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Scandals Leave Port Authority Bondholders Undaunted Before Sale.

To Wall Street, the scandals engulfing the Port Authority of New York & New Jersey are nothing but noise.

As the agency sold \$2 billion of bonds Thursday, its biggest offering since 2012, investors weren't focused on the federal and state investigations that spurred the resignation of United Continental Holdings Inc.'s chief executive officer and tarnished Governor Chris Christie's presidential bid. Instead, they looked at a near monopoly on getting into New York that brings in more than \$12 million a day.

The upheaval at the agency may even have a financial upside: It's searching for a CEO to replace the two top officials who were hired by political appointment and faces pressure to improve its management of the region's bridges, tunnels and airports.

"They certainly have a lot of work to do," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees \$6 billion. "But the hope is that this additional scrutiny will make the organization more transparent and better able to provide for its core mission."

The Port Authority's bonds have the fourth-highest rating from Moody's Investors Service, Standard & Poor's and Fitch Ratings with a stable outlook, indicating no changes are imminent. The agency's 10-year tax-exempt bonds were sold at yields of 2.33 percent, or 0.25 percentage point more than top-rated munis, according to data compiled by Bloomberg.

The Port Authority receives revenue from almost everyone who comes to the biggest U.S. city, as well as from cargo ships. It runs a commuter train, bridges and tunnels connecting New York and New Jersey, the world's busiest bus depot in Manhattan, marine terminals, and the region's three major airports — John F. Kennedy International, LaGuardia, and Newark Liberty International. It also owns the World Trade Center site.

Major Projects

Even with a constant stream of revenue, the Port Authority is facing financial challenges in the coming decades. In addition to its usual upkeep, the agency is moving to replace its bus terminal, which may cost \$10 billion, as well as a bottleneck-prone rail tunnel under the Hudson River. Christie and New York Governor Andrew Cuomo want the federal government to pay half of the \$20 billion cost of the tunnel.

The agency's current operating results have been on the upswing. Operating revenue rose 8 percent to \$2.3 billion during the first six months of the year, according to Moody's, as New York's strong economy fueled an increase in plane travel. At the same time, its operating expenses climbed by 1.3 percent to \$1.4 billion.

The agency's finances stand in contrast to the agency's battered political reputation. In May, former Deputy Executive Director Bill Baroni and former Christie aide Bridget Kelly were indicted for snarling traffic leading onto the George Washington Bridge in 2013 to punish a New Jersey mayor who didn't back Christie's re-election. David Wildstein, a former Christie ally at the agency, pleaded guilty to participating in the scheme. Baroni and Kelly are fighting the charges.

Widening Investigation

Last month, United CEO Jeff Smisek stepped down amid an investigation into whether the airline ran a money-losing flight from Newark, New Jersey, to South Carolina, where former authority Chairman David Samson had a vacation home, in an effort to secure funding for projects. Prosecutors haven't alleged wrongdoing.

The Securities and Exchange Commission, which polices fraud in the municipal-bond market, is also investigating the agency's disclosures to investors.

The Port Authority's finances show that the management turmoil hasn't hurt its operations, said Dan Solender, head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey. In an Oct. 6 report, S&P said the agency has kept expenses below its target during the first eight months of the year while revenue exceeded forecasts.

"We really care about the finances and how much leverage they're taking on, how they're controlling expenses and things like that," said Solender, who owns some agency bonds. "For us, those are the bigger issues than the political headlines."

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