

**The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
February 19, 2014**

[Chair R. Bagger] This is the Committee on Finance, and the first portion of today's meeting is being held in public session, after which the Committee will meet in executive session to discuss matters involving ongoing negotiations or reviews of contracts or proposals, and matters in which the release of information could impair the right to receive funds from the United States or other grantors. In addition, 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. At this point, I would ask the Board Secretary or her designee to advise the Committee of any Commissioner recusals on items before the Committee for today's meeting.

[J. McCoy] On the World Trade Center insurance program, Commissioner Moerdler had indicated he wished to recuse.

[Chair R. Bagger] Okay. Thank you. We have a discussion item and an action item for our public meeting this morning, and we'll begin with the action item, which is to retain a brokerage firm for the property loss of revenue and terrorism insurance programs for the World Trade Center site as it transitions to an operational facility. So I'll turn to our CFO Libby McCarthy. Libby?

[L. McCarthy] Good morning, Commissioners. As you noted, we are beginning to transition the World Trade Center site from a construction project into operating assets. And as a result, we will need to also transition our insurance coverage from a construction policy into our regular operating policy for both property loss of revenues and terrorism. Ernst & Young, our insurance advisor, has reviewed alternatives with respect to placing those programs and has recommended that we place a separate program for the assets of the World Trade Center site. So as a result, in January we issued a publicly advertised request for proposal for professional brokerage services with respect to the placement of those policies. We received responses from 3 firms, and each of the firms were evaluated, each of those responses was evaluated on the basis of staff qualification and experience, firm qualifications and experience, technical approach, and management approach. On the basis of that evaluation of the written proposals as well as discussions with each of the firms, we recommend an award of the contract to Willis of New York, Inc. who was the highest technically rated firm at the lowest cost. The proposed fee structure under this policy would be for the base term approximately \$2 million for the period from March 1, 2014 through 2017 for all of those policies as well as a potential 3-year renewal option at our option of \$1.7 million or a total fee of \$3.7 million. I'd be happy to take any questions.

[Chair R. Bagger] Well, thank you. So we're in the place of having a recommendation to the highest-rated, lowest-cost firm. Commissioner Pocino has a question or comment.

[Comm. R. Pocino] Is 3 firms a normal number of responses, do you think? [L. McCarthy] Given the size of this program, I think we got the firms that were most capable of doing this placement. This is a large placement, which will require global reach, so we were pleased with the 3 firms.

[Chair R. Bagger] And did you tell us in your presentation which line executives or functions in the Authority comprised the review committee for evaluating the proposals? [L. McCathy] The review committee was the same committee that did the selection for the insurance advisors, so it was myself, Peter Zipf, our Chief Engineer, and Alan Reiss, World Trade Center Construction Assistant Director.

[Chair R. Bagger] Great, thank you. Any other questions or comments from the Committee?

[Comm. W. Schuber] Yeah, second on that. I just want to thank Libby and the Committee for the great work they did on that. Obviously, to get the most qualified at the least price, not a bad deal.

[Chair R. Bagger] Right. Well, thank you. Is this one that this Committee approves or that this Committee sends to the Board? We approve. This is a motion, seconded, to approve. All in favor, aye. Aye. >> [Comm.] Aye. [Chair R. Bagger] Opposed, no. The ayes have it that it was approved. [L. McCarthy] Thank you very much.

[Chair R. Bagger] So our next item just for review and discussion is our quarterly investment portfolio report, which was circulated in writing to the Committee a couple of weeks ago. But I think we will see highlights of that now. Libby?

[L. McCarthy] Yeah, as you mentioned, we did circulate the copy of the report, the regular quarterly report, and I'm going to ask John Tomasulo in our Treasury group to walk you through the highlights for the results through the end of the year.

[J. Tomasulo] Good morning, Commissioners. Today we have an update on the Port Authority's investment portfolio balances and earnings as of the end of the 4th quarter of 2013. This slide outlines the allocation of the portfolio by investment type along with the investment type held in each of the separate accounts. The Port Authority's investment balance of \$5 billion provided year-to-date realized return of 0.54% as of December 31, 2013. The year-to-date earnings on investments totaled \$27.8 million, excluding market valuation adjustment, which was \$4.8 million higher than that provided for in the 2013 operating budget. This is primarily due to the slightly higher interest rates and investment balances than anticipated in the 2013 budget. The categories of investment types changed slightly as well as the investment mix from last quarter. The use of collateralized investments were reduced as the balance and the capital funds decreased during the quarter. US Treasury slugs and US Treasury bills were used to invest the funds raised from the late-December debt issuance. The pie chart on the left shows the breakdown of the individual pieces of the total portfolio. The portfolio is typically thought of as one large investment account. However, it is made up by 5 separate portfolios. Each of these portfolios have different investment authorizations, requirements, and specific purposes. The bar graph on the right shows the maturity breakdown for the total portfolio. The first bar represents the collateralized bank accounts that we use as an investment substitute for short-to-intermediate term maturities. Over the past 5 years, our investment in collateralized accounts out performed investing in US Treasury bills and notes with maturities of overnight to approximately 1½ years out. Last year our investments in collateralized accounts earned an average of 25 basis points, producing a yield advantage of approximately 15 basis points. This slide compares the yields of treasury securities between the end of the 3rd quarter to the end of the 4th quarter of 2013.

During the 4th quarter, yields on securities rose from their extremely low levels as the market increased their focus on the probability that the Federal Reserve would reduce their monetary policy accommodation. The portfolio's realized return of 0.54% was equal to a US Treasury security with a 2-3 year maturity.

[Chair R. Bagger] Okay, any questions from the Committee?

[L. McCarthy] I would just add that we have been looking at ways to—as we are now—getting into the rising interest rate environment, sort of ladder out a little bit more to try to get a little bit more yield while managing and balancing the risk of rising interest rates. So we're looking at some alternatives with respect to that. And we'll be briefing the Committee on that as we move forward.

[Chair R. Bagger] Okay, thank you. All right, if there's nothing else on this topic, we'll prepare to move to executive session, but before we do, I'll just point out that we'll reconvene in public session in this room at 10:30 am for a joint meeting with the Capital Planning Committee after which the committees will discuss and take action on both the operating budget and capital plan. So that's at 10:30 am right back here. So this concludes the public portion of today's meeting, and the Committee will now adjourn to executive session to discuss matters involving ongoing negotiations or reviews of contracts or proposals, and matters in which the release of information could impair right to receive funds from the United States or other grantor. So at this point, we will adjourn to executive session.