The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
February 25, 2010

Vice-Chair H. Silverman: This portion of today's meeting of the Committee on Finance will be held in public session, after which the Committee will meet in executive session to discuss matters related to the purchase, sale, or lease of real property or securities where public disclosure would affect the value thereof or the public interest. 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. The only item for discussion is the quarterly investment portfolio report by Anne Marie Mulligan.

A.M. Mulligan: Good morning, Commissioners. Today we have an update for you on the Port Authority's investment portfolio as of December 31 and the interest earnings for last year. The investment balance as of December 31 was $4.3 billion and provided a realized return of 1.69%. Earnings were $65.2 million for the year, which was $1.8 million over plan. The improvement in earnings over plan was primarily due to higher investment balances associated with borrowings to support the capital program, adjustments made to the investment mix of the portfolio, and conservative earnings estimates. As the chart indicates, staff reallocated the mix of certain investments since the end of 2008 in order to earn more income while maintaining the safety and security of the portfolio. The use of U.S. Treasury securities, agencies, and commercial paper was reduced to incorporate NOW accounts, TLG Pay notes, and collateralized time deposits. The yields on traditional short-term Treasury securities were extremely low throughout 2009, as investors sought the security of U.S. government obligations. The use of NOW accounts, TLGP notes, and collateralized time deposits helped to improve the overall earnings of the portfolio. As of the end of 2009, the U.S. government had essentially reduced the NOW account aspect of the TLGP program because even though they extended the program through June of 2010, the fees that they've now assessed to the banks to participate in the program have increased substantially. So therefore, the banks have either withdrawn from the program or have reduced the earnings rates on the amounts on deposit. To replace the NOW account investments and to continue to earn a higher return than the U.S. Treasury securities while still maintaining the safety of the portfolio, staff worked with multiple banks to open accounts that would comply with our deposit requirements of being collateralized with U.S. government securities up to 110% of the amount on deposit. This chart presents a comparison of the investment yields for 1-month, 3-month, 6-month, and 1-year Treasury bills throughout 2009. As you can see, the rates were extremely low and even the earnings rate on the 1-year bill was below 50 basis points for most of the year. The bold black line represents the earnings rates that were achieved through the investment in NOW accounts and collateralized accounts. By investing in this FDIC guaranteed program and deposit accounts, the portfolio earned on average 30 to 45 basis points, more than would have been possible through treasury securities. These accounts provided an attractive and safe alternative investment for the portfolio and provided the necessary liquidity to support our short-term funding needs for day-to-day operations and for funding the capital program. As I've mentioned, in order to maximize financial income, three additional investment types were utilized in the management of the portfolio over the past year. This slide depicts the additional earnings that were produced by the NOW accounts, TLGP notes, and collateralized time deposit for each month last year. As we discussed throughout the year, the use of NOW accounts and TLGP notes were made possible by the Temporary Liquidity Guarantee Program that the federal government established in late 2008. Collateralized time deposits technically are not new to the portfolio but had not been used in many years due to the uncompetitive rates as compared to other investment opportunities. The integration of these investments produced an increase in financial income of about $7 million, or 10.6% over the use of our standard investments. This slide depicts the realized return by month for the calendar year 2009 as well as the federal funds rate during the same time period. Year-to-date the average earnings rate for the overall portfolio was 1.69% based on a combination of existing holdings in the portfolio and earnings rates at reinvestment. The portfolio earnings rate has continued to decline due to the reinvestment of funds at current lower market rates. The fed funds rate remains in the 0% to 25% range, and it's likely that it will take some time for rates to increase. As a result, short-term, high quality investments will continue to earn very low returns for the foreseeable future. In 2010 financial income is estimated to be $53 million at an earnings rate of 1.5%. That's it. Vice-Chair H. Silverman: Could you put the first slide back up, please? We have $800 million more in cash or at least of investable assets. Do we also have $800 million more debt? A.M. Mulligan: It is mainly from debt borrowings that we did late in the summer and in the fall to support the capital program. Vice-Chair H. Silverman: Okay. So that, unfortunately, produces negative arbitrage. A.M. Mulligan: Yes, it does.

Vice-Chair H. Silverman: So is there a way of managing our cash more efficiently to avoid-- Let's say there's a three or four point spread on $800 million that's $25-$30 million of negative arbitrage. Is there a way of managing cash more efficiently, like a revolver, for example?

A.M. Mulligan: Because we need to borrow in different types of categories based upon the components of the expenses in the capital program, we do try to manage the timing of our borrowing so we don't borrow too far in advance. The World Trade Center is the biggest area where we had borrowed $750 million in the midsummer time frame. Based upon their projected spending needs, that was going to take us through the end of last year into the first quarter of this year. Their spending hasn't been at the pace they originally intended, and we also had received some insurance proceeds from settlement of 9/11 claims for the Port Authority that we've been using and dedicating to the World Trade Center site. Vice-Chair H. Silverman: Are we allowed to have a revolver? Is that a permitted capital event for the Port Authority, meaning which is the more efficient way of managing that delta between cash and debt? A.M. Mulligan: We use a commercial paper program so that we can reduce the amount. Our commercial paper program is set at a maximum of $500 million-- $300 million for projects subject to the AMT where the borrowings would be, and $200 million for public purpose type projects. Vice-Chair H. Silverman: Could we change that? A.M. Mulligan: We will be going forward. That program expires this year, so we will be coming forward for authorization to renew that program this year. Part of the problem we might have is liquidity facilities. So we will be going out with RFPs this year to secure liquidity facilities to support the commercial paper program. Vice-Chair H. Silverman: The first payment is backed by a bank alliance, so if we're going to get bank loans, then we could also theoretically get a revolver. The way most companies manage cash is exactly that. You have a revolver, you take it down, you pay it off, take it down, pay it off. As I said, I don't want to beat a dead horse, but $800 million of negative arbitrage is really very inefficient. I understand that you don't control the pace of spending. We should try to find a more efficient way to manage cash and debt. A.M. Mulligan: Okay. Comm. H.S. Holmes: So can we consider a revolver? A.M. Mulligan: We'll look into it. Comm. H.S. Holmes: Because it's basically if you don't have to have liquidity for a commercial paper [unintelligible] Vice-Chair H. Silverman: I mean, I'm making the assumption that it's only $800 million. It could be more than that. I'm just looking at the increase in cash year after year. We really don't know how [unintelligible] So it's worth looking into. A.M. Mulligan: We will. [no audio]