

PUBLIC MEETING

before

SENATE SPECIAL NEW JERSEY HIGHWAY AUTHORITY INVESTIGATION COMMITTEE

To continue questioning of representatives of the New Jersey
Highway Authority concerning the Authority's operations,
management, and decision-making structures, as these
relate to the Authority's recent decision to raise
tolls on the Garden State Parkway

October 13, 1988
Garden State Arts Center
Holmdel, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Gabriel M. Ambrosio, Chairman
Senator Christopher J. Jackman, Vice Chairman

ALSO PRESENT:

E. Joan Oliver
Office of Legislative Services
Aide, Senate Special New Jersey Highway
Authority Investigation Committee

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Meeting Recorded and Transcribed by
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1961-1962

Before

SENATE COMMITTEE ON JUDICIARY AND LEGAL AFFAIRS

To consider and report on the bill
H.R. 1000, to amend the Federal
Judiciary Administration Act, 1952,
and for other purposes.

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MEMBERS OF THE COMMITTEE

Senator Charles McNair, Chairman
Senator Charles McNair, Vice Chairman

STAFF

Mr. John G. ...
Office of Legislative Services
100 ...
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MEMORANDUM

October 4, 1988

TO: MEMBERS OF THE SENATE SPECIAL NEW JERSEY HIGHWAY
AUTHORITY INVESTIGATION COMMITTEE

FROM: SENATOR GABRIEL M. AMBROSIO, CHAIRMAN

SUBJECT: COMMITTEE MEETING

Address comments and questions to: E. Joan Oliver, Committee Aide
Telephone: (609) 984-7381

The Senate Special New Jersey Highway Authority Investigation Committee will meet on Thursday, October 13, 1988 at the Garden State Arts Center, in Holmdel, New Jersey. A tour of the facility is scheduled for 10:00 a.m., and the committee meeting is scheduled for 11:00 a.m.

The committee intends to continue its questioning of representatives of the New Jersey Highway Authority concerning the authority's operations, management and decision-making structures, as these relate to the authority's recent decision to raise tolls on the Garden State Parkway. The management and operation of the Garden State Arts Center, as it relates to the committee's inquiry, will be considered at this meeting.

DIRECTIONS: From the North or South, take Exit 116 of the Garden State Parkway. Follow signs to the Garden State Arts Center. Meeting will take place in the Reception Hospitality Room of the Garden State Arts Center Theater Building. Parking will be available in the rear of the building.

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SENATOR GABRIEL M. AMBROSIO (Chairman): We are going to begin now, even though several Senators who have committed to be here are not here yet. I assume some of them are going to arrive late. I would just like to mention for the record, that Senator Lynch, who had planned to be here and who, as a matter of fact, had requested this specific date, had an emergency come up, so he will not be here at all today. There was an area, in terms of questioning, that he wished to explore, which I am going to try to cover on his behalf so we won't have to convene another meeting to cover that area.

I would also like to just preliminarily state that the focus of today's meeting is going to be strictly on the Arts Center, and its relationship to the operation of the Highway Authority in general. The question we are really ultimately going to focus on is: What impact the operation of the Arts Center has on the finances of the Authority, and whether it has any impact on a decision to increase tolls? I also want to just state for the record, that we are going to try not to cover old ground that we have already covered -- a lot of the questions that have been developed in the past, with regard to what this Committee has perceived to be deficiencies in the operation of the Highway Authority in terms of its handling of contracts, change orders, and such. I am just going to assume that the same policies that were in effect for the other contracts we talked about, were policies that were in effect throughout the course of the Arts Center contracts. So we are not going to cover that whole ground again.

I would also like to state for the record, that the new Chairman, Mr. Tremayne, has requested an opportunity to make a statement before the Committee. I certainly welcome his participation in this meeting, and I am going to give him the opportunity to make his statement. I would also like to state for the record, that we are not going to swear Mr. Tremayne in, since he is not officially a witness here, but I understand he

would like to make some statement for the record. So, welcome, Mr. Tremayne. The floor is yours.

W I L L I A M T R E M A Y N E: Thank you very much, Senator Ambrosio, and welcome to the Garden State Arts Center. I appreciate receiving your letter asking me to address the Committee with respect to the Garden State Arts Center operation and the new reception building.

Today is my first official day on the job. I was reviewed by the Judiciary Committee just two weeks ago today, and was confirmed by the Senate last week. Yesterday afternoon, I was sworn into office.

Let me, this morning, directly address the two primary areas you asked me to in your letter, and I will do so to the best of my ability. By and large, my opinions have been formed by activities that I have undertaken since your invitation was extended. In that time, I have been able to make an extended visit to the Arts Center to confer with its staff, tour this beautiful reception building, and peruse the paper trail with respect to the documentation supporting the actions taken to effect its construction.

My impressions concerning the quality of operation of the Highway Authority and the Garden State Arts Center have long been favorable. I have seen nothing in the past week to change those impressions.. I have been introduced to the entire headquarters staff and to the Arts Center staff. I have made a summary review of the Arts Center's financial highlights, which revealed that the staff has been very successful in attracting paying customers over the past few years. Further, an outstanding job seems to have been done in providing free access to the Center for a broad range of New Jersey citizens, with specific emphasis on senior citizen groups, students, and ethnic festivals.

Let me now turn to this reception building. You toured it this morning, and I hope you liked what you saw,

separate and apart from your analysis of the process that brought us here today. I had my first opportunity to see it just a week ago, and I was immediately struck by its potential to attract distinguished groups for fund raising, celebrations, and other events, which will attract new support and new supporters for the Arts Center. There is every reason to be optimistic that there will be considerable interest in the use of the reception building for corporate and nonprofit functions, as well as those directly sponsored by the Arts Center.

Turning to the process that led to its construction, I referred earlier to my review of the paper trail that is contained in the files of the Authority. I emphasize the term "paper trail," because there is no verbatim record of the oral discussions that surely were a part of the deliberations as to the merits of the project.

I was disappointed in the quality and quantity of written information available, on which the decisions to proceed apparently were based. I can assure you that future analysis will be far more thorough, before any major project is undertaken by action of the Commissioners. I did not find the market analyses, the survey research, or the financial feasibility review, that I would have expected to precede a decision to undertake this project. While there was some documentation of staff expectation for incremental gross revenues that might be realized through the operations at the reception building, I could find no analysis of incremental operating expenses that would obviously offset such receipts.

I saw no estimation of the fixed and variable costs that would be incurred in running the facility. This is not to say that I believe that this reception building will not succeed in bringing new patrons and new net revenues to the Arts Center. I hope it will succeed, and I will do everything I can, together with my fellow Commissioners and the Arts

Center staff of the Authority, to assure its financial and artistic success.

Nonetheless, Senators, in response to the Chairman's request for my view, I will state unequivocally that I would have required more support than I have been able to find in the written record, before I would have been willing to proceed. I can assure you that this will be standard practice in the future.

I will be happy to address any questions you might have.

SENATOR AMBROSIO: Mr. Tremayne, you have really indicated to me that you ought to come and join us up here, and start asking some of the questions that we are about to ask, because you have touched on a number of subject matters that we obviously are going to want to hear answers on, particularly the survey and the research that was done into the need for such a facility, the financial feasibility of it, and the marketing plan to make this a viable facility. None of those things have we been able to uncover from all of the paperwork that we have been able to obtain. Your short analysis has indicated that none of those things were done. So, to a large degree, you have confirmed what we have been suspecting all along, in terms of our analysis of what has been done here.

Nevertheless, we do want to develop the record. I don't know that it is appropriate to ask you the questions. Since you are new on the Authority, I would assume we are going to direct the questions to Mr. Zilocchi. If there is one of the staff people who has a better handle on giving us the answers, we would welcome you to defer that question to such a staff person.

MR. TREMAYNE: I did not mean to suggest that I was preempting their opportunity to respond. I just wanted to give you a flavor of what I have been able to ascertain, and also assure you as to the conduct of the affairs of the Commission in the future.

SENATOR AMBROSIO: Senator Jackman, do you want to--

SENATOR JACKMAN: Yeah, I want to welcome you, and I want to say that I know you are going to take on a tough job. Then, I want to extend my appreciation. This may be something that will maybe catch some people off guard, but Judith Stanley, to me, worked very hard as a volunteer. Let's not lose sight of the fact that you are sitting here as a volunteer, too. So, you know, criticism I will accept, and I'll give, but at the same time I want to give praise where I think praise is warranted. I think this entire discussion that should take place, should be with all of the Commissioners, not one -- or with any one being isolated -- because, in my book, everybody took part in what is built here today, and the construction and everything else that took place.

So, I want to leave you with the thought that you are filling shoes that were well-filled in my book. I think she did a fairly decent job. It is unfortunate that the situation got out of hand, but I feel certain now, that with you aboard, and with the cooperation I hope will come from all of the Commissioners -- those who are here and those who are not here-- I feel sure that cooperation will be forthcoming.

MR. TREMAYNE: Thank you, Senator. I assure you that I was commenting as to the process, but I believe, as well, that we can lend every effort to make this building a successful one. We will certainly endeavor to do so.

SENATOR AMBROSIO: Senator, you remind me that I should state for the record that all of the Commissioners have been invited to testify at today's meeting. They were given an opportunity to do so.

SENATOR JACKMAN: I'm sorry they're not here, because I wanted to question a couple of them myself.

SENATOR AMBROSIO: Well, you may have that opportunity in the future.

I would also like to just set another framework that I know I personally am dealing in, and I know several other members of this Committee, as well as other members of the Legislature are looking at; that is the question of whether or not the operation of a facility such as this, as beautiful as it is, is compatible with the operation of a toll road.

During the course of our investigation, we saw a number of occasions where a decision had to be made as to whether or not a particular contract was going to benefit the tollpayers of the State of New Jersey or the operation of this facility. We also looked at the statutory authority for the operation of this facility. There have been serious questions raised as to whether or not this particular facility that we are sitting in is authorized by the Legislature, and whether or not some of the improvements that were undertaken are authorized by the Legislature and, beyond that, whether or not it is compatible, as I say, for a toll road authority to be also operating an Arts Center.

To that view, we may eventually recommend a divestiture of the Arts Center from the toll road. We are certainly looking into that tissue. I don't want that to come as a surprise to anybody. We are looking for testimony from the Highway Authority as to why we shouldn't make that recommendation, and what there is about the operation of an Arts Center that lends itself to a toll road operation? I've got serious questions in my mind. I just want that to be said for the record up-front.

I think we should start the questioning today through Mr. Zilocchi. On the whole structure of the Highway Authority, in terms of the operation of the Arts Center, would you give us a very brief overview of how the Highway Authority structure breaks down the jurisdiction between the operation of the toll road and the Arts Center? I will lead you through that, George. I just want you to get into it.

G E O R G E P. Z I L O C C H I: Senator, the New Jersey Highway Authority has as its principal function, of course, the operation of the Garden State Parkway. In addition, it is responsible for the operation of the Garden State Arts Center. If my answer isn't general enough, Senator, because I am sure there will be specific questions, structurally speaking, which is probably where you are coming from-- I just want to make sure I understand it.

SENATOR AMBROSIO: Right.

MR. ZILOCCHI: The Arts Center operation is a division within the framework of the New Jersey Highway Authority, which is responsible for the operation of the Garden State Arts Center. Derived revenues, of course-- Those revenues are recorded as Garden State Arts Center revenues, and also it incurs expenses, which are charged to the Garden State Arts Center budget, to offset the revenues which are derived.

SENATOR AMBROSIO: All right. Let me just stop you there. It is a separate division within the so-called corporate structure of the Authority. Is there someone who is head of that division.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: Who is that?

MR. ZILOCCHI: Pat Horan, who is just to my left.

SENATOR AMBROSIO: What is the organizational structure from Pat Horan down?

MR. ZILOCCHI: Okay. First of all, let me just say that Pat Horan reports directly to me as Executive Director, and with your permission, Senator, I would like Pat to be able to go into the details.

SENATOR AMBROSIO: You know, we should swear Pat in, because she is obviously going to testify. Again, we are asking all witnesses to be sworn, Pat, so this is nothing out of the ordinary. Would you just raise your hand, please? (witness complies with request) Do you solemnly swear that the

testimony you shall give in the matters now pending before this Committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

P A T R I C I A M. H O R A N: I do.

SENATOR AMBROSIO: Okay, thank you. I'm sorry, George. You can pick up from there, unless you want to turn it over to Pat.

MR. ZILOCCHI: I would like to turn it over to Pat.

SENATOR AMBROSIO: Fine.

MS. HORAN: Yes, Senator, as George mentioned, I am the Division Head of the Arts Center Division, under the Executive Department. Reporting to me is a staff of seven full-time people: two full-time ticketing supervisors, an Arts Center coordinator, an assistant ticketing supervisor, and my secretary. I am also responsible under that same division setup for the Garden State Cultural Center Fund and Foundation, which, as you know, is responsible for our free programs, heritage festivals, Talent Expo. I am also charged with the primary responsibility of raising the money to fund these efforts. There is a staff of 16 people there.

SENATOR AMBROSIO: I get confused on these two. Are there two separate operations, the Cultural Center Fund and Foundation, or is that one?

MS. HORAN: In essence, Senator, it's one. The Foundation's Articles of Incorporation state that there are no full-time employees of the Foundation. The Foundation is charged with the responsibility of raising the money and being the sole conduit of the raising of funds for the Garden State Cultural Center Fund, which puts on the free programs for the school children and the senior citizens.

SENATOR AMBROSIO: So the Foundation is the fund-raising arm of the Cultural Center Fund?

MS. HORAN: Yes. The Cultural Center Fund was established as an arm of the Authority in 1968. The Foundation

was established in 1984 to take, or to avail itself of the IRS 501C3 provision.

SENATOR AMBROSIO: We have some testimony on this, and I am just trying to clear up something. Does the Cultural Center Fund have any employees?

MS. HORAN: Yes. They have the 16 full-time employers, Senator.

SENATOR AMBROSIO: And what is the budget of the Cultural Center Fund?

MS. HORAN: In 1987, there was approximately \$1,100,000 raised.

SENATOR AMBROSIO: Those employees-- Are they considered employees of the Highway Authority?

MS. HORAN: The Cultural Center Fund is an arm of the Highway Authority and, yes, they are.

SENATOR AMBROSIO: Now, is that \$1.1 million part of the budget of the Highway Authority?

MS. HORAN: It's a separate budget for the Garden State Cultural Center Fund, Senator. It's a separate-- If you look at our annual report, although an arm of the Authority, the audit engagement for the Cultural Fund is a separate audit engagement, and is presented in the annual report as a separate audit.

SENATOR AMBROSIO: I'm confused. When you talked about the budget, you talked about the money that was raised. Do you start out with an operating budget and then go out to try to raise the money to meet that? I'm confused as to how the budget and the fund raising work with the Center?

MS. HORAN: The primary conduit of fund raising is the Foundation.

SENATOR AMBROSIO: But suppose the Foundation doesn't raise any money? Where do you get the money to pay the 16 employees?

MR. ZILOCCHI: We wouldn't have a Cultural Fund then.

MS. HORAN: We wouldn't have a Cultural Fund. The Cultural Fund employees are paid out of that budget, as they would be in any other fund-raising or nonprofit situation.

SENATOR AMBROSIO: But, the ultimate responsibility for maintaining that Fund lies with the Highway Authority? If the Foundation fails in its fund-raising efforts, any commitments that are made by the Cultural Center Fund become commitments of the Highway Authority?

MS. HORAN: Yes. I would believe so, yes, sir.

SENATOR AMBROSIO: Okay. I'm sorry. You started talking about the 16 full-time employees. What are their responsibilities?

MS. HORAN: The main focus of the Cultural Center Fund is to raise the money to put on the free programing which we provide here each summer for school children and senior citizens. They are also involved in all of the liaison work with our heritage festival programing. We had 10 heritage festivals this past year. Our statewide teen talent contest -- Talent Expo -- which had its twenty-first year this year, is run during the year, the winners of which appear on the Arts Center stage -- youths between the ages of 13 and 18. They also book the free programs and raise the money to fund these efforts.

SENATOR AMBROSIO: Okay. Is this a full-time activity -- year-round? Are these employees full-time employees?

MS. HORAN: Yes, it is, Senator.

SENATOR AMBROSIO: Okay. And, the Board of Directors of the Cultural Center Fund are the Highway Commissioners also?

MS. HORAN: That's the Foundation, Senator.

SENATOR AMBROSIO: I'm sorry, the Foundation. What about the Cultural Center Fund?

MS. HORAN: That doesn't have a board.

MR. ZILOCCHI: Senator, if I may-- As Pat has indicated, it is just an arm of the New Jersey Highway

Authority, so the Cultural Center Fund really falls under the jurisdiction of the Board of Commissioners.

SENATOR AMBROSIO: Then why do they have a separate budget, if they are just part of the overall operating--

MR. ZILOCCHI: Well, we want to keep a separate budget for the reason that you stated, Senator; because we want to ensure that the expenses there are offset by the contributions we receive. We don't want to intermingle it with the operation of the Arts Center itself, or the Highway Authority in general.

SENATOR AMBROSIO: Okay. Now, the Fund and the Foundation have nothing to do with decisions affecting the operation of the facility? I'm talking about in terms of the maintenance, the beautification, the expansion. Those are not through the jurisdiction of the Fund or the Foundation?

MS. HORAN: That is correct, sir.

SENATOR AMBROSIO: They are simply fund raising and booking of the cultural events.

MS. HORAN: Booking, putting on, liaison work with the heritage festivals, maintaining the mailing lists for the seniors and the schoolchildren.

SENATOR AMBROSIO: Okay. Would you then go through the critical path that was used to approve the renovation project? Let's start with the \$4.5 million in expenditures over the past several years for the Arts Center renovation that we witnessed this morning, and some of the beautification projects. How did they come about? What was the genesis of them? What was the path that was taken before approval and the actual awarding of contracts?

MR. ZILOCCHI: In general, Senator, they came about in terms of needs that developed because of the operation, or requests or comments we got from the general public. All those concepts are absorbed, looked into, and assigned to an engineering consultant to review and come up with recommendations on how to address those problems.

SENATOR AMBROSIO: Is that one consultant?

MR. ZILOCCHI: No, Senator. It is not necessarily one consultant.

SENATOR AMBROSIO: Is it a staff consultant, or is it--

MR. ZILOCCHI: It is an outside consultant, working in conjunction with our engineering staff. From there, if, through the engineering process, we find that we have a solution to that particular issue, then, of course, the whole process starts -- as we have mentioned in prior hearings -- of the contracts, bidding, and so forth. All of these steps, of course, are approved by the Board of Commissioners.

SENATOR AMBROSIO: When you say these are approved by the Board of Commissioners-- Are there actually resolutions adopted by the Commissioners authorizing improvements to go ahead?

MR. ZILOCCHI: Yes.

SENATOR AMBROSIO: Let me just ask you, on the \$4.5 million in expenditures-- I'll just single out a couple of areas. I was given a figure as to an extraordinary sum of money that was authorized for removal and reconstruction of the fountain. I was told it was somewhere in the neighborhood of \$350,000 to \$400,000. Is that correct?

MR. ZILOCCHI: Approximately, sir, yes.

SENATOR AMBROSIO: How did that come about? How was it determined that a new fountain was needed? How was it determined that that kind of an expenditure was justified or warranted?

MR. ZILOCCHI: Senator, that came about in addressing-- The Arts Center had just completed its twenty-first season. A few years ago, in addressing certain needs, especially in that area, as a result of deterioration, etc., reviewing that whole plaza area -- the staircase, the large staircase which you went up to go into the theater-- The staircase was deteriorating, becoming unsafe. The plaza

itself was deteriorating to a certain extent because of usage and all, and there had been a fountain there also.

We asked for a review of that whole area and, through the process of reviewing the conditions, and all, we identified the scope and the work that had to be addressed in our opinion. The staricase, of course, was a problem -- a safety problem. The plaza itself was a safety problem. The fountain that had been there, Senator, was an aging fountain. It was causing us maintenance expenses for repair and so forth. So, encompassing that whole area, the determination was made -- in addressing that whole plaza area -- that also a new fountain should be put there.

SENATOR AMBROSIO: Mr. Zilocchi, the problem we have had in trying to review what has been done is, there doesn't seem to be an overall renovation plan that was adopted by the Authority. In going over the records, it seems that individual items were decided on almost ad hoc. You decided you needed this renovation; you went ahead and did it. Was there ever an assessment of the physical plant and a determination as to what needed to be done, and a prioritizing of those renovations?

MR. ZILOCCHI: Yes, Senator, there was. One of the problems that we run into, Senator, in doing any renovations there at the Arts Center facility, is the time constraints in which we have to do those renovations. You certainly can't do them in the summertime or in the springtime, because of the operation of the facility. Wintertime is not ideal conditions to do such renovations. So you are really restricted to very early spring and fall to do those renovations. There was planning done on what renovations had to be identified, and in order to get those renovations done as rapidly as possible, so we would not conflict with the operation of the subsequent season, they had to be done, in certain cases, on a piecemeal basis. If we finished planning on one phase of it, we wanted to get that phase started while we were completing the planning

and design of another phase of those renovations. That is why it seems, at times, that it was on a piecemeal basis.

SENATOR AMBROSIO: Who was the consultant, by the way? Was there one overall consultant?

MR. ZILOCCHI: Yes. I believe it was the RBA Engineering firm. If I may, Senator, in getting into these engineering questions -- if you have no problem -- I would like to ask the assistance of Jim Conlon, our Chief Engineer.

SENATOR AMBROSIO: I have no problem with that. Can you give me an overall figure as to what the costs were for the Arts Center Theater renovations over the past several years -- the renovations we saw this morning? What was the total cost of those renovations?

MR. ZILOCCHI: May I defer to Jim Conlon on that, please?

SENATOR AMBROSIO: Yes, you may.

MR. ZILOCCHI: Jim?

J A M E S W. C O N L O N: Yeah, I am just looking for that answer, George. If I may step back just one moment, one of the first things we did after I became Chief Engineer in 1983, was to have an inspection made of the facility by the structural engineering firm that originally designed it. A number of the contracts that were awarded in 1983 and 1984 were for the purposes of repairing the deterioration that they reported on the roof. We put on a new roof. We repaired the concrete in the suspended roof out there. These things were taken step by step. I had that number, George, but it escapes me at this moment. I do remember that in the five years since 1983, 3% of our capital budget went toward repairing and expansion in the Arts Center. Why don't I have have number? Do you have it, John? (addressing his associate, John Flynn) (no response)

SENATOR AMBROSIO: The renovations I am talking about are not repairs. These were additions or improvements. Are we talking about the same renovations?

MR. CONLON: We did both. Something like half of the money we spent was to repair things, and the rest was to expand things. See, in addition to adding that new dressing room that you saw backstage, we rebuilt the dressing rooms downstairs, backstage -- below the stage.

SENATOR AMBROSIO: Now, all of this was not done on bid, though?

MR. CONLON: Yes, it was.

SENATOR AMBROSIO: Well, for example, we could find no bid for the fountain.

MR. CONLON: Well, okay. The basic contractor's bid-- In the case of the fountain, it was added as a change order to a contract that included the new gate structure at the front of the theater there, and other work backstage. That was Contract 85-707, and it included the additional storage space in the back, the new star's dressing room and renovation to the existing rooms, reconstruction of the main entrance stairway, which was falling apart, and the construction of the new gate structure.

Now, we knew at the time that contract was awarded to Circle A Construction Company on October 24, 1985-- We knew then that we were going to add a fountain. At least I was directed to have plans prepared for a fountain. But, in order to get the work done -- we didn't have the fountain designed yet in October of '85 -- we decided that we would do it as a change order on that basic contract when the plans were complete.

SENATOR AMBROSIO: Mr. Conlon, again, I don't want to rehash the criticisms of the past, but this is just another example of a contract where specifications did not include a fountain. Your contract was let out at a figure of \$1.5 million, which did not include the fountain, and you issued a change order for \$380,000.

MR. CONLON: I didn't; the Commissioners did.

SENATOR AMBROSIO: Well, I'm talking about--

MR. CONLON: I just want to be correct. Yes, a change order was issued and approved by the seven Commissioners.

SENATOR AMBROSIO: For \$380,000 to a \$1.5 million contract.

MR. CONLON: That is correct, sir.

SENATOR AMBROSIO: That is a 20% change in the contract.

MR. CONLON: That is correct.

SENATOR AMBROSIO: Again, in going through all of these contracts, we find this over and over again. By the way, who approved that change order? You didn't approve it?

MR. CONLON: You say "going over the contracts--" If you go over all of the contracts awarded since 1983, some contracts came in at less than 100% of the bid, and some contracts came in over. The average was about 5% over.

SENATOR AMBROSIO: Well, we're talking about the contracts for this \$4.5 million improvement. We see example after example of change orders of very significant amounts, compared to the original contracts. That change order of \$380,000-- As I understood the procedure, Mr. Zilocchi, you had total jurisdiction to approve that change order.

MR. ZILOCCHI: Not for a change order like that, Senator, no. A change order of that nature would have to go before the Board of Commissioners, because it is not a change order in quantity; it is a change order in scope -- additional items.

SENATOR AMBROSIO: We could find no resolution approving that change order by the Commissioners.

MR. ZILOCCHI: There is a resolution, Senator. I will assist you in trying to find it, because I know there was a resolution.

SENATOR JACKMAN: Mr. Chairman?

SENATOR AMBROSIO: Yes?

SENATOR JACKMAN: When these change orders take place, or the amount of bid-- Is this discussed with all of the Commissioners?

MR. ZILOCCHI: Yes.

MR. CONLON: Yes.

SENATOR JACKMAN: Do all of the Commissioners vote on it?

MR. ZILOCCHI: Yes.

MR. CONLON: Yes.

SENATOR JACKMAN: Were there any objections at any time to any of these change orders or anything? Were there any objections or votes against?

MR. ZILOCCHI: On these particular change orders, no, sir.

SENATOR JACKMAN: Nothing?

MR. ZILOCCHI: No, sir.

SENATOR JACKMAN: In other words, it was a unanimous agreement?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: That is what I wanted to know. Okay.

MR. ZILOCCHI: Senator--

SENATOR AMBROSIO: Is it my understanding that these change orders-- Your previous testimony on change orders is that they didn't go to the Commissioners.

MR. ZILOCCHI: No, Senator, please-- There are two types of change orders. This is what we discussed at one of the prior hearings. The procedure has been--

SENATOR AMBROSIO: I understand -- extra work and the change in the scope of the project.

MR. ZILOCCHI: That goes before the Commissioners.

SENATOR AMBROSIO: Okay. You made a judgment, in this case, that the \$380,000 was a change in the scope of the work, which would require the Commissioners' approval.

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: When Senator Jackman talks about change orders-- So the record is clear, you only submitted change orders to the Commissioners that, in your judgment, changed the scope of the work.

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: And other change orders were not approved by the Commissioners?

MR. ZILOCCHI: They were not approved by the Commissioners. Presently, Senator, change orders that affect the scope of the work are still approved by the Commissioners. The other change orders, which are in quantity or unit price -- not unit price, I stand corrected on that -- or a differential in material, and all that, are approved by me, upon the recommendation of the Chief Engineer, and are then reported to the Commissioners at a public meeting, for their acceptance.

MR. CONLON: Senator, you will find that that change order for the fountain was approved by the Commissioners at the February 1986 meeting.

SENATOR AMBROSIO: Thank you, Mr. Conlon.

MR. CONLON: I don't have the resolution number, but that is when they approved it. (pause here) I do have the resolution number; it is Resolution 8642, on February 27, 1986.

SENATOR AMBROSIO: As I remember that change order, there was only one bidder on that project. It was the individual who was awarded the base contract. There was one bidder on that contract. There weren't even two bids received on it.

MR. CONLON: On the Circle A contract?

SENATOR AMBROSIO: Yes.

MR. CONLON: If you are correct, it is the only time in five years that we awarded a contract with a single bidder.

SENATOR AMBROSIO: Well, that is what the records we have indicate.

While we are going through these contracts, Mr. Conlon, Contract 85-708-- There was a bid price of \$148,000, and there were changes of \$138,000 -- almost a doubling of the contract price.

MR. CONLON: According to my figures, Contract 708 was bid at \$148,000, and the final cost was \$279,000.

SENATOR AMBROSIO: Correct.

MR. CONLON: That is a change of-- Yeah, that's about right.

SENATOR AMBROSIO: So, on a \$148,000 contract, there were \$138,000 worth of change orders.

MR. CONLON: Most of that change was the electrical work -- or the mechanical work for the fountain.

SENATOR AMBROSIO: We can go right down to the next contract -- 709. The bid price was \$158,000, and you added \$183,000 -- more than the base contract price. You brought a \$158,000 bid price to a total of \$341,000. I am not going to go through each one of these, because, you know, we would go on forever. But again, this is just a continuing pattern of bids meaning absolutely nothing, when you can bid a price of \$158,000 and the total cost is \$341,000. It totally undermines the entire bidding process, because if the total scope of the project would have been defined in the specs, you may have gotten a bidder to do the whole thing for less than \$341,000.

I would assume that the Chairman is listening to this, and somewhere down the line we are going to see an adjustment in the Highway Authority's practices.

MR. CONLON: Senator, if I may respond, we had 100 contracts awarded in five years, and the average overrun was 5%. Maybe some contracts doubled, but some contracts came in substantially below the amount authorized.

SENATOR AMBROSIO: Mr. Conlon, we're talking about the Arts Center and the reception facility contracts. I know there are millions of dollars' worth of contracts for other things,

but I am just going through the contracts for this facility, and the renovations to the Arts Center.

MR. ZILOCCHI: Senator, if I may explain further some background, and only for that purpose-- As I stated earlier, when it comes to the Garden State Arts Center, the time availability for construction is very limited. As I recall, the bases for those decisions were, the overall scope was to do improvements to that whole area, which included the fountain. But at the time when we reached the point where we had to get construction started for the plaza area, the staircase, and so forth, the specifications for the fountain were not yet completed, and if we had waited any longer, we would not have been able to begin the process of doing the improvements in the plaza area and the staircase area.

So, the decision was made to go ahead with the essential safety-related work. Subsequent to that, the specs were completed for the fountain. Now, there were one or two choices that could have been made: The work could have been delayed one year, and we could have gone ahead with a whole new bidding process. Or, while a contractor was already there, we could ask the contractor to give us a price on the work related to the fountain; a price which, when reviewed by our engineering staff and our consulting engineers, was found to be reasonable. It was the feeling that while we had a contractor there who was mobilized and already on-site, it was probably the best way to go.

Now I am not saying, Senator-- I am not trying to disagree with your procedural points. I am trying to give you added--

SENATOR AMBROSIO: George, these are not procedural points. These are substantive points. What you just said clearly demonstrates that that process violates the law, and I am going to tell you why.

MR. ZILOCCHI: No, I don't think it does, Senator.

SENATOR AMBROSIO: It does, because you testified, and Mr. Conlon testified, that when the specifications were prepared, you knew you wanted to have a fountain, but the specs were not ready yet. So you put out bids for less than you knew you wanted, and you put through a change order. Therefore, when you prepared those bids, you already knew that you were going to have a change order built into those bids.

MR. ZILOCCHI: We did not know at that point, Senator.

SENATOR AMBROSIO: Well, didn't you say you--

MR. ZILOCCHI: You're misunderstanding me. Subsequent to that, when the specifications were ready for the fountain, we then made a decision -- it was a judgment call decision -- whether to delay it for one year, or take advantage of the fact that a contractor was already on-site and mobilized, and ask for an estimate from that contractor.

Now, Senator, with all due respect, you can question the judgment involved in that-- I know you are an attorney, and I am not, but I do have some problems with your statement that it was illegal. I don't believe it was.

SENATOR AMBROSIO: George, believe me, I am not questioning your motives. I believe that, exactly as you said-- You have testified, and I have always said I think you have testified forthrightly and truthfully. I just can't get through, to you in particular, that when you are dealing as a public entity, good intentions are not enough. You have to comply, not only to the letter, but the spirit of the law. The spirit of the law is, if you are going to go out on a public bid, you don't put out a bid knowing that you are going to have to actually double it somewhere down the line. It is your duty to not go out with the bid, even if it is a detriment to the public. You have a duty not to go out for bid until your specifications are ready.

You know, that project we are talking about is really more than \$380,000, because that was only part of it. Those

fountains really cost over \$500,000, with the other change orders on other contracts, that had to be added to complete those fountains. None of that was put out for public bid.

MR. ZILOCCHI: Senator, where I have a problem with your statement, respectfully, is, when we went out with the initial bid, the decision had not been made that we were going to necessarily go via a change order on the fountain. As I stated, once the specifications for the fountain were completed, a decision had to be made whether we would delay the job for a year and go out with separate bidding, or ask the contractor. But at the time we went out with the bids, that was not the decision or intent, Senator.

SENATOR AMBROSIO: Under the law, unless you declared it to be an emergency, you had a legal duty to go out and bid that job, and you didn't do it.

MR. ZILOCCHI: Well, Senator, that is a legal question which I am not going to get involved in.

SENATOR AMBROSIO: Which we do not have to answer at this meeting.

MR. ZILOCCHI: Okay, fine.

SENATOR AMBROSIO: But, very clearly, anybody who represents a public agency knows, if you've got a project, and your statute sets a limit as to what you have to bid-- I think it's what, \$9500 now?

MR. ZILOCCHI: It's about \$8400.

SENATOR AMBROSIO: Anything above \$8400, you have to bid. And here you have a project that you know is going to cost you close to a half a million dollars, which you went out and awarded without competitive bidding, without determining that there was some emergency for doing this. In my judgment, that violates the law. It's as simple as that.

MR. ZILOCCHI: I respectfully disagree with that, Senator.

SENATOR JACKMAN: Again, were these bids we are talking about-- Were they all discussed with the Commissioners?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: They were all approved by the Commissioners?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: Okay.

SENATOR AMBROSIO: Let me just leave that whole area because, again, there are 11 other contracts that I could go into where each one of them has an increase of some kind; some of them as little as \$184,000 with a \$10,000 increase, to some of them where the contracts were actually more than doubled. But again, we have developed that-- We have gone as far as we can go with it.

I do have to be fair. You had a deduction on one, and I better make--

MR. ZILOCCHI: Well, if you want to say it now, or say it later, Senator.

SENATOR AMBROSIO: I should state for the record, that with Contract 85-666, there was a deduction of \$19,000 on a half a million dollar contract. Congratulations, George. And a \$1900 one on a \$36,000 contract. So--

MR. ZILOCCHI: I'll show you bigger reductions than that, but not related to the topics that--

SENATOR AMBROSIO: Okay. When the Commissioners were making the decision to go ahead with these renovations, what was the funding mechanism that was going to be employed to pay for these?

MR. ZILOCCHI: The funding mechanism, Senator, comes from our capital improvement program. The capital improvement program gets its source of funding from excess revenues and, of course, bonding. The funding mechanism we looked upon for the Arts Center improvements is-- When I say "excess revenues," Senator, I mean the excess revenues of the Arts Center flow into the capital improvement program.

SENATOR AMBROSIO: You've got to explain that to me, because my understanding of your capital improvement program is that this was going to be bonded, and the--

MR. ZILOCCHI: Not necessarily, Senator. In fact, I testified -- and I know I might be getting a little off the topic here-- I testified before an Assembly committee a few months ago -- just to make a point that it is not necessarily bonded -- that since the Parkway opened in 1957, we expended over \$700 million in capital improvements. Sixty percent of that has come through excess operating revenue of the Highway Authority. So, it is not necessarily all bonding.

SENATOR AMBROSIO: All right. Are you saying that the portion of the -- the \$4.5 million in expenditures on the Arts Center, not on this facility, but on the Arts Center theater facility -- that that was going to be paid out of revenues from the Arts Center?

MR. ZILOCCHI: Correct, Senator.

SENATOR AMBROSIO: You are going to have to show that to me, George, because in the numbers I have seen, I didn't see any excess revenues or any projections as to how that \$4.5 million was going to be paid.

MR. ZILOCCHI: Senator, Pat Horan does have figures, and she can assist us.

MS. HORAN: Senator, for the last five-year period, Arts Center net revenues -- net of operating expenses, was approximately \$5.7 million.

SENATOR AMBROSIO: That's for what period?

MS. HORAN: I believe it was '83 through '87. We can take that back even further to when the Arts Center became operated by the Authority in 1972. Net revenues from the Arts Center for the period '72 through '87, were in the neighborhood of \$6.2 million.

SENATOR AMBROSIO: I am going to get into this area later, but it is your testimony that from '83 to '87, the total revenue -- the total--

MS. HORAN: Net revenue, Senator.

MR. ZILOCCHI: Net revenue.

SENATOR AMBROSIO: The net revenue was \$5.7 million.

MS. HORAN: Correct, yes, sir.

SENATOR AMBROSIO: So, it averages something like a million dollars a year.

MS. HORAN: Yes, sir.

SENATOR AMBROSIO: Okay. This \$4.5 million expenditure was incurred over what period of time?

MS. HORAN: I would have to defer to Jim Conlon on that for specifics.

MR. ZILOCCHI: I believe -- Jim, you can correct me -- it was the period of 1985 and 1986, predominantly.

MR. CONLON: Yes. The figure you asked for before-- There were 11 contracts at the Arts Center, which, at the end of 1987 -- December 31, 1987 -- had an authorized amount of \$8.9 million.

SENATOR AMBROSIO: That includes this facility?

MR. CONLON: That includes this building; that is correct. So, if you take 4.3 off of that, you get \$4.6 million, approximately, as the value of all of the other work, exclusive of the reception building.

SENATOR JACKMAN: There is still some additional work to complete this facility, isn't there?

MR. CONLON: Yes, sir, there is.

SENATOR AMBROSIO: What is going to be the total cost of this facility?

MR. CONLON: This facility? Six and a quarter million, \$6.3 million. That includes the table you are sitting at, and things like that. That is not entirely construction costs. It is everything we put into it.

SENATOR AMBROSIO: If I add the figures from the 11 contracts for the theater, and the \$6.3 million for this, it is close to \$11 million in improvements over this period of time. Is that correct?

MR. CONLON: No. I have 11 contracts awarded in 1983 through 1987, and the authorized amount, including change orders, as of the end of December 1987, was \$8.9 million.

SENATOR AMBROSIO: I have 11 contracts that relate strictly to the theater, and they total \$4,492,000. I am just taking that \$4.5 million and adding that to the \$6.3 million for this facility -- 10.8, close to \$11 million--

MR. CONLON: Okay. My number, \$8.9 million, was as of the end of December 1987.

SENATOR AMBROSIO: Okay. I just asked you to project the total cost of this building. So, would you agree that we are talking about close to \$11 million?

MR. CONLON: I think so, yes, sir.

SENATOR AMBROSIO: What is the plan to pay that off from Arts Center revenues?

MR. ZILOCCHI: Senator, I'll take that, if I may. As Pat indicated, our revenue has been, especially in the last three or four seasons-- Our revenue has been in excess of a million dollars. I believe that in 1986, it was \$1.6 million; in 1987, again it was \$1.6 million. Preliminary indications I have in 1988-- Not all the final costs are in, but based on projections and estimates, the revenue will be \$1.2 million.

The pattern has been set. There is no question that in the early days of the Arts Center operation, there were problems in the operation, from a financial point of view. We have established a pattern over the last five or six years of a very sizable net revenue on that. We have every reason to believe that that net revenue is going to continue, and that is the basis for these improvements.

SENATOR AMBROSIO: But there was no financial projection, is what you're saying, as to-- When the commitment was made to spend the \$11 million, was there a plan in place to pay it off?

MR. ZILOCCHI: The plan in place, Senator, was on present and future net revenues of the Garden State Arts Center.

SENATOR AMBROSIO: All right. Did the \$4.5 million improvements to the theater result in any increased operating costs for that facility?

MR. ZILOCCHI: It could have, Senator; I'm not too sure. But again, that would all be included in the net revenue figures I just indicated.

SENATOR AMBROSIO: When you say, "you just indicated--" Are you actually saying that there is a document in place that deals with how these expenditures are going to be paid off?

MR. ZILOCCHI: Again, Senator, a document--

SENATOR AMBROSIO: Do you have a budget -- an overall budget -- for the Arts Center?

MR. ZILOCCHI: Yes, we do.

SENATOR AMBROSIO: Okay. And that budget is prepared, obviously, on an annual basis.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: And you're saying that over the past several years, that budget has shown a surplus of anywhere from \$1.2 million to \$1.6 million?

MR. ZILOCCHI: Well, more important than the budget, Senator, the actual figures have shown the surplus. The actual experience of the seasons has shown the surplus, which really surpasses what a budget is. I'm saying that, based on our actual experience over the past few years, and our budget forecast for the next few years, that it will more than pay for these expenses.

SENATOR AMBROSIO: Well, I guess the question I'm asking -- which I am not getting out properly -- is, over the past several years, there was an \$11 million cost. Where did those revenues come from?

MR. ZILOCCHI: Those revenues, as I stated, come from our past, present, and estimated future revenues of the Arts Center.

SENATOR AMBROSIO: No, no, I'm talking about-- Eleven million dollars was paid out.

MR. ZILOCCHI: That's right. It came from our capital budget. Now, these net revenues, which I just indicated to you from the Arts Center-- They flow into the capital budget, and that becomes a source for these expenditures of the Arts Center.

SENATOR AMBROSIO: But obviously, you had to borrow, or bond, the \$11 million, because you didn't have \$11 million sitting in an Arts Center account to pay this.

MR. ZILOCCHI: To the extent, sir-- If you want to get technical, Senator, you estimate \$11 million, and we say we have raised, whatever the figure is -- \$6 million, \$7 million. The difference would come from future revenues of the Arts Center. To that extent, any bonding that was done would be applied to that, yes.

SENATOR AMBROSIO: All right, but was it bonded? I asked that before.

MR. ZILOCCHI: We didn't bond-- Senator, any bonding that has been done -- that goes into the capital improvement program, is not a specific bond for a specific project. It is a general bonding which includes all of the projects, of which the Arts Center is one of them.

SENATOR AMBROSIO: All right. That is the answer I was looking for. You had no special financing plan in place for this \$11 million. You treat it as part of your whole operating budget.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: I would just like to go through the numbers, in terms of the performances and the number of people who have been serviced by this facility. I want to concentrate on the past 10 or 12 years. These numbers were-- I'm looking at--

MR. ZILOCCHI: Senator, if I may, just keep in mind that when you're looking at our history -- and this is just information -- we did not operate this facility. Although this facility opened in 1968, we did not begin to operate it ourselves until 1972.

SENATOR AMBROSIO: Well, then let's go from that period on. Okay?

MR. ZILOCCHI: Okay.

SENATOR AMBROSIO: I'm going on numbers that were submitted to the Senate Independent Authorities Committee, in terms of attendance and in numbers of performances that have taken place at this facility. In '72, there were 410,000 people at 82 performances -- in 1972 -- whereas 10 years later, in 1982, that figure dropped to 230,000 people at 46 performances. So, from '72 to '82, the number of performances were cut in half, and the number of people who were serviced at this facility was, likewise, almost cut in half.

MR. ZILOCCHI: Senator, that does not agree with the figures we have. We have a problem here.

MS. HORAN: Yes.

SENATOR JACKMAN: I can't believe that.

MR. ZILOCCHI: I don't know what you're looking at, but that does--

SENATOR JACKMAN: If you came down here last year, it was complete sellouts.

SENATOR AMBROSIO: No, that's not true, Chris.

MR. ZILOCCHI: First of all, Senator, the figures do not agree with what we have. But just on a concept basis, Senator, you have to-- The real measure of the success of an Arts Center operation is not the total attendance, because the number of shows will fluctuate. One year you will have 70 shows, and--

SENATOR JACKMAN: You're talking about free ones.

SENATOR AMBROSIO: Right.

SENATOR JACKMAN: You're not talking about paid ones.

SENATOR AMBROSIO: Right; that's right.

MR. ZILOCCHI: Oh, I'm sorry, Senator.

MS. HORAN: Oh, okay.

MR. ZILOCCHI: We're looking at paid ones.

MS. HORAN: Thank you, Senator. Yeah, that's--

SENATOR JACKMAN: I just wanted to make sure. Every time I come down here, they're sitting on the grass.

SENATOR AMBROSIO: These are the Cultural Center Fund programs.

MR. ZILOCCHI: Okay, Senator.

MS. HORAN: All right. That makes more sense.

SENATOR JACKMAN: Okay. Do you understand?

SENATOR AMBROSIO: That was my mistake. I'm talking about the Cultural Center Fund programs. From '72 to '82, the number of people serviced by these programs is basically half, and the number of programs was cut in half. If you go on, as far as '86, it even dropped significantly lower. In '86, we were down to 32 programs, plus the nine festivals, and 120,000 people, plus 50,000 for the festivals.

So, what we are seeing here, in the course of from '72 to '86, is that the numbers of people were basically 25% of what were serviced in 1972. What accounts for that?

MS. HORAN: Well, first of all, Senator--

MR. ZILOCCHI: I'll let her answer first, and then I've got an answer for you.

MS. HORAN: If I may address that first-- The figures in the very beginning years are estimates. Turnstiles were not used in the very early years of the Cultural Fund operation.

SENATOR AMBROSIO: When were turnstiles put in?

MS. HORAN: Well, that was a little pre my time. I believe we began using turnstiles -- according to my records -- in 1985. We have schoolchildren--

MR. ZILOCCHI: Senator, if I may, that is part of the answer.

SENATOR AMBROSIO: Well, it certainly-- Is that the answer, George?

MR. ZILOCCHI: You know, when I saw these figures myself around '84, I saw no basis for them. In my opinion, they were nothing but optimistic guesses. I wanted to know exactly what the attendance was, and we instituted a turnstile system. Now, to a certain extent, there might have been a reduction anyway, because of the nature of the booking of the season, Senator. When we put on these free daytime performances-- We used to -- originally, when the Arts Center started operating -- put on week-long-type subscription shows. An act used to come in for an entire week. We had the availability of the stage during that week period because there was no dismantling of equipment and so forth.

Subsequent to that, we had to change that concept for economic reasons on the paid professional performances, and do away with the week-long shows, and have more daily shows. By doing that in the summertime, we were restricted now from having these free daytime performances. We had to conform to these free daytime performances pre-season and post-season. But I think there are a number of factors, Senator. Number one, the early figures I do not feel comfortable with. I don't know how they were put together. I think they were just guesses at that point. We had no turnstile verification of them; now we do.

Secondly, there was a change in our operation of the Garden State Arts season itself. And thirdly, in the last few years, Senator, I represent to you that in our Cultural Fund activity, through which the money is paid for these free performances, we wanted it to stand on its own. If cutting the performances means-- If that is the result -- cutting the performances -- we will do that, because we just want it to stand on its own.

SENATOR AMBROSIO: So, that explains why there were only 32 performances in '86, as compared to 82 performances in '72; that you cut the performances down. That would also mean that you were serving less people.

MR. ZILOCCHI: That is the unfortunate part, and that is one of the things that-- I hope you are not going to accuse me of editorializing, but that is why one of the things we look for in a facility like this, is to help us to raise additional funds, so we can put on more free performances like that.

SENATOR AMBROSIO: Let's switch to this facility -- okay? -- since you editorialized into it.

MR. ZILOCCHI: You always do that to me.

SENATOR AMBROSIO: When was this facility first proposed?

MR. ZILOCCHI: Senator, I believe if we look at the capital improvement listing of 1984, it appeared as part of the capital improvement program that a reception facility of this nature would be built.

SENATOR AMBROSIO: How did that happen? When was it first discussed?

MR. ZILOCCHI: First of all, how it happened. To say that, I would have to go back to what was being done. We have a facility in place here -- a few miles away from here, because this is a large area-- In fact, it is in the vicinity that Senator Jackman asked me before about the Vietnam Memorial. It was for putting on small-time receptions, rentals to corporations, companies, and so forth, that wanted to avail themselves of this area, and also attend a performance at the Arts Center. We found that the popularity and demand for this type of a facility was growing and growing each year.

SENATOR AMBROSIO: George, would you just give me the time frame you are talking about? Where are you right now, time-wise?

MR. ZILOCCHI: Right now, I am probably in the '70s -- in that era. We found that the demand and requests for this facility were growing and growing in popularity every year. We found also that this facility had many deficiencies safety-wise, insurance-wise. We were restricted in this facility, in that we could only accommodate-- I believe the number was a little over 70 individuals. We found that in certain cases we would have to put up tents out in the parking area here to accommodate some events. Through that development, Senator -- requests that we had received, recommendations from people who were using that facility, and all, came the concept of looking into a larger-scale facility such as this. I mean, that is generally a broad statement about how this concept started.

From that, discussions were held in preparing our capital improvement programs for the future, which eventually would be approved by the Commissioners. Discussions were made to look into this kind of a structure. Provisions were made in the capital improvement program, and then the process really started.

SENATOR AMBROSIO: All right, George, I am going to get into that. But let me just bring you into the time frame that I want to talk about.

The Treasurer's report submitted to the Governor's office after the attempt to increase tolls notes -- and I am going to quote from the report: "While the Authority has represented that the Arts Center is self-sustaining, it is not clear that all indirect costs are charged against the Arts Center budget. Also, no capital improvement costs or insurance are included in the Arts Center's profit and loss statements. Moreover, the financial support of the toll road operations allows the Arts Center to take risks in its financial arrangements with performing artists. The Authority should make efforts to further segregate the financial operations of

the Arts Center, the Cultural Center Fund, and the Foundation, to assure that the financial performance of each of these organizations can be accurately assessed."

That basically is the crux of where I am coming from, in terms of trying to analyze whether or not the Arts Center really had a \$1.2 million surplus. It is very clear that the Treasurer is also raising questions as to whether or not you are creating a surplus, or whether you are hiding costs relating to this facility in other costs that you are charging to the toll road.

MR. ZILOCCHI: Senator, I take certain exceptions with that report. But that issue, in response to the Treasurer's points, is being addressed right now. In fact, it has been encompassed in the -- and I am sure you are aware of this -- management study we have authorized. They are addressing that issue, the results of which will be available, I expect, within the next two to four weeks.

SENATOR AMBROSIO: So what you are saying is, you are looking into that, and you are attempting to come up with a better accounting system on this?

MR. ZILOCCHI: Well, we are addressing those issues. If there are any recommendations that come out of this study to improve the procedure, certainly we will face them.

SENATOR AMBROSIO: Well, let me just talk about one issue in particular -- the insurance problem. Your minutes reveal a concern on the need for an umbrella type of insurance. Now I think you pay something like \$47 million. Is that correct?

MR. ZILOCCHI: No. I think the coverage might be that, but I don't think we pay \$47 million.

SENATOR AMBROSIO: I'm sorry, your coverage is \$47 million.

MR. ZILOCCHI: If we did, we would have problems.

SENATOR AMBROSIO: In light of the Arts Center operation, is there a breakdown of the insurance costs that apply--

MR. ZILOCCHI: No, Senator, there is no breakdown of the insurance costs. That is an issue itself to which I expect to find the answer within the next few weeks. It will be incorporated in that report.

SENATOR AMBROSIO: In your operating budget for the Arts Center, you don't have an allocation for insurance?

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: That is an example of an expense--

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: --that clearly relates to this facility, that is not included. And there are other expenses I could go on to, but in light of the fact that the Treasurer has also raised the same questions--

MR. ZILOCCHI: And in light of the fact that we are addressing them, and they will be prepared in the report which will come out within two to four weeks, Senator-- I think that will give us a lot of answers.

SENATOR AMBROSIO: Okay. Is that the Touche Ross report?

MR. ZILOCCHI: No, it's the Booz Allen report.

SENATOR AMBROSIO: I'm sorry.

MR. ZILOCCHI: Touche Ross was not allowed to conduct that study, if you recall.

SENATOR AMBROSIO: Isn't one a management study, and the other an audit?

MR. ZILOCCHI: Booz Allen is doing the management study from the results of that report, and Touche Ross will coordinate the preparation of two reports which are required by the Governor, Treasury, and DOT. That is required to be submitted in November. But the Booz Allen study will be the basis for those two reports, which are cost containment studies and financial practice studies.

SENATOR AMBROSIO: Would you just indicate what other types of costs similar to insurance would not be broken down between the Arts Center and the toll road?

MR. ZILOCCHI: Well, Senator, it depends on how technical you want to get. This is the issue they are addressing. For example, I probably devote maybe 10% of my time to the Arts Center. If you want to get technical, then 10% of my salary should be charged to the Arts Center. But the other side of the coin is, if the Arts Center facility didn't exist, would I still exist?

SENATOR AMBROSIO: Yeah, but you would get less money, George.

MR. ZILOCCHI: I'm glad you don't make that decision, Senator. (laughter) I am not trying to beat around the bush, but it is not clearly defined. I mean, there are direct costs, there are avoidable costs, and again, Senator, I beg that all of this is being addressed.

SENATOR AMBROSIO: Okay, I won't-- The first indication we had, in going through the minutes, that there was any reference at all to a reception facility, was the exempt meeting of March 24, 1983. This was the second meeting where Judith Stanley served as Chairman. It was also the same meeting where you were appointed to the newly created position of Deputy Executive Director, so I am putting your time frame together.

MR. ZILOCCHI: I hope you don't imply by that, that I started the reception center.

SENATOR AMBROSIO: No, no, unless you want to own up to that.

MR. ZILOCCHI: No, sir. Go ahead, Senator.

SENATOR AMBROSIO: By the way, this discussion was not made public. It was in your exempt meetings, and until we got copies of those private meetings, we didn't know that that discussion took place.

MR. ZILOCCHI: Senator, you will find that the procedure for our exempt meetings has changed drastically.

SENATOR AMBROSIO: I know, but sometimes it is worth beating a dead horse, because--

MR. ZILOCCHI: Of course. The wounds are here anyway. You can't make them any worse.

SENATOR AMBROSIO: What was Celebrity House being used for at that time?

MR. ZILOCCHI: Pat, would you take that, please?

MS. HORAN: Senator, Celebrity House was used as an arm of the Arts Center for group rentals. People who were attending the Arts Center on a given evening would purchase group tickets to the Arts Center, and would want to have some type of a limited function before a performance. It was rented out to nonprofit groups prior to the Arts Center, to corporations, and other entities. Heritage festivals made use of the facility as part and parcel of their day-long festivities here.

SENATOR AMBROSIO: When was it first used for receptions?

MS. HORAN: Well, I'm finishing 14 years here, and as far back as I can remember, it has been--

MR. ZILOCCHI: Senator, it was somewhere--

SENATOR JACKMAN: You also had tents besides the Celebrity House, didn't you?

MS. HORAN: That is correct, Senator.

SENATOR JACKMAN: I was down here on a number of occasions. I think the Telephone Company and other large corporations had cocktail parties, etc., before maybe the Sinatra show, or what have you, and there was an overflow. Is that true or isn't it?

MS. HORAN: As George testified before, we were severely limited by the constrictions of the building to an occupancy of some 70-odd individuals, including service

personnel. It caused us to either put tent extensions on the building or, in most cases, put up additional tenting, or caused individuals who wanted to hold functions like the ones you mentioned -- corporations, nonprofit entities -- to incur the additional expense of putting up tenting and the like.

SENATOR AMBROSIO: I want to establish when Celebrity House was first used for receptions.

MR. ZILOCCHI: Senator, I have to go back on memory myself because, as you well know, and as I have testified, I have been with the Highway Authority for 21 years, but I was not that actively involved with the Arts Center operation in the early years. I would say it was somewhere in the early '70s. That is when I recall it started.

SENATOR AMBROSIO: That is our understanding, too, Mr. Zilocchi. I raise that point for this purpose: In 1968, the Legislature changed the law that governs the Highway Authority. I'm sure you are familiar with the statute I am going to read, 27:12B-51: "The Authority shall not engage in construction or operation of any facility or activity not directly related to the use of a highway project, except as may be specially authorized by law. The continued operation of existing facilities or activities by the Authority shall not be affected by the provisions of this Act."

Was there any question raised as to whether or not the change in the use of Celebrity House amounted to an expansion of a non-highway project?

MR. ZILOCCHI: Do you mean the old one?

SENATOR AMBROSIO: Yeah.

MR. ZILOCCHI: Senator, I really don't know. That was before the time that I was in any position to be involved in something of that nature. You know, I don't beg the question; I have been here before you many times. I really don't know.

SENATOR AMBROSIO: I just want you to know that this is a question that Senator Lynch has raised. I am asking it on his behalf really.

MR. ZILOCCHI: I think that is a question, Senator, that will have to be asked of the people who were in a position of decision-making at that time. I can't really speak for them, and I don't know.

SENATOR AMBROSIO: Well, it's very clear that no such activity existed before 1968 anyway. There was no reception facility at all before 1968.

MR. ZILOCCHI: No, there was no Garden State Arts Center.

SENATOR AMBROSIO: I'm sorry, the early '70s.

SENATOR JACKMAN: I was there in '68.

SENATOR AMBROSIO: Celebrity House was started around '72. That meets with your--

MR. ZILOCCHI: That meets with my recollection, Senator, but I do not speak with any firmness on this, because I was not in any position, at that point, to get involved in things of that nature.

SENATOR JACKMAN: That was a law in '68?

SENATOR AMBROSIO: Yeah.

SENATOR JACKMAN: The year I was down?

SENATOR AMBROSIO: Yeah, you voted on it, Chris.

SENATOR JACKMAN: I might have voted no, I'm not sure. I'm only kidding.

SENATOR AMBROSIO: In May of '83, then Executive Director Smith reported that three architects were approached for renovation of Celebrity House. Do you recall what type of renovation was contemplated at that time?

MR. ZILOCCHI: I think, Senator, there was an attempt to make a study to see if the deficiencies, which I noted, and which Pat noted, concerning that old reception facility, could be corrected, so that we could utilize that building in accordance with the demands we had.

SENATOR AMBROSIO: Very clearly, this took the place of what that concept was. Is that right?

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: Okay. Then let's go to this building. How was the architect selected for this building?

MR. ZILOCCHI: I think the architect was selected based on general interviews -- various architectural firms. Then one was asked to give us an estimate for a preliminary study, which was Mr. Kobayashi. He gave us the estimate -- a proposal, in essence -- and that proposal then was approved in the normal--

SENATOR AMBROSIO: Wasn't he the only one asked to give a proposal?

MR. ZILOCCHI: Jim?

MR. CONLON: No, there was another one; the Ryan group, I believe.

SENATOR AMBROSIO: What group?

MR. CONLON: Ryan -- R - Y - A - N. They also gave us a proposal on the reception building -- this building.

SENATOR AMBROSIO: We're talking about the architectural consultant, not the design contract.

MR. CONLON: I believe, originally, only Kobayashi gave us a proposal for a preliminary study.

SENATOR AMBROSIO: He was the only one asked to give a proposal.

MR. CONLON: I think that is correct. After the preliminary--

MR. ZILOCCHI: I think that was as a result of interviews, though, with various architects.

MR. CONLON: Yeah.

MR. ZILOCCHI: And the checking of backgrounds -- their concepts, their ideas, and so forth.

MR. CONLON: But for final design, at least two proposals were received.

SENATOR AMBROSIO: Mr. Conlon, his contracts cover letter -- notes of a meeting in January of '84 between Ms.

Stanley, George Zilocchi, and you. Was that the meeting where he was interviewed? What was the purpose of that meeting?

MR. CONLON: I do not remember; I do not know.

SENATOR AMBROSIO: You don't recall what that meeting was about?

MR. CONLON: No. I had several meetings with George and Ms. Stanley and Kobayashi and the Ryan group, but I can't put them in a time frame.

SENATOR AMBROSIO: What were the purposes of your meeting with the architect?

MR. CONLON: To discuss the terms of the proposal.

SENATOR AMBROSIO: Well, what was he serving as, at the time, as an architectural advisor or as a consultant? Did you have a contract with him?

MR. ZILOCCHI: We really didn't have a contract, Senator, if I may, until it was awarded on February 23, 1984, with the architect.

SENATOR AMBROSIO: Well, rather than me trying to drag this out, George, why don't you just explain to me how Kobayashi was selected, and the interaction between you, Kobayashi, and the Commissioners?

MR. ZILOCCHI: Senator, if memory serves me right, there were various architects who were interviewed -- interviewed to see what their past accomplishments were, what their area of expertise was, etc. Among them, was Kobayashi. Kobayashi was one of them. How Kobayashi came on the scene, I really don't know.

SENATOR AMBROSIO: Who did the interviewing?

MR. ZILOCCHI: I believe the interviewing was done by the Chairman and myself, and Jim Conlon also participated in the interviews.

SENATOR AMBROSIO: Was that just an ad hoc committee, or was there some--

MR. ZILOCCHI: No, it was just an ad hoc committee.

MR. CONLON: Actually, I remember now, George, we even had some New York architects who gave us some proposals at the preliminary phase. Altogether, there were at least five of them.

SENATOR AMBROSIO: All right. Why don't you continue?

MR. ZILOCCHI: As a result of all of these interviews, and the reason why I don't recall, Senator-- The one architect who seemed to impress us the most as identifying and recognizing what was envisioned, was Mr. Kobayashi. He was asked to give a proposal -- to do a study and a preliminary design job, in relation to this building. He submitted the proposal.

SENATOR AMBROSIO: But he never appeared before your engineering committee or your Garden State Arts Center committee?

MR. ZILOCCHI: I don't recall that he did, Senator.

SENATOR AMBROSIO: So, he was basically selected by the Chairman, you, and Mr. Conlon?

MR. ZILOCCHI: Well, recommended. Actually, once he submitted the proposal, then the proposal--

SENATOR AMBROSIO: Where is he from?

MR. ZILOCCHI: I believe--

MR. CONLON: Red Bank.

MR. ZILOCCHI: From Red Bank.

SENATOR AMBROSIO: What was his contract? What were the amount and the terms of his contract?

MR. ZILOCCHI: I'll let Jim answer that. He has the details.

MR. CONLON: My notes indicate that he was to do a preliminary design for a fee of \$20,000.

SENATOR AMBROSIO: Okay. And he was the only one asked to do that. Isn't that right?

MR. CONLON: We interviewed, or talked to one way or another, at least five firms -- Kobayashi, Reilly, Ryan, and a

couple of New York firms. We got brochures from them, and samples of their work. In fact, I remember it was either Reilly or Ryan who gave me large photographs of some of the buildings he had designed. Finally, one way or another, we chose Kobayashi to do the preliminary study.

SENATOR AMBROSIO: I just want to show you this letter, Mr. Conlon. (letter is delivered to Mr. Conlon at witness table) What is this letter about, Mr. Conlon?

MR. CONLON: You've got better files than I do.

SENATOR AMBROSIO: What is this letter about, Mr. Conlon?

MR. CONLON: I'll have to read it. As I just remarked, you've got better files than I do. This is not one I have found lately.

SENATOR AMBROSIO: If I may use George's expression, this was in the truckload of stuff we received. (laughter)

MR. CONLON: It's got my name on it. Oh, this is discussing the final design of the building. This is after his preliminary study. Yes, okay, I'm familiar with it.

SENATOR AMBROSIO: This document is a memorandum to the Executive Director from you, as Chief Engineer, regarding the architectural contract with Mr. Kobayashi. Right?

MR. CONLON: Yes, sir.

MR. ZILOCCHI: Excuse me, Senator. What is the date of that document?

SENATOR AMBROSIO: March 7, 1985.

MR. ZILOCCHI: That was the second phase of it.

MR. CONLON: It was the final design, yeah, George. The memo is really explaining to you that we had an unusual problem with Mr. Kobayashi, because he is in practice as an individual. He does not even employ a secretary. So, our normal contracts would be on a cost-plus basis, or a percentage of construction. And when you try to work with him on a cost-plus basis, everything is subcontracted. If we didn't

allow him to make any money on the subcontract, he would make no money on the job at all. You run into that kind of a problem when you get an engineer or an architect who is an individual in private practice for himself, without any partners or any staff.

SENATOR AMBROSIO: At that time, the estimated construction costs of this facility were how much?

MR. CONLON: They were \$1.65 million.

SENATOR AMBROSIO: How did it get from \$1.65 million to \$6.3 million?

MR. CONLON: Well, he was using a round number of \$150 a square foot, and he was assuming 10,000 square feet. He ended up with 14,000 square feet and a higher per square foot cost. He made changes that his client requested.

SENATOR AMBROSIO: That's a lot of rounding, Mr. Conlon, from \$1.65 million to \$6.3 million. What I am really saying is: When you interviewed other contractors, or other architects, obviously you were talking about much less of a facility than you have here today. And somewhere along the line, a judgment was made to build a larger facility by 50%, and a much more elaborate facility, which would run four times the cost.

MR. CONLON: That is correct.

SENATOR AMBROSIO: How did that come about? Does anybody--

MR. CONLON: Well, originally, as the report Mr. Kobayashi drew up shows, we were talking about a smaller building. I believe we were talking about 150 for a dinner and 300 for a stand-up reception. That figures later became about 350 for dinner and 500 for a stand-up reception. At a meeting with Kobayashi as we went along, the Commissioners felt that they needed a bigger structure than what he originally proposed.

SENATOR AMBROSIO: Is that true, that the Commissioners felt that? When was this discussed at Authority

meetings? We can find nothing in the minutes, where the Commissioners discussed this.

MR. CONLON: The Commissioners don't interfere with the way I design bridges, and I don't interfere with the way they want buildings designed. It was done by them. The Commissioners expressed their opinions as to how large this structure should be.

SENATOR AMBROSIO: George, was this discussed at Commission meetings?

MR. ZILOCCHI: I would say, Senator, that it was probably discussed at engineering committee meetings, not at Commission meetings.

SENATOR AMBROSIO: So, this was never discussed at a--

MR. ZILOCCHI: You won't find-- No, it was never discussed at a public regular monthly meeting, Senator.

SENATOR AMBROSIO: You understand the problem we have. We have a facility which, if we didn't discover this document, there would be no way of knowing from the public records that this facility was originally intended to be 25% of the cost that it eventually--

MR. ZILOCCHI: I understand that, Senator.

MR. CONLON: Senator, that is not quite correct, because in October, 1983, the Commissioners--

MR. ZILOCCHI: I was going to bring that point up.

MR. CONLON: --altered the reception center building in the capital improvement program, and they authorized \$3 million. That was in October of '83.

MR. ZILOCCHI: Senator, I'm having--

MR. CONLON: That was probably Kobayashi's estimate of \$1.5 million.

MR. ZILOCCHI: --a little problem, because I haven't seen this memo for some time. I don't know how the architect came out with that estimate. I was going to bring out the point that Mr. Conlon just brought up, that in '83, they had

estimated, in the capital improvement program -- the Commissioners -- that the building would cost approximately \$3.5 million. I don't know how he came up -- how the architect came up with that. Obviously, it was a misunderstanding.

MR. CONLON: The basic figure, too, that Kobayashi is estimating there, is the construction cost. He didn't include the architectural cost, the supervision and construction costs. He didn't include inflation from whenever that was until now. Not that that accounts for the great difference, but it does account for some of it.

SENATOR AMBROSIO: What did the contract provide for? What did his contract provide for, in terms of dollars?

MR. CONLON: I don't know, sir. I would have to read it. I don't remember. I'm not even sure that it-- It probably didn't. It probably referred back to his design study. The contract was for him to design the building in accordance with the design study he had given to the Commissioners, which is his report of June, 1984.

SENATOR AMBROSIO: Do you have that memorandum in front of you?

MR. CONLON: Yes.

SENATOR AMBROSIO: Would you please read the second paragraph on page 2, and explain what that means? Would you read it out loud?

MR. CONLON: "If we are to revise the contract"?

SENATOR AMBROSIO: Yeah. Let me read it to you: "If we are to revise the contract before design to recognize this increase" -- and I don't know what increase they're talking about, unless they are talking about to make it a larger facility -- "it will be necessary to have the Commissioners act in a public meeting. If, however, we sign the contract on the original parameters, and then direct Mr. Kobayashi to increase the size of the building under the 'extra work' provisions of the contract, you will be required to notify the Commissioners

of the authorization for extra work, but public action would not be required." What does that mean?

Let me just continue: "I am reluctant to expose the construction of the reception building to another public meeting, because it is too easy for people to criticize. We acted in a public meeting once. I don't think we should stretch our luck. Obviously, we would be required to award construction contract by public bidding, and at a public meeting in the future." Isn't that exactly what you did?

MR. CONLON: That is exactly what we did, yes.

MR. ZILOCCHI: Senator, this is an issue which we have debated -- not debated, discussed. I represent to you, Senator, that the matters now going before the engineering committee are presented to the full Board of Commissioners at a public meeting, so any deliberations that go on at the engineering committee are now becoming public documents.

SENATOR AMBROSIO: George, I would like to-- You got this memorandum. This memorandum was directed to you as Executive Director from Mr. Conlon--

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: --as Chief Engineer. In it, he is clearly saying, "We've got to find a way to hide this from the public." I mean, he spells it out in detail: "The last thing we want to do is let the public know what we are doing, because they are going to cause us problems." This was submitted to you for your recommendation or action, was it not?

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: What did you do about it?

MR. ZILOCCHI: I believe this whole matter was referred -- these engineering matters were referred to the engineering committee for further discussion, Senator. You know, it's obvious--

SENATOR AMBROSIO: Let me refresh your--

MR. ZILOCCHI: Yes, go ahead.

SENATOR AMBROSIO: --recollection, because maybe your records aren't as good as ours. Do you have this document in front of you?

MR. ZILOCCHI: No, I do not.

SENATOR AMBROSIO: Turn to the last page, where there is a memorandum from George Zilocchi to James Conlon, dated the same date as this letter: "I have discussed your memo, copy attached, with the Chairman, and she is in agreement. Please proceed as indicated."

MR. ZILOCCHI: Correct, sir.

SENATOR AMBROSIO: And you signed it.

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: So basically what was done in this whole scheme -- and it was a scheme; let's call it what it was-- It was a scheme to develop something and put out a bid that clearly was not what the contract was going to be, and you were going to go through change orders to up that thing, so you wouldn't have to go through additional public bidding. That is what you did here.

MR. ZILOCCHI: I don't quite see it that way, Senator. I mean, you're talking about change orders.

SENATOR AMBROSIO: Well, let me just read that--

MR. ZILOCCHI: All the change orders that related to this building were all done in the public forum. None of them--

SENATOR AMBROSIO: No, they weren't done in the public forum. What was not done was, they were not submitted to public bid. What is very clear, is that the first proposal of \$1.65 million was clearly not going to be the final decision here; that you were going to build a bigger, more expensive building. The question was: How to get to that bigger building? The scheme that was devised was: We can revise the contract and go out to bid again, or, "If we are to revise the contract before design to recognize this increase," in the scope of the work then, "it will be necessary to have the

Commissioners act in a public meeting. If, however, we sign the contract on the original parameters, and then direct Mr. Kobayashi to increase the size of the building under the 'extra work' provisions" -- notice, you are not talking about changing scope of work; you are talking about extra work -- "of the contract, you will be required to notify the Commissioners of the authorization for extra work, but public action would not be required." And, as a matter of fact, even the Commissioners' action wouldn't be required, because you had already determined that this was not a change in scope; it was just going to be extra work.

MR. ZILOCCHI: Senator, what I'm saying is, through public documents, it was already stated that the estimate of the building would far exceed the estimate that the engineer had recommended -- had suggested in here. There was no secret about it.

SENATOR AMBROSIO: Well, obviously, there was, because Mr. Conlon is saying: "I am reluctant to expose the construction of the reception building to another public meeting, because it is too easy for people to criticize. We acted in a public meeting once. I don't think we should stretch our luck."

MR. ZILOCCHI: Senator, what Mr. Conlon stated is one thing, but I could-- I'm sure you have the records. We acted at various public meetings concerning this facility.

SENATOR AMBROSIO: Well, George, what does this language mean then?

MR. ZILOCCHI: I don't know what it means, at this point, Senator. But I can tell you, we had so many resolutions at public meetings related to this building, that certainly it was never kept a secret.

SENATOR AMBROSIO: Well, I think we know what it means.

SENATOR JACKMAN: Let me ask a couple of things. Once in a while, look down at me.

SENATOR AMBROSIO: Sure. I'm sorry, Chris. Any time you want, just jump in.

SENATOR JACKMAN: Okay. Was there ever a lawyer present when you were doing this work, for advice? Were lawyers present with the Commissioners?

MR. ZILOCCHI: Lawyers are always present at deliberations.

SENATOR JACKMAN: Did the lawyers know about this letter you received from Mr. Conlon?

MR. ZILOCCHI: I don't recall, Senator.

SENATOR JACKMAN: Did they ever get any copies of the letter?

MR. ZILOCCHI: I don't recall that, Senator.

SENATOR JACKMAN: Did you discuss with the lawyers that sit with you, that you pay-- I guess you pay them, don't you?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: On some of the subject matters on the buildings--

MR. ZILOCCHI: Senator, all of the policies and procedures that are adhered to are all seen by the lawyers, and are discussed with the lawyers.

SENATOR JACKMAN: In essence, do they then say back to you what-- For example, here is a written letter. Based upon my colleague's questioning -- which is proper -- there is a dual meaning to this thing here, where Mr. Conlon leaves the impression, "Let's not go public. Let's proceed." Now, that is the inference. Now, the lawyer-- Did he see this?

MR. ZILOCCHI: I don't know, Senator, if he would have seen this particular document, but the policy and procedure that Mr. Conlon is referring to, to be implemented, is a policy and procedure that has been reviewed by the attorneys, and so forth.

SENATOR JACKMAN: Was approved by the attorneys. Now, the same question that my colleague asked, and even I got a little fuzzy when I looked at it here-- It seems to me that the inference is, "Let's not go public. Let's keep it among ourselves." What I mean by that is the Commission. Was the Commission notified of this letter, or was it made privy to the content of this letter?

MR. ZILOCCHI: I don't know if they were privy exactly to this memo, but certainly they were knowledgeable of what was reflected in this memo.

SENATOR JACKMAN: They were knowledgeable?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: Okay.

MR. CONLON: Senator, may I explain something now that I have had time to read the memo? In the first place, bidding is not required on professional contracts, and I am discussing here a professional contract -- architectural services -- not construction of the building. I can't award a contract for construction of a building. I already had authorization from the Commissioners for this design contract, when I began to hear from the Commissioners, and from the Executive Director, that they thought the building we were proposing to build was not going to be big enough for our needs. I was advising the Executive Director that I thought he had two ways to proceed; and I am not a lawyer. One was, you can take it back to the Commissioners and let them vote on it again. Or, if they are telling me they want a building 50% larger, Kobayashi's contract already provides for us to pay him for additional work. And, he says that a larger building will cost him more money to design, not in direct proportion, but it would cost more.

SENATOR JACKMAN: I think my colleague, when he asked the question-- The original bid was in the million dollar class -- \$1.6 million, or what have you. It then grew to almost \$5 million.

SENATOR AMBROSIO: It was \$6.3 million, Chris.

SENATOR JACKMAN: What was that?

SENATOR AMBROSIO: \$6.3 million.

SENATOR JACKMAN: Oh, \$6.3 million. In essence, and knowing some of the discussions-- This is the first time I saw this, too, I want you to know. I haven't been privy to any of this before, so I'm like you are here. Had the original thought of \$6 million gone out for public bid, you might have gotten a different architect, or a different builder. Is that possible?

MR. ZILOCCHI: I don't know, Senator, but I think what this memorandum is referring to is the engineering fee involved, and not necessarily-- Because at this point, we were still in the design mode. So, it is not reflecting the construction costs of the facility.

SENATOR AMBROSIO: George, it is very clear that this memorandum, regardless of what it refers to, is a damning document for a public agency. Under no circumstances should any public agency ever put on its letterhead, "We've got to find a way to do this so that the public doesn't find out." I don't care what you're talking about. You should never have done that. And this is not the first time we have discovered this. It has been the consistent pattern of this Authority to do what it can to keep this out of the public eye.

Now, again, we don't have to say anything more. It speaks for itself. And by the way, Kobayashi's first contract was going to be for how much? What was the original contract he had?

MR. CONLON: I think it was \$20,000.

SENATOR JACKMAN: Eighty dollars an hour?

SENATOR AMBROSIO: No, \$20,000. This document says: "My guess is that he will ask about a \$60,000 increase in the ceiling.

MR. CONLON: No, no, you're talking about two different contracts.

MS. HORAN: Two different contracts.

MR. CONLON: The study contract was \$20,000.

SENATOR AMBROSIO: Oh, I'm sorry.

MR. ZILOCCHI: I think, Senator, you have to look at it in the form that there were two contracts. Publicly approved, Senator.

MR. CONLON: Senator, in October--

SENATOR AMBROSIO: His original proposal was 131?

MR. CONLON: One hundred and thirty-one thousand dollars was awarded to Kobayashi in October -- October 25, 1984.

SENATOR AMBROSIO: What was he eventually finally paid?

MR. CONLON: I don't know offhand.

SENATOR AMBROSIO: I'll tell you what it was. It was \$356,700.

SENATOR JACKMAN: That's because the building increased four times. He's getting 80 bucks an hour.

SENATOR AMBROSIO: I'm wondering how many architects you interviewed might have given you different quotes, or different proposals, if they knew the scope of the work you were talking about, and knew that you were talking now about a \$6 million project. As Senator Jackman says, you might have gotten a different architect, and you might have gotten a better price. That is the gravamen of why these things should not be done in secret.

MR. CONLON: In October of '84, several consultants gave us a proposal for a specific size building. This memo -- I don't have it in front of me -- was sometime in 1985.

SENATOR AMBROSIO: Yeah, '85, that's right.

MR. CONLON: By that time, the Commissioners had become convinced that they needed a larger size building.

SENATOR JACKMAN: Based upon the overall cost, Mr. Kobayashi's fee -- and knowing some of the architects that I have known -- that is considered a fair fee.

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: It is not an exorbitant fee, not when you are talking in terms of \$6 million. I am assuming that he had an engineering force in the drawing of the plans. That all became part of his total cost. Is that right?

MR. ZILOCCHI: Yes, sir.

MR. CONLON: That's right.

SENATOR JACKMAN: Okay.

MR. CONLON: Six percent to 10% is not unusual for an architectural fee.

SENATOR JACKMAN: I know. I know enough people in the building business. That is why I asked you the question. Was it union done?

MR. CONLON: It was.

SENATOR JACKMAN: Otherwise, there might have been another problem.

SENATOR AMBROSIO: Let me just clear up one point. The change orders that were awarded-- Did the Commissioners approve them?

MR. ZILOCCHI: Are you talking about the architectural fees?

SENATOR AMBROSIO: Yes.

MR. ZILOCCHI: The architectural fee change orders were approved by the engineering committee, which consists of three Commissioners.

SENATOR AMBROSIO: But the Authority did not pass a resolution approving these?

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: And it is not reflected in the minutes?

MR. ZILOCCHI: Not at that time, no, sir. It is reflected now, sir.

SENATOR AMBROSIO: How were O'Brien-Kreitzberg selected to inspect the construction of that facility? What were they, the construction managers?

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: How were they selected?

MR. ZILOCCHI: They were selected based on their credentials and their experience in construction work similar to this facility.

SENATOR AMBROSIO: Were any other firms interviewed, or were they just chosen?

MR. ZILOCCHI: I don't recall if any other firms were interviewed. I don't think so.

MR. CONLON: I'm sure we did, but I am not at all sure we took proposals from them.

MR. ZILOCCHI: Right.

MR. CONLON: Kobayashi was not interested in supervising and construction -- not in real supervision. He was willing to do what an architect does, which is a once a week visit to the site, but we wanted full-time supervision, and we had to find someone else.

SENATOR AMBROSIO: Site development and landscaping contracts were awarded to Vollmer Associates, were they not?

MR. ZILOCCHI: For design purposes, yes.

SENATOR AMBROSIO: For sign purposes?

MR. ZILOCCHI: Design.

SENATOR AMBROSIO: Design purposes?

MR. ZILOCCHI: Yes.

SENATOR AMBROSIO: Why did you award this contract to your traffic consultant, and not to your landscaping consultant?

MR. ZILOCCHI: Because, Senator, the traffic consultant-- Vollmer Associates has many facets to its operation, one of them being landscaping -- expertise in landscaping. We were very impressed with their operation in regard to that facet. They had submitted some very good concepts. We felt they were approaching it from a standpoint that was within our line of thinking, and so forth, and for that reason we awarded them the design contract.

SENATOR AMBROSIO: Did the engineering committee suggest them? See, it's a mystery how architects, engineers, and consultants are selected. It seems there is no--

MR. ZILOCCHI: Also I might add, Senator, I believe at the time, the landscaping consultant was involved in other jobs, too, and we just didn't feel-- We felt-- You know, sometimes what we will do-- If a consultant -- an engineering consultant -- is involved in too many facets, where we feel that if we give that consultant additional work it will just slow up the whole process even further, then we will look elsewhere to see if there are other consultants who possess that expertise and ability.

SENATOR AMBROSIO: Did you just award these contracts, or did you get proposals? Was it a cost-plus type of thing? What kind of an arrangement did you have with Vollmer?

MR. ZILOCCHI: On that particular-- I know what you are referring to, that Vollmer was a consultant.

SENATOR AMBROSIO: Right.

MR. ZILOCCHI: On this, I believe, we got a proposal.

SENATOR AMBROSIO: You did?

MR. ZILOCCHI: Yes.

SENATOR AMBROSIO: Okay.

MR. CONLON: We always get a proposal, from one firm at least.

SENATOR AMBROSIO: But you always ask it from the group you pick? In other words, you--

MR. CONLON: That's correct, yes. But we did have a proposal.

SENATOR AMBROSIO: What I am getting at is, you don't have proposals to compare. You select a firm, and you ask them to submit a proposal.

MR. CONLON: About 50% of the engineering contracts awarded in the last five years have been on a competitive basis, and 50% of them have not been.

SENATOR AMBROSIO: But not this one?

MR. CONLON: I don't know. I would have to check that.

SENATOR AMBROSIO: Who was your landscaping consultant at the time?

MR. CONLON: G&M.

SENATOR AMBROSIO: You took bids for landscaping, but they were subsequently rejected. Is that right?

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: Why was that? I am just curious.

MR. ZILOCCHI: Cost.

SENATOR AMBROSIO: Okay. It is rare that you rejected bids in any of this stuff, and I saw a bid that was rejected, so there is some hope there.

MR. ZILOCCHI: A simple answer, Senator -- and I am not trying to be evasive -- is just outright cost. It was far greater than what we felt we wanted to invest.

SENATOR AMBROSIO: The estimate on the-- What was Vollmer's estimate on the actual landscaping cost itself? Do you know?

MR. ZILOCCHI: I don't recall exactly.

MR. CONLON: It was around \$500,000 or \$600,000.

MR. ZILOCCHI: I was going to say in the vicinity of a half a million dollars.

SENATOR AMBROSIO: Do you have any information concerning the disposal of shrubbery or other vegetation by burial on or near the Holmdel site?

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: Mr. Conlon, do you?

MR. CONLON: Not by burial.

SENATOR AMBROSIO: Disposal?

MR. CONLON: Strictly hearsay. A few plants died, and were turned into mulch -- chipped. When a plant dies, we tear it out and run it through a chipper, and we use it for mulch.

SENATOR AMBROSIO: You know the incident I am referring to, do you not?

MR. CONLON: No, I'm not sure I do.

SENATOR AMBROSIO: There was a rather large quantity of shrubbery disposed of by burying it at a site near Holmdel.

MR. CONLON: No, sir, I never heard of that before.

MR. ZILOCCHI: Senator, I don't know your source of information is on that, but I am listening with interest, because I am not aware of anything.

MR. CONLON: As a matter of fact, I would like to know where it is, because that sounds like we are creating a landfill, which would just get us in trouble.

SENATOR AMBROSIO: What were you talking about?

MR. CONLON: I understood that we bought a large number of plants, and that a small percentage of them died because of the severe temperature.

MR. ZILOCCHI: Senator, it could be plants that are general landscaping up and down the road, and some--

SENATOR AMBROSIO: Is there any paperwork on what you are talking about, because that is the incident I am referring to?

MR. CONLON: As I say, it is hearsay on my part. I am not in charge of plants that are handled by the maintenance department.

SENATOR AMBROSIO: Is there anyone on staff here who would be familiar with this incident?

MR. ZILOCCHI: I really don't know, because I am not familiar with the incident myself, Senator. I really don't know where you are coming from on this one. It is totally-- You know, when we do landscaping up and down the road, there are times that we buy plants and all, and some of them, with drought conditions and all, will die. But the burial of plants -- material and all -- is something--

SENATOR AMBROSIO: Mr. Conlon is apparently aware of what I am talking about. I don't know who the specific individual is who should tell you--

MR. CONLON: No, no, I am not aware of us burying plant material -- absolutely not. I heard the same rumor you are talking about, and I have been unable to track it down. I do know--

SENATOR AMBROSIO: What is the rumor you heard?

MR. CONLON: That some of our plants died because of the extreme conditions this summer. We were even prohibited, at one time at the Arts Center here, from watering. The water company stopped us from watering because of the extreme heat this summer. Some plants died -- 2% or 3% of what we had. Those plants were--

SENATOR JACKMAN: Can you just plow them under?

MR. CONLON: No, I believe they were chipped -- run through a chipper, and turned into mulch.

SENATOR JACKMAN: Oh, okay.

MR. CONLON: If we find a dead tree on the roadway, we tear it out and we run it through a chipper and use it for mulch. Again, it is strictly hearsay on my part. That is not part of my operation.

SENATOR AMBROSIO: Okay. Let me just go into a whole different area at this point.

D O N A L D A . R O B I N S O N , E S Q . : Senator, it's up to you, but we did arrange for lunch.

SENATOR AMBROSIO: All right, we might as well stop.

MR. ROBINSON: Whatever pace you want.

SENATOR AMBROSIO: That's a good point. Because I want to get into a whole different area, we might as well stop at this point. Let's take only-- It's five to one. Let's try to reconvene at 1:30.

(RECESS)

AFTER RECESS:

SENATOR AMBROSIO: I would like to pick up in an area where we had a little testimony once before. My staff keeps referring to them as "secret minutes," but I don't want to use them as secret minutes. We'll call them "closed sessions," or "private meetings."

MR. ROBINSON: On the advice of counsel.

SENATOR AMBROSIO: Pardon?

MR. ROBINSON: They were exempt meetings on the advice of then counsel.

SENATOR AMBROSIO: The secret meetings provide-- (laughter) You had negotiations with Ron Delsener for corporate sponsorships. Were you involved in those?

MR. ZILOCCHI: Yes, sir, I was.

SENATOR AMBROSIO: Okay. Can you describe the program -- what that was all about?

MR. ZILOCCHI: Yes, Senator. Ron Delsener, who does the bookings for the performances at the Garden State Arts Center, approached us and introduced us to a concept which is quite common in the entertainment facility -- corporate sponsorship. A corporation will pay us money, and in return we will show the name of the corporation on our tickets, our advertising paraphernalia, etc., for a fee. The intent of that, of course, is to increase our revenues, and to apply that revenue toward the whole Arts Center season, and reflect it in the stabilization, as much as possible, of ticket prices, and so forth.

SENATOR AMBROSIO: Okay. George, I am going to telegraph my shot on this one, and tell you where I am coming from. My concern about these types of contracts relates to the question of whether or not in negotiating them, you are representing the toll road users or the Arts Center users. Isuzu is one of the contracts that really doesn't touch in that

area, but the Mobil contract does, and we have discussed the Mobil contract. Did you try to do the same thing with McDonald's?

MR. ZILOCCHI: As far as corporate sponsorship?

SENATOR AMBROSIO: Yeah, and was that in any way related to the franchise--

MR. ZILOCCHI: No, sir. Ron Delsener himself handled all the possibilities of corporate sponsorships. If my memory serves me right, Senator, I think he approached various companies, like General Motors, Ford, Pepsi Cola, Nabisco. Isuzu was the one that gave us the best deal.

SENATOR AMBROSIO: So, Delsener was your agent in negotiating this?

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: Okay. In January of '85, the exempt minutes note the proposal by Isuzu to sponsor events at the Arts Center. The Commissioners rejected the proposal in January, February, and March. Do you know why they rejected it, at that time?

MR. ZILOCCHI: I think that at that point, Senator, the amount of money that Isuzu was willing to give in return for the sponsorship, we felt, was not sufficient.

SENATOR AMBROSIO: But in July, the Commissioners changed their minds and reached agreement with Isuzu. In the minutes of the meeting, is the following language: "The Chairman reviewed the matter with the Governor's office. They have no objection, but it is their desire that the matter not proceed until after November," and as you know, the Governor was up for election in November of that year. "It was further reported that Delsener and his West Coast partner in the deal will receive a commission of \$60,000 from Isuzu."

Now, first of all, why was the Governor even consulted on this issue?

MR. ZILOCCHI: I have no idea, Senator.

SENATOR AMBROSIO: Is it your testimony that the Governor was not requested to approve this deal?

MR. ZILOCCHI: I have no knowledge that the Governor himself was actually -- that this item was discussed with the Governor himself. I do not have any knowledge of that.

SENATOR AMBROSIO: This reflection in the minutes--

MR. ZILOCCHI: I don't know what that means. It could possibly mean, as it states, that the Chairman discussed it with someone on the Governor's staff. I was not part of that discussion, Senator, and I really don't have any detailed knowledge of it.

SENATOR AMBROSIO: Well, let me give you the full text of the minutes of the meeting of July 25. It is under item number 7: "Corporate Sponsorships--" And this is July 25, 1985. "Zilocchi, Fox, and Grossman reported on this item. American Isuzu is offering \$1.2 million for five years, which comes to about \$240,000 a year. It is reported that 49% of the shares of American Isuzu are owned by General Motors." Why that is relevant, I don't know.

MR. ZILOCCHI: I think, Senator, the relevancy there was because of the concern that was expressed during the discussions among the Commissioners, that the Arts Center venue would have the sponsorship of a foreign corporation.

SENATOR AMBROSIO: Okay. "The Chairman reviewed the matter with the Governor's office. They have no objection, but it is their desire that the matter not proceed until after November. Zilocchi reported that he conveyed this information to Delsener yesterday, and that all Delsener needs is some reasonable assurance that we will proceed after November."

MR. ZILOCCHI: All I conveyed to Delsener was that, because it was July of '85, and the sponsorship wouldn't go into effect until the following season anyway, that the Commissioners would not be in any position -- would not want to approve such a contract until later on in the year -- that that was their wish.

SENATOR AMBROSIO: Now, these are your minutes, not mine.

MR. ZILOCCHI: They are minutes reflecting an exempt meeting that were not prepared by me, Senator.

SENATOR AMBROSIO: Yeah, but, you know, they didn't say until the end of the year. They didn't say until next spring. They said, "until after November." Now, why the month of November?

MR. ZILOCCHI: I have no idea, Senator. My intent was to negotiate a good sponsorship agreement for the Garden State Arts Center -- a sponsorship agreement that would go into effect the following season. I was working with Ron Delsener in order to come to the best possible sponsorship agreement for the Garden State Arts Center, to produce the maximum amount of revenue in return. That sponsorship would not go into effect until the following season. As far as I was concerned, it wouldn't have to be entered into.

SENATOR AMBROSIO: When was the contract entered into?

MR. ZILOCCHI: It probably was entered into towards the end of '85. I believe maybe December. I am not too sure of that, Senator.

SENATOR AMBROSIO: And yet, you were negotiating this contract in January and February--

MR. ZILOCCHI: Well, we were negotiating that contract for quite some time. As I stated earlier, we had other potentials that we were negotiating with. The original proposal from Isuzu was not acceptable to us, because it did not provide sufficient revenue.

SENATOR AMBROSIO: Who else were you negotiating with?

MR. ZILOCCHI: Again, Ron Delsener was doing the negotiating for us. He had approached Ford Motors, Chevolet, Nabisco, Pepsi Cola, and none of them really produced-- I think one of them, Senator, produced a proposal, and it wasn't even in writing. I don't remember which one, but they stated

they would pay us \$50,000 for a sponsorship, and we rejected that outright.

SENATOR AMBROSIO: Okay. Just a quick question on the nature trail. Who first proposed the nature trail?

MR. ZILOCCHI: The nature trail, Senator, has been in existence since this whole area has been in existence, even before the Arts Center was built. I believe I had received some inquiries from staff, saying that the nature trails were there. They weren't utilized, and the reason why they weren't utilized was because they were never given any attention. I, in turn, passed this on to the Commissioners, and the agreement was made to restore these nature trails in-house, as part of our everyday operation, so they could be utilized in conjunction with our programing for senior citizens, schoolchildren, and whoever else wants to come to enjoy this area.

SENATOR AMBROSIO: Who designed the trails?

MR. ZILOCCHI: The design was done in-house.

SENATOR AMBROSIO: What did it cost?

MR. ZILOCCHI: I believe it cost around \$135,000 or \$140,000 to do everything, Senator.

SENATOR AMBROSIO: What did that include -- to do everything?

MR. ZILOCCHI: It included restoration of those trails, clearing, identification of the trees in the area, benches. I think there is a stream, and we built a little walk bridge to go over it. Things of that nature, Senator.

SENATOR AMBROSIO: We have heard rumors about trees that cost anywhere-- The figures I heard were anywhere from \$2500 to \$3700 per tree.

MR. ZILOCCHI: Senator, I don't know the components. I can tell you that the whole cost was about \$135,000-\$140,000.

SENATOR AMBROSIO: That was the in-house cost, so anything you are talking about would really be materials.

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: Do you have a breakdown as to what that was?

MR. ZILOCCHI: As I said, the whole in-house cost of this, material and everything, was \$135,000-\$140,000.

SENATOR AMBROSIO: Okay. In terms of the operation of this facility, I want to go back to what the new Chairman discussed at the beginning of this meeting today -- in terms of what the overall planning process entailed, as far as the conceptual design of this building; its current use and its intended use; its financial feasibility; its marketing plan; and what its fixed and variable costs are. I would like to go through that step by step.

What, conceptually, was this facility designed to do?

MR. ZILOCCHI: A continuation of what was being done at the old Celebrity House. We are looking to utilize this facility for receptions and group theater parties in conjunction with the Arts Center season. We are looking to utilize this facility to put on seminars and art exhibits; also, as a continuation of our program for a small theater in the round or seminars for senior citizens and school children; and on a rental basis.

SENATOR AMBROSIO: George, do you consider this facility directly related to the use of a highway?

MR. ZILOCCHI: This facility directly related to the use of a highway? No. It is related to the use of the Garden State Arts Center.

SENATOR AMBROSIO: Therefore, the statute that says, "The Authority shall not engage in construction or operation of any facility or activity not directly related to the use of a highway project, except as may be specifically authorized by law," would apply to this facility.

MR. ZILOCCHI: Senator, I know--

SENATOR AMBROSIO: I am not asking for your legal opinion, because Don will give you that if you need it. But, this is clearly not a facility that is related to the use of a highway project. Therefore, it either has to be something that is specially authorized by law, or it has to fall in the language that says, "It is part of a continuing operation of existing facilities."

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: Did anyone on the Authority seek a legal opinion as to whether or not this facility was a legal--

MR. ZILOCCHI: Yes, Senator. Before we really got started, we got two legal opinions subsequent to the Office of Legislative Services coming out with their legal opinion.

SENATOR AMBROSIO: Which was that it was illegal.

MR. ZILOCCHI: Our legal opinion said it was proper, and then the Senate came out with one. We referred that opinion to our attorneys to review, to see if indeed the original opinion given to us by our attorney was incorrect. The attorneys reaffirmed their prior opinion.

SENATOR AMBROSIO: Who gave you that original opinion?

MR. ZILOCCHI: Mr. Robinson.

SENATOR AMBROSIO: Mr. Robinson gave you the original opinion, saying that this facility did not violate the statute?

MR. ZILOCCHI: Correct, Senator.

MR. ROBINSON: In 1984.

SENATOR AMBROSIO: In 1984?

MR. ROBINSON: You have a copy of it.

SENATOR AMBROSIO: After this opinion, Legislative Services -- OLS -- gave an opinion, saying that this facility was not legally liable.

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: And then Mr. Robinson--

MR. ZILOCCHI: Reviewed Legislative Services' opinion, and reaffirmed his prior opinion.

MR. ROBINSON: Then they obtained another opinion from another law firm.

SENATOR AMBROSIO: Who was that?

MR. ROBINSON: Fox and Fox.

SENATOR AMBROSIO: Those were the same people who gave you the opinion that you were not violating the Sunshine Law, right?

MR. ROBINSON: They didn't give me any opinion. I wasn't their client.

SENATOR AMBROSIO: Did anybody even suggest that you might get an Attorney General's opinion as to whether or not this facility is barred by the provisions of the legislative--

MR. ZILOCCHI: I don't recall anyone suggesting that, Senator. We had lawyers on board who were being paid to give us opinions -- give us what we considered to be proper legal opinions. We felt we were meeting our responsibility by doing that.

SENATOR AMBROSIO: But, was the Governor's office consulted as to whether or not this-- I mean, you consulted the Governor's office as to whether or not you should enter into a contract with Isuzu. Was the Governor's office contacted with regard to the construction of a \$6 million facility?

MR. ZILOCCHI: The Governor's office was aware of it, yes, Senator.

SENATOR AMBROSIO: Well, that is not my question. Was the Governor's office consulted, and did you get an opinion from the Governor's office to go ahead with this facility?

MR. ZILOCCHI: I recall that the Governor's office asked us if we had a legal opinion, and if the legal opinion indicated that we were allowed to build this facility? When we answered, "Yes," then-- Ultimately, the Governor's office approves everything we do, Senator.

SENATOR AMBROSIO: Who did you talk to at the Governor's office, by the way? You didn't talk to the Governor directly, did you?

MR. ZILOCCHI: I talked to Mr. Weinstein.

SENATOR AMBROSIO: Okay. The Governor's counsel never gave you anything in writing, indicating that--

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: Other than the Governor not vetoing the minutes of your meeting, did the Governor's office give you any specific go-ahead for this project?

MR. ZILOCCHI: Well, Mr. Weinstein did come, at one point, into the Woodbridge Administration Building to get as many comments and details as he could on the project.

SENATOR AMBROSIO: When was this?

MR. ZILOCCHI: It was probably in the early fall of 1986, Senator -- or maybe before that, sometime in the latter half of '86. Then at another point, Senator, I believe there was a meeting here on-site with members of the Governor's office, to review what -- with the architect.

SENATOR AMBROSIO: When was that?

MR. ZILOCCHI: Probably later on in '86.

SENATOR AMBROSIO: Who was there from the Governor's office?

MR. ZILOCCHI: Mr. McGlynn.

SENATOR AMBROSIO: Other than the Governor's office being here-- There is no correspondence, there is no paper trail, as the Chairman used the term? There is no paper trail between the Governor's office and--

MR. ZILOCCHI: The only correspondence, Senator, is-- After Mr. Weinstein visited us in Woodbridge, I sent him some facts and details on the building, with a covering letter.

SENATOR AMBROSIO: But you got no correspondence back from the Governor's office?

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: Did you talk to Weinstein about the Isuzu contract?

MR. ZILOCCHI: No, sir. I don't recall talking-- I don't even think Mr. Weinstein was around at that point.

SENATOR AMBROSIO: So, other than the opinion from your attorney, and the opposite opinion from OLS, there was no other State department or agency, including the Attorney General, that ruled on whether or not this facility was authorized by law?

MR. ZILOCCHI: Correct, sir.

SENATOR AMBROSIO: Okay. What about the-- You talked about the conceptual design, and I cut you off. I would like you to just go further as to what the design of this facility is meant to meet?

MR. ZILOCCHI: Well, again, Senator, as I stated, it is meant to be utilized for fund-raising purposes and to continue the program of putting on free performances for senior citizens and schoolchildren, etc. It is meant to be utilized, in some shape or form, for performances and seminars for senior citizens and schoolchildren. It is meant to be utilized as part of our Arts Center operation, as far as group theater parties are concerned. It is meant to be utilized for seminars.

SENATOR AMBROSIO: Mr. Zilocchi, I don't want to take issue with you, but I have seen a lot of senior citizen buildings, and I have seen a lot of facilities designed to have schoolchildren come. Are you telling me that the design of this building had those primary goals in mind?

MR. ZILOCCHI: No, Senator. They were some of the many goals, Senator.

SENATOR AMBROSIO: All right. Now, tell me something that is a little more consistent with what I think everybody will indicate is a rather lavish building.

MR. ZILOCCHI: It's a beautiful building, Senator.

SENATOR AMBROSIO: It's a beautiful building; no question about it.

MR. ZILOCCHI: I would rather use that word, Senator, and I am very proud of the beauty of this building. As I said, it was also to be utilized with the Arts Center operation, for group theater parties, corporate meetings with relation to the Arts Center operation, and it is to be utilized for rental purposes, for the benefit of the public or the State of New Jersey, for the many purposes that they may have in mind.

SENATOR AMBROSIO: Now, it could very well be, and I don't want to second guess-- When Don Robinson gave you a legal opinion back in 1984--

MR. ROBINSON: And again in '87.

SENATOR AMBROSIO: --and again in '87, I am not sure whether he had the benefit of all we are talking about here before he rendered that opinion, because it is very clear that this is an expansion of the facilities at the Arts Center. You are now talking about, number one, an all-year-round facility. And number two, you are talking about theater parties and all sorts of things that go far beyond what the Arts Center is currently doing.

I am not saying it is wrong to do those things. Obviously, this building, if it is going to mean anything, has to be maximized, and you've got to go far beyond what you are currently doing at this Center, if you are going to make this building worth its money..

MR. ZILOCCHI: Senator, when Mr. Robinson gave an opinion, he had asked questions of how this building would be utilized. I don't recall Mr. Robinson getting any different information than what I have just given you.

SENATOR AMBROSIO: All right. Just give me some further information as to what the conceptual plan for this building is.

MR. ZILOCCHI: If I may, I would like to defer to Pat here.

SENATOR AMBROSIO: Sure.

MS. HORAN: We have also had over the years, Senator, many requests for the use of Celebrity House by groups, even the acts themselves, who were looking for a place. They come with entourages. When an inquiry was made, we didn't have anyplace, other than Celebrity House, to afford them the opportunity to hold record company sponsorship, tour sponsorship, get-togethers. The Celebrity House had its inherent limitation, as we mentioned earlier in our testimony -- a 70-person limitation -- and very few more than that, if you put some tent extensions on the building.

Once these inquiries would come across, not only from the attractions, but from corporations, and what have you, for the use of an all-year-round building on the grounds, and once they found out -- either came on-site and looked, or heard verbally in telephone conversations -- the confines of that building, it could not suit their purposes.

SENATOR AMBROSIO: So, you saw this as an adjunct of your existing facility, to be able to give you some more flexibility?

MS. HORAN: Absolutely. In the case of our Foundation and our Cultural Fund activities, we are caused, because of the numbers-- You can't hold and expect to raise the money which we have to raise-- Although free, these programs we offer are not free to us. To raise money for the Foundation to fund this free programming, you have to have a fund raiser for not 25 people, not 70 people, not even 100 people. Our fund raisers, in most cases, are for anywhere upwards of 300 to 400 people. We are caused -- to have anything that is worthwhile, with the work effort that has to go into something like that -- to rent tents, and tents do not rent cheaply. We cannot hold them up at the building.

Our heritage festival groups-- There are additional tents there. They don't have meeting spots. We had, for example, a request when the Vietnam Veterans' Memorial

Commission was meeting at various proposed sites, before the Arts Center was chosen. They wanted to hold a meeting here. We just didn't have the facilities to accommodate them.

SENATOR AMBROSIO: As I understand it, up until this year, the Arts Center was a May to September operation, and you closed down through the winter. Is that right?

MS. HORAN: Yes, that is correct.

SENATOR AMBROSIO: This will be an all-year-round facility. In addition to using it in conjunction with the Arts Center -- as I understand your testimony, George -- this hall is going to be for hire. Right?

MR. ZILOCCHI: Oh, absolutely, Senator.

SENATOR AMBROSIO: So, you are going to expect to rent this out for parties, maybe weddings, whatever. It is going to be a catering hall.

MR. ZILOCCHI: It will be utilized for those things also, yes, sir.

SENATOR AMBROSIO: You don't see that as an extension of your existing--

MR. ZILOCCHI: Senator, again, in the initial planning of it, all of these facts were laid down to our attorney, and we asked for an opinion. That is what we have an attorney there for. The opinion we received-- It was not that we were insensitive to that issue. We got not only one, but two opinions. After the Senate came out with their opinion, we went back to our attorney, and said, "Are you sure?"

SENATOR AMBROSIO: I am simply suggesting, George, that you should not have rested on the opinion of your attorney, because the ultimate jurisdiction as to whether or not this is a legal facility-- Really, you should have sought an Attorney General's opinion. That is what I am suggesting. It is not your problem. It is the Commissioners' problem. This is clearly something, in my judgment, where all sorts of red flags go up, because the Legislature amended the

legislation that you operate under, because they did not want to see this happen again. They specifically said, "You are directed not to build any new facilities."

I am suggesting that, as in other areas, you are really an entity unto yourselves. You got the opinion you were looking for, and you decided that was all you were going to do, very clearly. It's not your fault. As a matter of fact, this is the one thing I can say that George Zilocchi had nothing to do with. The Commissioners had the responsibility to say, "Wait a minute. Should we just rely upon our attorney's opinion, or should we seek specific written authorization from the Attorney General, so we will be armed to some greater degree than an attorney's opinion?" I think that should have been done, and it wasn't. Anyway, the building is here.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: Before you built the building, was there any research done in terms of what this building could be used for potentially, other than some thoughts you had? Did you actually do a market survey?

MR. ZILOCCHI: No, sir, we didn't. As indicated by the Chairman in his opening statement, no, we did not. We just felt we had the expertise, based on experience in-house, and recognizing with the years of experience we had in running this facility, that there was a need for this building. We relied on our in-house experience to do it.

SENATOR AMBROSIO: George, I just wonder whether or not, if the Arts Center were privately owned, and was not related to a toll road, where if you ran into trouble you could add another dime onto the tolls to bail you out-- If it were privately operated, where you had to make this thing a go or else you would go bankrupt, whether you would have built a \$6 million facility, with the research you had? If you were a corporate officer, could you have recommended that you build this facility without some greater preparation and planning financially as to what this building could potentially bring in?

MR. ZILOCCHI: Senator, again I say, we felt, because of our experience in the growth of the operation here, that the potential was here.

SENATOR AMBROSIO: Have you developed the costs related to the operation? We now have an all-year-round facility. Have you developed a projection as to what the costs will be to operate this facility?

MR. ZILOCCHI: Senator, we are presently-- When the facility was being planned, the thought was for us to operate the facility ourselves. Subsequent to that, because of recent events, cost problems, cost containment and all, we are looking at a different approach, in order not to devote any initial outlay of funds to begin this operation. We are presently discussing and negotiating with some outside vendors -- experts in the field -- to give us proposals on operating this facility for us. For example, one of the outfits we are actively talking to is the Marriott Corporation, which is very active and very knowledgeable. It's their business. Those negotiations have been going on. I don't care to get into the details, because they are sensitive negotiations right now. They have expressed a very keen interest in being involved in operating this facility for us. Their union has gone as far as to say they feel that the potential for this building is unlimited; that the volume they estimate for the building could be anywhere up to \$4 million gross per year. So, at this point, we are exploring that possibility.

SENATOR AMBROSIO: So what you are saying is, we have built a \$6 million Marriott, that we are going to let them operate tax free.

MR. ZILOCCHI: No, sir, I am not saying that. They will operate the facility for us, pay us a commission on the operation and the rental, and they will help us market the facility. It will still be under our control. It will be a concession-type of operation.

SENATOR AMBROSIO: But, George, shouldn't all of this have been done -- all this planning have been done before you put a spade into the ground?

MR. ZILOCCHI: I said, Senator, the plan was for us to operate it ourselves. Times have changed drastically since then.

SENATOR AMBROSIO: What has changed?

MR. ZILOCCHI: Obviously, Senator, that our funding is very limited right now.

SENATOR AMBROSIO: Which indicates to me that you had some idea in mind that there would be a toll increase, which would bail you out if you needed it. Now, I don't know what you mean when you say, "Our funding is very limited right now."

MR. ZILOCCHI: No, Senator. The flexibility of our funding is such that we-- If we have any money from the Arts Center operation, we would rather just not utilize it at this point and, if anything, utilize it the opposite way, for other purposes.

SENATOR AMBROSIO: Well, let me get something straight. I mean, the testimony has always been that this facility is independent of the toll road.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: And it has to make it or break it on its own revenues.

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: And as far as I know, nothing has happened to change that; that whether you raise or lower tolls, or do nothing, should have absolutely no effect on this building. So I don't know what has changed.

MR. ZILOCCHI: Senator, first of all, whether this building is here or not, would not in any way change the need for a toll increase.

SENATOR AMBROSIO: No, you put the question backwards.

MR. ZILOCCHI: No, I'm trying to answer the question, Senator.

SENATOR AMBROSIO: I'm asking you what-- You said, "Things have changed."

MR. ZILOCCHI: Well, we have taken a second look at the operation of this building, and we have found that there are enormous possibilities in utilizing outside vendors to assist us in operating it. We are exploring this. To that extent, it has changed, Senator.

SENATOR AMBROSIO: Well, what was the first look? See, that is what I never got.

MR. ZILOCCHI: Our first approach was for us to operate it ourselves.

SENATOR AMBROSIO: And what was that going to cost you? What was the operating budget you projected for operating this facility?

MR. ZILOCCHI: Probably, Senator -- no, not probably -- operating in the vicinity of about \$250,000 a year.

SENATOR AMBROSIO: Is there a document that reflects that?

MR. ZILOCCHI: No, sir. There are estimates, worksheets and all, but no document -- no official document.

SENATOR AMBROSIO: There wasn't even a feasibility study prepared, where you submit it--

MR. ZILOCCHI: Senator, I already testified to the fact that it was just something where we had a study done only in-house, to the extent that we felt, based on our experience, this building would be greatly utilized. It would be a profitable venture and, to that extent, we proceeded.

SENATOR AMBROSIO: Now, I don't want to beat this, George, but if you did that, there should have been some experts involved in making those decisions.

MR. ZILOCCHI: Again, Senator, we utilized our own in-house personnel to do it.

SENATOR AMBROSIO: And what did you do, sit around a room one day and say, "That is a good idea. It's going to

work"? Everybody talked and said, "Yeah, that's going to be great"?

MR. ZILOCCHI: Senator, no. No, Senator.

SENATOR AMBROSIO: Well, what was--

MR. ZILOCCHI: I stated from early this morning that this was a process that developed over years, because of the demand and because of the experience we had in operating this facility; the requests we were turning down for things that could be done in a facility such as this. We proceeded on that presumption, Senator.

SENATOR AMBROSIO: You never reduced this to a document, where you presented to the Commissioners the pros and cons and the possible uses and projections--

MR. ZILOCCHI: We presented to the Commissioners the possible uses of it, yes, sir.

SENATOR AMBROSIO: In any kind of a document we could look at?

MR. ZILOCCHI: There was a document produced, Senator, that showed the potentials of the activities that could be utilized for this building and the returns it would have. It was produced in-house.

SENATOR AMBROSIO: Did you want to say something, Chris?

SENATOR JACKMAN: Yeah. Let's start with the premise that we've got a building, and we are not going to discard it. Okay? We all agree on that. You've got a building that cost \$6.5 million. In essence, you don't think that you, or the Foundation, can operate this building without professional help now, in order to keep it occupied.

Let me give you an example: All this week this building is empty. Is that right?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: All next week, it's empty. Is that true or isn't it? Or, do you have something coming up?

MR. ZILOCCHI: We have something next week, Senator.

SENATOR JACKMAN: Can you give me an idea of what you've got for the next month?

MS. HORAN: Yes, I can, Senator.

SENATOR JACKMAN: Just give me a general idea.

MS. HORAN: We have already had two senior citizen seminars -- very brief.

SENATOR JACKMAN: How much money are they going to give you?

MS. HORAN: These are community service oriented.

SENATOR JACKMAN: Pardon?

MS. HORAN: We have only community service oriented events--

SENATOR JACKMAN: I'm talking about revenue-raising events. You have a \$6.5 million building. Hypothetically, you have a 10% mortgage, which means, in my country, you've got to raise \$600,000 to pay the mortgage. Right?

SENATOR AMBROSIO: Plus your operating expenses.

SENATOR JACKMAN: Forget the operating expenses, just temporarily. Have we got enough people coming in here to raise the mortgage payment of \$600,000? The reason I ask that question is because I listened very attentively to George. You are now seeking out-- When you say, "the Marriott--" I am assuming that if the Marriott is going to come in here, they are not going to come in here without making sure this place is going to be occupied almost on a daily basis. Is that your intention, or isn't it?

MR. ZILOCCHI: Yes, Senator, of course.

SENATOR JACKMAN: Is that true?

MR. ZILOCCHI: Yes.

SENATOR JACKMAN: So, in essence then, what my colleague was saying before, and what I just want to clear up, is to make sure that you are in an avenue where you are going to raise enough money to make this self-sustaining, so to speak.

MR. ZILOCCHI: Correct, Senator.

SENATOR JACKMAN: So we don't have to borrow the money. The Foundation-- You have just so much money coming in from the corporations, unless more corporations move in, or you get on the phone, and with your ability, raise that much more money. So, in essence, right now, we don't have any moneys coming in here that will pay the so-called rent for this place, so to speak.

MR. ZILOCCHI: Right now, no, Senator.

SENATOR JACKMAN: None, okay.

MR. ZILOCCHI: The building, Senator, is-- There are still some punch-list items. It is about 95% complete.

SENATOR JACKMAN: Yes?

MR. ZILOCCHI: You can rest assured that by 1989, this building will be fully utilized.

SENATOR JACKMAN: Okay.

SENATOR AMBROSIO: May I just ask something on that?

SENATOR JACKMAN: Sure.

SENATOR AMBROSIO: I can't rest assured on that, because--

MR. ZILOCCHI: Senator, if you have a problem with that, I appreciate it, but I--

SENATOR AMBROSIO: But you see, that is nothing but a blanket hope. You didn't do a feasibility study; you didn't do a market analysis; you didn't do a financial projection; you didn't do a marketing plan. You didn't do any of the things you should have done to ensure that this building would be a success, and now you sit in front of us and say, "You can rest assured that it is going to be fully occupied." George, what do you base that on?

MR. ZILOCCHI: I base it on, Senator, first of all -- as I stated repeatedly -- our experience of 21 years of operating this facility.

SENATOR AMBROSIO: Did you ever operate a facility like this before?

MR. ZILOCCHI: We operated something similar, Senator. We have been operating an entertainment facility for 21 years, Senator.

SENATOR AMBROSIO: This isn't an entertainment facility.

MR. ZILOCCHI: It is related to it, Senator. It is related to the whole complex of the Arts Center. We have had 21 years' experience operating in this area.

SENATOR AMBROSIO: This is a catering hall for 350 people.

MR. ZILOCCHI: Senator, it is a catering hall as one of its many uses. It is also a place for us to raise money for our Foundation.

SENATOR AMBROSIO: How are you going to do that?

MR. ZILOCCHI: It is also a place for us, Senator, to have extra seminars 12 months out of the year for our senior citizens and schoolchildren. It is a multi-use--

SENATOR AMBROSIO: George, that does not raise money. I am concerned about--

MR. ZILOCCHI: It doesn't raise money, Senator?

SENATOR AMBROSIO: Seminars for seniors?

MR. ZILOCCHI: Well, Senator, are you asking that we discontinue that?

SENATOR AMBROSIO: No, no. I'm asking you--

MR. ZILOCCHI: Or, are you saying we should not expand that?

SENATOR AMBROSIO: No. I'm asking you-- I am picking up on Senator Jackman's questioning about how you intend to pay the rent, when you have no-- Do you have a marketing plan in place?

MR. ZILOCCHI: Senator, I just stated to you that we are under serious negotiation.

SENATOR JACKMAN: And you can't go into detail because somebody else wants to know about it. Okay.

MR. ZILOCCHI: I cannot go into detail, but it would assist us in operating this facility, and would put a marketing plan in place which would have this building provide a more than adequate return, Senator.

SENATOR AMBROSIO: Will you at least give me that it is really poor planning to build a \$6 million facility, and then sit in it and say, "Now we've got to put a marketing plan together"?

MR. ZILOCCHI: No, I am not going to say that to you, Senator.

SENATOR AMBROSIO: Let me just pursue what your future plans are for this facility. What do you have in mind in terms of-- Now, you have used some general terms about fund raising, for example. What fund-raising activities do you see this building being used for?

MS. HORAN: Senator, we currently hold, just as an example, a spring ball for our Foundation. We have been holding it for three years. It's annual.

SENATOR AMBROSIO: Where has it been held?

MS. HORAN: We have held it at local area hotels. We would then make use of this facility for that type of a function. There are all sorts--

SENATOR AMBROSIO: How many people come to that?

MS. HORAN: Three hundred and fifty.

SENATOR AMBROSIO: What is that, once a year?

MS. HORAN: Yes, we hold that once a year. There are also other things we would like to do, but we have not had the vehicle or the facility in which to do them.

SENATOR AMBROSIO: Like what?

MS. HORAN: Art auctions.

SENATOR AMBROSIO: Art auctions can be held at any hotel. I mean, I have gone to dozens of them.

MS. HORAN: Yes, but there is something to be said for having it here at our facility.

SENATOR AMBROSIO: Okay. How many of those would you do a year?

MS. HORAN: One or two.

SENATOR AMBROSIO: Okay. So, we have three days so far that we would use this facility.

MS. HORAN: We would have a lecture series.

SENATOR AMBROSIO: No, I'm talking about fund raising.

MS. HORAN: Well, that could be a fund raiser also.

SENATOR AMBROSIO: Oh, selling tickets to hear someone speak?

MS. HORAN: Well, you could have someone of some renown here as a speaker, and consider that--

SENATOR AMBROSIO: Is there something on the books to do that? Do you have something on the drawing board to do that?

MS. HORAN: All of these proposals have been posited before.

SENATOR JACKMAN: Corporations looking for facilities-- With your permission, Mr. Chairman--

SENATOR AMBROSIO: Sure.

SENATOR JACKMAN: You deal with corporations, primarily in order to get money. You don't deal with the average Joe Citizen asking for donations, do you? You deal up on the top level.

MS. HORAN: No, we deal with both, Senator. We do.

SENATOR JACKMAN: Primarily, where do you get the most money from?

MS. HORAN: Probably the greater percentage from corporations, but we do--

SENATOR JACKMAN: I mean, those seats out there are bought by corporations in most cases -- the box seats.

MS. HORAN: I would have to say that perhaps the greater percentage, but there are an awful lot of individuals.

SENATOR JACKMAN: Yeah, all right, but the point is, you are making it easier for yourself, as the Foundation, to make these kinds of facilities available to those same corporations, hoping that you are going to get more money, number one, from their donations and, number two, they will be paying for this facility because they will be renting it, and at the same time-- I don't know who the food guy is. Do you have a caterer, or do we have our own food people?

MS. HORAN: That is what is currently being explored.

SENATOR JACKMAN: We're talking about a caterer, okay. That, of course, is a monetary gain we are talking about. Is that right?

MS. HORAN: Do you mean if someone was --

SENATOR JACKMAN: You'll gain money.

MS. HORAN: Absolutely. We would get a percentage.

SENATOR JACKMAN: Okay. Go ahead, Senator.

SENATOR AMBROSIO: What was your total fund-raising effort last year? What did it amount to?

MS. HORAN: From all aspects, Senator, special events and what have you?

SENATOR AMBROSIO: Yes.

MS. HORAN: The total Foundation contributions to the Cultural Fund to fund what we did last year, and other contributions-- It came to a total of \$1.3 million.

SENATOR AMBROSIO: You raised \$1.3 million last year?

SENATOR JACKMAN: That's a good job.

SENATOR AMBROSIO: Okay. What will this facility-- Do you have any projection as to what this facility will allow you to raise over and above that, because that is really the question? If you raised \$1.3 million without this facility, obviously, if this is going to be an asset to you from a fund-raising standpoint, you've got to raise more than \$1.3 million. Now, do you have a plan to do that?

SENATOR JACKMAN: May I make a -- with your permission again--

SENATOR AMBROSIO: Sure.

SENATOR JACKMAN: I am assuming that if you had these facilities, you wouldn't be giving the moneys to the hotels, such as when you went out and had your so-called ball, and what have you. The money then could be regenerated, and it would be that much more profit for the organization. Is that possible?

MS. HORAN: That is correct, Senator. That would be one aspect.

SENATOR JACKMAN: One aspect, okay.

SENATOR AMBROSIO: You're not really going to count that as very much, because you have your own operating expenses here. The food and everything that you supply, you are going to have to supply. So, other than the cost of the hall-- That is all that you're saving.

MS. HORAN: But there are other fund raisers. For example, this past year, Senator, we held a fund raiser for our Foundation following the Frank Sinatra performance.

SENATOR JACKMAN: Yeah, I remember that.

MS. HORAN: When we hold an event such as that -- and we generally hold three or four of them during the course of the season -- we garner usually--

SENATOR JACKMAN: That was under the tent.

MS. HORAN: --in the neighborhood of 400 to 500 people.

SENATOR AMBROSIO: Which this facility wouldn't be good for.

MS. HORAN: Yes, it would, from a stand-up perspective. It could probably accommodate in the neighborhood of between 400 and 450 people. The tent rentals, and all of those additional costs -- the tables, the chairs, and all the related rental costs--

SENATOR JACKMAN: Oh, rental costs.

MS. HORAN: --we have to have, under a tent, over and above the catering costs, would be something we would not have to entertain.

SENATOR AMBROSIO: What does that amount to? These all sound like peanut numbers. What we are trying to justify is a \$6.5 million facility cost-wise, a facility that must be operated and maintained 365 days a year. The cost of that-- How are we going to save-- I mean--

MS. HORAN: But the Foundation is only one aspect of what this building would be used for.

SENATOR AMBROSIO: Okay. We are listening for some of the other aspects. Frankly, what we are trying to do is find out-- We are actually trying to develop a financial plan here that at least allows you to break even. I fully support all of the commitments you make to the seniors and the children, anything you want to do to make this a viable public entity. But I haven't heard yet how you are going to make it financially feasible.

MS. HORAN: We have already had many inquiries as offshoots from years ago, even from Celebrity House, as I mentioned earlier in my testimony, which we could not accommodate. Those people are still continuing, even more so, to come back to us, in light of this building -- trade shows, meetings, nonprofit organization meetings, as a site for examinations -- various boards, professional examinations. They are interested in sites. They have to hold examinations throughout the State. This would serve that purpose. These are the types of things that would be offshoots or additional uses, in addition to our own Foundation; in addition to providing additional--

SENATOR AMBROSIO: If you are going to reach an agreement with the Marriott, is it your plan to let them have the exclusive rights to this facility?

MS. HORAN: No, Senator. It would be our intention, with whomever we would speak to, that there would be definite flexibility written into any such agreement, to allow us use of this facility to meet those community service needs, in addition to the revenue-producing ones.

SENATOR AMBROSIO: All right. I don't think it is beyond the scope of questioning to ask you what parameters you are setting in terms of a management firm coming in to take over this facility, because if you are going to turn this over to Marriott, and say, "You are going to operate it," they are going to want some commitments in terms of when this facility is theirs to book. Have you set any parameters as to--

MR. ZILOCCHI: Senator -- and again I say we are in the negotiating stage -- we have set the parameters during the peak of our operation, which is May through September, when we would want to have the use of this building.

SENATOR AMBROSIO: Exclusive use?

MR. ZILOCCHI: As needed.

SENATOR AMBROSIO: What do you mean, "As needed"?

MR. ZILOCCHI: Well, obviously, Senator, if during that period of four months we have dates when we don't have any events scheduled, we wouldn't want to keep this building vacant. If they had something they wanted to put here, they could use it. But we would have primary use of the facility during the peak of our operation time.

SENATOR AMBROSIO: So, the Marriott -- or whatever chain you are going to deal with -- is going to be able to book what you don't book. That is what you're saying.

MR. ZILOCCHI: Probably, Senator, yes. And Marriott is aware of this. That is one of the companies, for example. Marriott is aware of this, and is still willing to continue the negotiations and is very much interested in it, which indicates the potentiality of this building.

SENATOR JACKMAN: You know, the potential is so great here. You're talking about parking for so many cars, and accessibility is another great thing. I noticed when I drove in here today that there must be about 400 or 500 cars parked outside in various sections of this facility. I am assuming people are parking here and getting on buses and riding. Is that true, or isn't it?

MR. ZILOCCHI: Well, Senator, what you saw out there is a commuter parking lot for carpooling. We do have an area right here on site--

SENATOR JACKMAN: I know.

MR. ZILOCCHI: --which is our north overflow lot, where we have an agreement with New Jersey Transit. It is a Park n' Ride situation.

SENATOR JACKMAN: Now -- again with your permission, Mr. Chairman -- I am thinking about the availability for these same people who are coming here to park, and then just thinking with the Marriott, or whoever may be here -- whatever it may be -- eating facilities, etc., etc., etc., there is a great possibility that these same people will make themselves available to this facility. Is that a possibility?

MR. ZILOCCHI: A very definite possibility.

SENATOR JACKMAN: Pardon?

MR. ZILOCCHI: Yes.

SENATOR JACKMAN: Okay.

SENATOR AMBROSIO: By the way, who handles the booking of the-- You have one contract you let out to book the Arts Center?

MR. ZILOCCHI: Yes, it's R. D. Festival, which is really owned and operated by Ron Delsener.

SENATOR AMBROSIO: Now, they are responsible for booking all of the acts?

MR. ZILOCCHI: Yes.

New Jersey State Library

SENATOR AMBROSIO: Is it my understanding that there is a lawsuit currently pending involving the bookings?

MR. ZILOCCHI: Yes.

SENATOR AMBROSIO: Who is that lawsuit between?

MR. ZILOCCHI: I will defer that to Mr. Robinson, who is handling it.

MR. ROBINSON: A gentleman named John Sherer (phonetic spelling), who operates under the corporate name of Monarch, is suing for access to this facility.

SENATOR AMBROSIO: Who is he suing, R.D.?

MR. ROBINSON: No, no, no. He is just suing the Highway Authority, that's all. Not any individuals, just the Highway Authority.

SENATOR AMBROSIO: What is the status of that suit?

MR. ROBINSON: We haven't even answered the complaint yet. It is under an extension of time.

SENATOR JACKMAN: Is it a suit case?

MR. ROBINSON: A suit case?

SENATOR JACKMAN: Yeah.

MR. ROBINSON: You could call it that.

SENATOR JACKMAN: Well, you know--

MR. ROBINSON: Yes, there is a lawsuit pending in a Federal court.

SENATOR JACKMAN: Throw it out on the table, as the guy said, so we can all look at it.

MR. ROBINSON: There is a lawsuit pending in the Federal court in New Jersey by that gentleman.

SENATOR JACKMAN: All right.

SENATOR AMBROSIO: George, I just want to make sure that I ask this question again: Do you have any projections as to what it will cost to maintain this facility in the next year?

MR. ZILOCCHI: We have an in-house projection that the operating cost of maintaining this facility will be \$250,000.

SENATOR JACKMAN: A quarter of a million dollars.

SENATOR AMBROSIO: So now, Chris, in addition to your--

SENATOR JACKMAN: About \$750 a day.

MR. ZILOCCHI: Do you want to rent it, Senator?

SENATOR JACKMAN: Pardon?

SENATOR AMBROSIO: In addition to the \$600,000 you need to pay the interest on your mortgage, you need another \$250,000 to maintain the place.

SENATOR JACKMAN: At \$750 a day, that's all. That's not too much for a big facility like this.

SENATOR AMBROSIO: By the way, R.D. has no contract for the bookings here, right?

MR. ZILOCCHI: No, sir.

SENATOR AMBROSIO: Just to get back to a point: You said that Mr. McGlynn from the Governor's office came onto the site to discuss this facility. Is that right?

MR. ZILOCCHI: Yes, sir.

SENATOR AMBROSIO: When was that?

MR. ZILOCCHI: Sometime in the fall of '86, Senator. I'm sure you have a document that has the exact time, so don't hold me to it, Senator. All I'm saying is that at some time, he did come, yes.

SENATOR AMBROSIO: Who was with him?

MR. ZILOCCHI: I think Mr. Weinstein.

SENATOR AMBROSIO: Who met him from the Authority? I assume you were there.

MR. ZILOCCHI: Yes.

SENATOR AMBROSIO: Was the Chairman there?

MR. ZILOCCHI: The Chairman was there, yes. I think the-- The architect, I know was there. Members of our engineering staff were there.

MS. HORAN: I was there.

MR. ZILOCCHI: Ms. Horan was there.

SENATOR AMBROSIO: What was the purpose of the meeting with the Governor's-- First of all, who requested the meeting?

MR. ZILOCCHI: Mr. McGlynn.

SENATOR AMBROSIO: How was that request communicated?

MR. ZILOCCHI: Through Mr. Weinstein.

SENATOR AMBROSIO: To whom, to you?

MR. ZILOCCHI: To me.

SENATOR AMBROSIO: They just said, "We would like to come down and talk to you about the Arts Center"?

MR. ZILOCCHI: They wanted to see the model of this building, because it was in the stage where we were going out on bid, if we weren't out on bid already. I don't recall, but we were going out for bid. They wanted to see the model. They wanted a presentation by the architect, and so forth. And they examined the site.

SENATOR AMBROSIO: Where was that meeting held?

MR. ZILOCCHI: The meeting started, Senator, at the box office, where the presentation was made, and then there was a walk, I believe, to this very site, which was the proposed site for the building.

SENATOR AMBROSIO: What was the outcome of that meeting?

MR. ZILOCCHI: It was just a meeting where information was given to Mr. McGlynn. I believe he had a suggestion that if this building did go ahead, that we provide for a portable stage area for our seminars and performances for senior citizens and schoolchildren. That was about the result of the meeting. I know you have all of that documented, Senator.

SENATOR AMBROSIO: Were tolls discussed at that meeting?

MR. ZILOCCHI: Were tolls discussed?

SENATOR AMBROSIO: Yeah.

MR. ZILOCCHI: Not while I was at the meeting, Senator, no.

SENATOR AMBROSIO: Wasn't there a comment by the Governor's office requesting the Authority to take steps to

separate the construction of the Center and its cost from proposed toll increases? Was that ever communicated to you?

MR. ZILOCCHI: That was a comment, but it was not at that meeting, Senator. That was a subsequent comment that was made. The way I interpreted that comment was again in line with what we discussed earlier this morning; that improvements made here be identified with past, present, and future revenues of the Arts Center itself, and not the roadway.

SENATOR AMBROSIO: In the minutes of the meeting of January 22-- Are these the exempt meetings? (affirmative response from one of the staff aides) The exempt or secret meetings. I am just going to go through this and read a portion of it: "At the meeting, the Chairman presented the Authority's proposal for the construction of an Arts Center Cultural Fund Reception Center. The Governor approved of the proposal." Do you recall why that was put in the minutes -- whether there was any communication--

MR. ZILOCCHI: Well, obviously, Senator, my recollection is that the Executive Director of the Authorities Unit had come to visit me; had come to discuss the details of the building. Mr. McGlynn came on-site and inspected and all that, and obviously there had to be some indication -- a follow-up of that meeting, if there were any objections.

SENATOR AMBROSIO: I am just going to continue on. It says: "However, he requested that the Authority take reasonable steps to separate the construction of the Center and its cost from the proposed toll increases." Now, at this time -- this is January of '87, and we are using "proposed" in the past tense--

MR. ZILOCCHI: Well, I take exception with that word "proposed."

SENATOR AMBROSIO: "The issue before the Commissioners was how to achieve the aforesaid goals consistent with the Governor's directives. There was concern that there might be

adverse publicity to the Authority and to the Governor, if the Authority sought a toll increase now for the ramps, and then approximately a year later sought another toll increase for the barriers. The Commissioners preferred to propose a complete package of a toll increase at one time. To achieve this end, and to achieve the goal of separating the cost of the Reception Center from the toll increase, the Commissioners decided that the toll increase -- both ramp and barrier -- should be proposed and implemented at the same time, at the end of 1987. The Reception Center should be built now to avoid a direct relationship with the toll increase." Do you recall that?

MR. ZILOCCHI: I recall reading that, yes.

SENATOR AMBROSIO: Does that accurately reflect the discussion that went on?

MR. ZILOCCHI: I don't specifically remember if it accurately reflects, but I recall that the discussion did come up, Senator, and I recall reading that in the minutes.

SENATOR AMBROSIO: It then proceeds -- and this is really what I want to get to -- "In order to satisfy the Authority's financial needs during the year 1987, and to achieve these ends" -- and these ends are separating the two costs -- "it was decided that the Authority should obtain temporary financing through bank anticipation notes." Was that done?

MR. ZILOCCHI: We did get temporary financing, Senator, but I don't think it was-- The temporary financing was not to achieve the end of building this building. The temporary financing was to keep our capital improvement program going.

SENATOR AMBROSIO: Which this was part of.

MR. ZILOCCHI: Which this was part of, yes.

SENATOR AMBROSIO: Right. So the \$11 million you needed for these--

MR. ZILOCCHI: Well, again, as I stated this morning, there was also revenue generated by the operation of the Arts Center, which was in our capital improvement program.

SENATOR AMBROSIO: That million dollar surplus you're talking about each year.

MR. ZILOCCHI: A million six.

SENATOR AMBROSIO: By the way, was that set aside?

MR. ZILOCCHI: Well, again, the excess revenue flows into the capital improvement budget.

SENATOR AMBROSIO: "During the course of the discussion of this item, the Chairman spoke directly to the Governor, presenting the aforesaid proposal. The Governor approved the proposal." Did these minutes-- You have no knowledge, or, you don't dispute anything that is contained in the--

MR. ZILOCCHI: I don't dispute that the discussions were held. I don't know if I would write it exactly the way it is written in those minutes, Senator.

SENATOR AMBROSIO: When you talked to the Governor's office, were the costs of this building discussed? Was the Governor aware of what the costs of this building were going to be?

MR. ZILOCCHI: I would have to assume in our conversations with Mr. Weinstein that that information was transferred to the Governor.

SENATOR AMBROSIO: Do you recall, or do you have any independent recollection as to whether in the conversation with Mr. McGlynn and Mr. Weinstein the costs of this building were discussed?

MS. HORAN: Although I was at that meeting, Senator, I did not participate in any discussions, to my recollection.

SENATOR AMBROSIO: What effect would the divestiture of the Arts Center facility -- the entire complex -- from the Highway Authority-- What effect would that have on the Highway Authority's operation, in your opinion?

MR. ZILOCCHI: It would have a financial effect, Senator, because this operation is a profitable one. Given the discussion we had this morning about all allocation of costs and all, it is still a profitable operation, which shows a return -- a cash flow return to the operation. So, it would have an effect.

SENATOR AMBROSIO: It isn't your testimony that this facility subsidizes the toll road, is it?

MR. ZILOCCHI: No, I am not saying it subsidizes the toll road, but it does render a return.

SENATOR AMBROSIO: And that return, from what you testified, is kept here to pay for this facility?

MR. ZILOCCHI: Correct.

SENATOR AMBROSIO: Therefore, it would have no effect. The money -- any surplus that you--

MR. ZILOCCHI: Well, only to the extent, Senator, that if you are making a million dollars profit, and you don't have this operation any more, you don't have a million dollars profit.

SENATOR AMBROSIO: George, you just described to me a million dollar liability that this facility is. You know, again, if you're saying that the million dollars-- You can't spend a million dollars more than once, is what I am getting at. If the million dollars you made last year and the year before and the year before that is what you are using to build this facility, then you don't have a profit. You have used it. If you are saying that that million dollars was thrown back into your budget--

MR. ZILOCCHI: But, Senator, that profit will continue. In fact, it has been getting better and better every year.

SENATOR AMBROSIO: Not based upon the testimony I heard this morning.

MR. ZILOCCHI: Well, we had less performances, Senator, but you know, if you are going to hold me to the fact that we made \$1.6 million two years in a row, and this year we made \$1.2 million, I will stand corrected. But it is still a very sizable profit.

SENATOR AMBROSIO: It is also a very sizable reduction.

MR. ZILOCCHI: Senator, in the entertainment business, you have peaks and valleys. This year, we only had 55 performances, because there was a limited number of entertainers out. The year before we had 65. I mean, there is going-- It is not always going to be \$1.5 million, \$1.6 million, but the fact remains, it has--

SENATOR AMBROSIO: George, let's not play games.

MR. ZILOCCHI: I'm not playing games, Senator.

SENATOR AMBROSIO: You know, and I know, that it is a struggle. It is an absolute struggle to make this facility a break-even facility. I am not--

MR. ZILOCCHI: Senator, I dispute that.

SENATOR AMBROSIO: --criticizing you for that.

MR. ZILOCCHI: I know, but--

SENATOR AMBROSIO: As a matter of fact, you even said that you tailored your operations down by eliminating some programs and geared some other programs down because the cost of them was too great.

MR. ZILOCCHI: You're talking about the free performances, Senator.

SENATOR AMBROSIO: They are all part of the same operation.

MR. ZILOCCHI: Senator, it is a different aspect. If you are talking about free performances, that's one thing. If you're talking about the paid professional performances which give us the return, that is altogether different. I don't agree with you that--

SENATOR AMBROSIO: This is one facility, isn't it?

MR. ZILOCCHI: You're talking about two elements within an operation. I think you are combining them and you're not coming across with the proper picture on that, Senator.

SENATOR AMBROSIO: This is one facility, is it not? I assume that the Arts Center has one set of books.

MS. HORAN: No.

SENATOR AMBROSIO: It has two sets of books?

MS. HORAN: No, not from that perspective, Senator; not at all.

SENATOR AMBROSIO: Well, you shook your head no. That is why I--

MR. ZILOCCHI: Senator, I indicated to you this morning-- You know we don't have two sets of books.

SENATOR AMBROSIO: Well--

MR. ZILOCCHI: You can subpoena our books and you will only get one set, because that is all we have.

SENATOR AMBROSIO: No, I just wanted to know why she was shaking her head, that's all.

MR. ZILOCCHI: Senator, the Cultural Fund operation which puts on free performances stands on its own. The Garden State Arts Center which puts on paid performances stands on its own. There are two separate budgets.

SENATOR JACKMAN: And the Highway Authority stands on its own, doesn't it?

MR. ZILOCCHI: Correct, Senator.

SENATOR JACKMAN: Doesn't it, George?

MR. ZILOCCHI: The Highway Authority stands on its own. If you want to get into the issue of the reason for a toll increase, then I think that's--

SENATOR JACKMAN: No, no, I'm only saying that there is a separation. Right?

MR. ZILOCCHI: Yes, sir.

SENATOR JACKMAN: I want to just ask a hypothetical question again.

SENATOR AMBROSIO: Sure.

SENATOR JACKMAN: To me, art has never been a form where there was a guarantee of a profit. I don't think the Kennedy Center and the average cultural centers make money, in my book, that I know of. They are not money making. Is that true, or isn't it?

MR. ZILOCCHI: You're correct, Senator.

SENATOR JACKMAN: So in a sense what we have done here, is create a cultural center. I am not talking in terms of this building now; I'm talking about the operation of the 400 acres and what have you. It is an asset to the State of New Jersey, something you can point to with pride. You have an Arts Center. Whether we like it or not, it's-- In my book, I think it's beautiful. I think we have done a tremendous job.

Now, in order to make sure that this building becomes, in a sense, payable, you are now seeking outside help.

MR. ZILOCCHI: Yes, Senator.

SENATOR JACKMAN: Which I think is commendable, in a sense. Hopefully, maybe that will solve some of our problems.

SENATOR AMBROSIO: I just want to finish up on this, George. I want to make sure that I understand the ramifications of any proposal to separate the Arts Center from the Highway Authority's operation.

MR. ZILOCCHI: I understand that, Senator.

SENATOR AMBROSIO: Okay. I am concerned, number one, about the financial impact of it. Your suggestion is that it would have a negative financial impact, because you are making a profit here.

MR. ZILOCCHI: Exactly, Senator.

SENATOR AMBROSIO: Now, my next question is: Is that profit being used to underwrite the tolls?

MR. ZILOCCHI: No, Senator.

SENATOR JACKMAN: Oh, no.

SENATOR AMBROSIO: All right. Therefore, on the toll road aspect of your operation, the divestiture would have no effect?

MR. ZILOCCHI: Senator, I know where you're coming from. I have some difficulty--

SENATOR AMBROSIO: I am not saying you should agree with me.

MR. ZILOCCHI: I know that, Senator, and you and I don't agree too often. But, Senator, we have had this Arts Center for 21 seasons now. I think we have established the fact that we can operate a good entertainment facility, one that the State of New Jersey can be proud of, one that the public loves, and one that renders a return. I mean, if we were producing a losing proposition on an operational basis, I could sit here and say, "Well, if someone else wants to divest us from it, fine." You know, I could understand that. But we have been very successful in operating this facility. So, I have difficulty--

SENATOR AMBROSIO: George, that is a tremendous commercial for the facility, and I would think less of you if you did not defend the Arts Center as the Executive Director of the Highway Authority. But that is not really my question. I am not asking you to agree with me. I am not even suggesting that I agree that it should be divested. I am trying to understand the ramifications. When you talk about positive cash flows, that may or may not be true, because you have not given us -- as you are going to -- the breakdown of the costs attributable to the operation of this facility that are not included in the budget.

So, it could very well be that this is a cash drain on the operation.

MR. ZILOCCHI: I don't think so, Senator.

SENATOR AMBROSIO: But the bottom line is, isn't it true that it would have no impact on the operation of the toll road?

MR. ZILOCCHI: No, it wouldn't.

SENATOR AMBROSIO: It wouldn't? Would it have any impact, that you know, and if you think this is beyond your expertise-- Would it have any impact on the covenant with your bondholders?

MR. ZILOCCHI: Senator, I think it would have that, yes.

SENATOR AMBROSIO: In what way?

MR. ZILOCCHI: I'm speaking as a layperson, but part of the bond resolution-- This facility is part of the pledged assets that are collateral to those bondholders that were issued. I am sure I would get an opinion from bond counsel, but based on my own personal knowledge and experience, it would have an impact and we would have a problem with our bond resolution.

SENATOR AMBROSIO: Okay. What other impact do you think it would have, other than to give you more time to run the toll road?

MR. ZILOCCHI: Pardon me?

SENATOR AMBROSIO: Other than to give you more time to run the toll road?

MR. ZILOCCHI: Senator, I know where you are coming from on that. You know, Senator, if I devote 10% of my time on this, it is not 10% of a fixed number of hours. It's 10% of very flexible hours that I spend during the week, and I say flexible -- mostly on the average of 50 to 60 hours. So, if I had 10% less time, it would just take away 10%, and maybe give me more personal time, not more time to run the toll road. Maybe I shouldn't be arguing with you on that basis, but I am.

Again, it is just a general concept, Senator, that it has been a successful operation the way we have run it. I mean, it's the old story: "If it's not broke, why fix it?" The question of whether a toll road should be operating an entertainment facility, Senator, should have been addressed 21 years ago, when this facility was built.

SENATOR AMBROSIO: Well, it was addressed. It was addressed; we thought we had addressed it -- not we, I'm talking about the Legislature 21 years ago. Then what happened was--

MR. ZILOCCHI: No, you and I were not there. I realize that.

SENATOR AMBROSIO: That's right. Then the Highway Authority went out and built this facility. The Legislature said, "Hey, wait a minute. We never intended for that to happen." So what they did was amend the law, and they said, "Don't ever let this happen again." Then you looked at the law, and said, "The hell with you, we are going to do it anyway," and you built this facility.

MR. ZILOCCHI: No. Senator, don't say, "The hell with you."

SENATOR AMBROSIO: That's really what--

MR. ZILOCCHI: I resent that, Senator. I know you and I get into arguments.

SENATOR AMBROSIO: Well, you know how we--

MR. ZILOCCHI: We sought legal opinions, and we did what we felt was legally permissible. If we had not gone and looked for legal opinions, then I would say you are absolutely right in being critical of the Highway Authority for that kind of an attitude. Now, whether you feel -- as you expressed before -- that we should have gone elsewhere to get legal opinions-- That is certainly your thought. But we made a conscientious effort to find out if it was legally permissible for us to build this facility.

MR. ROBINSON: And the Governor's office did not disagree.

SENATOR AMBROSIO: Don, you didn't get an opinion from the Attorney General. That is where you probably--

MR. ROBINSON: He is part of the Governor's Cabinet.

SENATOR AMBROSIO: No, he is not.

MR. ROBINSON: Of course he is.

SENATOR AMBROSIO: He is not.

MR. ROBINSON: The Attorney General is a member of the Governor's Cabinet.

SENATOR AMBROSIO: His is a constitutional office that really has the final jurisdiction when you have a dispute between branches of government. An Attorney General's opinion can put the matter to rest. Frankly, that is something that should have been done, but it wasn't. You never got the approval of the Governor's office. The Governor never gave you a written opinion. The Governor's counsel never approved this.

MR. ROBINSON: He was up here inspecting the site.

SENATOR AMBROSIO: Well, what does that mean? I'm up here inspecting the site, too.

MR. ROBINSON: They knew what was going on.

SENATOR AMBROSIO: Well, that is no answer. In government we act by resolution, by statute, by ordinance, by correspondence, by a record, and the paper trail is nonexistent on this.

MR. ROBINSON: No, we submitted -- or rather the Highway Authority submitted the opinions of counsel to Senator Orechio.

SENATOR AMBROSIO: And?

MR. ROBINSON: Nothing happened. If he felt the opinion submitted to him authorizing the construction of this building was improper, he could have taken action on it. Nothing was done by that Senator, or by the Senate.

SENATOR AMBROSIO: Well, Legislative Services had taken a position on behalf of the Legislature. Besides that, my understanding is that you were half built by that time.

MR. ROBINSON: I can't tell you the status of the construction.

MR. ZILOCCHI: Senator, I don't think we were half built by that time. We had broken ground.

SENATOR AMBROSIO: Well, okay. We are going to adjourn at this point.

I did want to cover one area. It won't take very long at all.

MR. ZILOCCHI: Good, because I need a break, Senator.

SENATOR AMBROSIO: George, you can smoke here. I don't know why--

MR. ZILOCCHI: No, I need a break elsewhere.

SENATOR AMBROSIO: Okay, two minutes. There was a proposal for future plans for development in the Arts Center here, either an administration building, or you were going to consolidate your facilities.

MR. ZILOCCHI: Okay, yes, Senator. That has been abandoned.

SENATOR AMBROSIO: That has been abandoned?

MR. ZILOCCHI: Yeah. That was just a preliminary study on consolidating some of the operation we have diversified throughout -- administrative operation we have diversified throughout this facility. That study has been abandoned. We are not pursuing that any further.

SENATOR AMBROSIO: Was there also a plan to build a golf course?

MR. ZILOCCHI: No. I wish I had thought of that. Maybe it would improve my golf game, but no.

SENATOR AMBROSIO: All right. At this point, we are going to adjourn. I want to again commend you, George, for your forthrightness.

MR. ZILOCCHI: Thank you, Senator.

SENATOR AMBROSIO: You and I can disagree, but I find you to be direct in your answers and refreshing in many ways. So again, we are going to call this meeting to a close. Thank you.

(MEETING CONCLUDED)