The Port Authority of New York and New Jersey
Committee on Finance Meeting Transcripts
August 5, 2010

[Vice Chair A. Coscia] Today's meeting on the Committee on Finance is being held in Public Session in its entirety. In addition, the meeting is being broadcast live on the Port Authority website for those interested in viewing today's proceedings via the Internet. Our first item will be a discussion of the Special Project Bonds for Series 8 and Series 9 at JFK International Air Terminal. And this is for establishment and authorization of issuance and sale, and I'll turn it to Anne Marie Mulligan.

[A. Mulligan] Good morning, Commissioners. Later today your authorization is being requested for a project at John F. Kennedy International Airport in connection with the expansion of Terminal 4 and demolition of Terminal 3. In connection with this project staff is also seeking authorization to establish and issue up to two series of special project bonds to finance the expansion of Terminal 4. The special project bond resolution was adopted by the Board in 1983. This resolution established special limited obligations of the Port Authority that may only be used for projects for a lessee at Port Authority facilities or to refund prior issued special project bonds. For each of the projects where special project bonds are to be used, a separate series is authorized and may only be issued in a principal amount not to exceed the cost of the project or the total amount needed to refund a prior series of special project bonds. The projects being financed must be separate and distinct projects not previously financed by consolidated bonds and have a discreet and separate revenue flow sufficient to support the special project bond debt service. Neither the full faith and credit of the Port Authority, nor the general reserve fund or consolidated bond reserve fund are pledged to the payment of interest or the repayment of principal on special project bonds. The principal and interest on special project bonds are payable from a special lessee facility rental that's established for that purpose. Special project bonds are secured by the Port Authority's assignment of facility rental payments, a lessee's leasehold mortgage, a lessee's personal property security interest and a lessee's corporate guaranty. Prior issuances of special project bonds include the Delta Terminal, Passenger Terminal at LaGuardia, the Continental and Eastern Passenger Terminal at LaGuardia, which is now the U. S. Air Terminal, and the Kayak Cogeneration Facility at Kennedy International Airport. The Series 6 and Series 7 Special Project Bonds were authorized in October, 1996 up to a maximum principal amount of $1.2 billion to finance the development and construction of a new international passenger terminal, Terminal 4, at JFK. Series 6 bonds in a principal amount of $934 million were issued in April, 1997. Series 7's bonds were not issued and, under this authorization, will be rescinded. The resolution that established the Series 6 and Series 7 bonds also provided that additional series may be issued in the future to fund construction of Terminal 4, or its expansion, and would be issued on a parity basis with these bonds. Today's authorization rescinds the Series 7 bonds and establishes and authorizes the issuance and sale of two new series of special project bonds, Series 8 and Series 9, in an aggregate principal amount of up to $1.2 billion. The proceeds would be used to finance the expansion of Terminal 4 and will include the construction of nine new international gates and expansion of the baggage and passenger processing capacity. Before the sale of the special project bonds staff will advise the Committee on Finance of the details of the issuance, and this item would delegate authority to an authorized Officer to effectuate the sale of the special project bonds. Further, today's authorization will accomplish the next step in the public approval process that's been required under the federal tax law since 1982 for certain municipal obligations to advise the public of certain projects that will be going on, including projects at airports. As a first step, a notice was issued on July 21 that a pubic hearing would be held and details of the project were provided in the notice. As a second step, hearings were held yesterday, August 4, at the Port Authority's facilities in New York City and in Jersey City. And as a third step, we request that the Board approve this plan of financing for the expansion of Terminal 4, and then that authorization is followed by the gubernatorial review. Based on this, we request that you advance this item to the full Board for authorization.

[Chair A. Coscia] Thanks, Anne Marie. In terms of this Committee's review of the issue and the item itself also being presented in Operations Committee, Karen, if I understand correctly, we're advancing this item from the Finance Committee to the full Board; will Operations do the same thing?

[K. Eastman] Yes, they will.

[Chair A. Coscia] But they're advancing the same item, so I guess to some degree--and I would first say that anyone who is not a member of Operations but is here and wants to be part of or hear the full discussion relative to the project itself, I would suggest if you can do that, that you attend that meeting also, and I'll try to make arrangements so that anyone who wants to can do that. Because we're sort of having a discussion only about the bond issuance here, because I understand there are federal tax law reasons for why we need to do that.

[K. Eastman] And the primary piece at Operations will be the business side of the deal--

[Chair A. Coscia] Right, right. I guess I say that so that our questions are focused more on the approval that is necessary for the Finance Committee on the issuance of the bonds, and that the operational questions we might have about the terminal project itself be kept for Operations. Having said that, I want to make sure that everyone gets all of their questions answered, and that distinction should make a difference. But Sue Baer and those who would answer the operational questions-- yeah, that's right--excuse me?

[Comm. H. Holmes]--should be subject to the Operations Committee.

[Chair A. Coscia] Right, right; it is, actually, it would be, yeah. Okay, having said that, questions anyone?

[Comm. R. Pocino] Mr. Chairman, I move to pass this on to the Board--approve it, and pass it on to the Board.

[Chair A. Coscia] Okay. Before we actually vote on it, I just had a couple of questions myself which I think we've sort of talked about partially. One is rating agencies. To what degree, given the size of this, has there been discussions with the rating agencies about drawing comfort relative to how this liability would be considered in connection with our other outstanding, long-term bond issues?

[A. Mulligan] We haven't had discussions with the rating agencies on this, and they would look to see what our numbers would look like afterwards. They would look more to the project and the project revenues and the feasibility of the project to have comfort that the lessee's facility rental payments for the debt service would secure the bonds; so that's how they look at it.

[Chair A. Coscia] Yeah, Anne Marie, I don't mean to interrupt you, but my question isn't--how the rating agency is rating this bond issue, that much I understand. To what degree is the issuance of special purpose bonds, where the disclosure statement fully reflects the fact that there's no recourse to the Port Authority, to what extent have we had discussions relative to any sort of ancillary or collateral consideration that the issuance of the special project bonds might have relative to the rating agency's review of our general obligation bonds?

[A. Mulligan] We haven't had discussions with them on this, and they just generally will look to what we've done in our forecast and how we've accounted for the affect on the general reserve fund for these bonds being outstanding, and look to the project, not necessarily to us.

[P. Blanco] In terms of the issuance of our bonds and the issuance of our consolidated debt, we provide the rating agencies with revenue projections, expense projections, and also capital projections. Within those projections, we have included what we believe will be the final impact of the Port Authority as a result of the waterfall payment that goes in after these bonds are paid, both on the income statement and the balance sheet. And our ratings reflect that transaction. And also, David has had, through Aviation and also our consultants, other conversations with rating agents regarding the rating of this particular debt series.

[D. Kagan] There won't be meetings with the rating agencies prior to the issuance of the bonds specific, as Anne Marie was saying, to this issue. One of the things we will do is make sure that whatever is said here is not inconsistent with what Anne Marie and Paul have said today.

[Chair A. Coscia] Yeah, and I think the question that-- the question I think several Commissioners have also expressed to me is that in a sort of perfectly defined world, this liability should not have an impact on our capital capacity. It should only impact our financial statements to the extent that there is additional revenue generated by the project that ultimately is available for debt service. I think that's the sort of clear cut answer to the question. The question is whether or not, once you sort of peel beyond the layers, are there concerns that the rating agencies might have given the fact that a $1.2 billion financing is taking place in the middle of our property, in connection with an element of our business that's absolutely vital, and to what degree does it create some level of uneasiness relative to the impact of a default on the Port Authority that might somehow impair our ability to continue our long-term debt program in a manner that's uninterrupted by it. And I know there isn't an easy answer to it which is why I asked not for what their position is, but have we discussed it with them, and have they given us any sense as to whether or not in the sort of new world order that we deal in today on the issuance of public debt securities, is there some apprehensiveness that the rating agencies might have relative to the fact that we have a transaction that exceeds a billion dollars that's basically on our property? I just think whatever sort of view we've had of the rating agencies in the past, there's somewhat of a different one going forward.

[P. Blanco] But we have discussed with the rating agencies when we meet with them periodically, about transactions that are coming forward and that are in our plan, and they certainly have been aware of the fact that we do have this $1 billion project taking place at Delta, which they have inquired about, and which we have discussed with them. So in all of the waiting that we've had, that information has been with them. This would not be news to them that this is going to be happening.

[Chair A. Coscia] Good. That's good.

[D. Buchbinder] We have also used special project bonds in the past with a favorable--

[inaudible]

[Chair A. Coscia] It should be, because it's revenue without using their capital.

[D. Buchbinder] It's revenue and it's--

[inaudible]

[Chair A. Coscia] If we finance the machine that pumps air into the Lincoln Tunnel with special project bonds, the rating agency would say, "In the event of a default, you will pay the bonds, because you're not going to stop air going into the Lincoln Tunnel." Now this is obviously not the same situation, but that's the crossover that doesn't find its way into a financial disclosure statement, but in the real world becomes a liability. And that's why it sounds like you've had these conversations and--

[D. Buchbinder] The crossover is also--that is the normal perception. The crossover into that of rating and special project bonds which is dependent on the facility being financed, the feasibility studies behind the facility, and the rating agency's view on the particular market, in this case, Port Authority Aviation facilities, and how that works. So if the rating agencies are comfortable with special project bond financing, then they are also comfortable with how it fits into the Port Authority's overall structure, because they recognize that the facility has value, just not that we--our lessee. If there's an issue, somebody else in the market will step up, because the aviation market in New York is-

[inaudible]

[Chair A. Coscia] Which is an issue we've had in the past, and it's been accepted.

[Comm. H. Holmes] That's what happened to Continental Airlines.

[Chair A. Coscia] Right, right, right.

[inaudible]

[Comm. J. Moerdler] Going backwards, am I correct that on one of the prior slides it said the original JFKIAT financing is paid off now?

[P. Blanco] No, 2024; I think there's about $780 million outstanding on Series 6.

[P. Blanco] But I assume that because of the lease of these gates, in the event of that foreclosure, it's separable.

[D. Buchbinder] These are parity bonds; the existing series is Series 6. Whatever bonds were issued--8 or 8 and 9--were issued on a parity basis, so--

[inaudible]

[Chair A. Coscia] And there's common ownership of the underlying facilities.

[A. Mulligan] Yes.

[Chair A. Coscia] Yeah, yeah. A common owner; Delta.

[D. Buchbinder] Well, a common lessee, right-- but really it's JFKIAT--

[Chair A. Coscia] Which is Delta controlled now.

[D. Buchbinder] Delta has a piece of the entity that controls JFKIAT. It's controlled by

[inaudible]. Delta has an interest in the

[inaudible].

[Chair A. Coscia] Delta bought out what was the Lehman piece--in Elkore?? Okay, any other questions? There's a motion and a second. All right, all those in favor of advancing this to the board?

[All at once] Aye!

[Chair A. Coscia] Okay, next item is an update on the insurance captive. Anne Marie? You're up again.

[A. Mulligan] Okay, today I'll provide you with our annual update of the Port Authority Insurance Captive Entity--PAICE. As you may recall, PAICE is a wholly owned subsidiary insurance company of the Port Authority that's dedicated to insuring certain risks of the Port Authority. In March, 2006 the Board approved the formation and operation of PAICE, and PAICE was incorporated in Washington, DC in October, 2006. During its operations to date, PAICE has achieved the goals projected when it was originally formed. By providing certain insurance coverage to the Port Authority directly, PAICE has successfully reduced the amount of premium paid to the commercial insurance market by $123 million between 2005 and 2010.

In addition, PAICE's participation in the property insurance program has allowed the Agency to increase its all-risk coverage from $600 million in June, 2006 to $1.4 billion in June of 2010. Terrorism coverage has also increased for both the property damage and public liability programs through the use of PAICE, and the availability of the federal program through the Terrorism Risk Insurance Program Reauthorization Act, also known as TRIPRA. Through premium earned and investment income, the Port Authority's initial investment of $8 million in PAICE has grown to $81.3 million as of June 30, 2010. Of course, by providing such coverage, PAICE is exposed to loss. To date, however, the amount of insurance underwritten has been conservative, and the loss history has been below expected levels. When providing coverage, PAICE balances the risks assumed against its financial ability to absorb the loss so as not to expose itself or, ultimately, the Port Authority to unanticipated financial burdens. On an actuarial basis, PAICE has sufficient reserves to meet its anticipated losses. As required by the domicile, PAICE held its annual board meeting in Washington, DC on June 29 and reviewed its activities. Since its incorporation in 2006, PAICE has issued policies for terrorism coverage on the Port Authority's operational insurance programs. For both the property damage and public liability programs, PAICE has provided $250 million of Terrorism Risk Insurance Program Reauthorization Act insurance which is backed by the Federal government. For the June, 2001 renewal of the property program, staff was able to achieve terrorism limits of up to $1.4 billion to match the all-risk limit by purchasing coverage to reinsure PAICE's exposure with the remainder provided through TRIPRA. As previously mentioned, PAICE, a domestic insurer, has the ability to front the property program which allows the Port Authority access to the reinsurance market. Through this access, PAICE has significantly increased overall capacity on the property program. For the Port Authority's Master Contractor Insurance Program, PAICE provides the primary $1 million of worker's compensation coverage and $500 thousand of general liability insurance. PAICE's 2009 financial statements were audited by Deloitte & Touche. The underwriting income for the period ending December 31, 2009 was $25 million with a net income of $26.4 million for the same period. Total assets were $158 million and member's equity was $72 million which is nine times the Port Authority's initial investment of $8 million. Member's equity has grown since December to a total of $81 million as of June 30. Huggins Actuarial Services provides actuarial services for PAICE, including the annual opinion which is required to be done. Huggins has opined that as of December 31, 2009, PAICE carried $53 million of reserves on a gross basis, and that the captive meets the DC regulatory requirements to make reasonable provision for all unpaid losses and loss adjustment expense obligations. TD Banknorth was competitively selected as the investment manager for PAICE in October, 2007 and implemented the investment policy in January, 2008. The investment policy for PAICE is similar to the Port Authority's, except that PAICE is also permitted to invest in AA or better corporate stocks and bonds. As of June 30, PAICE's cash and investment balance totaled $142 million and had earnings of $2 million so far in 2010. As with all insurance carriers, PAICE has and will continue to sustain claim losses during its operation. To date, none of the losses have been terrorism based. On the contractor's insurance program, a total of 93 worker's compensation claims are open and 55 open general liability claims are active. As noted, the actuarial review has confirmed that PAICE's current reserves are sufficient to provide for these losses. In conclusion, PAICE continues to meet the expectations set forth for it at its inception and provides both insurance coverage enhancements and cost savings to the Port Authority.

[Chair A. Coscia] Sounds good, sounds good. Who is the Board at PAICE?

[A. Mulligan] The Board consists of Chris Ward, Bill Baroni, Paul Blanco, Darrell Buchbinder, myself, Mike Fabiano and Veronica Biddle.

[Chair A. Coscia] Okay, and if you could go to the slide that talks about assets; I'm just trying to understand its balance sheet a little bit. Okay, so total assets are $158 million. Owner equity is $72 million. I assume that reserves are listed as a liability on the balance sheet, and that pretty much makes up the difference?

[A. Mulligan] Right, and the assets are mainly cash--

[Chair A. Coscia] And so if it differs slightly, it's just that-- I mean if gross reserves are $53 milllion-- I'm trying to do the math in my head and not doing a good job at it--

[P. Blanco] I get $106--$105. Yeah, $105.

[Chair A. Coscia] Oh, I'm sorry, where did you get $105 from?

[P. Blanco] You're taking the $158 minus the $53, is that where you're getting it? So you have net assets of the $105.

[Chair A. Coscia] Okay, so why is member's equity $72? So what's the difference between--?

[inaudible chattering]

[A. Mulligan] This is December of 2009's numbers--

[Chair A. Coscia] Right, they're all December of 2009 numbers.

[inaudible chattering]

[P.Blanco] Some of the total assets includes prepayments, because you're paying premiums--

[Chair A. Coscia] Okay, so they don't count as either reserves or member equity because it's prepayment; it's a liability on the balance sheet. I got it, okay; they're not big numbers but--

[P. Blanco] You pay a premium for a whole year and you're reflecting it as a--

[Chair A. Coscia] I got it, okay. Okay, that's good. The only other final thing is that--this is sort of my constant question all the time is our worker's comp experience on loss and how that stacks up to others. This may not be the right forum for it, and I don't want to waste everybody's time on it. I'm still not totally comfortable, because our worker's comp numbers seem as though they're higher, on average, than my experience in other places. And I'm not exactly sure why; I know I say this to Karen once a month, and I'm not really sure I totally understand it, but I have a feeling I just need to spend a little more time understanding our worker's comp loss experience, that's all.

[A. Mulligan] Okay.

[Chair A. Coscia] All right? Any other questions? Okay, I guess motion to adjourn.

[Comm. R. Pocino] So moved.

[Chair A. Coscia] Thanks, second?

[Comm. H.S. Holmes] Second.

[Chair A. Coscia] All right, we're going to Ops next. Sid, you are or are not on Ops?

[Comm. H. S.Holmes] I am.

[Chair A. Coscia] You are, okay, anybody else who wants to hear the JFK thing?