Committee Meeting

before

JOINT BUDGET OVERSIGHT COMMITTEE

"To consider the report of the bond issuing officials for a proposed issuance of refunding bonds pursuant to P.L. 1985, c. 74"

LOCATION: Room 319
State House
Trenton, New Jersey

DATE: December 7, 1992
11:15 a.m.
Reconvened
December 14, 1992
1:25 p.m.

MEMBERS OF JOINT COMMITTEE PRESENT:

Senator Robert E. Littell, Co-Chair
Assemblyman Rodney P. Frelinghuysen, Co-Chair
Senator John H. Ewing
Senator John A. Lynch
Assemblyman C. Richard Kamin
Assemblyman John S. Watson

ALSO PRESENT:

Alan R. Kooney
Office of Legislative Services
Legislative Budget and Finance Officer

Hearing Recorded and Transcribed by
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SENATOR ROBERT E. LITTELL (Co-Chair): Are we ready to go, Assemblyman Frelinghuysen?

ASSEMBLYMAN RODNEY P. FRELINGHUYSEN (Co-Chair): Yes, we are.

SENATOR LITTELL: Do you want me to call on Treasurer Crane? Will you make your presentation, please?

TREASURER SAMUEL CRANE: Before I give the opening statement, I would like to let you know that this morning at 9:30 the issuing officials met.

SENATOR LITTELL: Is your microphone on, Sam? Maybe you could pull it closer to you. The other one, yes, the small one.

TREASURER CRANE: This one, okay.

This morning at 9:30, the issuing officials met. They approved the Plan that we had forwarded to the Committee, along with a resolution of approval. I just wanted to put that on the record. That was done at 9:30 this morning.

SENATOR LITTELL: Would you specify who the issuing committee is, and explain for the public?

TREASURER CRANE: This morning the issuing officials were Mr. Keevey and myself.

SENATOR LITTELL: The Governor, Mr. Keevey, and yourself are the issuing committee which authorizes the actions you have taken.

TREASURER CRANE: Right. This morning it was Mr. Keevey and myself. That's two of the three.

SENATOR LITTELL: Okay, two of the three.

TREASURER CRANE: I am here to enlist your support for the New Jersey Capital Investment Plan. This proposal is not completely new to the members of this Joint Budget Oversight Committee. The Plan was submitted to you in advance, although we acted formally on it this morning, and I have had ongoing discussions with the two Chairmen over the past few weeks about the form and nature of this Plan.

Today I want to provide a full explanation of the Plan and the benefits it provides the State.

This is a Plan shaped by economic opportunity and focused on the needs of the State. It is the coinciding factors of opportunity and need that provide the driving force for this Capital Investment Plan.

We have the unprecedented opportunity to capitalize on low interest rates in the financial markets and low costs in the construction industry to capture savings that can be invested in the State's capital needs and build its financial reserves.

This Capital Investment Plan matches economic and business opportunities with the State's need for capital improvements and for enhanced fiscal stability. One of the most compelling benefits of this Plan is that it will produce jobs and inject some money into the economy.

The Refinancing Plan will free up funds by restructuring the State's long term debt and using these savings to replenish operating reserves and to put people to work rebuilding New Jersey's infrastructure.

This refinancing is the same as a home owner who takes advantage of low interest rates to refinance his or her mortgage. The magnitude of the State's debt structure may dwarf a home mortgage, but the common-sense principle of refinancing when the market is right, is the same.

This opportunity to achieve savings is reason alone to refinance our outstanding bonds.

Parallelling the advantageous conditions in the financial markets are timely opportunities to maximize the benefits of these savings by investing in capital improvement projects. Our strong buying power can be put to work to produce jobs and to rebuild and repair the State's valuable resources.

There is a growing list of capital work that needs to be done:

The construction and renovation of college buildings, schoolrooms, State parks and beaches, hospitals and facilities for the disabled, prisons, libraries, historical sites, and veterans' homes. The need for work on these types of facilities has become more pronounced as time goes by. The State can't protect its assets without proper upkeep, maintenance, and repairs.

There is now approximately $1.8 billion in unmet capital work for State facilities and resources. The additional backlog of work on public schools exceeds $1 billion. Added to these figures is the always increasing expense of projects to protect and enhance our environment.

As each year goes by, the list of needed work grows and the price tag increases. Long term neglect only compounds the problem. Left unaddressed, the expense for these outstanding projects will mushroom as the facilities deteriorate further.

Not only does neglect inflate the eventual repair cost, we risk higher interest rates if we delay any longer. Borrowing costs for the $577 million dedicated to capital investment in this Plan would increase by about $50 million if interest rates increase by just 1 percent.

For cost-effectiveness, now is the time to put these funds to work. Our money will have more buying power now than it has for years. Contractors have been sharpening their pencils as they put together bid proposals. State construction bids are now being submitted at an average of 15 percent under expectation, with some contracts producing savings as great as 50 percent.

The State's facilities and the State's resources -- both natural and man-made -- are the enduring components of New Jersey and the backbone of its government. The infrastructure that facilitates public services and the environmental resources that are a prime ingredient of our quality of life are neglected at our peril.

It is our responsibility to care for these assets and to pass them on in good condition.

This responsibility is of paramount importance for New Jersey because of our tourism industry. Maintaining our parks, the shoreline, historical attractions, and other resources that comprise the rich mosaic of the Garden State makes good sense economically.

Despite the continued fiscal contraints imposed by the recession, the Capital Investment Plan affords us the resources to address the State's capital needs and to invest in the future.

Of course, before funds from the Capital Investment Plan are spent on any of these projects, they will be identified in the capital portion of the annual budget and will be subject to legislative approval.

At the same time we maximize the impact of the investment in repair and construction work, we are providing a stimulus to the State's economy. And it will do it by putting people back to work and by putting paychecks in their pockets.

This Investment Plan really builds on the benefits of other State investment initiatives, such as the Transportation Trust Fund and the Economic Recovery Fund. The Capital Investment Plan will help restore vitality to the State's economy by rebuilding and maintianing the facilities that serve as the backbone of State government.

This Capital Investment Plan will generate up to 17,000 jobs for New Jersey.

This Plan also makes another type of investment that is important to the State's fiscal well-being by generating funds for New Jesey's operating reserve and for the Rainy Day Fund.

I believe that the current operating reserve is inadequate. It leaves us ill prepared for emergency needs during the course of the current year and it provides too little of a cushion for a budget of $14.6 billion. The Capital Investment Plan will reinforce the operating reserve with an additional $235 million, bringing the Fund up to what I believe is a responsible level.

Then, for Fiscal Year 1994 and Fiscal Year 1995, we will make deposits in the Rainy Day Fund totaling $100 million, so that we are better prepared for future fiscal needs or budget emergencies. It gives me a genuine sense of satisfaction to propose the initial deposits in a Fund that was the brainchild of my good friend and mentor, Senator Larry Weiss. After many years of effort by Senator Weiss to have the Rainy Day Fund put in place, Governor Florio followed through on his plan and established this savings account for State government. This is an opportunity for us to begin to make some deposits.

Just because we are in an ongoing recession doesn't mean that we can't set aside money for the future. Not only are we investing in our future with capital projects, we are investing in the savings accounts that provide financial reinforcement for current and future budgets.

The Capital Investment Plan will take advantage of the low interest rates by refinancing $700 million of general obligation debt and by issuing up to $900 million in additional G.O. bonds at these same low rates. The savings from the refinancing and the proceeds from the inexpensive bonds will be deposited in a fund that is dedicated to paying the State's debt service during the next two-and-a-half years.

The combined savings from the refinancing and the reduced debt service will then be used to finance investments in the capital projects and the financial reserves. I have submitted to the Committee a chart which shows the allocation of these funds over the next three years. I want to note that these figures are based on current interest rates and are contingent upon the final approval of the legislation updating the Bond Refinancing Act.

In total, the Capital Investment Plan is a forward-looking proposal that takes advantage of economic opportunities to address current needs, avoids future expenses on capital, and makes responsible investments in the State's future. This Plan allows us to take action on economic initiatives that will pay dividends for years to come.

Mr. Chairman, thank you very much for having me. I have with me at the table today, as you all know, the Director of Budget and Accounting and the Controller for the State of New Jersey, Rich Keevey, who has appeared before you many times, and Bob Lurie, Director of the Office of Public Finance in the Treasury Department. We are ready to discuss with you any and all aspects of this particular Plan.

Thank you for your time.

SENATOR LITTELL: Mr. Keevey, do you have any opening comments?

R I C H A R D F. K E E V E Y: No, Mr. Chairman.

SENATOR LITTELL: Okay. Assemblyman Frelinghuysen?

ASSEMBLYMAN FRELINGHUYSEN: Yes. Thank you, Senator. I just have a few questions. On page 8 of your testimony, you state: "The Capital Investment Plan will take advantage of the low interest rates by refinancing $700 million of general obligation debt and by issuing up to $900 million in additional G.O. bonds at these same low rates."

What will be added as a consequence of this proposed Plan to the annual debt of the State of New Jersey in the out years?

TREASURER CRANE: Mr. Chairman, if you will turn to the Financing Plan that was submitted to the Committee, I believe on page 4--

ASSEMBLYMAN FRELINGHUYSEN: Maybe just for the record, we have two documents here. We have your statement, Treasurer, which you have just gone through, the Capital Investment Plan, December 7, 1992. In addition, there is a fuller document entitled, "The Finance Plan, State of New Jersey, General Obligation Advance Refunding Bonds," with a great deal more in the way of statistical breakdowns. I assume you may be referring to something in that document in response to my question. If you are, will you so -- just let the Committee know if there is a certain page that you will be referring to.

TREASURER CRANE: I believe, Mr. Chairman, if you turn to page 4 of the Finance Plan-- There is kind of a gray block on the front of it. We have included for the Committee about four different computations to look at the savings versus the cost, etc. I think if you look at the second block -- Budget Savings by Fiscal Year -- you will see that it is $87 million more a year through 1996 to 2013. That addresses the issue you raised.

ASSEMBLYMAN FRELINGHUYSEN: So, to a layperson, in terms of the annual debt, there will be $87 million for the next how many years?

TREASURER CRANE: Seventeen years.

ASSEMBLYMAN FRELINGHUYSEN: So, for our computation, it would be 87 times 17 years, 18 years?

TREASURER CRANE: Over 17 years, yes.

ASSEMBLYMAN FRELINGHUYSEN: Does this-- If the State of New Jersey would enter into this commitment, does this in any way jeopardize any other general obligation issuance that we might consider? In other words, does this-- My question has to do with the debt capacity. In other words, are we entering into something here, as you described it, a massive refinancing-- Does this in any way-- What does this do to our debt capacity?

TREASURER CRANE: First of all, before-- I'll let Mr. Lurie direct debt capacity calculations. But let me just say, we are talking about, in this particular proposal-- When you start talking about additional costs and you start to raise what are very valid questions about this, one of the reasons that this has been structured the way it is, and indeed we are asking in the Financing Plan for the Committee to endorse the use of the money this way -- I mean, we seek that endorsement -- is that we are using $577 million for capital investment. The money is going to have to come from somewhere. It is kind of a "pay me now or pay me later" issue. Either the facilities will deteriorate more, construction costs will go up, or borrowing costs will go up. But there are real needs out there that we need to address.

So, when we start talking about this impact on our debt capacity, this impact on additional costs in outside years -- out years -- it is only a question of when you make these investments. It is only a question of when. It is not a question of whether you will, because by and large, these are, you know, kind of as I said in my statement, kind of the backbone of the State. They are kind of the facilities that support the overall operations of State government and local governments, when you look at school buildings.

So, with that kind of a preamble, realizing that that is how we propose that this money be spent, I will let Mr. Lurie direct the technical question of debt capacity.

ASSEMBLYMAN FRELINGHUYSEN: The reason I asked the question, and most of the questions-- If the legislators here bring this Plan back to their respective caucuses to discuss it, I think one of the questions legitimately might be, what does this do -- and this relates to debt capacity -- to our ability to move on other debt issues such as we have in the recent past for environmental protection and so forth? What does it do to the annual commitment of the Legislature for other capital needs which the Legislature has deemed to be, let's say, just as important as the ones you have outlined to us, which, indeed, are important and, in fact, in many cases, may be overdue?

ROBERT F. LURIE: Mr. Chairman, I would like to, I guess, address that issue first by saying that our capacity to issue debt in general, in the judgment of both myself and the rating agencies, since they have expressed it, is that our debt outstanding is lower than most other states that are rated at the same level as we are. That has been true historically, and in the past three to four years is even more true, due to the fact that our debt issuance has been less than usual -- than typical in recent years. That pattern has come about mostly because we have not authorized as much general obligation debt in the past few years, because, I guess, of a reluctance to incur debt generally. But I would feel comfortable with the increase that we have talked about here as strictly bringing us into -- keeping us in the moderate range of debt within the context of other states.

So, I don't think this should affect our capacity significantly in any respect. To the extent that this is simply an acceleration, perhaps, of debt we would have had to issue anyway, because as the Treasurer says they are critically needed projects, then I think it is perfectly reasonable, and probably has no impact in the long run.

ASSEMBLYMAN FRELINGHUYSEN: My questions are in no way -- and I am sure you will take them in this vein -- unfriendly. I just want to make sure that I have all the facts, because on page 2 of your testimony, Mr. Treasurer, you say, "This refinancing is the same as a home owner who takes advantage of low interest rates to refinance his or her mortgage." In fact, there is somewhat of a difference than the normal refinancing of somebody's mortgage. We are, in fact, doing more than refinancing. We are, in fact, incurring -- and tell me if the figure is correct-- What is it, 800 or 900--

SENATOR EWING: Nine hundred.

ASSEMBLYMAN FRELINGHUYSEN: Eight hundred million or $900 million in new debt, even though I must say, as the Treasurer said, it is for good purposes. So, in fact, it is not exactly--

MR. LURIE: Let me just correct the number for a moment. On page 4 of the Finance Plan, on that same table, in the third block, there is one number showing the principal amount of outstanding bonds. Right now we have about $3.2 billion of G.O. debt outstanding, and after this transaction the net increase will be to 3.6. So there will be a $400 million net increase. That is because even though we are borrowing the $800 million or $900 million, we are using some of that to pay off some old bonds. So the net increase will be about 400.

ASSEMBLYMAN FRELINGHUYSEN: That is interesting. The size of this issuance-- Can you tell me how we arrived at the size of the new debt, and the refunding? And what other options were available?

MR. LURIE: I'll address the first question. The size is composed of two parts: One is the refinancing of old high interest rate bonds at lower interest rates. That is fairly straightforward. That part of the transaction is about $700 million.

In addition to that, the issuing officials are determining to sell additional bonds to pay, when due, the interest and principal on State debt coming due over the next two-and-a-half years until the end of Fiscal Year 1995. That component is about $900 million, because that is the amount of debt service that comes due during that period of time. The amount of money that the State will save and have available to invest, according to the Capital Plan, is that 900 minus what we have to pay on the new bonds -- about $100 million.

ASSEMBLYMAN FRELINGHUYSEN: Is this a one-time sale, or is it phased over--

MR. LURIE: It will be one time.

ASSEMBLYMAN FRELINGHUYSEN: All right. Where will these funds be deposited and accounted for, as part of what surplus?

TREASURER CRANE: Well, we do a complete sale now. We actually get the benefit of it over three years. In the chart that I have submitted to the Committee that is attached to my testimony, we realize the savings over three years. The proceeds of the sale of the bonds are in an escrow account, and therefore are not part of a budget calculation in any way, shape, or form -- the proceeds from the sales of the bonds. We will be generating the savings -- it is really an expenditure savings -- in the three fiscal years. That is when we will take the actual savings of dollars that both the Governor and the Legislature, you know, will be expending according to this Plan.

The proceeds from the bond sale itself -- the entire bond sale -- are not going to be part of the budget calculation; only the savings that are realized from this transaction in debt service costs over the next three years.

ASSEMBLYMAN FRELINGHUYSEN: Why did you choose -- I know you emphasized it in your prepared statement-- Why did you choose the Rainy Day Fund, and will this require legislation?

TREASURER CRANE: I believe not. I believe that if the Legislature and the executive branch basically agree -- and I trust we will -- to a deposit, kind of an extraordinary deposit, that it will be reflected in the Governor's budget to be passed by the Legislature. The Final Appropriations Act will, in effect, make a deposit beyond the normal mechanism contained in the law.

ASSEMBLYMAN FRELINGHUYSEN: I know this Committee may serve a critical part in this process. I know what the questioning in the caucuses would be, I think -- either caucus. This Committee is, in fact, substituting itself in some ways potentially for that of what most people normally assume, that the voters have some ability to approve of these types of matters. I think it is a question that ought to be out on the table. In other words--

TREASURER CRANE: Approve the deposit into the Rainy Day Fund, or--

ASSEMBLYMAN FRELINGHUYSEN: No, the fact that there is a possibility that we may incur this additional debt.

TREASURER CRANE: Do you want me to respond to that?

ASSEMBLYMAN FRELINGHUYSEN: Yes. You know, I just think-- I know that is the sort of question that people are going to say--

TREASURER CRANE: Mr. Chairman, we incur debt in a variety of means. We have used the Transportation Trust Fund I talked about before; the Building Authority; those kinds of mechanisms to do capital investments and to make improvements and whatever, that the Governor and the Legislature thought prudent.

This particular proposal is but just another kind of mechanism that we would use together to make a capital investment, like any business would in terms of their basic infrastructure to support their ongoing operations. So, I mean, this is-- I think the question and decision here is whether as, let's say, managers, if you will, of the State's physical resources, whether we have an opportunity, due to certain market forces that may not come again -- whether we take advantage of those market forces now to make those investments, so that by the time you were to go, you know, ahd seek other forms of debt financing or capital construction for this, this opportunity may be gone and may not come again, at least for awhile.

ASSEMBLYMAN FRELINGHUYSEN: All right. I have a few other questions, but I know other Committee members have some questions on this proposal. I know Assemblyman Kamin has some. Senator, do you--

SENATOR LITTELL: I'll go around the table to see. Assemblyman Watson?

ASSEMBLYMAN WATSON: Yes. Thank you, Mr. Chairman. Mr. Crane, on your second page, the fourth paragraph down, you have: "The issuing officials recommended that the Governor include in the proposed budget for Fiscal Years '94 and '95 appropriations of at least $270 million for capital construction, and $50 million for the State Surplus Revenue Fund in each such fiscal year."

Are these just recommendations?

TREASURER CRANE: It is our intention for Fiscal Year 1994 that the Governor's budget submission will reflect the schedule as -- will reflect a capital expenditure of at least $270 million, and a $50 million deposit in the Rainy Day Fund.

ASSEMBLYMAN WATSON: Through you, Mr. Chairman: Mr. Crane, is there no obligation to use savings in this way? You are not obligated to use--

TREASURER CRANE: No. Assemblyman, a lot has been written and talked about in advance of this Plan. I believe that to undertake such a refinancing, that it is prudent for us to invest the money into what I consider to be longer term investments on the part of the State: One, capital, and two, for the Rainy Day Fund.

We are asking this Committee, and, indeed, we ask the whole Legislature -- and the Governor will so do when he delivers his Budget Message in February -- at the end of January -- to endorse the use of these dollars.

We believe that this Plan is prudent if we invest our money in this particular way. That is why I feel very strongly for the proposal we have before you in terms of the disposition of these funds. We intend to include it in the budget, but even before the advance, Assemblyman, of the Governor's budget, we are asking the Legislature, and particularly this Committee, people who participate daily and spend a lot of time in the spring reviewing the State's finances, to join with us in endorsing the use of the money in this particular way.

ASSEMBLYMAN WATSON: Thank you. Mr. Chairman, I have one other question. I know we are here to vote on two resolutions today.

ASSEMBLYMAN FRELINGHUYSEN: Do you want some clarification?

ASSEMBLYMAN WATSON: Yes, sir.

ASSEMBLYMAN FRELINGHUYSEN: Mr. Kooney, would you explain exactly what we potentially could do today? I am not of the mind of something of this magnitude that we would necessarily be acting in a full measure. Could you explain, Mr. Kooney, what responsibilities the Committee has relative to-- Do we have to accept the Plan initially, and then we have the ability to discuss it and further investigate it?

MR. KOONEY: Mr Chairman and Mr. Watson, under the Refunding Bond Act of 1985, when the issuing officials propose a refunding of existing debt, they are responsible for reporting to the Joint Budget Oversight Committee, what formerly was the Subcommittee of Transfers of the Joint Appropriations Committee, but now the Joint Budget Oversight Committee, the results of their determination which take the form of the Finance Plan that the Treasurer has placed before us, as well as the formal indication of their intentions which is expressed in the resolution of the issuing officials, which has also been presented to us.

The Committee, in the past -- the last time the Committee passed on a proposal like this was in 1989 -- has voted on two separate issues: One was the formality of accepting the Plan and resolution as presented by the issuing officials, and the second resolution, at least on those occasions, was to approve the Plan, and therefore approve the refunding.

That is why it is before the Committee, and those are the decisions that are before the Committee.

ASSEMBLYMAN WATSON: Thank you, Mr. Kooney.

Mr. Chairman, then my concern is that the first resolution to accept the receipt of this proposal-- My question is now: If we don't move on this proposal today, and if there is a time lapse, what would this delay cost us if we do this at another time for approval?

TREASURER CRANE: There are two potential costs in a delay: One is, we have a very good market right now, and one never knows where the market may go if we delay. I can't quantify that because we won't know until we finally sell these bonds, you know, what market we sold into. But we feel very comfortable with where we are in the market that we are in.

The next cost that can be quantified is, at the beginning of January -- in early January, in the forepart of January -- we make approximately, I think, a $50 million debt service payment that we would not make if we were to sell and close these bonds by December 31. That is a quantifiable cost of $50 million.

So, $50 million, according to this Plan, and assuming that the bill has passed and been signed into law. There is an additional cost if that doesn't happen, but for the purposes of discussing this particular Plan, it will be $50 million, if we go too far into January. That means the closing date. After the Committee has passed upon this particular Plan, assuming that it does, we still have a fair amount of work to do to get this to market. When I left my office downstairs, I mean, there was-- The conference room you know about next door is piled high with work that is being done as we speak, to get this into market.

I am very anxious not to sell bonds in Christmas Week. It is not the best week of the year to sell. I am anxious to go forward because of the good market we have. So, the direct answer is $50 million the farther we go into January, and then it just starts to compound after that. It gets larger as we go out.

ASSEMBLYMAN WATSON: Thank you, Mr. Crane. Thank you, Mr. Chairman.

SENATOR LITTELL: Next we will go to Assemblyman Kamin.

ASSEMBLYMAN KAMIN: Thank you. Good afternoon.

TREASURER CRANE: Hi.

ASSEMBLYMAN KAMIN: I was struck by the Treasurer's statement, his opening remarks, where he referred to, "This is the Plan shaped by economic opportunity and focused on the needs of the State. It is the coinciding factors of opportunity and need that provide the driving force for the Capital Investment Plan." I am not sure if you would have described it quite this way prior to November 3, about what is going on with the economy and this so-called economic opportunity.

TREASURER CRANE: Again, this is the substantive part of the discussion this morning.

ASSEMBLYMAN KAMIN: Through you, Mr. Chairman: Mr. Treasurer, if you could help us with the -- on page 4 of your remarks -- walking through these four different blocks-- We have, I think, discussed the budget savings for the out years, those 18 years of being some 87 million that Assemblyman Frelinghuysen referred to. But if you could walk me through, in a layman's sense, the total debt service over the 20 years, that first block, and explain what each of those lines are, for the benefit of the Committee and the public.

TREASURER CRANE: I will let Mr. Lurie walk us through this, if that is okay with you, Assemblyman?

ASSEMBLYMAN KAMIN: Just like back in the spring.

SENATOR LITTELL: Excuse me. Would you pull that other microphone over, too, so that you are on the record with your comments? Thank you.

MR. LURIE: The first block relates to the debt service over the 20-year life of the bonds. I should first mention that our currently outstanding bonds do fully mature in 20 years, and that would be true after this transaction as well.

The debt service on refunded bonds represents the 20-year principal and interest on that portion of our outstanding debt that is going to be subject to this refinance.

ASSEMBLYMAN KAMIN: So, that debt service on the refunded bonds represents how much in the way of debt?

MR. LURIE: The principal amount of debt?

ASSEMBLYMAN KAMIN: Yes, the principal debt.

MR. LURIE: Roughly a billion, I would think.

ASSEMBLYMAN KAMIN: Okay. And then the debt service on the new bonds represents?

MR. LURIE: The total principal and interest on this new issuance. So we are going to sell $1.6 billion, as it says at the bottom, of bonds, and the total principal and interest repayment will be $2.7 billion over 20 years. The difference is $653 million, which represents the interest on that additional debt.

ASSEMBLYMAN KAMIN: The additional $600 million in debt.

MR. LURIE: Well, that is the interest component of the additional debt.

ASSEMBLYMAN KAMIN: The difference, okay.

MR. LURIE: Just the interest.

ASSEMBLYMAN KAMIN: Okay. I'm up to you.

MR. LURIE: The debt service on the nonrefunded bonds-- We are just adding that back into the $2.7 billion that we will have on the new issue.

ASSEMBLYMAN KAMIN: And that represents how much in the way of debt on the nonrefunded bonds?

MR. LURIE: About a little under 2 billion. So the total debt service after refunding will be $5.5 billion. That represents principal and interest on $3.6 billion of (indiscernible) funds.

ASSEMBLYMAN KAMIN: Okay.

ASSEMBLYMAN FRELINGHUYSEN: The difference above the $653 million is principal and/or interest?

MR. LURIE: That $653 million is interest only. The difference between the new and the old is just interest, because, again, we are going to be getting $800 million in savings over three years, and we are going to have to repay that. Then, on top of that, there will be $600 million in interest payments.

ASSEMBLYMAN FRELINGHUYSEN: But that gets back to my point of $87 million on an annual basis for the next 17 or 18 years--

MR. LURIE: Right.

ASSEMBLYMAN FRELINGHUYSEN: Times 18. All right.

Excuse me. Assemblyman Kamin, you may continue.

ASSEMBLYMAN KAMIN: I think we have already gone over the budget savings for the fiscal years as projected, and also this next block of the present value savings.

ASSEMBLYMAN FRELINGHUYSEN: Actually, I have a question that relates to the third block, Assemblyman. How do we get--

ASSEMBLYMAN KAMIN: The present value savings?

ASSEMBLYMAN FRELINGHUYSEN: Yes. How do we get almost $600 million in funds for capital construction with an issuance of $900 million in new debt, and only have a net increase of outstanding principal of $400 million, as shown in this block?

MR. LURIE: Okay. I am not sure exactly what your question is focusing on. Are you focusing on why there is only a $400 million increase in the principal on that? (no response) We are going to be borrowing $900 million, and of that $900 million, about $400 million is going to retire some principal amount of bonds coming due in the next three years. So, our net increase relating to that portion is $400 million.

There is really no increase due to the other portion of the transaction, just the high interest rate to low interest rate portion. We are just replacing old bonds, dollar for dollar.

ASSEMBLYMAN FRELINGHUYSEN: Thank you for clearing that up.

ASSEMBLYMAN KAMIN: And also, if you would walk us through the fourth part of that table, the interest costs and the different amounts. Explain those lines, if you will.

MR. LURIE: The interest costs of 5.98 percent is the interest rate including issuance expenses to the State all in. The amount of refunding bonds-- I guess we have been through that already, if you have any specific questions about that. But that is really the amount of money that we would need to put into an escrow fund to retire the principal and interest to the bonds that we are attempting to pay off, plus whatever issuance expenses are necessary. As it says on the sheet, our rough estimate, at this point, is that there would be as much as $13 million in issuance expenses.

ASSEMBLYMAN KAMIN: Will we be negotiating, or will competitive bids--

MR. LURIE: This will be a negotiated sale.

ASSEMBLYMAN FRELINGHUYSEN: May I ask why?

MR. LURIE: For a transaction of this size, we felt it was necessary to have the maximum possible presale marketing to customers. That really would not be possible with a competitive sale in which the underwriter does not know whether they are going to get the bonds that we are putting out for bid, so they have no incentive to do any presale marketing. So, it is typical that a bond issue of anything close to this size would be done by negotiation.

ASSEMBLYMAN FRELINGHUYSEN: Is that in any way at odds with the statement you made to the Committee back in September, when the Senator was asking about whether there was any refinancing on the drawing boards? That was the point in time when the Committee gave approval, and coincidentally, it is the same amount of short term borrowing for $1.6 billion.

You said, Mr. Lurie, at that time, and I quote -- and if I am quoting out of context, let me know: "I also just want to insert that we, as a general matter, are in favor of competitive sales. In many instances where we have the option to do either, we will choose to do competitive sales." I think, as a matter of fact, that the refinancings that were referred to earlier by Senator Littell are the ones where we might have the option. You will see us come back to you with a competitive sale proposal.

Then it goes on here, you go on, and I quote: "In a program like this, though, where it is such a large size, and it is a new program, we feel that there are overriding reasons to negotiate it." So this is the same principle you are applying to the short-term borrowing?

MR. LURIE: That is correct. As a matter of fact, since that time we did a competitive sale on a refunding of Certificates of Participation. That was about $140 million. So, on an issue that size, we did choose to do a competitive sale.

ASSEMBLYMAN FRELINGHUYSEN: Relative to the issue of Certificates of Participation, why haven't other Certificates of Participation been made part of this refunding proposal?

MR. LURIE: Certificates of Participation can be refunded by a totally different process. They are not done pursuant to the '85 Refunding Bond Act, which only covers general obligation bonds. So, the process that we are coming to you about today only relates to general obligation bonds. The State Certificates of Participation were refunded to the full extent that would be economical back in the summer when we did that transaction.

ASSEMBLYMAN FRELINGHUYSEN: So those, in fact, have been-- All of those have been pursued to the umpteenth degree.

Excuse me, Assemblyman.

ASSEMBLYMAN KAMIN: Thank you, Chairman. It is important that we have those questions asked as well.

Why wasn't there more taking advantage of this unprecedented opportunity, as the Treasurer refers to these capitalized low interest rates? Why didn't we, in fact, hold more of our debt into other participations of obligations, or other debt we might have, and fold that into the process as well?

MR. LURIE: Well, we have reviewed our other bond issues that are outstanding; those that are not general obligation bonds as well. And, to the extent that they have high interest rates, we have looked at those for a possible refunding opportunity. This is really the last step in that review. There are no other high interest rate bonds that can be economically refunded at this time, and as I just stated, we did that with our certificates.

ASSEMBLYMAN KAMIN: I guess this question, also, Mr. Chairman, would be for Mr. Lurie: What would be the effect on the other authorities and issuing agencies of this issue?

MR. LURIE: I don't believe there would be any. I am not expecting any--

ASSEMBLYMAN KAMIN: Like the Sports Authority, and like the Turnpike, or others?

MR. LURIE: I don't expect any adverse market reaction to this proposal. Of course, if there were any major impact on the State's credit, it would have an impact on some of those authorities that you mentioned that issued that debt by the State of New Jersey. But again, I don't believe that that premise is true.

ASSEMBLYMAN KAMIN: And may I also ask you to comment on what the impact may be on counties and municipalities?

MR. LURIE: The same answer would apply there. I believe that so long as the State's credit is intact, that there is no impact.

ASSEMBLYMAN KAMIN: In the Treasurer's opening remarks I noticed the figure of 17,000 jobs as being the projected number that would benefit from this action if it is taken over the next year or so. How did we arrive at the figure of 17,000? What is the source of the data base for that information?

TREASURER CRANE: We used the Department of Commerce, the same kind of factor, without necessarily the same private leverage that we used in the Economic Recovery Fund. The Economic Recovery Fund, as you know, Assemblyman, has a very big, private piece to it in terms of loans to small businesses, and whatever, so you tend to get a multiple effect off of that.

This is our low end estimate. If we leverage nothing else in the private sector, which I am not sure this will, this is primarily for public construction projects, although they have good spin-off effects in terms of other people may be investing, you know, around them. I mean, I could add a factor: Well, if we clean up this beach, you know, this many more people will come, and we will have six more people employed at this recreation-- I didn't do that. This is basically the factor the Department of Commerce uses.

ASSEMBLYMAN KAMIN: Was there a breakdown as to how many private sector versus public sector in the 17,000?

TREASURER CRANE: We anticipate that almost all of this work will be bid out.

ASSEMBLYMAN KAMIN: All of it private?

TREASURER CRANE: Yes. We don't have construction crews out there to do this, as we do with almost-- In fact, all of our capital construction is done in the private market.

ASSEMBLYMAN KAMIN: Thank you. I have just one final question at this point, and that is to ask, I guess, Mr. Lurie: Would you compare the projected issuance costs of this deal versus some of the recent transactions that have happened in the market in a general sense for other states, as well as for what we here in New Jersey have done recently?

MR. LURIE: On a percentage basis, of course, I would expect the issuance expenses on this transaction to be low, only because the denominator is so large. On an absolute--

ASSEMBLYMAN KAMIN: Would you quantify the "low"?

MR. LURIE: Well, we have given I think what I believe is a high side estimate of about eight-tenths of 1 percent for total issuance expenses -- eight-tenths of 1 percent, or, in this case, $13 million. I think we can probably beat that, but we won't know that one way or another until we actually get into the market. Most of that component represents sales commissions to the brokers, who actually have to go sell the bonds. That is driven, to a great degree, by market forces at the time what it will take to get people interested in selling the bonds.

But again, based on what they are right now, I think this is a safe estimate. There will probably be legal fees on this transaction that are comparable to large advance refundings done nationwide and ones we have done in the past. By the complexity of transactions of this type, they tend to be higher than the more simple new capital borrowing transactions. There is more tax work that needs to be done, and we have had to go back and figure out how all of the original bond proceeds were spent from the old bonds we issued going back to 1972. So that has required a lot of time and effort that I would expect to be reflected in legal fees as well. We are doing as much of that work as we can by our own staff.

The short answer to your question is that the expenses, as a whole, will be comparable to those done on similar transactions.

ASSEMBLYMAN FRELINGHUYSEN: So, the total cost of issuance is almost $13 million?

MR. LURIE: That is, again, an estimate.

ASSEMBLYMAN KAMIN: That is excluding the legal fees, which by your description might, in fact, exceed the issuance fees?

MR. LURIE: No, sir. That is including all expenses. That is my estimate of everything.

ASSEMBLYMAN FRELINGHUYSEN: But you show the present value of savings in that third box.

MR. LURIE: It is net of those expenses.

ASSEMBLYMAN FRELINGHUYSEN: All right, net of those expenses.

MR. LURIE: Yes.

ASSEMBLYMAN KAMIN: So, in order to put these out, the research that has to be done by the law firms has to determine that all of the moneys that have been spent since-- Seventy-two is the base year?

MR. LURIE: Yes.

ASSEMBLYMAN KAMIN: Were spent on public projects to maintain tax-exempt status, and all of it has to be verified?

TREASURER CRANE: Assemblyman, you have to look for stuff like, did they lease a hot dog stand to a private vendor?

ASSEMBLYMAN KAMIN: Mr. Chairman, through you, why isn't that an ongoing process?

TREASURER CRANE: I'll attempt to answer that: Because the tax laws keep changing. I mean, in the time in which certain bonds and purpose were applied to the use of certain bond proceeds, the tax laws change over time, particularly the Federal tax laws change. Whatever environment we are in now, we have to conform to whatever the tax laws are.

MR. LURIE: I should also say, there is an ongoing process in terms of finding out what projects we spent the money on. We have no other purpose, other than a transaction like this, to go down to the level of detail such as hot dog stands and newspaper stands.

TREASURER CRANE: Right.

MR. LURIE: So we know what the projects were generally, but we never go as far as we would need to for this.

ASSEMBLYMAN FRELINGHUYSEN: Is this Plan within the legal guidelines of the Federal tax laws?

MR. LURIE: Yes. I should say, we may have to carve out a very small sliver of some of the bonds in order to exclude some of those vendors, perhaps, or other private uses, but at this point we do not feel there will be any material impact. We haven't addressed that in these numbers.

ASSEMBLYMAN FRELINGHUYSEN: And you made reference -- if I may, Asseblyman -- in your comments a few minutes ago as to what other states are doing. Have other states done similar proposals such as you are suggesting that this Committee consider?

MR. LURIE: There have been three transactions that I am aware of that are roughly similar done by New York, Massachusetts, and Florida, in roughly similar kinds of circumstances.

ASSEMBLYMAN FRELINGHUYSEN: What was the initial reaction of Standard and Poor's, and Moody's to the Plan? I assume you submitted this Plan to the rating houses. Can you give us the initial reaction of both of those rating agencies to the proposal?

TREASURER CRANE: We have had extensive discussions with both Standard and Poor's, and Moody's over the last few weeks -- and Fitch over the last few weeks -- about this particular transaction, and how the money would be used, which was of particular interest to them. I feel comfortable that if we make the capital investments that we talked about here and that the spending plan is here, that they -- I will not say "endorse it," but are comfortable with the transaction.

MR. LURIE: I think they are viewing this, as well, in the context of our general financial picture, our general budget discussions, and are as much or more interested in how those turn out.

ASSEMBLYMAN FRELINGHUYSEN: Assemblyman Kamin?

ASSEMBLYMAN KAMIN: Mr. Chairman, through you-- I guess my final question at this point is: The Capital Plan that we are discussing-- Do you have a sense of what the shape of that is at this point, what the components are?

TREASURER CRANE: I don't have-- Assemblyman, I am not even going to pretend that I have a--

ASSEMBLYMAN KAMIN: Does the administration-- How close are we to, in fact, presenting something to the Legislature for consideration, maybe even in advance of the nuts and bolts of next year's budget process?

TREASURER CRANE: I expect that we will have a great deal of conversation with the Legislature about the formulation of this Plan. We have certain capital needs that we absolutely know we just have to do.

ASSEMBLYMAN KAMIN: Is that list something that you can share early on, rather than later, even before--

TREASURER CRANE: Yes. I will be glad to do that. We should really work on this Plan, so that when it is submitted, we all know what the pieces of it are. We clearly have some opportunities, and these were prior to November 3 -- opportunities to match certain Federal capital funds, that we ought to take a real advantage of, because long term we can even get a better deal, because we put our money with their money, and you can even do a bigger capital investment.

We are looking at a lot of those kinds of options to make this money go as far as possible. I feel very, very, very strongly about using this for capital. We will talk to you about the Plan. We have some State absolute needs. We were talking about, for instance, in the General Fund. In the direct operating section of the budget, for instance, we are paying millions of dollars a year to haul sewage out of our correctional institutions. We need to do some environmental infrastructure major capital investments that will save the operating side, and it is a good environmental thing to do. I mean, those are the kinds of things I think you are going to hear a lot from us about, because they really do work two ways. I mean, we hit the capital investment and make it happen.

ASSEMBLYMAN KAMIN: I visited a facility just like that up in my district, part of the correction system, and for relatively small dollars we will have huge savings over the next few years.

So really there are two components of the Plan that you are working on now: things that absolutely must happen this time, and then the supplemental that would be coming forth to us in the next -- month?

TREASURER CRANE: In terms of capital?

ASSEMBLYMAN KAMIN: No, the Plan.

TREASURER CRANE: I expect we will be talking to you about the Plan over the next month or so, as we finalize it. I mean, there have been some discussions about doing some major capital initiatives along with the Economic Recovery Fund; to do some code violation fixes that are desperately needed at the local schools. I mean, there are some of those things that have to happen. You know, how we structure those, what the total size of the need is--

One of the things we are doing is-- Everybody has a Capital Plan. What you need over the next year; what you need over two years. We are also looking two years down the road. We have a two-year program here. This isn't a one-shot capital program; this is a two-year capital program, and we would like to be able to address it as a two-year whole to deal with the planning process.

ASSEMBLYMAN KAMIN: Thank you.

SENATOR LITTELL: Thank you, Assemblyman Kamin. Senator Lynch?

SENATOR LYNCH: Thank you, Mr. Chairman.

Mr. Treasurer, I always get a little bit nervous when we receive information or a program that is--

SENATOR LITTELL: Would you turn your mike on, please, Senator? The black one.

ASSEMBLYMAN FRELINGHUYSEN: It is the small one.

SENATOR LYNCH: When we receive information sort of at the eleventh hour that we have something that is magnificent, but it has to be done yesterday. Clearly here there is a significant policy change for the State of New Jersey, as has been pointed out by Assemblyman Frelinghuysen.

Let me get at a couple of things, however. They have been asked maybe in different ways, but-- There is nothing legally binding here that we are being given today in this Plan that you have laid out -- that would be legally binding on the executive or the Legislature in terms of how these dollars would be used, is there?

TREASURER CRANE: No, there is nothing legally binding here. No.

SENATOR LYNCH: So, you know, I would like to say sometimes: Here is nothing; hold it tightly. The fact of the matter is, as has been portrayed here today, you have stated, in effect, that we should use $235 million to add to the surplus for Fiscal Year 1993.

TREASURER CRANE: Right.

SENATOR LYNCH: That puts $235 million up in the air. You should use $100 million for the Rainy Day Fund. That puts $100 million up in the air. We should be using a whole lot of these dollars to do construction and renovation of college buildings, schoolrooms, State parks, veterans' hospitals, etc. for the Plan to be announced, all of which will be a serious part of the budget machinations for Fiscal Year 1994. Correct?

TREASURER CRANE: The capital portion of it and the Rainy Day Fund will appear in the '94 budget, yes.

SENATOR LYNCH: Well, your chances of receiving funding, in effect -- in a de facto sense -- from these new bond issues, bond dollars, will be enhanced greatly if your work would otherwise have to be done out of the general operating budget next year, as in the case of shore protection.

TREASURER CRANE: Correctly. I mean, obviously, this--

SENATOR LYNCH: You are going to do whatever you can out of this to relieve the tensions on the budget.

TREASURER CRANE: We have no capital appropriation effectively in the '93 budget, Senator. We really haven't had what I would call a Capital Program in about four years of any measure, of any size to meet any needs.

What I am saying is, for the 270-- I expect that in '93 to '94, you will see in the Budget Message a $270 million increase in the capital section of the budget to reflect this particular amount of money, because we have no resources to--

SENATOR LYNCH: What I am getting at is this. I am trying to unmask this a little bit, and this is not by way of criticism.

TREASURER CRANE: Right.

SENATOR LYNCH: Maybe we can answer some of the questions and get us to the bottom line, or at least get me to the bottom line. Nowhere in your statement is it mentioned that this will, in any way, relieve tensions on the Fiscal Year 1994 budget, when, indeed, it is clear to all of us in this room that that is part of the mix here.

TREASURER CRANE: It helps us to meet what we see as obligations coming along in Fiscal Year 1994 that we have no funds to pay for. For instance--

SENATOR LYNCH: Well, let me suggest--

TREASURER CRANE: --capital needs, or other needs of that sort, that we have no funds for; that we would recommend to any Governor that they expend funds for, for which we have no General Fund dollars.

SENATOR LITTELL: May I say something?

SENATOR LYNCH: Sure, Mr. Chairman.

SENATOR LITTELL: I just wanted to tell you that Assemblyman Frelinghuysen and I have stressed that the bond issue have covenants in it to specify that this money is to be used for capital improvements.

SENATOR LYNCH: I am not suggesting that it is not going to be used for capital improvements.

TREASURER CRANE: Right.

SENATOR LYNCH: I am suggesting that it can, and will have to be used for capital improvements that will, in many respects, create less tension for the '94 budget.

TREASURER CRANE: That is correct, because we don't have the money to make it--

SENATOR LYNCH: And, while you start out in the beginning of the day with something like a billion-and-a-half problem for Fiscal Year 1994, this proposal, if it is blessed properly and goes to market quickly, will wind up having that projected shortfall for '94 be less than a billion-and-a-half.

TREASURER CRANE: We haven't attached a number to--

SENATOR LYNCH: I am not suggesting--

TREASURER CRANE: But, you're right. You know, our calculation of needs for '94-- We have no money to fund these kinds of projects.

SENATOR LYNCH: Getting back to the original premise, there is nothing in here that guarantees that any of these moneys will be used as has been outlined in your statement. As an example, the Rainy Day Fund $100 million or the additional budget surplus of $235 million.

TREASURER CRANE: That's correct. Our intention is that we will use them for these purposes, because I believe very strongly that if -- and I think I am quoted in a certain large newspaper, large circulation newspaper-- This is no silver bullet to solve the budget problem. This is not money that is going to go and balance what everyone, depending on whose number you use-- There is a very big hole in Fiscal Year 1994.

SENATOR LYNCH: But it will play a significant role in bringing us closer to a resolution of Fiscal Year 1994's problems.

TREASURER CRANE: What capital needs we identify as having to be done in '94-- Absolutely, it will help that.

SENATOR LYNCH: Getting back to the process and procedures, do we have currently the legal authority to proceed with this refinancing, this restructure, as we speak today?

TREASURER CRANE: Senator, there is a bill that needs to be passed and signed into law to make this happen.

SENATOR LYNCH: Okay. That is what I am getting at. Is there a deadline for the passage of this bill?

TREASURER CRANE: My view is that we need that bill passed today, in order to go to market. Very quickly, yes. So, effectively, depending on the legislative schedule--

SENATOR LYNCH: Would you explain to us -- because I need to explain this to our caucus -- why we are having this hearing this morning, and why this deadline is today?

TREASURER CRANE: Our intention, and the reason today, is that we have asked for approval of this Plan in that bill, so that we can, in effect, mail the official statement tomorrow, so that we can proceed with the sale prior to Christmas Week. That bill makes a change in the current refunding statute, permitting us to refund refunding bonds and also use capital appreciation bonds, which help to make a lot of the savings possible. This Plan is built upon that bill.

SENATOR LYNCH: Which is a significant change in the way we do business in the State of New Jersey.

TREASURER CRANE: That is correct.

SENATOR LYNCH: Just before I close, and I will try to put this in my simple terms, what we are, in effect, doing -- what we will be doing if this goes through, is to increase by roughly 12 1/2 percent the amount of outstanding bonds issued for the State of New Jersey. When you take the other machinations of the savings for Fiscal 1993, 1994, and 1995, and then what you are actually going to be spending in addition, which is the $87 million a year for 18 years, at the end of the day our kids wind up spending, not in current-- We wind up spending more than about $560-some million, when you do that arithmetic, over the life of these bonds--

TREASURER CRANE: That is correct.

SENATOR LYNCH: --than we otherwise would have spent.

TREASURER CRANE: That is correct.

SENATOR LYNCH: Thank you, Mr. Treasurer.

SENATOR LITTELL: Thank you, Senator Lynch.

Senator Ewing?

SENATOR EWING: Sam, going back to the deadline question, what really is the last day that this can be done to save you from Christmas Week?

TREASURER CRANE: I believe that I would like to have this done-- I am going to have to be honest with you, I would like it done today.

SENATOR EWING: When does Christmas Week start? You still have about 10 days, though.

TREASURER CRANE: Yes, but, as I said before, the Committee's action is important. It is essential to this process. I will tell you that it also starts another whole round of work that we do. I mean, I think Bob has talked about the marketing effort to try to get the best deal on our bonds. Those are things that take time. We have invested probably two, two-and-a-half months in time, a whole lot of time -- I think Bob addressed it in legal time -- to get to this particular day.

I know some would say, you know, "You are trying to push this through." The fact of the matter is, we would like to go to the market soon. We want to get the best deal we can get.

SENATOR EWING: Right.

TREASURER CRANE: And when we come back to report to the Committee, as we must after the transaction is over, I am hoping that some of the numbers that Mr. Lurie has listed on here drop a bit, and we come back and show a better result after we are done.

SENATOR EWING: You must be already toying with some of the houses, though, aren't you? I mean, this is not being sprung on them next week.

TREASURER CRANE: No, no.

MR. LURIE: No, but they haven't gotten any of the disclosure statements from us, and, of course, we are waiting for approval from this Committee in order to do that. Once we send those documents out, we would need to give them time -- adequate time -- for them to review them to make their purchase decision. So we need to back up from the sale date by over a week in order to get this done in a timely way. Then after we sell, we would like to get the actual money changing hands before the end of the year.

TREASURER CRANE: And that's it. After the sale we have then work to get it closed, which is-- You don't sell and close, as you know, Senator, in the same day. So we have some more work to do after the date of the sale. So it is a rather tight schedule, I will grant you.

SENATOR EWING: The other question I have is: I always thought we were only allowed to sell so many bonds a year -- a percentage of bonds -- and with $900 million of new issue, doesn't it go over and above what they usually allow, or what the bond houses want us to do?

MR. LURIE: Well, I can answer that in two ways: One, that was a rule of thumb that has been bandied about in the State for a very long time, long before I got here six years ago. That is somewhat of an arbitrary number, but even if you tried to hold true to it, I think if you look at our issuance over the last four years, we have actually been well below that number due to the fact that we haven't had bond issues on the ballot during that period of time.

So, viewed over a longer term, this, if anything, is catching up with some of the deferred capital needs that we probably should have been doing.

SENATOR EWING: You can accumulate it, then?

MR. LURIE: I think so. This is not a hard and fast rule.

SENATOR EWING: Thank you very much.

SENATOR LITTELL: Okay. Assemblyman Kamin?

ASSEMBLYMAN KAMIN: A question, I guess, of Treasurer Crane, to comment on the Capital Plan once again as to what it might be used for. Have we looked at counties or local projects or educational needs at the local level, or the State level; other options of new ways to spend this public investment?

TREASURER CRANE: I don't think we are looking at any magic here. I think basically we have asked for an assessment of what might be needed for public school buildings, particularly in relation to code violations and some other life safety issues. The Capital Budget and Planning Commission is completing its work, I believe, Rich, on cataloging, as they do every year. All the operating departments submit to them, you know, their capital needs for the next year. They are finishing that work and cataloging all that, so we should have a pretty good feel. We want, obviously, projects that we can move to rather quickly that have some design work or other permanents or whatever other work needs to be done in advance. Obviously, that will factor in.

We are looking at all of those. We have need, and then we have what needs to be done first, and then what can be done within a year or so, because as I said in my statement, I want to take advantage of this construction market we are in. So, I mean, that is a factor that plays into it. I think we have an opportunity, for instance, next year, to take $11 million -- I'll use this as one example -- of something called H.R. 6 money, which matches up against the Army Corps of Engineers' Federal moneys. Was it a 90/10 match?

MR. LURIE: Eighty/twenty.

TREASURER CRANE: An 80/20 match. That is for dredging and beach projects and all that. So we can take what is $11 million here on an 80/20 match and get done some things that we normally wouldn't have the money to do. Those are the kinds of things we are looking at. We have some emergency repairs and other kinds of stuff. Sewage treatment things are high on my list, because it is just crazy to keep funding millions of dollars to truck the stuff. There is stuff that we ought to get done now.

So I think you are going to see a lot of institution-related stuff, and you are going to see a lot of school district-related stuff, because there are a lot of them that are ready to go. So, two things: need and speed.

ASSEMBLYMAN KAMIN: So, what would be different about this public works program of the Governor's than, say, a WPA type of thing of the '30s? The lion's share of this investment, as we call it, would, in fact, be going to private contractors, through competitive bidding, to meet public needs as determined by, in some cases, the county or local municipalities, or even school boards. But, for the most part, it would be State-authorized projects.

TREASURER CRANE: That is correct.

ASSEMBLYMAN KAMIN: So that is the difference.

TREASURER CRANE: We do not construct. We don't have construction crews. We have repair crews, but we don't have construction crews. It is all privately bid in the marketplace. We don't do that ourselves, and never have.

ASSEMBLYMAN KAMIN: Okay. Thank you, Mr. Chairman. Thank you, Mr. Treasurer.

SENATOR LITTELL: I guess everybody else has had their chance. Now I am going to take mine.

Mr. Crane, I agree with you that this refinancing is prudent. I have had some questions in my mind about the issuance of the additional part of the package. What you have presented here today goes a long way towards explaining that as a benefit to the State.

I want to put a couple of things on the record, though: Please tell me for the record, is this proposal consistent with our State laws and our State Constitution?

TREASURER CRANE: Yes.

SENATOR LITTELL: Okay. You talked about the use of the proceeds for surplus, which you referred to as operating reserve and the Rainy Day Fund. Do you feel there is any violation there in the use of those funds for those purposes, as compared to capital purposes?

TREASURER CRANE: No. I mean, on the amount of money for Fiscal Year 1993, my intention, my advice, my counsel, is that we will end the year with $235 million in the General Fund surplus from this source. The Rainy Day Fund, I think, is somewhat consistent, because the creation of that is primarily for emergent matters of unforeseen emergencies in a special and kind of unique way. I don't have any problem with that at all.

SENATOR LITTELL: So, in effect, the savings that come about because of the refinancing are appropriately used for those purposes, in your opinion?

TREASURER CRANE: Yes, I believe they are.

SENATOR LITTELL: The new proceeds will net about $400 million after the payment of existing debt, as described by Robert. That amount of money, along with the other package, coupled together will produce just how much in capital improvement over the next two years?

TREASURER CRANE: The Plan that we have outlined today is $577 million..

SENATOR LITTELL: Okay. If there are any additional savings-- In other words, if you were to find the marketplace more favorable than you estimated it at, would those savings go to the capital side of the budget or to the other side of the budget?

TREASURER CRANE: In '94 and '95, I would assume they would be on the capital side of the budget.

SENATOR LITTELL: Okay. So we can count--

TREASURER CRANE: Or the Rainy Day Fund. I feel they are appropriate uses of the savings either way. That is something that I think the executive and the Legislature would have to work out. I don't think we are talking about major amounts of money here.

SENATOR LITTELL: No, I just wanted to clear that up. If there are any additional savings--

TREASURER CRANE: I am comfortable with capital. The more capital the better, in my view.

SENATOR LITTELL: --it goes to capital. Is it clear to you that Assemblyman Frelinghuysen and I have asked for covenants in the bonds that these savings -- these amounts as described by you in this presentation -- be used for capital improvements?

TREASURER CRANE: One minute. (pause for short conversation with associate) Just a minute, if you will. I don't want to practice law without a license.

Mr. Chairman, in the Finance Plan that was submitted to you today, we made it clear that our intention -- and the bond documents will so reflect -- is to use this for capital. Obviously, we cannot bind, necessarily, future Legislatures -- particularly in Fiscal Year 1995, or whatever -- for not appropriating the savings in the way in which it was described.

SENATOR LITTELL: Well, I think that is an important factor, Mr. Crane, to assure us, and to assure the citizens of this State, that the fund is being used for the intended purpose. It would seem to me that there ought to be a legal way to define that request, and to make sure that what we have asked for, in fact, happens, whether we are here to make it happen or not.

ASSEMBLYMAN FRELINGHUYSEN: Perhaps, Senator, I can rephrase it as the way I understand it. In the bulk of your comments, you assured the Committee -- Treasurer, correct me if I am wrong -- that there will be something in the materials that will be prepared for the street which will indicate -- this is assuming that this Committee has additional time to review this proposal, as well as other members of the Legislature -- that it is your desire, or intent to include in some of the documentation that is being prepared the goal of using these savings for capital purposes. It will be reflected in the printed word that that is your desire -- our desired intent. Is that somewhat--

TREASURER CRANE: I believe we have to do it. I mean, I just flat out believe, regardless of intent or what people might like to do, or whatever, that frankly this transaction makes sense long term to me, when we reinvest the proceeds in our capital. It does not make sense otherwise.

I am sure there are a whole lot of people who, facing budget problems, or whatever, would like nothing better than for me to come up and say, "Let's take it all and use it one way." Well, Mr. Chairman, as you and I know from our discussions--

ASSEMBLYMAN FRELINGHUYSEN: I am not one of those people.

TREASURER CRANE: I know you are not one of them. You have told me in no uncertain terms, Mr. Chairman, that you are not one of those people, and neither am I.

SENATOR LITTELL: I just want to express a personal interest here -- not a personal interest in the sense that I have any interest-- But I want to tell you that using a bond counsel from New York -- and I see your managing underwriter from New York-- It could have been a couple of New Jersey firms. We are trying to put people to work. We ought to put people to work in New Jersey; not that some of our citizens don't work in New York for some of those firms, but I would still like to see the work go to New Jersey firms.

TREASURER CRANE: When I meet with them, most of the people live in New Jersey. Let me just tell you, the team that put this together, very frankly, since this is a very difficult transaction, a very sophisticated transaction-- Frankly, I am very comfortable with the people we chose in terms of managing. There is a lot of work that they have already put into it. For instance, on the tax and the bond side, I think we have gotten some of the very best that we could get to help us with this transaction.

As always, and as we testified, I think last spring -- Senator, maybe not in front of your Committee, but I remember in front of Assemblyman Frelinghuysen's Committee in the spring-- I mean, we have been undertaking, by design, an effort to bring more New Jersey and minority- and women-dominated firms into our bond business. Would I say that we have succeeded 100 percent? No. Have we done a lot better? Absolutely. If you look at, for instance on the note sale, who participated as a lead underwriter and whatever in our note sales, that was a New Jersey sale, for the first time. We tried very hard to expand, and indeed have expanded, opportunities for New Jersey and minority- and women-based firms during the course of this administration, and we are going to do even better. I want to make sure they get a good participation in this one.

MR. LURIE: There will be several New Jersey firms underwriting this transaction, just not as the lead manager, because they don't have enough capital to act in that role.

SENATOR LITTELL: Well, I'll tell you, I remember when we wanted to build a Sports Authority, and it was a New York financial firm that tried to put that project down. Some of the financial interests in New York openly advocated that the bonds not be purchased. Thanks to Prudential and First Fidelity, that bond issue went forward, and it was done by New Jersey firms. I haven't forgotten that, and I don't take lightly to the comments that were made by the New York financial interests about New Jersey at the time we did that. They did that when we wanted to sell the bonds for the Garden State Parkway and the New Jersey Turnpike. The history of the New York financial interests, is that if they can restrain the growth of New Jersey, they can enhance the growth of New York. Frankly, I don't see us having any advantage in pandering to them.

Now, there are two considerations to be talked about here. The first one would be to receive the action that you presented to us today; and the second would be to approve or disapprove it. We are only going to vote on receiving your action right now, and we are going to recess this meeting to allow time for OLS and our respective staffs to digest what was presented to us here today. When that is completed, we will come back and vote on whether to approve it or disapprove it.

Therefore, I am making a motion to receive your presentation today for refinancing, and I ask for a second.

ASSEMBLYMAN FRELINGHUYSEN: Second.

SENATOR LITTELL: I have a second.

SENATOR LYNCH: Mr. Chairman, may I ask a question?

SENATOR LITTELL: Yes, you certainly may.

SENATOR LYNCH: What is the legal significance of a vote on receipt?

SENATOR LITTELL: Well, I--

ASSEMBLYMAN FRELINGHUYSEN: The Office of Legislative Services--

SENATOR LITTELL: There should be two actions. Maybe they could explain it. Al?

MR. KOONEY: Senator, I don't know so much if there is legal significance to doing this this way. There was a precedent setting prior refundings, where we did it with two resolutions. One was to vote to receive the report officially tendered according to this Act; and the second one was to approve the plan and therefore the refunding. They could conceivably be combined into one resolution, or broken out.

SENATOR LYNCH: Thank you.

SENATOR LITTELL: On the motion, any comments?

SENATOR EWING: Yes. Mr. Chairman, when would we come back from the recess? Are you talking about today, tomorrow, or what?

SENATOR LITTELL: Well, as soon as our--

ASSEMBLYMAN FRELINGHUYSEN: It is the call of the Chairs.

SENATOR LITTELL: --staffs can get a response together, they will, and as quickly as we can reconvene, we will.

SENATOR EWING: Well, don't you think we should set a deadline for the Department to--

ASSEMBLYMAN FRELINGHUYSEN: No.

SENATOR LITTELL: I don't think that is fair to the staffs.

SENATOR EWING: What?

SENATOR LITTELL: I don't think that is fair to the staffs, to put them under the gun. This is too important to say to them, "You've got two hours to respond."

SENATOR EWING: No, I don't say that, but I mean, should we call a special meeting for tomorrow, or the next day, or something?

SENATOR LITTELL: But we don't need to call that now. Let's wait until we get our response back from our staff, and then we will reconvene.

SENATOR EWING: Well, what is the estimated time for the staff to get back? Alan is right here.

SENATOR LITTELL: Alan, can you tell us how long it will take you to review all of the documents and give us your written report?

ASSEMBLYMAN FRELINGHUYSEN: Well, with all due respect, I am not sure that-- OLS can speak for itself, but I'm sure, Senator Littell, the desire to further discuss this matter with other members of the Legislature -- and other members of this Committee can speak for themselves-- You know, the complexity of this proposal-- I am certainly mindful of the need for expeditious action, but in all fairness, this is the first time that there has been a public, full presentation of the Plan, and I think it is important to let members of the

Legislature, on an expedited basis, have time to digest and analyze it within their own conferences.

SENATOR LITTELL: Okay. Roll call, please.

MR. KOONEY: This would be a vote on the motion to accept receipt of the report of the issuing officials consisting of the Finance Plan for the State of New Jersey, the general obligation advance refunding bonds, and the resolution of intent of the issuing officials to sell and issue refunding bonds dated December 7, 1992, to be made part of the Committee record.

Assemblyman Watson and Assemblyman Kamin, I believe, are recorded in the positive. Senator Lynch?

SENATOR LYNCH: Pass.

MR. KOONEY: Senator Ewing?

SENATOR EWING: Yes.

MR. KOONEY: Assemblyman Frelinghuysen?

ASSEMBLYMAN FRELINGHUYSEN: Yes.

MR. KOONEY: Senator Littell?

SENATOR LITTELL: Yes.

We have received it, and we will recess now and await the staff's report.

Thank you very much.

TREASURER CRANE: Thank you, Mr. Chairman.

(MEETING RECESSED)

MEETING RECONVENED ON
DECEMBER 14, 1992:

SENATOR LITTELL: This is a reconvening of the recessed JBOC meeting of December 7. I ask Mr. Kooney to take the roll call to determine that we have a quorum, please.

MR. KOONEY: Assemblyman Watson?

ASSEMBLYMAN WATSON: Present.

MR. KOONEY: Assemblyman Kamin?

ASSEMBLYMAN KAMIN: Present.

MR. KOONEY: Senator Lynch? (no response) Senator Ewing?

SENATOR EWING: Here.

MR. KOONEY: Assemblyman Frelinghuysen?

ASSEMBLYMAN FRELINGHUYSEN: Here.

MR. KOONEY: Senator Littell?

SENATOR LITTELL: Here. We have a quorum.

At the time we recessed we had received a request from the State Treasurer to consider a proposal for refinancing of the general obligation debt of the State of New Jersey. This is a proposal that we felt deserved careful study and consideration. Therefore, we allowed the time to the staff of OLS, as well as the partisan staff of all of the respective Houses, to review and decide whether or not the refinancing is appropriate.

We have a citizen here today who is prepared to testify. I would like to call Mr. Bruce Coe, of the New Jersey Business & Industry Association, to testify with regard to this proposal.

B R U C E G. C O E: Thank you, Mr. Chairman. I spent the weekend pouring over all the numbers that I think you have seen. I am here really to testify in favor of the entire package. It really consists of three parts. The three parts are:

Refunding $700 million of existing bonds, which results in a significant interest savings, and that obviously makes sense.

The second part consists of some proposed capital expenditures in Fiscal Years 1994 and 1995 in the amount of, perhaps, $557 million.

And the third part consists of prefunding the remaining next two-and-a-half years' debt service obligations, which in the aggregate are $910 million. That is the remaining Fiscal Year 1993, as well as all of '94 and '95. And, in addition, putting $235 million, I guess, into our general reserve over and above the $570 million of capital expenditures funding, $50 million a year in '94 and $50 million more a year in '95, into a Rainy Day Fund.

So the question is: How do you analyze those three things, and how do you know they make sense? In my opinion, they strongly make sense because you are not committed to do anything. I am not here to testify that we need to make specific $577 million of capital expenditures in '94 and '95, and I personally don't know whether we will need those kinds of expenditures to stimulate the economy in '94 and '95. My own personal opinion is that the economy is already turning, and the rate of increase is hard to know. It may well be that we will be doing significantly well in Fiscal '94 and '95, maybe a lot better than we might think. I am not necessarily suggesting that we will go back to the wine and roses days of Fiscal '94 (sic) to Fiscal '98 (sic), where during that five-year period the three major taxes -- sales tax, income tax, and corporate income tax -- grew in the aggregate at a 14 percent annual compound rate. I mean, if $10 billion grows at a 14 percent annual compound rate for one year, that is obviously $1,400,000,000 of additional revenues that might -- that wouldn't properly have been contemplated.

I am not saying that is going to happen. What I am saying is, you don't have to commit now to make the capital expenditures in '94 and '95. The reason I favor these, what could be viewed as budget gimmicks, or paying for current expenditures out of long-term borrowings, is, I personally do not view it that way. I view it as fiscal prudency; I view it as conservative; I view it as having flexibility, of having options. None of that $235 million that would go into the general reserve will be spent in Fiscal '93. It will be available in Fiscal '94 if needed. I personally don't think it is going to be needed in Fiscal '94. It might be, but I don't think it is going to be needed.

The capital expenditures can be reviewed thoughtfully and carefully by your Appropriations Committees, as I am sure they will be, and whatever is spent will be spent, with their concurrent approval. Is it conceivable that none of it will be spent? It is conceivable; I think it is unlikely. But you are not required to spend these moneys. I mean, in the worst case -- or best case scenario, the $235 million does go into the reserve; the $100 million does go into the Rainy Day Fund. The $570 million of capital expenditures are not made, which means you have a billion dollars in reserves and a Rainy Day Fund. That would be, in my opinion, by the way, quite prudent. I personally have always felt that a Rainy Day Fund of 1 percent or 2 percent was meaningless; that if you want to have a reserve you really should have a reserve more in the area of at least 5 percent of the annual State budget. Five percent of $15 billion is $750,000,000 a year.

So I think that it clearly makes sense to refinance and achieve the savings. I also think that the bond market -- this is a very interesting point, and I am not an expert on the bond market, although I guess I used to be back some years ago-- If you look at tax-exempt interest rates, they have declined, along with other interest rates, significantly over the last three years. They actually bubbled up quite high four to six weeks ago. If you were looking at this morning's Wall Street Journal, in Merrill Lynch's Municipal Bond Index-- It was up to 6.70 five weeks ago. It is now back down to 6.25. These are extraordinarily low interest rates. If you do anticipate a recovery in the economy over the next two or three years -- which I do -- you can fully expect with that, higher interest rates, perhaps slightly higher rates of inflation, the types of things that are most likely to occur in an economic recovery over the next three to four years.

So I think it is a prudent time to do the refinancing. I don't think it is in any way irresponsible. I think it is cautious and conservative. It gives the Legislature far more flexibility in dealing with problems you would have otherwise. I strongly urge you to approve the package.

That concludes my testimony, Mr. Chairman.

SENATOR LITTELL: Thank you, Mr. Coe. I can assure you that Assemblyman Frelinghuysen and I have asked the OLS staff to draft the resolution in a way that, if it is approved, would guarantee that these funds be used for the appropriate capital purposes, and not for current expenses.

Let me just see if any of the members have questions.

ASSEMBLYMAN FRELINGHUYSEN: I would like to thank you also for your testimony, Mr. Coe.

This Committee has had, since last Monday, a week to review the presentation made by the Treasurer. I think it was important that the Legislature, on a bipartisan basis, have the opportunity to digest a rather complicated proposal. During that time, I think both caucuses -- partisan caucuses, as well as the Office of Legislative Services, our nonpartisan arm -- have had an opportunity to take a look at the proposal. And what we will be acting upon today, for the public record, is the resolution.

I must say, as I shared with my conference today, the Joint Budget Oversight Committee is acting on behalf of the larger body, and we really needed that opportunity to meet with our colleagues. I think, for that matter, the public has had a chance to digest what they may have read in the media -- in the newspapers over the preceding week.

I was insistent, as I know Chairman Littell was as well, that the document we are about to approve really go for capital purposes. I did use, the last couple of weeks, the opportunity to talk, in an informal way, with both Standard and Poor's and Moody's. While they certainly didn't outright in any way endorse this, they did give me a higher degree of comfort level than I initially had as a layperson.

I am pleased that in section 2 of the resolution, under b., we made it clear that the amount of savings, and I quote: "shall remain unappropriated in Fiscal Year 1994, or, if appropriated, shall be credited against appropriations made solely to support budgeted expenditures for capital construction projects, renovation and rehabilitation projects, or payments due to be made by the State of New Jersey in the nature of retiring existing debt service on obligations of the State," and it goes on further.

In the other years -- Fiscal Year 1994 -- it also makes it clear, as did the Treasurer in his presentation, that those cash flow savings be appropriated for capital construction purposes, as well as money being put aside in the Rainy Day Fund.

Let me say, most of us are aware, who have served on this Committee, either in the Majority or the Minority, that a lot of capital projects have been postponed. We have cut, on an annual basis, just about everything out of the State budget in the last couple of years that would be needed for maintaining our physical plant here and around the State for public purposes. I think it is about time that things that have been postponed get addressed. I'm sure that this Committee will continue to serve, with major responsibilities, to monitor. And we will be getting a report as to how this bond sale goes and how the money will be utilized, and that gives me a greater degree of confidence as well.

Thank you.

SENATOR LITTELL: Assemblyman Kamin?

ASSEMBLYMAN KAMIN: I would agree with a great deal of what Assemblyman Frelinghuysen had to say in summary, based on last week's presentation and testimony and research we have done over the last 10 days. So I appreciate your testimony today, Mr. Coe.

MR. COE: Yes, I was cautious about it, too, because that credit rating we have is something we really want to preserve. At the same time, we don't want to do what is called "budget gimmickry," or physical gimmicks that cause Moody's and Standard and Poor's to properly get upset.

I don't view that as being part of this, and I appreciate your efforts to preserve whatever settings there are for necessary capital spending. I am not critical of capital spending programs. I just haven't reviewed the capital expenditures proposed for those two years myself, so I am not here to endorse them. But I do think the financing plan is comprehensive, thoughtful, worthwhile, conservative, prudent, and, most importantly, provides us, in our currently strapped position without reserves, with flexibility to deal with the upcoming two or three years. I, personally, am optimistic that the economy is going to be a lot better over the next three years than current budget forecasts might provide.

SENATOR LITTELL: Senator Ewing?

SENATOR EWING: I would like to ask the OLS: Can these bonds be refunded at a later date, if we want to?

SENATOR LITTELL: Do you mean paid off early?

SENATOR EWING: Yes, or is there a penalty in it?

MR. KOONEY: Senator, are you talking about the bonds that would be issued under this proposition?

SENATOR EWING: Yes, right; correct.

MR. KOONEY: I believe they will have a provision in them whereby they will be able, themselves, to be refunded should the opportunity arise. That would be done in conjunction with, I believe, that piece of legislation that is now pending in the Legislature.

SENATOR EWING: Another question I ask on that is, in paragraph b. in there, it says: "if appropriated, shall be credited against appropriations made solely to support budgeted expenditures for capital construction--" Can they throw salaries in on that, from DBC, or something like that?

ASSEMBLYMAN FRELINGHUYSEN: If you're asking me, as far as I read that -- you can ask OLS -- it is for bona fide capital expenditures. I don't see this as any mechanism to put in salary wage money.

SENATOR LITTELL: Salary is not a capital expenditure.

SENATOR EWING: No, but connected with it: "to support budgeted expenditures" -- that would be an expenditure -- "for capital construction projects." They could throw something in there, or should there be language in there, you know, stating there can be no salary whatsoever? If we want to make sure it is going to go only for construction, because you don't know what gimmick any administration could pull. I am just wondering -- asking that question.

MR. KOONEY: Senator, just from a staff perspective, the concept expressed in this subsection is that if the amount of cash flow savings resulting in Fiscal Year 1993 is carried over into Fiscal 1994, and if that amount of money or some portion of it is spent in Fiscal 1994 -- and that is not to say that it has to be -- that it be applied against appropriations in the budget which would fall into this category.

Now, to answer your specific question, this entire section of this resolution expresses the intent of the Joint Budget Oversight Committee. It cannot be binding upon either the Legislature or upon the executive branch. I believe -- and I should not speak for the members of the Committee -- that the intention here is that only legitimate, traditional capital construction projects and other renovation and rehab or debt service type payments be charged to such savings. I don't know how this could be made airtight for your purposes. I'm sorry.

SENATOR EWING: No, because you know that DOT-- There is a certain amount of money in their bonds that they use for different parts over there, isn't there, for the administration of it and the projects, etc.?

ASSEMBLYMAN FRELINGHUYSEN: Well, if I can-- I think you are referring to the Transportation Trust Fund. I think you know that I have -- and maybe you have as well-- We have had concerns about money being charged to salaries and wages. I have been told by more than one representative of that Department that the reason they do that is because Federal law allows it. I am not sure in this case that Federal law intrudes on our intention. Our intention is for the money to be spent on bona fide, legitimate, up-front capital expenses and what we normally define as capital expenditures, not salaries and wages for certain people on our staff.

SENATOR EWING: Okay, thank you.

SENATOR LITTELL: Assemblyman Watson?

ASSEMBLYMAN WATSON: Thank you, Mr. Chairman. I really concur with Chairman Frelinghuysen with regard to the last couple of years where we have delayed much of our capital expenditure because of no funding. In the last year we have taken up most of it.

So, I am in favor of this resolution, knowing we have used our capital funding for construction funding by taking it out of the budget. We took it out. This is a way now to begin some of the most important projects we have put on hold. And I am in favor of this resolution.

SENATOR LITTELL: Thank you, Assemblyman Watson.

Hearing from no others, I ask for a motion and a second to approve the Joint Budget Oversight Resolution No. 002-92.

SENATOR EWING: So moved.

ASSEMBLYMAN FRELINGHUYSEN: Second.

SENATOR LITTELL: We have a motion and a second. Roll call, please.

MR. KOONEY: To accept Joint Budget Oversight Committee Resolution No. 002-92:

Assemblyman Watson?

ASSEMBLYMAN WATSON: Yes.

MR. KOONEY: Assemblyman Kamin?

ASSEMBLYMAN KAMIN: Yes.

MR. KOONEY: Senator Lynch? (no response) Senator Ewing?

SENATOR EWING: Yes.

MR. KOONEY: Assemblyman Frelinghuysen?

ASSEMBLYMAN FRELINGHUYSEN: Yes.

MR. KOONEY: Senator Littell?

SENATOR LITTELL: Yes. The resolution is approved.

That concludes the JBOC meeting for today. Thank you.

ASSEMBLYMAN FRELINGHUYSEN: There are copies of the resolution up here for anyone who wants them.

(MEETING CONCLUDED)

APPENDIX

SENATOR
ROBERT E. LITTELL
Co-Chair

ASSEMBLYMAN
RODNEY P. FRELINGHUYSEN
Co-Chair

SENATOR JOHN H. EWING
SENATOR ROBERT MENENDEZ
ASSEMBLYMAN C. RICHARD KAMIN
ASSEMBLYMAN JOHN S. WATSON

New Jersey State Legislature
JOINT BUDGET OVERSIGHT COMMITTEE
STATE HOUSE, ROOM 301-14, CN-068
TRENTON, NJ 08625-0068
(609) 292-8030

ALAN R. KOONEY
Secretary

COMMITTEE NOTICE

TO: MEMBERS OF THE JOINT BUDGET OVERSIGHT COMMITTEE

FROM: ROBERT E. LITTELL, CO-CHAIRMAN
RODNEY P. FRELINGHUYSEN, CO-CHAIRMAN

SUBJECT: **MEETING - DECEMBER 7, 1992**

The public may address comments and questions to Alan R. Kooney, Legislative Budget and Finance Officer, or make inquiries to Gloria Hendrickson, secretary, at (609) 292-8030.

The Joint Budget Oversight Committee will meet on **Monday, December 7, 1992 at 10:00 a.m., in Room 319, 3rd floor, State House, Trenton, New Jersey.**

The committee will meet for the following purposes:

1. Review of Department of Transportation proposal for expenditures from Transportation Trust Fund reserve account, pursuant to the fiscal year 1993 appropriation act.

2. Review of pending transfers.

3. Receipt of correspondence and other transmittals.

Issued 12/01/92

SENATOR
ROBERT E. LITTELL
Co-Chair

ASSEMBLYMAN
RODNEY P. FRELINGHUYSEN
Co-Chair

SENATOR JOHN H. EWING
SENATOR ROBERT MENENDEZ
ASSEMBLYMAN C. RICHARD KAMIN
ASSEMBLYMAN JOHN S. WATSON

New Jersey State Legislature

JOINT BUDGET OVERSIGHT COMMITTEE
STATE HOUSE, ROOM 301-14, CN-068
TRENTON, NJ 08625-0068
(609) 292-8030

ALAN R. KOONEY
Secretary

C O M M I T T E E   N O T I C E

TO: MEMBERS OF THE JOINT BUDGET OVERSIGHT COMMITTEE

FROM: ROBERT E. LITTELL, CO-CHAIRMAN
RODNEY P. FRELINGHUYSEN, CO-CHAIRMAN

SUBJECT: **CONTINUATION OF MEETING - DECEMBER 14, 1992**

The public may address comments and questions to Alan R. Kooney, Legislative Budget and Finance Officer, or make inquiries to Gloria Hendrickson, secretary, at (609) 292-8030.

The Joint Budget Oversight Committee will reconvene from recess on **Monday, December 14, 1992 at 12:30 p.m., in Room 319, 3rd floor, State House, Trenton, New Jersey.**

The committee will reconvene to consider the report of the Bond Issuing Officials for a proposed issuance of refunding bonds pursuant to P.L.1985, c.74.

Issued 12/11/92

CAPITAL INVESTMENT PLAN
($ MILLIONS)

	FY 1993	FY 1994	FY 1995
OPERATING RESERVE	$235		
RAINY DAY FUND		$ 50	$ 50
CAPITAL CONSTRUCTION AND RENOVATION		290	287
TOTAL	$235	$340	$337

STATE OF NEW JERSEY

FINANCIAL PLAN

As required by the Refunding Bond Act of 1985 (P.L. 1985, c. 74), as amended* the Issuing Officials hereby submit their request for the approval of the Joint Budget Oversight Committee to issue General Obligation Bonds of the State for the purpose of advance refunding certain outstanding General Obligation Bonds issued in the years described in the attached listing. The proposed plan includes the decision of the Issuing Officials, and the basis upon which that decision was made.

The Issuing Officials have determined that the State can realize debt service savings by issuing advance refunding bonds pursuant to the Refunding Bond Act of 1985 to refinance outstanding high interest rate bonds. In addition, the issuing officials have determined that the advance refunding can provide cash flow savings in fiscal years 1993 through 1995 by issuing refunding bonds to pay debt service on a portion of the State's remaining outstanding general obligation bonds. The Issuing Officials would be authorized to select from certain outstanding candidate bonds described below the bonds to be advance refunded and determine the amount of refunding bonds to be issued based upon market conditions prior to the sale. The Issuing Officials would then proceed with the sale provided that certain savings were achieved. The bonds will be sold by negotiated sale.

The following pages set forth (i) the general structure of the advance refunding, (ii) the State's objectives and constraints in structuring the advance refunding, (iii) the list of outstanding bonds which may be advance refunded, and an estimate of the gross savings and present value savings generated by the advance refunding of such bonds, and (iv) the strategy to be used by the Issuing Officials in selecting the bonds to be advance refunded and administering the actual sale.

* There are currently pending in the Legislature amendments to the Refunding Bond Act of 1985 to allow the refunding of refunding bonds and to delete the requirement for semi-annual interest payment. This plan assumes the enactment of these amendments.

General Structure of the Advance Refunding

This advance refunding is composed of two parts. The first part is a "high-to-low" advance refunding similar to the three prior refundings that have been done under the Refunding Bond Act of 1985. The second part is a refunding bond issue that will fund debt service for almost all the remaining general obligation bonds of the State for fiscal years 1993 through 1995.

A high-to-low advance refunding is a commonly used technique to realize debt service savings by refinancing outstanding bonds originally issued at high interest rates with new advance refunding bonds issued at lower interest rates. In executing such a high-to-low advance refunding, the State would exercise its right to call outstanding high interest rate bonds at their first possible call date and thereby effectively replace this high interest rate debt with new advance refunding bonds issued at lower rates. The advance refunding technique actually allows the State to realize the savings associated with the calling of high interest rate bonds now, years before the actual call date.

The Issuing Officials propose such a high-to-low advance refunding. The State would issue advance refunding bonds, deposit the net proceeds of the new issue with an Escrow Agent who in turn would invest the escrow in U.S. government securities generating cash flow exactly equal to the interest on the refunded bonds to the call date, and the principal and call premium on the refunded bonds at the call date. The difference between the present value of debt service on the new advance refunding issue and on the bonds to be advance refunded is the present value savings. The Issuing Officials propose to select bonds for the high to low refunding which meet a 2 percent savings threshold, unless a lower threshold is required to meet the savings requirements of the Act and the goals of the Finance Plan. This present value savings can be realized at any time during the life of the new advance refunding bonds by adjusting the principal amortization of the new advance refunding bonds.

In addition to the high to low refunding, the issuing officials have determined to issue refunding bonds, the proceeds of which will be used to fund an escrow. This escrow will be sufficient to meet debt service requirements for almost all the remaining general obligation bonds of the State for fiscal years 1993 through 1995. This will reduce the necessary debt service appropriations for fiscal years 1993, 1994 and 1995. The Issuing Officials recommend that the Governor include in the proposed budgets for fiscal years 1994 and 1995 appropriations of at least $270 million for capital construction and $50 million for the State's Surplus Revenue Fund in each such fiscal year. The Issuing Officials request that the Joint Budget Oversight Committee endorse these recommended appropriations through its approval of this finance plan.

As stated below, the Issuing Officials estimate that the combined savings on both portions of this refunding will approximate $23.6 million.

In addition to the sale of refunding bonds, the issuing officials will consider the sale of detachable call options for the new refunding bonds as a mechanism to raise additional money for the escrow for the bonds being refunded. The right to call bonds is normally included in the bond issue and is retained by the bond issuer. This call option can be detached from each bond and sold separately. Such sale could occur at the time of the bond sale, or at a later date. The effect of such sale would be to make a portion of the refunding bonds non-callable for the purposes of the State.

State's Objectives and Constraints

In structuring the advance refunding, the State's objectives are as follows:

1. *Maximize the Savings in Fiscal Years 1993 through 1995* - The Issuing Officials have determined to structure the advance refunding to maximize the savings generated by the transaction during Fiscal Years 1993 through 1995.

2. *Obtain Present Value Savings* - Present value savings equals the value in today's dollars of paying less debt service on the advance refunding bonds than would be paid on the outstanding bonds being refunded. As stated in the Refunding Bond Act, present value savings is measured by discounting the savings in each future fiscal year, back to the present at a rate equal to the true interest cost of the advance refunding bonds.

Candidates for Bonds to be Refunded

The attached table sets forth the outstanding series of bonds of the State which are candidates for advance refunding.

Individual maturities of bonds will be selected for refunding within the separate bond issues listed in the table to maximize the savings generated by the transaction subject to the constraints set forth in the preceding section and any tax requirement. Under current market conditions, the maturities listed in the table are the best candidates for inclusion in the advance refunding. If interest rates rise, some maturities will be excluded from the transaction. Conversely if interest rates fall and market conditions are favorable, additional maturities will be included.

Estimate of Refunding Results

This table sets forth the transaction which would have resulted from the financing plan set forth herein, if the transaction had taken place on December 2, 1992 using market conditions of that date. Actual results will differ based on market conditions at the time of sale.

Total Debt Service Over 20 Years	
Debt Service on Refunded Bonds	$2,073,606,936
Debt Service on New Bonds	$2,727,084,032
Difference	$653,477,096
Debt Service on Non-Refunded Bonds	$2,801,740,874
Total Debt Service After Refunding	$5,528,824,906
Budget Savings (Fiscal Years)	
1993	$234,469,031
1994	$340,321,499
1995	$336,666,372
1996 through 2013 (Average Annual)	($87,063,000)
Present Value Savings	**$23,665,645**
Principal Amount of Outstanding Bonds:	
Before Refunding	$3,213,168,000
After Refunding	$3,607,606,000
True Interest Cost Refunding Bonds	5.98%
Par Amount of Refunding Bonds	$1,622,590,000
Less Original Issue Discount	($23,878,786)
Less Total Costs of Issuance	($12,985,014)
Net Bond Proceeds	$1,585,726,200
Cost of Escrow Portfolio	$1,585,726,200

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STATE OF NEW JERSEY
GENERAL OBLIGATION BONDS

MATURITIES TO BE REFUNDED(1)

ISSUE DATED	MATURITY FROM	MATURITY TO	COUPON FROM	COUPON TO	PAR AMOUNT
4 1 1970	4 1 1993	4 1 1995	0.050	5.700	9,500,000
10 1 1970	10 1 1993	10 1 2000	6.000	6.000	31,500,000
2 1 1971	2 1 1993	2 1 1995	5.550	5.650	9,450,000
4 1 1971	4 1 1993	4 1 1995	5.000	5.000	8,700,000
7 1 1971	7 1 1993	7 1 1994	5.000	5.000	5,600,000
10 1 1971	10 1 1993	10 1 1994	4.800	4.800	5,600,000
1 1 1972	1 1 1993	1 1 1995	4.000	5.000	16,800,000
3 1 1972	3 1 1993	3 1 1995	4.900	5.000	14,000,000
8 1 1972	8 1 1993	8 1 1994	5.200	5.250	7,500,000
1 1 1973	1 1 1993	1 1 1995	4.800	4.875	8,250,000
9 1 1973	9 1 1993	9 1 1994	5.200	5.200	9,000,000
5 1 1974	5 1 1993	5 1 1995	5.500	5.500	10,000,000
5 1 1975	5 1 1993	5 1 1995	6.000	6.000	13,400,000
10 1 1976	10 1 1993	10 1 1994	5.375	5.375	12,000,000
3 1 1977	3 1 1993	3 1 1995	5.000	5.200	13,000,000
6 1 1977	6 1 1993	6 1 1995	5.100	5.100.	6,900,000
1 1 1978	1 1 1993	1 1 1995	5.100	5.100	17,600,000
7 1 1978	7 1 1993	7 1 1994	5.600	5.600	10,000,000
6 15 1979	6 15 1993	6 15 1995	5.600	5.600	13,500,000
6 15 1980	7 15 1993	7 15 1994	7.000	7.000	9,000,000
4 1 1981	4 1 1993	4 1 1995	9.200	9.250	22,500,000
12 1 1982	1 1 1993	1 1 1993	8.900	8.900	7,500,000
5 15 1983	5 15 1993	5 15 1999	8.125	8.125	21,875,000
5 15 1983	5 15 1993	5 15 2003	7.400	7.500	37,000,000
1 15 1984	1 15 1993	1 15 1998	8.375	8.375	37,500,000
10 1 1984	10 1 1993	10 1 1994	8.500	8.500	15,600,000
5 1 1985	8 1 1993	8 1 2000	7.900	8.125	46,390,000
5 1 1985	8 1 1993	8 1 2002	7.900	8.200	129,320,000
11 1 1985	11 1 1993	11 1 2006	7.300	7.300	102,107,000
8 15 1986	8 15 1993	8 15 2003	6.500	6.600	16,575,000
10 1 1986	1 15 1993	1 15 1995	5.400	5.700	24,740,000
4 15 1987	4 15 1993	4 15 2008	6.800	7.500	179,400,000
2 15 1989	4 15 1993	4 15 2010	7.100	7.300	192,500,000
7 1 1989	1 15 1993	1 15 1995	6.400	6.400	3,545,000
4 1 1990	4 1 1993	4 1 2011	7.000	7.100	87,500,000
3 15 1991	9 15 1993	9 15 1994	6.250	6.250	31,500,000
12 1 1991	8 1 1993	8 1 1994	5.800	5.800	41,300,000
TOTALS					1,228,152,000

(1) INTEREST ON ALL OUTSTANDING BONDS IS FUNDED THROUGH 6/30/95

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RESOLUTION OF INTENT OF THE ISSUING OFFICIALS TO SELL AND ISSUE REFUNDING BONDS

WHEREAS, pursuant to the provisions of the Refunding Bond Act of 1985 (P.L. 1985, c. 74) (as amended, the "Act"), the State of New Jersey (the "State") is authorized to issue its refunding bonds (the "Refunding Bonds") in an amount not to exceed the amount necessary to effectuate the refinancing of all or any portion of any series of outstanding bonds of the State (as defined in the Act, the "Outstanding Bonds"); and

WHEREAS, under and by virtue of the provisions of the Act, the Governor of the State, the State Treasurer and the Comptroller of the Treasury or any two of such officials, or if any of those officials shall be absent from the State or incapable of acting for any reason, the person authorized by law to act in said officials' place as a State official (herein and in the Act referred to as the "Issuing Officials"), are authorized to carry out the provisions of the Act relating to the issuance of Refunding Bonds, and to determine all matters in connection therewith subject to the provisions of the Act and of each act under which Outstanding Bonds were issued; and

WHEREAS, on the basis of a finance plan dated December 7, 1992 submitted to the Issuing Officials (the "Finance Plan") based in part on advice from Lazard Freres & Co., and the examination by the Issuing Officials of the Finance Plan, the Issuing Officials believe that it is in the best interests of the State to proceed with the sale and issuance of Refunding Bonds to refinance certain Outstanding Bonds of the State and thereby reduce, on a present value basis, the aggregate amount of principal and interest payable on Outstanding Bonds in order to make more efficient use of the State's resources; and

WHEREAS, Section 21 of the Act requires that upon the decision by the Issuing Officials to issue Refunding Bonds, and prior to the sale of the Refunding Bonds, the Issuing Officials must transmit to the Joint Appropriations Committee's Subcommittee on Transfers (the "Subcommittee") a report (the "Report") that a decision to issue Refunding Bonds has been made by the Issuing Officials, reciting the basis on which the Issuing Officials' decision was made, including an estimate of the debt service savings to be achieved and the calculations upon which the Issuing Officials relied when making the decision to issue Refunding Bonds and disclosing the intent of the Issuing Officials to sell and issue the Refunding Bonds at public or private sale and the reasons therefor; and

WHEREAS, pursuant to Joint Rule No. 30 of the Senate and General Assembly adopted pursuant to Joint Resolution No. 4 of 1986, the Joint Budget Oversight Committee of the State Legislature (the "Committee") is the successor to the Subcommittee; and

WHEREAS, the Issuing Officials intend to issue Refunding Bonds to pay the principal of, and premium, if any, and interest on all or some of the bonds heretofore issued by the State as set forth in the Finance Plan; and

WHEREAS, the decision of the Issuing Officials to issue the Refunding Bonds is subject to the Committee's approval of (a) the Report and (b) the issuance of the Refunding Bonds; and

NOW THEREFORE, BE IT RESOLVED BY THE ISSUING OFFICIALS on this 7th day of December, 1992, as follows:

Section 1. Subject to the approval by the Committee, the Issuing Officials hereby (i) determine to issue the Refunding Bonds in the manner set forth in the Report referred to in Section 2 hereof and to sell the Refunding Bonds at private sale in order to permit the structuring of the transaction in a manner that will maximize the benefits to the State over the life of the Refunding Bonds and its access to the capital market, (ii) authorize the State Treasurer to negotiate for the private sale of the Refunding Bonds to Lazard Freres & Co. and to submit to the Issuing Officials his recommendations with respect thereto, (iii) authorize the State Treasurer to determine whether the inclusion of "detachable call rights" in the structure of the Refunding Bonds will produce a benefit to the State and, if so, to negotiate for the private sale of the detachable rights rights with respect to the Refunding Bonds to The First Boston Corporation and to submit to the Issuing Officials his recommendations with respect thereto, (iv) authorize the State Treasurer to cause publication of notice and the conduct of public hearings required under federal tax law, if any, in connection with the issuance of the Refunding Bonds, (v) approve the

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preparation and distribution of a Preliminary Official Statement in connection with the sale of the Refunding Bonds and any necessary disclosure document in connection with the use of "detachable call rights," and (vi) authorize the State Treasurer to execute a certificate required by Rule 15c2-12 of the Securities Exchange Act of 1934, as amended, in connection with the distribution of the Preliminary Official Statement or any other such disclosure document.

Section 2. The Issuing Officials accept the Finance Plan in substantially the form submitted to this meeting, authorize the State Treasurer to make such additions, corrections or deletions in the Finance Plan as he deems necessary and hereby designate the Finance Plan and this resolution as the Report.

Section 3. The State Treasurer is hereby authorized and directed on behalf of the Issuing Officials to transmit the Report to the Committee, requesting the Committee's written approval of (a) the Report and (b) the sale of said Refunding Bonds.

Section 4. This resolution shall take effect immediately.

Upon motion duly made, seconded and unanimously adopted, the meeting adjourned.

James S. Poole

James F. Poole, Secretary of the Issuing Officials

Approved by the Issuing Officials:

Samuel F. Crane, State Treasurer

Richard F. Keevey

Richard F. Keevey, Director of
the Division of Budget and Accounting

Date: December 7, 1992

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JOINT BUDGET OVERSIGHT COMMITTEE
RESOLUTION NO.001-92
Adopted December 7, 1992

WHEREAS, the Issuing Officials have transmitted to the Joint Budget Oversight Committee (the "Committee"), designated as the successor to the Joint Appropriations Committee's Subcommittee on Transfers, a Finance Plan and a Resolution adopted by the Issuing Officials on December 7, 1992, requesting approval of the sale of refunding bonds as required pursuant to section 21 of P.L. 1985, c. 74; and

WHEREAS, the Finance Plan identifies the present value savings estimated to be achieved by the refinancing of certain outstanding bonds as identified in the Finance Plan, and provides certain other pertinent information upon which the Issuing Officials relied in determining to issue refunding bonds; and

WHEREAS, (a) the Finance Plan and (b) the Resolution of Intent of the Issuing Officials to Sell and Issue Refunding Bonds, adopted on December 7, 1992, requesting approval of the sale of refunding bonds, are the basis upon which the Committee is evaluating this request; now, therefore,

BE IT RESOLVED by the Joint Budget Oversight Committee:

1. The Report of the Issuing Officials, consisting of the Finance Plan and the Resolution approved by the Issuing Officials on December 7, 1992, transmitted as the request for approval of the sale of refunding bonds, has been received by the Committee and made a part of the Committee record only insofar as it provides the information upon which the Committee is to rely when approving the sale of refunding bonds under the provisions of section 21 of P.L. 1985, c. 74.

ATTESTED:

Alan R. Kooney
Legislative Budget and Finance Officer

7 December 199-
Date

Robert E. Littell
(Co-Chairman)

Rodney P. Frelinghuysen
(Co-Chairman)

John H. Ewing

John A. Lynch

C. Richard Kamin

John S. Watson

JOINT BUDGET OVERSIGHT COMMITTEE
RESOLUTION NO.002-92
Adopted December 14, 1992

WHEREAS, the Issuing Officials have requested the Joint Budget Oversight Committee (the "Committee"), to approve a sale of refunding bonds for the purpose of advance refunding certain outstanding State general obligation bonds previously issued; and

WHEREAS, Under section 21 of the "Refunding Bond Act of 1985," P.L.1985, c.74, the sale of refunding bonds requires the approval of the Joint Appropriations Committee's Subcommittee on Transfers, or its successor; and

WHEREAS, The Committee is created by Joint Rule No. 30 of the Senate and General Assembly and is thereby designated as the successor to the Joint Appropriations Committee's Subcommittee on Transfers pursuant to P.L.1986, Joint Resolution No. 4; and

WHEREAS, The Issuing Officials, in making the request for approval of the sale of these bonds, have provided the Committee, to its satisfaction, all disclosures and reports required pursuant to section 21 of P.L.1985, c.74; and

WHEREAS, The Issuing Officials' Report dated December 7, 1992, submitted with the request for approval of the sale of refunding bonds indicates a present value savings to be achieved as a result of the refinancing pursuant to the requirements of P.L.1985, c.74; now, therefore,

BE IT RESOLVED by the Joint Budget Oversight Committee:

1. The sale of refunding bonds by the Issuing Officials for the purpose of advance refunding certain outstanding bonds, in compliance with the "Refunding Bond Act of 1985," P.L.1985, c.74 and in accordance with the Report of the Issuing Officials, is approved by the Committee.

2. The Committee, expressing its intention and understanding regarding the proposed application of the proceeds of the sale of refunding bonds, recommends to the Governor and the Legislature, that:

a. Cash flow savings generated by the refinancing in fiscal year 1993 shall be reserved in the General Fund as an undesignated fund balance on July 1, 1993;

b. The amount of such savings shall remain unappropriated in fiscal year 1994 or, if appropriated, shall be credited against appropriations made solely to support budgeted expenditures for capital construction projects, renovation and rehabilitation projects, or payments due to be made by the State of New Jersey in the nature of retiring existing debt service on obligations of the State or its agencies or authorities, political subdivisions or instrumentalities thereof, pursuant to law or contract; and

c. Cash flow savings generated by the refinancing in fiscal years 1994 and 1995 shall be appropriated for capital construction purposes and for deposit in the Surplus Revenue Fund as recommended in the Report of the Issuing Officials.

3. Pursuant to subsection e. of section 21 of P.L.1985, c.74, the Issuing Officials shall provide the Committee with the following information, in addition to any other reporting requirements imposed by law, within 30 days after the sale of the refunding bonds herein authorized:

a. A detailed plan for the use of the bond proceeds based upon the final terms of the sale;

b. A detailed statement by vendor of the costs of issuance of the refunding bonds, with specific reference, where applicable, to itemized costs for the following services: bond counsel, tax counsel and special counsel; financial advisor; escrow agent; paying agent and registrar; rating agencies; official statement printing; bond printing; trustee; credit enhancement; and miscellaneous issuance costs.

c. A calculation of underwriters' spread, broken down into the following components, and accompanied by a list of underwriters' spreads from recent comparable bond issues: management fees; underwriters' fees; selling concessions; underwriters' counsel; and other costs.

ATTESTED:

Alan R. Kooney
Legislative Budget and Finance Officer

14 December 1992
Date

Robert E. Littell
(Co-Chairman)

Rodney P. Frelinghuysen
(Co-Chairman)

John H. Ewing

John A. Lynch

C. Richard Kamin

John S. Watson