DELAWARE RIVER

JOINT TOLL BRIDGE COMMISSION

MINUTES

MEETING OF FEBRUARY 14, 2008

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

MEMBERS OF THE COMMISSION

NEW JERSEY

HONORABLE DAVID R. DEGEROLAMO
Chairman

HONORABLE DONALD HART

HONORABLE HARRY ZIKAS, JR

HONORABLE WILLIAM J. HODAS
Secretary-Treasurer

HONORABLE THOMAS SUMNERS, JR

PENNSYLVANIA

HONORABLE GAETAN J. ALFANO
Vice Chairman

HONORABLE MELISSA HELLER

HONORABLE J. ALAN FOWLER

HONORABLE BERNARD GRIGGS, JR.

HONORABLE JOHN PREVOZNIK

Revised 10/07

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

STANDING COMMITTEES

FINANCE, INSURANCE, MANAGEMENT OPERATIONS

PENNSYLVANIA: Alfano, Fowler
NEW JERSEY: Hart*, Zikas

HUMAN RESOURCES, AFFIRMATIVE ACTION AND TRAINING AND SAFETY

PENNSYLVANIA: Griggs, Fowler
NEW JERSEY: Hodas*, Sumners

PROJECTS, PROPERTY AND EQUIPMENT

PENNSYLVANIA: Griggs*, Alfano
NEW JERSEY: Hart, Hodas

CONTRACTS SUB-COMMITTEE

PENNSYLVANIA: Griggs*, Alfano
NEW JERSEY: DeGerolamo, Hodas

CAI COMMITTEE

PENNSYLVANIA: Alfano, Fowler
NEW JERSEY: DeGerolamo*, Hart

AUDIT COMMITTEE

PENNSYLVANIA: Prevoznik*, Heller
NEW JERSEY: DeGerolamo,

PROFESSIONAL SERVICES COMMITTEE

PENNSYLVANIA: Alfano*, Heller
NEW JERSEY: Sumners, Zikas

*Chairman of Committee

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION
RECAPITULATION OF COMMITTEE MEMBERSHIP
2008

DeGerolamo	(1)	Ex-Officio of all Committees
Alfano	(1)	Finance, Insurance, Management Operations Committee
	(2)	Projects, Property and Equipment Committee
	(3)	Contracts Sub-Committee
	(4)	Professional Services Committee
	(5)	CAI Committee
Fowler	(1)	Finance, Insurance, Management Operations Committee
	(2)	Human Resources, Affirmative Action and Training and Safety Committee
	(3)	CAI Committee
Griggs	(1)	Human Resources, Affirmative Action and Training and Safety Committee
	(2)	Projects, Property and Equipment Committee (Chairman)
	(3)	Contracts Sub-Committee (Chairman)
Hart	(1)	Finance, Insurance Management and Operations Committee (Chairman)
	(2)	Projects, Property and Equipment Committee
	(3)	CAI Committee
Heller	(1)	Professional Services Committee
	(2)	Audit Committee
Hodas	(1)	Human Resources, Affirmative Action and Training and Safety Committee (Chairman)
	(2)	Projects, Property and Equipment Committee
	(3)	Contracts Sub-Committee
Prevoznik	(1)	Audit Committee (Chairman)
Sumners	(1)	Professional Services Committee
	(2)	Human Resources
Zikas	(1)	Finance, Insurance, Management Operations Committee
	(2)	Professional Services

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

PROFESSIONAL ASSOCIATES

CONSULTING ENGINEERS

TRANSYSTEM/LICHTENSTEIN CONSULTING ENGINEERS
Paramus, New Jersey

LEGAL COUNSEL

FOX ROTHSCHILD, LLP
Philadelphia, Pennsylvania

FLORIO, PERRUCCI, STEINHARDT & FADER
Phillipsburg, NJ

EMPLOYMENT COUNSEL

STRADLEY, RONON, STEVENS & YOUNG
Philadelphia, PA

WOLFF AND SAMSON
West Orange, NJ

AUDITOR

MERCADIEN
Princeton, New Jersey

FINANCIAL ADVISOR

VACANT

COMMUNICATIONS CONSULTANT

BELLEVUE COMMUNICATIONS
Philadelphia, PA

INVESTMENT MANAGEMENT

COMMERCE CAPITAL MARKETS
Philadelphia, PA

Revised 2008

Commissioners

- Executive Director
Frank G. McCartney
  - Chief Engineer
George G. Alexandridis
    - Engineering Department
  - Deputy Executive Director of Communications
Joseph Donnelly
    - Director of EZ-Pass
Yvonne Kushner
      - Director of Community Affairs
Vacant
  - Chief Administrative Officer
Vacant
    - Director of Human Resources
Patrick Heron
      - Director of Information Technology
Mary Jane Hansen
        - Acting Director of Purchasing
Fred Fields
  - Deputy Executive Director of Operations
Frank J. Tolotta
    - Director of Security, Safety and Training
James P. Stettner
      - Director of Policy & Planning
Glenn Reibman
        - Director of Compact Authorized Investments
Julio Guridy
          - District Superintendents
Jack Prior-Acting -D I
Lendell Jones, D II
Bryan Hill, D III
            - Director of Plants & Facilities
Frank Beruta
              - Director of Electronic Security Surveillance
Matthew Hartigan
  - Chief Financial Officer
Sean P. McNeeley
    - Comptroller
Stephen Cathcart

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

Meeting of February 14, 2008

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DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

Meeting of February 14, 2008

CALL TO ORDER

A Special Meeting of the Delaware River Joint Toll Bridge Commission was Called to Order at the Inn at Lambertville Station, 11 Bridge Street, Lambertville, New Jersey in the Riverside Room, on Thursday, February 14, 2008 at 10:17 a.m., pursuant to notice properly forwarded to each member in compliance with the By-Laws. David DeGerolamo, Chairman, presided at this Meeting. The Commission met in Executive Session to discuss legal and personnel matters prior to this meeting.

APPEARANCES

COMMISSION MEMBERS:

Hon. Gaetan Alfano (Pennsylvania)
Hon. David DeGerolamo (New Jersey)
Hon. J. Alan Fowler (Pennsylvania)
Hon. Donald Hart (New Jersey)
Hon. Melissa Heller (Pennsylvania)
Hon. John Prevoznik (Pennsylvania)
Hon. Thomas Sumners (New Jersey)

COMMISSION MEMBERS ABSENT:

Hon. Bernard Griggs (Pennsylvania)
Hon. Harry Zikas, Jr. (New Jersey)

COMMISSION GENERAL COUNSEL:

Mark Peck, Florio, Perrucci, Steinhardt and Fader (New Jersey Legal Counsel)
Michael Perrucci, Perrucci, Steinhardt and Fader (New Jersey Legal Counsel)
Marcel Groen, Fox Rothschild, (Pennsylvania Legal Counsel)
Loren Danzis, Fox Rothschild, (Pennsylvania Legal Counsel)

COMMISSION LABOR COUNSEL:

John Casey, Wolff and Samson, New Jersey Labor Counsel

GOVERNORS REPRESENTATIVES:

Robert Shane, New Jersey Governor's Office

REPRESENTING THE COMMISSION'S COMMUNICATIONS CONSULTANT: BELLEVUE COMMUNICATIONS

Pete Peterson, Bellevue Communications

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

Meeting of February 14, 2008

COMMISSION STAFF MEMBERS:

Frank G. McCartney, Executive Director
Frank J. Tolotta, Deputy Executive Director of Operations
George Alexandridis, Chief Engineer
Patrick Heron, Director of Human Resources
Stephen Cathcart, Comptroller
Sean McNeeley, Chief Financial Officer

OTHERS:

Arnold Conoline
Jeff Winitsky, Parker McCay
Marc Feller, Dilworth Paxon
Mark Salimena, CDR
Phillip Norcross, Parker McCay
James Fagan, NW Financial

ROLL CALL

Frank G. McCartney, Executive Director, in his capacity as Secretary for this Meeting, called the Roll, and at the conclusion thereof, reported that there was a quorum present--there being five members present from Pennsylvania and five members present from New Jersey.

WELCOMING REMARKS OF CHAIRMAN

Chairman DeGerolamo welcomed those persons whose identities are set forth hereinabove under "Appearances".

INTRODUCE ANY COMMENTS FROM THE PUBLIC

Chairman DeGerolamo addressed the meeting and invited any comments from the Public or Press on items pertaining to today's Agenda.

PRESENTATION 2007 BOND

Executive Director McCartney addressed the meeting and stated, the purpose of today's Special meeting is to bring the Board up to date on the status of our auction rate securities associated with the 2007 Bond Issue and other matters which are on the agenda. At this time Executive Director McCartney introduced the Financing Team. He then requested Mark Salimena from CDR. to bring the Board up to date on the status of our auction rate securities associated with the 2007 Bonds.

Mr. Salimena addressed the meeting and said:

"In 2005--just to give you a brief summary, in 2005 the Authority started discussions about doing an issue in 2007. With that, they went to the rating agencies and determined that, you know, they were very sure in 2007 that they would have at least at that point a hundred and fifty million dollars of capital spending and at the time the proposal was for a few banks that they do what we call a swap or a rate lock for a portion of the debt.

"At the time Morgan Stanley and Merrill Lynch sent proposals to the Commission. At that time they suggested that the Commission enter into a swap with them, basically hedge at least a portion of the three hundred million dollars as Frank said, in a very low interest rate environment. The Commission then took that to the rating agencies.

"The rating agencies had given them credit saying I think that is a great idea to avoid certain interest rate risks that rates could go up on a portion of their debt and basically gave their blessing that this was a good idea, we think this is a good environment to do it in and please let us know how it goes, keep us abreast as you go through the process.

"At that point the Commission went out and had determined that they were going to share, both of them had proposed and they were going to share equally, that Merrill Lynch and Morgan Stanley each received 75 million dollars of the swap, so at that point they hired swap advisors and we had financial advisors and counsel to enter into the swap, so from 2005 until the swap started in 2007 the Authority did not pay anything in a sense of principal and interest payments, but they would be able to lock a rate for a portion of the 150 million dollars and the 300 million dollars anticipated to be issued in 2007.

"In that situation we entered into what we called working group meetings to get this accomplished. At the time of the exercise the swaps with Morgan Stanley and Merrill Lynch were exactly the same. Same terms, same conditions, no difference, were locked in at a rate of 4.11%, so 4.11% was the rate on the swap that would start in I believe it was at the time March of 2007.

"At the time we were getting closer to the date and the Commission at that time was working on getting the capital improvements structure together and issuing the fixed rate debt along with what would be the offsetting issue for the swap.

"They determined that in addition to the initial 150 million dollars they would have to delay the swap for five or six months which is within the rights of the Commission. At that point we had to renegotiate the deal to move the swap six months based on the Market conditions. At that point we increased the yield for that period so we would delay the swap starting for another six months to 4.23% so now the swap would be at 4.23%, so that at the time of issuance, the

Commission issued 134 million dollars in fixed rate and 150 million dollars variable and what I am going to do now is go through the variable rate lay of this which is attached to the swap. So in this situation this is a summation on that.

"The Commission entered into a swap with Morgan Stanley and Merrill Lynch that at this point was at 4.23%. In that the Commission would pay Morgan Stanley and Merrill Lynch 4.23% and in return Merrill Lynch and Morgan Stanley would pay the Commission what we called the floating rate Market index at the time which was called BMA which has recently changed its name to SIFMA. At that point the Commission issued 150 of a variable rate debt and that had to be variable rate debt so they issued on that same index variable rate debt on BMA, so basically you issued BMA and you should receive BMA in return for Morgan Stanley so both of those issues should cross each other off and you are left with point 23%. At that point everything worked."

Vice Chairman Alfano asked why did it work?

Mr. Salimena then said:

"Well, it worked for the first two months. The bonds were tracking BMA and we were receiving BMA for the first two months. I think the graph on page two of the handout shows the bonds and what we were receiving on the swap and you see the disconnect started in November."

Chairman DeGerolamo said:

"Okay, and this part where they are paying us and we are paying based on.."

Mr. Salimena then said:

"At the time the Commission decided that they were going to get insurance and Triple A credit and we took bids and MBIA was the most secure so at that point we determined that the method that was most cost effective with MBIA Insurance was auction rate which is what we are in today and that is that auction rates would be set in that situation every seven days and in that, those bonds were traded with MBIA Insurance and auction rate mode based on historical and current up until November, you would be paying a lower rate than you will be receiving from Merrill Lynch and Morgan Stanley, so an example is that if BMA reset at 1% you would actually receive 1% from Merrill Lynch in that but your bonds would trade through BMA so let's say they traded at point 90% so you would receive a ten basis point, or a point 1% differential for a cash flow gain at that time and this was something that we explained and everybody agreed that this was a good rate index to go with so for a period of time it was actually based on the time when we locked in, there was larger risk in 2005 and based on that, they thought, and many people thought that rates would be above 5% and they felt locking in a rate two years early on a portion of the debt was a very good thing to

> *do, a very conservative approach because even if rates were lower they would be not be issuing--the other 150 million dollars would be on fixed so you are really doing a blend of the two."*

Vice Chairman Alfano then asked what is the net effect on our borrowing cost?

Mr. Salimena stated in this scenario the borrowing cost on the 150 million dollars becomes less.

Vice Chairman Alfano asked what does it become, according to the example distributed it becomes, 4.15.

Mr. Salimena said

> *"Actually 4.23 and lower and you are basically at 4.13 on borrowing so that would be your new rate. That would be 4.13. now. The reset would be every week, so for the first ten resets we receive the benefit and at the time on average even though there was a couple ups and downs there, we probably were five basis points, point 5 better than Market at that point. Now."*

Chairman DeGerolamo asked if we anticipated it to be that close .

Mr. Salimena said:

> *"We really never saw the--we were averaging pretty much right in the middle"*

Commissioner Prevoznik asked what is the down side at this point?

Mr. Salimena stated there is no down side.

Commissioner Prevoznik said:

> *"Looking at your model, it appears the down side would be if we were operating should it go the other way a fixed rate of 4.25 and that will cover everything"*

Mr. Salimena stated that, that would be worst case scenario.

Commissioner Prevoznik said:

> *"That would be worst case scenario and then the best case scenario would be making a little bit over the margin"*

Mr. Salimena said:

> *"Right, and so at this point in November we started to see auction rates start to fail and in December it started to flow over into the municipal market to where we are and pretty much started to affect how bonds were trading so we started to get*

in conversations very early on in December with the Commission and Frank and the staff that we started to see what was happening, but we had invested so much into MBIA for insurance for this issue, while we were still ahead on an overall basis, we were going to watch it and monitor it as we go forward and we continue today to do this. Come the end of December, early January it really started to affect the market dramatically. The insurers had gone to over and above the auction rates and started showing subprime losses outside of their realm and they were not doing what they were supposed to be doing and those subprime mortgage affected the credit ratings of the insurers and so what happened was people started getting nervous about buying auction rate insured bonds. Now, I don't mean to minimize, but basically we started to see trading trends of 10 to 12 above the market beginning. The trading trends have yet been above 325 basis points so what happened is that BMA now is at 1.24 so we only received 1.24 from Merrill Lynch and Morgan Stanley. Our reset was four and a quarter--four sixty so now we have to pay bond holders 4.60 so the difference in that is 336 basis points, so basically that difference added to our 4.23 you are now paying 7.59 weekly based on what we had to do today."

Vice Chairman Alfano asked if over 7% was our borrowing cost now.

Mr. Salimena said:

"Over 7%. Now, not that that makes any difference at all. As I am sure most people realize this is affecting everybody. We only care about the Commission so we have come up with options for dealing with this. When we put the original documents in place, we actually inputted options for the day something like this would happen."

Commissioner Hart asked:

"Maybe I didn't understand your answer. What happened to the 4.23 being our outside exposure?"

Mr. Salimena said:

"At the time as long as the combination of where our bonds trade and what we received from Merrill Lynch was a wash the higher rate we could pay was 4.23 and based on historical--this never happened before. 4.23 was our highest risk when evaluated not just by us

Commissioner Hart asked what can the 7.59 go to and if that was happening in the market right now.

Mr. Salimena said:

"Yes. The worst case scenario is the New York/New Jersey Port Authority, their cap rate on 100 million dollars was 20. They reset it to 20 on Monday so they paid 20 and I believe plus their swap was at 5.23. They are paying 25.23 as of Monday, so I guess the good thing is that more importantly in this situation it is not that we have not--also keep in mind that our auctions have not been failing and we have a reset today, but we have not had our auctions fail, so in that situation I can answer any questions, but that is kind of where we are today."

Commissioner Prevoznik asked what is the BMA index and why is there a disconnect.

Mr. Salimena said:

"The BMA index is made up of tax exempt variable rate paper and with this issuance and having been asked this question before, why is this rate so high because what happens is this is a very small portion of the market. You are probably looking at somewhere between 800 and 900 million dollars--I will use an example of Children's Hospital of Philadelphia. It's a natural Triple A. It doesn't need any rating. They have a billion dollars of all variable rate debt and they don't have the insurers, the auction issues."

Commissioner Hart asked if we needed insurers?

Mr. Salimena said:

"Well, that is where we are going with this. What happens is that now the market is starting to trade off in the sense that insurance is looked at as a negative. You are actually paying a penalty for having them and so you will see this is where it gets strange. Because so many people have this problem, it is driving up the rate and the fixed rate debt too and what happens is fixed rate debt instead of the highest rate of 4.25 it is trading at 100 basis points above it, so even if you went to the fixed rate debt you would be at five and a quarter and even though the Market continues to go down, you are actually paying a penalty."

Executive Director McCartney said:

"I have a question. SIFMA measures strictly variable rate demand bonds with seven day resets and we talked a little bit about that and will talk more about that later, but the variable rate demand bonds can be put back in more liquid, so that index has gotten a lot lower than--SIFMA also measures the specific auction rate index and sample of 180, 190 auction rate issue does track a lot more closely to where we have been, so that liquidity in the variable rate demand bonds has caused SIFMA to stay low and the Fed to cut rates and go in different directions."

Chairman DeGerolamo asked:

"I have a question in regard to the MBIA insurance and how is what is happening today on the reset, how are we effected by the fact that MBIA is now and we talked about the bail out plans and how are we at risk today."

Mr. Salimena said:

"MBIA is the only insurer of the group that even though they are on negative watch in most cases and I am not saying this is actually true, most people believe that if anyone would survive it would be MBIA because they are the largest insurance and so the benefit is that this could resolve itself, but we can't play on that. It is costing too much cash flow to make that decision today. This case is not effecting our perspective. It is effecting their cash and that is a big part of it. The spread is so wide now it's a lot of money."

Commissioner Hart asked if someone making a windfall?

Mr. Salimena said:

"You know we talk about this and I don't know anybody that can buy the bonds and those bonds are in $100,000 increments, so you have at least $100,000 buy and what we are trying to figure out –in our case, that when the Market has failed most of that is I am assuming traders or, someone is making money and no one really knows and I am sure when this is all over and it has only been a four month period that we have seen this happen, four months over the last 20 years and what happens is that we don't know the end, so you will see as we get into the discussion on options that there is no simple rule. There is no simple answer to the problem."

Commissioner Prevoznik said:

"In listening, this seems almost like an artificial condition that is driving the Market because there is no problem in the underlying entities, all right. They are paying their bonds, they're doing everything they're supposed to, so I am being penalized for driving my car with insurance as opposed to not having it."

Mr. Salimena said:

"Absolutely correct and the worst part about it is no credit is the same. There is no mean in all of this. There is no map to figure out how each person is determining--to give you an example, we had someone yesterday not fail at an auction and the New Jersey and New York Port Authority did fail.

Mr. Perrucci asked

"Why don't we just go with the fixed and when the uncharted waters settle down in a couple of years."

Mr. Salimena said:

"This is where it gets interesting, is that, when we entered into the 4.23 the swap was actually--as rates go down you now have an above Market swap which, of course, Merrill Lynch and Morgan Stanley don't want to let you out because you're paying them above the Market so there is something called a Market warranty penalty for doing that. The penalty today is about 12.8 million dollars, so to actually get out of this and refund the money what happens is we move on and--it is the perfect storm. Rates are going down and auction rates are going up so when rates go down swaps get more expensive."

Mr. Fagan said:

"We are going to use this as the agenda for the next couple of minutes. Rather than go through all the details, you know, I am going to give you a couple of broad strokes and go back and discuss any details or any questions that arise, so to the extent that any one of these options has ramifications, they all have thresholds of pain."

"There is no silver bullet and it all requires, a lot of further analysis on any one of these options--so we will start with the first one which is status quo and I think Mark basically told you where you are now and if you continue now, basically you are looking at your reset rate in the fours, mid-fours, high-fours"

"We haven't reached the 12%, but certainly in the Marketplace we have the first one as status quo, so we are basically going to focus on these costs here and then we can go through some of the risks and benefits of any individual item that you might want to discuss, so to the extent that you are still functioning in the Marketplace the interesting thing is that because you have a 12% maximum market rate, the Market is giving you credence that you're not going to actually get to 12, that you're actually, your auction rates will continue to function at a much higher interest rate than we had anticipated, but we feel it is just not in the Authority's best interest if you stay in the auction rate mode because you have that potential of going to 12% and we are seeing failed auctions from much more substantial issuers and the same sort of credit ratings."

"One of the options we can look at is if we just take you out of this whole process and we leave the swap in place so that we don't terminate and have the 12.8 million dollars payment and we go over to a one year fixed rate. The one year fixed rate, if the Commission were selling a note issue today on its own credit as an A2 for one year, you would probably be in the 1.4%. There would be some cost

of issuance, probably about 30 to 40 basis points so all you would be looking at is about 1.7% for one year and that would still match up with the swap payments. You may have a mismatch, but it is going to be under one percent and you have protection for one year, but if you do this now, then you terminate your MBIA insurance and you have the reissuance and you have other arbitrage rebate analysis that you would have to go through..

"With the one year solution next year you still are looking to have the 150 million financed so you have to have another reissuance and once again, you can go through the same analysis, do we want to put it out as a fixed rate and we have given you an exit strategy for the one year note at a variable rate with liquidity and it would go out there and the same format would stay in place rather than go through that two steps. We can just go to a variable rate mode which the documents allow us to do, but in changing that format we have to bring in a bank support.

"A bank support can have two different components to it. One will be a liquidity function if you say I don't want these bonds any more, let the next guy own them next week so he is going to have a higher interest rate and say take me out. If there is no higher interest rate, then the Market fails and the first investment folds.

"In the variable rate format you have a bank in put there where you can actually put the bonds back to the bank if the underwriter fails to in the function to buy your bonds so that you know on any given week you can be taken out of your bonds so that short term liquidity is in place. There is a second component. The bank could offer a credit facility as well based on guaranteeing the cash flows and say well, we have a triple A cash flow from MBIA.

"The Market has totally discounted that MBIA insurance at this time until their credit is reviewed substantially and reinstated as a triple A or downgraded so they have discounted that totally and in fact, if the Market says if we have insurance we would rather have plain vanilla because we know what we're dealing with, and you know there is still too many unknowns, we are not going to buy an insurance piece of paper at this time, so you have those options when you go into a variable rate mode and each one had additional costs to get there. They do put you into the same format where this swap function and these cash flows are still functioning, so with that, you can still keep your swap in place without terminating them.

"Every one has additional concerns. Right now the demand for these liquidity and credit supports are overwhelming to the banks. We have already gone out with the Commissioner's approval and we have some proposals in hand that we can deal with. We don't have all the terms and conditions, but we do have some numbers that we can deal with so we are safeguarding some of these options, but

we are going to have to act on them within the next couple of weeks one way or the other.

"We do have a little window of time to ferret out the terms and conditions as presented to us before we make a final decision, but at some point if you ask a bank to go into document negotiations with you, you are committing to them and they are putting time and effort and money as you will on your side to get into this solution, so 30 or 60 days from now we would flip into a variable rate mode. The variable rate mode with the letter of credit for credit and liquidity is still performing fairly well just as we originally drew up with the auction rates.

"The letter of credit with just liquidity is trading slightly behind. Now, when we say slightly behind we are seeing anywhere from that SIFMA index plus 30 to SIFMA plus 400 depending upon who you talk to so there is, once again, a little bit of a difference of opinion in the Marketplace right now. As Mark said, you know, you can expect an A, double A, triple A trade on those levels. They are not happy right now. I know I went through this very quickly."

Executive Director said:

"Let me just jump in on this point. There is a lot of activity going on in Washington and everybody is rushing to try and fix what is a very difficult problem right now, but the point you make about accessing letters of credit or lines of credit, we felt this whole line of credit which was about 22 basis points cost was okay and would trade. Now we are told no, you need a letter of credit which is doubling in cost; is that correct?"

Mr. Fagan answered, yes, it is about double.

Executive Director McCartney said:

"So you're talking 44 or 50 basis points for the letter of credit to back up what was previously an insurance—"

Commissioner Prevoznik said:

"Let me just ask, if the Market goes in this direction how good are these letters of credit with the bank?"

Executive Director McCartney stated, they would only issue half and the capacity would dry up, there is limited access.

Commissioner Prevoznik said:

"I am aware of that, so if the underlying bank behind it has the same problems as the insurance company has in investments and things like that—"

Mr. Norcross said:

> *"Typically what would happen is, the documents on the VRDB transaction, if we were to go in that Scenario, we would have what we call downgrade provision. That is if they go below a certain rate because they are forced to downgrade you have to go find another liquidity provider, so the answer is if you are concerned about the macroeconomic condition of banks what Jim said, this is one of these issues that you have to continue to monitor."*

Commissioner Prevoznik said:

> *"Not to be rude or belligerent, but two years ago this never was going to happen and we entered into it and now we are looking at the same people giving us advice and it sounds to me like the Markets, even the banks are headed in that direction as well so are we going to be here two years from now redoing this same thing because we're in trouble?"*

Mr. Norcross said:

> *"I think and I will turn this over to Jim, one of the difficulties in the scenario is that you are having to make a very important and very substantial business decision based upon a volatile daily-changing Market and the people who are participating in that Market candidly don't know what is going to happen the next day, and so, you know, one person mentioned go issue fixed rate bonds, I would like to sleep at night. That does have tremendous cost to it, but that is at the one end of the spectrum. The other end of the spectrum is basically to go back and access the Market in a different alternative with all the questions and variables you have, and that in essence, you are trying to quantify your decision making. Those are the two ends of the spectrum."*

Commissioner Prevoznik said:

> *"Well, taking what you're saying one step further, the advice we are getting is guess. That is where we are."*

Mr. Fagan said:

> *"I think the advice that we seem to be focusing on is the auction rate market is broken. When the Port Authority is paying 20% only for one week, but nonetheless that market is certainly tainted. The variable rate market is still performing. That format for the swap is still working and then as changes happen in the Marketplace and the variable rate market allows you to make adjustments from that format, so we can move into that and still keep the swap in place and have some on-going decision process whether this is still the best proposal six months, a year, five years from now."*

Vice Chairman Alfano asked:

> *"I have a question. Again, I am not trying to put anybody on the spot and I appreciate the fact that you guys are professionals and you give us your best educated assessment of a difficult situation, but do any of you gentleman feel strongly that we should maintain the status quo? Is maintaining the status quo something that we should not even consider?"*

Mr. Fagan said:

> *"I think the auction rate market is not performing and I can't say when and if that will come back. The other portions of the Markets are performing—"*

Vice Chairman Alfano said:

> *"I am not trying to put anybody on the spot, but we are facing a series of alternatives and I think perhaps part of the process is a rule out process. Let's look at the alternatives and make a decision to rule some of them out."*

Mr. Fagan said:

> *"Some of the things you want to consider when you actually answer that question is we have gone out for proposals for liquidity and credit support and we have gotten a little bit ahead of the game to that extent we have some responses that we can probably deal with. Our understanding is that, you know, the banks are being overwhelmed with these responses because everybody is looking to it and if we don't act upon it, you know, the next period of time, 30 days, it's a high probability that we can lose those responses or they would be a higher number. "*

Vice Chairman Alfano said:

> *"But again, to my question and I understand your response and I appreciate it. It's very well spoken, but to get to my question: Does anybody in our group of professionals here feel strongly that we should maintain the status quo?"*

Mr. Feller said:

> *"I guess to answer that I don't feel strongly about maintaining the status quo. First of all, and I am not going to speak for my colleagues at Parker McCay, but as bond lawyers we are not experts in providing financial advice. We have a feel for things, but, you know, certainly our colleagues at Northwestern are much better at that than we are. Not doing anything is making a decision, and there is certain costs of not doing anything. Of course, you could find out maybe even later today that rates are, you know, our rate has shot up and the cost is going to be much more substantial. I guess one question is deciding to do nothing has*

different levels to it. You can decide to do nothing for a long period of time and decide to do nothing for a very short period of time, 30 days, and see where things play out over the next four weeks. Obviously, there are some very, very smart people on Wall Street who are all grappling with the same issues here. We have issuers, we have investment bankers all trying to figure out how to handle this situation. There is a risk that you lose opportunities if you wait. You may lose opportunities of letter of credit banking. There is also a possibility that somehow the Market straightens itself out, investment bankers come up with maybe some new structures, products that no one has thought of today. You just don't know, and I don't think the answer to your question is simple and I don't think that you can really take a lot of comfort one way or another.

"It really is somewhat of a crap shoot deciding what to do. I mean, again, we know what the options are. I think they have been nicely laid out. We don't know what the options will be 30 days from now. They could be better, they could be worse, and I think from our perspective we can, you know, the bond counsel's side from the documentation side, accommodate the different structures depending on what they are. They do have various ramifications not only in terms of how the documents direct us to proceed. The documents as Mark said, are pretty flexible but also in terms of how our friends at the IRS view the different possible alternatives that we may follow. There are certain ramifications of issuing a one year note and converting to variable rate bonds backed by a letter of credit that involve an impact on the arbitrage rebate that has to be paid, on the project fund, the debt service reserve fund that we don't think is as significant but it really does need to be calculated.

There is also the impact on the swap and the termination liability that exist on a swap which we don't have to pay unless we were actually to terminate. The swap is viewed by the IRS as deemed paid and that will yield of whatever bonds were issued to take out the existing auction bonds. Again, it shouldn't have a major impact on our ultimate decision, but there are just some technicalities that we need to look at.

Chairman DeGerolamo asked:

" I have a question. Dollars and cents, we go to a one year fixed rate note. What is that going to cost us to do that and if we don't terminate now? If we don't terminate the swap and go to the one year fixed, what is the cost, what happens to the swap if we are still in the difficult credit scenario from one year from now, is it the same 12 million dollars to swap that?"

Commissioner Heller said:

"Jim, can I add one thing on that? I guess it really becomes a lot more narrow with the situation two weeks ago with 10 million dollars to gets out and now we are at 12.8 to get out."

Mr. Fagan said:

" And that is strictly the function of where the general market interest rates are. As they get lower, your termination fee gets higher, and as you said, a year from now, what is our termination fee? That depends upon the general level of interest rates at that time. It could be higher,, it could be even, but just remember if you are getting out of the swap even that is because interest rates are now 5 or 6%. You know, to the extent that you're going to make money that would mean issuing a new debt at 6 and a half percent. So as we have lower interest rates and the Fed keeps pounding to get lower interest rates on the shorter end your termination fee on your swap is going to be higher.

"Keep in mind that we can't go below zero, so there is a maximum amount of the swap--we calculate the maximum amount of the swap to be probably about 17.5 million.

"We have actually touched 1% recently which is probably in the last two years, so we have never gone below one ever, but then you get into a whole new scenario called yield suppression which is a different discussion,

"But that same scenario allows us to issue this bond too, so the point is even though you are in this situation there is a maximum amount you can pay. In other words, you can't go below zero so the theory is that the maximum. amount of the swap which we calculated when we did it was 17.5 is pretty much about it."

Commissioner Prevoznik asked:

"One of your options that you didn't list is what happens if you go to a fixed rate?"

Mr. Fagan replied that we have the fixed rate.

Commissioner Prevoznik asked:

"I thought you indicated that would increase the cost to about 5.23. Are there any other costs to that because you are comparing 5.23 to 4.23 and I am looking at 5.23 compared to 4.85?"

Mr. Fagan said:

"Let me just go through that scenario. If you decide to terminate the swap you are going to pay 12.8 million and basically you are going to unwind this but you have the ability to pay off your variable rate debt at any time and now you're going to go into the Market and issue new debt and the new debt is probably going to be out to a 4.75 plus the cost of issuance plus the 12 million eight and

now you are starting the whole process over again and you are locking in a fixed rate at something in excess of 5%, so you have already paid the insurance and all of that and you are starting all over again including the swap."

Commissioner Prevoznik said:

"But my point is in order for the Commission to compare apples to apples as opposed to apples and oranges I think they need to know what the ultimate cost is to go to a fixed rate and undoing as well and if that turns out to be 6% we need to know that and if that turns out to be 5.4% and you're giving a scenario that is going to cost 4.8% they need to know that as well. I can hand something out that shows that and it shows all that compared to these options which are--you are talking about 13, 14 millions dollars more than any of these options we are considering over the term. Why don't you hand those out?

Executive Director McCartney said:

"We always have the option to go to fixed and what I am trying to do now is set a strategy that we can continue to assess the Market but being able to take action to stop the bleeding and give us a chance to catch our breath and do the due diligence we have to do to make an informed decision, so if we can just pause and see if this makes any sense and if it doesn't we continue discussions, but the one thing that the professionals have come to the conclusion that maybe the best step is to do two things now.

"Get authorization from the Board to explore the possibility--continue to discuss securing the letter of credit and convert the mode from auction rates to variable rates and parallel to that, continue discussions with the--secure a one year or a note that would allow us to step aside from all of this and watch the Market settle out. We would like to look at that parallel track and come back to you on the 25th and say here is what we think we are doing based on the information that we have and kind of directing counsel, bond counsel, one firm to look at the note option and one to look at the conversion variable rates and then continue our discussions with the insurance companies and banks and look for credit providers to come back and say what are we going to do or let's if we are going to convert and go with a letter of credit and because that Market seems to be tracking the way that we want it and that might be the way that is the best decision."

Mr. Fagan said:

"We have one proposal with just liquidity and using MBIA insurance remaining intact. There is a second proposal to have a credit facility and liquidity and there has been a little bit of an impasse between those two credit enhancers, the insurers as well as the banks as far as the intercreditor agreement. We do understand that this is a changing condition. We do believe that we can probably get through that and it is not on the table right now, but we think that we can

come up with a credit facility that would include or let us remain with the MBIA insurance going through that process."

Commissioner Hart asked :

" When you say pay for it—"

Mr. Fagan said

"You pay the fee up front and basically over the life of the bond which is 25 years."

Commissioner Hart said:

" So that is non-refundable?"

Mr. Fagan replied:

"Assume it's non-refundable."

Mr. Feller said:

"If I can follow up on your two options, I think it might be helpful to think about it in this context, and this goes I think to one of the Commissioner's points. Number one, this has sort of been I will use the word "crisis" that has been sitting below the surface of the water for as Mark said since November. You are going to be reading, it was in the Wall Street Journal today, but it is going to be in the popular press tomorrow, wide-spread auction failure across the United States. Somebody asked is there an option to do nothing.

"The reality is even if we pursue these two alternatives we are going to be doing effectively nothing and seeing what the Market reacts to in the next two weeks because there is a theory out there that this crisis is being created to solve the Monoline insurance issue, so I think by looking at these two alternatives over the next two weeks and coming back to the Commission, you're effectively hedging your timing issue because the public is going to become aware of this over the next 48 hours and you are going to see quote 'a municipal bond crisis' across the Country.

"That should drive some reaction to this issue. Number two, the two alternatives are sort of the best of the lot given one is sort of a vanilla one year fixed rate deal. Think of it in a very simplistic way. I am going to buy a year of time, wait for the Market to settle out and it is not dependant upon any financial institution. We are going to sell our notes to the public. We'll see in a year when the world shakes out and we'll come back with a new alternative. On the other side we are sort of jumping back into the banking market, a market that by definition is very volatile

and uncertain, so while I know you would like a unanimous recommendation from your professionals, we are all equally uneasy about driving the decision making absolutely into one of those directions, so if you think about in terms of why we are sort of proposing a dual track that gives you a little bit of perspective.

Vice Chairman Alfano said:

"And what are you asking us to give you?"

Mr. Feller said:

"Alternative A would be the one year note, and that is simply I'll call it the vanilla alternative time hedge. This Authority, and I'll refer to Jim, can access a one year note market. The one year note market is very strong and relatively speaking, low cost of capital and we are not dependant upon any financial institution, not Morgan Stanley, not CitiGroup, not MBIA, not anybody. Put it to bed, we'll start working alternatives and see what the world reacts to MBIA and the other players in a year.

"That is the alternative that most people like to think, go to sleep at night, I'll worry about it later. The other alternative is to go out and issue VRDB bonds and that is you have to restructure the auction rate bonds in a different mode and that assumes that we are going to go back into the market with financial institutions and that has in turn risk, as Jim and Mark indicated, given the uncertainty. We don't know, nobody knows what is happening tomorrow or next week. Some cynics are saying Wall Street is creating this crisis so that they can get a Government bail out of the insurers. Okay, it's cynical but not impractical so those are the two alternatives that we are looking at."

Executive Director McCartney said:

" In the next two weeks to the 25th and have the benefit of two more weeks of activity and awareness of the marketplace, will that give you enough time for a concrete proposal?"

Mr. Feller said:

"I think you are going to see some crystallization because I believe what I believe is going to happen and this is public, the DRPA auctions just failed last night. State of New Jersey auctions are failing today. I know the State Treasurer and the Governor are meeting. This is, again, I will use the analogy, this was percolation beneath the surface and it just blew up through the surface, so I think you're going to see more activity and more attention paid to the monoline insurers in the next two weeks than you have seen in the past six months. Are they going to get to all definitive answers? Who knows, but I think we will get a better chance of coming to a little bit more decision making certainly in two weeks."

Commissioner Prevoznik said:

> *"Just so I understand, by choosing this path the risk we have in the next two weeks is credit lines can go up much more; correct?*
>
> *" Let's just, again, I thought the credit line went from 25 basis points available credit to--whatever happens in the next two weeks we are going to lose whatever opportunity here if things get worse."*

Mr. Fagan said:

> *"No, I think we would have probably ten days to two weeks to continue the discussions on some of the terms and conditions."*

Commissioner Prevoznik asked what was the deadline for responding?

Executive Director McCartney replied the deadline is to have approval by March 11th.

Commissioner Prevoznik said:

> *"Then the other side is do our bonds fail and pay 16% until we do something ."*

Mr. Fagan said:

> *"Unfortunately it's going to take us an amount of time to do any change so that is a risk."*

Mr. Perrucci asked if the Commission has the right to pay these bonds off, and Executive Director McCartney replied in the affirmative.

Mr. Perrucci then said:

> *"So one scenario would be send everything back, the 150 million dollars and call it a day."*

Executive Director McCartney said:

> *"Well, we have got the swap. It's not just paying--we have got to pay for the swap."*

Mr. Salimena said:

> *"We actually built it so it's really your option. Something would have to happen to the Commission."*

Commissioner Hart said:

"Going forward I think it would be more prudent and the one thing is the cost of the market swap."

Mr. Salimena said:

" Right. As I said, when we did the actual analysis which was given to the Commission and to the Board we actually showed what a max rate would be, what a max termination would be. You can also finance the termination cost of the swap with the refunding costs. If you did a one year note, you would probably want to amortize that cost over the life of the bonds that you would issue later to take out the one year note so you would get a better sense of the cost of that, but you can do that.

"The other thing is, excuse me for looking at my Blackberry every now and then, but as we speak there are other issuers just like you who are going through the same analysis and just to show you the state of thinking and flux going on, I have been getting e-mails, reports from some of my colleagues at the office about what other issuers are considering and, you know, there are ideas that are being thrown on the table that seem somewhat new and for example, one of them is talking about a three year put bond. I am not even sure what it is. I would have to find out, but apparently it's issuing refunding bonds would give the purchasers the right to put the bond back in three years which would give them some sense of liquidity.

"Another is sort of strange--it is called the total return swap and there is a major bank in New York which is now looking at some of these auction rate securities and saying we might be interested in buying your auction rate securities and entering into a swap with you where you will pay us 300 basis points and we'll pay you 250 for a net cost of 50 basis points higher than what you're paying now, and then, again, just sitting here I haven't had a chance to even try and understand all this stuff, but there may be some developments over the next couple of weeks as we go through this analysis that we will want to take a look at.

" What I would like to say too on the swap side we actually have clients that have swaps that have actually gone in this situation so in the last three weeks we have actually had some major clients with millions of dollars in positive returns. We had a swap 16 weeks ago that was a negative 9 million dollars that last week we brought around to a positive 7 million dollar gain and the point of the matter is that what happens here you have to understand is being driven by a Market sense in that it is bringing all the scenarios together and the one disconnect that is not even if you look at the '05 is the insurance is not in the portfolio analysis because

it never happened before and really not that you want to blame this and as to the question of the other gentleman sitting to my right is that if we would change to an LLC it's an annual fee.

"Keep them all up front because that is how we want their payment, so you just hate to walk away from all that money that you paid for 30 years of insurance and that is what makes the decision so hard is that you paid millions of dollars to these guys for protection and what they are doing is harming you and I am sure the lawyers in the room would say and I am sure this will some great case at some point, but we are in the situation we are in now and not that I want to discount the swap but I mean the ratings are still not effecting the underlying rating of the Authority because of this. They still think that the decision that you made was a good one. It's just that the risk you are now taking on was not attainable for anybody to look at.

Mr. Groen asked how much was the insurance cost?

Mr. Salimena said:

"1.2, but then they also asked for hold premiums. They asked for monies in the beginning which we got very upset about and I know we actually talked--they wanted to hold their policy for a period of time and they asked for the payments not to be applied to the premium."

Mr. Groen then asked what the real cost is, and Mr. Salimena replied 1.8 give or take

Chairman DeGerolamo addressed the meeting and invited any further discussion on this item. With no further questions or comments, Chairman DeGerolamo thank the Financial advisors for the update and moved to the next item on the agenda.

APPOINTMENT OF ARNOLD CONOLINE, TO THE POSITION OF CHIEF ADMINISTRATIVE OFFICER

R: 1480-02-08 - HR-01-02-08

Chairman DeGerolamo addressed the Meeting and asked the Commission Members if, after their review, there were any questions.

At the conclusion of the review Commissioner Heller moved and Commissioner Hart seconded the adoption of the following Resolution:

"**RESOLVED**, by the Delaware River Joint Toll Bridge Commission, at it's Regular Meeting assembled this 14th day of February 2008, that the Commission, via this Resolution authorizes the Executive Director to effect the appointment of Arnold Conoline to the position of Chief Administrative Officer with compensation established at $121,794 per annum, which is the first

step in range for Chief Administrative Officer ($121,794 - $158,332), pending satisfactory completion of the required personnel processing.

Vice Chairman Alfano addressed the meeting and requested to be recorded as recusing himself from this vote and any discussion involving this item. He then stated for the record, the basis of his recusal is, he knows Mr. Conoline personally and professionally. He stated that he represented Mr. Conoline for many years.

Chairman DeGerolamo invited questions on the Resolution, No questions were presented, and the Resolution was adopted.

PURCHASE OF BUILDER'S RISK INSURANCE

R:1481-02-08 – INS-01-02-08

Chairman DeGerolamo addressed the Meeting and asked the Commission Members if, after their review, there were any questions.

At the conclusion of the review Commissioner Hodas moved and Commissioner Alfano seconded the adoption of the following Resolution:

"**RESOLVED**, by the Delaware River Joint Toll Bridge Commission, at it's Regular Meeting assembled this 14th day of February 2008, that the Commission, via this Resolution authorizes the purchase of Builder's Risk insurance for the term February 18, 2008 to February 1, 2009 in accordance with the attached Memorandum of Recommendation for the work performed as well as the materials stored and located on the site(s) associated with the Electronic Surveillance/Detection System Design-Build-Maintain Project (Contract DB-396A).

"**FURTHER RESOLVED,** that the Commission authorizes the Executive Director to affect the purchase of the aforementioned insurance policy.

Chairman DeGerolamo invited questions on the Resolution, No questions were presented, and the Resolution was adopted.

INTRODUCE ANY COMMENTS FROM THE PUBLIC

Chairman DeGerolamo addressed the meeting and invited any comments from the Public or Press.

ADJOURNMENT

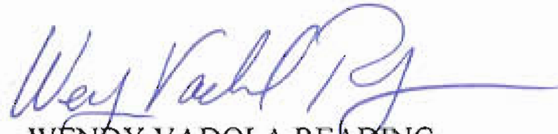
Chairman DeGerolamo invited a motion for Adjournment.

Commissioner Prevoznik then moved that the Meeting be adjourned and Commissioner Hodas seconded the motion. The voice vote was unanimously affirmative and the Meeting was adjourned at 12:22 p.m., Thursday, February 14, 2008.

DELAWARE RIVER JOINT TOLL BRIDGE COMMISSION

Meeting of February 14, 2008

Prepared and submitted by:



WENDY VADOLA READING
Assistant Secretary Treasurer to the Commission

Approved by:

FRANK G. McCARTNEY
Executive Director