

Breaking up the Port Authority is hard to do

Why the agency endures despite political interference, scandal and lots of red ink.

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The Lincoln Tunnel nets \$167 million annually, but many other Port Authority assets lose money. Photo: Stephen O'Byrne

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It didn't take long after the George Washington Bridge traffic caper erupted for people to start demanding dramatic change at the Port Authority of New York and New Jersey. By a unanimous vote, the New Jersey state Senate urged Congress to examine the "organizational structure" of the agency, which runs the region's bridges, tunnels, airports and much else. Others called for more drastic measures.

"I've started hearing people say that it's time to break the Port up," said Carol Kellermann, president of the Citizens Budget Commission.

A breakup might sound like fair comeuppance for the Port Authority, a massive government body that's now seen as a jobs bank for Gov. Chris Christie's friends. Carving up the agency into its New York and New Jersey parts would certainly simplify the chain of command in an unwieldy organization that effectively has two chief executives and a board that reports to two governors, who each have veto power over decisions. Even a consulting firm hired by the authority described management two years ago as "dysfunctional."

"It could be simpler and cleaner if you separated the different parts of the Port into individual agencies," said Stephen Berger, a former Port Authority executive director. "It would also be insane."

Dismantling the agency is not a new idea. The idea was first broached in the 1940s and most recently in 1996, when Mayor Rudolph Giuliani unveiled a plan to merge PATH into the Metropolitan Transportation Authority, sell the World Trade Center, fold the Port Authority police into the city's Police Department and create a new agency called the New York Airport Authority that would have been in charge of rebuilding the city's airports.

Mr. Giuliani, who didn't return a call seeking comment, argued at the time that the Port Authority was riddled with inefficiencies and mismanagement. The idea went nowhere.

The agency endures for a simple reason: The economics of a breakup don't work. Many of the authority's operations lose substantial sums and couldn't survive without hefty subsidies from other parts of the organization.

PATH, for instance, devoured \$2.3 billion in cash between 2007 and 2011. The harbor ports and midtown bus terminal chewed up \$755 million and \$537 million, respectively, during the same period. Rebuilding the World Trade Center has cost the agency about \$8 billion in the past decade.

Cash cows



JFK generates \$990 million for the Port Authority.
Photo: Buck Ennis

Yet even amid these gushers of red ink, the Port Authority in 2012 managed to generate \$1.1 billion in net income on \$4 billion in revenue. That gain was all thanks to the huge toll and fee revenue coming from the region's three major airports and the George Washington Bridge. Those four hubs generated about \$5 billion in operating cash between 2007 and 2011.

"One of the most powerful things about the Port is how it moves revenues from one place to another," Mr. Berger said.

The Port Authority's diverse revenue streams also mean it can borrow more cheaply than the airports or bridges could on their own. That's an important consideration because the agency has \$20 billion in debt obligations and is expected to borrow another \$8 billion over the next four years to pay for such projects as completing the World Trade Center, building a new central terminal at LaGuardia Airport and raising the Bayonne Bridge so larger ships going to and coming from the Panama Canal can dock here.

"The Port is different from just about any city or state in that they can go to the market and raise whatever capital they need whenever they want," said Matt Fabian, a managing director at independent debt-research firm Municipal Market Advisors. "The management team is seen by investors as very sophisticated."

"Sophisticated" might not be the word preferred by most people to describe the management team behind the Fort Lee traffic jam engineered by aides of Mr. Christie, but interference from elected leaders and their lackeys isn't new at the agency.

Jameson Doig, a professor of government at Dartmouth College, dates the first example to 1927, six years after the Port Authority's creation. That's when the governor of New Jersey demanded—and won—the right to veto agency decisions because he wanted to help a company get a contract installing wire cables on the George Washington Bridge.

Political interference



The World Trade Center chews up more cash than it generates.
Photo: Associated Press/World Wide Photos

Mr. Doig said many of the Port Authority's current problems stem from an agreement made in 1995, when Gov. George Pataki appointed an investment banker with no experience in transportation to the executive director job. After New Jersey Gov. Christine Todd Whitman objected, the leaders compromised by creating a new deputy executive director position to be filled by the New Jersey side. The executive director and the deputy share the same box on the authority's organizational chart, and the deputy can't be fired by the executive director.

At the time, the move was applauded as a sensible division of power, but "that's when you started seeing the management problems that are blindingly obvious today," said Mr. Doig, author of a book about the agency called *Empire on the Hudson*.

He added that Port Authority management suffered further when Mr. Christie rewarded up to 60 political backers with jobs for them or their family members after he was elected in 2010. In the past, governors have appointed no more than five supporters to Port Authority jobs.

"The first thing you change with the Port is eliminate those patronage appointees and put in people who are strong and independent," Mr. Doig said. "And get rid of that deputy executive director job."

At least for now, that job is vacant. Bill Baroni, one of the masterminds behind the Fort Lee traffic jam, resigned last month.

The Port Authority operates much of the region's key transportation infrastructure. But some of these hubs chew up a lot more cash than they generate. The numbers below show how some key parts of the agency fared between 2007 and 2011.

TOTAL AVIATION: +\$2.5 BILLION

Airport	Profit
JFK	+\$990 million
LaGuardia	+\$273 million
Newark	+\$1.3 million
Teterboro, Stewart, heliports	-\$65 million

TOTAL BRIDGE AND TUNNEL: -\$537 MILLION*

Bridge/Tunnel	Profit
GW Bridge	+\$1.3 billion
Lincoln Tunnel	+167 million
Holland Tunnel	+\$141 million
Port Authority Bus Terminal	-\$479 million
PATH	-\$2.3 billion

TOTAL PORT COMMERCE: -\$755 MILLION*

Port	Profit
Port Newark	-\$317 million
Port Jersey	-\$184 million
Howland Hook	-\$160 million
Brooklyn Marine Terminal	-\$27 million

TOTAL WORLD TRADE CENTER: -\$3.1 BILLION

GRAND TOTAL: -\$2.5 BILLION

The total shows the authority doesn't generate enough from tolls, fees and grants to cover its costs. It borrows to cover the shortfall.

*Total includes other entities not listed here.

Source: Phase II report to the special committee of Port Authority's board, prepared by consulting firm Navigant in September 2012.

A version of this article appears in the [January 20, 2014, print issue](#) of Crain's New York Business as "Breaking up is hard to do".