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AN INTERVIEW WITH PATRICK J. FOYE

CHANGE IS HARD WORK AT THE PORT AUTHORITY OF NY/NJ

Patrick J. Foye, Executive Director of the Port Authority of New York and New Jersey, described the signing of the Goethals Bridge public-private partnership (P3) contract on April 24 as “a historic, transformative day for the Port Authority.” He followed that with a speech before 550 P3 advocates in New York City on June 19 by laying out his plans to procure four more projects as P3s in the next few years.

For a bistate agency so large, bureaucratically complex and politically entwined, however, P3s are a particularly big challenge. The 40-year Goethals contract took over two years to emerge from the Port Authority’s siloed bureaucracy. A financial close is targeted for September. But “there’s a lot more work to be done on Goethals to get to financial close,” Foye says, so any celebration of the Port Authority’s first availability pay P3 is premature.

When Goethals does close, its significance won’t be as a P3 template for the Port Authority. “We’re a revenue-based agency so deals are not subject to appropriation risk,” Foye says. “Every one is different.”

More broadly, he says, the governors of both New York and New Jersey support the DBFM project, and the Authority’s board unanimously approved the RFP and selection of Macquarie/Kiewit to negotiate a contract. “The significance is that these deals can happen in this region,” Foye says.

Foye’s next P3 is LaGuardia airport’s central terminal building (CTB), a \$3.6-billion replacement of the existing 47-year-old terminal, which serves eight of the 11 airlines, and half of the passenger traffic at the airport. It will be more challenging than Goethals. And it comes at a difficult time for the agency.

Port Authority personnel are demoralized by curtailments in benefit plans, raises and staffing. A number of senior officials have left or are retiring—most critically, the agency’s highly regarded aviation director, Susan M. Behr, will leave soon to join consultant Arup.

The Port Authority’s new capital budget is being closely scrutinized by two of the most powerful governors in the U.S. at a time when there is no apparent source of new money to feed their appetites for big projects.

Foye says the board will present a “very robust” capital plan in a few months, later than usual. The spending plan doesn’t count on any increases in toll revenues or airline fees. “We’re very focused on non-toll and non-fare revenues,” he says—airport parking, advertising signage “at all our facilities,” and fees paid by private, off-airport parking companies.

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(Chicago negotiated a cost-sharing deal for 34 digital highway signs last fall that guarantees the city \$155 million over 20 years for use of its right-of-way. Lois Scott, Chicago’s CFO, says the city’s share of this first-of-a-kind deal could be as high as 42% of gross revenues.)

The winding down of construction at the World Trade Center allows those funds to be redirected. And toll revenues are up due to a rolling toll increase that started in 2011. But traffic counts at the agency’s bridges and tunnels have fallen in each of the past seven years, including a 2.4% drop in 2012. Predictions of a turnaround have all been wrong.

The budget assumes off-balance-sheet project financings will be arranged for both the LaGuardia CTB and Terminal A at Newark Airport. Those are the only transportation P3s contemplated now, though Foye says all

major projects will be evaluated as P3s, with availability-pay in the mix. “We’re going to take that case-by-case,” he says.

Though technically simpler than CTB, Newark may be a more difficult business deal. United Airlines is the largest airline at Newark and the only user of Terminal A. “There’s no way United is going to do a P3 at Newark,” says a P3 developer executive in New York.

LaGuardia P3 Decisions

Foye says a shortlist of as many as four teams will be announced this summer from the five that submitted qualifications early this year:

1. Aéroports de Paris Management (AdP)/Tutor Perini (Vinci is seeking to buy part of AdP)
2. Meridiam/ Vantage/Skanska/Citigroup Global Markets
3. InfraRed Capital
4. Kiewit/Start America/Walsh
5. Macquarie/Lend Lease/Turner/Elcor

Key details of the LaGuardia Central Terminal procurement have yet to be worked out. Whether the two large parking decks needed at CTB will be part of the developer’s responsibility or the Port’s has not been decided, he says. Who will negotiate use agreements with the CTB airlines—the Port Authority or private developers—also has not been decided. “It will be a three-party discussion,” Foye says. “The Port Authority will have a role.”



(Unlike Puerto Rico’s monetization of its airport, “We’re not doing this transaction to realize a lot of proceeds,” Foye says. This is about financing, building, operating and maintaining a world-class facility to serve the most important business airport in the country.”)

Thirdly, a New York banker pursuing the CTB project says the Port Authority will have to buy-down use fees for the new terminal to create cost parity between the CTB users and the other airlines at LaGuardia. The amount won’t be known

until negotiations are done, but it could be substantial, he says, and an acknowledgement by the Port Authority that there will be a need for public equity would comfort bidders.

When asked about new revenue sources, Foye rules out an increase in passenger facility charges, a head tax for users and most other sources. Instead, he points out: “The CTB is way under-retailed.”

Aviation department revenues are tightly committed. The Port Authority, with approval from federal regulators, diverts about \$800 million a year in airport revenues to off-airport uses. That’s not going to change significantly in the near term, says Foye. “It’s going to fluctuate from year to year, but the trend will be down” from the \$800-million figure cited by PWF, he said.

Future bridge and tunnel toll increases are unlikely. The 2011 agreement to increase tolls was a hard-won compromise between Govs. Christie and Cuomo. It won’t happen again soon. The agreement locks in a CPI adjustment for years which makes real increases difficult. Both governors will almost certainly win reelection. If so, their political ambitions will trump any talk of raising tolls again.

Christie’s political appointees, David Wildstein, director of Interstate Projects, and Bill Baroni, Deputy Executive Director, have been successful in directing capital funds to projects in New Jersey. For example, the Port Authority board’s decision last year to go ahead with heightening the Bayonne Bridge and rehabilitating the Pulaski Skyway has tied up \$3 billion that should have been committed to build more critically needed projects, says the P3 developer. Neither project will show an economic return to the agency, he adds.

A return to normal GDP growth in the region would solve a lot of the problems confronting the Port Authority. Like most leaders, Foye is an optimist: “This region is poised for growth,” he says. ■

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(908) 654-6572

pwfinance@aol.com