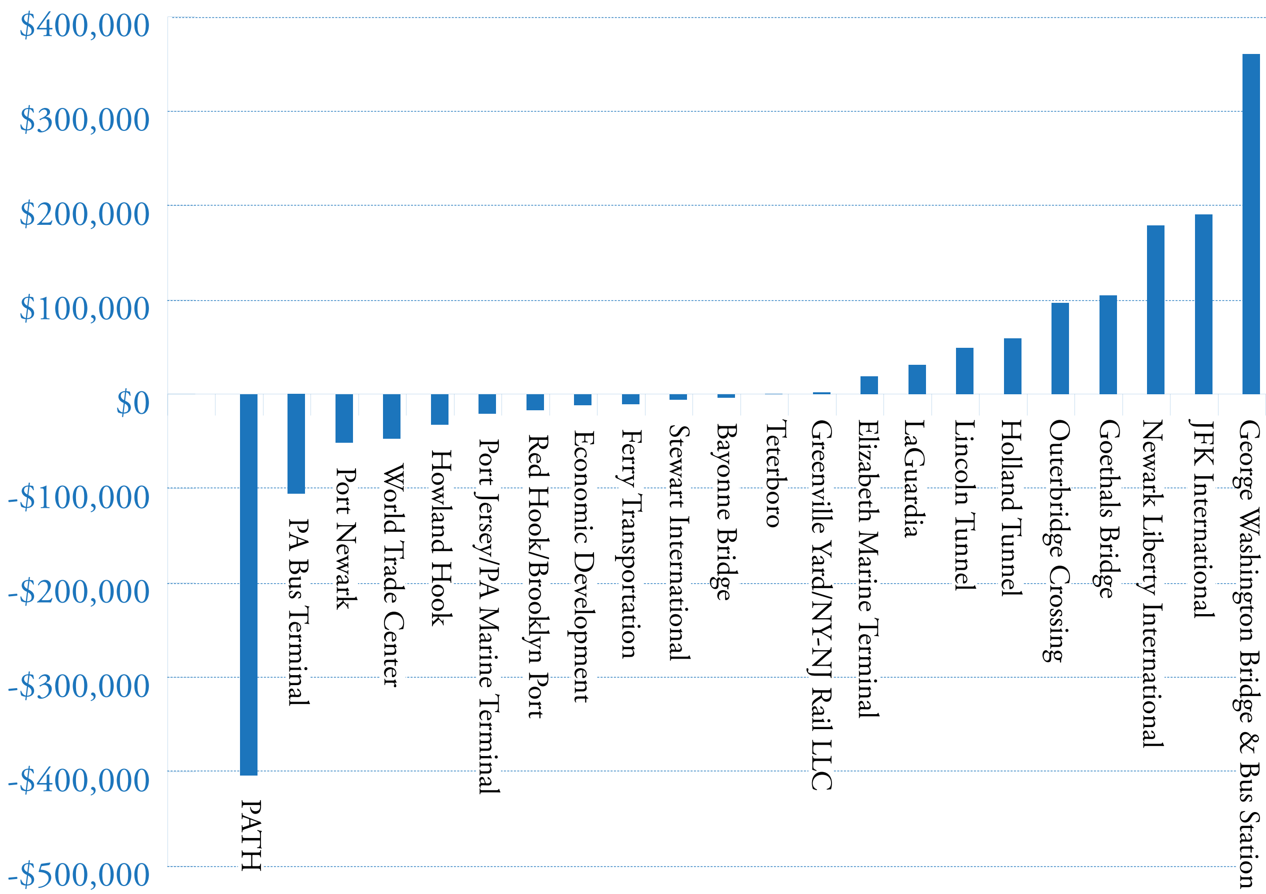
- Several of the economic development projects undertaken by the Port Authority in the 1980's have not performed as well as anticipated (and a few, such as development of a commercial fishing complex at Erie Basin in Brooklyn, failed outright and were quickly shut down). Although they represent only a small part of the agency's operations and budget, the remaining economic development projects

– including the Essex County Resource Recovery plant, the Staten Island Teleport and the Newark Legal Center – collectively generated losses of nearly $11.3 million in 2012.

- In addition to taking more than 2,900 lives, the 2001 attack on the World Trade Center destroyed one of the Port Authority's most valuable assets. In 2000, the World Trade Center produced more than $33.2 million in net revenues for the Port Authority; in 2012, it generated a net operating loss of $46.8 million.

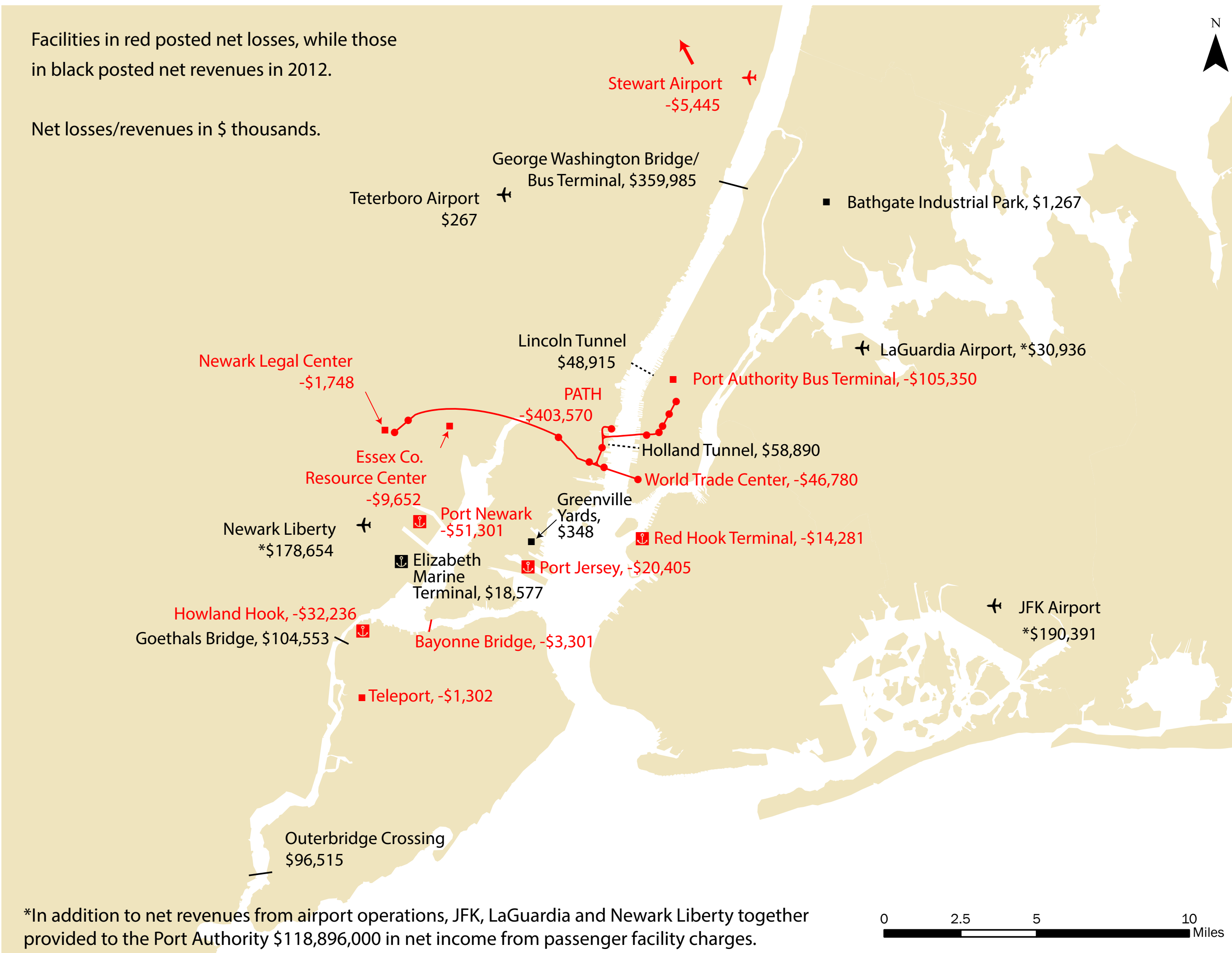
The Port Authority has become increasingly reliant on the revenues generated by its money-making facilities – its network of interstate bridges and tunnels, most notably the George Washington Bridge, and John F. Kennedy, LaGuardia and Newark Liberty airports – to subsidize the operation of and investment in those that fail to cover their costs. Figure 1 highlights the net revenues and net losses generated by Port Authority facilities and programs in 2012; Figure 2 shows the location, net revenues, and losses for major PA facilities.

Figure 1: Net Income (in thousands) of Port Authority Facilities and Programs, 2012[3]



3. The figure for the WTC represents net operating results only.

Figure 2: Map of Major Port Authority Facilities



*In addition to net revenues from airport operations, JFK, LaGuardia and Newark Liberty together provided to the Port Authority $118,896,000 in net income from passenger facility charges.

Paying for Zero-Return Projects

But even as the Port Authority's financial foundations were eroding, it continued to provide free financing for projects chosen by the governors. Between 2002 and 2012, the Port Authority spent more than $800 million on these "regional projects."

The Port Authority also kept taking on expensive new commitments to other zero-return projects favored by the two states. The PA committed $3 billion to construction of the ARC rail tunnel – and spent $161 million on the project before it was canceled by Governor Christie. After the Governor insisted that the $3 billion previously committed to ARC be treated as "New Jersey's money," the Authority agreed to allocate $1.8 billion for rehabilitation of New Jersey state highways and bridges, including the Pulaski Skyway.

The problem with such projects is not that they lack merit – it's that the assumptions about the Port Authority's revenue-generating capabilities and capital capacity on which they are based are increasingly disconnected from reality.

The states' failure to acknowledge the limits of the agency's finances – and in particular, the practice of treating it as a source of free money – has seriously distorted the Port Authority's investment priorities. In its 2012 capital budget, the PA allocated $343 million to state, highway, and bridge projects in New Jersey – substantially more than the $282 million allocated to the agency's own network of tunnels, bridges, and bus terminals, and nearly as much as the Port Authority planned to invest in 2012 in all of its port facilities ($345 million).

The World Trade Center

Some New Jersey officials might see the PA's funding of New Jersey highway and bridge projects as simply balancing the books against the agency's spending on redevelopment of the World Trade Center site. At first glance this might seem reasonable. The Port Authority has spent and continues to spend billions of dollars on rebuilding the Trade Center; in September 2012 Navigant estimated that by the time the project is completed (and after deducting insurance payments, federal funds and other reimbursements), the PA will have spent about $7.4 billion from its own funds on WTC redevelopment.

Nevertheless, linking the PA's spending on New Jersey highway and bridge projects to its investment in rebuilding the World Trade Center is misleading in several respects.

- In contrast to these and other zero-return projects sought by the two states, the World Trade Center will generate substantial new revenues for the Port Authority. During the past few months alone, the announcement

that Group M is leasing 516,000 square feet of space in 3 World Trade Center, and Westfield's decision to pay $800 million to buy the Port Authority's share of the Westfield-AP joint venture that has been developing the WTC's retail space, have reaffirmed the Trade Center's status as one of Manhattan's most valuable commercial properties. Over the next several decades, the lease payments by Silverstein Properties and by tenants in 1 World Trade Center, combined with the PA's share of retail rents and other WTC-related income, will generate billions of dollars in revenues for the Port Authority.

- It is useful to remember that the original interstate *quid pro quo* for the development of the World Trade Center was the rebuilding and ongoing operation of the PATH system. Based on the Port Authority's last ten-year capital plan, we estimate that between 2002 and 2020 (a period roughly corresponding to the timeline for rebuilding the World Trade Center), the PA will have spent more than

$4.6 billion in zero-return capital on the PATH train, plus more than $1 billion in unfunded spending on a new World Trade Center PATH station. Moreover, based on current trends in PATH's operating costs and revenues, we estimate that during the same period the Port Authority could spend an additional $5 billion to cover PATH's operating deficit.

In 2020, the Port Authority will have at the World Trade Center a great locus of commerce and a revenue-producing asset. In PATH it will have a well-maintained, well-run, and economically vital mass transit network – and a sea of red ink. New Jersey officials may feel that they're owed something in exchange for supporting redevelopment of the World Trade Center. But in fact they've already gotten it – several times over.

Rising Pressure on Tolls

The combination of an eroding financial foundation and the states' deployment of Port Authority funds for their own purposes has also put increasing pressure on bridge and tunnel tolls. Since 2007, cash tolls on Port Authority crossings have increased by 117 percent, to $13 round-trip; and peak-period E-ZPass tolls by 120 percent, to $11 round-trip. Additional increases are scheduled for 2014 and 2015, when cash tolls will rise to $15, and peak-period E-ZPass tolls to $12.50. Truck tolls have risen even more rapidly.

Contrary to what many of the Authority's critics have alleged, the toll increases that have occurred since September 2011 were not driven primarily by the need to cover cost overruns at the World Trade Center, or by mismanagement. Toll increases were needed primarily to:

Table 1: PA Cash and E-ZPass Tolls, 2007-2013

	Jan 1, 2007	Mar 2, 2008	Sep 28, 2011	Dec 2, 2012	Dec 1, 2013	% Change, '07-Present
Cash	$6.00	$8.00	$12.00	$13.00	$13.00	116.67%
Peak E-ZPass	$5.00	$8.00	$9.50	$10.25	$11.00	120.00%
Off-Peak E-ZPass	$4.00	$6.00	$7.50	$8.25	$9.00	125.00%

- Cover PATH's ever-increasing operating deficits and capital requirements;
- Finance major investments in the PA's bridge and tunnel network; and
- Cover the cost of zero-return state projects.

If it is to keep future toll increases under control, the Port Authority will need to redefine its business, and recognize its limits.

Going Forward

The current leadership of the Port Authority deserves credit for its renewed focus on effective management of its operations and financial resources. But management reforms are not enough. It is essential to reconsider the purposes the Port Authority should serve, and how its limited resources can be used most productively. The leadership of the two state governments and the Port Authority should consider these proposed guidelines:

- The Port Authority's financial resources should be used solely for facilities, services, projects, and programs that are clearly aligned with its core mission. This doesn't mean the Port Authority can't take on new projects – but those it takes on should be closely aligned with the agency's core businesses. Investments in Stewart Airport and the former Military Ocean Terminal in Bayonne are a logical extension of the Port Authority's business – but initiatives such as taking over Atlantic City Airport are not.
- The assumption that the Port Authority could adequately fund its own facilities and services and at the same time throw off hundreds of millions or even billions of dollars to pay for non-revenue-generating state projects was appealing thirty years ago. But it is no longer sustainable.

The culture of taking money from the Port Authority for state projects will not be easy to change; from 2014 through 2023, the agency's recently-published ten-year capital plan allocates $943 million to these "regional" projects. Nevertheless, the governors of New York and New Jersey and the leadership of the Port Authority should agree to end this practice immediately.

They should agree not only to foreswear this practice in the future – starting this year, they should begin to cut back sharply or cancel outright any outstanding commitments of Port Authority funds for state projects, including money committed to (but not yet spent on) New Jersey state highway projects.

Without this discipline, the Port Authority's long-term capacity to invest adequately in the region's airports, ports, and interstate transportation facilities will be seriously jeopardized.

- At the same time, the Port Authority itself needs to be more disciplined in its own investment decisions. This will require a stronger emphasis on the financial feasibility of proposed projects, strong justification in strategic and cost-benefit terms for those that are not self-sustaining – and after projects have been approved, a relentless focus on controlling costs. In an era of limited capital capacity, it will also require a willingness to ensure the adequacy of the Port Authority's investment in the facilities that are most critical both to the region's economy and to the agency's long-term financial strength – most notably the three major airports and the George Washington Bridge.

Although the agency has made progress in this area in the last few years, its recent ten-year capital plan nevertheless includes some projects that warrant a serious cost-benefit analysis, such as the proposed extension of PATH from Newark Penn Station to Newark Liberty Airport. Improving access to all three of the region's major airports should (as discussed below) be a priority for the Port Authority. But there may be more effective, quicker and less costly ways to achieve this objective.

The agency should also continue its recent efforts to engage the private sector in the development of Port Authority facilities. It has done so successfully at the World

Trade Center, and is seeking to enlist private partners in the redevelopment of the Central Terminal at LaGuardia, and in the construction of a new Goethals Bridge.

- As part of its new financial discipline, the Port Authority should seek to limit cross-subsidization among its various lines of business. Perhaps most important, the PA (with the support of the governors) should adhere to a policy of using bridge and tunnel toll revenues only to fund the operating and capital needs of the Authority's interstate transportation network – bridges and tunnels, bus and ferry terminals and PATH. The flip side of this policy, however, is that no Port Authority revenues other than bridge and tunnel tolls should be used to subsidize PATH or other money-losing components of the interstate network.

- As it begins to focus more sharply on protecting the health of its revenue-generating facilities, the Port Authority must give heightened attention to its three major airports. These facilities are essential not only to the Port Authority's financial health, but to the continued growth of the region's economy as well. They are vital to the region's role as a major gateway for international trade, travel, and tourism. Further, they are essential to New York City's role as a world center of finance, professional and creative services, communications and culture. Through JFK and Newark (and to a lesser extent LaGuardia), the New York-New Jersey area is connected by non-stop flights to more international cities than any other city or region in the U.S.. Figure 3 shows 122 non-U.S. cities that as of December 2011 were served by non-stop flights from the three airports.

Top priorities for the region's airports should include moving ahead as quickly as possible with the redevelopment of the Central Terminal at LaGuardia, modernization of Newark Terminal A, runway improvements at both JFK and LaGuardia and ground access improvements at all three airports.

And together with the Port Authority, the two states and their Congressional delegations should make accelerated deployment of next-generation air traffic control technology – which could expand the effective capacity of all three airports by 15 to 20 percent – a top priority in their dealings with Washington.

- Many Port Authority critics – and over time, many of the agency's own leaders, have expressed the view that the Port Authority should not be in the business of developing and managing commercial real estate. Nevertheless, the World Trade Center is today one of the Port Authority's core businesses, and has been so for more than 45 years. Moreover, the agency's financial strength over the next several decades will depend in part on how successful it is in managing the redevelopment process, and in returning the complex to its pre-2001 position as a net revenue generator for the Port Authority. If only for that reason (and there are many others that could be cited), redevelopment of the World Trade Center must for now remain one of the PA's top priorities.

Figure 3: Cities Served by Non-Stop International Flights from JFK, LaGuardia, and Newark Airports

Most of the Port Authority's other commercial properties, in contrast, are peripheral to its core businesses. And although they are generally not a major drain on the PA's financial resources, most of them lose money. As Pat Foye, the Port Authority's Executive Director has suggested, it may be appropriate for the Port Authority to dispose of its industrial properties, the Essex County resource recovery plant, the Teleport and the Newark Legal Center.

- During the next several years, the Port Authority and the two states need to consider the future of the PATH system. PATH is today the only major rail transit system in the U.S. that is funded entirely through a combination of farebox revenues and subsidies from other transportation facilities, without any support from broader-based tax revenues. Without some broader base of support for PATH, the next decade is likely to see:

  – Continued escalation of bridge and tunnel tolls and PATH fares, at rates well above the rate of inflation; or

  – Substantial reductions in service;

  – Increased pressure to cannibalize revenues from other Port Authority businesses in order to subsidize the PATH system, and to reduce investment in the PA's most productive assets; or

  – Some combination of all three.

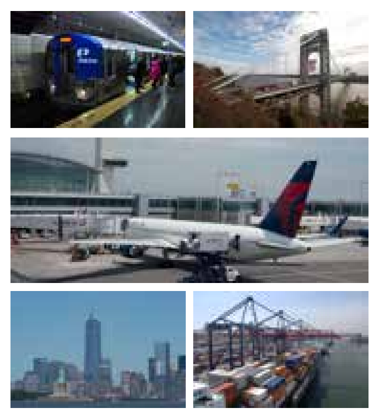
- An overhaul of the Port Authority's business model is just the first of several steps that are necessary to ensure the long-term viability of the PA's airport, port, and trans-Hudson transportation businesses. One of the silver linings in the GWB scandal is that it has cast a sharp light on just how deeply dysfunctional the division of the Port Authority into separate political fiefdoms has become.

  It will be difficult to turn the agency around unless both states agree to end this division. Doing so will require multiple changes in the way the agency is run, but there is probably one change on which the success of all others depends – reintegration of full responsibility for management of the entire organization in the position of Executive Director. This will require two changes.

  – While having the Governor of New Jersey nominate a Deputy Executive Director (a practice that started only in 1995) might continue, the governors and the Port Authority's Board of Commissioners should agree that the person who holds this job works for the Executive Director. He or she may be informally responsible for keeping an eye on Port Authority matters that are of particular interest to New Jersey; but the Deputy Executive Director should report only to the Executive Director – not to the Governor, or the Governor's staff, or the Port Authority Board Chairman. His or her job should be to serve as the Executive Director's second in command – not as a separate executive director for New Jersey.

  – Elected officials (of either state) should rely on the Executive Director to appoint qualified individuals to high level positions at the Port Authority. Subject in a few cases to approval by the Board of Commissioners, the hiring of Port Authority managers should be left to the Executive Director, other top executives, and department directors.

It is not enough to focus on political abuses or to create a "blue ribbon panel" to review the Port Authority's managerial structure, as some experts have proposed. The leadership of the Port Authority must recognize that its current business model and division into separate political fiefdoms undermine the organization's capacity to fulfill its mission. It may be easier to ignore these problems than to fix them. But with each passing year, ignoring them will only make them worse.



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