

# The Port Authority of New York and New Jersey

Condensed Consolidated Financial Statements as of and for the  
Six-Month Period Ended June 30, 2016 (Unaudited)

# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

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# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

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### 1. OVERVIEW OF THE FINANCIAL STATEMENTS

The following is an overview of the financial activities of the Port Authority of New York and New Jersey (The Port Authority) and its component units as of and for the six-month period ended June 30, 2016. This overview is intended to serve as an introduction to the unaudited condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and should be read in conjunction with the Port Authority's audited financial statements and appended note disclosures for the Year ended December 31, 2015.

The unaudited financial results for the six-month period ended June 30, 2016 contained in these schedules are not necessarily indicative of the results for the annual period ending December 31, 2016.

#### *Management's Discussion and Analysis*

Management's Discussion and Analysis provides an assessment of how the Port Authority's financial position has changed and identifies the economic factors that, in management's view, significantly affected the Port Authority's overall financial position.

#### *The Condensed Consolidated Financial Statements*

The Statements of Net Position provide information about the nature and amounts of investments in resources (assets) and the obligations to the Port Authority's (liabilities), with the difference between the two reported as Net Position (equity).

The Statements of Revenues, Expenses and Changes in Net Position show how the Port Authority's overall net position changed during the six-month period ended June 30, 2016 and June 30, 2015.

The Statements of Cash Flows provide information about the Port Authority's cash receipts, cash payments, and net changes in cash resulting from operating activities, non-capital financing activities, capital and related financing activities, and investing activities for the six-month period ended June 30, 2016 and June 30, 2015.

### 2. FINANCIAL REPORTING ENTITY

The Port Authority of New York and New Jersey was created in 1921 by Compact between the States of New York and New Jersey with the consent of the United States Congress. The Compact envisions the Port Authority as being financially self-sustaining. As such, the agency must raise the funds necessary for the improvement, construction or acquisition of its facilities and their operation primarily upon the basis of its own credit. Cash derived from Port Authority operations and other cash received may be disbursed only for specific purposes in accordance with provisions of various statutes and agreements with holders of its obligations and others. The costs of providing facilities and services to the general public on a continuing basis are recovered primarily from operating revenue sources, including rentals, tolls, fares, aviation and port fees, and other charges for the use of, and privileges at certain of the Port Authority's facilities.

# **THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)**

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### **3. BASIS OF ACCOUNTING**

The Port Authority's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses are accounted for in an enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Port Authority follows accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Such estimates and assumptions are subject to various uncertainties, the occurrence of which may cause differences between those estimates and assumptions and actual results.

### **4. FINANCIAL STATEMENT COMPARISON FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016**

#### **Net Position (Equity)**

The Port Authority's overall net position (equity) totaled \$16.1 billion at June 30, 2016, an increase of \$611 million from December 31, 2015. This increase is comprised of income from operations of \$505 million and income from non-operating activities of \$106 million.

# THE PORT AUTHORITY OF NEW YORK AND NEW JERSEY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

	June 30, 2016	June 30, 2015 (In thousands)	Variance
Gross operating revenues	\$ 2,495,602	\$ 2,331,482	\$ 164,120
Operating expenses	(1,396,383)	(1,407,819)	11,436
Depreciation and Amortization	(593,833)	(558,190)	(35,643)
Net revenue related to Superstorm Sandy	-	41	(41)
Income from operations	505,386	365,514	139,872
Financial income	27,927	24,765	3,162
Interest expense, net*	(439,733)	(429,339)	(10,394)
Grants and other non-operating revenues/(expenses)	42,544	18,641	23,903
Capital contributions and Passenger Facility Charges (PFCs)	475,090	365,865	109,225
Income from non-operating activities	105,828	(20,068)	125,896
Increase in net position	\$ 611,214	\$ 345,446	\$ 265,768

\*Net of \$18.4 million in reimbursements received by the Port Authority related to Tower 4 Liberty Bond debt service payments.

### *Income from Operations:*

The Port Authority generated \$505 million in income from operations in the first six-months of 2016, comprised of gross operating revenues of \$2.5 billion offset by operating expenses and depreciation of \$2.0 billion.

**Gross operating revenues** of \$2.5 billion increased \$164 million or 7% from the same six-month period in 2015. Toll revenue at the Port Authority's six (6) vehicular crossings increased \$85 million or 11.6% primarily due to scheduled increases in tolling rates that became effective in December 2015, which represents the final scheduled toll increase approved in 2011, and an overall increase in vehicular traffic of 3.6%. Rental revenue increased \$57 million or 8.2% primarily due to increases in fixed and percentage lease rentals at One World Trade Center (WTC), One WTC Observation Deck, which opened to the public in 2015, and Aviation facilities. Port Authority Trans-Hudson Corporation (PATH) fares increased \$5 million or 6% primarily due to a 5.5% increase in passenger activity.

**Operating expenses** of \$1.4 billion decreased \$11.4 million or 0.8% from the same six-month period in 2015. Decreases in operating expenses were achieved at Tunnels Bridges and Terminals (TB&T), Aviation, Port Commerce and Development Facilities primarily due to a \$19 million decrease in employee compensation, contractor payments and materials related to snow and ice removal activities due to less severe winter weather conditions through the second quarter of 2016 compared to the same period in 2015, a \$23 million decrease in electrical, natural gas and fuel oil consumption due to milder weather conditions and lower billing rates, and a \$5 million decrease in self-insured public liability and Construction Insurance Program (CIP) loss reserves. Offsetting these amounts is an increase in overall employee compensation of \$15 million primarily due to increased employer sponsored healthcare plans expenditures.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

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**Depreciation and amortization** of \$594 million increased \$36 million or 6.4% from the same period of 2015 resulting from the placement into service of \$3.4 billion of capital project components in 2015 and an additional \$942 million in capital investment through the second quarter of 2016. These capital infrastructure assets, primarily located at WTC, TB&T and Aviation facilities are ready for their intended use and are depreciated over their estimated useful life.

### *Income from Non-Operating Activities:*

**Income from non-operating activities** of \$106 million increased \$126 million from the same six-month period of 2015. This increase is primarily due to a \$100 million increase in Contributions in aid of constructions from third parties, primarily related to the redevelopment of the WTC site and a \$9 million increase in Passenger Facility Charges (PFCs) at Aviation facilities primarily due to a 6.3% increase in passenger activity. In addition, Grants in connection with operating activities and other non-operating revenues increased \$24 million primarily due to federal funding received in relation to Urban Area Security Initiatives (UASI) and baggage screening projects at aviation facilities. Offsetting these increases in capital contributions was a \$10 million increase in interest expense related to Port Authority financing obligations from the same six-month period of 2015, primarily due to a decrease in the overall amount of WTC, TB&T and Aviation related capital construction projects under construction that are eligible for capitalized interest allocations.

### Assets:

Port Authority assets totaled \$44.9 billion at June 30, 2016, an increase of \$589 million from December 31, 2015. This overall increase is primarily due to:

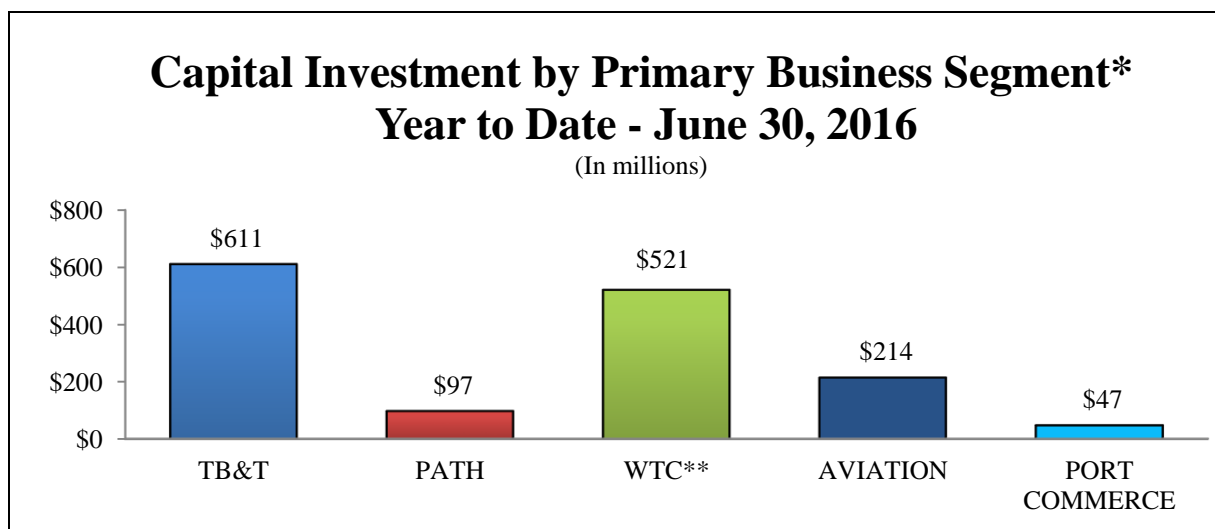
**Facilities, net**, including capital investment funded via capital contributions from third-parties totaled \$33.6 billion at June 30, 2016, an increase of approximately \$929 million from December 2015. This net increase was primarily due to the Port Authority's continued capital investment in its operating facilities as outlined in the 2014-2023 ten-year capital plan. For additional information related to the Port Authority's current ten-year capital plan, please refer to Port Authority's website at: <http://www.panynj.gov/corporate-information/pdf/2014-public-capital-plan.pdf>.

The following chart depicts capital investment in Port Authority facilities of \$1.5 billion, including contributed capital amounts from third parties for the first six months of 2016, summarized by primary business segment:

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)



\*Excludes Regional Facilities and Programs, Development Facilities and Ferry Transportation Facility.

\*\*Capital Investment includes capital investment related to the WTC Transportation Hub.

**Cash (including restricted amounts)** balances of \$1.4 billion remained flat when compared to December 2015. Cash flows from operations of \$1.1 billion and \$443 million received in connection with the maturity of investments were utilized to fund \$1.5 billion in capital construction and related debt service on outstanding capital debt obligations.

Total cash flows of \$4.1 million decreased \$52 million from the same six-month period of 2015. Cash flows generated from operations and investing activities of \$1.5 billion increased \$706 million from the same six-month period of 2015. This overall increase in cash is primarily due to increased tolls at the Port Authority's six (6) vehicular crossings, PATH fares, increased rentals at Aviation facilities and One WTC, lower payments for utilities and materials and supplies and the maturity of investments related to consolidated bond proceeds that were invested on an interim basis until they were used for the purposes of refunding certain outstanding debt obligation. Offsetting these increases was a \$758 million decrease in cash balances related to capital construction and financing activities due to the refunding of certain consolidated bonds in January 2016 and a decrease in the sale of consolidated bonds allocated for purposes of funding capital construction.

**Port Authority Investments** of \$4.6 billion, excluding Port Authority Insurance Captive Entity (PAICE) restricted investments, decreased \$374 million from December 31, 2015 primarily due to the maturity of investments that were not reinvested.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

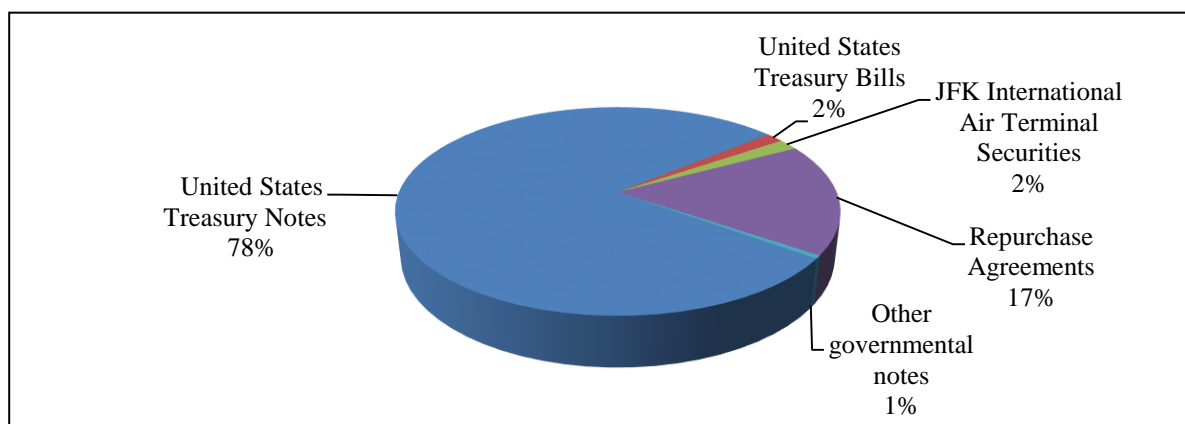
### Port Authority Investments, at fair value

Investment Type*	at June 30, 2016 (In thousands)	Weighted Average Maturity (In days)
United States Treasury Notes	\$ 3,658,888	441
United States Treasury Bills	70,272	73
JFK International Air Terminal LLC obligations	79,718	3,442
Repurchase Agreements	804,186	5
Other governmental notes	21,545	283
Total Investments**	\$ 4,634,609	
Portfolio Weighted Average Maturity (In days)		411

\*Excludes \$1.0 billion of Collateralized Bank Accounts that are classified as cash equivalents and approximately \$1.0 billion in investments that are on deposit in a restricted trust dedicated to Other Postemployment Employee Benefits (OPEB).

\*\*Excludes accrued interest receivable amounts of \$10.7 million.

### Port Authority Investments Asset Allocation:



**Port Authority Insurance Captive Entity** investments of \$163 million, decreased \$21 million from December 31, 2015 primarily due the maturity of United States securities that have not been reinvested as of June 30, 2016.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

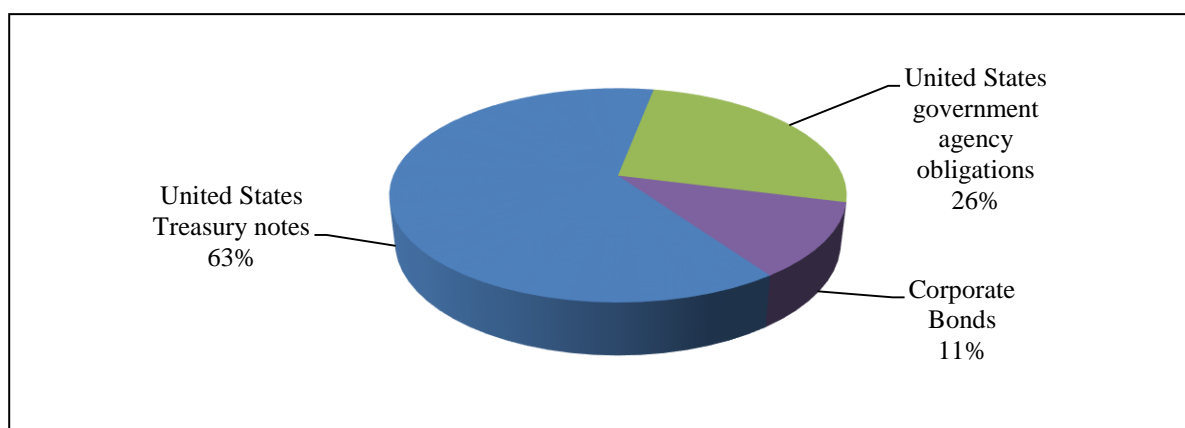
AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

### PAICE Investments, at fair value

Investment Type	at June 30, 2016 (In thousands)	Weighted Average Maturity (In days)
United States Treasury Notes	\$101,915	577
United States Government Agency Obligations	42,141	549
Corporate Bonds	18,406	802
Total Investments*	\$162,462	
Portfolio weighted average maturity (In days)		595

\*Excludes accrued interest receivable of \$1.1 million.

### PAICE Investments Asset Allocation:



### Liabilities:

**Port Authority Liabilities** totaled \$29 billion at June 30, 2016, a decrease of \$39 million from December 31, 2015.

Bonds and other asset financing obligations, including Tower 4 Liberty Bonds, decreased \$169 million primarily due to the refunding of \$336 million of consolidated bonds in January 2016. Offsetting these amounts was an increase of \$160 million related to the Goethals Bridge Replacement Capital Asset Financing Obligation.

Accrued payroll, pension and other employee benefits increased \$67 million due to timing related to scheduled pay periods.

Accounts payable increased \$50 million primarily due to increases in accrued amounts related to the Goethals Bridge Replacement Project.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

Included in total liabilities are Port Authority bonds and other asset financing obligations totaling \$24.1 billion at June 30, 2016. A summary of outstanding bonds and other asset financing obligations follows:

### Bonds and Other Financing Obligations\*

	Opening Balance Dec. 31, 2015	Issued/ Accrued	Refunded/ Retired	Ending Balance Jun. 30, 2016
	(In millions)			
Consolidated Bonds and Notes	\$ 21,020	\$ 513	\$ 874	\$ 20,659
Commercial Paper Notes	426	965	925	466
Variable Rate Master Notes	78	-	-	78
Fund for Regional				
Development Buy-Out Obligation	254	10	26	238
MOTBY Obligation	44	-	3	41
Goethals Bridge Replacement				
Obligation	431	160	-	591
Tower 4 Liberty Bonds	1,225	-	-	1,225
Subtotal-Principal	\$ 23,478	\$ 1,648	\$ 1,828	\$ 23,298
Add: Unamortized premium/(discount)	790	39	28	801
<b>Total</b>	<b>\$ 24,268</b>	<b>\$ 1,687</b>	<b>\$ 1,856</b>	<b>\$ 24,099</b>

\*Excludes amounts payable associated with Special Project Bonds projects of \$1.4 billion.

During the second quarter of 2016, the Port Authority issued two (2) series of consolidated bonds, the One Hundred Ninety-fifth Series and the One Hundred Ninety-sixth Series, totaling \$513 million for the purposes of refunding existing debt obligations.

Listed below is a summary of credit ratings assigned to outstanding debt obligations of the Port Authority. All ratings for outstanding obligations in the second quarter of 2016 remained the same when compared to December 2015. During the second quarter of 2016, Standard and Poor's (S&P), Fitch Ratings and Moody's Investors Service considered the Port Authority's outlook stable.

Obligation	S&P	Fitch Ratings	Moody's Investors Service
Consolidated Bonds	AA-	AA-	Aa3
Commercial Paper	A-1+	F1+	P-1

Each rating reflects only the view of the ratings service issuing such rating and is not a recommendation by such ratings service to purchase, sell or hold any maturity of Port Authority obligations or as to market price or suitability of any maturity of the obligations for a particular investor. An explanation of the significance of a rating may be obtained from the ratings service issuing such rating. There is no assurance that any rating will continue for any period of time or that it will not be revised or withdrawn. A revision or withdrawal of a rating may have an effect on market price.

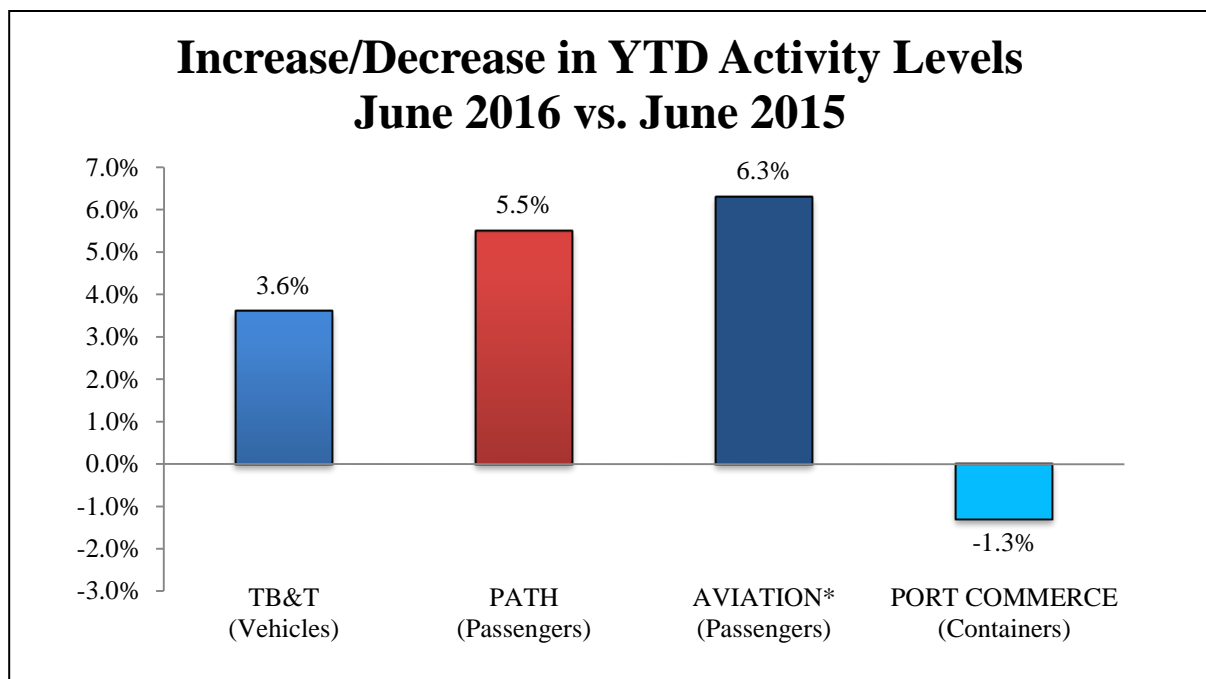
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## MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2016 (UNAUDITED)

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### 5. FACILITY TRAFFIC



\*Excludes Atlantic City International Airport passenger activity.

**CONDENSED CONSOLIDATED STATEMENTS OF NET POSITION – UNAUDITED\***

	<b>JUNE 30, 2016</b>	<b>DECEMBER 31, 2015</b>
	(In thousands)	
<b>Assets</b>		
Facilities, net	\$ 33,595,293	\$ 32,666,774
Cash, including restricted amounts	1,351,815	1,347,698
Port Authority investments	4,645,826	5,019,418
PAICE restricted investments	163,611	184,633
Receivables, including restricted amounts	656,803	560,290
Amounts receivable - Special Project Bonds projects	1,436,411	1,435,940
Amounts receivable - Tower 4 Liberty Bonds	1,247,167	1,247,473
Unamortized costs for regional programs	248,492	280,874
Other assets	1,592,061	1,605,142
Total assets	<u>44,937,479</u>	<u>44,348,242</u>
<b>Deferred outflows of resources</b>		
Loss on debt refunding's	84,131	97,337
Pension related amounts	155,259	155,259
Total deferred outflows of resources	<u>239,390</u>	<u>252,596</u>
<b>Liabilities</b>		
Bonds and other asset financing obligations	22,852,247	23,020,394
Amounts payable - Special Project Bonds projects	1,436,411	1,435,940
Amounts payable - Tower 4 Liberty Bonds	1,247,167	1,247,473
Accounts payable	1,121,245	1,071,047
Accrued payroll, pension and other employee benefits	733,019	666,468
Unearned income related to WTC Retail	700,612	704,697
Accrued interest and other liabilities	912,737	896,174
Total liabilities	<u>29,003,438</u>	<u>29,042,193</u>
<b>Deferred inflows of resources</b>		
Gain on debt refunding's	25,099	21,527
Pension related amounts	7,555	7,555
Total deferred inflows of resources	<u>32,654</u>	<u>29,082</u>
<b>Net position</b>	<u><u>\$ 16,140,777</u></u>	<u><u>\$ 15,529,563</u></u>

**CONDENSED CONSOLIDATED STATEMENTS OF REVENUES,  
EXPENSES AND CHANGES IN NET POSITION – UNAUDITED\***

	<b>SIX-MONTHS ENDED JUNE 30, 2016</b>	<b>2015</b>
	(In thousands)	
Gross operating revenues	\$ 2,495,602	\$ 2,331,482
Operating expenses	(1,396,383)	(1,407,819)
Depreciation and amortization	(593,833)	(558,190)
Net revenue related to Superstorm Sandy	-	41
Income from operations	<u>505,386</u>	<u>365,514</u>
Non-operating expenses, net	(369,262)	(385,933)
Capital contributions and PFC's	475,090	365,865
Income/(Loss) from non-operating activities	<u>105,828</u>	<u>(20,068)</u>
<b>Increase in net position</b>	<u><u>\$ 611,214</u></u>	<u><u>\$ 345,446</u></u>
Net position, January 1	<u>15,529,563</u>	<u>14,774,540</u>
<b>Net position, June 30</b>	<u><u>\$ 16,140,777</u></u>	<u><u>\$ 15,119,986</u></u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – UNAUDITED\*

	SIX-MONTHS ENDED JUNE 30, 2016	2015
	(In thousands)	
Net cash provided by operating activities	\$ 1,099,995	\$ 828,066
Net cash provided by / (used for) noncapital financing activities	4,717	(39,530)
Net cash (used for) capital construction and related financing activities	(1,543,800)	(741,100)
Net cash provided for investing activities	<u>443,205</u>	<u>8,561</u>
Net increase / (decrease) in cash	4,117	55,997
Cash at beginning of year	<u>1,347,698</u>	<u>1,845,491</u>
Cash at six-months ended	<u>\$ 1,351,815</u>	<u>\$ 1,901,488</u>

\* The unaudited Condensed Consolidated Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows have been prepared, subject to audit, adjustment and reconciliation, solely for general information purposes, in accordance with accounting principles generally accepted in the United States of America. This unaudited condensed financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2015.

# CONDENSED CONSOLIDATED FINANCIAL INFORMATION ON PORT AUTHORITY FACILITIES - UNAUDITED

(In thousands)

## Six-month period ended June 30, 2016

	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income/(Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions and PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$ 847,435	\$ 240,095	\$ 93,600	\$ 513,740	\$46,835	\$ 2,048	\$ 468,953
PATH	93,590	199,218	89,630	(195,258)	76,789	121,258**	(150,789)
Aviation	1,284,201	747,217	219,517	317,467	76,434	146,832	387,865
Port Commerce	139,240	69,429	46,283	23,528	42,954	8,781	(10,645)
World Trade Center	118,386	134,063	101,211	(116,888)	107,560	196,171	(28,277)
Other***	12,750	6,361	43,592	(37,203)	18,690	-	(55,893)
Net Revenue related to Superstorm Sandy	-	-	-	-	-	-	-
<b>Increase in net position</b>	<b>\$2,495,602</b>	<b>\$1,396,383</b>	<b>\$ 593,833</b>	<b>\$ 505,386</b>	<b>\$369,262</b>	<b>\$ 475,090</b>	<b>\$ 611,214</b>

## Six-month period ended June 30, 2015

	Gross Operating Revenues	Operating Expenses	Depreciation and Amortization	Income/(Loss) from Operations	Interest, Grants & Other Expenses *	Capital Contributions and PFC's	Increase/ (Decrease) in Net Position
Tunnels, Bridges, and Terminals	\$ 761,706	\$ 243,449	\$ 79,895	\$ 438,362	\$48,234	\$ 1,132	\$ 391,260
PATH	88,255	193,263	87,034	(192,042)	57,144	107,761**	(141,425)
Aviation	1,242,984	766,004	209,644	267,336	113,753	144,875	298,458
Port Commerce	135,853	77,662	44,434	13,757	46,659	1,674	(31,228)
World Trade Center	88,581	119,051	93,114	(123,584)	95,434	110,423	(108,595)
Other***	14,103	8,390	44,069	(38,356)	24,709	-	(63,065)
Net Revenue related to Superstorm Sandy	-	-	-	41	-	-	41
<b>Increase in net position</b>	<b>\$2,331,482</b>	<b>\$1,407,819</b>	<b>\$ 558,190</b>	<b>\$ 365,514</b>	<b>\$385,933</b>	<b>\$ 365,865</b>	<b>\$ 345,446</b>

\* Amounts include allocated net interest expense (interest expense less financial income), 4 WTC Liberty Bond debt service reimbursements, Grants in connection with operating activities, Pass-through grant program payments; and gains or losses generated by the disposition of assets, if any.

\*\* PATH Capital Contributions include Federal Transit Administration (FTA) funding related to the construction of the WTC Transportation Hub.

\*\*\* Other includes Development Facilities, Regional Facilities and Programs, Ferry Transportation, Access to the Regions Core and PAICE.

Note: These unaudited schedules related to Port Authority Facilities have been prepared, subject to audit, adjustment and reconciliation, solely for general information purpose, in accordance with accounting principles generally accepted in the United States of America. This unaudited financial information should be read in conjunction with the Consolidated Financial Statements of The Port Authority of New York and New Jersey, and its component units (collectively the Port Authority) and the accompanying note disclosures and schedules for the year ended December 31, 2015.