

SPECIAL PANEL ON THE FUTURE OF THE PORT AUTHORITY



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The Honorable Chris Christie
Governor
State of New Jersey
State House
Trenton, New Jersey 08625

The Honorable Andrew M. Cuomo
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State of New York
State Capitol
Albany, New York 12224

Governors:

On May 6, 2014 the bi-state *Special Panel on the Future of the Port Authority* was formed to “review and evaluate reforms of the Port Authority’s mission, structure, management, operations and overall governance for the betterment of the region.” The Panel was instructed to provide a written status report of its progress to the Governors of New Jersey and New York within sixty (60) days. The Panel is pleased to provide this update on its progress.

The bi-state Port Authority of New York and New Jersey is unique in its size and scope and is the only agency of its kind in the United States. The Port Authority was originally created in 1921 to administer the common harbor interests of the two States. Over time the agency has expanded exponentially to include transportation, commerce, and economic development activities extending from Atlantic City to the Hudson Valley. The agency currently operates a yearly capital and operating budget of \$8.2 billion, and owns or controls multiple airports, tunnels, bridges, terminals, ports, rail systems, ferry systems, and real estate developments.

In your May 6 letter, you called upon this Panel to examine the bi-state organization in light of recent events at the agency. Those events demonstrate that today’s Port Authority lacks an effective culture of compliance and accountability, one where employees are empowered and expected to raise their concerns directly to their superiors or, when necessary, to others in positions of authority. This is not intended as criticism of the overwhelming number of hardworking, dedicated Port Authority employees. Rather it is recognition of unacceptable failures that have cast a shadow over the entire organization and that must be corrected for the betterment of the region.

The ultimate goal of any Port Authority reform agenda is to optimize the quality of the Port Authority’s services and facilities for the benefit of the region. That region has seen

dramatic changes over the past hundred years. As such, the mission and operations of the Port Authority must be assessed in light of our region's needs today and in the future so that the Port Authority can more effectively serve the public as it approaches its centennial. Accordingly, in carrying out our charge we are particularly focused on those aspects of the Port Authority's mission, structure, management, operations, and overall governance that affect the quality and cost of the services it provides for the constituents of the bi-state region in this modern era.

Proposals to restructure an organization of this size and complexity require careful analysis of wide-ranging legal, financial, and operational issues. Accordingly, in these first sixty (60) days the Panel has reviewed those reforms that have already been undertaken by the Port Authority in recent months, has identified additional areas that warrant further analysis, and has devised a plan to move forward as to each area of reform.

Port Authority Actions to Date

The Port Authority has already undertaken numerous reform efforts. In 2011, at the direction of the Governors, the Port Authority underwent a comprehensive review conducted by two international consulting firms. The review concluded in 2012 that the Port Authority was in need of significant reform in multiple areas, and therefore made specific recommendations to the agency for change. The accomplishments of the Port Authority in response to the review include the following:

- **Fiscal Responsibility**
 - *Capital Plan.* This past February the Port Authority passed a ten-year, \$27.6 billion capital plan. The plan employed a comprehensive, analytical scoring process (the first of its kind at the agency) to evaluate State of Good Repair projects. The plan funds all high-priority repair projects as well as key transportation initiatives, such as replacing the Central Terminal Building at LaGuardia Airport and raising the Bayonne Bridge.
 - *Financial Controls.* The Port Authority has installed sophisticated financial controls to continually re-evaluate the ten-year capital plan and to update financial capacity on a quarterly basis, thereby allowing the agency to accommodate shifting priorities, emerging needs, and changing financial capacity. In addition the agency has made significant progress in divesting certain non-core real estate assets, totaling in excess of \$1.5 billion.
- **Operational Changes**
 - *Board of Commissioners.* The Board of Commissioners reaffirmed its fiduciary responsibilities by aligning the Board Committees with the agency's long-term objectives, adopting committee charters to formalize the restructure.¹
 - *Security.* The Port Authority commissioned a top-to-bottom study of the Port Authority's Management of Security and agency-wide security operations and,

¹ Those charters are available on the Port Authority's website at <http://www.panynj.gov/corporate-information/board-committee-charters.html>.

responding to the recommendations of that study, consolidated and centralized security functions under a new Office of the Chief Security Officer.

- World Trade Center

- *Budget and Schedule.* In 2011, the Board of Commissioners imposed a strict budget and timeline on development of the World Trade Center site, ultimately ensuring that the project will be completed on schedule and on budget.

More recently the Port Authority, upon certain recommendations of the Special Oversight Committee of the Board of Commissioners established in February 2014, also instituted the following reforms:

- Replaced the “consent calendar” method of voting with individual roll call votes in public session.
- Modified the Commissioner recusal process to inform the public of any recusals before Board action.
- Hosted a public panel discussion with independent experts and observers of the Port Authority to solicit recommendations for reform, the results of which this Panel has reviewed.
- Established a special email address, *reform@PANYNJ.gov*, to which members of the public can submit recommendations to the Port Authority. The public has already submitted over 100 comments to that address, which have been reported to the Panel. The Panel will continue to monitor those suggestions in the upcoming months.

Further Reform Is Needed

The Panel has identified the following areas of reform that require additional analysis, which will form the basis of its work plan in the coming months:

- Core Mission

- *Restoring the Mission.* The Port Authority’s Mission is “[t]o identify and meet the critical transportation infrastructure needs of the bi-state region’s businesses, residents, and visitors: providing the highest quality, most efficient transportation and port commerce facilities and services that move people and goods within the region, and providing access to the rest of the nation and to the world, while strengthening the economic competitiveness of the New York-New Jersey Metropolitan Region.” Over the past hundred years the Port Authority’s role has expanded beyond the original core mission for which it was created. The Panel will evaluate the most appropriate mission for the Port Authority going forward, realigning its functions as appropriate to best serve the needs of the region. The Panel will assess the overall structure of the organization to find ways to better develop synergies between the two States, to improve efficiency where possible, and to otherwise maximize the effectiveness of the organization. In so doing, the Panel’s focus will also include the following:

- Whether certain operations or assets solely within one State should remain with the bi-state agency, or whether they should become the charge of each respective State.
 - Whether any of the bi-state assets should be transferred to existing state agencies to enhance operating efficiencies and improve accountability.
 - Whether certain non-core real estate holdings should be divested in addition to those that the Port Authority has already begun to transfer.
 - *Novel Approaches for Assets.* The Panel will consider novel approaches to maximize the financial and operational condition of the agency without adversely affecting any of the agency's existing obligations.
- Governance and Operations
 - *Policies.* The Port Authority has numerous policies on ethics, conflicts of interests, public-record access, and financial disclosures, in addition to other standards governing the agency's officers and commissioners. The Panel, with the assistance of an outside expert, will evaluate each of those policies, reconciling them to existing New Jersey and New York standards, as well as to best practices among public agencies or authorities, in order to determine if they can be improved to ensure the highest ethical conduct of Port Authority officials. In so doing the Panel and its expert will take into consideration the various additional suggestions for operational and functional changes that have been proposed by other entities.
 - *By-Laws.* The Port Authority's current by-laws were last updated in September 2012. The Panel will consider whether the by-laws adequately provide a framework for the governance of the Port Authority consistent with its bi-state mission. The Panel will likewise consider the effectiveness of the by-laws of the three subsidiaries of the Port Authority: the Port Authority Trans-Hudson Corporation, the New York and New Jersey Railroad Corporation, and the Newark Legal and Communications Center Urban Renewal Corporation.
 - *Commissioners.* The Board of Commissioners consists of twelve commissioners, six from each State, appointed by the Governor with the advice and consent of the State Senate for six-year overlapping terms. The Panel will evaluate whether there should be any changes to the current structure, either in terms of selection, length of service, or otherwise.
 - *Leadership.* In its current form, the leadership structure often encourages the split of the organization into competing regional interests and the creation of fractured lines of authority within the agency. The Panel will consider solutions to address inherent friction resulting from the agency's bi-state status. The Panel will also evaluate the governance structure and make recommendations to ensure accountability to the public, continuity of leadership within the organization, and standards for ethical conduct, fiduciary duties, and responsibilities to the Port Authority.

Next Steps

The Panel, with the assistance of Port Authority staff, Office of the Governor staff, and outside financial and legal experts as appropriate, will identify any changes necessary to improve the agency's core mission as well as its governance and operation. In making its assessments the Panel will evaluate each asset and its overall value in the authority. The Panel will use those assessments to define how the Port Authority can best serve the needs of the bi-state region in the 21st Century, and what sort of governance structure and operational reforms are appropriate to fulfill that updated mission.

At the same time the Panel will work with its ethics expert, which the Panel is already in the process of retaining. The expert will compare the agency's existing standards against currently recognized best practices in the field. The Panel will ensure that this expert has full and unimpeded access to all Port Authority staff and documentation as is necessary to complete its task.

As the work of the Panel progresses, it will develop and revise its action plan as appropriate. The Panel will continue to report its progress to you with the goal of completing its comprehensive review no later than six (6) months from the date of this report. At that time the Panel anticipates presenting you with a comprehensive and integrated reform plan, achieved at the institutional level and capable of reforming the Port Authority on a long-term basis, and providing a solid foundation for the future as the Port Authority begins its second century.

The Panel thanks you both for the opportunity to make recommendations to improve this vital public resource, and looks forward to completing its work for the betterment of the Port Authority for its constituents.

Respectfully submitted,

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