The Port Authority of New York and New Jersey
Committee on Finance Transcripts
July 23, 2015

[Board Chair J. Degnan] I think we're prepared to move on to the Committee on Finance. Commissioner Bagger.

[Chair R. Bagger] Thank you Mr. Chairman. Today's meeting of the Finance Committee is held in public session in its entirety. I'd like to ask for our Corporate Secretary to report on the composition of the Committee and any Commissioner recusals on the first matter before the Committee today.

[K. Eastman] Thank you. The Committee is composed of yourself as Chairman, Commissioner Lynford as Vice-Chairman, and Commissioners James, Lipper, Pocino, and Schuber. All Committee members are present with the exception of Commissioner Pocino, and on the first item there is no requested action and therefore no recusals necessary.

[Chair R. Bagger] Great, thank you. Our first topic is a report on the quarterly financial results. As far as this Board's program over the past year of advancing public transparency. The financial start of 2015 to have quarterly public reports of the Port Authority's financial and operational results. We had a report for the first quarter. And today our Chief Financial Officer's presentation for the second quarter to date. That report will also be made available on the Port Authority's website and it will be the subject of a public release today. So—

[Libby McCarthy] Thank you. Good morning Commissioners. Before I begin and give you the highlights of our financial results for the six months

[Financial Results for the Six-Month Period Ended June 30, 2015, Committee on Finance, July 23, 2015, Unaudited] ended June 30, I have to do a little bit of housekeeping. So just to note, these preliminary results were prepared in accordance with generally accepted accounting principles, and they are subject to audit. The condensed, unaudited financial information should be read in conjunction with the Consolidated Financial Statements of the Port Authority and the accompanying notes for the year ended December 31, 2014. And in addition, any forward-looking statements that are made today represent the best estimates that we have at this time based on a number of variables. However, actual results may differ from those estimates, and those differences may be material. So now that we're done with that, let's talk about the results.

The six months, we had a very strong performance contributing $345 million to net position for the period, strong operating income of $365 million less the non-operating activities which include grants and contributions as a positive and offset by interest expense netted to a net negative $20 million for an overall increase in net position of $340 million. And we'll walk through some of the key components of that as we move through the presentation. Operating revenues grew 7.7 or nearly 8% over the prior year and are also at this point 2% over plan. World Trade Center is about a third of that incremental revenue growth, so they have almost tripled because the occupancy began in November of last year so year over year we see $58 million of increase related to World Trade Center. Following that you see very strong growth at TB&T, PATH, and Port, all in the 9+% range. TB&T, that's driven mostly by the fare and toll—the last toll increase that went into effect in December plus we have about 1.1% growth in activity, which we'll talk about in a moment. PATH, 9.7% increase, $8 million. That's as well related to the fare increase and some increased activity. Port's very strong performance up $11 million or 9%, again to activity. And then finally aviation, while it's 2%, that's $26 million toward the bottom line, so driven by activities, et cetera. Here you can see the activity growth, and we see growth across all of our modes. Aviation has activity or passenger growth of 4.1%, 5.3% growth in domestic passengers, and 1.9% in international. So we're sort of seeing a little bit of a switch from where that growth is coming from this year versus last, but still obviously very strong growth. Tunnels and bridges, we had 1.1% growth. If you'll recall at the first quarter, we had growth over a period and that was somewhat driven by weather because, hard to believe, this year's weather was less severe than the prior year's weather. But if we weather normalize these results, we're essentially even with the prior year. But when we look just and isolate the second quarter, we do see 1% growth at TB&T. So that's a positive trend for us. PATH is up 1.9%. That's a combination of two things. The prior year we started the weekend closures of the downtown lines and that started in February, so we're seeing that growth because this year we don't have those closures. And then in addition to that, our average weekday activity is up above pre-Sandy levels. So we're seeing some improvement in that from where we have been in prior years. And then Port Commerce continues to benefit both from the strong economy as well as residual effects of that West Coast labor matter and had 10.9% growth. They also benefited in the first quarter from increased bulk activity related to salt deliveries that had to deal with the weather. From an operating expense perspective, the operating expenses grew 1.4% or $19 million but are 1.6% under budget. So what's driving that? That's really again the World Trade Center phasing into operations. So you can see that World Trade Center operating expenses are up by about $50 million, and that's as we've phased in various portions of the program. If you look across the remainder of this, most of the other units are running below plan. This is really a timing difference at this point. They were impacted by the weather and the ability to do some of their maintenance in the first quarter, so we're expecting this to probably trend toward plan to catch all of those things up. PATH is running ahead of plan at this point because they use that weather to—instead of doing capital work they did maintenance work. And that's expected to sort of level itself as we look forward. Other financial results. Two things to really highlight here. Depreciation and amortization and interest expense have both increased by $79 million and $150 million respectively. That's really driven by again the movement toward operations at the World Trade Center. So as we've gotten facilities ready for their intended use, depreciation starts and you're no longer capitalizing interest. You're expensing the interest. So that's really what's driving those two items. This all contributed then to our strong balance sheet which you can see here. We have assets or facilities net of depreciation of $31.5 billion and a net position of $15.1 billion. And those are also—you can see the results have delivered strong cash flow and liquidity for the agency. Cash from operations in the six months was $828 million. We currently have days cash on hand of 342 days excluding our general reserve fund and capital funds, so it's a conservative way to look at that. And then capital funds and available liquidity under our Commercial Paper Program fund, our construction program, are currently at $802 million. And that all left money available for advancing our facility investment of $1.3 billion invested, which

Mike just walked you through. And so I'm happy to take any questions.

[Chair R. Bagger] Great thank you Libby. Any questions on the report? Commissioner James.

[Commissioner Hamilton James] Libby, the decrease in capital contributions and past year facility charges of $79 million. What caused that?

[Libby McCarthy] That's primarily related to capital contributions, third party capital contributions to the construction here at the World Trade Center site.

[Chair R. Bagger] Other questions, comments? I guess not. Libby, thank you for a great report and another strong quarter. I move to our next agenda item. I'd like to ask the Board Secretary to advise if there are any Commissioner recusals on the consideration of the Plan of Finance and the Commercial Paper Program.

[K. Eastman] There are no recusals on either.

[Chair R. Bagger] Okay, so we'll turn to consideration of the Plan of Finance, which is a three-year plan, and our Commercial Paper Program, which is a five-year program. And just in introducing this, I'd like to make three points. First, the action we're recommending today reauthorizes these programs. It's an authorization for the financing program. It's not determining the specific timing or terms of any bond issuances. Second, that the majority of the anticipated financing under the three-year plans are refunding of existing debt rather than issuance of new debt. And third, that when there are proposals for specific issuances or refundings, those are subject to review and approval by the Finance Committee. So let me introduce the Port Authority's Treasurer, Cheryl Yetka, to describe these programs for us.

[Cheryl Yetka] Thank you Commissioners. As Commissioner Bagger said, I'm here to talk about two items, the Plan of Financing and the commercial

[Plan of Financing and Extension of Commercial Paper Program] paper program. First I'll talk about the Plan of Financing. Next slide. There we go. The Plan of Financing is actually a requirement of the tax code. The IRS wanted to be sure that the public was well informed about how people were using private activity bonds. Our private activity bonds, or our AMT bonds, are used to fund our Port and aviation projects. The process is similar to a shelf registration in the corporate world. It requires a public notice, a public hearing, and approval by elected officials. For our purposes, the Governors' review period of the meeting minutes today will serve as that government approval. So we issued our public notice on July 7. It included a description of the plan, a listing of the capital projects, and a link to the Port Authority's website for more information on our capital projects. And it was advertised in "The New York Times," "The Star Ledger," and "The Bergen Record." We held our public hearings this week, one hearing here at the World Trade Center on Tuesday was attended by Commissioner Lynford. In the afternoon, we had a hearing in New Jersey attended by Commissioner Bagger. There were no members of the public in attendance at either hearing unfortunately, and we received no comments on the Plan of Financing that need to be incorporated. The Plan of Financing seeks authorization to issue up to $10 billion over the next three years, and this will cover both our new money needs and our refunding needs over this period. New money amounts to about $3.5 billion and refunding opportunities are about $4.7 billion. We will seek authorization for 20 series of bonds and 5 series of notes. The versatile structure obligations may be issued in one or more series. The authorization will include the resolutions as they are currently drafted, but we are working with the Special Panel Implementation Office in identifying new instruments that could meet the recommendations of the panel for innovative financing of our capital plan. If any adjustments or changes to the resolutions are required to issue any of those instruments, we'll be back to the Board to authorize those amendments and discuss the instruments themselves with the Finance Committee. Next. The Plan of Financing also includes continued authorization of these other instruments that the Port Authority uses— our variable rate master notes, our Commercial Paper Program, and our equipment notes in the aggregate principals that are listed there. The only change to this element of the program is the addition of a third series of commercial paper, which I'll talk about a little bit later for an additional $250 million. Next slide. So as Commissioner Bagger explained, this item authorizes a general plan for the next three years and delegates authorization to the Committee on Finance to execute that plan. Staff will do the execution of the plan but only after we've discussed individual bond issuances with the Committee on Finance and sought authorization for those issuances. So we'll be back to talk a lot over the next three years. This isn't our last word on this. I think I misstated. Oh, Commissioner Lynford was at the meeting. I apologize. Okay. Commissioner Lipper was at our New York hearing on Tuesday morning. I apologize.

So now I'm going to talk about the Commercial Paper Program. The Commercial Paper Program was originally established in 1982, and our current five-year program expires at the end of this year. We use our commercial paper to fund our capital spending on a short-term basis. And then we will take it out with a longer term bond once we've reached the limits of the authorizations, the $250 million for each series. Using the monies this way allows us to time the issuance of our longer term debt and the sizing of our longer term instruments and allows us to reduce our overall cost of borrowing over time. We currently have two series of notes, one for AMT debt and the other one for governmental. We request authorization to add a third series that would be subject to taxation, and that could be used to fund spending at the bus terminal or the World Trade Center site. This authorization also includes authorization for staff to enter into agreements with issuing and paying agents, brokers, and dealers and liquidity providers if necessary. Currently we provide our own liquidity for the Commercial Paper Program, but as we continue to use reserve funds for capital spending, we will need to look towards an external liquidity provider. So Commissioners, subject to your comments or questions, I request authorization for both of these items.

[Chair R. Bagger] Thank you Cheryl. Any questions or comments from the Board? Okay, if not I would like to ask for your approval via a motion to advance to the Board the resolutions necessary to effectuate these programs. Moved and seconded. Any objection? If not, we'll move them onto the full Board. Thank you. That concludes our Committee report.