The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
December 8, 2011

[Comm. P. Schuber] Good morning everyone. This is the public session of the Finance Committee. I want to welcome all the Commissioners, members of the staff, and members of the public. Today's meeting of the Finance Committee is being held in public session, in its entirety. In addition, this meeting is being broadcast live on the Port Authority's Web site for those interested in viewing today's proceedings via the Internet. We have 1 item for discussion today-- 1 item only-- and that's the Debt Issuance Plan for 2012. And I welcome to the Committee's table, Ann Marie Mulligan--Ann Marie.

[A. Mulligan] Good morning, Commissioners. Today, I will briefly summarize for you the Debt Issuances from 2011 and the financing plans for 2012. During 2011, we issued approximately $2.6 billion in Consolidated Bonds. It was through 5 different Series of Consolidated Bonds. Of the $2.6 billion of proceeds, approximately $2.23 billion was used to fund capital construction and approximately $400 million was used to refund prior obligations. The true interest cost of the Consolidated Bonds ranged from 4.198 percent to 5.191 percent. The major factor in the spread in the TIC's is due mainly to the maturity structure of the different bonds being issued, market conditions at the time of the sale, and the type of bonds being issued-- whether it's taxable or tax exempt. The 166th Series, the 167th Series, and the 169th Series were issued on a competitive basis. In September, we successfully completed the sale of $1 billion of Consolidated Bonds, the 168th Series, for capital expenditures in connection with the World Trade Center site. The bonds were sold on a negotiated basis, with Citigroup as the lead underwriter with a syndicate that included 6 M/WBE firms. Last week $672,480,000.00 of Liberty Bonds, Series 1WTC 2011, were issued through the New York Liberty Development Corporation. The Liberty Development Corporation used the proceeds from that Series of bonds to acquire Port Authority Consolidated Bonds, 170th Series, which were issued on a private placement basis with the Liberty Development Corporation. The proceeds from these bonds will be used for capital expenditures in connection with 1 World Trade Center. Both Series of bonds were issued in the same principal amount, and with the same maturity structure and interest rates. This mirror bond enabled the Port Authority to achieve lower cost, tax-exempt financing for construction at the World Trade Center site. The yield achieved on the bonds was 4.594 percent, while a federally taxable Series would have been about 5.5 percent. As you recall--as a result of the turmoil that commenced during the fall of 2008, staff began implementing a plan to redeem outstanding Versatile Structure Obligations-- or VSOs-- in order to eliminate the Authority's exposure to variable rate obligations requiring third party liquidity support. On March 23, $225 million of Consolidated Bonds, 167th Series, was issued to fully refund VSO Series 1R and VSO Series 4, which were each redeemed on April 29. the proceeds of the 167th Series were also used to refund $55.9 million of Commercial Paper. On October 26, $400 million of Consolidated Bonds, 169th Series, was issued, in part, to fully refund on December 1, about $45 million of Consolidated Bonds, 117th Series, and $153 million of Consolidated Bonds, 122nd Series. Net present value savings for the 117th and 122nd Series refundings totaled $5.1 million and $20.7 million, respectively. Next year, proceeds from borrowings will be one of the various sources that will be used to support the preliminary proposed 2012 Capital Program. This slide recaps information that you received with the proposed Preliminary 2012 Budget. We estimate that the capital cash available at the beginning of 2012 will be about $1.65 billion, and includes balances remaining from the bond Series issued over the course of the year--particularly the bonds for the World Trade Center projects. The cash on hand will be supplemented with approximately $1.45 billion of Consolidated Bonds, to be issued during 2012. Consolidated Bond refunding opportunities will be analyzed at the time of each sale and prior obligations may be refunded, depending upon market conditions. Other sources of funds to be used will include $215 million of Passenger Facility Charges and $1 billion of Direct Investment in Facilities-- and that's comprised of $463 million of Port Authority investment, $349 million of federal funds related to the World Trade Center Transportation Hub, $70 million of aviation-related grants for the Airport Improvement Program, In-line Baggage, and the JFK Delay Reduction Program. There's also $47 million for a Cross Harbor grant and $84 million for PATH Office of Emergency Management, and smaller grants. After payment of the capital budget of $3.654 billion, our capital cash balance remaining at the end of 2012 will be approximately $770 million.

[Comm. P. Schuber] Ann Marie, I would ask just preliminarily--before any of the commissioners might have questions--if you would provide us a copy of your report, beyond the Power Point, if you might, please, to all the--

[A. Mulligan] Of course.

[Comm. P. Schuber] Commissioners on the Committee. Thank you.

[A. Mulligan] Sure.

[Comm. P. Schuber] Do any of the Commissioners have any questions for Ann Marie? Commissioner Lynford.

[Comm. J. Lynford] Very good report, and a very good job last year in, a harrowing market, to be able to issue that much debt, at those attractive rates.

[A. Mulligan] Thank you, Commissioner.

[Comm. J. Lynford] Going forward, in 2012, I see you have your work cut out for you. Do you have any thoughts about the markets? But I'm specifically interested in this $96 million of Commercial Paper because it looks, to me-- you can correct me if I'm wrong--as though we're using short term debt to fund long term capital needs. Could you sort of talk to us about that, and how you expect to pay off the Commercial Paper--and what's the plan for that?

[A. Mulligan] The Commercial Paper program that we have is authorized at a maximum of $500 million. >>

[Comm. J. Lynford] How much is drawn out of that so far, would you say?

[A. Mulligan] We currently have about $350-$375 million outstanding. So what we do is use that, pretty much, as bond anticipation notes. We use Commercial Paper-- as the balance of the Commercial Paper program grows to the maximum amounts, we then refund a portion of it with a long term, fixed rate bond. That, then, provides us additional capacity in our Commercial Paper--we pretty much roll it over so that this way we open up some capacity to use for some financing and then roll it out long term.

[Comm. J. Lynford] Well, what I was trying--just run this by first-- is that I see you have $770 million worth of cash at the end of the year. Why wouldn't you use the funds available, rather than go to short term Commercial Paper, which would take your borrowings up by another $100 million? There must be some strategy behind that.

[A. Mulligan] What we use the Commercial Paper for are for different facilities where we have not directly allocated bond proceeds to be used for the capital construction there. We also use it to reimburse the Capital Fund for some amounts where we've used direct investment--and there's a lag in the time between the expenditures incurred and the reimbursement of the Capital Fund. Labor costs, we typically use direct investment in facilities. We also--for programs where we get federal funds-- we pay the expenditure first, then get the reimbursement from the federal government-- >>

[Comm. J. Lynford] I guess I'm saying why wouldn't we use our cash, where we're getting very little yield, rather than pay somebody a yield in the Commercial Paper market? That was just the rest of my question.

[A. Mulligan] The cash, we would be able to use would come directly from the Consolidated Bond Reserve Fund. We are, next year, planning on using $500 million from the Consolidated Bond Reserve Fund and we need to maintain certain levels within our combined reserve funds. >>

[Comm. J. Lynford] So you're saying we really don't have that available cash, even though it says it's available?

[A. Mulligan] The available cash here is cash from bond proceeds. Each of the different Series that we've issued--that we have not fully invested-- >>

[Comm. J. Lynford] Okay--they're allocated for other things and so--

[A. Mulligan] --and each Series is allocated to individual Port Authority facilities, depending on the type of bond. >>

[Comm. J. Lynford] Okay--at year end, how much--at the end of 2012, what will be our outstanding Commercial Paper?

[A. Mulligan] Based upon that, it will be close to the $500 million limit. >>

[Comm. J. Lynford] To full capacity.

[A. Mulligan] Yes.
[Comm. J. Lynford] So in 2013, what is our plan to pay down that Commercial Paper?

[A. Mulligan] With each issue, we look to see how close we are to the maximum limit, and we take down portions of it. Next year, when we issue our Series of bonds, we will build in refundings or pay downs of about $50 to $100 million with each Series, in order to gain the capacity to then reuse the Commercial Paper program.

[Comm. J. Lynford] I'm monopolizing my--but if I could continue—

[Comm. S. Rechler] You have a lot of my questions--keep going.

[Comm. J. Lynford] So this rubber band that we have of using the Commercial Paper for the appointed facility--is there a number that you would like to be at for our businesses? I mean, you're saying we're getting pretty close and then we're going to pay it down. That makes me a little nervous that if something--if we hit a bump in the road-- pun intended--Transportation company-- have we used up any of our excess sort of contingency?

[A. Mulligan] If we didn't have the capacity in the Commercial Paper program, we could reallocate existing bond proceeds to cover the cash needs there or, if necessary, then we would then go to our reserve balances and use the cash from there. >>

[Comm. J. Lynford] Even though that's pledged to paying back the Commercial Paper? Well, what's the different bond fund that's--Mike, maybe you can-- >>

[D. Buchbinder] You keep the bonds for the bond lines and use them for--

[Comm. J. Lynford] Yeah--I'm just trying to understand our liquidity. >>

[D. Buchbinder] Well, the Commercial Paper is really used as a short term accumulation. It's good when you need to finance a long term annuity. So rather than issue a 30-year Consolidated Bond-- your initial question as to the Commercial Paper-- I prefer it to the issuance of a Consolidated Bond--

[Comm. J. Lynford] But I'm saying something different though. I'm saying that--the nuance I'm trying to raise is that while I understand the rollover and I understand the pay down, it doesn't seem that we pay it down that much and therefore, the liquidity factor that we have is narrow--or am I missing something?

[D. Buchbinder] Well, it's really--it becomes a function of access to the market, long term--
[Comm. J. Lynford] That is definitely--

[D. Buchbinder] and rolling--and allowing you to rollover, it also can count as a function. Since you're going to go long on these expenses, you're going to capture the short end of the market for as long as you can, which gets you into probably an average of about 6 to 8 months of outstandings just based on the continuing rolls. It really acts as a cumulative program that has some benefits in capital accumulation for you to go longer. >>

[M. Fabiano] And if I could just make 1 more point-- A lot of these programs will end up--at year end will probably be the dollars for the World Trade Center projects, which are taxable bond dollars-- We wouldn't use them at our regular facilities because we can use more efficient financing through governmental bonds or AMT type bonds. So a lot of that is probably the World Trade Center dollars that will be sitting there, to be used towards--into 2013, as we continue to finance the-- >>

[Comm. J. Lynford] I was just going to say--maybe Scott and Pat and Darrell-- we could sit in a subcommittee, sort of informal, and sort of talk this through just so I can get a real clear picture.

[Comm. P. Schuber] Thank you for the clarification, Mike. Commissioner Rechler.

[Comm. S. Rechler] Most of my questions were answered but I guess--just to follow up on Commissioner Lynford's point--and I guess the question would be: isn't it safer to sort of bring this level down to $250 million versus just the $50 million reduction, and go long while you have an effectively low interest rate. I know we have a lot to do but the market's are open to long term bonds. I mean, I think I'd rather see us add a couple hundred million dollars more, long, and have the cushion on the Commercial Paper. [A. Mulligan] In the Commercial Paper, we have it allocated. There's 2 different Series of Commercial Paper. One Series is for our governmental type facilities--tunnels, bridges, and PATH. The other Series is for airports and ports. So within those 2 programs, we take down $50 to $100 million--within the limitations. The Series A is a $300 million program for the airports and ports. Series B is $200 million. So each one of those--when I was saying we take them down $50 to $100 million-- each one of them comes down, $50 to $100 million at a time.

[M. Fabiano] But we can look, in fact, at--(inaudible)-- depending on the market conditions, if they're really good-- increasing the amount of debt that we're going to issue because we would go for an authorization at that point in time to get bonds in. We were trying to keep, because of the interest rates, as few bonds out sitting there-- because of the difference between the interest rate environment and the earning rate environment-- as short and low as possible. But we can look at that as we go through the year and strategize.

[Comm. P. Schuber] Commissioner Rechler. >>

[Comm. S. Rechler] That's all.

[Comm. P. Schuber] Okay. Commissioner Moerdler. >>

[Comm. J. Moerdler] No questions.

[Comm. P. Schuber] Jeff?

[Comm. J. Lynford] I just want to reinforce what he said is that when the markets are open-- I understand we might save a little bit in the arbitrage--but when the markets are open, I always believe you try to get the longest possible. I think if Scott and Pat would agree--and all my colleagues.

[Comm. J. Moerdler] I agree. We might lose a little bit, in the short term, on that arbitrage spread of what we do with the money, but I'd rather have the cash.

[Comm. P. Schuber] Commissioner Rechler.

[Comm. S. Rechler] Just in order to clarify--right, because I thought my recollection was we need to have cash collateral for the Commercial Paper program anyway.

[M. Fabiano] Yes. So I'm not really sure, when you add that in, we're really saving that much since we have to keep the cash collateral also versus going long and being safer. So that's an analysis that we should look at more closely.

[Comm. P. Schuber] Thank you. Any other questions?

[Exec. Dir. P. Foye] I wanted to ask one. >>

[Comm. P. Schuber] Executive Director-- >>

[Exec. Dir. P. Foye] (inaudible) think about a stress test because obviously, after the crash in 2008, the Commercial Paper market closed, to the misfortune of many issuers, both public and private. I think stress testing that is probably an exercise worth Mike and Ann Marie's worthwhile.

[Comm. P. Schuber] Pat, thank you very much. Any other questions? Ann Marie, on behalf of the members of the Committee, and echoing Commissioner Lynford's comments initially, just accept our appreciation and thanks for the great work that you've done-- and the members of your department have done this year. As we come to the end of 2011 it's certainly, financially, a very turbulent year. But we appreciate the work that you've done, and we look forward to working with you in the future, in 2012, as we face the challenges--economically--of 2012. With that then, I'll entertain a motion to, without any further discussion then, I'll entertain a motion to adjourn the public session of the Finance committee.

[Comm. J. Lynford] So moved.

[Comm. P. Schuber] Second?

[Comm. S. Rechler] I'll second it.

[Comm. P. Schuber] All in favor?

[All Commissioners] Aye.

[Comm. P. Schuber] So moved. The Committee is adjourned.