The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
June 22, 2010

[Chair A. Coscia] Today's meeting of the Committee on Finance is being held in public session in its entirety. In addition, the meeting is being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the Internet. Okay. Anne Marie Mulligan will talk about commercial paper obligations.

[A.M. Mulligan] Okay. Good morning. Today's presentation is about the Port Authority's commercial paper program. We've used commercial paper since 1982 to finance capital expenditures on an interim basis, which the commercial paper obligations are then refunded into long-term obligations. Today we're seeking authorization to amend the May 26, 2005, resolution to extend the commercial paper program for a 5-year period through December 31--

[Chair A. Coscia] Did you say May 2005?

[A.M. Mulligan] Yes. We usually come to the board for authorization every 5-year period. So we'll be looking to extend it through December 31, 2015, and also to authorize staff to effectuate the appropriate actions to put the commercial paper program in place. The Port Authority uses the commercial paper program to finance tax exempt capital expenditures on an interim basis as a form of bond anticipation notes. As the outstanding commercial paper program obligations reach their authorized limits, long-term consolidated bonds are issued to pay down a portion of the commercial paper notes. Use of commercial paper in this manner has provided us flexibility in scheduling the long-term bond issuances and sizing the principal amounts, which has helped to reduce the issuance cost over time. The Port Authority's commercial paper program was established in 1982 to utilize the short-term instruments to finance capital expenditures. The program consists of two different series--Series A and Series B-- and the notes have a maximum maturity of 270 days. Under Series A, $300 million is the maximum principal amount that may be outstanding at any time, and those notes are used to finance projects at the airport and port facilities. Series B, the maximum principal amount is $200 million, and those proceeds are used at tunnels, bridges, and PATH facilities. The current program was authorized by the board on May 26, 2005, and it's scheduled to expire on December 31st of this year. Authorization of the proposed extension at this time will provide staff with sufficient time to transition from the expiring program to the new program. Under the administration of the commercial paper program, there are several agreements that are needed for each series of the program: A standby revolving credit facility to provide liquidity, dealer agreements to issue the notes to investors, and an issuing and paying agent agreement to register the bonds and to disburse the funds raised through the note issuance. Under the new program, the agreements will need to be put in place.

[Chair A. Coscia] I'm sorry. There will be a procurement? You're about to go through all this.

[A.M. Mulligan] I am. I'm going to cover each of the agreements now. So since the inception of the program, it's been necessary to have a separate credit facility to support the payment of commercial paper notes of each series at maturity to maintain the highest rating and access to the broadest investor base. This credit facility, which has been in the form of a standby revolving credit agreement, provides liquidity to pay investors if the obligations cannot be reissued at maturity. Under the expiring agreement for this liquidity with the existing provider, the cost is about $600,000 per year to support the full $500 million program. With the current distressed state of the credit markets, it's estimated that the fees for the new credit facility could be in the range of $5 million or more per year. Many liquidity providers have either exited the business, suffered downgrades, or are not issuing new credit facilities. As a result, a smaller number of banks have sufficient ratings or credit capacity to support variable rate obligations. In 2009, four banks provided 66% of the credit facilities issued, and four banks have issued 81% of the credit facilities in the first quarter of 2010. Due to the current credit capacity constraints, it may be difficult and expensive to procure credit facilities for the commercial paper program.

[Chair A. Coscia] Could I stop you for a second?

[A.M. Mulligan] Sure. I'm not sure if we'll get to this. The judgment of estimating what the liquidity facility would cost is coming from where?

[A.M. Mulligan] From different banks. We've been checking with them to see what the basis points are, and based upon the information, it's anywhere from 90 to 120, and those facilities are only about 2 to 3 years. We currently had a 5-year liquidity facility.

[Chair A. Coscia] Our current 5-year liquidity facility that pencils out to annual fees of $600,000 is based on what basis point?

[A.M. Mulligan] It's 12 basis points per year.

[Chair A. Coscia] So you're going from the 12 basis points to 90 to 120 basis points?

[A.M. Mulligan] That's what's happened in the financial market.

[Chair A. Coscia] And I take it there is no alternative way for us from a credit standpoint to get the rating agencies comfortable that we have internal liquidity?

[A.M. Mulligan] That's what we're working on. Because of the high cost and limited availability, we are pursuing the more cost-effective alternative of providing self-liquidity.

[Chair A. Coscia] And it seems odd. Is there an unconventional mechanism for the providing of liquidity? In my world, we look to find someone who could provide standby facilities when we're doing a new issuance of stock or long-term debt or something like that because we want someone to tell the marketplace that if it's not fully subscribed, someone will do it. And that market has moved to places where there's just a lot of liquidity right now because in a bad economy, certain places end up being too liquid. There's a lot of investment funds and others that right now unfortunately are getting hammered by their investors because they have so much liquidity and they have no place to do it on a short-term basis. We have pretty good credit. I'm surprised there aren't a lot of alternatives for us. I understand the LC market generally is pretty anemic, but we're not the typical LC credit either.

[A.M. Mulligan] Based upon the RFPs that other agencies have gone through and the feedback from the banks, that is how the market is. We had seen the effects of this when the auction rate market collapsed a couple of years ago, and we were looking to try to convert our auction rates to variable rate. The availability was not there and also for our existing VSOs.

[Chair A. Coscia] Is the existing facility an agent bank with a syndicate, or is it individual?

[A.M. Mulligan] The facility we have right now is a German bank. It's Helaba Bank. It's a long German name. Part of the problem, the German banks have been downgraded. For our VSOs we are protected. With the German banks that we have on that, they've been grandfathered and still have the state government behind them. For this one, Helaba Bank is the only one that has not been downgraded to the extent as the other German banks.

[Chair A. Coscia] But the liquidity facility that we have is the one institution?

[A.M. Mulligan] Yes.

[Chair A. Coscia] Have we ever examined the possibility of an agent in the syndicate?

[A.M. Mulligan] We have. The commercial paper program previous to this had four different banks participating to provide the liquidity, and that's what we would do if we went out for a liquidity facility. But altogether, the cost would accumulate to about a $5 million fee.

[Comm. S. Holmes] Question. How much would the liquidity facility cover? I missed that part.

[A.M. Mulligan] We would be looking to cover the full $500 million commercial paper program.

[Chair A. Coscia] It's broken down between $300 in AMT and $200 in non AMT.

[Comm. S. Holmes] Have you talked to pension firms? I know that they--

[A.M. Mulligan] We would do an RFP. And part of the problem, many of them are not doing liquidity facilities. The ones that are being done are very small programs, and the principal amounts tend to be under $100 million.

[Comm. S. Holmes] What about

[inaudible]? Have you discussed it with them?

[A.M. Mulligan] We haven't discussed it with them, but they really have not been pursuing new credit options. There's only about four banks that are providing anywhere between 75% to 80% of the credit facilities that are out there. And we have the dealer agreement under RFPs, so we've just held presentations with them, and what we're finding is that many of the money market investors are even having difficulty investing in commercial paper because they're limited based upon the number of banks that they can have exposure to. And because there are so many of them providing the liquidity, they're being limited on what they can purchase.

[Chair A. Coscia] The agreement we have now would be a personal obligation of the LC or is it a general obligation of the PA

[D. Buchbinder] It's an obligation that is tabled in the same manner as paper obligations, so it comes out of PA revenues.

[Comm. S. Holmes] Is it in parity with consolidated bonds?

[D. Buchbinder] It's actually payable

[inaudible]

[A.M. Mulligan] And what we're doing to mitigate the exposure for the fees is pursuing self-liquidity using the Port Authority's portfolio to provide the liquidity for the commercial paper program. And since our investments are cash and highly liquid US government securities, we find that we should be able to do this. It's extremely manageable. We've started discussions with the rating agencies. We've provided them a lot of information for them to evaluate our ability to provide the liquidity to the program. We've talked to the existing dealers and potential dealers for the new agreement as well as the money market investors. All of the results have been favorable to date, so if we can receive the highest investment grade rating for our commercial paper program with the Port Authority providing self-liquidity, that's what we would pursue. If not, then we would immediately issue an RFP to provide liquidity to the program.

[Chair A. Coscia] What's the tax treatment of a liquidity provider who is forced to pay on an LC? Is that reimbursement obligation tax exempt?

[D. Buchbinder] Yes. It translates into a loan for the--

[Chair A. Coscia] Yeah, the reimbursement. Yeah.

[Comm. S. Holmes] How much reserves will we have to maintain in order to provide self-liquidity?

[A.M. Mulligan] For the rating agencies' criteria, they would look for us to have about $625 million available. The consolidated bond reserve fund at year-end 2009 was $1.1 billion, and it has been at that level for the last couple of years. And based upon the forecast, we anticipate it being at that level.

[Comm. S. Holmes] So we would use our consolidated bond reserve fund?

[A.M. Mulligan] The source of payments for commercial paper is the consolidated bond reserve fund, so that's what we have been using as the pool of investments to support the program.

[Chair A. Coscia] Does that mean that your fourth bullet point is really not that big of a deal? I guess what I'm asking is that the level of liquidity that we need to maintain now in the reserve fund because of the limitation on investments that that money can be placed in, and given the flatness of the long end of the yield curve, are we pretty much at four regardless of whether we did this or not--that fourth bullet point? There can't be a huge difference between what we get on 90 days and 2 years.

[A.M. Mulligan] Right now, because the interest rates are extremely low, there is no benefit going out. No. And the only problem is we need to monitor, coordinate, and administer this in a much more proactive basis than before. We need to monitor the maturities that are being placed by the dealers to the investors to limit the exposure that we could have on any day that they could not reissue that maturity to a new investor. We would be required to fund that within about an hour's notice.

[Chair A. Coscia] Do we not have internally that kind of cash management ability?

[A.M. Mulligan] We do have it. We do. We've just never had to put the steps in place to do this on such an immediate basis. So that's what the liquidity facility was for, for them to come up with the funds in 45 minutes.

[Chair A. Coscia] Yeah. It's just that at $600,000 a year, having a liquidity facility for half a billion dollars seems like a cost-efficient way of putting yourself in the position of not having to manage your portfolio. At $5 million a year, it starts to get to be an expensive luxury.

[Comm. S. Holmes] I don't see why--

[audio cuts off] whether we invest the $5 million--

[Paul Blanco] --with an RFP.

[Chair A. Coscia] Or a syndicate, I was saying, because if you can do a book and get everybody comfortable with the risk and everyone takes a $40 million piece on a prorated basis, some agent is going to make money on putting the whole thing together. If I'm a major financial institution today, they have tons of excess liquidity. In fact, their interest rate margins are very compressed because they have so much liquidity. And if you can park $50 million in a short-term liquidity fee and earn 40 basis points, which is less than half of what you're saying the market is, I mean, I don't know. Your RFP obviously will-- It just stands to reason that the Citis and Chases and Wachovias and everybody else in the world would be far better off putting cash into a 270-day facility and get 40 basis points than what they're doing right now for what is a double A credit. Well, I don't know if you can call it a double A credit since it is subordinated to the consolidated bonds, but it's half a billion dollars in a $12 billion program.

[D. Buchbinder] The trick is to see if we can--

[Chair A. Coscia] I'd do it.

[D. Buchbinder] --get a self-liquidity program because frankly, that's the most cost-effective.

The market has moved over time. In the past there has been no real opportunity for us to apply self-liquidity to the commercial paper program. If we can move in that direction, it would be much more cost-effective than even the best deal we can get.

[P. Blanco] Because even the 40 basis points, you're still talking $2 million versus $600,000.

[D. Buchbinder] Because you're taking the current management practice of the portfolio and continuing it without change. So if we do it, it's business as usual--no change-- but with the ability to have a greater focus on the Port Authority's credit resources supporting those of commercial paper. That's effectively a zero cost--

[Comm. S. Holmes] How often have you used the liquidity facility? Never, right?

[A.M. Mulligan] On the commercial paper, we have never used it. There was one point during the year when the German banks were downgraded and there was uncertainty about which bank was behind this that we took the commercial paper and we paid it rather than go to the liquidity facility.

[D. Buchbinder] Liquidity facilities also have the benefit of

[inaudible] portfolio rules because they gave the money funds the opportunity to apply Port Authority paper or commercial paper and not be limited by concentration rules because the base of the bank and base of the credit facility would be the item that they would have to review to determine the concentration of investment to the extent the money funds are comfortable that they have enough capacity to deal with all this as well

[inaudible] cost-effective basis, then there's no downside to doing it.

[Chair A. Coscia] The fee is not taxed, is that correct? Because there's all these short-term municipal funds these short maturities, because people want basically to get right in that spot that I know what all these products are because what they need is-- They need something that they can match it against, so that would have to be tax exempt.

[D. Buchbinder] Yeah.

[Chair A. Coscia] LC fee is a taxable--

[D. Buchbinder] So all you're doing is essentially providing it in the short-term.

[Chair A. Coscia] Yeah.

[D. Buchbinder] That's what it comes down to.

[A.M. Mulligan] One of the other agreements that we have is the dealer agreement that we've issued. Our current dealers are Goldman Sachs for Series A and Barclays Capital, which was Lehman, for Series B. For the new program we've issued RFPs. We received six submissions.

They're currently under review, and the two highest ranked proposers would be selected to be the dealers for the new program. The last agreement that we have for the program is the issuing and paying agent agreement, and under that agreement, the issuing and paying agent issues the notes based on the Port Authority's instructions through the depository trust book entry system and processes the flow of funds between the investors and the Port Authority. JPMorgan Chase is the current agent, and their fees are about $50,000 for the year. We're recommending that JPMorgan Chase be reappointed for a 5-year term under the same terms and conditions based on their exemplary performance and also the cost savings that we achieve because JPMorgan has other banking relationships with us. They provide a streamline electronic system that we use to process the commercial paper trades and for the fund transfers to occur, and there's a limited number of firms that provide these services. With moving towards the self-liquidity, this would be a significant undertaking-- replacing the issuing and paying agent-- and could interrupt the issuance of the commercial paper. In addition, JPMorgan Chase is willing to accept the same terms and conditions with the renewal of the program. One of the provisions that we have in our existing agreement with them is with the transfer of funds, if there is any problem with the cash being in the account for the payment to the investors, JPMorgan Chase would deliver the funds, and we would provide it by the next day and be charged an overnight earnings rate. So that would provide an additional backstop if there's a problem with the banking systems and the execution of wire transfers of funds. So that would help with the self-liquidity program.

[Chair A. Coscia] The LC venue you obviously don't need if you have self-liquidity.

[A.M. Mulligan] Right.

[Chair A. Coscia] But I guess you're expected to provide and do an RFP anyway just to sort of--

[A.M. Mulligan] Right now we have all of the information with the rating agencies to get an indication from them what our rating would be if the Port Authority provided self-liquidity under the same basic program that we had had before. If that works, we wouldn't do an RFP.

[Chair A. Coscia] But you still need a dealer and you still need an issuing agent.

[A.M. Mulligan] Yes.

[Chair A. Coscia] What's your plan as to that because you're not asking for action today

[A.M. Mulligan] We are asking that the Committee on Finance recommend this item be approved by the board today.

[Chair A. Coscia] Okay, that's not what--

[Comm. S. Holmes] Yeah, but whether we approve--

[P. Blanco] Recommending the RFP.

[A.M. Mulligan] Recommending the extension of the commercial paper program through 2015, the $500 million program, and for staff to put the agreements in place to effectuate the program.

[Comm. S. Holmes] What about the liquidity? We're not approving either one of the liquidity methods today?

[Chair A. Coscia] Karen, did I miss this? I thought this was just a discussion item.

[K. Eastman] No. This is for action. It actually just extends the program with the opportunity to do either liquidity or under the traditional methods.

[Chair A. Coscia] Okay. The action we're taking is to extend the program for an additional five years.

[K. Eastman] Yes.

[Chair A. Coscia] Is part of that approval the approval to investigate self-liquidity versus an LC then? Or that's just something--

[A.M. Mulligan] To allow either/or under the authorization.

[Chair A. Coscia] The reason why I'm asking is because I've had conversations with Henry about what we're doing and not doing, and he's not here right now, and had I thought about that, I would have--

[A.M. Mulligan] I have transmitted the presentation to him with a summary of what the program would involve and pursuit of--

[Chair A. Coscia] Did you get feedback from him on it?

[A.M. Mulligan] No, I did not.

[Chair A. Coscia] I don't mean to be difficult. I know Henry's got strong opinions on the subject. I'm sitting in his chair for one meeting, and I don't want to usurp his good graces. Are we also agreeing to the JPMorgan Chase extension? That's part of the same agreement? And then you're going to be done with commercial paper and you're going to go out and do another procurement, or you're just going to extend the dealer--

[A.M. Mulligan] The dealer-- We have the RFP that's already under way to come up with new dealers for the new program.

[Comm. S. Holmes] Can we open that process up a little more so that we could have-- Someone called me about having dealers that had experience other than in New Jersey and New York.

[A.M. Mulligan] It was a publicly advertised RFP. It wasn't limited.

[P. Blanco] I spoke to Stan.

[Comm. S. Holmes] Okay.

[Chair A. Coscia] I'm comfortable with everything that you've said, but I did want to give Henry a say. He hasn't talked to you about this?

[K. Eastman] He has not.

[Chair A. Coscia] Did he realize it was on the agenda?

[K. Eastman] Yes, he did.

[Comm. S. Holmes] What was his problem?

[Chair A. Coscia] I didn't say there was a problem. It's just that Henry's got strong opinions on the commercial paper program and how it works.

[P. Blanco] Is it okay if we advise the chair of the Finance Committee before any final decision is made?

[Chair A. Coscia] Yeah. I'm comfortable with that.

[P.Blanco] So we will proceed.

[Chair A. Coscia] Sid, if you're comfortable with that. You and I are like respective quorums here.

[Comm. S. Holmes] Would you come back to us on the dealers before they're chosen and on the rating agencies?

[P. Blanco] We can come back on the dealers, and we can also come back on whatever we get with the self-liquidity analysis.

[Chair A. Coscia] Yeah. That part I know you're going to come back with. I'm very interested in--

[P. Blanco] We have no problem contacting the Finance Committee later.

[Chair A. Coscia] I want him to approve everything we're approving, to sign off on it, so you're going to go through it all with him. There's no limits on that. He gets the full story and find out if any of these pieces he's uncomfortable with before you go forward. The only reservation I have is that this approval isn't an approval to spend $5 million on an LC fee. After you do your self-liquidity versus LC comparison, you'll come back and let us know.

[A.M. Mulligan] We will.

[Chair A. Coscia] I'm less concerned about the approval than wanting to know that because it's kind of hard to accept the idea that the only way we can create liquidity for this program is to pay $5 million a year to an LC venture. I could have no clue because I'm not in this world. It just seems really high.

[A.M. Mulligan] We've been getting positive feedback from the rating agencies on self-liquidity. We have heard definitely from one. Granted, we would need to provide them the final parameters of the program, but one of them has come back and said we would be getting--

[Chair A. Coscia] By the way, if we're in this shape and we're in better shape than everybody else, what the hell is every other government agency doing for short-term commercial paper obligations? They either don't have a program, or they've got to be paying through the roof because if it's $5 million for a double A credit, then imagine what it is for MTA.

[Comm. S. Holmes] A lot of them use short-term notes.

[A.M. Mulligan] They're issuing short-term notes and refunding them.

[Chair A. Coscia] That's got to cost a lot of money to go through that process. The cost of issuance on that has to be pretty high.

[A.M. Mulligan] Yes. And then refunding into the different markets as well.

[Chair A. Coscia] Okay. Sid, do you have anything else?

[Comm. S. Holmes] No.

[Chair A. Coscia] Okay.

[A.M. Mulligan] Okay. Thank you.