
Commission Meeting

of

COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION: Committee Room 16
State House Annex
Trenton, New Jersey

DATE: November 22, 1996
10:00 a.m.

MEMBERS OF COMMISSION PRESENT:

B. Carol Molnar, Chair
Senator Bernard F. Kenny Jr.
Assemblyman Louis A. Romano
Assemblywoman Carol J. Murphy
Anthony F. Annese
E. Martin Davidoff, Esq.

ALSO PRESENT:

Edward J. Troy
(representing Commissioner Linda M. Anselmini)

Michael W. Klein
(representing Treasurer Brian W. Clymer)

Thomas Neff
(representing Senator Robert E. Littell)

Christina Higgins
(representing Michael R. Ferrara)

David Rosseau
(representing Senator Bernard F. Kenny Jr.)

Paul Shidlowski
Acting Executive Director



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B. CAROL MOLNAR (Chair): I'd like to call this meeting to order.

In accordance with the open public meetings law, the Commission has provided adequate public notice of this meeting by giving written notice of the time, date, and location at least 48 hours in advance. This notice has been mailed and faxed to *The Trentonian* and *The Star-Ledger* and filed with the Office of the Secretary of State.

Our Director will now call the roll.

MR. SHIDLOWSKI: Martin Davidoff?

MR. DAVIDOFF: Here.

MR. SHIDLOWSKI: Anthony Annese?

MR. ANNESE: Here.

MR. SHIDLOWSKI: Robert Roth? (no response)

Thomas Neff, representing Senator Littell?

MR. NEFF: Here.

MR. SHIDLOWSKI: Senator Kenny?

SENATOR KENNY: Here.

MR. SHIDLOWSKI: Assemblywoman Murphy?

ASSEMBLYWOMAN MURPHY: Here.

MR. SHIDLOWSKI: Assemblyman Romano?

ASSEMBLYMAN ROMANO: Here.

MR. SHIDLOWSKI: Michael Klein, representing Treasurer Clymer?

MR. KLEIN: Here.

MR. SHIDLOWSKI: Edward Troy, representing Commissioner Anselmini?

MR. TROY: Here.

MR. SHIDLOWSKI: Christina Higgins, representing Mike Ferrara?

MS. HIGGINS: Here.

MR. SHIDLOWSKI: Carol Molnar?

MS. MOLNAR: Here.

MR. SHIDLOWSKI: We have a quorum, Madam Chair.

MS. MOLNAR: Thank you.

I would like to ask you to join me in the Pledge of Allegiance.
(participants recite Pledge of Allegiance)

Thank you.

We have a few housekeeping items. The first item is the approval of the November 8 meeting minutes.

ASSEMBLYMAN ROMANO: I have one comment, if I may, before the approval.

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN ROMANO: You don't have to show it to me again. Does OLS want to take down the notes on this? On Page 5, "Assemblyman Romano expressed concern that the" -- it should be owners and not of the house, but of the building. You have to understand that is a converted industrial building for residential use -- "still had to pay taxes and insurance but could not use the building." That is the only comment I had, if I can make that clarification for meaning.

MS. MOLNAR: Thank you, Assemblyman.

Mr. Davidoff.

MR. DAVIDOFF: I would like to move approval of the minutes.

MS. MOLNAR: Do I hear a second?

ASSEMBLYWOMAN MURPHY: Second.

MS. MOLNAR: Thank you.

Call the roll.

MR. SHIDLOWSKI: Mr. Davidoff?

MR. DAVIDOFF: Yes.

MR. SHIDLOWSKI: Mr. Annese?

MR. ANNESE: Yes.

MR. SHIDLOWSKI: Mr. Neff?

MR. NEFF: Yes.

MR. SHIDLOWSKI: Senator Kenny?

SENATOR KENNY: Yes.

MR. SHIDLOWSKI: Assemblywoman Murphy?

ASSEMBLYWOMAN MURPHY: Yes.

MR. SHIDLOWSKI: Assemblyman Romano?

ASSEMBLYMAN ROMANO: Yes.

MR. SHIDLOWSKI: Mr. Klein?

MR. KLEIN: Yes.

MR. SHIDLOWSKI: Mr. Troy?

MR. TROY: Yes.

MR. SHIDLOWSKI: Ms. Higgins?

MS. HIGGINS: Yes.

MR. SHIDLOWSKI: Ms. Molnar?

MS. MOLNAR: Yes.

The next item is the Executive Director's report.

MR. SHIDLOWSKI: I just have a few brief remarks this week, Madam Chair.

We are currently developing the recommendations for the Commission based on the criteria that have been supplied to all of the Commission members. I would like to remind all of the Commission members our next meeting is December 13. We will be voting on the recommendations on that date.

Typically, we try to give the Commission members at least a week's worth of time to review the briefing material. We'll try to do better this time. My goal is two weeks. I don't know whether we'll be able to do that, but we'll try.

That concludes my report, Madam Chair.

MS. MOLNAR: Thank you.

We'll start with the presentations.

On behalf of the Commission, I would like to welcome our Treasurer, Brian Clymer. He is first on the agenda. He will discuss our debt reporting.

TREASURER BRIAN W. CLYMER: Thank you very much. It is interesting for me to be on both sides of the podium at the same time. It doesn't happen very often. (laughter)

I thought it was appropriate, since this was the first occasion that the Commission would have to meet with regard to this report, as required by

the change in statute, that we be present to give just a brief run-through over it and then have an opportunity to participate in the discussion with the Commission as to where it is going from here.

As you are aware, there is a requirement to collect certain pieces of information. The legislation requires that information be collected on all of the State's outstanding general-obligation debt, capital leases, and installment obligations. That has been presented and is arrayed here in a number of the appendixes, I guess specifically *A*, *B*, and *C*, in some detail. It is in summary form that we will show here in just a moment; then, it is arrayed in detail, as well: Debt service, again, for the prior fiscal year, debt service for the current fiscal year, and estimated debt service for the subsequent five fiscal years, as well. That has all been projected out here, probably in excruciating detail, that the Commission can peruse.

In addition to collecting that information, the Commission is required to give an assessment of the State's ability to increase its overall debt and a recommendation of the amount of any such increase. That is a fairly broad statement. You are supposed to use as criteria those criteria used by the municipal securities rating services in rating government obligations. As part of your consideration we have included those criteria as appendixes *D* and *E*, along with copies of the rating agencies' rating reports, as well, for you to read. That is obviously a fairly general direction in terms of what the State could increase in its overall debt and the recommendation and one of the reasons I thought it appropriate that, perhaps, we engage in some discussion as to where that was going.

First of all, as far as the State's management goals -- and they're arrayed on the board you see on your right-hand side, next to our table here (indicating) -- first of all, to maintain and enhance the State's long-term credit rating; also to maintain the State's short-term credit rating; to authorize new general-obligation debt, and as a rule of thumb, we have tried to keep it in an amount approximately equivalent to the amount of general-obligation debt that is being retired in any one given year, as well. It is not necessarily a criteria that has to be adhered to. We have just done that as a general rule of thumb in order to not change our relative debt position.

We want to continue the prudent policy of minimizing subject-to-appropriation debt and mix in with that the bonded debt, along with the pay-as-you-go appropriations. Then, hopefully, to effectively balance the implementation of capital improvements with the need to minimize debt. More and more we may look to capital debt as a way to finance capital improvements. I don't think it is imprudent that we do that. I think we need to be careful with how we balance that debt along with the pay-as-you-go program.

Just very briefly, and all of this is in your material here, there are three types of debt that the State uses: general-obligation debt, subject-to-appropriation debt, and moral-obligation debt. General-obligation debt is -- and I'm going to array here, you see the types of projects -- environmental projects, correctional facilities, Human Services' facilities, transportation projects, higher education facilities, and advanced technology centers. This is debt that generally requires approval of the Legislature, approval of the Governor, and also approval of the electorate. As such, the

general-obligation debt are the first bills that the State pays. Out of the revenues and the budget that the Legislature passes on every year, the first thing that has to be paid is the general-obligation debt.

Subject-to-appropriation debt, the second kind, includes things such as office buildings, to cover cash flow imbalances -- and our cash flow comes in sort of ebb and flows during the year. Typically, for example, at tax time, when everyone pays their income taxes and everyone pays their corporation taxes, is the time of year when the State has a good deal of cash. Generally, in the time frame of December, January, February is when the State's cash flow is somewhat low, and we sometimes borrow either through tax anticipation or the issue of commercial paper to cover cash flow imbalances. Computer equipment, the statewide 911 system, automobile insurance liabilities, the MTF Fund, and sports facilities are all covered under the subject-to-appropriation purposes. Those are debts that require the approval of the Legislature and approval of the Governor. They do not go to the taxpayers. They are dependent on whether or not the Legislature appropriates money for them every year.

Moral obligations are things such as the Student Loan Program, the South Jersey Port Corporation, capital projects. This is where the Legislature has delegated out to authorities the ability to issue debt with a legislative -- I guess, it's not actually a guarantee behind it, but it's sort of a promise behind it that if it doesn't get paid that the Legislature will cover that. Again, the Legislature is not legally required to cover it, but in the event that the authority could not cover the debt out of its own revenue streams, it's generally considered that the State has a moral obligation to do so.

In general, and by way of summary, the State has-- I call your attention to the first section of your report, Page 4, that shows the general-obligation and secure-ties debt analysis. You'll see that it is arrayed by 1996, which is the last year; 1997, which is our current year; and the next five years, as required by the legislation in terms of how that debt amortizes. It is broken up by the actual State -- by the various authorities that come under the State, for which the State is obligated, and you'll notice that the total, at the bottom of 1996, is approximately \$8.4 billion of debt.

If you will turn over to the top of Page 5, you will see where it says total outstanding debt, under debt presentation, of \$8.5 billion, as compared to the CAFRA of \$9.2 billion right next to it. That is the amount of debt that the rating agencies consider that we have. That is what the rating agencies consider to be State debt, that \$8.5 billion.

We, in turn, have reconciled that to our annual financial report, at the bottom of Page 5, totaling up to \$9.2 billion. You can see the various types of operating leases, things that come out of the interdepartmental accounts, for example, nonsecuritized debt. These are things that show up as debt as a result of our gap reporting but are not considered as part of the State's debt by the rating agencies.

That is summarized in the chart you see to the right of you there (indicating): The general-obligation debt; subject-to-appropriation; and moral-obligation debt; and again, with the operating leases and some of the special things, such as the Chapter 12 county college bonds, where we pay a portion of the debt service, as well; then, underneath that, the CAFRA adjustments that I just mentioned on Page 5 to total up to the amount that will

tie out to our actual financial statements. I wanted to make sure, even though the Commission is looking at the outstanding debt and trying to equate this to the way the rating agencies looked at it, that we also tied it into the financial statements, because somehow the way people perceive these things are not always identical.

We looked then at the -- again, not to get in this -- rating criteria. We look at the economic base; the specific debt issues; debt limitations and needs -- these are all some of the criteria that rating agencies look at in analyzing our debt -- how well the planning goals are documented, and that is something that this Commission undertakes every year; what our financial management is; the annual budget, whether the budget is passed on time. For example, whether we maintain an adequate surplus, and whether we maintain our spending within projected goals. Then, of course, the Capital Improvement Program -- how much we're spending on capital, whether it be through debt or through cash pay-as-you-go programs. All those various criteria sum up--

Again, if you turn to the next page, Page 6, in your report, which are the State comparisons of selected indicators and rankings, you will see the net tax-supported debt per capita and how New Jersey rates with other states. Now, the Commission in coming up with its recommendation is supposed to consider or take into consideration the rankings and where New Jersey is and how it stands to other states. So we prepared that report. I have done that by arraying it with using the 1996 medians, with not issuing any debt at all, how New Jersey would rank -- New Jersey ranked if we issued \$300 million of new

debt and what would happen to the rankings if New Jersey issued \$500 million of new debt.

Now, although the legislation asks for this criteria to be used, this is a somewhat, probably, difficult thing for the Commission to do. It's probably not a great tool to look at in looking at whether or not New Jersey should issue debt. That is, taking into consideration where New Jersey is to other states, we are probably on the high side as compared to other states in terms of debt issuance on the one hand. On the other hand, New Jersey is if not the wealthiest state in terms of per capita income, but at least the second wealthiest behind the State of Connecticut.

As you see on the fourth line there, personal income per capita, in 1996, New Jersey ranked second. It is possible that New Jersey could end up ranking number one or again fall behind Connecticut as number two. But again, one of the things that the rating agencies look at in terms of the debt issuance is the State's ability to pay and the general overall financial situation of its taxpayers, in terms of whether or not they could be taxed to pay debt.

You would probably be better advised to look at the third line of net tax-supported debt services, a percentage of revenues, something that tied in the percentage of debt to the total budget as opposed to looking at a ranking compared to other states. Because it is probably difficult to rank us with other states.

The other difficulty in doing that-- This comparison takes into consideration that New Jersey's overall debt would change. It does not take into consideration that other states' debt will probably change, as well. So this assumes a static position of other states, while New Jersey would issue, in the

cases arrayed here, \$300 million of new debt and \$500 million of new debt. It is obviously quite likely that other states will be issuing debt at the same time New Jersey is.

So it's even conceivable that New Jersey could issue debt above these guidelines and actually have our rankings fall as the result of other states issuing debt, as well. So that is very difficult to indicate where we would, ultimately, come out in the ranking of states and why I believe that is probably not a good criteria or a good tool, specifically, for the Commission to use. You're probably better comparing ourselves to ourselves by looking at our debt as a percentage of revenues or as a percentage of our overall State's budget.

That, in a nutshell, is where we are. Now, appendixes *A*, *B*, and *C*, again, break out all of the debt, again, between last year, this year, and the next five years by all of the various issues in an extensive amount of detail, along with the rating agencies' criteria followed behind that. In appendix *F* are the medians that I talked about, to look at the rankings that I have showed on the chart that you have to my immediate right. Then, a copy of the actual legislation in appendix *G*, behind that, and then a copy of the charts that we have just gone through behind that.

So, without going line by line through each year of amortization, that would conclude our presentation. I would be happy to join in a discussion with you.

MS. MOLNAR: Thank you, Brian. Thank you.

I have one question. On Page 6, the third line item, where you talk about the debt services as a percentage of revenue, I do see that the debt

is going up from 1996 to 1997. Now that is one piece. I am wondering, is the projected revenue going down also or is that staying flat from year to year?

TREASURER CLYMER: State revenues?

MS. MOLNAR: Yes.

TREASURER CLYMER: Are projected to go up.

MS. MOLNAR: To go up, okay. Thank you.

Now, are there any other questions from Commission members?
Assemblyman Romano.

ASSEMBLYMAN ROMANO: Good morning, Treasurer.

Not to belabor anything, but just two fast points-- In the material supplied to us by yourself, on Page 72 of the Standard and Poor's *Credit Week*, Municipal-- It's in that article.

MS. MOLNAR: What is the page number?

ASSEMBLYMAN ROMANO: Well, it will be Page 72.

MS. MOLNAR: Page 36.

ASSEMBLYMAN ROMANO: Page 36, I'm sorry.

TREASURER CLYMER: Page 36, okay.

ASSEMBLYMAN ROMANO: Page 36 of the report.

TREASURER CLYMER: I'm with you.

ASSEMBLYMAN ROMANO: You have it?

TREASURER CLYMER: Yes.

ASSEMBLYMAN ROMANO: All right. In that section that is called debt: "Although New Jersey has over \$1 billion of authorized but unissued general obligation bonds, it continues to issue most of its debt under the auspices of State authorities, and in fact, since 1988 the amount of

authority debt has increased more than threefold to \$4.5 billion. Such debt does not require the approval of the voters and usually is payable from State lease payments or other appropriations.”

Do you have any comments about that, Mr. Treasurer? It would appear as if this is almost, in my terms, my frame of reference, like lease purchase, where you don’t have to go before the voters. How is it that this debt has gone up threefold? In the same connection, which might be tied to this, on Page 21 of the report, it talks about the New Jersey Economic Development Authority with the various obligations, and we have ratings that go from A to AAA. I wonder if you can comment on the two of those.

First on the article in the paper, and then, why is there such a run in the ratings from A to AAA? What is happening here with this EDA fund?

TREASURER CLYMER: Well, to answer your second question first, the ratings generally change with regard to what the underlying security is. If the underlying security is in-- With EDA, many of the bonds are revenue bonds. They are not bonds that are on the State’s books, but are supported by the underlying revenues of the project. So they may be rated by the relative merit of how secure that underlying revenue is. That is why the changes. Generally, if it is, for example, a general obligation or a direct obligation of the State, it carries the State’s rating, which would be the AA-plus.

Now, with regard to the debt that they talk about in the debt under the auspices of State authorities, that debt is all debt that required legislation or most of it required legislation and the approval of the Governor, as well. So it has gone through the State process. That would include things

such as capital leases for leasing buildings, purchasing buildings, and things like that.

ASSEMBLYMAN ROMANO: Do you have any comments why it has tripled, though, since that period of time as referred to in the article? It just happens to be the nature of the beast?

TREASURER CLYMER: Is that terms of outstanding debt, Jim, or does that include what has been paid off, as well?

JAMES S. POOLE: That includes some debt that has been paid off, that \$4.5 billion. The subject-to-appropriation versus the general-obligation debt of the State is more, in our view, a matter of policy between the executive branch and the legislative branch. Both require legislative approval, both require the Governor's approval; one requires to go to the electorate, the other does not.

TREASURER CLYMER: Probably one of the principal reasons why it went up is the adoption of the Transportation Trust Fund. That has had an enormous impact, because of the initial authorization which I guess was--

MR. POOLE: It's \$3.5 billion.

TREASURER CLYMER: Well, no, 3.5 is a current authorization, but the initial authorization when it first--

MR. POOLE: I think it was up to about a billion nine.

TREASURER CLYMER: Yes, it was probably almost \$2 billion the first time out, and now it carries an authorization of \$3.5 billion. So I think you'll find that a large part of those bonds are the Transportation Trust Fund.

ASSEMBLYMAN ROMANO: I had every confidence that you would have the answer at your fingertips, Mr. Treasurer.

Just one final thing. This report--

TREASURER CLYMER: I just-- Steve just reminded me here, the other large item that went out there is the MTF Fund, as well.

ASSEMBLYMAN ROMANO: Now, we will not see in this report -- I guess it would be next year-- As far as the dredging bonds, that's not contained within this time period here that you're referring to.

TREASURER CLYMER: Only in the event that they're issued.

ASSEMBLYMAN ROMANO: Only in the event that they're issued.

TREASURER CLYMER: And to the extent that they're issued, yes.

ASSEMBLYMAN ROMANO: Well, that's another thing. How about unissued bonds? They're not listed here?

TREASURER CLYMER: That's correct.

ASSEMBLYMAN ROMANO: Is there any idea of what the unissued bonds are that we're sitting back on? I don't know if it's part of the responsibility of this Commission, but we do have situations where, given the intelligence that is derived from the Department of the Treasury to go out and sell bonds at the right time, we do have bonds that have not been issued yet, but the permission has been given.

TREASURER CLYMER: We have approximately \$1.5 billion of unissued bonds, not including the dredging.

ASSEMBLYMAN ROMANO: Thank you very much, Mr. Treasurer.

MS. MOLNAR: Are there any other questions?

Assemblywoman Murphy.

ASSEMBLYWOMAN MURPHY: In your prospection of issuing debt, the interest rates look-- What interest rates are you basing that on? You have a chart -- the general-obligation debt--

TREASURER CLYMER: Well, it's based on whatever we're looking at right now, whatever the current market is.

ASSEMBLYWOMAN MURPHY: Okay.

TREASURER CLYMER: For budgetary purposes on the general-obligation debt we use 7 percent.

ASSEMBLYWOMAN MURPHY: So it's based on 7 percent.

TREASURER CLYMER: And for the Transportation Trust Fund we budgeted 8.5.

ASSEMBLYWOMAN MURPHY: Thank you.

TREASURER CLYMER: Now, in fact, what happened is we have experienced less than that generally, but that is how we budgeted.

ASSEMBLYWOMAN MURPHY: Well, that's a nice surprise.

MS. MOLNAR: Thank you.

Are there any other questions?

Tom Neff.

MR. NEFF: One question about the general-obligation debt.

There is not necessarily a one-to-one correlation between the types of bonds that are issued and what the proceeds are actually spent on. For

example, if you look at hazardous waste bonds that were authorized for 1986, there is still an awful lot of unissued debt, yet pretty much the amount of funds that were authorized for hazardous waste cleanup, under that Act, have pretty much been depleted. I guess there has been borrowing from other bond funds and from other funds for that purpose. It makes it really difficult to understand at what point there is going to be a need for a new bond act.

I'm just wondering, what kind of information can be looked at to understand at what point authorized expenditure amounts are really being depleted for these bond acts?

TREASURER CLYMER: There are two ways to look at it, and it is very difficult. It is one of the reasons why I have argued for bonded debt as opposed to a cash payout, if you will, for many of the things like hazardous waste cleanup and many of the environmental types of projects and why we have many of the projects or many of the bonds dating back to the early 1980s that are still unissued.

In many cases, yes, we do advance funds. We do have the ability -- the Treasurer has the ability -- to advance funds on a project that is underway until we need to issue the bonds. So, for example, if we have bonds that are issued and cash available and the project needs \$5 million or \$10 million, we can advance it. We don't necessarily have to go out for the whole \$100 million bond issue and have \$100 million sitting around if I can advance it from existing funds and hold off on paying interest until I actually have to issue the bonds.

That is something that was given to Treasury by the Legislature. We reconcile it every year and provide a report on that. It's generally fairly

small in amount, so that's not really a criteria that you would look at or be particularly interested in because it's just not that much money.

I think probably more importantly it has to do with the authorization of the funds or the commitment of the funds. To use the DEP as an example, what they will do under, for example, the 1981 Bond Act where they've spent, for example, very little of it -- but they will tell you that all of the funds are gone -- they will commit those funds and the State may have to commit the funds to a specific project in order to guarantee to the Federal government that we're providing the local match so that the project can move forward. So we may have guaranteed the funds for that project, we put up the local match, and as far as DEP is concerned, those funds are committed.

The project itself, for whatever reasons -- it could be our own environmental laws, Federal environmental restrictions, just the time it takes to design a project or to get a project underway, there could be court proceedings around an environmental cleanup-- Until all that gets resolved, it could be five or ten years till a project actually begins. So the money may not be spent. It may just sit there. So we don't issue the bonds. There is no sense in issuing them if we can't spend the money.

In fact, what we're seeing right now, in the last couple of years, we may spend \$10 million or \$15 million a year against a couple hundred million dollars that were authorized back in the early 1980s and some of those commitments and some of those projects start to come on line.

What can happen-- Again, they need the ability to authorize the projects. They don't necessarily need the cash. What can happen and using the hazardous waste bonds as a -- or the hazardous waste-- I guess, using a

percentage of the corporation taxes as an example, that cash can come in and can be spent on either current projects or on early projects. The point is, the DEP needs to commit against projects.

I could literally take the cash coming from the corporate takedown that is coming in right now and use that to pay off projects committed to under the 1981 bond issue or I could do it for current projects, but the result of which is, if I am paying on a cash payout, if there is sufficient cash coming in from that several percent takedown of the corporation tax to pay the projects on a cash pay as you go, I'll never issue the bonds. DEP will use them. They will tell you that they are all committed and the funds are all gone, but, in fact, they've never been issued because I'm paying cash on a cash pay-as-you-go basis. If I need to issue them because their projects somehow accelerate or they get more projects on line, I always have the ability to issue those bonds in addition to the cash as it comes in.

So the issue that you're confronted with is one of what is the cash flow that will require me to issue those bonds, and again, with projects especially in the environmental area, and that's where the bulk of these are, it's very difficult to project when they'll need the money.

MR. NEFF: All right. I just wanted to bring that up, because I think-- If you look at Page 10 in the handout that was provided by Treasury, you would see, for example, Green Acres farmland and historic preservation of Blue Acres bonds that were authorized in 1995. There is \$340 million that was authorized. There is \$340 million that's not yet been issued, but it is certainly not the case if there is \$340 million in funds that are available to be spent on Green Acres. I just wanted to point that out.

TREASURER CLYMER: Yes, I can give you an example if you just go back a couple of years. In 1995, the Green Acres bonds that you mentioned, Tom, the \$340 million, are all unissued. From 1994, of the Human Services bonds for the developmental disabilities waiting list, \$160 million, as of the end of the fiscal year, only \$149 million had been issued. Now, we've advanced cash against that. As they've been able to spend the money, we've made the money available, so there is nothing being held up for the issuance of bonds. We're waiting for them to require the use of it.

In 1992, there was a Green Acres issue totaling \$345 million; of that, \$289 million is still unissued, as well. Going back to 1989, there is a bridge rehabilitation and improvement and railroad right-of-way preservation bonds of \$115 million; of that, \$68 million is still unissued. It goes back and back. The earliest ones that we have go back to 1969 to some water conservation bonds, \$271 million, of which there is \$14 million still unissued.

MR. NEFF: Just one last quick question, and this is fairly technical in nature.

On Page 35, there are ratings from Standard and Poor's for various nongeneral-obligation debt. It doesn't necessarily correspond with what the ratings are indicated to be on Page 21 for a number of the different bond issues. I'm just wondering, which ratings are accurate and what accounts for the differences?

For example, on Page 35, if you look at the ratings for Liberty State Park bonds, it's AAA according to Standard and Poor's, which is a great rating. But then, if you look at Page 21, it's indicated that the rating is just A, and I'm just wondering what the difference is? What would account for that?

MR. POOLE: On Page 4, what you're seeing -- and I'll use Liberty State Park -- that's the stand-alone rating. Since this report was done, we have refunded a portion of the Liberty State Park bonds. The prior bonds of the Liberty State Park are AAA since there is an escrow of the U.S. Treasury behind them. So I mean, you're getting into very technical aspects on a refunding or if there is an insurance. There are some of these transactions that are insured that will give you a AAA rating, but there is an underlying rating at less than AA; MTF is one.

TREASURER CLYMER: We only showed the current outstanding bonds, and we don't necessarily reflect bonds that are prerefunded. What happens is we go and market conditions change and interest rates drop. We may be able to refund a bond issue. The bond issue may not be callable. It may have call provisions on it that don't allow it to be called over the life or it may have a 10-year call on it. So what is done is the bonds are prerefunded.

All of the money to pay those bonds off is put into U.S. Treasury bills that sit in a big escrow. Literally, as that money comes due, it just pays those bond issues off. They are considered to be prerefunded. Because of the fact that the money is there to pay them and it's in cash, that's about as good a security as you can get; those just automatically carry a AAA rating.

MR. NEFF: Thank you.

MS. MOLNAR: Thank you.

Are there any other questions?

Mr. Davidoff.

MR. DAVIDOFF: Yes, as a follow-up to the last question, how much of the \$8.6 billion of bonds here are prerefunded?

TREASURER CLYMER: I don't know.

MR. DAVIDOFF: You can get back to us, obviously. Those are, in my mind, debt that has been offset.

A couple of other questions: On Page 5, you have \$960 million of loans payable under the section that says nonsecuritized debt. Could you please explain what that consists of?

MR. POOLE: The \$960 million is the surcharge that the State has imposed on the insurance companies of \$160 million a year that the State books as a loan payable, the \$160 million a year that we've gotten for, I guess -- what? -- eight years or six years.

MR. DAVIDOFF: The State has actually received that money from the insurance companies?

MR. POOLE: Yes.

MR. DAVIDOFF: Does it sit in a fund, or do you use it for general obligations?

MR. POOLE: No, it has been used by the State to pay off the obligations of both the JUA and the MTF and will continue to be that. I believe the last year is-- The last contribution the insurance companies will make is in FY 1998. I'd have to double-check that.

TREASURER CLYMER: This is part of the legislation that created the Insurance Guarantee Fund.

MR. DAVIDOFF: And then when do we have to pay that \$960 million back?

MR. POOLE: That \$960 million, plus whatever else is due under the agreement with the insurance companies, is to be paid back to the

insurance companies, subject to appropriation after all the bonds outstanding to pay off the MTF obligations are retired.

MR. DAVIDOFF: Now, JUA I remember. What does MTF mean?

MR. POOLE: Market transition facility.

MR. DAVIDOFF: Thank you.

MR. POOLE: After all those bonds are paid off, which I believe is the year 2013, we can--

TREASURER CLYMER: Year 2012.

MR. POOLE: EDA final maturity is July 1, 2011.

TREASURER CLYMER: Page 22.

MR. POOLE: Page 22.

MR. DAVIDOFF: So between now and 2011, we don't have to make any repayments of these?

MR. POOLE: Correct.

MR. DAVIDOFF: Are we paying interest on these loans?

MR. POOLE: No.

MR. DAVIDOFF: We don't have to pay interest at any time?

MR. POOLE: I do not believe so, no. This was all in legislation that was enacted--

MR. DAVIDOFF: So at some point in time, after 2011, the Legislature may decide to pay this loan back?

MR. POOLE: Yes, it is subject to appropriation by the Legislature.

MR. DAVIDOFF: So basically is this really a loan, or is it sort of a gift that we may decide to give back? I'm just trying to understand it.

MR. POOLE: That's at the discretion of the Legislature. I can't--

MR. DAVIDOFF: Okay, I'll go on. First of all, I would like to compliment you on a very comprehensive report as far as the debt that is covered in here.

My next question -- series of questions -- is to score what debt is not included in here that may be categorized as State debt. For example, debt of the New Jersey Turnpike or the Garden State Parkway, would that be included somewhere in this debt?

TREASURER CLYMER: No.

MR. DAVIDOFF: Okay. Why is that?

TREASURER CLYMER: It's not State debt.

MR. DAVIDOFF: These are State authorities or agencies, the Turnpike and the Garden State Parkway?

TREASURER CLYMER: No, they're independent authorities.

MR. DAVIDOFF: Independent authorities set up by the Legislature? I'm asking because I don't know.

TREASURER CLYMER: Yes.

MR. DAVIDOFF: And if they ever defaulted on their debt, the State would have no obligation?

MR. POOLE: No legal obligation. Their debt is mostly revenue debt, which is the revenues of those -- and we'll take the Turnpike and the Parkway-- The security on the debt issued by the Turnpike and the highway are revenue debt of the revenues of the particular authorities. There is no covenant. In fact, there is disclosure outlined in any official circular that they may have put out that this is not debt of the State of New Jersey.

The claim -- if there was an event of default -- a bondholder would have is against the revenues of the authority.

MR. DAVIDOFF: Next question: Are there other -- obviously, the New Jersey Turnpike and Garden State are well known to all of us -- smaller authorities, lesser-known statewide authorities that also are generating debt that are not included in this listing of \$8.5 billion of debt? What kinds of things--

MR. POOLE: Yes. I mean--

TREASURER CLYMER: Well, you would be looking at the \$9.2 billion, because that is the financial report.

MR. DAVIDOFF: Okay, the \$9.2 billion.

TREASURER CLYMER: That's what our auditors go through, and anything that can be classified or considered State debt, the auditors require disclosure on our financials. So that is what has been pooled into that \$9.2 billion. Even though, as I pointed out earlier, the rating agencies only consider that to be \$8.5 billion, the auditors consider it to be \$9.2 billion.

MR. DAVIDOFF: Okay. Let's deal with the \$9.2 billion. Are there things outside of that \$9.2 billion that I'd like to be aware of? Can you give me some examples of items that are not in here other than the Garden State and the New Jersey Turnpike?

MR. POOLE: The main issuing authority-- The main bond issuing authorities in the State are Housing and Mortgage Finance Agency, Wastewater Treatment Trust -- that are not in here -- Educational Facilities Authority, Economic Development Authority, and Health Care Facilities Financing Authority.

MR. DAVIDOFF: Okay. Thank you very much. On any of those classifications of debt, could the State of New Jersey ever be responsible for as a guarantor or as a secondary liable--

MR. POOLE: No. They have the same disclosure that we went over on the Turnpike and the highway, that it is not an obligation of the State of New Jersey. They are pretty much revenue debt of the underlying credit. I mean, a hospital in the State of New Jersey obligates its revenues on a sale through the Health Care Facilities Financing Authority.

TREASURER CLYMER: But if your question is: Could the State be a guarantor? Yes, the State could, and to the extent that we do, it would be reflected in here.

MR. DAVIDOFF: If you have been a guarantor it would be reflected in here?

MR. POOLE: Correct. Right. Some of the EDA transactions--

TREASURER CLYMER: The Performing Arts Center, for example, is EDA debt. The Market Transition Facility, the MTF Fund, almost a billion dollars, is EDA debt. It's issued by EDA, but we reflect on our books because it carries our guaranty.

MR. DAVIDOFF: My concern is to be aware of not only what is the State directly responsible for, but what I would call-- I imagine if any of these other debts, these five or six bond issuing authorities, ever went bad -- unlikely, but if it ever went bad -- then it would obviously have an impact on all of New Jersey's debt with the markets. My concern is that we, at least, have--

We, as a Commission, under our responsibility, have at least some -- have an idea of what that debt is and how much it is, understanding that, Mr. Treasurer, you don't have direct responsibility for that.

Madam Chair, it would be my viewpoint that part of our responsibility to do a thorough job would be to be aware of that debt.

I'll give you an example. In our Township of East Brunswick, people would always have arguments in Council, "Do we have \$33 million of debt or \$27 million or \$60 million of debt?" The answer to the question was, "Yes." The answer was there was \$27 million of debt for which the Township was liable for and \$33 million of debt through the sewer authority and the parking authority which were tied to revenue. Some people viewed it as debt and other people didn't view it as debt.

The fact of the matter is, by having all of the information in front, we basically understood what it was and were able to deal with it. From that vantage point, I would say that we would be better off saying, "Well, if there is \$30 billion of debt out there, of which only \$8.5 billion or \$9.2 billion is the responsibility of the direct State government and not the authorities" -- I think it's our obligation to the Legislature, our obligation to those who have appointed us and to the citizens of the State that at least we have in one place what all those numbers are, and I view this, certainly, as an opportunity for us to provide that service.

Again, possibly not through your office alone, Mr. Treasurer, but through this Commission.

TREASURER CLYMER: Well, I would argue that it-- Again, what the legislation asks for and requires is report on the State debt. We have

included that general obligation, subject to appropriation, and moral obligation, and anything else, again, appears in our financial statement because we would have some responsibility toward it.

The fact of the matter is, as we consider what debt the State should issue and what our State debt capacity is, those authorities just aren't relevant. That debt could be -- again, given what has happened over the last decade or so -- gone up, perhaps, considerably. I don't know. But it isn't relevant to our ratings. It isn't relevant to our financial decisions. It isn't relevant to what we would ultimately be obligated for.

I don't understand the relevance of it in terms of how we would decide how much debt to issue in any particular year. If, in fact, one of those unrelated agencies has revenue bonds out there and can justify the issuance of bonds through revenue and somebody is willing to lend them money based on that, based on that risk and the fact that they would double it, triple it, or quadruple it, it would have an impact that I, at the State level, couldn't issue bonds. Because you felt that these independent authorities or unrelated entities were issuing too much debt, I couldn't use that criteria to determine that the State, under those circumstances, wouldn't issue debt because I have to worry about those. They just can't enter into our decision-making process.

MR. DAVIDOFF: I do agree with you that it may not impact upon your ability to get debt locally, other than if they defaulted, then I think it would. But the second thing--

TREASURER CLYMER: I would respectfully disagree with that. If they default it does not-- They are not State obligations. We would not step in to bail them out. They are revenue bonds.

MR. DAVIDOFF: But I suspect the credit markets would punish us as a State if one of our authorities--

TREASURER CLYMER: No, no they would not. If the credit markets would punish us because one of them defaulted, then the credit markets would take that into consideration right now as they're rating us. They would then include them in their rating criteria and they don't. So the answer is, if they don't include them right now in how they rate us, in how they consider us, they can't do it in the future.

They can't look at the State at some point in the future and say even though they're unrelated to us and even though we have no moral obligation and even though the bondholders knew at the time they bought them that the State was not going to guaranty them and the State was not going to stand behind them and that the only thing they could rely on would be the tolls, the revenues from the road, and if the State Legislature still decided at that time they were going to step in and bail them out, then the rating agencies would include that as a part of our debt.

If you picked up \$.5 billion or a billion dollars worth of highway debt because it defaulted and the Legislature in its munificence decided that it would step in and create that bailout -- which I think would be highly unlikely -- then, yes, at that point they would consider it our debt because the Legislature made a decision to make it their debt. But until that happened, until such a situation existed, it absolutely would not be.

MR. DAVIDOFF: Just two other points. Assuming you're right for the moment, the statement you made regarding that there would be offsetting revenues and if they have offsetting revenues, that's okay--

One of the things that we looked at on a local basis -- and again, that's how I'm comparing because I've been more involved on a local basis -- is if you have water and sewer charges that certainly keep up with your revenue bonds, that doesn't necessarily mean that you're in an ideal situation if those water and sewer charges are high for the residents. That is certainly one of the things when these independent authorities, if they can be more effective through slimmer debt--

I still think, in spite of-- Understanding that you don't make decisions based upon that and the credits don't, I still think it's certainly something that we, as a Commission, and the public, in my opinion, should be aware of.

Madam Chair, when we come to a vote on this matter, I'm going to request that we attempt to gather that information to supplement what the Treasurer has given us today.

And what you have given us on this stead I think is excellent. Please don't misinterpret anything I've done as not understanding the very detailed work that you and your staff have done.

MS. MOLNAR: Regarding that, could we table that discussion till new business, as far as any kind of additional information such as that?

MR. DAVIDOFF: I think it's relevant to the action item that's coming up, but that is your discretion, Madam Chair.

I do have one other question to this specific information -- two other questions for specific information.

I noticed in your detail that there is going to be \$2.7 billion over the next four years in the New Jersey Transportation Trust Fund. We have

had \$1.9 million in debt, as of June 30, 1996, and I know you've mentioned several times about this trust fund. Could you or a member of your staff tell me, basically, what those funds are being used for, what kinds of improvements? Is that, like, for Route 280--

TREASURER CLYMER: Well, in general terms, it's being used for transportation improvements. So that is generally split between transit improvements and highway improvements. The Transportation Trust Fund Authority issues a very elaborate report with regard to all of the DOT's recommendations and how they spend that money as authorized by the Legislature. That goes to the Legislature every year for approval.

I would simply submit that you would avail yourself of that report to go over the actual detail of how they're going to spend that money. Because there is a whole separate authority that convenes just to determine how that money is going to be spent and make recommendations to the Legislature which then has to approve that expenditure.

MR. DAVIDOFF: And your projection is what you expect them to be requesting in the next several years?

TREASURER CLYMER: My expectation is they would probably try to use all of the funds that they have available. I'm sure we have a multi-multibillion dollar infrastructure in the State, and we expect to spend probably, through bonding, about \$3 billion over the next five years. I think they'll probably utilize most of that.

MR. DAVIDOFF: The other question relates to your table on Page 6, the line-items debt as a percentage of income and debt as a percentage of revenues. It would be helpful for me, by means of comparison, to

understand where states in the northeast, let's say, from Maryland to Maine, what their percentages are with respect to this data as a source of comparison--

Is it in the detail?

TREASURER CLYMER: Appendix *F*, yes--

MR. DAVIDOFF: Thank you.

TREASURER CLYMER: --has the report with all the medians and the states by comparison.

MR. DAVIDOFF: That's all, Madam Chair.

MS. MOLNAR: Thank you.

Are there any other questions or comments?

MR. KLEIN: Madam Chair.

MS. MOLNAR: Yes.

MR. KLEIN: I know this is going to be part, maybe, of the discussion for future action, but the Commission has to keep in mind the legislative mandate that we have, which is the last appendix to the report that the Treasury has prepared. Certainly, the underlined sections on Pages 2 and 3 of the legislation-- It's the last two pages of the handout, that's where it talks about a report on the State's overall debt.

I understand what Martin is saying. Maybe there is just a point of clarification we'll have to get about what it is the Commission is charged with studying.

MS. MOLNAR: Yes. That is what I was going to suggest, that maybe we get in writing the legislative intent. For purposes of today, I believe we can accept the report, but we can also make additional recommendations

as a Commission. So today, I would hope that we could at least accept the report, and we can go above and beyond it once we accept it.

Are there any other questions or comments? (no response)

If not, do I hear a motion to accept the Treasurer's November 1996 Debt Report?

MS. HIGGINS: I so move.

MS. MOLNAR: Do I hear a second?

MR. TROY: Second.

MR. SHIDLOWSKI: Mr. Davidoff?

MR. DAVIDOFF: I would like to amend that, make a motion to amend.

MS. MOLNAR: Okay. Do I hear a second to a motion--

MR. DAVIDOFF: Well, I'd like to state the amendment.

MS. MOLNAR: Oh, let's hear the motion. I'm sorry.

MR. DAVIDOFF: I'd like to amend that to accept the report as a first step toward our responsibilities under the legislation.

MS. MOLNAR: First step-- Clarify that.

MR. DAVIDOFF: In my view, I believe there may be more steps and that has been tabled till later. Certainly, as far as it goes -- and I'd be willing to modify the language of my amendment -- in what is presented I certainly accept it. I don't know if it's to complete satisfaction. When we make a motion to accept it, I'm not sure if we're making a motion to accept it and say that's everything or if we're just saying we're accepting what is on its face. I think we need to clarify what we're saying here.

MS. MOLNAR: Well, as I said, we can vote to accept it and then as a Commission make other recommendations. There are two steps.

MR. DAVIDOFF: If we vote to accept it insofar as it goes leaving us the ability to consider if more is required -- that type of wording -- I would be supportive of it and I would ask that we do that. If you want to help me with the wording here on something--

MS. MOLNAR: The original motion was to accept it as presented. Do I hear a second to Mr. Davidoff's motion to amend?

ASSEMBLYMAN ROMANO: Madam Chair.

MS. MOLNAR: Yes.

ASSEMBLYMAN ROMANO: You know, we're going to have the angels on the head of a pin in a few minutes.

Can't we just accept the report without endorsing it and just say it that way? We're just merely accepting the report. And put into the language here, "By this acceptance this does not constitute endorsement." We don't have to go to--

MR. SHIDLOWSKI: If I could interject at this--

ASSEMBLYMAN ROMANO: --English 101 for this one.

MR. DAVIDOFF: I would agree to that.

MR. SHIDLOWSKI: Part of the mandate in the amended statute for the Commission is that this report is part of the report that we present to the Legislature. It's the recommendations of the Commission both for capital recommendations, as well as for the Debt Report issued by the Treasurer.

MR. DAVIDOFF: I'd be willing to state that exactly, that this is part of our responsibilities -- that we accept this report as part of our

responsibilities under the statute and leave it like that. I would gladly-- If that would be amenable to all?

TREASURER CLYMER: Let me point out-- Really my purpose for being here today was to try to help out because this is the first time this is being presented. This is not my report. This is your report. This is an obligation of the Commission to collect this information. I staff out the committee and so most of the information, because of the nature of it, if you're talking about the State's debt, comes under the purview of the Treasurer. So I provide it. I have provided what, in fact, the legislation required for it and what, in my estimation, is necessary for you to make the decision as directed by the legislation.

But I would point out that, technically, this is your report. You have collected the information, but you've done it with the assistance of Treasury. So, again, don't look at this as being a Treasurer's report; although, obviously, most of the information has to, by necessity, come from my office.

MS. MOLNAR: Thank you. Yes. So we can accept this report and as a Commission decide to do additional steps on our own. So I--

Do you still want to amend the motion?

MR. DAVIDOFF: Well, I like what you said. If that's the motion that would be fine, that we accept this report and--

I'm sorry.

MS. MOLNAR: Christina.

MS. HIGGINS: Well, I would just say that the fact that we accept it doesn't preclude us from augmenting it. So I don't think it's necessary to state it in acceptance.

MS. MOLNAR: Correct, because we accept a lot of reports.

ASSEMBLYWOMAN MURPHY: I agree with you. We're accepting it as it is presented to us. Anything we do further than that is our own.

MS. MOLNAR: It's our mandate as a Commission to take additional steps as we see fit.

So I believe-- I don't think there is a second to change it. The original motion is to accept the report as presented. We had a second.

MR. TROY: Second.

MS. MOLNAR: Right.

Take the roll.

MR. SHIDLOWSKI: Mr. Davidoff?

MR. DAVIDOFF: Yes.

MR. SHIDLOWSKI: Mr. Annese?

MR. ANNESE: Yes.

MR. SHIDLOWSKI: Senator Kenny?

SENATOR KENNY: Abstain.

MR. SHIDLOWSKI: Assemblywoman Murphy?

ASSEMBLYWOMAN MURPHY: Yes.

MR. SHIDLOWSKI: Assemblyman Romano?

ASSEMBLYMAN ROMANO: I abstain with respect. (laughter)

MR. SHIDLOWSKI: Mr. Klein?

MR. KLEIN: Yes.

MR. SHIDLOWSKI: Mr. Troy?

MR. TROY: Yes.

MR. SHIDLOWSKI: Ms. Higgins?

MS. HIGGINS: Yes.

MR. SHIDLOWSKI: Ms. Molnar?

MS. MOLNAR: Yes.

MR. SHIDLOWSKI: The report is accepted, Madam Chair.

MS. MOLNAR: Thank you.

I would like to thank you, Brian, and your staff.

TREASURER CLYMER: Thank you very much.

MS. MOLNAR: Would the two gentlemen to my left explain your abstentions?

ASSEMBLYMAN ROMANO: Do you want to say anything? I'll say it.

SENATOR KENNY: No, I really don't feel it's--

ASSEMBLYMAN ROMANO: I really don't feel like I would like to myself, but I just want to say this here, the whole thing became a mishmash. And I'm not going to start what did they mean, etc., etc., etc. Just abstain and end the story.

MS. MOLNAR: I get it. Okay.

ASSEMBLYMAN ROMANO: That's why I tried to explain before. We can talk about how many angels are on the head of a pin, you know.

MS. MOLNAR: Yes.

ASSEMBLYMAN ROMANO: We can go through that whole bit.

MS. MOLNAR: All right.

MS. HIGGINS: Did you have a problem with the report itself?

ASSEMBLYMAN ROMANO: No, no, no, just the process of what we're asking them to do--

MS. MOLNAR: Our next presenter is Commissioner Fauver, who has been here many times. I would like to welcome him.

ASSEMBLYMAN ROMANO: My favorite guy.

MS. MOLNAR: Good morning, Commissioner.

COMMISSIONER WILLIAM H. FAUVER: Good morning. Are we ready?

MS. MOLNAR: Yes, you may proceed.

COMMISSIONER FAUVER: Thank you, Madam Chair.

I would like to give you a little bit of an update on the Department as far as numbers before getting into the budget itself. We're presently operating on an average of 147 percent above rated capacity. Current population is approximately 27,000: 22,000 are housed at State correctional facilities, 1000 are housed at county jail facilities under contract, and 4000 are considered to be county backup, which is in every county. But that gives you just the overall numbers that we're looking at. We also project an average increase for next year of 125 inmates per month.

Since 1981, the Department has constructed over 10,000 new beds at a cost of approximately \$498 -- just under \$500,000 -- \$500,000,000; 9,300 of these are at State facilities and 1000 are in county facilities through the County Assistance Program. A number of options are being explored in addition to construction, such as the contracting for community programs with a lot of private vendors who are now springing up, both profit and nonprofit.

So we're looking at that to expand in that area the number of beds just to avoid getting into any major kind of construction.

The one big area where there is construction right now -- and I'll give you an update on that -- is the new prison under construction in Bridgeton, known as South Woods State Prison. The first 1000 beds in that facility are scheduled to be available to us in May of this coming year, then in six-month intervals, the next 2000. So all things being equal, that will certainly make a dent into the county backup.

Of course, always the unknown is what new will happen in the Legislature during the year that will add people to the system. But as of right now, we're optimistic. This is probably, in my experience, like one of maybe one or two times that the construction of a prison has been on or ahead of schedule. I'm not sure what the magic wand was on this one, but whatever it is, is what we ought to continue to do if we do this in the future.

The items that are listed in the book, which is this year's plus the five-year plan, that I'm sure all of you have -- well, I should be sure, but I'm referring back to this (indicating). I would like to go over some of the major construction issues and renovation issues. One of the things to keep in mind-- I've mentioned South Woods and that, of course, will be a state-of-the-art facility.

On the other side of the coin is we have facilities that are still in use, such as parts of Trenton Prison, which date back to construction in the 1830s, and particularly at East Jersey State Prison, where also in the early 1900s, 1920s, back into the teens-- So a lot of problems crop up in these that need attention and need money to be put into it.

For example, when the new part of Trenton Prison was opened a number of years ago, the intent was to tear down the old part, that we weren't going to need it. So no money was requested to do renovations or repairs for that part for a number of years on the premise that it was going to be done away with. Well, it hasn't been done away with, and we are constantly patching up and doing everything from sewage to heat to locking systems in that area.

The priorities listed total \$146 million and are listed in priorities the way we have them on the first page of the report, after the insert of project listings, capital budget requests, and priorities one to seventy. I just want to take a minute to mention a couple of these, and then I'll be glad to respond to questions or comments.

The food service expansion, as you see, is listed here for the Edna Mann facility. That is, we're going to have to do-- We are in a process of developing an RFP for food service to see what kind of savings there would be, if we were able to do that. But regardless of what happens with that, we are going to need to fix up the kitchen to be able to service that plus maybe regional areas. I might point out the kitchen here also services the Hunterdon State School, which is on the property adjacent to the Edna Mann facility. So there are a lot of specialized diets for that institution that have to be prepared.

The second is the kitchen floor replacement at Northern State. Since construction, we have had one contract out to improve this. It hasn't worked. We've done it internally. We've done work on it. Apparently, it's the landfill that is under a particular area where the kitchen is, and the back kitchen just keeps sinking on us. It just doesn't drain. The water goes down

and lies there, and it is in bad need of repairs. This money that is asked for would also include a temporary tent kind of a kitchen to supply the facility while the other is being done.

The others, going down-- They're two major items. The others are fairly self-explanatory, such as plumbing fixtures and replacing locking systems one and three at Trenton Prison -- excuse me, at East Jersey -- and the ones at Trenton are directly related to the age of the facility. So we need in two areas, those kinds of things, the health safety standards and, basically, the security issues, which is the locking system, in those particular areas.

Now, there is money requested in here for sewage treatment at Highpoint -- at the Highpoint State Institution at the State Park. The agreement with the community up there was that we-- We were having problems with sewage. We are hauling now because of the environmental issues. It was that if we could not do this and do it economically, we would vacate those facilities or cut them back to the number that could be handled by the existing units that are there. We're currently working with the Department of Environmental Protection, and we should have an answer on that fairly soon. Of course, if that happens, that we do have to close because of those reasons, then, obviously, this request would be withdrawn.

So rather than go through these, I would rather respond to-- I have John Forker from Support Staff here with me, and we'll try to respond to any of your questions.

Thank you, Madam Chair.

MS. MOLNAR: Thank you, Commissioner.

Are there any questions or comments?

Assemblyman Romano.

ASSEMBLYMAN ROMANO: With that, Madam Chair, I would like to ask somebody to pass out these handouts that I have. (indicating)

What it does, Commissioner -- I'll give you two copies -- I'm sure you're aware-- By the way, I want everybody to understand that one of my favorite Commissioners is Commissioner Fauver. He is a fine man.

COMMISSIONER FAUVER: Sounds like a eulogy. (laughter)

ASSEMBLYMAN ROMANO: What has happened over the years, by the nature of what goes on-- He is not responsible for certain payments to the County of Hudson, as he had been before, because I know in his heart what he might do and I don't expect an answer.

Madam Chair, just let me tell you what we have here. First of all, I have two different topics I would like to discuss. Number one, these are two articles from the local paper from where I come about the blame game dealing with State inmates in county institutions. On the very first page there they have overcrowding, and then they have, as far as the various counties-- I'm not going to suggest that Hudson County is the worst of all, because Atlantic has a problem. If one does a certain amount of mathematics, then Camden does, as well.

But what we do have here, if you were to take the time to read the article for yourself, is a situation where overcrowding, largely due to -- I wouldn't say solely, but largely due to -- State prisoners in county jails. Now, for the past several years, by executive order, each county was ordered to maintain the State prisoners until the State saw fit to take them out. In the case of Hudson County, this has been a situation which has been doubly

onerous because the State has not been paying -- and I will call it -- their fair share of what they used to pay Hudson County for State inmates, which was approximately \$6 million a year. The State is still under negotiations with the county to determine what they think they might give them for the past year and a half.

Lastly, the Immigration and Naturalization Service has offered the county more money to put in their Federal clients, if you will, and because we have State prisoners in there, we cannot enjoy those few dollars, the fruits of our labors, that we might be able to make from having Federal prisoners in there. So it's a double hit.

I'm not even going to ask if there is any money, Commissioner, as far as the county jails, in terms of building or giving more money for the county jails to be expanded, because the problem is not something of down the line. And, by the way, in your presentation, Commissioner, we're going through the same story that they haven't funded for you the past several years. I mean, we come back to the same projects time after time after time. I think I know that kitchen floor you're talking about. (laughter) That has been up here five years, I think.

But lastly, having said what I said in terms of the county, because in the document that came that had two references to county jails and you had "As noted above, another significant problem is backup of State-sentenced offenders in county jails. Despite a significant increase" -- you all have this on, I think it's Page 2 of that document--

But even more important -- and I couldn't get the people from the county, because this is the week for the League of Municipalities -- on Page 3,

it talks about the Department having completed agreements with the various counties, Hudson being one of them, through the Department's County Assistance Program. "It is anticipated that 1316 beds will be allocated for State offenders in return for construction and renovation costs obtained through this source."

Commissioner, this is almost like a joke, because we're not getting paid, and yet, you're talking about another agreement. Is there something that has happened, unbeknownst to me, where the county has now folded their deck of cards and said, "Whatever you want to do, we'll accept"?

COMMISSIONER FAUVER: No, and quite to the contrary I received a letter from the executive asking, basically, the same thing. You're saying either pay us or get out.

ASSEMBLYMAN ROMANO: Last year during budget appropriations, I did not have the legal responsibility -- and at that time, especially ethically I could not do it -- but I asked the question if you wanted me to present on behalf of the county the order to -- what is it? -- to remove yourself from the premises -- to vacate, which I'm not allowed to do.

Beyond that, about our good old favorite, the Hudson County Jail, now we come to our English 101 course in new words. You remember before we used to go through what is called deferred maintenance, and we have never figured out what deferred maintenance really means.

MS. MOLNAR: It's a euphemism.

ASSEMBLYMAN ROMANO: It's a euphemism.

Now we have two new ones, due respect to you, Commissioner. Now we have on the general funds only, there is a priority summary report.

Just join with me a moment. Project No. 20, which is listed as a priority 18, is critical repairs. Now the ordinary person would say, "How come it's not number one?" No, it's number 18.

Then on Project No. 30, given a priority of 28, is emergency facility repairs. Now, are we to use the designations as in a hospital? First you go in the emergency ward, and then you go into the critical care ward. I mean, is this where we have come to?

Now, if you take the time to go through the pages which refer to these particular projects-- In fact, let's go to Project No. 30, which is on Page-- Well, there are no page numbers, they just go in consecutive-- Yes, there is. No, there aren't. You look at it. This is to address unforeseen emergency repairs. The repairs have been increasing steadily and are very costly as they are billed as time-and-material projects and often in round-the-clock efforts until the emergency is quelled. That was for the emergency one. No, critical repairs.

MS. HIGGINS: That raises some questions as to operating--

ASSEMBLYMAN ROMANO: You're trying to steal my thunder here.

MS. HIGGINS: Sorry.

ASSEMBLYMAN ROMANO: Now, we go over into--

I apologize. You know I don't--

MS. HIGGINS: I'm teasing back.

ASSEMBLYMAN ROMANO: We go to Project No. 20, which is priority 18, and these are for "renovations as essential to maintain facility operation, reduce health and safety hazards. Due to an insufficient amount of

capital funding, numerous facilities have deteriorated to the point of requiring immediate repair.”

Whether you’re not looking at it in the correct perspective, let me tell you what we have here. Here again, we’re talking about not appropriately funding current expense, operating expenditures, waiting to appoint -- and in this one here, changing a definition, so that the work will get done under capital funds. Into every current expense budget, one is to allocate a certain amount of money for maintenance.

What they’re talking about here is emergency work. That’s not under the--

Mr. Davidoff, I don’t know under your definition what of capital funds are used for. We’re talking about operating funds.

I just want to bring that to your attention. As far as the Commissioner, he is a professional. He does his job well. He is a team player, and he does what he is told to do. I am sure, if we had druthers, it would be greatly different. I have no doubt about that. You notice how he is looking at me, he’s a real gentleman.

Thank you, Commissioner.

MS. MOLNAR: Are there any other questions or comments?

ASSEMBLYWOMAN MURPHY: Madam Chair.

MS. MOLNAR: Assemblywoman Murphy.

ASSEMBLYWOMAN MURPHY: I need to echo some of the things Assemblyman Romano has said and note that this has been -- what? -- 15 years of the same story, Lou?

ASSEMBLYMAN ROMANO: Which one is-- Excuse me.

ASSEMBLYWOMAN MURPHY: The same story of underfunding the--

ASSEMBLYMAN ROMANO: Well, no, five year-- I've only been here five years.

ASSEMBLYWOMAN MURPHY: Oh, well, here, but as a freeholder for 10 years before that.

The freeholders have consistently spoken about the dollars that were coming to reimburse them for the State prisoners who were in their jails, and some counties actually signed contracts because they thought it was going to be the windfall that would make all the money in the world and make their county jails really profitable. The difference is there is no such thing. It's like ratables in a town. Until they're built, they're wonderful. Once they arrive, they cost you money.

So we are hearing today, and rightly so, from Assemblyman Romano, the stories we have heard for 10 years. I don't know whether we will ever catch up with our ability to find the money to pay for those who are incarcerated in any system that we have. I just simply think that they will always be more expensive than the dollars will ever find them. I don't know what the final answer is, but we do continue to persevere.

I applaud your energies, Lou, as always.

ASSEMBLYMAN ROMANO: Through you, Madam Chair. Just let me say this, in Hudson County-- You'll notice there are quotations in there from the sheriff and, actually I should say, Prosecutor Massano (phonetic spelling), and from the Assignment Judge Arthur D'Italia, who in no uncertain words had said he wanted the public to know that they were still going to take

people off of the streets and not that there was no room at the stable. Somehow they would do it. This is the problem we have.

You recall, Commissioner, going back, I believe it was two years ago, when you came up with a Master Capital Budget Plan. I had asked you at that time if included within those projections were the so-called laws that we were in the process of passing -- talking about the three strikes you're in. You had said, no, that whatever new legislation the Legislature had come up with about forced incarceration would be over and above the predictions you had made two years ago. Here's what we have here today. You have more and more people in jails, which everybody wants, but nobody wants to pay for the jail.

Thank you, Madam Chair.

COMMISSIONER FAUVER: Yes, you're correct.

MS. MOLNAR: Thank you.

Are there any other comments or questions of the Commissioner?

(no response)

If not, I would like to thank you for your presentation.

COMMISSIONER FAUVER: Thank you.

MS. MOLNAR: Staff will be reviewing your requests.

COMMISSIONER FAUVER: Thank you.

ASSEMBLYMAN ROMANO: I deflected all the problems for you, see. (laughter)

COMMISSIONER FAUVER: Yes.

MS. MOLNAR: You stole the show.

ASSEMBLYMAN ROMANO: He is a wonderful guy.

MS. MOLNAR: Our next Department is the Department of Human Services. I would like to welcome Commissioner William Waldman.

COMMISSIONER WILLIAM WALDMAN: Thank you, Madam Chair. It's good to see you again.

Madam Chair, members of the Commission, I am very pleased to be here to present the capital budget for the New Jersey Department of Human Services and our capital budget request.

First, I would like to thank you and the members of the Commission for your working with us in past years, your making of recommendations on our behalf. I think our partnership in this effort makes it much easier for us to manage what is a very significant capital plan.

Our request for 1998 includes a seven-year total of about \$128 million. Our first year requests \$65 million of that amount. There are 135 individual projects listed. Over half of them are high-priority ones. We have included, apropos the earlier discussion, numerous of these projects in prior-year capital budget requests, and they all remain unfunded. So we do have a similar situation that you noted with Corrections just a few moments ago.

Given the number of projects in our request and knowing that you have already received some significant detail on each of those projects, I will focus my remarks on the larger picture.

But I do have staff here, including Vince Giampietro, to my right, who's Director of our Operations and Support Unit, and various senior members of our Divisions, to assist in any questions you have about individual projects. They'll help me with the details.

As you know, Madam Chair, we operate 15 institutions through the Division of Mental Health Services, the Division of Developmental Disabilities, as well as Youth and Family Services. We operate some residential programs. We also administer a number of institutional and community support programs through the Commission and the Division and our Office of Education.

I guess, in summary, we have services provided in about 1100 State buildings and on over 8000 acres of property, a very significant capital plan that we're responsible for. In crafting our capital plan, we wanted to be sure we were consistent with several principles, which I believe we are.

One is with our Vision 2000 Master Plan, which I had the pleasure of presenting to you about a year or two ago, which you all approved, which calls for us closing certain facilities and redirecting resources that otherwise would have gone to those facilities to the newer more important projects for the facilities we're going to retain.

It's also consistent and coordinated with the allocation of our bond funds. As you know, the Legislature approved and the voters of this State voted a significant bond fund for us in 1994. So we coordinated this request with the one we're using those bond funds for, as well.

It's also consistent with applicable building codes. We have significant Federal regulatory requirements to meet, accreditation standards -- a very significant issue, as you know -- to keep our facilities accredited and certified. That accreditation and certification does trigger massive amounts of Federal funds that support our services in the State budget.

It's also consistent with what I believe is cost-efficient capital planning, which preserves our capital investments to forestall unnecessary wear of our infrastructure useful life and costly and disruptive repairs. It's consistent with avoiding projects that could increase our operational costs.

Most importantly, apropos, again, the earlier discussion with Commissioner Fauver, our capital request recognizes the continuing fiscal constraints that all of us face. Let me highlight just some of the major project areas the categories address.

First, in the area of, or category of, preservation, which includes electrical, HVAC critical repairs, roofs, and security enhancements. This totals almost \$29 million for the first year. The amount also has been reduced and reflects the very fine efforts of our institutional maintenance and engineering staff to prolong the life of and, in many cases, just continue some of the aged and antiquated infrastructure that we have to deal with. They do this through preventive maintenance.

We have listened to your concerns about deferred maintenance last year, and we have got our institutional staff -- and let me give them a lot of credit for doing that preventive maintenance and prolonging the life of our facilities-- But the fact does remain our facilities are aging. Some of you may have read in the press that at our over-100-year-old Greystone Park Psychiatric Hospital main building, we've had a series of costly and disruptive physical plant problems that are now triggering more extensive and expensive remediation.

For instance, some roof leaks we've had can no longer be spot patched. In some occupied buildings, water penetration does occur, coupled

with hot and dank conditions resulting from existing steam-pipe leaks. To make matters worse, we recently found unsafe mold buildup and have had to do emergency cleanups. We've also found wall paint lead levels that may require remediation.

I believe we have squarely addressed these issues. We have proceeded responsibly to identify and fix these problems and to keep our patients and our employees safe and also preserve the infrastructure and the structural integrity of these buildings. But these are the kinds of unanticipated costs of coping with very aged physical plants, which often divert funds from other important projects.

Basically, when we have these kinds of issues that arose at Greystone, we have an obligation to fix them, and the money needs to come from somewhere, and often it comes from other projects that we are working on.

Thankfully, though, not all of our capital issues require such extensive catch-up work, but these examples are not atypical of conditions at other Department's institutions. For this reason, and very importantly, our infrastructure budget includes a \$2.5 million to complete an architectural and engineering survey and Master Plan to assess our needs and plan for the most efficient repairs and renovations. In infrastructure, we're also requesting about \$1.5 million for critical roadway repairs.

As you know, and Assemblywoman Murphy, a lot of the county roads and other State roads traverse our institutions, and we have an obligation to keep them in good repair.

We also have a number of projects in the category of compliance, which includes ADA issues, fire safety, and other legal, Federal, State, and other regulatory requirements. That is about \$6.3 million we're requesting for the first year. Fire safety projects do predominate at about \$5 million and supplement the funds we allocated in our 1994 bond issue for this very purpose. These are to meet code requirements and address existing citations that we do get.

We have projects in the category of environmental, which include asbestos removal and abatement, wastewater treatment issues, underground tanks, and other environmental needs totaling about \$6.7 million in the first year.

We have projects in the category of acquisitions, which total \$7.2 million in year one and include a \$2.2 million request for community expansion in the Division of Mental Health services.

As the Division of Developmental Disabilities has very substantial community development funds available from the 1994 bond, they have made no additional capital requests for acquisitions. You may recall that of the bond issue that was passed in 1994, the significant part of that, over \$80 million, is for new capital acquisitions. So we're not requesting any more here for that purpose since we have--

We have made some good progress with the 1994 bond issue. We have already put through a variety of requests to keep it rolling and have committed about \$4 million. If you'll recall, this Commission's concern was us leveraging those State bond funds to bring in other sources. Of that \$4 million, we have gotten another million dollars from other various sources,

including Federal sources and private lending sources, so we are making some serious progress there.

There are some additional acquisition projects in the renovation and rehabilitation subcategory, including \$5 million for child care support for the Division of Family Development for our welfare reform project. Let me explain what that is. Our intent is not to build new day care centers, but these are legitimate capital operations and services. Particularly in urban areas of the State, we find that many of them have aged infrastructure. Many of them could do some minor renovations to increase their licensing capacity, so we could serve more families, provide more child care, with just a few dollars in the existing infrastructure.

Generally, our policy approach on child care is to give people vouchers so they can get child care of their choice at a variety of institutions, but we also have some State-funded child care centers in urban and other areas that we need to invest in to keep up and keep that capacity up to meet our needs under the Work First Program for child care for families.

The construction category totals \$11 million, mostly for demolition and renovation projects rather than new construction. We have successfully demolished a lot of unsafe structures through the years. Some of you may remember the Veterans' Cottage at Greystone and the issues surrounding that. As it turns out, these demolition projects are very expensive. We're making steady progress, and we need to do more of this. Many of the buildings that are not in use need to be demolished so they're not centers for crime, where people come and do illegal things, or unsafe to walk in as the Veterans' Cottages were before we finally successfully demolished them.

Overall, despite the absence of a FY '97 capital appropriation and increased capital costs we have experienced, we have reduced our current capital request. Let me explain why we have been able to do that.

One reason, is the 1994 bond issue that passed, which provides \$30 million that we are investing in institutional and related projects. The majority of these projects, as reflected in the Vision 2000 Master Plan, are in life safety, again, fire protection, and if we didn't have that 1994 bond, we would have included them here, but we don't want to ask for the same money twice.

However, despite the proportionate reduction in the capital budget request, not having a current year capital appropriation for deferred maintenance has accelerated the decline in infrastructure safety, reliability, and value. It has also created the need for more frequent emergency level repairs such as those I described previously.

The current request is also reduced because Human Services' facilities have benefitted from funding sources outside the capital appropriation and even outside our bond issue accounts. Most notably, we have been successful in securing funds from the statewide ADA fund, the statewide toxic/hazardous waste accounts; we've drawn from those to fix outstanding problems. These sources of funds have supported important capital projects that, again, would have remained unfunded and I would have included in the request, which I now can take out.

Actually, with the help of the Office of Disabilities Management in selectively applying ADA statewide funds, we've been able to substantially

reduce the request from the prior years. In fact, the amount of reduction is significantly more than the cost of the statewide funded projects.

The reason for this is that we, with the Office of Disabilities Management, have identified and undertaken projects with the highest cost/benefit ratio and have achieved extensive levels of compliance at many sites, thereby, allowing us to greatly narrow the list of proposed projects.

The size of the current year request is also reduced because of approximately \$400,000 that the Commissioner of Transportation put forward for us to help us do roadway and other repairs.

Also, I would note, in the prior years there is nothing in the request that speaks to improvements at either North Princeton or Marlboro, because, as we publicly stated and we're well along with, we are in the process of closing these facilities.

Madam Chair, I hope this brief overview has helped identify the current issues and some of the driving forces and the cost drivers affecting our capital needs in the Department of Human Services.

Thank you for giving me the opportunity to give you a thumbnail overview and sketch. We're committed to effectively maintain the large infrastructure we have, and we'll be delighted to try to answer as many questions as you may have on this.

Thank you.

MS. MOLNAR: Thank you, Commissioner.

Are there any questions or comments?

Assemblyman Romano.

ASSEMBLYMAN ROMANO: Thank you for hearing me first, because I'm going to try to make a train, because it's the off-peak hours for senior citizens. (laughter) I get my discount.

Madam Chair, Commissioner Waldman is no less a professional than Commissioner Fauver. (laughter)

MS. MOLNAR: I don't know if that's good or bad.

ASSEMBLYMAN ROMANO: He's a team player. Singularly, I think he has done an excellent job.

As with Commissioner Fauver, as a team player, he is just going right down the line as to what he thinks he can get money for or not. I'm not going to belabor which priority, etc., etc., because we have also postponed a lot of the work. If it were not for the 1994 bond issue, he would be in worst stead than Commissioner Fauver.

But just let me say this. Commissioner, you know the numbers already. I'm not about to compromise you. I would hope though, however, in the 1998 budget, you have operating money that, with these bond moneys that you're opening up centers, etc., etc.-- Where is the money for the staff to man the placement of DDD? My phone never stops in terms of--

COMMISSIONER WALDMAN: Mine either.

ASSEMBLYMAN ROMANO: --"I thought, Romano, you were a staunch advocate for the bond program, and you promised us this and promised us that, and here we are, the list has not been diminished."

Commissioner, you know-- I know your hands are tied, but let me just say this here. It's getting a little ridiculous now with the number of people

who thought they would have been helped and who are not being helped. But my best wishes to you, my best always to you, you know that.

COMMISSIONER WALDMAN: I appreciate that.

ASSEMBLYMAN ROMANO: Thank you, Madam Chair.

COMMISSIONER WALDMAN: If I might just clarify that. There is operating-- When the Governor announced a two-year initiative for Development Disabilities that provided 300 this year, enough funds for operating and staffing 300 through the next.

We do have a problem that you're absolutely right about. That is, because of changing demographics, because of a much better product we're able to offer people now in Developmental Disabilities that families like, we've experienced a massive demand, increase in demand, and as fast as we're able to serve people, even with new operational funds, this is a very significant investment, these two initiatives. This list keeps growing.

One of the things I would just respectfully call your attention to is I think there are bills moving in both Houses that would require us to come up with a Master Plan to develop, over time, a comprehensive way in which we're going to address this very significant statewide problem over time.

I would say to you, Assemblyman, it's like we've been slacking off on requesting and advocating the funds. We have some, but this is a very big problem, and you're right. I get those calls all the time. I think we're making some good progress, but this is a large problem. We have to come together as a State to figure out in the future how we're going to deal with it.

I appreciate your comments on it, sincerely.

ASSEMBLYMAN ROMANO: Just parenthetically, allow me, Madam Chair, through you.

Everything he said about things are getting better and so more people are looking to finding a place, finding a haven for children, but there is another feature. What we have now is people are getting older.

COMMISSIONER WALDMAN: That's right.

ASSEMBLYMAN ROMANO: And you have a lot of the veterans of World War II who came home and had these children who are now getting into that period of time with their wives and who say, "One of these days, we're going to close our eyes, and before we close our eyes, we want to make sure our children are in a good place, that we can rest knowing where they are." That is the other key.

COMMISSIONER WALDMAN: That's exactly right. That is the issue.

ASSEMBLYMAN ROMANO: We are dealing with a certain age group now, who are now looking at putting their children in a safe haven, because they're getting that much older.

COMMISSIONER WALDMAN: You're absolutely right.

ASSEMBLYMAN ROMANO: I referred several of these particular cases right to your own agency.

COMMISSIONER WALDMAN: You did.

ASSEMBLYMAN ROMANO: They were making their wills, etc., etc., and were hoping to have the children placed before--

COMMISSIONER WALDMAN: Absolutely.

ASSEMBLYMAN ROMANO: --the final day.

Commissioner, as always, you're one of the best guys there are.

COMMISSIONER WALDMAN: Thank you, it's nice to say.

MS. MOLNAR: Thank you, Assemblyman.

Are there any other questions or comments?

Assemblywoman Murphy.

ASSEMBLYWOMAN MURPHY: Nice to see you, Commissioner.

Hi.

COMMISSIONER WALDMAN: Hi. Good morning. Nice to see you.

ASSEMBLYWOMAN MURPHY: I did wonder that you did not request any bond fund appropriations in the capital request. Did you not anticipate any additional dollars for that waiting list?

COMMISSIONER WALDMAN: Well, we have such a significant amount now. For example, we have 80 reserved.

ASSEMBLYWOMAN MURPHY: Right.

COMMISSIONER WALDMAN: We've only, at this date, committed or actually obligated about four of that. So my view is, given the overall Department, we have enough capital now to make a serious effort within time. The other thing, frankly, before I ask this Commission or the Governor or the Legislature for more capital for this, I want to make sure we explore all the leveraging ideas that you wanted us to do--

ASSEMBLYWOMAN MURPHY: Correct.

COMMISSIONER WALDMAN: --which we're in the process of, and I think we're making some real success on. I mean, I won't say we won't

come back in the future at some point, but I think we have enough now to have a critical mass to move forward on this issue.

ASSEMBLYWOMAN MURPHY: I appreciate hearing from you, because the Treasurer was clear this morning to speak about not going to the bond market if there were, indeed, available dollars to begin the projects or work with the projects as they're going along, rather than go out and do the big bonding--

COMMISSIONER WALDMAN: Right.

ASSEMBLYWOMAN MURPHY: --pay all the interest, etc., and have the money sitting.

COMMISSIONER WALDMAN: That's right.

ASSEMBLYWOMAN MURPHY: But I think it's very good for us to have heard this from you as part of the philosophy you're developing.

I am delighted to see, frankly, the dollars put in there for the Greystone project. As you know, the bills that are moving in both the Senate and the House are seeking to patient conditions at that institution and part of the patient condition, as you and I have discussed for probably too many years, is the need to develop a facility that works around the whole of the patient. So I am delighted to see that money in there. You may be assured there is going to be one voice saying a lot more about that this year.

I do thank you.

COMMISSIONER WALDMAN: Thank you, Assemblywoman.

MS. MOLNAR: Thank you.

Are there any other questions or comments?

Christina.

MS. HIGGINS: Good morning.

COMMISSIONER WALDMAN: Hi, Chris.

MS. HIGGINS: I have a question about the \$1.5 million in roadway repairs against the observation that you made that \$400,000 became available through DOT.

COMMISSIONER WALDMAN: Yes.

MS. HIGGINS: Is there any additional opportunity to defray this?

COMMISSIONER WALDMAN: As a matter of fact, it's interesting you asked. I have just wrote a note. We went back again to DOT to ask another appropriation. They advised-- At least initially, the response was that they didn't have any available funds to help us this year. I did pen a personal note back to Commissioner Wilson to ask him to look again.

But at this point, the date we did the repair, we have no further committments from DOT, but I haven't given up on that.

MS. HIGGINS: Right.

COMMISSIONER WALDMAN: I'll still be working with them.

MS. HIGGINS: Thank you.

COMMISSIONER WALDMAN: Thank you.

MS. HIGGINS: That was all.

MS. MOLNAR: Thank you.

Are there any questions or comments? (no response)

If not, Commissioner, I would like to thank you for your presentation.

COMMISSIONER WALDMAN: Thank you always.

MS. MOLNAR: Our staff will be reviewing your recommendations.

COMMISSIONER WALDMAN: Thank you.

MS. MOLNAR: Thank you.

Now, under other business, I have a few items. I've been making a list here.

Number one, I want to thank Marty Davidoff for the terrific refreshments, and Paul for the coffee.

Two other items: At one time, this Commission recommended that the Departments be required to allocate or earmark a certain percentage of their operating budget for maintenance and repair. It goes back maybe three or four years ago, maybe not quite that far. I believe our staff has had discussions with the executive branch and I'm not sure they were in agreement, but I would-- I want to hear the rest of you, but I feel we should make that request again, perhaps. That some percentage of their operating budget must be earmarked for maintenance. As we see, it becomes a deferred maintenance item, so--

Paul, do you have any--

MR. SHIDLOWSKI: Yes, Madam Chair. Thank you.

We did broach this subject with the Director of OMB and the Treasurer in budget discussions. They were very resistant to the idea of earmarking a portion of agency budgets. There has been a lot of pressure on agency budgets to contract, and they were quite reluctant to put another burden on those budgets which have already seen some serious pressure.

We could, obviously, bring the subject up again. I could draft a note on behalf of the Commission, with your approval, to the Treasurer and the OMB Director to reopen the subject.

MS. MOLNAR: All right.

Marty.

MR. DAVIDOFF: Yes. I think you're right on the mark, and although they may be resistant, we can say, "Fine, if you don't want to allocate a portion of your budget toward maintenance, then we will not approve any capital budgets." So make it their option.

It seems that-- Am I on the right one? (referring to microphone)
(microphone moved by Hearing Reporter) Okay.

If Assemblyman Romano was here, I'm sure this would be one of his favorite topics.

MS. MOLNAR: Yes, I'm sorry he had to leave.

MR. DAVIDOFF: And I would be fully supportive of asking the appropriate agency in the executive branch to come up with some minimum number which across the board or even agency-by-agency -- what the minimum percentage of their budget should go toward maintenance repair of capital assets, particularly roofs I think. They always seem to be leaking.

MS. MOLNAR: Or leaking pipes.

MR. DAVIDOFF: It just seems to be absolutely unacceptable, and I think if-- I don't know if anybody has ever played the computer game Sim City, but in the computer game Sim City, if you don't maintain your roads they start crumbling very quickly and you see very quickly that the taxes go up much faster than if you maintain your roads.

So I would be very supportive of some action on our part to require, as a condition of getting our recommendation--

MS. MOLNAR: Now, as far as a fixed percent, for some agencies 1 percent may be too much and for some it's not enough. So I'm not sure we can establish that percentage.

MR. DAVIDOFF: Well, then we need some help in establishing a reasonable percentage using some objective criteria. It may be based upon how many buildings they have to support -- I just don't know -- or how many square feet. In other words, if they have 100,000 square feet should they be putting \$1 a square foot toward maintenance. I don't know what the right number would be.

MS. MOLNAR: Are there any criteria at the State level, do you know, Paul?

MR. SHIDLOWSKI: We had gotten a request through the Higher Ed Commission, you may recall, where they requested .5 of 1 percent based on the replacement value of college facilities, and if they matched that, then that the Commission endorse an additional .5 of 1 percent toward a regular preventative maintenance program.

MS. MOLNAR: But is that based on -- that .5 of 1 percent -- any analyses or--

MR. SHIDLOWSKI: I have to say that I'll have to get back to you on that. I know that there are a lot of different criteria on how much of an operating budget should be devoted to maintenance activities.

MS. MOLNAR: All right. When we meet in December, perhaps that could be part of our recommendation, some kind of criteria to be used to come up with some benchmark.

MR. SHIDLOWSKI: That recommendation does come within the purview of this Commission.

MS. MOLNAR: Are there any other questions?

Mr. Troy.

MR. TROY: Madam Chair, if I could, and I guess as representing an agency-- I think the budgets now are so tight and there are so many competing interests that I think to put out any type of a mandated or a required amount might exactly defeat the budget process. I mean every Department submits a budget, lists their priorities within targets, amounts, or revenues available. We're getting down to choices now, where you might fix the roof and lay off people and have no one to work in the institution.

I mean, I guess as someone who has been out there in agencies for 20 years, choices are getting very difficult. That is just part of the process that we're in, but to necessarily mandate some percentage of a budget to go in as what one would consider dedicated might not really work out the way we would expect it to, because there is just a lot of demand on the budgets right now.

I think that the cabinet officers certainly recognize that, and I think they have the opportunity when they present their budget to ask for appropriations. There are discussions with Treasury and OMB and the Legislature, when it comes over here. So I think the budget process, as it's structured, might already give that opportunity to allow agencies to ask for

operating dollars. If those operating dollars are not funded, for whatever those reasons are, I presume there are good reasons for doing that.

MS. MOLNAR: Are there any other comments? (no response)

Well, instead of a percentage how about we request that some money be put into something, because some of them are putting in zero, obviously, and it eventually becomes a capital item. They're not maintaining the capital.

Marty.

MR. DAVIDOFF: Maybe we can start at something that is very tangible and realistic. Real estate, buildings require maintenance and buildings require-- There are standards out there that, based upon their age, they require maintenance of X dollars per square foot. That is knowable information. If they are not putting X dollars a square foot, they're coming to us for capital improvements five or ten years later because they haven't maintained it properly.

So maybe we could start out with something very specific and do that in terms of basing it upon real estate that they are operating, leasing, owning, whatever and use that as the first tier. Because a lot of what we see here is repairs to real estate, maintenance to real estate, and it's certainly something that you can wrap your arms around and say "Okay, you have a million square feet. You should be spending at least \$500,000 a year in maintenance."

Now, that may not be a number -- 50 cents a foot -- but there is going to be some number per square foot that should be put in as repairs and maintenance to maintain the systems, the HVAC systems, the systems of a

particular thing. It may be that a two-year-old building is 10 cents a foot and for a twenty-year-old building it's 90 cents a foot.

So there should be some chart that you can say, okay and then just add them up, put them up, and that's what they're going to have to allocate. This way, if they have a little too much money, hey, maybe they'll improve the buildings a little bit and not have to come to Capital so often.

MS. MOLNAR: That's a good point. The real estate industry must have some benchmark numbers like you mentioned.

MR. DAVIDOFF: And we could use a minimum benchmark. If the standard in the industry is 50 cents, we can say "Fine, we'll use 25." Just some minimum so that they're out there doing it, and in spite of the priorities, what happens is they're costing us-- They're looking at short-term priorities -- this year, next year -- and not long-term. In the long term, the State would save money if they better maintained the buildings.

MS. MOLNAR: Why don't we at least take a look at the criteria before we decide to mandate or suggest that they earmark anything.

Is that doable, setting some kind of criteria?

MR. SHIDLOWSKI: It is, Madam Chair. I don't know that we would be ready to go by the 13th, but at a subsequent meeting of the Commission.

MS. MOLNAR: Okay. All right.

I assume there is consensus on getting some sort of criteria?
(affirmative response)

My third item is the legislation empowering this Commission to look at debt reporting. I was going to suggest, perhaps, that we get written

clarification of the legislative intent. It's not clear to me whether we should be looking at these other agencies, even though the Treasury doesn't look at them in looking at the debt. Are there any feelings on that?

Mr. Davidoff.

MR. DAVIDOFF: Yes, several feelings. The legislation talks about State's overall debt. Now, in layperson's terms, and that is what I am on this Commission, overall debt means everything and that we should be looking at that.

I know from speaking to Senator Inverso, who was a sponsor of the bill and a sponsor of other legislation that is pending in that same area, that it was clearly his intent, at least from my discussions with him, that we understand the full debt picture of the State.

MS. MOLNAR: Well, you know as a lawyer the statutory construction. It starts out with that broad statement, but then it follows with language that seems to narrow it. Maybe I'm reading too much into it.

MR. DAVIDOFF: Right, and I looked into the definition of include the other day.

MS. MOLNAR: Right. I wasn't sure that paragraph was meant to narrow the scope of the Treasurer's requirements, so it wasn't--

MR. DAVIDOFF: Well, it's very interesting you raise that point, because the definition of include which is -- and by the way, only talks about general obligations and certainly the report today was beyond general obligation--

MS. HIGGINS: I'm lost. Where is include?

MS. MOLNAR: It's in the statutory language for the Commission.

MS. HIGGINS: This report shall include, that part?

MS. MOLNAR: Yes.

MS. HIGGINS: That include?

MR. DAVIDOFF: I looked up include the other day in the dictionary, and it says, "Include means to contain as a part, to class--" So, in my mind--

MS. MOLNAR: Well, it was part of other items he had on the laundry list.

MR. DAVIDOFF: That's right. He had others. I think, here as a semipublic official who is sort of representing, I guess, by my appointment, others, I would really like to know the information. I think we have the ability on this Commission, certainly the public members, as to what we think the public would like to know. Certainly the legislators on here certainly know what the Legislature would like to know. I think we can make that decision.

In that regard, I have the following proposal I would like to make. I hope somebody will second it at least for purposes of discussion. The motion would be as follows:

In order to fulfill our obligations under the statute, (as interpreted in the broadest possible manner), we hereby direct staff to accumulate, in a format similar to that provided by the Treasurer, a summary of all debt of the State, of State-mandated authorities and agencies, and any other State debt not included in the Treasurer's report.

That would be the motion I would like to make.

MS. MOLNAR: Christina.

MS. HIGGINS: May I comment before it's seconded? Who would provide this information? I mean, it's really a matter of staffing. Where would this come from?

MR. DAVIDOFF: Well, my thought is, we do have a staff.

MS. HIGGINS: Where?

MR. ANNESE: Madam Chair, can I have rise to a point of order here?

MS. MOLNAR: Yes.

MR. ANNESE: The motion hasn't been seconded. Before we discuss it, it should be seconded.

MS. MOLNAR: All right. Do we have a second? (no response) Hmm. Interesting. Okay. Without a second, I assume you can't discuss it?

MR. ANNESE: Correct.

MS. MOLNAR: Can we back up, though? I would still like to have the legislation clarified for the Commission going forward.

MR. SHIDLOWSKI: I can refer to legislative counsel to seek their interpretation.

MS. MOLNAR: Right. It's possible that Senator Inverso meant it, but it didn't make it in, and he has other bills pending that would do that. So I think clarification would help this Commission to move forward and decide whether we should go--

To do something like you're suggesting we might need a full-time staff person.

MR. DAVIDOFF: Well, alternatively, we might be able to-- One of the things I was going to suggest, we might have go back to the Legislature

and say, “Hey, we can’t meet the deadline on the statute,” which I think is January 31 for this, “because our staff is busy doing part A, and you may need to give us more of our part-time staff toward this end, and you may need to look in your budget appropriations, depending on what you want.”

I certainly think if you want direction that’s fine. I think we should do it as a formal action of this Commission to request that so it doesn’t get lost in the shuffle at a minimum.

MR. SHIDLOWSKI: I don’t want to seem mutinous here, but I think that from my perspective, I would resist doing any more work on the debt report. I certainly don’t have the staff resources. The request was made to the Treasurer’s office to provide the information. He generously brought in the Office of Public Finance. I believe he feels he has fulfilled the mandate of the legislation. I certainly don’t have the resources to pursue this any further.

MS. MOLNAR: All right. I think we should get it clarified. If it’s clarified that it meant all debt including authorities, then we have to go to the Legislature and get some form of appropriation. It does say in our enabling legislation that we should have a staff. When they pass these bills, State mandate/State pay, they better provide a staff to fulfill this role, if that’s the bigger role they meant.

MR. DAVIDOFF: To that end, I move that this Commission request the Legislature to clarify its intent with regard to what it meant by State’s overall debt, specifically request whether it was its intent to include the debt of agencies and all the other debt that was mentioned today that was not covered, and to advise them that we have been advised by our staff that if that

is part of our responsibility that we will need additional staff and additional funding for that staff.

MS. MOLNAR: That's a two-step question. I think they would answer the first one -- legislative counsel.

MR. DAVIDOFF: That is, and that's the motion I think to make, that we at least advise them that we have been told by our staff. So if they come back to us, I would like to get it all in one letter.

ASSEMBLYWOMAN MURPHY: I think you need to have the second to the motion before there is any response.

MR. SHIDLOWSKI: I don't believe that there is actually a motion needed. I'm perfectly willing to refer the question to legislative counsel.

MR. DAVIDOFF: And advise them of-- If they want us to do that, that they will need additional staff?

ASSEMBLYWOMAN MURPHY: It seems to me your question has gone beyond legislative counsel. The offer here has been to go to legislative counsel first and have a determination on what indeed was the intent in the bill. You are bypassing that and saying "Let's go right to the Legislature and tell them what we want."

May I suggest to you that legislative counsel's clarification is really the first piece that should, in all essence, come to this body to be reviewed by this body. Once the determination-- If the determination is made that the Legislature had some other intent, it would seem to me that might then be the time to go to the Legislature. But to go to them before you are very clear as to

what counsel says the Legislature meant is jumping the gun, number one, and prejudicing -- oh, dear--

MR. DAVIDOFF: I'm with you.

ASSEMBLYWOMAN MURPHY: --creating a very bad prejudicial feeling between the legislators, the body of the Legislature, and this organization.

MR. DAVIDOFF: You clarified the procedure. That's fine. I assume we can get an answer by December 13th?

MR. SHIDLOWSKI: I can't speak to the schedule of legislative counsel.

MS. MOLNAR: Dave, you had a comment?

MR. ROSSEAU: Yes. Just as a point of information, approximately two years ago, the Office of Public Finance did prepare a document that gives a debt profile of all the independent agencies. The first thing may be to be able to get a copy of that and to supplement that with the authorities' annual reports which have it in their financial statements. But I know that two years ago a debt profile was done on every independent.

MS. MOLNAR: That's not done annually, is it?

MR. ROSSEAU: No, it's not done annually because of a staffing problem, but I believe that it was done -- that when they have a new staff person come on it's a way for them to get familiar with the whole process. I think it's about two years old.

MR. DAVIDOFF: I'd be willing to take on-- If you give me all of those reports, I would be willing to take them on and update them.

MS. MOLNAR: Can we get a copy of this report? (affirmative response) Okay.

MR. DAVIDOFF: And the annual supplements?

MR. ROSSEAU: Yes, you would then need to get the annual, the annual reports for each of the agencies since then. I'm not sure, I think this was done in 1994, so it would really only be maybe one more annual report.

MS. MOLNAR: How many agencies are listed?

MR. ROSSEAU: Every independent authority.

MS. MOLNAR: That's about 100?

MR. ROSSEAU: No, no, no. The ones that had bonding capacity.

MS. MOLNAR: Oh, okay.

MR. ROSSEAU: It's maybe 20 total.

MS. MOLNAR: All right. It's a good starting point for Mr. Davidoff's database. All right. We will try to get clarification. We're not sure about the legislative counsel's schedule, obviously. But could we make it clear that time is of the essence, because it affects our mandate, so to speak, however broad or narrow it may be?

Okay. Those are the only items I want to bring up. Are there any other items that--

Marty.

MR. DAVIDOFF: Well, along the same lines, we've now "accepted" the Treasurer's report. Do we have to take another action to make that our report, and are we just going to wait until we get a legislative opinion before we do that? I'm just trying to understand now the process.

MR. SHIDLOWSKI: I think that is, obviously, subject to the Commission's approval. We are supposed to forward the report to the Legislature with the endorsement of the Commission, or not. Obviously, if we don't endorse it, I guess we wouldn't pass it along to the Legislature. If we're going to make additional recommendations for modification either this year or to a subsequent report--

I mean, at this point in time, we were supposed to meet a December 1st deadline for not only the recommendations of capital improvements, but also for the debt report. That is the common deadline. The debt report has met that, that deadline, at least in terms of preparation. Any efforts that we would make to modify it, obviously, would make that deadline slip.

MR. DAVIDOFF: There are two modifications of the Treasurer's report itself I would like to see made. Having made two motions that failed, I will mention that if anybody would like to make a motion, I'll be glad to second it.

The first one is, he told us orally what the \$960 million was for. The un--

MS. MOLNAR: The loan payable.

MR. DAVIDOFF: The loan payable. I think that we should provide a clear description in the document as to what that is so that people understand what it is.

MS. MOLNAR: Yes, I think that's a good idea.

MR. SHIDLOWSKI: If I could interject though, that was not considered by the Treasurer to be debt of the State. That is a CAFRA definition.

MR. DAVIDOFF: I understand, but it's in the report and I think we should, at least, identify what it is.

MS. MOLNAR: Parenthetically, they could identify what it is.

MR. DAVIDOFF: Yes, they can identify what it is.

The second piece I would like to see is, he said that some debt had cash reserves being held in reserve funds or prefunded to repay some of the debt, and I think on that first chart that had the summary of the debt it would be very helpful to say-- If we have \$8.5 billion or \$9.2 billion of debt, then we should know, there is \$1.2 billion sitting in bank accounts already ready to pay for it. I think that's a very important piece of information to have.

MS. MOLNAR: Well, he did say about \$1.5 billion of that is prerefunded.

MR. DAVIDOFF: Right, but I would like to identify it on a debt-by-debt basis.

MS. MOLNAR: Oh, you mean specific issues.

MR. DAVIDOFF: Yes, so then we-- Not the specific issues in the detail, but at least of the categories on the first two pages. It would be easy enough to add another column.

MS. MOLNAR: Oh, general obligation versus-- That category?

MR. DAVIDOFF: There is on Page-- I think it was on Page 4. Yes, Pages 4 and 5, to identify, with another column, the amount of money being held--

MS. MOLNAR: Oh, by those categories.

MR. DAVIDOFF: Yes. The amount of money that's being held, in effect, in some account somewhere to be prefunded.

MS. MOLNAR: So take the \$1.5 billion and spread it back?

MR. DAVIDOFF: And spread it where it goes so that people can see at a glance what it is attributable to in those categories. I guess you could kind of squeeze those Moodys' and *S* and *P* columns a little bit. But just as a user of the document, I think that would be very, very helpful. We wouldn't have known unless we asked a lot of questions today.

MS. HIGGINS: I just wanted to clarify that I did not hear him say 1.5 and I particularly took notes on that. I think 1.5 was outstanding--

MS. MOLNAR: Oh, okay.

MS. HIGGINS: --bonds not issued.

MR. DAVIDOFF: Right, unissued other than (indiscernible).

MS. MOLNAR: Oh, okay.

MS. HIGGINS: He indicated that would require follow-up, and my concern would be how much work is entailed in that and that would be my reservation.

MS. MOLNAR: Yes, if he had a total number--

MR. DAVIDOFF: He said he was going to get back to us with the information.

MS. HIGGINS: Yes, he did.

MS. MOLNAR: If he had a total number-- If he could give us a total number at the bottom with not a lot of difficulty, I wouldn't have a

problem with that. If it takes a lot to spread it back then I would have difficulty with it.

MR. DAVIDOFF: I think to get the total, they have to add up the detail.

MS. MOLNAR: Well, we did request that.

So can we follow-up and find out how difficult it is to get the total prerefunded and how difficult it is to break out the pieces on the schedule on Page 4?

MR. SHIDLOWSKI: Yes.

MS. MOLNAR: Okay. Are there any other questions or comments?

MR. DAVIDOFF: When we're getting the recommendations for funding-- From my understanding of how this Commission has worked in the past, staff would make recommendations as to funding overall on a Department-by-Department basis.

MR. SHIDLOWSKI: Project by project.

MR. DAVIDOFF: Individual project-by-project basis. So within each Department and project-- Is there-- To help us, is there something that is being done so that we can-- Let's say you advise within a Department \$100 million, no, \$50 million, of improvements, capital improvements, would there be any way for us to know, in what you're going to be presenting two weeks from now, how much of that is, maybe, \$15 million is an extraordinarily high priority and really, really very critical and the next \$17 million-- You know, to kind of putting groupings on--

Because what's going to happen is, if we submit it, as has been submitted before, there is going to be a big number, the Governor is going to cut it dramatically. If we can, at least, have some say in where we think the money should be going-- Maybe recommend a full amount, but say, "Hey, if you're going to cut, cut here." I don't know if that is appropriate. I'm kind of grabbing at straws and trying to understand the process.

MR. SHIDLOWSKI: As part of our process, we do work with the agencies and try to determine what their absolute priorities are. So in many cases, we've seen requests where 50 of 100 projects were their number one priority, etc., we go back to the agency and we say, "Okay, of those 50 that are your number one priority, exactly what would be your preference to obtain funding?" To that, we temper that with what we know about the availability of other funds and other actions that are taking place behind the scenes but don't always come in front of this Commission.

For example, Commissioner Fauver briefly touched on the privatization of the food service. Were that to go forward, and I believe that that's a priority right now, that would certainly temper our opinions as to the importance of their number one request. Certainly, at the very least it was scale it back. Because if you privatize food service, your needs then are only to rethermalize meals. The extensive renovations that you need really come down in scope.

So those are the kinds of things that are taking place. We try to present some of that to the Commission members in our recommendations. Obviously, it's vastly summarized, but we try to indicate some of our thinking behind the recommendations and that's part of what we will be forwarding to

you, if that's any help. I would encourage you-- If you would like to chat, I would be glad to talk to you.

MR. DAVIDOFF: Sure.

MS. MOLNAR: Okay. Is there any other business to come before this Commission? (no response) If not, this meeting is adjourned.

(MEETING CONCLUDED)