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FCIC memo of staff interview with Port Authority of New York and New Jersey

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MEMORANDUM FOR THE RECORD

Event: Port Authority of New York and New Jersey

Type of Event: Group interview

Date of Event: September 28, 2010 at 2:00PM

Team Leader: Greg Feldberg

Location: 1717 Pennsylvania Ave, Suite 800, via telephone

Participants – Port Authority:

Veronica Biddle	Asst. Treasurer
Caroline Brossard	Sr. Financial Analyst
John McDonough	Attorney
Anne Marie Mulligan	Treasurer
Mike Percival	Debt Manager
John Regan	Principal Financial Analyst
Tim Stickelman	Asst. General Counsel
Allison Voetsch	Attorney

Participants - Commission:

- Stuart Shroff
- Randall Dodd
- Landon Stroebel

MFR Prepared by: Stuart Shroff

Date of MFR: October 26, 2010

Summary of the Interview or Submission:

1. When did you start using Auction Rate Securities?
 - July 2007, we issued 2-series of them, \$350 million each both were wrapped by a monoline
 - One swap covered one of them, it had a 20 year maturity

2. Why did the PA decide to use ARSs as opposed to VRDOs?
 - Wanted to expand its investor base to include wealthy individuals
 - Had done VRDOs for a long time and did not want to have to pay the fees for the liquidity facility

- Like variable rates

3. When negotiating the terms of the ARSs, was there much discussion of the penalty rates?

- Banks assured them that it wouldn't happen
- Underwriters were GS, C, UBS and Merrill
- Wrapped by MBIA, FSA
- Had a LT credit rating of AA-, ARSs had one notch below that (AA)

4. When you became aware of the failed auctions and the penalty rates, what steps did you take to remedy the situation?

- Only paid the 20% rate for one week as they immediately bought the debt back and reissued new longer rate debt
- Cost of increase was 40 basis points (??)

5. How did the underwriters react?

- They said they had to let everyone fail as they couldn't cherry pick which auctions to support and to fail
- The only auction that failed was the one Goldman Sachs was running
- Total refund of all outstanding debt for this series as done within 2 months, interest rates were higher

6. When you refinanced into new debt did you do a new swap?

- 3 swap agreement proposals

7. How else has this affected you?

- Because the market for variable rate debt is now very costly, it has impacted our operations fixed rate debt tends to limit how much debt service coverage you need (1.15 v. 1.25)
- PA has actually seen credit rating *upgrades* to AA2 for long-term debt and A1 for short-term