

**The Port Authority of New York and New Jersey  
Committee on Finance Transcripts  
October 26, 2017**

[Board Chair K. O'Toole] I'm going to call this meeting to order. We're now convening our public session. Committee meetings start with the Committee on Finance, public meetings on the Committee on Capital Planning, Execution and Asset Management will follow the Committee on Finance, and we will conclude the public portion of today's meeting with a public Board Meeting. Each of today's public meetings are also being broadcast live on the Port Authority website for those interested in viewing today's proceedings via the Internet. We'll start the public section of the Committee on Finance chaired by Chairman Bagger. Chair.

[Chair R. Bagger] Great. Thank you, Chairman O'Toole. Today's Committee on Finance meeting is being held in public session. The Committee also met jointly with the Committee on Operations in executive session earlier today to discuss matters relating to ongoing negotiations, reviews of contracts or proposals. At this point, I'd like to ask our Board Secretary to confirm the composition of the Committee today and also note that there are no recusals because we're not taking any actions.

[K. Eastman] Thank you. The Committee of Finance is composed of yourself as Chair and Commissioner Eve as Vice-Chair with Commissioners Horwitz and Pocino as members. All Committee members are present at today's meeting. And as you noted, there are no recusals required.

[Chair R. Bagger] Great. Thank you. As we do, typically, the month following the close of each quarter at our public meeting, we have a review from our chief financial officer of the organization, the Port Authority's financial and operational results for the preceding quarter and also then a summary of those financial results are posted on the Port Authority website for the public. So I'm going to turn it over to Libby McCarthy, our chief financial officer for a review of our operational and financial performance.

[L. McCarthy] Thank you very much. Before I delve into the numbers, I'll do my typical disclosure, which is these financial statements, preliminary and audited financial statements were prepared in accordance with GAAP. They are best read in conjunction with our audited financial statements and the notes there too, which are also available on our website. Also, before I go into our GAAP basis financial statements, I'm going to give you an overview of where we are versus budget, compared on the basis of our bond resolution. As you can see from our slide here,

[Net Revenues Available for Debt Service are on budget] we are essentially on budget year to date at the net revenues available for debt service line. And that's what we use to help us determine our capital capacity. Revenues are trending slightly ahead of plan, about 1.4%, which is a positive, and expenses year to date are trending slightly below plan. So those are all positive things. And then in the grants and contributions area,

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we're under plan a little bit, but that's mostly because the related spending for the projects that are supported by those are delayed in their spending.

[2017 Operating Revenues of \$3.9 billion increased 2.3%] From a GAAP basis perspective, operating revenues of \$3.9 billion for the 9 months have increased 2.3% when compared to the 9-month period last year. That's driven by increased rental income at One World Trade Center as well as at our airports, predominantly JFK, increased cost recovery revenues from our airports, both from a perspective of a capital recovery component and an operating recovery component, increased PATH fares, and that's really driven by the higher passenger activity we've had this year, much of it driven by the cross honoring of New Jersey Transit passengers who were affected by the outage at Penn Station this summer and earlier in the year, and also increased port cargo fees as a result of higher volumes at our port facilities.

[Activity grew across all segments,] On this slide you can see

[including record activity at Port facilities and cross honoring at PATH] that we had activity growth across all of our segments, very strong growth at port commerce at 6.4%. We had six record-breaking months this year with an all-time best import history in August. Similarly, very strong growth at PATH as I mentioned at 5.1%, 1.2 million of that 62.2 million customers' year to date were our cross honored customers. Aviation, 100 million passengers coming through the facility, 2.1% growth in domestic passengers and 2.7% in international passengers. And then TB&T is running effectively on plan at 0.4% over for the year.

[2017 Operating Expenses of \$2.3 billion increased 1.9%]

[before consideration of new activities and scheduled PILOT and rent increases.]

[L. McCarthy] Operating expenses of \$2.3 billion year to date increased 1.9% as compared to the prior year. When you look at that, on what we would term as same-store basis. In other words, stripping out new activities and some scheduled rents and PILOTs. With those new activities and rents PILOTs, that increase is 4%. The big drivers here were the World Trade Center site increased cost as we again continued to phase in new facilities, some heightened security costs as a result of the threat environment and the ever-changing threat environment, some increased employee compensation to both deal with overtime as well as just increased operating and maintenance activities and some changes in our ground transportation, taxi dispatch, and airport maintenance, AirTrain maintenance at our aviation facilities.

[2017 Depreciation and Amortization of \$953 million increased 5.4% due to completion of facilities] Depreciation and amortization of \$953 million increased 5.4% versus the prior year. And this is because we closed 2 and put into service from construction roughly \$5.5 billion of assets in combination of last year and the first 9 months of this year. Some of the large settlements, of course, continued, closing out of

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projects at the World Trade Center, Bayonne Bridge Navigational Clearance and the roadway opening there, Goethals Bridge, the opening of the span, some of those are our large projects that had closed out and we're starting to depreciate those assets now that they're in use.

[Other Financial Results vs Prior Year] Other financial results versus the prior year, financial income is up about \$27 million. Our portfolio, \$5.7 billion of investments had an estimated average return of 0.91% as compared to 0.71% in the same period of the prior year, so we're benefiting a bit from the rising short-term interest rates. Net interest expense decreased approximately \$13 million. And this is a combination of things of some reimbursements, some interest on the Tower 4 Liberty Bonds, some debt service savings we've gotten from refundings of certain of our Port Authority bonds, offset then by that increased allocation of interest expense to operations as a result of the placing in service of those assets. Contributions in aid of construction decreased \$373 million as we're finishing up things at the World Trade Center. That number will continue to trend down. So Hub completed Tower 3. Contributions at Tower 3 have been turned over for a fit-out for its major tenant. So those things will be trending down as we continue forward.

[Net Position increased \$448 million Nine months ended September 30, 2017] All of these results combined came to an increase in our net position for the period of \$448 million comprised of the components you can see on this slide.

[Delivering positive Cash flow/liquidity] As well, this delivered our positive cash flow and liquidity position. Cash flow from operations for the period were \$1.4 billion. Our days cash on hand when we exclude our general reserve and capital funds was 304 days and our capital funds available for our construction program is \$1.7 billion. In the period, we made \$1.8 billion of capital investment and you can see predominantly in our aviation and TB&T facilities, so back to investing in our core assets.

[September 30, 2017: Solid Balance Sheet] This also results in our very strong balance sheet, net position of \$17 billion and \$35.5 billion of facilities on the balance sheet. So with that, I'm happy to take any questions you may have.

[Chair R. Bagger] Great. Thank you for that report. And congratulations to the Port Authority management and staff throughout the organization on the strong results for the quarter with operating revenues for the 9-month period exceeding prior year levels across all the operating units of the organization, the activity growth across all of the segments as well, and on budget management with operating expenses slightly favorable to the budget for year to date. And as you very aptly pointed out that the purpose of those strong financial results we will be able to then invest in our capital needs and infrastructure. So thank you for that report. Do any questions from members of the Board for our CFO? If not, thank you for that report. And that concludes our Committee meeting.

[Board Chair K. O'Toole] Thank you, Commissioner Bagger.