

Port Authority Discussion Document



Last Updated November 11, 2013



The Port Authority of New York and New Jersey owes Jersey City a significant amount of money due to unjust PILOT agreements and failure to pay PILOTs or taxes on many properties

Executive summary

- The Port Authority of New York and New Jersey (PANYNJ) owns **32 parcels of land (306 acres)** in Jersey City, comprising 5 major properties¹
- PANYNJ property in Jersey City is utilized for **regional/multi-state transportation and commerce infrastructure** (and support/maintenance of that infrastructure)
- Instead of traditional taxation, **PANYNJ property is subject to Payments In Lieu of Taxes (PILOTs)** on all properties¹
- PILOT rates are set at the **last taxes paid on the property** at the time of sale and **do not increase over time** based on property value or tax rate increases/decreases
- Purpose of PILOT agreements was to **prevent “undue loss of taxes and assessments”** due to acquisition of land by PANYNJ and subsequent removal of this land from tax rolls
- Jersey City receives **\$2.2 million in annual PILOT payments** from PANYNJ, but should receive at least an **additional \$1.3 million** in annual PILOTs and \$16.6 million in retroactive PILOTs²
- **Traditional taxation would yield \$18 million** annually from PANYNJ properties, and would have produced **at least \$315 million in additional revenue for Jersey City over time**³

1: Bridge and tunnel facilities are tax exempt and as a result are not included in this discussion (41 total plots owned by PANYNJ [445 acres] if Holland Tunnel is included)

2: Several PANYNJ properties lack proper PILOT agreements; retroactive PILOTs account for unpaid PILOTs over time

3: In addition to any PILOTs paid during PANYNJ property ownership; not including interest or other applicable penalties



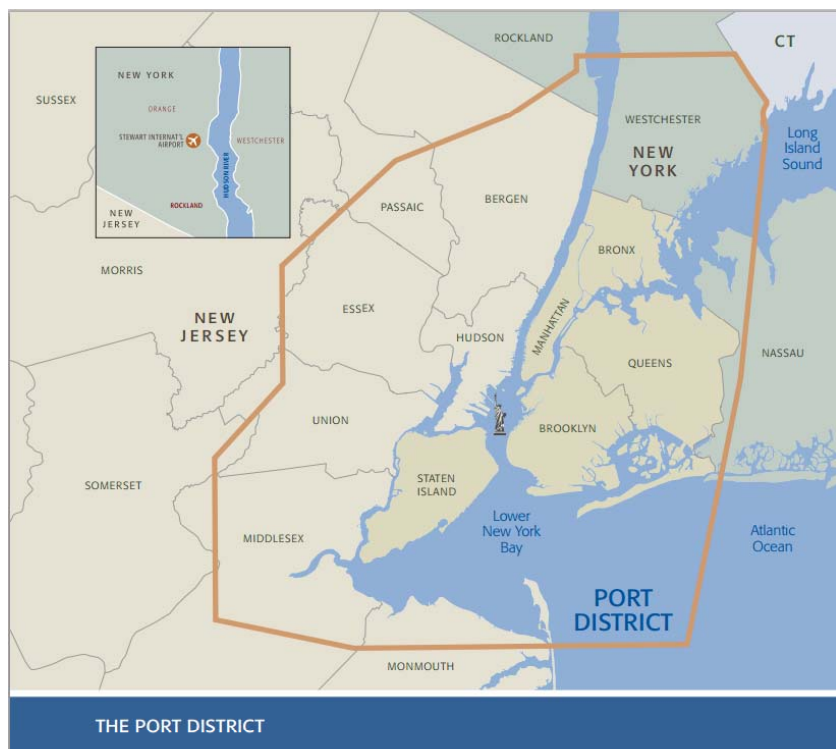
- PANYNJ overview
- PILOT programs
- Additional information



The Port Authority of New York and New Jersey (PANYNJ) was created in 1921 through an interstate compact between New York and New Jersey to manage the region's transportation infrastructure

Region

- 1,500 square miles in New York and New Jersey centering around NY harbor
- Generally 25 miles from the Statue of Liberty



Primary facilities¹

AIRPORTS

JFK
EWR
LGA
TEB
SWF
ACY

BRIDGES AND TUNNELS

GW Bridge
Goethals Bridge
Outerbridge Crossing
Bayonne Bridge
Holland Tunnel
Lincoln Tunnel

Red Hook
Howland Hook
Elizabeth
Greenville Yard
Port Jersey
Port Newark

PORTS

PATH
WTC
JSQ Bus Terminal
NYC Bus Terminal

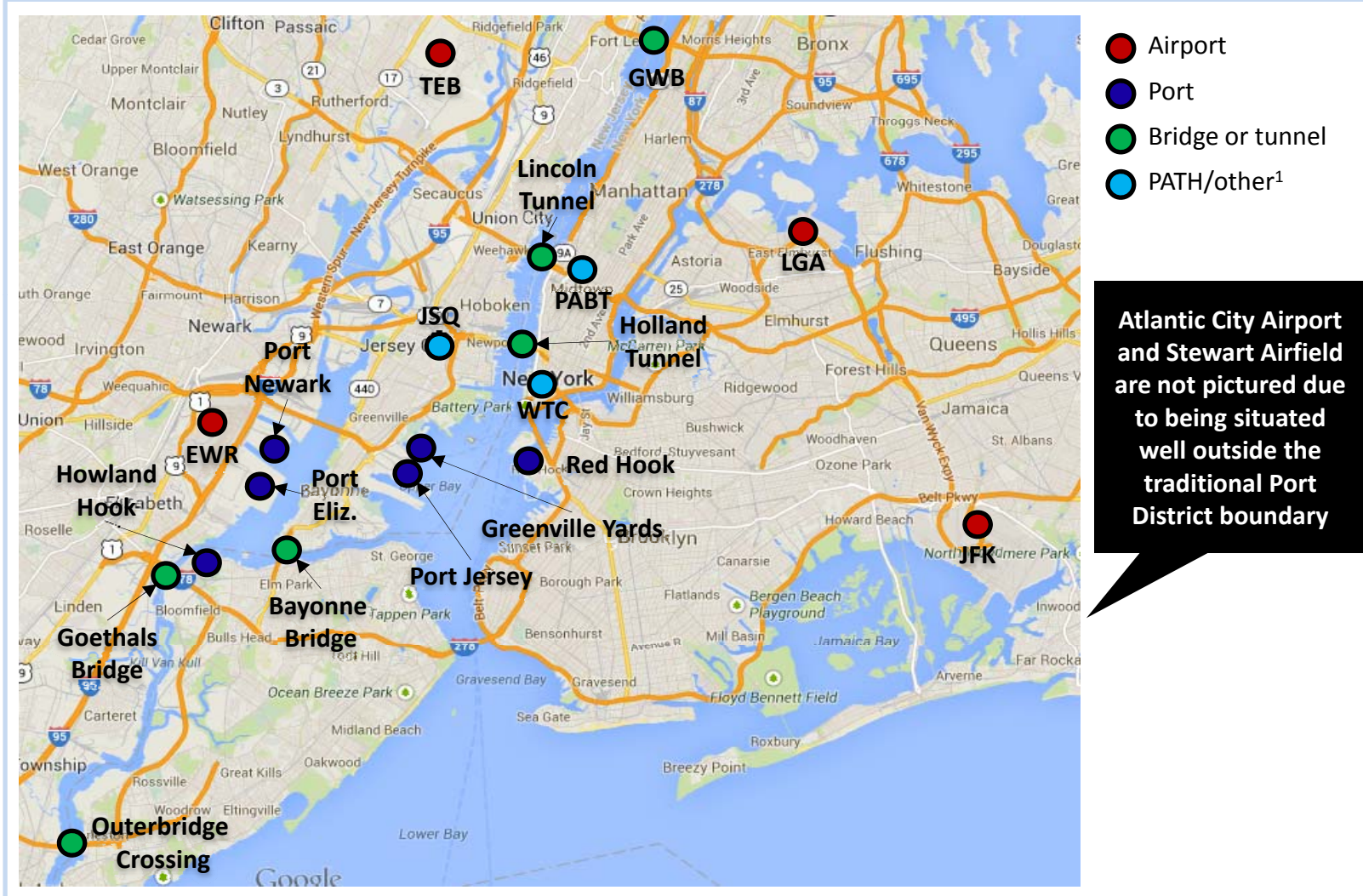
OTHER

1: Primary facilities (not exhaustive); yellow and bold = all/primarily situated within Jersey City



PANYNJ facilities are spread throughout the Port District

Primary PANYNJ facilities

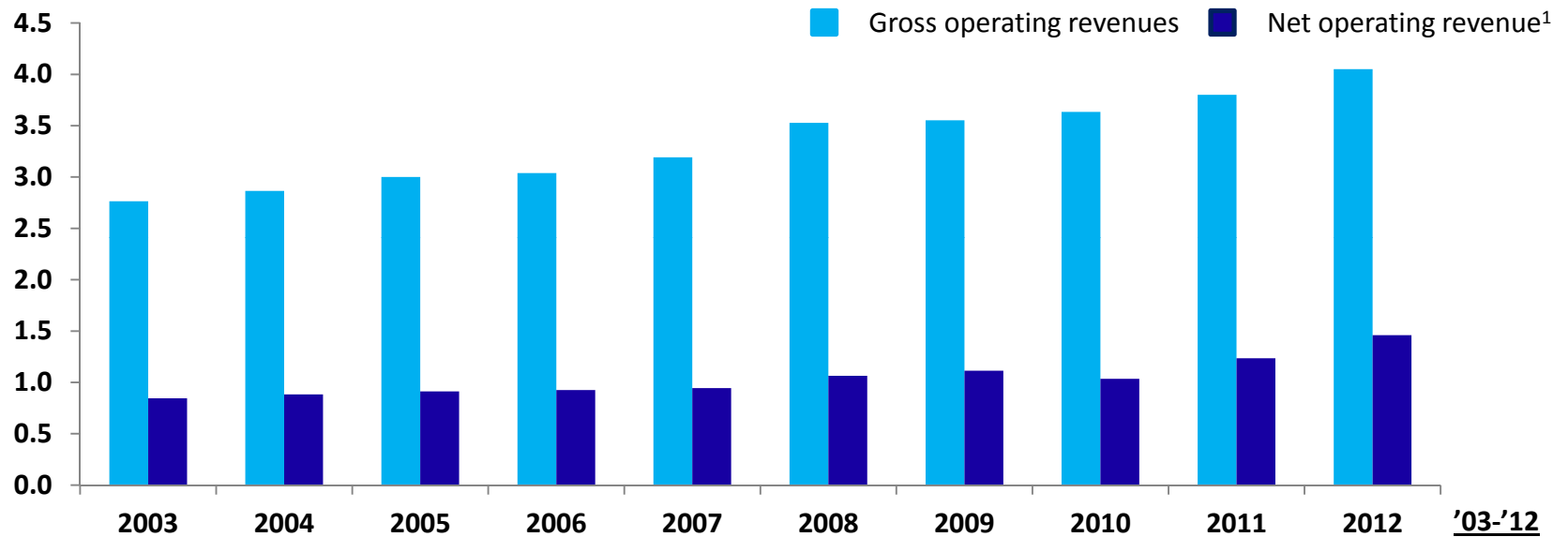


1: Individual PATH stations not listed; JSQ includes PATH station, PATH plaza building, and the Journal Square Bus Terminal



PANYNJ earned \$1.5 billion net operating revenue in 2012 and has experienced consistent revenue growth since 2003

2003-2012 PANYNJ gross and net operating revenue (USD bn)



Gross operating revenue (USD bn)	2.8	2.9	3.0	3.0	3.2	3.5	3.6	3.6	3.8	4.1	'03-'12 CAGR %
Net operating revenue (USD bn)	0.8	0.9	0.9	0.9	0.9	1.1	1.1	1.0	1.2	1.5	
Profit margin (%)	31%	31%	30%	30%	30%	30%	31%	28%	33%	36%	

4.3

6.3

1: Operating revenue minus operating expenses (does not include depreciation, amortization, taxes, interest, or capital expenditures)



Airports and bridges provide the majority of total net operating revenue for PANYNJ

2012 PANYNJ operating revenue versus operating expenses (USD mn)

	Gross operating expenses		Gross operating revenues		% total gross expenses	% total gross revenue	Net operating revenues		% total net revenue
Airports	-1,410			2,276	54%	56%		866	59%
Bridges	-196			867	8%	21%		671	46%
Tunnels	-170			354	7%	9%		184	13%
Ports	-190			250	7%	6%		60	4%
PATH	-315			131	12%	3%	-185		-14%
WTC	-76			44	3%	1%	-32		-2%
Other ¹	-232			129	9%	3%	-103		-7%
TOTAL	-2,589			4,050				1,461	

1: Other includes Port Authority Bus Terminal, JSQ Bus Terminal, Essex County Resource Recovery Center, ferries, and other operations



PANYNJ owns and operates 5 major facilities that include property within Jersey City

Facility	Overview	2012 gross revenue
PATH	▪Rail between NJ and NY (4 of 13 stations in Jersey City) serving 242,000 passengers per average weekday in 2012, 73 million total in 2012 ¹	\$131 mn
Holland Tunnel	▪Approx. 1.6 mile long tunnel (2 tubes) connecting New Jersey to Lower Manhattan, accommodating more than 32 million vehicle trips each year ²	\$157 mn
JSQ Bus Terminal	▪Bus terminal serving 7.4 million passengers in 2012 across Hudson County and New York City, with 832,000 bus movements in 2012 ³	\$4 mn
Port Jersey	▪International cargo container terminal acquired by the Port Authority in 2010 (leased primarily to Global Terminal and Container Services, LLC)	\$15 mn
Greenville Yard	▪Rail network junction that transports cargo containers over water between Brooklyn and New Jersey via floating barge	\$0.4 mn
TOTAL		\$307 mn

1: 2012 passenger volume affected by Hurricane Sandy
 2: Estimate based on doubling of recorded eastbound traffic (16.12 million vehicles)
 3: Most bus routes operated by NJ Transit (7 total carriers)

Greenville Yard and Port Jersey are both cargo container transfer hubs



Map of Greenville Yard and Port Jersey Global Marine Terminal



Greenville Yard
(20 Colony Road)

- Rail to barge transportation center or “Cross Harbor Freight Program” connecting national rail network to New York City and Long Island via floating barges
- Allows freight train traffic to avoid 140 mile detour into NYC, known as the “Selkirk Hurdle”¹
- Planned expansion in progress will enable more than 20,000 trips a day (up from around 1,500 today)
- Will handle New York City Municipal Waste transportation²

Port Jersey Global Marine Terminal
(Port Jersey Boulevard)

- Transfers shipping containers from ships to trains and/or trucks
- 2 operational berths (ship docks)

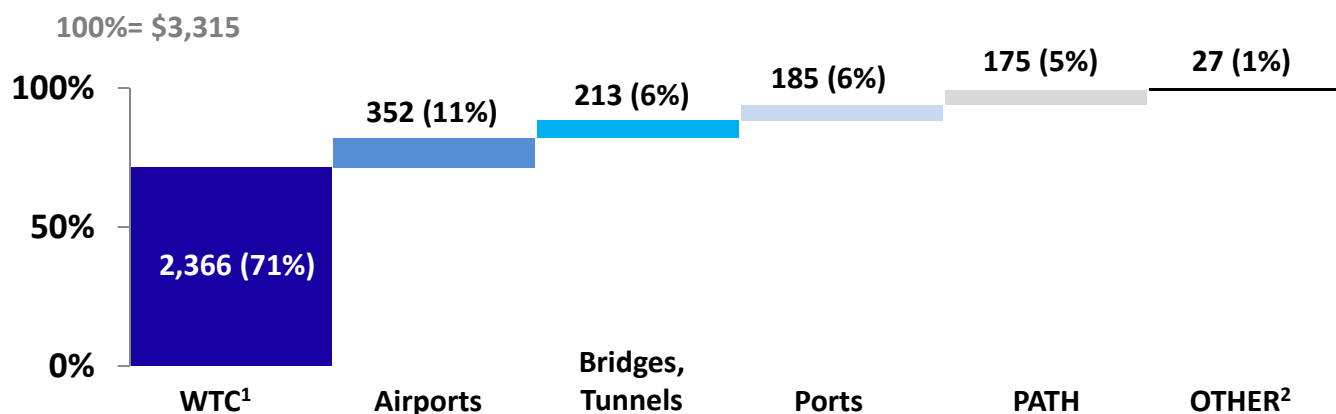
1: The only Hudson River bridge or tunnel that allows freight train traffic is in Selkirk, 10 miles south of Albany, causing a 140 mile detour

2: Not yet operational; \$2.8 billion, 20 year contract (est. 800,000 tons MSW) signed between New York City and Covanta in August 2013 to begin in 2015 that will require expansion of these facilities; NYC will shift 47% of waste removal to barge (0% today), 41% rail (32% today), 0% long haul truck (45% today), 12% city trucks (23% today)

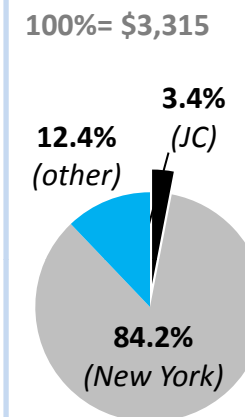


Jersey City facilities tend to receive less capital investment than other related facilities, with most investment heading to New York State

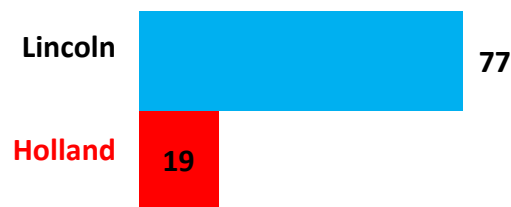
2012 PANYNJ net capital expenditures by facility type (USD mn, %)



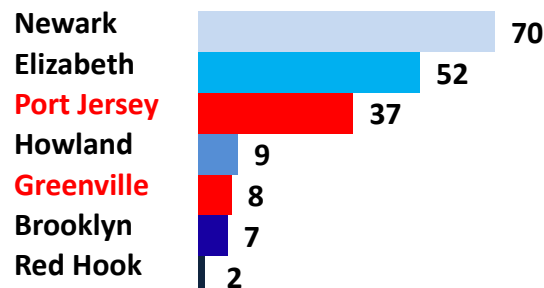
Split by geography³



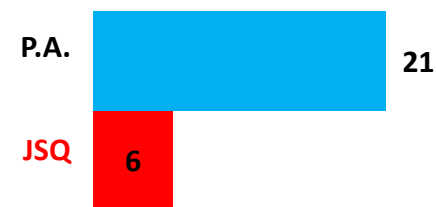
2012 tunnels net capital expenditures (USD mn)



2012 ports net capital expenditures (USD mn)



2012 bus terminals net capital expenditures (USD mn)



1: Includes WTC Transportation Hub

2: Includes Port Authority Bus Terminal, JSQ Transportation Center, ferries, and other operations

3: When spanning multiple geographies, capital expenditures distributed evenly



- PANYNJ overview
- PILOT programs
- Additional information



PILOTs were developed in order to protect municipalities from undue economic harm resulting from tax revenue loss on PANYNJ properties

PANYNJ PILOT development history

- Port Authority established¹ in an **effort to centralize control over the region's transportation infrastructure**
- Permitted to acquire land (with consent of municipalities)
- **Initially tax exempt on all acquired land**
- Issue of massive tax revenue losses for those municipalities in which land had been acquired by the Port Authority
- A joint commission² determined "the tax exemption of potential Port Authority property [would] cripple municipal finances" and **recommended full taxation of all Port Authority properties**
- **PANYNJ lobbied intensely to reduce/ eliminate any tax/PILOT liability**
- Agreement reached for Port Authority to provide **annual payments in lieu of taxes (PILOTs) that replace traditional taxation**

PILOT overview

- Created in order to prevent the "*undue loss of taxes and assessments by reason of the acquisition and ownership of property therein by the Port of New York Authority*"
- **PILOT agreements are not automatically generated** and must be drafted separately from the sale of land agreement
- PILOT laws state that **payments will not be "in excess of the sum last paid as taxes upon such property prior to the time of its acquisition by the Port Authority"**
- Refusal to accept PILOT agreement results in traditional taxation

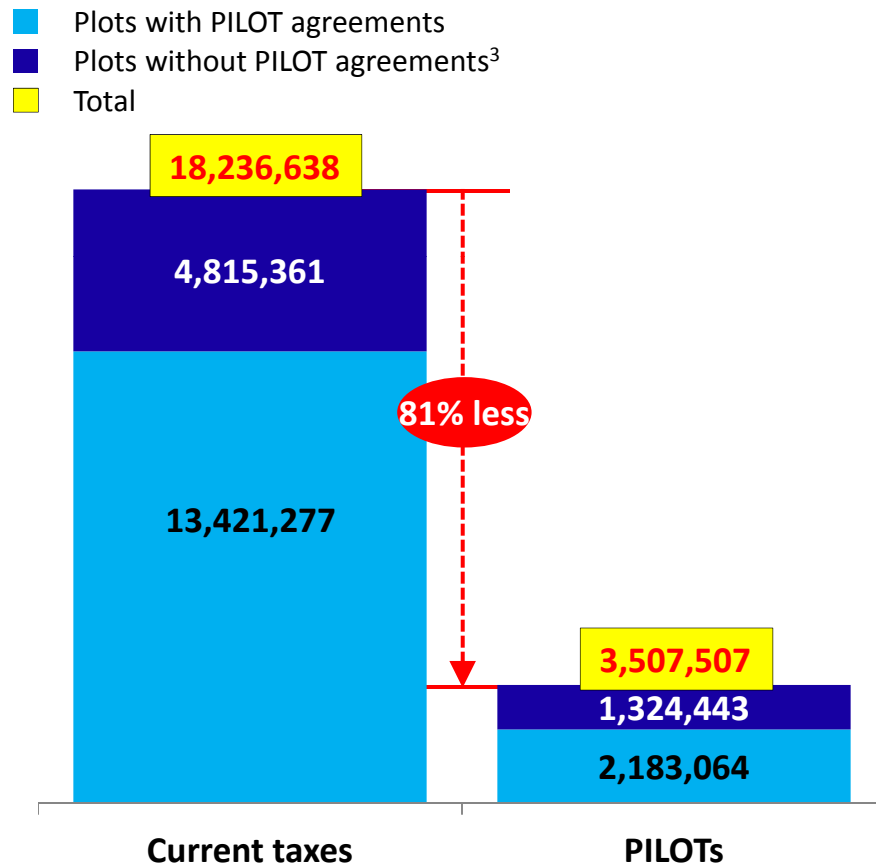
1: As a result of the New York New Jersey Port Authority Compact of 1921

2: Joint Commission on Taxation of Port Authority Property formed to address loss of tax revenues (included 3 members of the Port Authority)



PANYNJ owes Jersey City \$3.5 million in annual PILOT payments, 81% less than current tax rates of \$18 million for all related plots¹

Current taxes compared to PILOTs² (USD)



Annual payments due from PANYNJ²

# of plots	Annual PILOTs	Annual Taxes
8	\$2,183,064	\$13,421,277
24	\$1,324,443	\$4,815,361
32	\$3,507,507	\$18,236,638

- PANYNJ currently pays Jersey City \$2.2 million in annual PILOTs on 8 plots
- PANYNJ owes Jersey City an additional \$1.3 million on 24 plots with no PILOT agreement executed
- Equivalent 2013 taxes on all 32 PANYNJ plots would be \$18,236,638
- Plots purchased from the State are not included as potential PILOTs as no taxes were previously paid

1: Holland Tunnel related plots are not included due to tax exempt status

2: Current taxes based on New Jersey current tax assessments

3: PILOT amounts for properties that do not have existing PILOT agreements (does not include properties purchased from the State of New Jersey)



For the 8 plots with PILOT agreements, PAYNYNJ pays Jersey City \$2.2 million in annual PILOTs compared to \$13.4 million in traditional taxes

Current PANYNJ PILOTs (USD)

Block	Lot	Property Group	Property Location	Current annual PILOT amounts	Current Tax Assessment
9501	1	PATH PLAZA	PATH PLAZA	86,729	9,598,013
30501	1	Greenville Yard	20 COLONY RD	736,305	2,208,853
30501	10	Port Jersey	PORT JERSEY BLVD	1,360,030 ¹	995,830
30501	6	Port Jersey	53-75 PORT JERSEY BLVD		398,557
30501	7	Port Jersey	PORT JERSEY BLVD		18,448
30403	1	Port Jersey	PORT JERSEY BLVD		77,609
30501	8	Port Jersey	PORT JERSEY BLVD		111,632
30501	9	Port Jersey	PORT JERSEY BLVD		12,334

TOTALS	\$2,183,064	\$13,421,277
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1: PILOT agreement covers 6 blocks and lots of Port Jersey property under a single PILOT (does not cover total Port Jersey property area)



For the 24 plots with no PILOT agreements, Jersey City should receive \$4.8 million in taxes or at least \$1.3 million in PILOTs this year

PANYNJ properties without PILOTs or taxes owed (USD)

Block	Lot	Property group	Property location	Potential PILOTs ¹	Current tax assessment	Retroactive PILOTs owed ²
30306	2	Port Jersey	ROUTE 169	N/A	180,856	
30501	3	Port Jersey	PORT JERSEY BLVD	21,599	873,522	647,970
30501	13	Port Jersey	PORT JERSEY BLVD	11,007	331,528	330,210
30501	14	Port Jersey	PORT JERSEY BLVD	7,485	242,152	224,550
30306	1	Port Jersey	20 HARBOR DRIVE	N/A	29,662	
30404	4	Port Jersey	PORT JERSEY BLVD	10,432	349,834	312,960
30501	4	Port Jersey	PORT JERSEY BLVD	11,007	731,907	330,210
30501	5	Port Jersey	403 PORT JERSEY BLVD	41,661	234,358	1,249,830
30501	12	Port Jersey	PORT JERSEY BLVD	6,770	236,956	203,100
30501	100	Port Jersey	PORT JERSEY BLVD	N/A	4,875	
10901	90	PATH	WALDO AVE	N/A	15,679	
9702	3	PATH	CHESTNUT AVE	N/A	17,582	
10803	25	PATH	215 BALDWIN AVE	N/A	34,052	
10901	83	PATH	100 ACADEMY ST	153,225	251,978	1,532,250
9702	23	PATH	CHESTNUT AVE	N/A	1,493	
11609	1	PATH	350 WASHINGTON ST	N/A	94,161	
9001	5	PATH	246 BROADWAY	N/A	7,197	
13101	3	PATH	COLUMBUS DR	N/A	4,554	
10901	110	PATH	INSIDE PLOTS	N/A	5,704	
10901	113	PATH	INSIDE PLOTS	N/A	2,329	
10901	114	PATH	MERSELES ST	N/A	7,093	
13003	2	PATH	90 COLUMBUS DR	12,001	19,456	84,007
11605	2	Administr.	2 MONTGOMERY ST	1,049,256	1,134,832	2,098,512
10901	112	Other	INSIDE PLOTS	N/A	3,599	

Total properties 24

Potential PILOTs¹ \$1,324,443

Current tax assessment \$4,815,361

Retroactive PILOTs owed² \$7,013,599

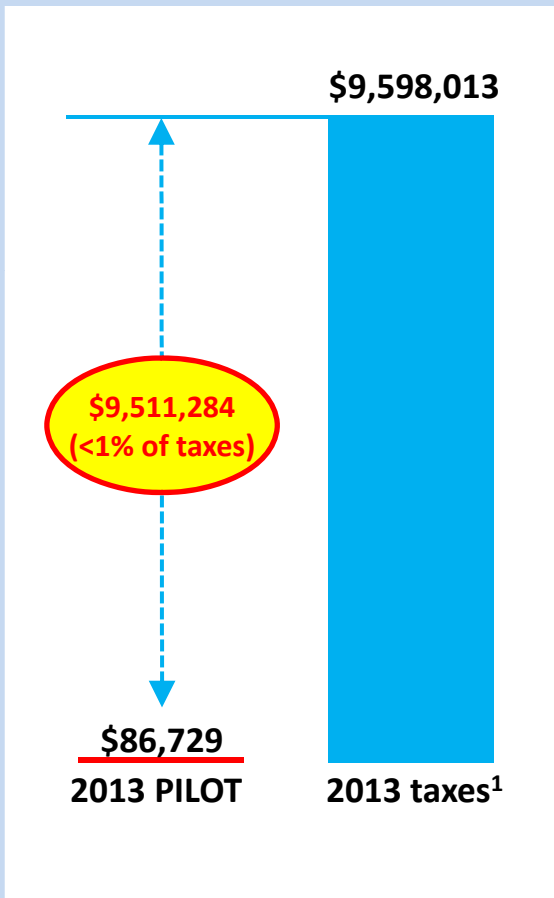
Potential PILOTs (and retroactive PILOTs owed) should be much higher but can only be calculated on properties in which taxes were originally paid

1: Represents amount to be paid if PILOT agreements are created (taxes last paid at time of acquisition of property by PANYNJ); PILOT amounts not available for PANYNJ properties purchased from the State of NJ or railroad companies as no taxes were paid on these properties (originally not required to pay taxes; indicated by "N/A")
 2: One time payment due as a result of the failure of PANYNJ to pay PILOTs or taxes for all years preceding 2013 (does not include penalties or interest)

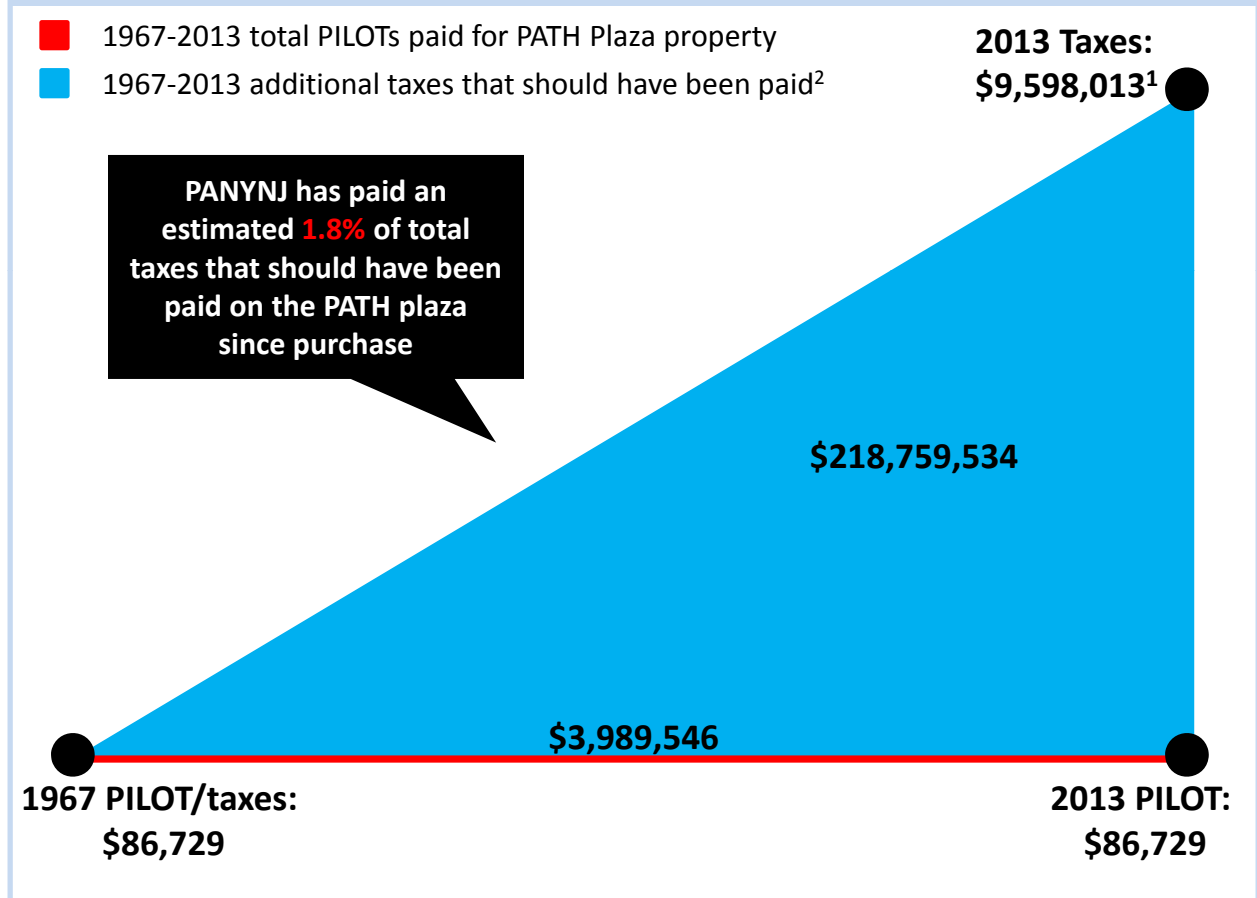


PANYNJ should have paid Jersey City an additional \$219 million through traditional taxation on the PATH Plaza since purchase in 1967

2013 PATH Plaza PILOT vs. taxes



PATH Plaza PILOT payments compared to taxes since property purchase¹

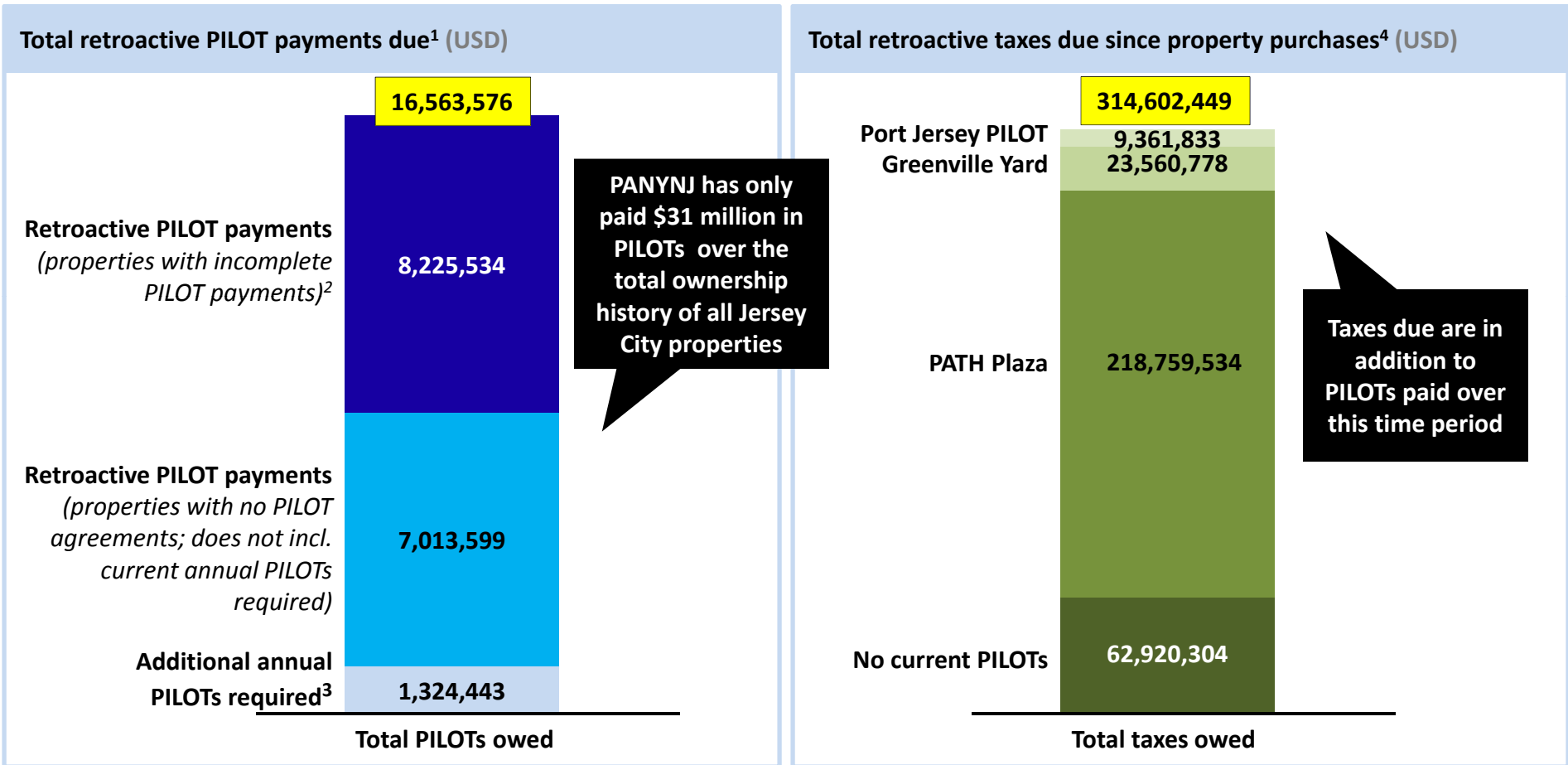


1: Based on 2013 current tax assessment

2: Additional taxes that would have been paid in addition to PILOT payments paid (red) over this time period; assumes constant increase in taxes over time (tax rates and/or property assessments are not available historically since 1967)

NOT TO SCALE

PANYNJ owes Jersey City \$16.6 million in retroactive PILOTs or \$315 million in retroactive taxes

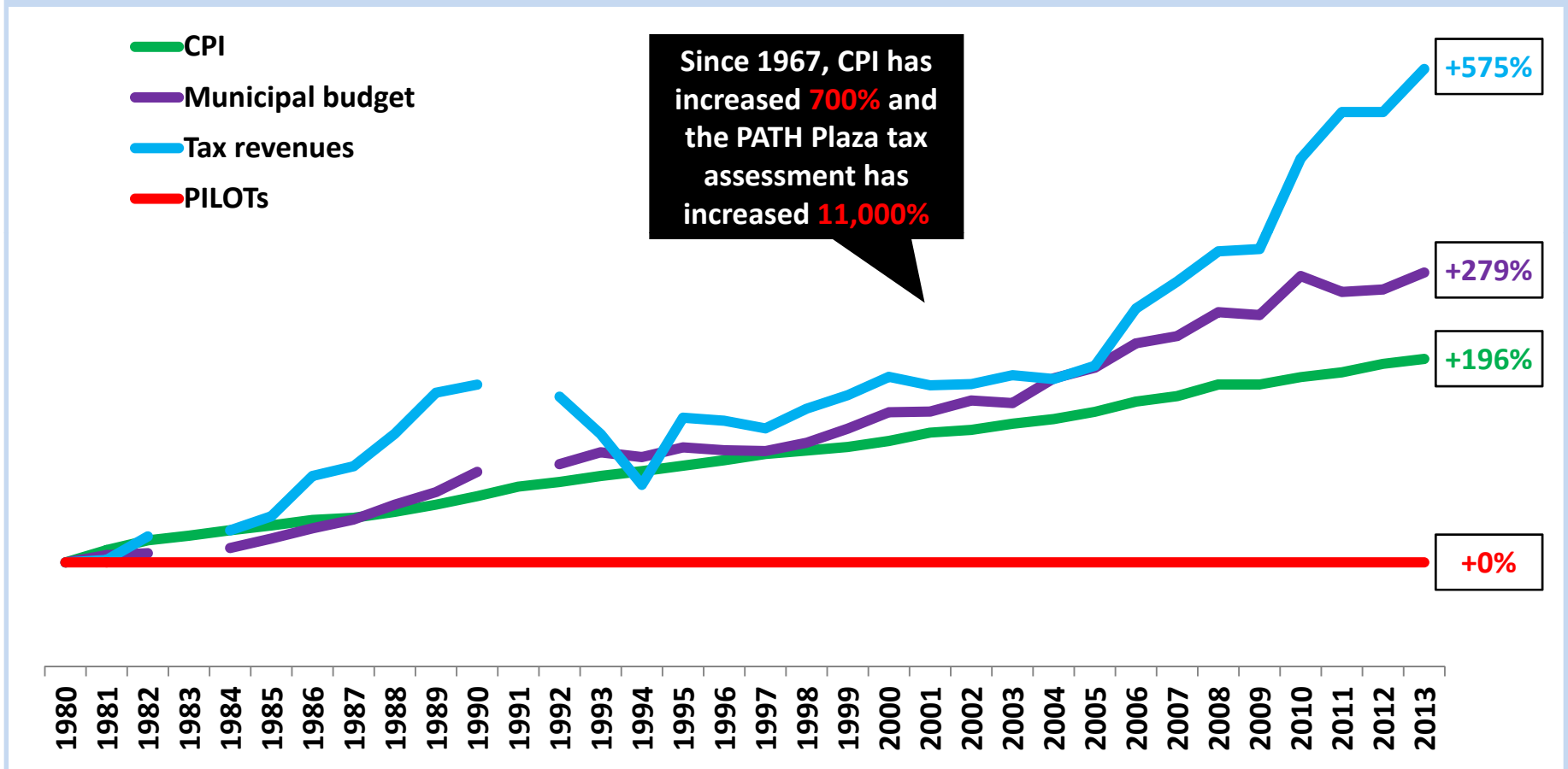


1: As of 2013; does not include current PILOT payments (expected to be paid in full; most already received)
2: 2 properties within Port Jersey PILOT agreement purchased before 2010 are missing PILOT payments before 2010 sales of additional Port Jersey land
3: PILOT amounts for properties that do not have existing PILOT agreements but have last taxes paid information available (necessary to create PILOT agreement)
4: Includes 2013; assumes constant tax increases over time; for properties with no taxes paid before sale, zero was used as value for last taxes paid (resulting in lower taxes owed estimates); does not include PILOTs paid; actual values may vary depending on actual tax assessments over time and amount of taxes paid in year prior to sale of land



The cost of living as well as Jersey City municipal budgets and tax revenues have increased tremendously over time, while PILOTs remain completely flat

Index of CPI, Jersey City municipal budgets, and Jersey City tax revenues 1980-2013¹



1: Consumer Price Index is a primary cost of living indicator; data includes all urban consumers throughout the United States; indexed to 1980 (1980=100); budgeted Jersey City revenue from taxes is 42%, with range of 28-44% and average of 33% between 1980 and 2013



Jersey City provides PANYNJ with consistent access to municipal services despite “discount” created by PILOT agreements

Resources provided to PANYNJ

Police

- While PANYNJ has a full service police department, JCPD receives requests for mutual aid or other assistance
- JCPD patrols areas surrounding PANYNJ facilities and provides security consistent with the rest of Jersey City

Fire/EMS

- Jersey City Fire Department is responsible for fire suppression and protection within all PANYNJ facilities, including PATH stations
- Emergency Medical Services provided by Jersey City Medical Center

Municipal Court System

- PANYNJ Police Department (PAPD) utilizes the Jersey City municipal court to process all tickets, violations, and other criminal and non-criminal activity occurring in Jersey City that requires adjudication

While the cost of providing municipal resources increases over time, PILOT payment values remain flat, ultimately providing PANYNJ a discounted rate on municipal services

- PANYNJ overview

- PILOT programs

- **Additional information**



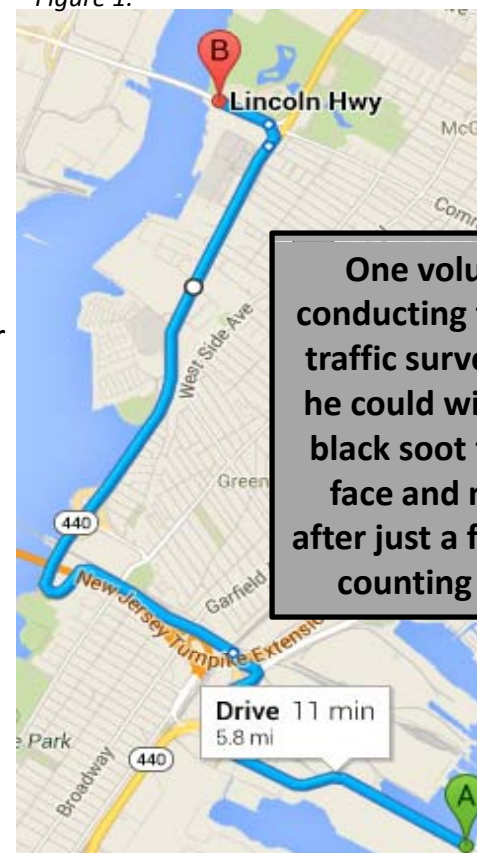


57% of truck traffic through Jersey City is due to PANYNJ ports, causing a significant burden on health and infrastructure

Port truck impact

- Most port related trucks travel along a 5.8 mile stretch of 440 and Port Jersey Boulevard to route 1&9 (see figure 1) in order to avoid tolls on 78 and the Turnpike
- 57% of trucks observed along this route were related to port commerce¹
- More than 1,220 trucks pass through per hour during peak times
- Port trucks are the highest polluting trucks on the road due to higher average vehicle age
- NJ and Hudson county face nations second highest cancer risk from diesel soot
- Hudson county is the highest ranked county in NJ for diesel soot risk
- Hudson county received an “F” from American Lung Association for air quality
- A single truck has the same level of road/infrastructure damage as 9,600 cars
- Trucks are responsible for 55-75% of road repair costs

Figure 1.



One volunteer conducting the truck traffic survey noted he could wipe away black soot from his face and nostrils after just a few hours counting trucks

1: Coalition for Healthy Ports Truck Traffic Survey observed 31,399 trucks with 17,910 related to port commerce



The City of Newark sued PANYNJ in 1998 over claims of artificially deflated payments

Newark vs. PANYNJ

- **November 18, 1998 Newark filed suit against PANYNJ after revenue share payments from PANYNJ were claimed to be too low due to fraudulently and artificially deflated revenue at EWR¹**
- **In lieu of arbitration and litigation, a new lease agreement was reached in 2002; lease extended to 2065 (from 2031)**
- Newark received **increase in annual base rent from \$35 million to \$65 million** (combined payment for airport and seaport)
- Newark received **\$100 million in first year** (combined payment for airport and seaport)
- Newark also received **\$12.5 million per year for capital projects and \$3 million in supplemental rent**
- Newark agreed to drop significant portions of pending arbitration and litigation
- Airport renamed Newark Liberty International Airport
- Port Authority financed a significant portion of what would become Prudential Center

1: City of Newark receives payments from the PANYNJ for Newark Airport based on revenue generated at the airport; payments formerly based on net revenue, an arbitrarily defined metric that allowed for easier manipulation (changed to gross revenue with new contract)

PANYNJ has been unresponsive to all communications from Jersey City regarding PILOT and taxation issues



Attempts to make contact with PANYNJ

▪ **Meeting scheduled** with Deputy Executive Director Bill Baroni and Mayor Fulop

CANCELLED WITHOUT CAUSE

▪ **Multiple emails** sent to Deputy Executive Director Bill Baroni from Mayor Fulop to request meetings or discussions

NO RESPONSE

▪ **Official demand letter** sent from Jersey City Corporation Counsel to Executive Director Patrick Foye on October 29, 2013

NO RESPONSE



PANYNJ suffers from corruption and scandals, lack of effective leadership or discipline, and an arrogant corporate culture

Perspectives on the PANYNJ

An independent audit labeled the PANYNJ **“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”**

PANYNJ’s constantly changing leadership view themselves as untouchable and having no need to answer to the public or lawmakers despite ongoing scandals and corruption claims¹

The PANYNJ has asserted that it and it alone determines if and when it must pay municipalities regarding PILOTs, and historic PILOT agreements heavily favor the PANYNJ from a legal perspective

Proclaiming to be broke, the PANYNJ continuously asks for supplemental funding for special projects (i.e. the WTC) and has recently imposed significant toll increases despite net operating income in the hundreds of millions of dollars

This corporate behavior and attitude will result in the PANYNJ fighting any charges or complaints regardless of defense legitimacy

1: Actual recent PANYNJ scandals: free EZPASS for employees, accepting gifts from vendors, promotion exam cheating, hidden compensation for top execs



Jersey City will file a lawsuit in the amount of \$400 million against PANYNJ

Grounds for lawsuit

- PANYNJ has, in several respects, caused undue economic harm to Jersey City resulting from PILOT agreements (or lack thereof)
- PANYNJ has failed to execute PILOT agreements for 24 PANYNJ properties or else pay sufficient property taxes
- Existing PILOT agreements intrinsically cause economic harm to Jersey City over time and are seemingly biased towards PANYNJ
- PANYNJ is granted the same level of access to Jersey City municipal resources as traditional taxpayers but at a fraction of the cost
- PANYNJ facilities create a substantial burden on the infrastructure and resources of Jersey City with no compensation to Jersey City taxpayers
- PANYNJ has failed to engage in any civil discussions regarding PILOT and taxation issues within Jersey City

Lawsuit amount

\$315 million in taxes that should have been paid over time since the purchase of each PANYNJ property (in addition to \$31 mn in PILOTs already paid)



\$85 million in penalties, interest, and damages



\$400 million

Port Authority Discussion Document

