

**The Port Authority of New York and New Jersey  
Committee on Finance Transcripts  
March 24, 2016**

[Board Chair J. Degnan]--later on. I'm now going to ask Commissioner Bagger to call to order the Committee on Finance. Rich?

[Chair R. Bagger] Thank you, Mr. Chairman. This morning's meeting of the Committee on Finance is being held entirely in public session. And we have one item on our agenda, and one report and discussion on our year-end 2015 financial results. The Port Authority, in the last year or two, has begun to provide quarterly public reports of its financial and operational results for each quarter. We do that at a meeting of the Board in this room. We also do that via press release and via posting those reports on our website. The quarterly financial and operational reports are also reviewed quarterly with the Finance Committee as part of the evaluation of what we do and the update at each quarter of our ten-year financial model for net operating revenues and capital capacity that is used to support our 10-year capital plan. So this morning, our Chief Financial Officer Libby McCarthy will present our year-end 2015 financial results, which will reflect strong operational performance last year. And in particular, Libby will note and describe in greater detail how our activity levels increased across all of our business lines, leading to operating revenue growth across all of those business lines. Which, when accompanied by a decrease in our operating expenses in 2015, led to a increase, compared to the year preceding, in our net operating revenue. And that is important, because it is net operating revenue that is used to support our Capital Plan investment and our very significant capital needs. So let me turn things to Libby, our CFO.

[K. Eastman] Commissioner, can I read the composition of the Committee meeting to the Committee first?

[Chair R. Bagger] Yes, you can. And then you can note that there are no recusals, because they're not voting on anything.

[K. Eastman] Thank you. The Committee's composed of yourself, Commissioner Bagger as chair, Commissioner Lynford as vice chair, and Commissioners James, Lipper, Pocino, and Schuber as members. All Committee members are present today with the exception of Commissioner Pocino. And yes, there are no recusals.

[L. McCarthy] OK. Well, good morning, Commissioners. I am going to present the year-end results and compare those results to the prior year. And as Commissioner Bagger noted, we did have strong performance. And we'll highlight some of the reasons behind that. Before I start, however, I need to just go with a little bit of housekeeping. Which is that this condensed financial information should be read in conjunction with our consolidated financial statements. Which, after today's Board and the Board's action-- which we are asking you to take later today-- will be posted on our website in our Corporate Information section of the website. This financial information that we're presenting has been audited, so these are our final results for the

year. 2015 produced very strong results-- operating income of \$737 million together with our income from our non-operating activities of \$43 million resulted in an increase in our net position of \$780 million. Operating revenues grew 7.7%, or \$345 million over the amounts we achieved in 2014. And that's driven by both increased activity across all of our business lines, as well as the continued phase-in of operations at the World Trade Center site. So if you look at our overall increases in our operating revenues for the year, World Trade Center operations contributed a third of that year-on-year growth at \$122 million. TB&T contributed \$152 million of the increase. And that's reflective of both the higher traffic activity at the bridges and tunnels, as well as the final phase-in of the toll increases that were approved several years ago. And then aviation as well contributed an additional \$58 million to results, versus the prior year. As Commissioner Bagger mentioned, activity across all of our modes is increased versus the prior year. We had two records again this year, both our air and sea ports. So very, very strong activity there. And notably, the TB&T had its first year-on-year growth that we've seen since 2006. So the impacts of the recession, the impacts of higher gas prices, et cetera, are now being reflected in year-on-year growth there. And PATH as well had strong performances, with a almost 4% growth year-over-year in its activity. Operating-- while doing all of that-- absorbing all of those increased activities and the operations at World Trade-- we actually did achieve a decrease in our operating expenses of approximately a little less than 1%, or \$23 million. That's a number of things. Some lower overtime, management of our overtime, driven mostly by our bringing in the incremental police classes, and bringing those forces online. Maybe hard for everybody to remember, but '15's weather, while severe, was less severe than '14. So less snow removal and that type of activity in 2015 versus 2014. We also had some positive results in our claims area. Other financial results-- just a few things. I mentioned that some of these results are driven by the phase-in of the World Trade Center operations. That has other implications to our financial results. As more of our capital comes online, our depreciation expense goes up, as well as our interest expense, because we'll have less capitalized interest. So both of those are reflected here-- an increase of \$192 million in depreciation and \$200 million roughly in interest expense. And then we also had an increase in our financial income on our investment portfolio. That portfolio average-- it ended the year at about \$6.2 billion. But it averaged over the year \$5.2 billion. And it earned an average return of 0.6%. The difference in there is we have some money on hand-- and I'll show you that in a bit-- for some debt refundings and some capital programs. That's why it's higher at the end of the year. So this all resulted in a very solid and strong balance sheet. We have assets totaling \$44 billion and a very strong net position. One other thing I will note is, in 2015, we adopted GASB Statement 68, which has to do with the recognition of pension liability on balance sheets. And in this case, we did record an incremental liability of \$69 million, reflecting our net pension liability, or our share of the pension. Which is actually very strong, because we are participating in a very well-funded program. So I think that that's a very positive result for us that we were adopting that standard and only recognizing that liability of \$69 million. Moving forward, just looking at-- some of our other drivers are cash flow and liquidity. Cash from operations generated this year was \$1.8 billion. We have-- when excluding our general reserve and capital funds-- 277 days of cash on hand. And we also have capital funds and available liquidity through our commercial paper programs of \$2.4 billion. We've got a very strong liquidity position. All of this helped us advance our substantial capital program. As you can see, we had investments across our facilities. Roughly a billion dollars in tunnels and bridges, a billion dollars at the World Trade

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Center, \$800 million at aviation, and then \$150 million at PATH, and \$100 million at Port Commerce. So that ends my presentation. I'd be happy to take any questions.

[Board Chair J. Degnan] What is the current credit rating of the Port Authority in the debt markets?

[L. McCarthy] We're AA minus, or A A3.

[Board Chair J. Degnan] Great. Jeff, did you--

[V. Chair J. Lynford] Yeah. Let me, once again, I want to thank you and your team for the clarity of presentation, and all members of the Port Authority, larger family, for having an excellent year. I think the liquidity, the cost of funds for 2015 are also excellent. And I wanted to make sure that everyone who follows us from a financial point of view understands what that means and our ability to go forward in the capital markets. Good work again.

[L. McCarthy] Thank you.

[Chair R. Bagger] Any other commissioners have any questions or comments for Libby?

[Comm. K. Lipper] Just one comment, Libby? Is your mic on? Yes, I believe. You've done a terrific job. And I think the Port Authority's results are excellent. And it's not for today, but the other side of this is the income statement of the Port Authority. And we really have to be equally successful and diligent in addressing the growth of salaries, the growth of overtime, the growth of expenses, which are like acid seeping into the improvements in operations of this entity. So I'm just putting on notice that this is only half the story. And that we have a serious problem with the growth of overtime and the growth of overall comp within the agency that the management has to focus on straightening out. We've been promised for-- at least the three years I've been on the Board, every year there was a promise, it's going to be straightened out. And it has gotten better year to year, marginally. But it's still an overwhelming threat to the Port Authority and the public in the long run. And we have to get it under control. Thanks.

[L. McCarthy] Thank you, and I will assure you that we are very focused on managing and maintaining that cost at the appropriate levels.

[Board Chair J. Degnan] Thanks, Libby.

[Chair R. Bagger] Thanks, Libby.

[Board Chair J. Degnan] Anybody-- any other questions or comments? Rich?

[Chair R. Bagger] Are you-- That concludes our Committee meeting this morning.