

**The Port Authority of New York and New Jersey
Committee on Finance Transcripts
June 15, 2017**

[Board Chair J. Degnan] I'll turn it over to Rich Bagger for the Committee on Finance.

[Chair R. Bagger] Great, thank you. Today's meeting of the Committee on Finance is being held in public session. The Committee met earlier today in executive session to discuss matters involving ongoing negotiations relative to contracts or proposals. At this point, I'd ask the Board Secretary to advise those present of the composition of the Committee today and to confirm that since we're not taking any action, we have no recusals.

[K. Eastman] Thank you, the Committee is composed of yourself Commissioner Bagger as Chair, Commissioner Lynford as Vice-Chair, and Commissioners Lipper, Pocino, and Schuber as members. All Committee members are present at today's meeting with the exception of Commissioner Pocino, and there is no request or any action, so no recusals required.

[Chair R. Bagger] Great, thank you. So we're going to continue with the reports from the Special Panel Implementation Office that has been, you know, working very actively with strong project management to follow through to implement the dozens upon dozens of recommendations included in the 100-page special panel report that this Board endorsed in the first quarter of 2015. The two reports that we're going to hear in the Finance Committee today are report on that Asset Metric team that will be presented by Beth Siegel and a report on Finance Team that will be presented by Ana Carvajalino. So Beth.

[B. Siegel] Good afternoon, Commissioners and Mr. Foye. My name is Beth Siegel, I was privileged to be the Captain of the Asset Review Metric/Capital Plans Special Panel Implementation Team. And to work with team members

[Special Panel Implementation Office Asset Review Metric/Capital Plan Team] Jack Buchsbaum, Raimy Cheyne, Glenn Guzi, Alex Heil, Sherien Khella, Cathleen Mahoney, and our team sponsor Michael Massiah. We were tasked with evaluating the methodology for the development and review of the agency's Capital Plan in order to ensure that the deployment of capital funds aligns with the Port Authority's mission and objectives while maintaining the financial viability of the Port Authority.

[Deliverables] The special panel report identified several mission alignment recommendations that impacted capital projects. They were to reassess and update the Port Authority's 10-year Capital Plan to reflect more focused investment on the region's transportation needs, to evaluate the asset review metric model and the agency's current prioritization methodologies to institutionalize processes and criteria to ensure that the deployment of capital funds aligns with the Port Authority's mission and

(Public Committee on Finance 6/15/17)

objectives, and to redeploy \$600 million in unallocated regional development funds to specific transportation projects that align with the Authority's core mission. The deliverables as identified in this slide, support the offices of the Chief of capital planning, Chief Financial Officer and Chief Engineer in the development of the enhanced methodology for the review and the revision of the 10-year plan. We were required to develop a schedule and guidelines for the review of the plan, review the actual asset review metric criteria in light of our existing prioritization methods, to develop a framework to be employed in prioritizing the Capital Plan, to recommend the methodology to deploy the unallocated regional funds, and to create an education campaign to increase awareness of the Capital Plan's development. The team conducted a review of each of the existing methodologies used by the Port Authority to rate capital projects. There are a number of different methodologies used here depending on the type of project, whether it is a state of good repair, system enhancing, or security project. Our review included a series of meetings with Port Authority's staff who have experience with the various rating processes including representatives from across the agency. Concurrently, to be informed by best practices in the industry, we reviewed other transportation agencies' capital planning processes and methodologies. This included meetings, teleconferences, and a literature review of practices in agencies across the country, including the MTA, San Francisco Bay Area, and also we had a conference call with Transport for London. This slide highlights one of the deliverables.

[3.3 Capital Planning Framework] Deliverable 3, and it is the proposed framework that incorporates a combination of the arm and prior prioritization methodologies but also includes new elements including lifecycle cost analysis, establishing regional economic benefits, employing asset management information, to again, ensure that the funded projects meet the Port Authority's missions and objectives. In advancing the framework, it provides a transparent way to describe how projects can be prioritized and compete for scarce resources. Based on team discussions with internal stakeholders and analysis of best practices in the transportation industry, commitment of capital dollars would consider evaluating the portfolio in the context of priorities and our categories of mandatory state of good repair, etcetera. This framework forms the basis to evaluate the many projects competing for the limited financial capacity which were then also considered in the context of logistical and operational considerations and constraints. The framework and other recommendations of the team, where appropriate, were incorporated into the development of the recently adopted \$32 billion 10-year Capital Plan. Thank you.

[Chairman J. Degnan] Thanks, Beth.

[Chair R. Bagger] Thank you. Any questions for the Asset Review Team? I would just add, I think that this strikes me as an excellent example of how the work of the Special Panel Implementation office, then you sort of mainstreamed into the work of the agency in the 10-year Capital Plan. Questions?

[B. Siegel] Thank you.

[Chair R. Bagger] Great, thank you. So we'll turn now to the finance team.

[A. Carvajalino] Good afternoon, Commissioners. I'm here to present the results of the finance team after reviewing the recommendations from the special panel report. The team addressed the recommendations related to employing innovating and flexible financial techniques which included increasing the traditional sources of capital, while maintaining strong credit ratings and access to capital markets, updating the 1952 consolidated bond resolution to increase operational flexibility, employing innovative financing tools to provide funding alternatives, and exploring options to maximize return on our investment portfolio. For the first recommendation, the team worked with the office of the CFO and the Treasury Department to select the new pool of underwriters. As part of the selection process, we asked proposals to discuss strategies to increase financing flexibility and to offer alternatives available to the Port Authority. In general, proposals recommended preserving the integrity of the consolidated bond credit so it continues serving as our primary source of funding.

[9.1 Utilize the most up-to-date financing techniques available to public authorities] Other proposals consider diversifying our debt portfolio to include variable rate debt, and subordinated debt to take advantage of the yield curve and diversify our investor base with the overall objective of lowering our borrowing costs. These proposals are being considered and will be discussed with the Committee on Finance.

[9.2 Update the 1952 Consolidated Bond Resolution to increase operational flexibility] Regarding updating the consolidated bond resolution, the report included two specific recommendations. Provide for the defeasance of debt and clarify the provisions related that permit the sale of assets. Regarding the defeasance of debt, in 2015, without needing any modifications to the resolution, we completed an economic defeasance of \$300 million in bonds would yield approximately \$65 million in present value savings. Regarding the sale of assets, the team believes the resolution is clear in the use of proceeds as they require the Port Authority to use them to either retire debt or to invest in our facilities. At this time, the team recommends not to modify the resolution as it provides us with a ready-market access instrument, and while it has some shortcomings, we have effectively structured around them.

[Employ innovative financing tools to provide funding alternatives]

[and enhanced operational opportunities] The report recommends that employing innovative financing tools to provide funding alternatives to support capital expenditures as part of the effort, the team research options currently available including federal grants, loans, and various forms of value capital mechanisms. And also the team recommended consolidated efforts to seek funding alternatives into one office. Based on the team's recommendation, the effort has been consolidated in the newly-formed office of financial planning, which is developing strategy, policy, and procedures based on executive guidance is providing resources and support to identify potential opportunities, and is utilizing external expertise where appropriate.

(Public Committee on Finance 6/15/17)

[Explore alternatives to maximize returns on the Port Authority's portfolio] Finally, the report recommended exploring alternatives to maximize returns on the investment portfolio. To address this recommendation, we invited the current managers of the fixed income component of our OPEB Trust to get their advice and potential improvements to our investment practices. Given a conservative investment approach appropriate for public agencies and the limitations imposed by the consolidated bond resolution, both firms believe that the best strategy for improving performance in the portfolio will be to extend its duration. However, both firms caution against extending duration during an interest rate tightening cycle. What have we done so far? We have structured bond sales with the goal to minimize costs and provide flexibility.

[Implementing the recommendations of the Special Panel Report] We have also taken advantage of refunding opportunities. Since the end of 2013, all refunding undertaken have yielded present value savings of approximately \$740 million. We have consolidated the effort of seeking alternative financing under the Office of Financial Planning. We are in the process of enhancing the group with a staff with grants experience who will drive the Port Authority's strategy to maximize our ability to secure funding. We have procured a group of consultants to advise us on alternative financing funding options for capital projects. They are currently revealing their projects in the Capital Plan to recommend candidates for either federal funding and/or any form of private participation. We continue monitoring interest rates on our liquidity needs to identify the best opportunity to extend maturities in our investment portfolio, and going forward, we'll continue analyzing means of efficiently and effectively financing our projects through discussions with the Committee on Finance. Thank you.

[Chair R. Bagger] Great. Thank you. This is an area where the Finance Committee has been in close and ongoing consultation with our Chief Financial Officer and finance team on these various initiatives, and it's extremely productive to receive this report today and to hear some of the successes that these initiatives have brought including the really, truly remarkable net present value savings that have been achieved through the refunding program, and also to point out that in our capital spending, the portion of capital spending that is pay as you go versus debt financed had been increasing over time, something I notice of great interest to the Committee. I sense the Vice-Chairman might have a question.

[Vice-Chair J. Lynford] Well, I just want to reinforce the Chairman's statements. And good job to the whole team. Thank you.

[A. Carvajalino] Thank you.

[Chair R. Bagger] Okay, anything further? If not, that concludes our meeting.