The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
December 6, 2012

The Port Authority of New York and New Jersey]

[Chair R.Bagger] We are ready to begin. This is the public session of the Committee on Finance. The first portion of today's meeting of the Committee on Finance is being held in public session. after which we'll meet in executive session to discuss matters relating to proposed, pending, or current litigation or judicial or administrative proceedings. The public portion of this meeting is being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the internet. There are two items this morning for public session, both relating to insurance. First is an action item for which we have a resolution in front of us on the extension of the Owner-controlled Insurance program for the World Trade Center Memorial project. Ann Marie Mulligan will highlight this for us.

[A.M. Mulligan] Good morning, Commissioners. At today's meeting we will discuss the marketing effort on the extension of the insurance coverage for the construction of the National September 11 Memorial and Museum construction project at the World Trade Center site. The insurance program provides 5 different lines of coverage. The 2 coverages that need to be extended are the General Liability and the Builder's Risk programs. The Workers' Compensation coverage also expired, but the broker has agreed to extend that through the project term at no cost, since during the delay in construction the payroll cost has not increased. There will be a payroll audit at the end of the project to determine the full extent of the payroll cost. For the General Liability and the Builder's Risk that need to be extended, there'll be an additional premium charge for the coverage extensions. This is primarily due to the carriers being required to commit their capital to the project for a longer duration, which eliminates their ability to ensure other projects and earn premium on those projects. In addition, the premium will also increase because of the increase in hard-cost construction of the Memorial project. The marketing efforts are continuing underway. We will have staff in London to meet with the insurance carriers next week to continue the discussions and to continue to negotiate. In October, we provided a memo to the committee and we advised you that the extension efforts would be underway Based upon the integrated master schedule which outlines the timing of the construction project, the latest one as of August 1, shows that the memorial construction will continue through mid 2012. In addition, Navigant study came out with the total construction cost for the memorial. From the original project estimate of $512, the costs have increased to $789 million. With that, that information was provided to the insurance market and the general liability carriers, they have basically said that the rates for the extension will be similar to the rates that were put in place with the December 2010 extension. The rates at that time will prevail through this. The hurricane has not had any impact on the general liability extension, and although talks are still going on, it's estimated that the general liability extension premium will be between $9 and $11 million. For the Builder's Risk, prior to Hurricane Sandy, we were looking at a rate decrease from the insurance carriers of about 10 percent, so although there would have been a cost for the extension, there would have been a reduction off of the December 2000 extension rates. Post Hurricane Sandy, the Builder's Risk insurers are not willing to commit to an extension for the full project term until they can see what the full extent of the damage is from Hurricane Sandy. So rather than extend that program from mid 2014, they will only extend at this point until August 2013, and that will coincide with the current expiration for the

Tower One Builder's Risk insurance, so we will need to seek another extension at that time. The cost for the insurance from December 31-August 31 is estimated at $1.9 million. The negotiations will continue, but today we are seeking authorization to purchase the insurance at a total estimated cost of $13 million, and we will provide the Committee with the final information after the placement of the insurance.

[Chair R.Bagger] I'd just like to clarify for the Committee and ask the management present to confirm that the incremental cost of the Owner-controlled insurance for the Memorial and Museum is included in the overall adjusted budget costs for that project and that therefore are subject to the recently agreed to and approved by the Board memorandum of understanding for the completion of the Museum and Memorial project, and we so referenced that in the resolution in the Committee. [Comm. W. Schuber] Just for clarification on that, as I was reviewing the MOU, I assume this is part of-- there's actually (inaudible) --the MOU, which I didn't see reference insurance at all. And then there's a general operating license agreement in which the insurance is attached as Exhibit C. I'm assuming that's where this is. [Comm. S. Rechler] For point of clarification, the MOU, as contemplated, takes into account that there's a certain dollar amount to complete the project-- some money coming from the memorial, some money coming from LMDC, and the balance coming from us in that budget?

[Comm. W. Schuber] >>Right. Is this Item? Yeah.

[Comm. S. Rechler] So it's buried in--so it's part of the global settlement with the Memorial that we were going to be funding then as part of this.

[Chair R.Bagger] So this is not an unanticipated contingency relative to that. This is something that had been forecast and follows from the extension of time for completion of the project. Any further questions or comments from the Committee? Commissioner Sartor?

[Comm. A. Sartor] Why is General Liability going through October of 2015 if we're going to be finished with the project prior to that?

[A.M.Mulligan] We did check with the broker, and they have talked to the market. There is no additional premium to go from mid 2012 through mid 2015, so we thought with no additional premium it was best to take it out as long as possible since we don't know the extent of the-- if there is any problem post Hurricane Sandy with the completion of the project.

[Chair R.Bagger] Insurance on the insurance.

[A.M.Mulligan] >>Yes.

[Chair R.Bagger] Okay, anything else on this resolution from members of the Board? If not, this is a matter that has been delegated by the full Board under the By-laws for us for decision, so I entertain a motion to approve the resolution before us.

[Comm.] >>Second. [Chair R.Bagger] Moved and seconded. Any discussion? All if favor? [All Comm.] >> Aye. [Chair R.Bagger] Opposed, [All Comm.] >>no. [Chair R.Bagger] The resolution is approved. Thank you. The second item for this morning is the annual update on PAICE, the Port Authority Insurance Captive Entity.

[A.M. Mulligan] Okay, the next item is our update. It is about our Port Authority Insurance Captive Entity. PAISE is a wholly owned subsidiary insurance captive company of the Port Authority that insures certain risks of the agency. PAISE was authorized by the Board in March 2006 and was incorporated in Washington D.C. in October 2006. Since its inception, PAISE has successfully achieved the goals that were projected when we first set out with PAISE. PAISE has reduced the amount of premium that has gone to the commercial insurance markets by $164 million between 2006 and 2012. In addition, by using PAICE on the Port Authority's property insurance program, the insurance all-risk limits have increased from $600 million in 2006 to $1.518 billion as of June 1, 2012. The terrorism coverage on the Port Authority's programs have all increased or improved through the use of PAICE, since PAICE has access to the federal insurance programs TRIPRA coverage. In addition, in 2012, in August, the PAICE was able to absorb the cost of the extension of the Vehicular Security Center and furnished the insurance coverage to the Port Authority at no premium cost. To date, the Port Authority's investment of $8 million in PAICE has grown to $123 million as of October of this year. As an insurer, PAICE is exposed to loss. To date, PAICE is still only modestly capitalized, and the insurance underwritten by PAICE has been conservative because of the modest level of capitalization. We have had a loss history that was lower than expected, so that's how the balance has continued to grow. On an actuarial basis, PAICE has sufficient reserves to meet it's anticipated losses. In August of this year, PAICE held it's annual Board of Directors meeting in Washington, D.C., and covered various different items. One of the topics was the 2011 financial statements, and the financials were audited by Deloitte and Touche. This slide has some of the highlights of the numbers from the annual report. In addition, Huggins Actuarial Services provides the actuarial review and opinion on PAICE. They presented their opinion and stated that PAICE carries sufficient reserves and meets all of the Washington, D.C. regulatory and financial requirements. Also this past year, a full-scope audit was performed by Washington, D.C.'s Department of Insurance Securities and Banking. That audit opinion was provided that PAICE's operations and business practices are sound. We are in compliance with all applicable regulations, and the financial position is strong, so it was a clean report from D.C. An update on the activities-- TD Bank was competitively selected as the investment manager for PAICE in October 2007, and as of October, the cash and investments totaled $170 million and the annual earnings amounted to about 1.2 million so far this year. This slide also contains the various different insurance coverages that are provided through PAICE. Since inception, PAICE has issued policies for the terrorism coverage for the Port Authority's operational programs. As a domestic insurer, PAICE has been able to front the all-risk property program, and that's the reason for being able to increase the overall capacity on the coverage. In addition, PAICE provides $1 million in workers' compensation and $500,000 in general liability on the Master Contractor's Insurance Program. And with the December 2010 extension of the OCIP for the Word Trade Center construction projects, PAICE fronted the builder's risk coverage for the World Trade Center Transportation Hub project. I already spoke about the premium for the Vehicular Security Center. As with all insurance companies, PAICE has and will continue to sustain claims during its operation. Here we identify that under our construction insurance program we have a total 109 workers' compensation claims and 35 open general liability claims. Given PAICE's growth over time, it now has the financial capacity to assume greater risk, and with the public liability renewal in October, PAICE did absorb an additional capacity on that program, and we discussed that with you at that time. And as we go forward, different opportunities will be assessed and discussed with the Board of Directors of the Committee on Finance.

[Chair R.Bagger] Thank you. Any questions or comments on the report? [Comm. J. Moerdler] I'm not an expert on captive insurers, we're putting money into the captive, it's providing insurance. There is a dramatic benefit because a lot of it is every insurance at lower rates and we're accumulating a portfolio of money. I think it was $177 million, that's now the equity investment.

[A.M. Mulligan] The reserves are $123. [Comm. J. Moerdler] >>I'm sorry? [A.M. Mulligan] The reserves are $123 million. [Comm. J. Moerdler] And we're using that-- We're using those funds to increase the capacity of PAICE, keep building up the reserves, as opposed to saving money taking cash back into the agency. Are we using the benefit of those reserves to a maximum degree in terms of writing as much insurance as we've built up the capacity to do?

[A.M. Mulligan] Yes we have. The amount of reserves-- there's actuarial studies to determine the amount of reserves that you need to have in the capitalization. We need to continue to accumulate reserves in the captive in order be able to meet the potential losses of the coverages that are controlled in there right now. With the terrorism coverage that's provided through the captive, although on the all-risk program we've been able to purchase insurance for the captive's responsibility, we have not been able to do that on the liability program. So $300 million of terrorism insurance is provided through the captive. We need to build the captive up to be able to support the amount of loss that we could potentially face. PAICE runs short of its reserves, the ultimate liability reverts to the Port Authority. [Comm. J. Moerdler] Okay. Do we have the ability to continue to write expanded coverage at this point or would we require more reserves to do that? [A.M. Mulligan] The additional coverage would require additional reserves.

[Comm. J. Moerdler] Okay, so we're basically using the capacity. That's what I wanted to get at. We're taking the maximum advantage of what we put in at this point, and to continue to take advantage, we'll need to continue to put in. Okay. Thank you.

[Chair R.Bagger] Thank you. Very helpful question. Anything else on this topic? If not, thank you very much for the report and the strong performance that it represents. This concludes the public portion of today's meeting. The Committee is now going to adjourn to executive session to discuss matters relating to proposed, pending, or current litigation or judicial or administrative proceedings.

[The Port Authority of New York and New Jersey]