The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
May 25, 2011

[Comm. R. Pocino] The Committee on Finance is being held in public session in its entirety. In addition, this meeting is being broadcast live on the Port Authority's website for those interested in viewing today's proceedings via the Internet. For action today, we have the purchase of property damage and loss of revenue insurance, and Anne Marie will fill us in on that.

[A.M. Mulligan] Sure. Good morning, Commissioners. Today I am seeking the committee's authorization to renew the Port Authority's property damage and loss of revenue insurance program for one year effective June 1, 2011. This program protects the Port Authority's owned and leased property from physical damage or loss, including coverages for losses from terrorism. It also covers business interruption claims, which includes loss of revenue. The broker, Marsh USA, continues to provide service under its existing brokerage agreement. The Committee approved the selection of Marsh in February of 2009 after staff completed a competitive request for proposal process to select a single broker for both the property damage and public liability programs. This slide provides a summary of the expiring program and alternative coverage and pricing options for the renewal. As part of a continuing dialogue with the Committee on insurance matters, staff has been providing periodic updates concerning the renewal and marketing effort on the program. With the renewal date still a week away, Marsh continues to negotiate with the carriers on the program on the structure and the pricing to obtain the most cost-effective coverage for the Port Authority. The commercial insurance property marketplace is at the beginning of a hardening phase. Many insurers are reluctant to assume risk due to a number of significant catastrophic events that occurred during the first half of 2011: the floods and typhoon in Australia and earthquake in New Zealand, winter storms, tornadoes and flooding in the United States, and the earthquake and tsunami in Japan. These events could make the first quarter of 2011 one of the worst on record with respect to insurable property losses. As a result, many carriers are seeking premium increases to offset the losses occasioned by these recent catastrophic losses. Given the variety of market factors, the nature and location of the Port Authority's facilities, the agency's increased property values, and terrorism exposure, staff anticipates an increase in this year's renewal premium pricing. The estimated pricing ranges reflected on the slide are based on current indications from the markets that participate on the Port Authority's account. The expiring program provides $1.4 billion of all risk coverage per occurrence in excess of a $5 million deductible and an aggregate $25 million self-insured retention, for a premium of $26.9 million. This also includes terrorism coverage up to the full limit of the program. Quoted pricing for a $1.4 billion program currently exceeds the expiring premium by approximately 3 to 5 percent. While pricing increases are higher than expected due to the factors that I previously mentioned, Marsh will continue to negotiate with the markets and all carriers that quoted above the target layer pricing over the next week. As an alternative to the expiring program, Option 2 provides limits and estimated pricing considerations for a program with reduced limits at $1.25 billion. The expiring program provides Terrorism Risk Insurance Reauthorization Act coverage offered through PAICE, the Port Authority's Insurance Captive Entity, and the stand alone market. A $25 million sublimit for biological and chemical terrorism is included in the commercial market coverage. For the renewal, Marsh anticipates maintaining terrorism limits to mirror the all risk limit that we choose. As I mentioned, since we are a week out from the renewal date, Marsh will continue to negotiate with the widest array of insurers possible in order to maximize the capacity within the current premium parameters. The total premium for the 2011-2012 program, including the terrorism coverage, is estimated at approximately $28 million for the $1.4 billion in limits and approximately $24.5 million for $1.25 billion in coverage. The two options are given for the Committee to decide which limits and pricing you would want. Based on the details provided, we're seeking approval to renew the property damage and loss of revenue program at either the $1.4 billion program or the $1.2 billion program limits, as determined by the Committee.

[Comm. R. Pocino] Thank you, Anne Marie. Certainly, loss experience has been horrible in recent times and just yesterday in Joplin, Missouri. It's ridiculous.

[Comm. D. Steiner] But they never give you a reduction when they don't pay out.

[Comm. R. Pocino] That's true. Comments, commissioners?

[Comm. J. Moerdler] Yes. Have we looked at what the impact would be of raising the deductible in self-insured retention? If we raised it a material amount and, for example, changed the aggregate self-insured retention to $100 or $200 million, would that have a material impact on the cost?

[V. Biddle] We did look at raising the $5 million deductible to higher levels. We didn't go up to $100 million; we went up to $7.5, $10, $15, $20, and $25. We didn't receive significant pricing considerations that would make it worthwhile for the Port Authority. The aggregate was what was approved initially by the Committee a few years ago at this point. I can't remember exactly when. But it was based on a lack of available commercial market coverage. At that point it was not too long after the 9/11 incident. At this point a lot of the carriers that participate in the lower levels and also participate in higher levels, so they split the coverage that they're providing, obtaining either higher or lower coverage is dependent on purchasing their package, basically. So if we were to look to raise the $25 million aggregate at this point, I would expect a reduction at the higher limit levels as well.

[Comm. D. Steiner] I have a question. Which option do you recommend?

[V. Biddle] Personally? One. You have $37 billion of property all located within about 25 miles of the Statue of Liberty, excepting Stewart Airport. While a million dollars in increased premium is not insignificant and certainly nothing to take lightly, I think for the coverage you're buying, which is a couple hundred million more in coverage you'd get by purchasing the additional $1 million in premium, it's certainly worth it to the agency.

[Comm. D. Steiner] Anne Marie, what do you recommend?

[A.M. Mulligan] I also recommend the higher limit. Any construction that we do, any project that we do, is very costly to the agency. So if there is any damage to our property, it's unlikely-- We would be fully insured no matter what, so I would take as much opportunity to purchase the insurance. As Veronica said, the additional coverage for $1 million I believe would be a prudent expense for the Port Authority to take on.

[Comm. R. Pocino] Anyone else? This is an action item, so can I have a motion to authorize moving forward?

[Comm. J. Moerdler] So moved.

[Comm. D. Steiner] Second.

[Comm. R. Pocino] All in favor?

[all] Aye. Okay. The next item we have for discussion is authorization of sale of certain consolidated bonds and notes for World Trade Center purposes. Anne Marie again.

[A.M. Mulligan] Okay. Today staff is seeking approval related to the sale of consolidated bonds and notes on a negotiated basis for capital expenditures solely related to certain projects at the World Trade Center. This is consistent with the discussion that staff has had with the Committee in November of 2009 that separate authorizations would be requested in order to issue the debt obligations for these purposes. Staff is also requesting that the Board authorize amendments to the resolutions that authorized the establishment, issuance, and sale of consolidated bonds issued solely for the purposes of the capital expenditures in connection with the World Trade Center in order to enhance the marketability of the issuance of these obligations. In April 2009 the Committee on Finance authorized the issuance and sale of up to $700 million of consolidated bonds and notes on a negotiated basis for the Port Authority's capital expenditures in connection with One World Trade Center, World Trade Center retail, and site-wide infrastructure at the World Trade Center. The sale of $750 million of consolidated bonds in Series 157th, 158th, and 159th for the World Trade Center site was successfully completed in June 2009. In November 2009 the committee authorized the issuance and sale of up to an additional $1 billion of consolidated bonds on a negotiated basis for the same purposes. And in October of 2010, $850 million of consolidated bonds, 164th and 165th Series, was issued. Staff worked closely with Citi, the underwriter on the negotiated transactions. For the October sale, Citi employed an aggressive marketing effort on the Port Authority's bonds to traditional and nontraditional investors. These efforts were successful in attracting a strong and diverse investor pool of 40 different institutional investors, including 4 international investors, which resulted in lower yields on the bonds. Current funds on hand are expected to be sufficient to meet the capital expenditures for these World Trade Center projects through mid-2011. Capital expenditures in connection with One World Trade Center, World Trade Center retail, and site-wide infrastructure from mid-2011 through the first quarter of 2012 are currently projected to be $1.3 billion. As the funds on hand are expended, additional proceeds will be needed to support the capital expenditures in the future. Therefore, authorization is being requested for future issuance and sale of consolidated bonds in an aggregate principal amount not to exceed $1 billion on a negotiated basis for these expenditures. Because these projects are not tax exempt eligible, the bonds would be issued subject to federal taxation in accordance with the tax laws. This authorization is expected to meet the financing needs for these projects through the first quarter of 2012. Further authorizations will be requested in order to meet subsequent capital needs for the project. In November 2009 the Board authorized establishing and issuing 15 series of consolidated bonds, with each series to be issued up to a maximum principal amount of $500 million and for a term not to exceed 35 years. Today staff also requests that the Board authorize amending these resolutions for the Consolidated Bonds 168th Series through Consolidated Bonds 176th Series to allow that these series be issued and sold without a limit as to the principal amount or the term to maturity solely for the World Trade Center purposes and provided that we do not exceed the maximum amount still authorized under these series, which is a total of $4.5 billion. Prior issuances of consolidated bonds for the World Trade Center purposes had to be issued in multiple series due to the limitations of these authorizations. For our most recent issuance of $850 million of consolidated bonds, this was done through two identical series, 164th and 165th Series, each in a principal amount of $425 million. With the two identical series, it raised questions in the marketplace and among the investment community. Removing this limitation would only apply to the consolidated bonds issued for the World Trade Center projects and will enable the Port Authority to achieve greater transactional efficiencies and support the execution of the complex financing for these projects. Removing the current limitation in the resolutions that each series of consolidated bonds be limited to a term of 35 years will provide additional flexibility in structuring the obligations for the World Trade Center site within the context of the Port Authority's capital plans. Commissioners, I request that you advance this item to the full board for approval today.

[Comm. R. Pocino] Do the Commissioners have any comments or questions in regard to this issue?

[Comm. J. Moerdler] One question. Why are these bonds not qualified to be tax exempt?

[A.M. Mulligan] They don't qualify under the tax laws for tax exemption. It's mainly real estate property, and that is not tax exempt eligible.

[Comm. D. Steiner] I move approval.

[Comm. R. Pocino] Second? All in favor?

[all] Aye.

[Comm. R. Pocino] The ayes have it. That concludes the agenda for the Finance Committee. Thank you very much.