

The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
June 28, 2012

[Comm. Schuber] Today's meeting via the Internet. There are two orders of business today for action that which came over from the executive session on brokerage services for Contractors' Insurance Program and then later a discussion on underwriting services for financing the World Trade Center Redevelopment costs. Our principle presenter is Anne Marie Mulligan. Again, for the public session, let me welcome our brand-new commissioners, Commissioner Rosado and Commissioner Rubin. Thank you very, very much. Also, Commissioner Moerdler, you have guests here who are?

[Comm. Moerdler] Some are associates, and a high school student from my law firm.

[Comm. Schuber] Welcome, we're glad to have you with us. With that, I will turn the matter over to Anne Marie Mulligan.

[A. Mulligan] Thank you. Good morning, Commissioners. At today's meeting, I'm seeking the committee's authorization to procure brokerage firm services including placement of multiple lines of insurance coverage and administrative services for the Port Authority's Contractors' Insurance Program for a 3-year term effective August 1, 2012, at a total estimated cost of \$3.6 million. The Port Authority will have the option to extend these services for an additional 3-year term at an estimated cost of \$3.8 million based on satisfactory performance. The current contract for these services expires on August 1, 2012. The RFP was publicly advertised in January, and 5 firms responded to the solicitation. Based on the staff evaluation's review of the written proposals, the committee determined that all 5 firms would make oral presentations. The proposals were rated and ranked based on the following weighted criteria, staff qualifications and experience 30%, firm qualifications and experience 30%, and work approach 35%. Willis of New York received the highest technical rating and possesses significant experience brokering and administering construction insurance programs similar to the Port Authority's. The broker demonstrated a well-coordinated and detailed approach for insurance placements and management in construction projects throughout the New York area with both private corporations and public agencies. Willis has deep technical expertise including global insurance market access, claims administration, alternative risk techniques, and safety and lost control strategies. The 4 member team possesses appreciable experience in managing insurance programs for New York City based construction with an emphasis on New York State Labor Law issues. Team members presented specific examples of their recently utilized mitigation techniques for New York State Labor Law issues that may result in lower claim costs to the agency over time. This slide details the negotiated fee proposal from Willis of New York. Of note, the fees proposed for the initial 3-year term are lower than the fees currently paid by the Port Authority for comparable services. Based on the above, we request that the Committee authorize staff to retain Willis of New York to provide insurance brokerage and administrative services for the Port Authority's Contractors' Insurance Program for a 3-year term effective August 1, 2012, at a total estimated cost of \$3.6 million with the option to extend for a 3-year term based on satisfactory performance.

[Comm. Schuber] Thank you very, very much. Any Commissioner have anything they wish to say or ask of Ms. Mulligan at this time? If not, I would--I'm assuming--if not I would just echo the full discussion that we've had with regard to this in our executive session that it seems that the

Commissioners are very pleased with regard to the process that was undertaken here. The fact that we have looked for the best potential broker here, and that has resulted in a change over a longstanding process here that looks like it has the potential for saving or cushioning the cost of this service for the Port Authority of New York and New Jersey so we thank you for that. I'll entertain a motion to the Commissioners to send this on to the full Board.

[A. Mulligan] Will there actually be a vote?

[Comm. Schuber] Yeah.

[Comm. Bauer] So moved. [Comm. Schuber] Second? All in favor? >>Aye.

[Comm. Schuber] Opposed? So ordered. Thank you. Our next order of business for discussion is underwriting services for the financing of the World Trade Center redevelopment costs. I will turn this matter over again to Anne Marie Mulligan.

[A. Mulligan] The next item staff is seeking authorization to retain 4 firms to provide underwriting services to support the Port Authority's capital market's program to finance the Port Authority's World Trade Center redevelopment over the next 3 to 5 years. First I would like to provide you with some background on the financing of the World Trade Center site thus far. In March 2008 the Board authorized an agreement with Citigroup Global Markets based on a publically advertised RFP process to serve as underwriter in connection with negotiated sales of debt obligations issued by the Port Authority in connection with 1 World Trade Center, the retail components of the World Trade Center, and site-wide infrastructure. Since that time pursuant to Committee on Finance and board authorizations during 2009 through 2011, \$2.6 billion in total principle amount of consolidated bonds has been issued for capital expenditures in connection with these project elements at the World Trade Center on a negotiated basis with Citigroup as senior managing underwriter. In addition, in December of 2011, \$672 million of Liberty Bonds were issued by the New York Liberty Development Corporation for capital expenditures in connection with 1 World Trade Center on a negotiated basis. JP Morgan presented an innovative structure for the issuance of liberty bonds and therefore was named the managing underwriter on the transaction. Going forward, the primary source of funding for the remaining redevelopment of the World Trade Center site is expected to be provided through the use of Port Authority debt obligations, direct investment by the Port Authority, direct equity investment by others including Durst and Westfield, and other capital sources. Today's authorization will establish relationships with investment banking firms for future debt issuance needs for the World Trade Center projects. In April, staff prepared a publicly advertised RFP for the retention of up to 4 firms to provide underwriting services to support the Port Authority's capital markets program to finance the Port Authority's World Trade Center redevelopment costs over the next 3 to 5 years. The RFP was developed to provide the Port Authority with flexibility with the underwriting syndicates for each issuance. The Port Authority would be able to select 1 or more of the 4 firms to serve as leading book running underwriter with the remaining firms participating as co-managers as well as enable the Port Authority to work with the underwriters to consider other firms to be included with each syndicate to provide enhanced opportunities for MWBE and other firms to participate in the debt underwriting. As the Port Authority continues moving forward with the redevelopment of the World Trade Center site, it is vital to retain an underwriting team to position the Port Authority to finance the redevelopment of the World Trade Center at the lowest cost and in the most efficient manner. Services to be provided by the

underwriters will include planning and scheduling the issuance of Port Authority debt obligations for World Trade Center redevelopment costs, marketing and distribution of Port Authority debt obligations, financial analysis pertaining to the debt obligations for the World Trade Center redevelopment as a component of the Port Authority's overall financing plans, reporting and presentations pertaining to Port Authority debt obligations for World Trade Center redevelopment costs, and related services to ensure that the World Trade Center redevelopment projects are financed with the best terms and at the lowest cost available in the market at the time of issuance. The services of the underwriting firms would provide for continued efficiencies, and accessing the capital markets, and provide for an enhanced process for analysis and effectuation of complex financing transactions and support of the World Trade Center redevelopment projects. In response to the RFP, 24 proposals were received. Following a review of all proposals, 9 firms were interviewed and each proposal was evaluated based on staff qualifications and experience, firm qualifications and experience, technical approach, and management approach. Following the ranking and review of the proposals and the presentations, each of the 9 firms were requested to provide their best and final offers for pricing. Staff recommends the selection of Bank of America, Merrill Lynch, Barclays Capital, Citigroup Global Markets, and RBC Capital Markets on the basis of the quality of their proposals including proposed costs to the Port Authority for underwriting services to be provided. Following a request for best and final offers on pricing, each of the 4 firms has agreed to a maximum take-down fee of \$1.75 per \$1,000 of principle for each debt issuance. Based on the foregoing, staff recommends agreements with Bank of America, Merrill Lynch, Barclays Capital, Citigroup Global Markets, and RBC Capital Markets to serve as underwriters for financing the redevelopment of the World Trade Center site through the issuance of Port Authority debt obligations over the next 3 to 5 years. The Port Authority will consider other firms to be included in the underwriting syndicate consistent with the Port Authority's commitment to provide enhanced opportunities for MWBE and other firms to participate in Port Authority debt underwritings. Authorization will be sought from the committee on finance prior to issuance and sale of Port Authority debt obligations for purposes of capital expenditures in connection with the redevelopment of the World Trade Center on a negotiated basis. Commissioners, I request that you recommend this item to the full board for approval.

[Comm. Schuber] Thank you, thank you Ms. Mulligan. I will turn to Commissioner Lynford.

[Comm. Lynford] I want to commend you and your staff for an excellent process. I think it is very important that we agree the underwriters bring some intellectual talent with pricing, so good job.

[Comm. Schuber] Get the microphone.

[Comm. Lynford] Well, enough said. Thank you.

[A. Mulligan] Thank you.

[Comm. Schuber] Thank you, Commissioner Lynford. Any other members of the Committee would like to ask a question or make a statement? First, Commissioner Steiner.

[Comm. Steiner] Last time around what did we pay? Was this a reduction from the last time?

[A. Mulligan] It is a reduction in the takedown. The takedown on the prior last issuance was \$4.50.

[Comm. Steiner] How much?

[A. Mulligan] \$4.50 per \$1,000. It will be \$1.75.

[Comm. Steiner] That's a reduction since the previous one was a 20% reduction.

[Comm. Schuber] Commissioner Steiner, does that?

[Comm. Steiner] Just wanted to know, yeah.

[Comm. Schuber] Okay. Mr Foye?

[P. Foye] I just wanted to build on Commissioner Steiner's statement for a second. I think the result with respect to the underwriting spread is extraordinary. I think it is important to note that in this business it wasn't that long ago that the standard was \$10 a bond. It is now \$1.75. This result is significantly lower than the prior experience with the Port Authority, and I also note significantly lower than other public issuers around the country have achieved over the last 12 months, and I think that the result is extraordinary for me from a pricing point of view, and it's going to have the effect of lowering our borrowing costs because obviously transaction costs are important. The other thing I'll just note, and I noted this in an update to the board several months ago, that this was a second go around on this RFP, which it was, I think, improved by this process, and I think we are going to continue to improve it, but the underwriting spread result, I think, is frankly exceptional.

[Comm. Schuber] I think--sorry, Commissioner Moerdler.

[Comm. Moerdler] I just want to add that I think the way, Pat, you led the charge and the staff to push the rates down, the pricing is excellent, but also the diversity in adding the new underwriters as Commissioner Steiner noted is excellent and something we should continue to do, to try and build the diversity, because that's only going to keep our options open and push the pricing down further.

[P. Foye] Commissioner, I agree with that. The other thing is I think I would be reticent in saying that in addition to Mike Fabiano, Anne Marie, Lillian Valenti, Commissioner Lynford, a number of you around the table played a role in providing advice, and I think we all benefited from it.

[Comm. Schuber] Let me thank all who participated with regard to this. It's certainly a good result for the Port, and we look forward for continued work in this area in reviewing our processes and in continuing to look for ways that which we can save money here in the operation. With that, I know this is listed for discussion, but I do not see any reason to leave it there but to take a motion to move this on to the full Board. Commissioner Lynford is there is a second?

[Comm. Bauer] Second.

[Comm. Schuber] Commissioner Bauer. All in favor? >>Aye.

[Comm. Schuber] Any opposed? So ordered. Moved on to the full Board. There being no further business of the Committee on Finance, I adjourn this meeting.