

(Public Committee on Finance 10/25/2018)

**The Port Authority of New York and New Jersey**  
**Committee on Finance Transcripts**  
**October 25, 2018**

[Board Chair K. O'Toole] Will be chaired by Commissioner Bagger, the public meeting of the Committee on Capital Planning, Execution and Asset Management, which will be chaired by Vice Chair Lynford will follow Committee on Finance. We will conclude the public portion of today's meeting with the public Board Meeting. 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. Commissioner Bagger.

[Chair R. Bagger] Thank you, Mr. Chairman. Today's meeting of the Committee on Finance is being held in public session in its entirety. At this point, I'd ask the Board Secretary to advise us of the composition of the Committee today and to confirm that there are no recusals because our agenda item is an update only.

[L. Handel] The Committee is composed of Commissioner Bagger as the Committee Chair, Commissioner Eve as Committee Vice Chair, and Commissioners Horwitz, McCabe, and Pocino. All Committee members are present at today's meeting, and you are correct, there are no recusals as there is no vote.

[Chair R. Bagger] Great. So each quarter, we provide a public update on the Port Authority's operational and financial results for the previous quarter presented publically at a Board Meeting and post a report on the Port Authority's website. So today, we'll have a presentation from our Chief Financial Officer Libby McCarthy on our Third Quarter and year-to-date performance for 2018.

[L. McCarthy] Thank you. Good afternoon, Commissioners. As you said, we're going to be presenting our nine-month financial results year-to-date. So this is our typical disclosure with regard to the financial statements since they've been prepared solely for general information purposes in accordance with the GAAP. And as they are condensed and unaudited, they are best understood when read in conjunction with our published financial statements for 2017

[Disclaimer] and the appended notes there too.

[Net Operating Income (NOI) \$1.6B of NOI performing better than plan and year-over-year (YOY)\*] Going to the results net operating income through September 30 of 2018 totaled \$1.6 billion before consideration of noncash charges related to depreciation and amortization. This represents a 1.7% increase year-over-year and a 3% increase over the 2018 budget. Gross operating revenues increased \$89 million or 2.3% year-over-year. And this is driven by percentage rentals and aviation fees as a result of record passenger volumes and significant capital investment at our airports in addition to scheduled rent increases across our aviation and port facilities. Operating expenses increased \$62 million or 2.7% year-over-year, and this is largely attributable to inclement weather and planned increases and security requirements and costs. After consideration of depreciation and non-operating expenses, the agency's net position

(Public Committee on Finance 10/25/2018)

increased \$481 million from year end 2017 to \$15.9 billion, and this is evidence of our continued funding of our significant capital program.

[Key Messages Revenue and Expenses are trending in a positive direction] Overall, key messages as the net operating income shows, both revenues and expenses are trending in a positive direction. Operating expenses are trending closer to plan this quarter, and the growth year-over-year and to plan reflects continued investments in safety and security of our facilities in addition to the robust inclement weather response that we had for this year's first quarter, both are representative of our commitment to our mission to keep the region moving. Gross operating revenues outpaced growth in expenses, and this is driven, again, as I spoke about of the aviation cost recoveries and activity based revenue streams. I'll dig a little bit more into that right now.

[Gross Operating Revenues] Here's an overview of our gross operating revenues. The categories are shown here on the slide, aviation fees, which provide for recovery of certain capital investments and operating expenses increased \$55 million due to flight fee cost recoveries related to increased capital investment at the airports and increased policing and security costs to meet ongoing security requirements. Fixed and percentage rentals increased \$43 million driven by increased percentage rentals at the aviation facilities due to the all-time high passenger activity of 104 million passengers as well as scheduled fixed rent increases primarily at aviation passenger terminals, port marine terminals, and One World Trade Center. Partially, offsetting this gross was modest decreases in toll and fare and parking and other revenues. PATH fare revenues decreased \$1.8 million due to a 1.6% decrease in passenger activity. And this is really a result of 2017, reflecting a higher than normal level of cross honoring for New Jersey Transit passengers as a result of the Penn Station outage. Toll revenues at the Port Authority six vehicular crossings decreased \$4.4 million primarily due to lower average tolls as a result of higher E-Z Pass usage partially offset by 0.7% vehicular traffic growth. Parking and other revenues decreased \$5 million, and that is a combination of a larger decrease in parking revenues at our airport facilities offset by higher cargo facility charges and wharfage and fees at our port marine terminals due to the 6.5% increase in container activity at the ports, which was facilitated in part by the completion of the Bayonne Bridge Navigational Clearance program.

[Facility Activity continues to expand excluding PATH due to less NIT cross-honoring] Here you can see our facility activity across all our facilities. As I just mentioned, the port container activity continues at record volume pace of 6.5% year-over-year due to the strong demand for imported goods, as well as a higher activity in the auto and bulk import area, a growth of 3% and 6% respectively. Aviation passenger growth of 3.6% was both in the domestic and international area. And then while across all the facilities, it was led by growth at the Newark Airport. TB&T vehicles totaled 89.7 million, an increase of 0.7%. And that was again across all of the traffic or all of the vehicle types, but the largest growth being in trucks. And then PATH, we already mentioned had the small growth, actually the negative growth because of that high activity on the Penn Station Outage. When you isolate that out, we would be flat year-over-year in terms of PATH.

[Operating Expenses] From an operating expense perspective, you can see here the. Sorry. Operating expenses increased \$62 million or 2.7% year-over-year. This is driven by contract services, a \$25 million increase that relates to contract security guards, increased availability

(Public Committee on Finance 10/25/2018)

payments for the Newark AirTrain due to improved service performance and scheduled increases in contractor billing rates. Materials and equipment, they are up by \$34 million, and that's mostly driven by that robust snow response that I referred to previously. And then utilities consumption are up mostly at the airports as a result of demand for heating and cooling.

[Cash Flow & Liquidity Strong financial performance is translating to positive cash flow and liquidity] All of this strong revenue growth and controlled expense increases allows us to deliver positive cash flows and ample liquidity, both of which support our significant capital program which Derek will discuss with the Capital Planning Committee shortly. Cash and investments total \$4.9 billion, essentially flat when compared to 2017. This figure includes cash flow from operations of \$1.7 billion, which is \$206 million over the prior period. Capital funds available and available CP, commercial paper, totaled \$1 billion. And this again will help support our Capital program, and also when you look at our funding, we have about 219 days of cash on hand.

[Bonds & Other Financing Obligations] And then finally, from a debt perspective, our consolidated bonds and financing obligations totaled \$23 billion, an increase of \$639 million when compared to year-end. This is driven by consolidated bond increases of \$450 million. We have issued so far this year \$2 billion of bonds, \$1.3 billion was used for re-funding existing bonds to achieve debt service savings as well as \$776 million to support our Capital program, and then that's offset in part by scheduled maturities. The remainder of the increase is a result of increased commercial paper to fund Capital programs as well as the additional increase in the Goethals Bridge Replacement Program developer financing. That concludes my report. And I'd be happy to take any questions.

[Chair R. Bagger] Okay, thank you, Libby, for the excellent report. I think the key takeaways are, you know, strong quarter, strong nine-month, year-to-date activity increases across three out of our four transportation of business units. Revenue year-to-date running ahead of budget by, I think, 1.4%, and our net operating revenues at 3.1% ahead of budget year-to-date. And as Libby very importantly pointed out, it's those net operating revenues that fund our Capital Program and make our Capital Program possible and that is the name of the business that we're in. I think Vice Chairman Lynford has a comment or question.

[Vice Chair J.H. Lynford] Question, but also maybe just an observation if I'm correct. It's from the Capital Budget point of view. \$2 billion of capital, you've already spent 90% of that allocation, so we're going to actually spend the money that we allocated, and we are on time, I guess, is that correct?

[L. McCarthy] Yeah, Derek will be giving an update more fully on the Capital Plan but

[Vice Chair J.H. Lynford] Didn't want to steal his thunder, but on the other hand, I want to give you an Atta girl as well. Atta woman. Excuse me. Thank you.

[L. McCarthy] Okay. All right. Thank you.

[Chair R. Bagger] Other questions or comments? If not, that concludes the Finance Committee

(Public Committee on Finance 10/25/2018)

meeting. Back to you, Mr. Chairman.

[Board Chair K. O'Toole] Thank you, Commissioner Bagger. The next meeting is the Committee on Capital Planning, Execution and Asset Management.