

(Public Committee on Finance 2/19/15)

**The Port Authority of New York and New Jersey  
Committee on Finance Transcripts  
February 19, 2015**

[Board Chair J. Degnan] —Public session. We're going to start with the finance committee. Commissioner Moerdler, if you could sit down please. Thank you. Rich?

[Chair R. Bagger] Great, thank you. I will begin this morning with the meeting of the Finance Committee, and today's meeting of the Finance Committee is being held in public session. The committee met in executive session earlier today to discuss matters related to purchase, sale, or lease of real property where disclosure would affect the value thereof or the public interest and to discuss and act upon the matters involving ongoing negotiations, reviews of contracts, or proposals. Each of today's public meetings are also being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the internet. We have two items on our agenda this morning, an information only item and then an action item. And I'd like at this point to ask the board secretary to advise us on the composition of the committee and any commissioner recusals for our first agenda item.

[K. Eastman] Thank you. The committee is composed of Commissioner Bagger as chair; the committee vice-chair is Commissioner Lynford and members Commissioner Lipper, Pocino, and Schuber. All committee members are present at this meeting. There are no recusals on the first item. There is no action required so there are no recusals.

[Chair R. Bagger] Great and thank you. The Finance Committee wanted to have a review and share in public session the year-end investment portfolio performance report for three different investment portfolios, the Port Authority's reserve funds, the OPEB Retiree Benefits Trust, and the PAICE, which is the self-insured insurance vehicle portfolio. So Cheryl Yetka is going to describe those three funds for us and summarize their past year performance.

[C. Yetka] Good morning.

[unintelligible speech]

[unintelligible speech]

[unintelligible speech] As I go through the portfolios, the largest of the portfolios

[unintelligible speech] —main portfolio

[unintelligible speech] reserve funds, consolidated bonds, and an operating fund, PSD collection, and our capital fund.

[unintelligible speech]

[rustling papers]

The consolidated bond reserve fund was established in 1952 as part of the consolidated bond resolution. And then they both— those basically provide the groundwork for what the other funds are invested in. And all of them are invested in treasury bills of the United States, New York, and New Jersey debts, and some Port Authority obligations. These funds are all managed by our in house staff. The second of the funds is the OPEB Trust. This is the most liberal— if you could call it liberal— of the investment guidelines. These funds are invested in a mix of equity and fixed income instruments. The goal of this fund is growth of the OPEB Trust to fund our post employment benefits going forward. This fund is actually managed by an outside investment firm. And finally we have the PAICE funds. They are the assets of the captive insurance company the Port Authority controls. They are also invested more strictly in treasuries, but there is some federal agency debt that is in there and a small portion of corporate securities, high-grade corporate securities. This fund is also managed by an outside management firm. The total assets of the Port Authority Portfolio at the end of the year was approximately \$5.3 billion. The fund itself earned a return of 0.61% or 61 basis points, an income of nearly \$36 million dollars—excuse me— and exceeded its benchmark by 28 basis points. The allocation of the fund is, as I indicated, a mix of notes and bills and collateralized accounts, all backed by treasury notes and bills. The mix has not changed, but the allocation between the different funds has changed. We've been moving from the collateralized accounts into some longer-term treasuries to extend the duration of the portfolio to increase the income somewhat. This next slide shows the breakout or allocation of the funds in the individual funds that make up the portfolio. The operating capital in PA safe funds are used to fund our day to day operations, our capital spending and our operations. And so they need to be kept at a very short term. So most of those funds are invested in collateralized accounts and funds that have a very short maturity. The general reserve fund and consolidated bond reserve funds, of course, have much longer maturity. The general reserve fund has the longest, and is invested most heavily in the treasury, securities, and the longer term treasuries securities. It has an average duration of nearly two years. The consolidated bond fund is a little bit shorter because we're using the consolidated reserve fund to also fund our capital program and to provide liquidity for our commercial paper program. So we are keeping the durations a little bit shorter, but even at that, we have extended the duration of this fund by nearly 140 days through purchase of longer term treasury securities. The OPEB Trust— next slide, thanks— currently has \$859 million in it. And it had a return for last year of 7.2%, just slightly under its benchmark and income of \$52 million. The goal of this fund, as I said, to fund our long-term, post employment benefits other than our pensions. So we're trying to keep pace with the rise of medical costs in the future, the projected rise of medical costs. So we would like an earnings rate that equates to that. On the next slide you'll see the next—

[Chair R. Bagger] Probably worth pointing out for the public that the pension benefits for Port Authority retirees are covered by and managed by the New York State public employee pension system and that the OPEB Trust was established by the Port Authority to begin and accelerate the process of pre-funding obligations for post employment benefits other than pension, most specifically health benefits and that each year our operating budget we make a contribution to increase the assets in the OPEB Trust to take a step by step towards appropriately pre-funding the retiree health benefits and other non-pension benefits.

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[C. Yetka] Thank you. This fund is invested, as I indicated earlier, in a mix of equity and fixed income instruments. Roughly 65% of the fund is in equity instruments. There's domestic equity, international equity, and real estate investment trusts. These are all mutual fund-type investments. This portion of the portfolio is passively managed through these mutual funds that are indexed based on the investment type. The fixed income portion of the portfolio is actively managed at this time. It was a switch in strategy in 2013 to try and earn some additional income on a portion of the portfolio and that has generated some additional returns. The last portfolio PAICE. As I mentioned, these assets are available to pay claims from insurance provided through the captive. So the fund itself is only about seven years old and our goal over the last seven years is to build the total value of the portfolio, and provide some stability going forward. So as a result, we've kept the investment guidelines somewhat restrictive and the duration somewhat short. This is the mix of investments in the portfolio. It's largely treasury, some federal agencies, and a very small portion of corporate, high-grade securities. This fund is also privately managed by an investment firm for us. Any questions?

[Chair R. Bagger] Great. Thank you very much. The PAICE program is obviously an important component of the flexibility and overall risk management and insurance program for the Port Authority and its assets. Any members of the board have questions for Cheryl on that report? If not, thank you very much. And we'll turn to the second item on our agenda this morning, which is approval of the selection of the insurance broker for our operational policies. And before Cheryl takes us through that item, I'd ask the corporate secretary to advise of any commissioner recusals on this matter.

[K. Eastman] Of the commissioners that are committee members, there are no recusals required. Of the commissioners present who are not regular committee members, Chairman Degnan and Commissioner Moerdler are recused.

[Chair R. Bagger] Great. Thank you.

[Board Chair J. Degnan] For the record just let me state—I take no part in the dialogue or conversation.

[Comm. R. Bagger] Good. Thank you.

[C. Yetka] This item is to authorize the—as was just stated—the placement of the hiring of a new brokerage service. The previous contract was awarded back in 2009 for a three-year period with a three-year extension and it expires at the end of this month. The Port Authority issued an RFP last November to gain some proposals from outside firms. We received three proposals. Those proposals—next slide—those proposals were evaluated based on their staff qualifications and experience, their firm qualifications, the technical approach, and their management approach. The written proposals were evaluated and scored and then a short list of brokers was called in for in-person interviews and discussion. And based on those evaluations, we recommend award of this brokerage service to Willis of New York for a three-year term at a cost of \$2 million, which is less than the previous broker charged for the last

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three years of their contract with an option for the renewal for an additional year for a total fee of \$4.3 million.

[Chair R. Bagger] Okay, thank you. It would be appropriate now to have a motion from a committee member on this topic after which we'll have a discussion. So it's moved by Commissioner Lynford, seconded by Commissioner Pocino. Any questions or discussion on this topic? Okay. Thank you. If not, I think the proposal is appropriate and that we should move forward, so I request that the corporate secretary call the roll of the committee members who are voting on this item.

[K. Eastman] Commissioner Bagger.

[Chair R. Bagger] Yes.

[K. Eastman] Commissioner Lipper.

[Comm. K. Lipper] Yes.

[K. Eastman] Commissioner Lynford.

[Comm. J. Lynford] Yes.

[K. Eastman] Commissioner Pocino.

[Comm. R. Pocino] Yes.

[K. Eastman] Commissioner Schuber.

[Comm. P. Schuber] Yes.

[Chair R. Bagger] Okay, so that item is approved. And that concludes our business of the finance committee this morning.