Committee Meeting

of

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

"Presentation by officials of Governor Corzine's administration on the Governor's financial restructuring and debt reduction proposal"

LOCATION: Committee Room 4
State House Annex
Trenton, New Jersey

DATE: January 23, 2008
3:00 p.m.

MEMBERS OF COMMITTEE PRESENT:

Senator Barbara Buono, Chair
Senator Sandra B. Cunningham
Senator Dana L. Redd
Senator M. Teresa Ruiz
Senator Brian P. Stack
Senator Stephen M. Sweeney
Senator Shirley K. Turner
Senator Joseph F. Vitale
Senator Anthony R. Bucco
Senator Philip E. Haines
Senator Leonard Lance
Senator Steven Oroho
Senator Kevin J. O'Toole

ALSO PRESENT:

Catherine Z. Brennan
Howard K. Rotblat
Office of Legislative Services
Committee Aides

George J. LeBlanc
Senate Majority
Committee Aide

Rosemary Pramuk
Senate Republican
Committee Aide

Meeting Recorded and Transcribed by
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SENATOR BARBARA BUONO (Chair): Good afternoon.

We're about to start the Committee hearing. It is 3:00.

Good afternoon. I'm Senator Barbara Buono.

We're about to start the Senate Budget and Appropriations hearing on the Governor's fiscal restructuring plan.

Will you take the roll, please?

MS. BRENNAN (Committee Aide): Senator Haines.

SENATOR HAINES: Here.

MS. BRENNAN: Senator Oroho.

SENATOR OROHO: Here.

MS. BRENNAN: Senator O'Toole.

SENATOR O'TOOLE: Here.

MS. BRENNAN: Senator Bucco.

SENATOR BUCCO: Here.

MS. BRENNAN: Senator Lance.

SENATOR LANCE: Here.

MS. BRENNAN: Senator Buono.

SENATOR BUONO: Here.

MS. BRENNAN: Senator Sarlo. (no response)

SENATOR BUONO: He's not here yet.

MS. BRENNAN: Sorry.

Senator Sweeney.

SENATOR SWEENEY: Here.

MS. BRENNAN: Senator Cunningham.

SENATOR CUNNINGHAM: Here.

MS. BRENNAN: Senator Redd.

SENATOR REDD: Here.

MS. BRENNAN: Senator Ruiz.

SENATOR RUIZ: Here.

MS. BRENNAN: Senator Stack.

SENATOR STACK: Here.

MS. BRENNAN: Senator Turner. (no response)

Senator Vitale. (no response)

SENATOR BUONO: We have a quorum.

Before we start-- Well, first of all, I would like to welcome our esteemed panel: the Governor's Chief of Staff, Bradley Abelow; the DOT Commissioner, Kris Kolluri; Acting Treasurer, Dave Rousseau; as well as Public Finance Director, Nancy Feldman.

It is my understanding that Dick Leone is also in attendance.

Is he here yet?

I understand he may be testifying representing the Governor's newly formed Financial Restructuring and Debt Reduction Campaign Steering Committee. That's a mouthful.

Before we begin with the presentation, I would like to set some ground rules. I know there's been a little hype associated with this meeting. I just want to state from the very beginning, number one, no cell phones, as well as any electronic devices -- must be set on inaudible. And any side conversations, please take them outside. I fully expect the debate to be civil. I know that the -- in the past, this Committee has a reputation for being dignified, civil, and staying on the issues. But my comments are directed to anyone who chooses to participate in the debate and the discussion: that they will be held to the same standards, that the discussion is to be, as I said, civil and respectful. If I sense that the dialogue is beginning to deteriorate to a level which I consider to be counterproductive to fulfilling the purpose of the hearing, I will not hesitate to intervene.

So with that, I would like to begin by calling on -- I assume Bradley Abelow would like to start with his presentation to the Committee.

Welcome.

CHIEF OF STAFF BRADLEY ABELOW: Thank you, Madam Chair.

First of all, congratulations to you and to the new members of the Committee. We look forward to working with you all in the future, as we have in the past.

Yes, with your indulgence we would like to begin with a -- what we hope will be a relatively brief presentation, although experience to date dictates that we do sometimes get questions as we go. And I suppose if that's your pleasure, we certainly can accommodate that.

If you don't mind, I'd like to just make one additional introduction. I think probably all of you know Kris Kolluri, the Commissioner of Transportation; Dave Rousseau, who as the Chairwoman said, is the Acting Treasurer. For those of you who don't know Dave, he's been working here in Treasury, and also in Senate staff for--

What is it, Dave?

ACTING TREASURER DAVID ROUSSEAU: Twenty years.

CHIEF OF STAFF ABELOW: Twenty years now. And it is, I think, an honor that is well past due -- his being named Treasurer. And so we will -- certainly are pleased with that.

And Nancy Feldman, who is the Director of the Office of Public Finance.

Nancy, if you don't mind -- because we will be dividing up this presentation as we go -- for the benefit of the Committee, if you can just describe your background. Because you've really done a lot of the work on the presentation that we're going to go through now.

NANCY B. FELDMAN: Sure.

I've been in the public finance industry for 25 years at investment banks and rating agencies, and joined the Office of Public Finance, in the Department of the Treasury, a year ago in May. And I've been working under the Treasurer's direction, both with respect to our debt portfolio and debt management, as well as working on this asset evaluation and fiscal restructuring program.

CHIEF OF STAFF ABELOW: Okay.

Kate, if you don't mind--

Just to take one step back, I know that enormous attention has been paid, and there will be enormous interest today, on the toll road portion of the Governor's proposal on financial restructuring. But before we get there, I wanted to take one step back, because I think it is important to view that piece or component of the proposal in a broader context.

And that context is four different steps, the first of which is the Governor's commitment to freeze spending in the budget. That will be introduced at the end of February by this administration. And so *freeze* is a word that is thrown about frequently. I think what it means in this context ought to be quite clear to everyone. We will not introduce a budget where the total appropriation amount exceeds the appropriation amount in the last budget, the budget for the fiscal year that we're currently in, which is approximately $33.5 billion.

And the second component is to limit -- a proposal to limit future spending to the growth in underlying revenues. And so we would, over time, wean ourselves from our reliance on one-time revenues in supporting any given year's operating budget. Again, it's pretty straightforward in its meaning.

The third -- and it is -- I'm somewhat humbled to address this topic with Senator Lance sitting in front of me -- but really something that he understands and has been proposing for much longer than we have. And that, again, is, I think, relatively straightforward. We would return to what we believe to have been the intent of the Constitution and to seek voter approval for the issuance of new debt on the part of the State; the exceptions to that being the case in which -- or cases in which revenues have been dedicated to support that debt issuance. And that would be the exception.

And finally, the proposal to capture value in toll roads, to pay down 50 percent of the State debt and to fund transportation improvements for 75 years. And the Governor and we believe that these four components together -- and it is important that they be viewed together as a coherent and cohesive whole -- are a recipe or formula for restoring fiscal integrity to the State, something that we believe is deeply needed.

As part of setting the context for this proposal, we think it's important to reflect on what's happened to, in particular, our long-term liabilities or obligations over time. And what you see before you is a graphic depiction of what's happened to the State's outstanding debt. And what you see is, that since 1990 our State debt has risen from something under $5 billion to today's $32-and-a-little-bit-more billion. And that number is one that we believe will continue to rise.

Per capita State debt in that time has reached almost $3,500 per person in the State of New Jersey. And, again, as a frame of reference, we're showing you what the state medians are, as we look at other states around the country. So a measure of our indebtedness as a relative matter compared to other states, you can see that the per capita state debt in other states is somewhere -- I think it's around $600 a head, rather than our close to $3,500 a head.

When we talk about the State's indebtedness though, we think it is important to view just that piece. What we just talked about was the bonded debt of the state -- that is, debt that was issued either in public or private markets with a commitment on the part of the State to repay. That commitment may have been a general obligation bond, or it may have been a so-called *revenue bond*, or State appropriation-backed bond.

But we have other kinds of obligations. And when you look at this next page, you see in the box at the top left, in blue, what some of those long-term obligations are: the $32 billion of debt that we just mentioned, unfunded pension liability. Last year we received an annual report from our actuaries. I remember being in this room at a hearing, I don't know, maybe about a year ago, about the state of the pension funds. And we had just received the actuaries' report for last year. So it must have been about April, because that's when we get it. And at that time, the actuaries advised us that it was $25 billion in unfunded liability. And we have been on a trend where our *unfundedness* -- I hope I'm not making that up -- has been increasing at a rapid rate. And that's a consequence of a series of decisions taken over time, where until last year we had been on a steady path of, over time, increasing pension benefits for State employees. And we have been on a trend, until two years ago, of not contributing cash to the pension funds. So we had effectively taken a 10-year holiday from cash contributions to the pension funds. And so the combination of those two things has resulted in this unfunded liability.

In addition, last year, for the first time, we received from our actuaries -- because we have to put it on our financial statements this year, for the first time -- an estimate of our post-retirement medical liability. And that is the amount that we owe for retirees in the future. It's a present-value number of $58 billion. And those two numbers are unfunded. Pension liability is not at the bottom of the pack of states, it's somewhere in the middle. Our post-retirement medical liability is extremely large in comparison to other states, both as an absolute number and on a per capita number. And the reason for that is that we extend-- The State provides post-retirement medical benefits to teachers who are not State employees. But that is a differentiating factor for New Jersey from most other states, who do not provide post-retirement medical to local employees.

And the total of those three is $115 billion. And although I hear and participate in lots of conversations where people say, "Why don't we just cut benefits and stop doing this, or stop doing that?" the truth -- I don't know, some might editorialize and say it's the sad truth -- is, these are obligations that we will pay because of various actions taken over time. These liabilities are, by and large, contractual at this point. That is, we can reduce the benefits that we pay for future employees, but most of our current employees have been promised these benefits that sum to these numbers. And so our wishing that they were smaller-- I think all of us wish that they were smaller, but no amount of wishing will make that happen. So the question is: When will we pay it? Not, will we pay it?

And what does this mean in the budget every year -- moving to the right, the top right of the page. That $32 billion in bonded debt results in the general fund principal and interest payments, from the general fund in this year's budget, of $2.6 billion. Our pension contribution is $1.1 billion. And post-retirement medical expense -- we're paying cash out the door as people incur bills -- is $1.1 billion. And that's a total of $4.8 billion.

Unfortunately, we are not currently meeting the obligations that the accountants have suggested that we should on an annual basis. So if you travel to the bottom of the page, you will see what those are. The $2.6 billion is a fixed number. That's what we pay in debt service. Our pension contribution should be $2.3 billion this year. In fact, it's $1.1 billion. That means that we're falling further behind, that we would expect the unfunded pension liability to grow as a result of not meeting our obligation. And our post-retirement medical liability -- what we would be paying if we were setting aside appropriate reserves -- the actuaries tell us would be $4.9 billion. If we were to do all that, it would be $9.8 billion. Frankly, we find that inconceivable in the current environment, because our budget is approximately $33.5 billion. So this would approach one-third of State spending. And there's almost no way that we could imagine actually being able to do that.

What does all of this mean? Well, the numbers, as I've said, are not our numbers. They're the numbers that come from our actuaries and accountants. So they are what they are. The impact, though, of this debt is a crowding out. That is, when we spend $2.6 billion on principal and interest, any penny we devote to that -- to paying off existing debt -- is a penny that we don't have to invest in education, health care, property tax relief, or senior services. So it has the effect of, as we say, crowding out other forms of spending that might be more desirable.

And taxpayers are paying more money for debt. So we have the third highest debt burden in the country: $3,700 in debt for every man, woman, and child who lives in New Jersey. That's $10,200 in debt per household. The first $860 in household taxes every year goes to do nothing other than pay principal and interest on that debt. And if we look at not just the debt, but those long-term obligations, then it's $16,000 in total long-term obligations per capita, or $45,000 per household for each household in New Jersey.

What I'd like to do now is ask Dave to spend a little bit of time talking about the current budget and where we are.

ACTING TREASURER ROUSSEAU: As we begin every year, you hear a lot about whether we face a structural deficit of two, three, four, or whatever the number is. And this chart, here, attempts to show what we are facing as a structural deficit. And the definition of a *structural deficit* is basically the difference between our expected spending for the year versus our expected revenues for the year. As you can see from this chart, we have a base revenue of about $32.5 billion for this year, which we-- When this chart was done, we expected we would get about a 2.5 percent increase to about $33 billion -- $33.3 billion total. If I was doing this chart today -- I don't think these numbers will be where they are; but we have another couple weeks in January income tax collections to get a better idea.

And the next side of the equation is: We look at our spending, and we start with the base spending of this year's budget, which was $33.5 billion. And then we build on to that mandatory cost increases in employee benefits, Medicaid, the recent school funding increase that was built in, some other things -- statutory increases like municipal aid, increases on places where people expect annual increases for higher ed, third-party COLAs, etc. And that would bring you basically to a budget of about $35.8 billion.

So our goal right now is, as the Governor said, from a flat budget-- That means we have to take that $35.8 billion projected spending and turn it into $33.5 billion of a budget, which -- as the Governor has been using the number of 2 to 2.5 -- the number will be actually about $2.3 billion that we have to reduce from this $35.8 billion.

The next chart takes what Brad just talked about on the crowding out of the benefits and really puts it in a pie chart to show you how it really impacts the rest of the budget. The first pie is simply the $4.8 billion versus the rest of the budget. So you have $4.8 billion, roughly 14 percent, versus roughly $29 billion of the rest of the budget, which is 86 percent.

The next pie that pops up is -- if you look at that $28.7 billion slice -- and it brings it down to the bottom and tells you what's in that part of that $29 billion. And you have in there $2.5 billion for direct property tax relief payments. That's the rebate programs and the other constitutional credits there are on your property tax bill. Eight point eight billion dollars of school aid, another $1.7 billion of municipal aid. So those four things combined are about -- those three things combined are about 45 percent of this slice. Another $20 billion -- another 20 -- $5.6 billion, or 20 percent, that goes out for Medicaid, PAAD, hospital assistance, and our costs of our mental health and DDD programs. And finally, another 6 percent, or almost $2 billion, for higher ed.

And leaving about $8.2 billion of other -- and the chart gets really crowded when you talk about some of these others. But within that *other* column is another $1 billion that it costs us to operate the Department of Children and Family Services; the $2 billion that it costs us to operate our correctional facilities, our State Police, Homeland Security, and Judiciary; and another $1.2 billion that it costs us for health benefits for active employees, taxes for active employees, and negotiated salary increases, plus other things.

So the first, as Brad-- And then the third pie talks about -- that if we were funding our benefits and our long-term obligations at the $9.8 billion, what happens to that pie. And you see that the blue part goes down significantly, to $23.7 billion, if we were going to fund it at the $9.8 billion.

As Brad said from the beginning, this is more than just a toll road plan. There's a four-component part to bring back structural balance to our finances. And the first component is that we're going to have a freeze in overall spending in the upcoming budget. It's basically, as the Governor used in his speech -- it's a makeup or catch-up for years of increased spending. And I've heard a lot of people over the last couple of weeks ask about what a spending freeze means. Some people have said, "Does it mean you're just going to take last year's budget and just adopt the same numbers?" No, because there are costs that go up. So costs are going to have to go down some other places. "Does it mean that -- freeze means what you did last year, plus inflation?" No. As Brad said, it means $33.5 billion is what the Governor will have to do. And that means that we are going to have to cut the exact numbers-- We're using $2 billion to $2.5 billion of cuts we will need to achieve a flat budget, at the same time funding increases that have to happen.

We're committed, by the Governor -- by the Legislature passing it, and the Governor signing it, we're committed to a $550 million increase in school aid. That means something else is going to have to go down $550 million. We have to put more money into our pension system. Something else is going to have to go down by that amount. We have to put more-- We have the annual increase in our post-retirement medical costs. They're going to have to go up. Our Medicaid costs are going to have to go up, so something else has to go down.

And what have we done so far to do this? As everybody saw, back in the Fall we took the unprecedented step -- and I really think it was really unprecedented, from what I've seen over the last six years, because it really had the backing of the Governor and staff at the highest levels in the Governor's Office -- to make sure that the cabinet knew that this wasn't a Treasury exercise, this wasn't an OMB exercise. When we asked them to come up with $3 billion in cuts, we meant for them to come up with $3 billion of ideas to reduce spending. I think Kris, as a fellow Commissioner, will say it was the first time it really was not a Treasury job. It was a directive from -- all the way from the top.

So we've asked the cabinet to do $3 billion. We have now taken a group of -- we are almost done with it. We have taken a group of the largest departments in State government and brought them before the Governor's GEAR Commission -- a subgroup of the GEAR Commission, which includes Dick Leone, Rich Keevey, John Degnan, a couple of our Commissioners, and a few others -- and really brought them through a budget exercise, again with people outside, to get an outside point of view on maybe things that, internally, we've missed and everything. So that group will come -- the combination of us internally, and that GEAR group will come up with a list of recommendations to the Governor on how to get down to $33.5 billion. And as those of you who have been on this Committee in past years know, this will not be an easy task, but it's a task that has to be done.

Resetting for a year doesn't do anything for us if we go back to the same old ways of just spending whatever money we can bring in. And that's why the second component of this is that from now on, spending -- the spending growth will equal the revenue growth in the budget. So if we get, on a roughly $33 billion of revenue -- if we get a 3 percent growth in revenue for that year -- that's roughly a billion dollars -- that's all our spending will go up. If our mandatory costs are going up by 1.7, or 1.8, or something like that again in future years, something else is going to have to be cut. So this will limit -- we will limit it to the expected rate of spending.

One time-- If there are-- Sometimes there are things -- one-time revenues that do appear. Sometimes we build up a surplus in a prior year due to unforeseen things. Two years ago it was our PAAD program costing us a lot less because of the Medicare Part D program. This year it was our rebate program costing us less than we thought. But the buildup of surplus, and carrying forward into next year, is part of what's gotten us into the problem. Because we can't rely on that year after year. That type of revenue, or some other-- If we got a one-time payment for something, or we found a trust fund that did have extra money in it that could be used for something else, that money will be used for -- it will be limited to debt relief -- additional debt relief, if there is -- after we've done the part -- supplemental payments to the pension system. So in other words, if we were funding the pension system at 60 or 65 percent this year, maybe we would make a supplemental payment of some amount. That wouldn't be an ongoing payment. It would just put more money into the pension fund. And as everybody knows the time value of money, we put a couple hundred million dollars in now, 20 years from now it's worth a lot more than that. Again, we could start putting money away against that $58 billion liability on post-retirement medical, or--

One thing that really has been lacking -- and you'll see more about it in a few minute -- really has been lacking in State government is, we have had no money to invest in our infrastructure of State government, whether it's buildings, technology, etc. So this money could be used for one-time capital projects.

And looking at the future, the Governor has also directed me to look at a process of deep departmental budget reviews. And let me talk a little bit about what we think that will entail. That isn't something that is going to help us in the next four weeks. It's not something that's going to help us in the next five months. Basically, what we envision that to be is, once this budget is done in June we will then decide, on a rotating basis, to look at some group of departments, or divisions within a department, on an annual basis. Some group of people, whether it will be -- I think it will be State government people, it will be outside people. It could include the legislators at the time. That starting sometime in the Summer, you would pick three or four programs or issues you were going to look at, look at them for four or five months, prepare a report for the Governor by, let's say, November or December of the year; so that going into the next budget cycle, the Governor would have an idea about -- somebody has really looked at whatever program it is, over a three or four month period, and really examined whether or not we're doing everything adequately in that department.

The next chart really just shows you historically what we've -- how the last-- And the only reason we have only through '03 is that there were nonrecurring revenues before then in all budgets, but this is really where we had the data. And what it really shows you is that over the last five years -- six years our average budget -- almost 8 or 9 percent of our average budget has been supported by nonrecurring revenues. We've scaled it down in the last couple of years. As you can see, the last -- in '07 and '08, it went down significantly. And most of what we were doing in '07 and '08 was basically due to the -- wasn't the traditional gimmicks of the past years, but was excess surplus. And, of course, part of the '08 number was a known number that we knew. We knew going into '08 we were going to have an extra half-a-penny from the sales tax that was going to be a one-time revenue, and that was recognized from the beginning.

And now I think it's back to Brad.

CHIEF OF STAFF ABELOW: Thank you, Dave.

The next page is really about voter approval for debt. And, again, as I said before, I think in some ways this is the most straightforward and easiest to understand of the proposals imbedded in the financial restructuring plan. And it is quite simple: to put the public back in charge of State borrowing. The Governor believes that this is consistent with what was the intent of the Constitution, a practice from which we've strayed in a variety of ways over time. And so the Governor is seeking a constitutional amendment requiring voter approval of debt -- all debt, unless it is accompanied by a dedicated revenue source.

And, again, I think it's pretty straightforward. The history is that this is a -- the way the Constitution works, quite clearly today, for general obligation bonds. And so over time, the practice that has developed is, rather than issue general obligation bonds, we issue so-called *State appropriation bonds* or other bonds that are backed by the State that aren't general obligation debt, and thus avoid the requirement for that debt to go in front of the voters.

And, again, this would be an amendment aimed at that type of borrowing, to subject it to the same requirements that general obligation borrowing is subjected to today. It would have the benefit not only of increasing public control over debt issuance in the future but, at least on some basis, reducing our overall borrowing costs. Because general obligation bonds generally are our cheapest form of financing. So if we have to go to the voters anyway for approval, we can avoid the structures that have been used over time to avoid that, and lower our borrowing costs.

And I will avoid the colorful language that the Governor has used about the importance of voter approval for debt. But let me leave that by saying that he believes firmly that it's inappropriate for us to take the drastic steps we're suggesting to pay down half of our debt, only to allow ourselves to wind up in the same situation again. And so voter approval is a mechanism that I think we all recognize can help govern -- help us govern ourselves so that we don't find ourselves back in the same position again.

All of that said, we still face serious capital investment challenges. And despite the fact that we are deeply troubled by the level of indebtedness that the State has today, the Governor is -- fully recognizes the importance, and value, and appropriateness of using debt for what we believe is the intended purpose: that is, to finance long-term capital needs.

And we rely on the Transportation Trust Fund to fund investment in local roads and State roads. The current expenditure level of $1.6 billion a year -- that's matched by Federal funding of about the same amount.

COMMISSIONER KRIS KOLLURI: One point seven.

CHIEF OF STAFF ABELOW: One point seven billion, Kris whispers to me.

And, again, that Transportation Trust Fund is supported -- the borrowings there are supported by the dedication of gas tax revenues. It's now about $895 million a year. That program is in place through 2011. By 2011, all of those revenues -- all the anticipated revenues will be used to service the debt of the Transportation Trust Fund. So post that time, we will have no funding available for investment in State roads and local roads. That is bridge repair, that is, as I say, capital investment.

The Transportation Trust Fund, I believe in its initial design and intent, was structured to provide a long-term, stable source of funding over time. It's been transformed into, as I say -- into a program where we rely almost solely on debt financing, and where the servicing of that debt is now eating up most of our revenues.

In addition to not having the money to invest, losing the Federal match, we face short-term challenges in transportation investment, particularly related to the ARC tunnel project. That is the proposal to build a new tunnel under the Hudson River. That is a critical project for freeing up additional capacity for mass transit and addressing congestion on our roads. In doing that, we need to make a commitment -- demonstrate a commitment, to the Federal government, of funding in place -- a funding source for $3 billion of State funds by I believe it's the end of this Summer or early in the Fall. At that point, if we are not able to do that -- to make that commitment -- then the matching Federal money--

Again, that is how much?

COMMISSIONER KOLLURI: Three billion.

CHIEF OF STAFF ABELOW: Three billion dollars of Federal matching money is at risk if we are not able to make that commitment by the end of this Summer.

All of these numbers are big numbers. Dave alluded to something earlier, which certainly we focus on. I did when I was in Treasury, and I know Dave is focused on it. Of our capital spending in the budget -- in the Fiscal Year '08 budget of $33.5 billion, $1.1 billion is associated with capital. Ninety-eight percent of that $1.1 billion is dedicated to transportation, Open Space preservation, and other environmental requirements. The amount of capital that we can identify in the current year's budget that is going to meet the State's needs is $22 million. Now, given the State's installed base of buildings, prisons, institutions, residential institutions, etc., that is a pittance -- a woefully inadequate amount of capital funding. The consequence of that is a continued deterioration in State facilities, increased maintenance costs as a result, etc.

The next page -- and I'm going to begin this, and then I'm going to let Nancy carry us through some of the rest of it -- is, we'd like to describe for you the core of the proposal to unlock value in our existing toll roads and allow the State to reduce its debt in half and fund transportation for 75 years.

And how would we do that? We would realize the value in the New Jersey Turnpike, Garden State Parkway, Atlantic City Expressway, and Route 440 by changing the business model; transfer the right to operate, maintain, expand the roads and collect tolls subject to a concession agreement with the newly created, not-for-profit, public benefit corporation. The State would retain ownership of the roads. I can't tell you how many times I've said that over the last three weeks. And it seems like that one has been hard to convey for some reason. But let me say it again, the State will retain ownership of the roads. We would control core issues, such as safety, maintenance, and operating standards, reinvestment in the toll roads, and, within limits, the toll rates themselves, through the concession agreement. Strict financial penalties will be imposed on the public benefit company for noncompliance with these standards. And I will talk more about that in a moment.

Benefits from the concession agreement for the State will be an optimization of the total value in the toll roads, the ability to fund capital investments and to achieve private-sector efficiencies over time. Funds received from the public benefit corporation will be used for two, and only two, purposes. One is to meet the challenge of debt reduction, to try and reduce some of that pile of debt that we spoke about earlier; and to invest in transportation, both our road network and mass transit.

The next page that you see is a restatement of a set of principles that the Governor laid out. I really think of these, from our perspective, as being a charge -- criteria that we had to satisfy in developing this plan. So, again, the roads will not be sold and not be leased to a for-profit or foreign operator. Allowable use of proceeds -- reducing State debt, and capital investments -- will be identified upfront and subject to public and/or legislative approval, with safeguards against diversions for other uses. New Jersey citizens will retain ownership and the benefits from initial proceeds and ongoing operations. Safety, maintenance, and operating standards will be provided at current or improved levels. Sufficient funding to meet the long-term capital needs required to improve our roadways and reduce congestion will be provided. Terms and conditions of employment for current employees and contractors will remain unchanged, with prevailing wage and competitive contracting procedures retained. Toll schedules will be open, predictable, and available to the public. There will be a substantial, open, and public discussion in advance of any transaction. The Governor is committed to holding 21 town hall meetings in 21 counties. I've been to two. I think he's done four. So that's underway. The State's bonded debt will be reduced by at least 50 percent. Permanent funding will be provided for the State's Transportation Trust Fund. And there will be new limits established on State borrowing.

So what is the public benefit corporation? A New Jersey nonprofit, public benefit corporation will be formed to manage, not own, the day-to-day operations of the roadways. It will manage the roads that we described before. The public will continue to own and benefit from the roads' operating and economic value, just as we do today. The public benefit company will have an independent board of directors. The State and the public benefit company will execute a concession agreement -- it's a legal contract -- that details all conditions of the operations, safety, maintenance, and capital investments. Safety, maintenance, and operating standards will be monitored by the State and provided at current or improved levels. So what are we talking about? Things like snow removal, emergency assistance, roadside clean up remain the same; the State Police will continue to patrol the roads; current environmental rules and regulations will apply; terms and conditions for current employees and contractors will remain the same; and capital improvements, including the important widening of both the Turnpike and the Parkway, will be required and funded under this plan. Significant financial penalties will be imposed on any unmet contract standards.

Next, we have a graphic depiction of the entity structure. And we've tried to simplify this as much as we can. And you see--

SENATOR BUONO: Excuse me, Mr. Abelow.

Can everybody make sure, including the members of the Committee, that they silence their phones? It's distracting.

Thank you.

CHIEF OF STAFF ABELOW: Thank you.

What you see from the -- if we start at the bottom left of the page -- is the State agency, as we do today, will continue to own the toll roads. That State agency will enter into a concession agreement with the public benefit company. In return for that, the public benefit company will convey, to that State agency, an initial payment -- and I will show you in a moment what that payment would consist of and how that would work -- and future period payments. Think of them as annual payments.

The public benefit company will be governed. It will have a management team -- professional management -- that will report to a board of directors. That board of directors, in turn, will receive oversight from what's called here the *citizens oversight board*. That citizens oversight board will vote on the public benefit company directors -- approve their election. And I'll talk in more detail about that in a minute. I'm sure you all will have questions about this as we get to questions.

So if you turn the page -- and I apologize for how much print is on it. The public benefit company, we've said before, is an independent, not-for-profit company. Today, public control of State authorities is exercised through board appointments and the gubernatorial veto of minutes. The public benefit company will not be influenced in those same ways, but rather through other contractual levers. So one of the things that I read or hear said is that there will be no public oversight of this public benefit company. That is untrue. And so the rest of this page is description of what are some of the tools -- and I've used the word here *levers* -- that will exist to ensure that there is public influence over the public benefit company. So some of the checks and balances which will be incorporated in the concession agreement and corporation governance documents are listed here.

First, let's talk about the concession agreement. The public benefit company cannot change its form or organization without State authority approval. The public benefit company cannot engage in any other business without State authority approval. The public benefit company cannot transfer the concession agreement without State authority approval. Concession agreement will specify maintenance, operating, and capital investment standards. The concession agreement will specify financial penalties for the public benefit company if it's not compliant with those standards. And measurement of compliance will be done by the Department of Transportation. Extensive reporting requirements will be required of the public benefit company, spelled out in the concession agreement. And all of those reports will, of course, be subject to OPRA, as they're received by the State authority.

The corporation organization documents and bylaws will also call for certain things that serve as forms of control. So, first of all, there will be staggered terms for the public benefit company board of directors. So what does that mean? Maybe they'll be staggered so that one-third of the directors have to be elected every year. And, again, that election will occur -- their approval will come from the citizens oversight board. The initial board of the public benefit company will be recommended by the State. Subsequent board member nominations will come from the PBC, from its own nominating committee and, again, subject then to approval of the citizens oversight board. The public benefit company cannot be dissolved or file for bankruptcy without approval of the citizens oversight board. The public benefit company cannot undertake business activity unrelated to the public benefit company concession agreement without approval of the citizens oversight board. The citizens oversight board -- I don't think I have it anywhere else, so I'll just say it here -- will be a group of people-- And we're not -- I don't know what we've put in the proposals. In the documents we've turned over to OLS, as they prepare legislation, we've suggested 15 members.

Can you describe, Nancy, the constituents of that?

MS. FELDMAN: Sure.

The citizens oversight board is expected to be 15 members, the majority of which will represent stakeholder interest. So with 15 members, that would be -- eight would represent stakeholder interests, such as commuters, trucking, contracting, environmental, and other people and interests -- who have interest in the roads, and in transportation, and issues associated with the roads and transportation in New Jersey.

The other seven members would be ex-officio, from a number of different cabinet positions and appointed positions in the Executive Branch. So this group would have the voting rights that were described earlier with respect to voting yes or no; with respect to nominations on the public benefit company directors; and several other issues including, as was just mentioned, bankruptcy or dissolution.

CHIEF OF STAFF ABELOW: The next page describes some additional checks and balances which will be incorporated in the legal documents of the public benefit company. So the public benefit company, as I've said, is incorporated as a not-for-profit corporation, whose purpose is to lessen the burdens of government. Any failure to lessen the burdens of government, or any acts which are not consistent with that mission, will be -- will subject the public benefit company to legal enforcement, through the Attorney General's authority to enforce the New Jersey not-for-profit corporation law. The public benefit company will make pledges to its bondholders to meet its bond payment obligations. Failure to meet these obligations will subject the public benefit company to enforcement actions of its lenders. The public benefit company's initial payment will be made at the beginning of the concession term. It's the first act. That initial payment is a majority of the funds to be received by the State. It will be spent in accordance with the legislation's direction and cannot be subject to future interference. It's already spent. The public benefit company's management will be incentivized to meet all of its obligations under the concession agreement.

How is the public benefit company different from today's toll road authorities? Well, the public benefit company is a New Jersey not-for-profit corporation. Existing State authority -- let's think of it as the Turnpike Authority -- is, of course, a governmental instrumentality. The PBC has an independent board of directors with staggered terms, no elected or appointed officials, and no vendors. The Governor-- In the State authority, the Governor or the Legislature appoint the board of directors. The PBC will have professional, private-sector management, management incentives for efficient operations, capital investment in assets, and meeting all of the proscribed obligations and lessening of the burdens of government; contractually defined operating, safety, maintenance, and capital investment standards, again, with strict penalties for noncompliance; and State authority oversight, through detailed reporting and approval requirements for maintenance, operations, and capital investment procedures. So this is contrasted with the State authority, where there is a gubernatorial veto of minutes, professional government employees, no incentive compensation, and operation and maintenance standard levels are set to preserve safety. But capital investments and toll levels are subject to political consideration.

How will the State receive money, or what will happen with initial proceeds? We're going to talk in a moment -- actually, Commissioner Kolluri will talk about a proposed toll schedule. But a public benefit company, which is established with the ability to raise tolls up to the levels that Kris is going to describe, will be able to borrow money from banks and public lenders against those future revenues -- not State borrowing, but borrowing of the public benefit company. The public benefit company's initial proceeds, we believe, will be in the range of the numbers that you see here: $37.6 billion to $32.6 billion. Why is that a range? It's a range because we don't know what the exact interest rates will be on the day that we went to ask people to borrow $32 billion or $36 billion. We don't know today exactly what -- how the market would view -- those people who would lend money -- would view the revenue projections that we've made. There's a variety of factors that will come into play that will determine where we would fall in this range. But our financial advisors have said, based on the revenue projections that we've had prepared for us by professionals, based on what we know about the markets today-- They think that initial proceeds would be in this range.

If we work our way down a column -- let's pick Scenario 1. If we had $37.6 billion in initial proceeds, the first $8 billion would be used for reserves. Half of that, $4 billion, will be used to pay for capital projects that are already planned and ready to go, but Kris, today, doesn't have the money -- or the Turnpike Authority and the Parkway don't have the money to carry those projects out. They're projects on the toll roads themselves. And so without an infusion of capital, they can't do those. So that first $4 billion will be spent to finance those projects. The second $4 billion is a financing reserve: debt service reserve, capitalized interest, etc.

The next use of proceeds will be to defease the toll road authority's debt. And that's the first time we've used the word *defease*. In most cases, we can't just pay off the debt. So what we do is defease it. What does that mean? It means that we establish a trust account; buy securities, whose interest payments to us are equal to the payments of interest and principal required to finance the existing debt; and then the accountants will allow us -- they match, the accountants will allow us to take that debt off of our books, and the State's debt is reduced accordingly. So that would be the next step -- is elimination or defeasance of toll road authority debt.

The next block that you see is the extension of the Transportation Trust Fund Authority. And Kris is going to speak about this in greater detail -- exactly how this will work -- in a moment. But for these purposes, $10.65 billion will be used -- almost $10 billion -- $9.2 billion of which, to reduce existing debt of the Transportation Trust Fund. The $1.45 billion, again, will be used for capital projects.

The next step is the defeasance of debt of the Garden State Preservation Trust: $1.35 billion. That is particularly significant, because then, with an act of the Legislature to extend the existing dedication of tax revenues to the Garden State Preservation Trust-- And for those of you who are unfamiliar with it, GSPT is the vehicle for acquiring open space, the Open Space Preservation Program. So by renewing the dedication of existing revenues, we can have a 10-year Open Space Preservation Program where we would have access to $175 million per annum to spend on open space preservation.

And, finally, we would defease general fund supported debt: $11.9 billion in aversion. If you look at Scenario 2, if we have lesser initial proceeds, we would have less money -- because that's the last thing we do -- less money to reduce general fund supported debt. What does that do to our debt? That's in the next box below. So, $31.3 billion is the number we're using for debt outstanding today. In Scenario 1, we would reduce that, after engaging in this transaction, to $11.255 billion. So $20 billion of the State debt would have been paid off. In the other scenario, Scenario 2, where we have lesser proceeds, it would be about $16 billion of State debt that would be reduced. So we would reduce it from $31 billion down to $15.3 billion of debt.

What does that mean to the general fund, in terms of annual savings reduction in payments and interest in principal? Again, in Scenario 1 -- the maximum value scenario we're showing here -- it would be an annual savings of approximately $960 million in the first 10 years. In the first year -- if we were to start in the middle of the year it would be reduced accordingly. So it would depend on when this happened in the year what the benefit to the general fund would be in that first year -- maximum amount, $960 million.

The last thing that I would like to talk about -- we turn to Page 20. And, again, on those proceeds, the question of: What control is there over how the money is spent? The vast majority of proceeds are coming in on that day, and you're seeing how they would be spent. That is the way.

The next page is just, again, a graphic description of what happens over time. And we believe that, eventually, the public benefits company will have earnings in excess of its costs. So what will happen? Toll revenues, rest area concession fees, and other revenues will come into the public benefit company.

The first thing it will do is pay for its own operating and maintenance expense. The next thing it will do with those revenues is pay debt service on the public benefit company's bonds that have been issued. After servicing that debt, they will make capital investments in the toll roads themselves, pursuant to a schedule that's been created by the Commissioner and the Turnpike Authority staff. Finally, the public benefit company will make periodic payments to the State authority for the benefit of the Transportation Trust Fund. And therein lies the ability of us to recapitalize and extend the Transportation Trust Fund, to restore it to its original intent of long-term, stable financing for transportation investment.

So, Kris, I'd like to just ask you to talk about how that would work.

COMMISSIONER KOLLURI: Sure.

As it pertains to transportation, the Governor laid out three very specific goals. First was, he wanted to defease most of the debt associated with the transportation agencies, both TTF debt and the toll road debt. Second, he wanted to establish a robust pay-as-you-go program for any transportation investment that happens on the Transportation Trust Fund side. And the third, as Brad said in the very beginning, he wanted to have a long-sustained capital program -- in this case, almost up to 75 years.

The chart you see in front of you essentially says the following: When we defease most of the Transportation Trust Fund debt, the $895 million in constitutionally dedicated gas tax revenues will become available for new capital investments. The Governor has essentially said he wants to see a program of $1.6 billion plus CPI starting in 2012. In the first two years, you essentially see a full pay-as-you-go program, because we're going to use half of the -- all of the $895 million from the gas tax to pay for the program. And the remaining will essentially be from the initial public benefit corporation proceeds.

As you sort of follow those columns all the way up to 2022, you'll see, throughout the entire period of the TTF program, there's always a minimum of $800 million in pay-as-you-go component. Now, I remember a couple of years ago, Assemblyman O'Toole -- then Assemblyman O'Toole and I had a very interesting debate about how much pay-as-you-go exists in the current TTF program. Well, the Governor, essentially, has laid out a very important marker -- probably, arguably, for the first time in the history of the State -- that there's going to be an $800 million annual pay-as-you-go program minimum.

In 2022, when the public benefit corporation begins to throw excess revenues to the State, at that point the Transportation Trust Fund will essentially be 100 percent pay-go -- from 2022 to 2083. So in summation, this particular slide essentially demonstrates the three goals the Governor laid out, and how we've tried to keep them.

The next slide is perhaps the most talked about of the Governor's proposal. So with your indulgence, I'll spend a few minutes revisiting this subject again to make sure we're all on the same page.

First, the Governor essentially said there is going to be four toll increases -- real toll increase plus CPI. The first increase is going to be in 2010 -- and I want to emphasize the word *maximum* -- of a 50 percent plus inflation adjustment. Then there are going to be three other increases up to, again, a maximum of 50 percent plus inflation adjustment, which will come in 2014, 2018, and then 2022. After that period, there's only going to be inflationary adjustments for the rest of the concession agreement.

I think it's important to understand that less than 1 percent of the people who currently use the Turnpike go from Exit 1 all the way to the GW Bridge. The average driver on the Turnpike spends $1.20. In five years, that average trip on the Turnpike -- which is about three exits, or 22.6 miles -- will be $2.05. In 10 years, that exact same trip will be $5.85. And you'll see the other-- The Garden State Parkway, today -- the average trip is about 15 miles, I think. And they currently pay about $0.35. And in 2010 it will be $0.60, and in 2022 it will be $2.70. And the Atlantic City Expressway is a bit harder to calculate, because it doesn't have consistent tollways. There are a couple of barriers where it's $2.00 and $2.50, or somewhere along those lines. So we calculated the toll per barrier at $0.50. And you'll see, in 2010 that number is $0.85 for a driver, and in 2022 it will be $4.05.

The next slide is probably, for us in the transportation world, the single most important thing. Inflation affects almost every facet of our lives. And we have somehow convinced ourselves that it does not, or should not, affect transportation investments. So tolls certainly have not kept up with inflation on these three toll roads. The Turnpike has had only five toll increases in its 56-year history. The Parkway, which is currently 2.2 cents a mile -- and the lowest per-mile toll in the country -- has had one toll increase in 50 years. The last time the toll was increased, a gallon of gas was $1.13 and a movie ticket was $4.

The next slide essentially shows you how every other consumer grid has kept pace with inflation except for the tolls on these three toll roads. Again, at a time -- and I'm sure Senator Sweeney can appreciate this -- at a time when construction inflation is almost 8 or 9 percent, to not have even inflation adjustments during these enormous -- for almost 15, 20 years at a time on the Parkway, has had a tremendous negative affect on our ability to maintain these roads in a safe and efficient manner.

CHIEF OF STAFF ABELOW: To conclude, I'll reiterate something that I think the Governor has said, and most of you have heard. We are not happy to be sitting here talking about proposing toll increases like the ones that Kris was just describing. We are, however, proud to sit here and describe to you a plan -- a multifaceted plan that we believe can restore fiscal integrity to the State of New Jersey, integrity that we sorely need. As the Governor said in his State of the State address, it's pretty simple. The State is broke. It's time for us to address those issues. And that is why we have put forward a comprehensive plan that we believe can be the first step in addressing the issue of restoring, as I say, fiscal integrity.

What do we mean? We mean matching recurring revenues to recurring expenditures; preventing a return to overspending; paying down half of the State's debt; eliminating the structural budget deficit; funding transportation improvements for 75 years; and providing a foundation for economic development, job growth, and honest governance.

Thank you.

And we're happy to answer your questions, if you have any.

SENATOR BUONO: Oh, I'm sure we do.

Thank you.

I wanted to wait until we had a full complement of members on the Committee to introduce them. A lot of them are new, both to the Legislature and to the Committee. And then I will make a short opening statement, ask some questions, and I will turn it over to my counterpart on the Republican side of the aisle, the ranking Republican on the Committee, my good friend Leonard Lance.

I would like to begin by introducing someone we all know and love, Senator Steve Sweeney, who is also our Majority Leader; Senator Sandra Cunningham; Senator Dana Redd; Senator Teresa Ruiz -- I hope I said that right -- Senator Brian Stack; Senator Shirley Turner; and Senator Joseph Vitale. To my right, and to your left, we have the ranking Republican on the Committee, Senator Leonard Lance, who we are so fortunate to have on this Committee. Senator Lance, just so you know -- we go way back. We sat on the Assembly Committee, when he was in the majority and I was in the minority. And he always treated me very fairly and ran the Committee quite well. And I certainly hope I can live up to those standards. I'll certainly try. Also, Senator Tony Bucco, Senator

Kevin O'Toole, Senator Steven Oroho, and Senator Philip Haines. Welcome.

This proposal is, without a doubt -- at least in my opinion -- the most complicated initiative that the Legislature has ever had to deal with. And so part of the reason I wanted to have this Committee meeting today -- and Senate President Codey, Senate Majority Leader Sweeney had discussed -- is to -- well, partly to reassure the public that as their elected representatives, we are not going to simply relinquish our obligation to analyze, interpret, and give the amount of time that's necessary to determine whether or not this is a proposal that we should act on. I hope that when -- at the end of the day today, and after several other hearings -- when we eventually have a piece of legislation before us, that we can all say that we've had enough time, and information, and analysis, and input -- not just from yourselves, but from members of the public -- to make an informed opinion as to the soundness of the proposal. Because once we pass the legislation, and give this proposal our blessing, there is no turning back. So what we are doing today is of crucial importance.

While raising the tolls has-- I keep saying -- I want to say, the Treasurer. The Chief of Staff, Mr. Abelow, has already stated -- raising the tolls has really received the majority of the attention in the press and in all of the town meetings. What I would like to do, to continue the discussion for a little while, is to examine the three other elements of Governor Corzine's plan, which I consider to be really essential to putting an end to our past bad habits of fiscal irresponsibility.

First I'd like to talk about the issue of freezing spending. Now, when I talk to people, they tell me that freezing spending just isn't enough.

A flat budget is not far enough. They want to cut spending. Can you explain, in clear, understandable terms, to the public what it really means to have a flat budget and why? And I know you started to. But if you could give us some specific policy initiatives that would have to be cut, or that will grow regardless of what we do in Fiscal Year '09.

CHIEF OF STAFF ABELOW: I'm going to ask Dave to provide a more detailed response. But I think the most important and clearest observation I would make about this is that when we say freezing the budget, or a flat budget, that entails very deep cuts in what we're doing today. Dave started to talk about it earlier, and he'll talk about it more.

But we have increases that occur every year, just like everyone does in their own homes and just like we do in our businesses, if we're in business. The price of gas has gone up $0.75 or $0.80 a gallon at the pump. Well, all of our State Police cars cost more to run because of that. It costs more for us to heat our residential institutions for the developmentally disabled, because the price of fuel goes up. We have a whole host of costs -- and Dave can describe them in greater detail -- that are subject to the same generalized inflation that everyone else is.

Now, this year, we've also taken, collectively, the decision to increase funding to our schools. That's a very important measure. I think we all agree that it's critically important that we continue to fund our schools at appropriate levels. Well, to have a flat budget after increasing spending on school aid means that we have to reduce spending somewhere else by like amounts.

So, Dave, why don't you give a little bit more feel for what goes into those kind of built-in increases?

ACTING TREASURER ROUSSEAU: I actually asked Kate to put up Slide 5 again. And as Brad basically said--

If you look at that second column, the $33.5 billion number, that's where we're staying at. We're staying at that number. So when school aid goes up by $550 million, something that we're currently doing has to go down by $550 million. When our employee benefit costs, other than pensions, go up by about $200 million, that's our -- that's the health-care costs for current employees, that's the taxes for current employees, etc. -- something else is going to-- Something we're currently doing -- the $33.5 billion, whether it's-- Everything is on the table. I don't want to-- I'm just going to say things; there's other things I'm not. If I don't say anything, I'm not excluding it.

SENATOR BUONO: And after all, you are just the Acting Treasurer, so far. (laughter)

ACTING TREASURER ROUSSEAU: Thank you.

SENATOR BUONO: That was a joke, an attempt at levity at a very serious, serious subject.

ACTING TREASURER ROUSSEAU: There's still time for me to run and hide too.

SENATOR BUONO: That's all.

SENATOR LANCE: You have our support, David. (laughter)

ACTING TREASURER ROUSSEAU: It means that there is some other area that we're doing -- whether it's higher ed, whether it's Medicaid, whether it's -- any other number of things that are in the budget are going to have to go down. Whatever we decide to fund our pensions at-- We have a number that we've put into that $35.8 billion number that grows our (indiscernible) thing to pensions. Whatever we decide to put into pensions, something else is going to have to go down. Things like the Senior Freeze goes up. Now, that's a small number. It goes up by about $20 million. But something--

SENATOR BUONO: By an increase in applicants, correct?

ACTING TREASURER ROUSSEAU: Right, a $20 million increase in that. Something else in the budget is going to have to go down by $20 million to save that.

SENATOR BUONO: What about PAAD?

ACTING TREASURER ROUSSEAU: PAAD and Medicaid -- we're looking at about an $80 million increase in that. So something else-- Actually, we've gotten lucky on that one this year. It's not as high as it has been. But something else in the budget is going to have to go down by $81 million unless people want to go into the core of that program and make changes to that program.

We've built in-- You know, New Jersey TRANSIT had a fare increase, used some one-time revenues for their operating. They can't do a fare increase this year. They have inflationary costs just like we have -- even more so than we have, because they're more dependent on fuel, etc. They're going to have some level of inflationary increase that we're going to have to either build in -- because there definitely isn't the will to do -- they're not going to do another fare increase. It comes out of that $33.5 billion.

We have ongoing commitments for annualizing-- One of the things we did in last year's budget, and we were all proud of doing it -- we gave the community providers a -- I think it was a 3 percent COLA. But it was a 3 percent COLA effective January 1. So we only budgeted half the money this year. Now it's annualized. So we have another $40 million there that we have to go into. And that's not even addressing the fact of whether or not we can afford to give them another COLA for the next year.

So all of those things are cost drivers. Some of them-- We would use different levels of mandatory. Some of them are mandatory because we have contractual obligations, some of them are mandatory because we've made a commitment like school aid, some of them on levels of things that the statutes tell us we have to do and we would like to do. And it may end up that we don't do some of them.

SENATOR BUONO: For example?

ACTING TREASURER ROUSSEAU: For example, statutes say that we're supposed to increase municipal aid by inflation every year. That's in that $35.8 billion number. But if we choose to do that, something else in the budget is going to have to be -- something else in that $33.5 billion has to get cut.

SENATOR BUONO: But if you do that, that then, in turn, will increase property taxes.

ACTING TREASURER ROUSSEAU: Well, I'm not going to say that's a definite. It's unless local governments also do the same thing. It puts pressure on them to either cut spending or raise property taxes.

We have Federal requirements under the Olmstead Act in our mental health and our DDD facilities that could increase our costs by anywhere from $50 million to $100 million. And unless we can figure out a way to do that with existing resources, that all comes out of that $33.5

billion. And it also limits what portion of that $33.5 billion we can cut. I mean, that is the--

Maybe I should just run and hide now, and get out of here. But that's the only -- define that level of cuts.

CHIEF OF STAFF ABELOW: Just one other observation.

SENATOR BUONO: Yes.

CHIEF OF STAFF ABELOW: Another way to think about this is, roughly half of our spending is property tax relief, in one form or another, whether it's education aid, whether it's municipal aid, whether it's direct relief to property taxpayers. So if we cut that, or if you all take the decision to reduce that amount, it puts pressure directly back on property taxes.

If we then add, to that half, the budget-- If you say, "Well, wait a minute. We don't want to do that. We want to take pressure off of property taxes, not put more pressure on," all of a sudden we're looking at cutting $2.5 billion not from $33 billion, but from half of that -- $16 billion or $17 billion. Then, if we start to go to the areas that are mandated--

I think, Dave, you used the number that we're spending a billion dollars on, the -- what used to be called DYFS -- Children and Families. Well, we've made extraordinary progress in dealing with our court mandate. But we're pursuing a plan that -- we have agreed with the courts there. We don't have a lot of flexibility to cut that. And so as we continue to add, that's another billion that you add to the $16 billion or $16.5 billion. Continue to add in that fashion--

I think we would all take the view that we're going to keep our prisons operating. We don't really have a choice about that. And so pretty soon we're talking about what sounds like a simple prospect -- "Let's just freeze spending" -- is extraordinarily difficult. And I think we're feeling that now, as we look to preparing a budget to present to you all. And you will share in that when you see that budget, because there are -- it is not a simple or easy task.

SENATOR BUONO: Now, assuming--

Were you finished? (affirmative response)

Assuming that we reach that goal, which is a stretch-- Hopefully we do reach that goal. Assuming we have a flat budget, the second plank to the Governor's plan is to restrict future growth to recurring revenues.

Now, that's been said before. I know Senator Lance has said that, I've said that, a lot of us have said it. But how do we enforce that? How do we establish credibility? We have to have some way of maybe validating it with oversight by -- I hesitate to say a State comptroller, because I was critical of the one that we have in effect. But prove me wrong. We need a way to validate that. After this-- Let's assume Governor Corzine holds true to his word. But what about the next governor? How do we ensure that we will continue to restrict growth so that we won't return to our old habits of spending beyond our recurring revenues?

I mean, it's a policy question. I'm just asking if you have any thoughts.

ACTING TREASURER ROUSSEAU: I mean, clearly, we will do something of a statutory change that basically says that within the budget laws-- It says right now we have a cap on our operating budget. Now we will have a cap on what our overall budget can increase by. We will-- The Governor, as part of his certification of revenues, I assume, will now also have to certify what the recurring revenues are versus what the recurring expenses are. There will be some type of certification.

We haven't thought about all the mechanisms. I'm sure we could bring some certification, maybe by the LBFO, into this process. And actually, what you just thought about the comptroller is something we might have to bring in, as well.

CHIEF OF STAFF ABELOW: I mean, I think we have looked at -- I know this -- and thought about constitutional provisions that have been introduced in other states to cap spending. And our assessment of those -- and I think it's widely shared -- is that they have not worked well at all and, in fact, have-- Eventually most of them have been repealed because of the deleterious effect they've had on the public. And our view has been that it is in the Constitution, the province of the elected Legislature, to pass an appropriations act. And so what we have suggested is putting in statute a set of principles that will guide that and how we approach spending, but not to take that power away from the Legislature that's elected to carry that out.

SENATOR BUONO: And then I have to ask you a question about voter approval of authority debt unsupported by a distinct revenue source. Given the motion that the State appeared on in New Jersey Supreme Court today-- I certainly wasn't part of that -- the decision to dedicate existing revenues to pay off what the Governor's proposing as new debt. Can you explain how that coincides, or how that is consistent with what you're proposing?

CHIEF OF STAFF ABELOW: Yes, ma'am.

First of all, what the Governor has said to the court -- or the Attorney General has said on behalf of the administration -- is that we will seek legislation to do that. So you will collectively have the opportunity to confront this question. This is an unusual situation. It is a situation where we are responding to a court mandate, to a decision that has been reached by the court, that the State must provide funding to sufficient -- to construct facilities in a certain number of school districts. And that funding has run out. And the court has asked us over the last year, repeatedly, how we intend to fulfill that mandate. And we were making oral arguments in response to that, I believe, today. And so a letter was sent to the court outlining what that argument would be. And the response from the administration will be that we will seek legislation -- legislative authority to increase the authorization to issue debt to support schools construction in the so-called Abbott districts in the amount of $2.5 billion.

The Governor has suggested, consistent with the principles outlined here, that that should only be done with the dedication of revenues to support that new debt. And he has proposed that those revenues come from the income tax, which is already dedicated in the Constitution in support of property tax relief.

SENATOR BUONO: Go ahead, I'm sorry.

CHIEF OF STAFF ABELOW: It is my understanding -- and I am going to now stray further than I probably should, not being a lawyer -- that the court recognized the unusual nature of this decision in its original -- of this situation in its original decision, and stated in its original decision that debt issued for this purpose would be exempt from voter approval.

SENATOR BUONO: So just to make sure I understand why we are at the point we are now, it was the response-- We were in court today responding to a motion that was filed compelling the State to address its obligation that the court adjudicated prior to today, correct?

CHIEF OF STAFF ABELOW: Yes, and we had already sought an extension, which we had received -- and said to the court, in our last filing, that we were preparing a proposal for financial restructuring and asked to be able to wait until we had completed that to appear before the court. The court granted us that, but decided that today was long enough to wait for a response.

SENATOR BUONO: And so the court hasn't rendered a decision as of yet? Have they reserved, do you know?

CHIEF OF STAFF ABELOW: I don't believe that they've reached a decision on our proposal.

SENATOR BUONO: You know, my only concern-- I certainly can appreciate where we are and why. But after I read the letter from the Assistant Attorney General, it just--

I don't know. I'm an attorney, but I haven't practiced in a while. But from my recollection, it just doesn't seem to make sense to impose a deadline on ourselves when we're going to court. Wouldn't it have made more sense to allow the court to have that discretion, to establish when they felt that we had to meet that obligation? It says next month in the letter that I have here.

CHIEF OF STAFF ABELOW: Again, that's to propose legislation -- to seek to have legislation introduced was my understanding.

Again, I think the fundamental issue here is, the court has already decided that the State needs to spend this money. The question -- the only question that the court is asking us -- at least in my understanding -- is how we intend to fund this mandate.

SENATOR BUONO: I'd like to turn to the tolls, and specifically to the public benefit corporation. I'd like to start by-- I'm not really sure I understand the start-up situation. My understanding is that there is a small start-up board, which would be temporary, comprised of a number of people selected by the Governor. Perhaps Ms. Feldman can address that.

MS. FELDMAN: Sure, I can address that.

I think it is-- It should be, hopefully, clear that somebody has to start. It has to-- The public benefit corporation cannot be just created out of thin air.

SENATOR BUONO: Well, I thought we were going to have a search committee, correct?

MS. FELDMAN: No, let me go forward.

SENATOR BUONO: Okay.

MS. FELDMAN: So in order to create the corporation, it has to be created with a board named. That is a requirement for the organizational documents that must-- So in order to say this is a corporation, "Here are three members who are the start-up board," if you will, "of that corporation." That initial board is intended to be-- Those three start-up members are intended to be selected by the Governor.

The purpose of the start-up board -- which is long before there is any issuance of debt, or bond ratings, etc.-- Its primary and initial purpose is to request an IRS ruling; and to start the process of going through, and selecting, and requesting review of potential board members for the corporation in its acting form, as well as a management team. So what will be done is, a request for proposals will be sent out for an executive search firm to help start the research process and the development of a list of potential board members and management, so that a group or a committee could then make that recommendation as to who those people would be.

That initial-- The start-up board will be three people. The acting board can be 10 to 15 people, as it is planned for today. That board would be appointed -- and only that board -- would be appointed by the Governor, based on the recommendations of this advisory search committee.

SENATOR BUONO: Okay. And I'm not an expert in this field, so bear with me.

MS. FELDMAN: It's fine.

SENATOR BUONO: There will be a three-member start-up board consisting of three members selected by the Governor. One of their functions would be to approach the IRS.

MS. FELDMAN: And request a tax ruling.

SENATOR BUONO: Tax rulings on whether the tax exempt issue -- as to whether-- Is that the issue?

MS. FELDMAN: The questions are: Is the organization itself tax exempt, and are their bonds potentially tax exempt?

SENATOR BUONO: But the only way you know this is after there is a concession agreement.

MS. FELDMAN: Correct.

SENATOR BUONO: So give me the time frame. How about a timeline? What happens after the three-member board is created? Then what, in terms of the concession agreement, the IRS?

MS. FELDMAN: Sure.

It is possible that the IRS would require a signed concession agreement, which does not necessarily mean an effective in-force concession agreement. Because conditions in the concession agreement would need to be satisfied before it became an effective concession for the purpose of entering into a contractual arrangement between--

SENATOR BUONO: Could some of the conditions in the concession agreement that made its effectiveness contingent-- Could some of those be Legislature review of the concession agreement, or would that not be permissible?

MS. FELDMAN: Well, I think that particular way you phrased it would be difficult. However-- And the reason that would be difficult is, there are many lenders, bond insurers, rating agencies, and others who will not have an opportunity to have any view of this until it's closer to the -- what I would call the *finish line*, long after legislation is in place. And so I would suggest that the Legislature can dictate in the legislation certain terms that must be in the concession agreement, rather than the words in the concession agreement itself.

SENATOR BUONO: But will the Legislature have the right to review the concession agreement?

MS. FELDMAN: I don't see any reason why the Legislature cannot review the concession agreement, as opposed to vote on the concession agreement.

SENATOR BUONO: Say that again. As opposed to voting on it?

MS. FELDMAN: To vote on it specifically. And the question will be: If there were to be a vote on it, in conjunction with the legislation, that would precede -- by what is potentially many, many months -- the circumstance under which the management team and the board for the operating company has been recommended and appointed; as well as, the third-party lenders have an opportunity to set the terms and conditions under which they would lend money.

SENATOR BUONO: Right.

So if I understand you correctly, while the Legislature can draft a -- and what we -- I think our intent is to draft a fairly comprehensive bill to ensure that the concession agreement will include specifics that accomplish the objectives. By necessity, there are uncertainties built into the concept by the very nature of the bond market, for example. How do we know-- We know it will take about six months, if I'm not incorrect, or maybe more--

MS. FELDMAN: It could be, it could be longer.

SENATOR BUONO: --to get the corporation up and running. So by the time-- Let's say we go to the market in December. We really have no way of knowing what the bond market will be. So many things can factor in to affect the value of the bonds. What if the economy tanks, for example? Just give me, if you could-- And let's look at this like a tutorial.

What are some uncertainties that could and, in your opinion, are likely or unlikely to occur?

MS. FELDMAN: Sure.

I would suggest that legislation could absolutely, in this set of conditions -- a required use of proceeds in some range, or minimum amount of proceeds that must be used to accomplish the following purposes, such as those that the Governor has laid out. "You must spend this amount of money to reduce debt, or at least this amount of money to reduce debt, at least this amount of money to restructure the Transportation Trust Fund." If those things can't be met, then the concession agreement cannot become active, if you will, in the sense of becoming -- commencing. Because we haven't met -- the PBC has not met the conditions of the amount of payments and the sources of proceeds that are directed by the legislation.

That's a pretty significant example I would propose with respect to how much money.

SENATOR BUONO: Okay. It doesn't really answer the question, but maybe you can't, in terms of all the uncertainties.

But let's switch a little bit to the oversight issue. And I know that you had -- Mr. Abelow had talked about some assurances that this public corporation would have sufficient oversight to ensure that they will act in the public interest. In fact, my understanding is that they will be organized as a public, nonprofit entity, which has a mission and that mission has to be -- they have to be serving that mission or else there are penalties that will be included in the concession agreement, as well as oversight by the Attorney General -- could intercede, and then enforce those penalties, and perhaps-- I'm not sure what else.

MS. FELDMAN: Let me address the mention of the Attorney General. A not-for-profit corporation -- any not-for-profit corporation in New Jersey would be incorporated under the existing not-for-profit corporation act or law -- I'm not sure of the exact word there.

In this case, the mission of the corporation would be to lessen the burdens of government, which is its purpose, if you will. If they are not serving that purpose by lessening the burdens of government through (*a*) operating the toll roads; investing in the toll roads; providing the upfront initial payment for the purpose of both investing in transportation as well as reducing the general fund related debt; and, in the future, providing the periodic payments for the purpose of investing in transportation, then they would potentially not be meeting their mission. That would be an action that would be subject to enforcement.

SENATOR BUONO: Interesting. So what if they-- When you talk about the current statutes creating not-for-profits, it calls to mind Horizon, who has amassed enormous reserves, which I think are not in pursuit of the public interest that it's mandated under the law to pursue. Will there be any limits on the amount of reserves this nonprofit can accumulate before it pays it back to the State of New Jersey?

MS. FELDMAN: The expectation -- and I apologize, I'm not familiar with the statute with respect to how it applies to Horizon. I don't know if it's the same statute.

SENATOR BUONO: Well, actually, this would be different, because there is-- In fact, I have legislation that would establish an upper limit on how much of a reserve a nonprofit could accumulate. Right now, there is no upper limit; there's only a lower limit.

MS. FELDMAN: Okay. Well, with respect to this corporation, it's anticipated the concession agreement will set a formula that determines the periodic payment requirements. That formula could be a percentage of revenues or some other upfront plan such that it would generate the annual payments that Commissioner Kolluri pointed out in the bars on the Transportation Trust Fund Authority chart. But in terms--

SENATOR BUONO: However you explain it-- As long as the legislation establishes limits to the amount of cash this PBC can accumulate before they make payment back to the State of New Jersey-- That's what I consider to be vital to -- one of the vital components of the legislation. So hopefully that's included.

I also wanted to talk a little-- Since you raised the statute creating the nonprofits in New Jersey, in terms of how it applies to the citizens oversight board -- the citizens oversight board is not paid, correct?

MS. FELDMAN: Correct.

SENATOR BUONO: Now, are they seen more as -- are they comparable to shareholders in a corporation?

MS. FELDMAN: The citizens oversight board itself will be incorporated as a not-for-profit corporation. Unlike the public benefit corporation, it will not have a business. It's business will be to serve as the member. And in this case, your analogy is correct. The member, in this case the citizens oversight board, would be -- such as a shareholder.

SENATOR BUONO: Okay. And I think it was the Treasurer or the Chief of Staff who said that some of their responsibilities -- the citizens oversight board -- would be to, as far as the PBC is concerned -- is that it would approve--

Well, why don't you tell me what their responsibilities would be?

MS. FELDMAN: Yes, why don't I give you-- I mean, the first thing -- and the one that's in the charts with respect -- that are already -- Kate's way ahead of me, it's already up on the board -- is to approve the recommendation for directors of the public benefit corporation. So after the initial operating board -- the one that is recommended by the advisory committee and appointed by the Governor-- And that group will have staggered terms, as the Chief of Staff indicated. Any recommendation from the nominating committee of the public benefit corporation -- recommendation for a board member will be subject to a yea or nay vote of the citizens oversight board.

SENATOR BUONO: So they would have no say over the compensation of those folks on the PBC -- compensation, salary, bonuses, for example.

MS. FELDMAN: No, it's not intended that they would have a vote; similar to the way, today, a shareholder does not have a vote on the compensation of a publicly held corporation.

SENATOR BUONO: Because I'm looking at Page 16 of your handout, and it states, in the concession agreement, that the PBC -- oh, maybe that's not the right one. There's one-- Is that the one that--

MS. FELDMAN: No, you're talking about the management incentive on Page 17.

SENATOR BUONO: Correct. Thank you.

MS. FELDMAN: Right. That is not subject to a citizens oversight board vote but can be controlled through the concession arrangement (*sic*).

SENATOR BUONO: Which can be crafted in the legislation.

MS. FELDMAN: Sure.

SENATOR BUONO: Just one or two more questions on that, and then I'm going to turn over the questioning to Senator Lance.

Again, on the PBC, you stated that in 2022, the concession fee payments are projected to support the entire cost of financing the Transportation Trust Fund after 2022.

MS. FELDMAN: That's correct.

SENATOR BUONO: What assurances do we have that the cost of operating the PBC will not erode that over time so that we don't have sufficient funds to continue to sustain the Transportation Trust Fund?

MS. FELDMAN: Well, it is anticipated, as indicated in the discussion of what would be in the concession agreement -- approval and requirements for annual maintenance plans, investment plans, and capital plans. And so through the management and approval process of the annual business, it would manage the costs associated with those businesses, because those proposals-- The public benefit corporation will propose a capital plan, and the State authority would have to accept that plan. If they can't accept it, they'll negotiate it to find the right balance of (*a*) meeting the requirements of investment, at the same time understanding the costs. So there's an alignment of incentives for the State authority to make sure that all the capital improvements done, as this example here -- all the capital improvements are done, as well as the appropriate funds are available for the public benefit corporation to make its periodic payments.

SENATOR BUONO: One last question related to that, and that is the Steer Davies report of price elasticity, in terms of affecting demand. The diversion of traffic that is projected is considerable. And the past increases of our tolls were never close to what's being proposed in this particular proposal. Have you factored that into your projections for the PBC?

MS. FELDMAN: Well, let me answer the question about-- The projections for the PBC were very much based upon the data that has been provided by Steer Davies.

I'll let Commissioner Kolluri address the question with respect to the elasticity.

COMMISSIONER KOLLURI: Senator -- Madam Chair, sorry -- the one thing I want to sort of cite as a point of discussion here is what happened on the Turnpike in 1991. The toll then was a substantial increase. It was a 100 percent increase in tolls, and the net diversion that occurred from it was about 10 percent for trucks and about 5 percent for cars.

What is equally important is, back then, the State did not have in place a truck rule that we put in place yesterday. And I'm happy to go into that a bit later on.

SENATOR BUONO: That's okay. We know about it.

COMMISSIONER KOLLURI: The other thing I do want to say is, projections are not factual evidence of what actually happened. And if I could just cite one example. In 2006, Wilbur Smith -- who is our current revenue and traffic projector agency that works for the Turnpike Authority -- projected that the transactions on the Turnpike would be 10.7 percent. The actual number was close to 2 percent. So my only word of caution, if you will, on these projections are, they're just that. And it is important to sort of look at the operations of the roadway itself and see how they have performed in the past when there have been real and significant toll increases. And I think we made these memos available to you that sort of lay out what happened when there was significant diversion -- toll increases on the Turnpike.

SENATOR BUONO: Thank you very much.

And I will turn the questioning over to the ranking Republican on the Committee, Senator Lance, and then the Majority Leader, Senator Sweeney.

SENATOR LANCE: Thank you, Madam Chairwoman.

Before we begin, I note that this is the opening session of the newly constitute Budget Committee. And on our side of the aisle, we welcome the new members to the Committee: Senator Cunningham, Senator Redd, Senator Ruiz, Senator Stack, as well as new members on our side, Senator Haines, Senator Oroho, Senator O'Toole.

I also take this opportunity to congratulate my close friend and colleague, Senator Barbara Buono, who is the first woman in the history of New Jersey to serve as the Chair of this, the most important Committee in the State Legislature, the Senate Budget and Appropriations Committee. And on this, the opening day of our new session -- particularly regarding issues of such great importance -- I believe we all should congratulate

Senator Buono on the magnificent achievement of having become Chair of this Committee.

Senator Buono. (applause)

This begins the process that will deeply affect the 9 million people of this state. And the Governor's proposal is far-reaching, in many ways. As to the first three components of the proposal -- and I will go through them briefly, and I will then discuss the monetization issue.

We believe, on our side of the aisle, that the freeze in spending probably doesn't go far enough and that we would look to further budget cuts. And this will be part of our budget discussion this Spring, once the budget document has been delivered to the Legislature by the Governor. And I do not believe today is the day when we should be concentrating on that. But our side of the aisle agrees with the tenor of the Chair's remarks, that perhaps we should look for spending cuts, recognizing that that will be very difficult. And we certainly take to heart what the Treasurer-designate has said -- that this will be difficult to achieve.

Regarding the second part of the proposal, limiting future spending to recurring revenue: It is my own view that that should be a constitutional dimension and not purely statutory. And I believe we can craft a constitutional amendment in that regard that takes into account the wisdom derived from other states, particularly, for example, the TABOR Law in Colorado. And we should look to where there has been success in other states and where other states have fallen short. And indeed, there are colleagues who are involved in that on this side of the aisle -- Senator Oroho, for example: a new member of the Legislature, a new member of the Senate, and a new member of this Committee.

Regarding voter approval for State debt, I will be asking questions about that. That is the area that obviously interests me the most. And I believe I am the one person in the Legislature over the last decade who has spent more time than any other on this issue.

And then the monetization proposal, number four: First of all, procedurally, I believe it is the opinion of our side of the aisle that this will be very difficult to achieve by the date set by the Governor's Office of March. We do not have a bill yet. And I think this is inextricably related to the budget document itself. And we want to vet this as thoroughly as possible. That's procedure.

Now, as to substance: The Chair spoke of the elasticity of demand, the extent of the toll increases. We believe the externalities will be dramatic, that a significant diversion of traffic to untolled roads will occur, particularly truck traffic to places like Route 295, Route 1, Route 31, Route 206, Route 202. So we have lots of questions regarding the elasticity of demand, and colleagues will address that.

Second, cross-subsidization: Should toll road users so heavily subsidize debt they did not create and subsidize debt that is unrelated to transportation matters? The dramatic toll increases will clearly mean there will be cross-subsidies. And this is a fundamental question of public policy that should be examined by this Committee.

Number three: The various entities that will be created -- first, a three-person board, then the public benefit corporation, and the citizens oversight board. Through the Chair, to Ms. Feldman, will the three-person board include the advice and consent of the Senate of this State?

MS. FELDMAN: There's no restriction as to whether it will or will not. And so therefore I would say it may, if that is the choice. I know that's not-- I guess the answer is yes.

SENATOR LANCE: We look forward to the legislation to be introduced to determine whether the Senate of this State will have the advice and consent over the three-person initial board.

Through the Chair again, to Ms. Feldman, will the PBC include advice and consent from the Senate of this State?

MS. FELDMAN: The advisory committee will include members of the Legislature, and that will be the source of the recommendations for the appointment to the PBC. So that's not exactly advice and consent, but that is participation.

SENATOR LANCE: Yes, I would imagine every member of this Committee would agree that that is not advice and consent. And undoubtedly, that will be an issue that the members of the Senate will wish to discuss with the administration. It is the view of the Republican members of this Committee that advice and consent of the Senate should be involved in these matters. That is an institutional matter between the two elected branches of government. I can assure you that the 17 Republican State Senators will favor advice and consent. And I look forward to working with Senator Buono on that issue.

And then, most important of all to me, the constitutional issues involved in this, relating back to number three of the four aspects of the proposal: voter approval for debt.

I agree with the Chair that yesterday's letter to the Supreme Court by the Attorney General's Office raises significant questions. And I guess my remarks will be directed, through the Chair, to the Chief of Staff, although of course to whoever would like to respond.

The letter indicates that the Governor will ask the Legislature to authorize $2.5 billion in additional debt for schools construction. Will this $2.5 billion in debt then be calculated over and above the $32 billion in debt about which you spoke earlier? Will this add to our debt to the tune of $2.5 billion?

CHIEF OF STAFF ABELOW: Senator, upon its issuance, it would add to the indebtedness of the State, as will the additional indebtedness that's been authorized for the Transportation Trust Fund.

SENATOR LANCE: Yes, thank you. The answer to that question is undoubtedly yes.

Now, the letter goes on to state, "Consistent with the Governor's financial restructuring proposal, the legislation that the Governor will seek will also dedicate a portion of existing State taxes to fund the debt service on that additional borrowing." Will that dedication be statutory, or will it be through asking the people to dedicate existing State taxes for this purpose?

CHIEF OF STAFF ABELOW: Senator, I apologize. And I think I can speak for my colleagues in this. We didn't come prepared today to address this issue. We spent a fair amount of time working on other things.

SENATOR LANCE: Yes, that is fair enough. And undoubtedly we will be asking the Attorney General about this. This is my view of public policy, and I believe I speak for the 17 Republican State Senators. I certainly speak for myself.

We are in the trouble we are in now in New Jersey because we have borrowed, and borrowed, and borrowed without asking the people themselves for approval to borrow. (applause) Almost 90 percent of our debt is based upon this type of borrowing, through legislative approval. And this is the type of approval that occurred for the pension bond issue in 1997, for the schools construction bond issue in 2000, for the McGreevey borrowing for general operating purposes, and on, and on, and on. And to your credit, this administration has not done that -- Chief of Staff, to your credit. But almost all of our borrowing in New Jersey -- 90 percent or so -- is based upon this type of procedure: merely legislative approval. That is what occurred in the pension bond issue in 1997, that is what occurred in the schools construction bond issue in 2000.

Now, in litigation on this, the Supreme Court permitted the schools construction borrowing, but it by no means said that we had to do it that way. And anybody who reads the decision otherwise is not reading it accurately. We could ask the people themselves whether they would approve $2.5 billion in additional borrowing for schools construction. And that is my considered judgement, because this will add to our already overburdened indebtedness in this state. I'm very disappointed to see this. And certainly we, as a Committee, will be asking the Attorney General about it.

Regarding the $30 billion to $40 billion of new debt that will be issued for the monetization proposal, is there any thought, Chief of Staff, of putting that borrowing on the ballot for the approval of the people of New Jersey?

CHIEF OF STAFF ABELOW: Senator, members of the Committee, that borrowing will not be done by the State of New Jersey. And as such, we have not considered submitting it to the voters for approval, just as no private company would.

SENATOR LANCE: Thank you.

I was of the belief that that is the direction in which the administration is going. I am fundamentally of the belief that this borrowing should be on the ballot as well. I recognize that there are various entities that are going to be created to separate this proposal from the State Treasury and from general obligation borrowing. But too often in the past, we have separated borrowing from GO bonds. And I view this in that tenor.

I would also point out that the courts have said that we can borrow without voter approval if there is a revenue stream attached to it, for example tolls, for borrowing for the Turnpike or the Parkway, for improvements to the Turnpike or the Parkway. And that has been the settled law of this State for at least half a century. However, as I indicated earlier, because of the cross-subsidies that will be involved, because the toll increases will be so great and not related to transportation matters, but rather related to paying down State debt, it seems to me that there is an open constitutional question as to whether this should go to the people for their approval. And it is my considered judgement that it should. And this is certainly an issue on which I will be concentrating over the course of the Spring.

Regarding the Governor's proposal to tighten the section in Article 8 dealing with voter approval for debt: Is what is going to occur regarding schools construction likely to continue in other areas? Does the administration mean only to have statutory authorization in the future for other debt? Because I think that would violate certainly the spirit of what I'm attempting to do in making Article 8 even more crystal clear than it already is. Is it the anticipation that there will be other times when the administration will merely come to the Legislature for its approval, statutorily, to borrow billions of dollars in new debt, other than the schools construction that was the subject of the Attorney General's letter yesterday?

CHIEF OF STAFF ABELOW: Senator, I am not as familiar as I should be with your legislation that is the basis for our proposal. You would know better than I how this would fare if that were enacted.

I would make the observation -- and I know you understand this well -- but I would also hope that we don't face situations where we're mandated by the courts to make payments in the amounts that are required here. Where, again, if we were not to issue debt, whether it was approved or disapproved by the voters or the Legislature -- if we were not to issue debt, we would be back before the Legislature, at the order of the court who, again-- I believe you are correct, Senator. They've never mandated to us that we borrow money to meet this obligation, only that we pay and seek this amount of funding from the general fund -- which, again, I suggest would be an extraordinarily difficult task for this body to face.

SENATOR LANCE: Thank you. That does answer the question. It is the intent of the Lance Constitutional Amendment that this could not occur, at least in areas other that schools construction. My real intent is that it couldn't even occur here. I recognize the subtlety of the point that we are under a court mandate.

Let me repeat, the Lonegan (phonetic spelling) decisions do not say that we are required to borrow, or borrow without voter approval. They merely permit it. And I would have preferred, beginning in 2000, a pay-as-you-go system of $500 million or $600 million a year for schools construction. There would have been much greater accountability. And in my judgement, we would have been more along the road that we all seek together -- to build new schools in New Jersey. Regardless of that, the Lance Constitutional Amendment would prohibit this in all areas, perhaps with the exception of schools construction, given what the court has said. But even there, I would prefer to see voter approval.

We, on our side, will be discussing, over the course of this, the fact that we believe -- regarding this $40 billion in borrowing -- that there should be an opportunity for the voters to participate, for reasons I have suggested -- particularly the fact that the cost subsidies go well beyond transportation-related purposes.

Thank you, Madam Chair.

SENATOR BUONO: Thank you, Senator Lance.

Senator Sweeney.

SENATOR SWEENEY: Thank you, Chairwoman.

To the Chief of Staff, and to the Governor, and the administration, I want to congratulate you, first off, for having the courage to put a plan together. It's no walk in the park, what you're trying to accomplish here. And you are going to get questions from both sides.

To the Republican Senators, I want to repeat what the Governor did say, "Offer something up." Criticism is easy. We need a plan, we need to fix this. Partisan politics is not going to create the solution. And it shouldn't be looked at as a partisan attack while we're trying to do this.

But I have some questions too, similar to Senator Lance. And, unfortunately, this $2.6 billion request coming now -- it sends a mixed message, I think, to the public. When we're going to the courts, it sends a mixed message. And since I am in construction, I know we need $26 billion for schools. What are we accomplishing with the $2.6 billion?

CHIEF OF STAFF ABELOW: Again, Senator, I am happy to take your question and respond to it through the Chair. But we didn't come prepared to discuss schools construction today.

SENATOR SWEENEY: I understand. But you can understand, as members of the Budget Committee, coming here today and seeing the letter saying-- It just sends the wrong message right now.

CHIEF OF STAFF ABELOW: We understand the frustration.

SENATOR SWEENEY: A couple questions, I think, that are very fair as we challenge our colleagues to offer options: When are we going to get the legislation? And is there a copy -- a draft of the concession agreement? Because we have to be working off of some model to figure out what we're doing.

CHIEF OF STAFF ABELOW: I received reasonably careful instructions on this, and so I'll see if I can follow them. As to the first part of your question about legislation, we have turned over a set of materials to OLS, and OLS is working through them. Those materials, which are reasonably voluminous, I believe, have, in turn, raised a series of questions which need to be answered before legislation can reach its final form. And we are working back and forth with OLS and will continue to do so to ensure that that happens as promptly as possible.

As to the concession agreement -- the form of concession agreement -- I'll let Nancy answer that.

MS. FELDMAN: The concession agreement has not been drafted. A set of terms is being worked on to address a number of the issues that have been raised with respect to control and contractual obligations. And as that develops into a document, it will certainly be shared.

SENATOR SWEENEY: Well, just from a personal standpoint, I think we have to have that concession agreement with the legislation, because we absolutely need to know what we're looking at as we're trying to advance legislation.

If OLS is here, is there a guess when this might be done? Is there a time frame possible? (negative response) Because we do have an aggressive schedule that the Governor asked us to meet. And I can tell you, if we're getting it March 8, we're going to have a problem meeting the schedule.

SENATOR BUONO: Do you think, if I may just intercede to maybe get a little certainty here-- Do you think we would have-- How about by the budget? I would assume we should shoot for that, otherwise-- That's the 26th of February.

CHIEF OF STAFF ABELOW: My instructions included specific instruction that I not mention a date, because I don't think any of us can, with confidence, give you a date. What I can assure you with certainty is that we're working as hard as we can to make this available as quickly as possible. And as I said, we turned over a voluminous set of materials to OLS last week. I'm not surprised that it has, in turn, raised as many questions as it has. We will respond as quickly as we have-- We know that you can't act without seeing the legislation. So we want to get this done and in front of you as quickly as possible.

We will work to address the Senator's concern about the concession agreement. Again, to comments that Nancy made earlier, it may, in fact, take the form of a form of concession agreement, with -- not in its final form, but something that you can work with and understand.

SENATOR SWEENEY: Well, I think it would be to the benefit of the administration. Because criticism is going to come very easily when you don't have anything to point to, and to deal with, and to try to debate. We can't criticize our colleagues and we can't debate this without some structure to look at. And a form of concession agreement won't cut it. We really need to see a draft -- at least a draft of what we are going to see. I mean, a structured agreement is one thing. We really need a lot more than that when we do this. At least I know I do.

The board -- the public benefit corporation -- can they change the bylaws once they're formed, since we have no say over them?

MS. FELDMAN: The only way the bylaws of the public benefit corporation can be changed is with the vote of the citizens oversight board. So both the corporation and its board have to approve any change to the bylaws.

With that being said, as indicated in the presentation, the concession agreement will also mandate a number of different things that require the State authority to approve, including entering into other businesses. An example that is often used is operating a road in another state. It could not do that.

SENATOR SWEENEY: And I know we can't, again-- I'm going to ask you an IRS question later. But since this corporation is going to be created and is going to have an asset for 75 years-- Pretty much, if these two boards decide to change what the intent of the Legislature -- at least what we thought we were voting on -- whether it's prevailing wage, whatever is in the agreement -- and they can change it with a vote -- they can't change what we set in terms and conditions?

CHIEF OF STAFF ABELOW: No, we need to distinguish the concession agreement from the bylaws. The concession agreement is a contract. So when you specify, which I think you would, through the concession agreement that you expect -- that you insist on prevailing wage, that cannot be changed, unilaterally, by either party. And that would be subject both to what I am told is an impairment clause -- which not being a lawyer -- that's in the Constitution of the United States and New Jersey -- and also protected by contract law. So it cannot be -- that kind of provision cannot be changed unilaterally by either party once the contract has been entered into.

SENATOR SWEENEY: A corporation like this -- and, again, I know we can't have any governmental ties to it -- but a change to the bylaws: Could that be given to the voters to approve?

MS. FELDMAN: Can I ask, with respect to bylaws-- The bylaws basically say what the company can do, what kind of committees it must have, such as an audit committee, or a nominating committee, etc. The bylaws can be changed with both a vote of the PBC, the public benefit corporation, and the citizens oversight board. To the extent that it is permissible -- and this is a question that would have to be posed to the attorneys, as to whether or not that can be additionally subject to concession agreement -- I don't know the answer to that.

SENATOR SWEENEY: Again, I'm repeating myself, but the concern is, this agency is going to be a very, very important agency-- I read an editorial today that said it's great that the Legislature can't talk to them. And that might be fine. But, again, when they're going to be governing, and operating, and making very important decisions, I'm concerned that they, as a small group -- the 15 people and the three people -- can make changes in the way they operate. It's just something I'm throwing out there.

CHIEF OF STAFF ABELOW: Senator, I think that your initial question is the right way to respond to this. We have to get in front of you as quickly as we can with the terms in the concession agreement. Because I think the things that you are driving at -- the operative control is going to come through that concession agreement. And, again, that can't be changed by either party.

SENATOR SWEENEY: The IRS -- which is another important-- This is the $64 million question -- or billion dollar question.

That was pretty good, wasn't it?

What is the likelihood of this passing? I mean, I'm sure we've had attorneys review this. I don't think we would be guessing and hoping by the time we pass legislation.

What's the likelihood of us getting an approval or an answer saying this is approved by the IRS?

MS. FELDMAN: Well, I think that the most important point that you just made is, we have had attorneys helping advise us through the process of developing the structure that is being shown to you, and will continue to be shown to you and discussed with you.

What this proposal is for the public benefit corporation is somewhat novel. I wouldn't say it's solely unique, but it's novel in the context in which we're talking about it. And therefore there is a requirement in order to have the IRS review it and provide their view, both on the tax status of the corporation and the tax status of the corporation's bonds.

The only entity that can ask the IRS for this ruling is the public benefit corporation, unfortunately. So once it is created, that request will be set forth by that board. I would suggest to you that we wouldn't be having this discussion if we didn't have a pretty high level of confidence.

SENATOR SWEENEY: That's what I thought.

Thank you.

The next one is for the Commissioner of Transportation. I heard about a tunnel in North Jersey. And I heard the Governor talk about PATCO high-speed line extension. How are the proceeds going to be distributed so the entire state is treated equally? And I understand a $7 billion project is a $7 billion project. It's not an equal share of funding. But how are we assured that projects throughout New Jersey are going to get funding, Democrat and Republican districts?

COMMISSIONER KOLLURI: Senator, the way--

SENATOR SWEENEY: Because I have a list, and I think everyone else does. (laughter)

COMMISSIONER KOLLURI: The way transportation funding is currently distributed is as it's required under Federal law. We go through a metropolitan planning organization process, which essentially allocates money based on lane miles in each county, and population.

You will see in the next week and a half or two as we present the document to you, in draft form, of the Governor's $40 billion capital program. Let me put that in perspective a little bit. In the last 10 years, from 1999 to 2008 fiscal year, the aggregate amount spent on transportation projects was $28 billion. In this capital program, we're going to spend $11 billion more.

Now, I will assure you of one thing, these are going to be fully reflective of the criteria that the Federal government requires us to follow. But I, as somebody who grew up in South Jersey, am acutely aware of the challenges that are faced there and statewide. And you will see that it will strike the balance that you have fought for, for several years.

SENATOR SWEENEY: Thank you, Commissioner. Because that is a concern that-- Again, there's-- I'm sure there are projects and congestion issues throughout the state. And our infrastructure is critical to our growth. And especially, I know, in the south, we're strangling right now because of the congestion, and our infrastructure was never designed for those things. So I know we have formulas, but we have issues also.

I want to-- Honestly, I want to thank you. I want to thank the Governor for giving us a plan so we could criticize (laughter) and attack. But at least we have something to work off of.

Again, I'll repeat what the Governor said, "If you don't like it, bring something else."

Thank you.

SENATOR BUONO: Thank you, Senator Sweeney.

Senator O'Toole.

SENATOR O'TOOLE: Thank you, Chair.

I look forward to working with this very distinguished body, echoing Majority Leader Sweeney, certainly the Chair's comments. I think for the next couple of years, this Chamber -- this Committee will probably contain some of the Trenton activity in hyperactivity. So I'm looking forward to working with this very distinguished panel.

Having said that, Chair, I'm one of the rookies here. I just have some comments, through you, Chair, and some questions, knowing full well we don't have legislation. But I'm just trying to understand the enormity of this undertaking. It is breathtaking. And I certainly appreciate what the Governor, and Bradley, and all the folks -- the effort you have put in. It is terribly, terribly complicated. Those of us who are layfolks, who just don't have this exquisite financial background, have to break this thing down to try to understand it.

As I understand it, this-- What's being contemplated here is, perhaps, the largest bonding venture of any state government in our country's history. It's far-reaching stuff. And I appreciated very much what the Chairwoman said about having hearings on this. And my recommendation to the Chair is that when we do have legislation, we should perhaps take this on the road and have three public hearings, as we do with the budget -- south, north, and central -- so that average folks can talk and give input.

The only point of reference that I have from the Assembly was back when Governor McGreevey did the tobacco securitization, $7.6 billion; and the securitized $1.1 billion, $1.2 billion for servicing two years of State budgets. That was just a disaster on many fronts. And I think for those of us who have not been around that long, I think it's important, Chair-- And perhaps at a later date, either the Treasurer or OLS could really deconstruct the general bonding obligation -- the $32 billion, that I think was capping at $36 billion at one point.

Giving it some perspective, in 1982 the bonding was $2.5 billion. And if we could just try to understand how we've gotten from, in '82, $2.5 billion to $36 billion -- and you're saying with the recent down payments, down to $32 billion. I think we need to understand how we really arrived at this point in time, for those of us who have not been here that long.

As I understand the comments from the Chief of Staff/former Treasurer, if we accomplish Scenario 1 about the defeasing the payments -- either defeasance to general funds -- is about $11 billion. Where will that-- If you accomplish Scenario 1, where will that $32 billion be -- if we accomplish Scenario 1, Bradley, through the Chair?

CHIEF OF STAFF ABELOW: Senator, if we follow Scenario 1 into the second block -- if we could get that page back up -- we begin with what -- here it says $31.3 billion. We apologize for the discrepancies in numbers, but it moves almost every day. And then what you see at the end of that block is, we would end up with $11.255 billion of general fund supported debt -- State debt.

SENATOR O'TOOLE: So the total obligation that is now referenced on Page 3 as $32 billion is going to be reduced to $11 billion?

CHIEF OF STAFF ABELOW: That is correct.

SENATOR O'TOOLE: Is that what you're saying? (affirmative response)

It was my understanding we were going to have-- Again, there's a lot of confusion out there. My understanding: We were going to go back to about $18 billion or $20 billion. If that's the case, that number simply takes the bond indebtedness -- general obligation -- back to 2001, 2002. We're really erasing what occurred in the last five or six years. But if you're saying it's down to $11 billion, we'll have to remove it another few years, going back into the Whitman years. But we'll talk about that.

And I just need to understand that dynamic -- as to what we're paying down. Because if we're going to have a $40 billion venture that is going to be paid out, as I understand, over 75 years-- That's the obligation -- is 75 years?

CHIEF OF STAFF ABELOW: I don't think it will be 75. Debt issued for a 75-year period.

SENATOR O'TOOLE: That's the confusion.

CHIEF OF STAFF ABELOW: The term of the concession agreement would be 75 years, but the debt itself I don't believe would be issued for 75 years. I'll let Nancy address that.

MS. FELDMAN: Each distinct debt market in which bonds would be issued -- there is no one bond market or no one lender type that would be willing to lend $37.6 billion or $36.7 billion -- $37.6 billion to the corporation. It would be done in various bond markets, both tax exempt and taxable. Each of those bond markets has a distinct maturity structure that would be its normal maximum. So some of the bank-lending markets will be shorter, and the tax-exempt bond markets will be longer, with the potential longest term in the tax-exempt bond market of 40 years.

SENATOR O'TOOLE: Through the Chair, at the end of the day, when you have Scenario 1 -- $37.6 billion realized initial PBC proceeds -- what will be the total payment schedule, the aggregate amount that would be paid over 20, 30, 40 years, when we have paid back every nickel to take care of those short-term, long-term bonds? Will that $40 billion be $80 billion? Will it be $800 billion? What will the number be?

MS. FELDMAN: I would have to tell you I've never added that up. But I often--

SENATOR O'TOOLE: Do we have a calculator with that many numbers? And I'm being serious. I don't know. I've heard the number $1 trillion.

MS. FELDMAN: Okay. I would analogize this to your home mortgage. When somebody borrows money for a home mortgage, for a 30-year fixed-rate mortgage the repayment amount is typically 2 to 2.5 times what the initial borrowing was. That is an analogy. I have never gone through a process of adding up those numbers, so I can't answer.

SENATOR O'TOOLE: So is it fair to say with that math -- with that analogy -- that we're looking at about $100 billion in payments?

MS. FELDMAN: With that analogy, that would be correct.

SENATOR O'TOOLE: Okay.

I heard-- I listened very carefully, and I think we've tried to explain this -- I think you folks have tried to explain this as best as possible.

One thing that I have worked on, and other folks -- Democrat and Republican have worked on -- is tried to understand the long-term obligations. And on Page 3 you talk about debt, $32 billion; unfunded pension liability, $25 billion; post-retirement medical liability, $58 billion. So we're looking at about $115 billion. And as I understand it, if this $37 billon bond deal is put forth, of the $115 billion, in terms of long-term obligation, what are we really paying down? Of that $115 billion, what will remain?

CHIEF OF STAFF ABELOW: Again, Senator, what would happen is that the number-- If you go back to that page--

SENATOR O'TOOLE: Right.

CHIEF OF STAFF ABELOW: --which is -- I'll get there -- there it is. The $32 billion number would be reduced to the number that I gave you before, which was $11 billion or something like that.

SENATOR O'TOOLE: Okay.

CHIEF OF STAFF ABELOW: Twelve billion. The unfunded pension liability would remain $25 billion. Although, as I said earlier, I would anticipate that that number will grow when the actuaries report to us this year, because, again, we're contributing -- what, 50--

ACTING TREASURER ROUSSEAU: Fifty.

CHIEF OF STAFF ABELOW: --50 percent of the obligation in the current year. So I would anticipate that growing. Post-retirement medical -- I don't know whether that will grow or not. None of those will shrink.

I guess what I would say to you is-- Taking a step back, if this were a-- If we were in the private sector, we would say, "Our balance sheet is a mess, our long-term liabilities are killing us, they are strangling us, and will ultimately destroy us. And so we better do something about it." What would we do if we were in the private sector? We would think about selling a part of our business, or we would issue stock. We can do neither of those things. So we have suggested creating a new entity.

And even in your question, Senator, I think I hear it going back and forth between us having an obligation. Let me be clear -- and Senator Lance answered this question better than I did -- about why would we not seek voter approval. The answer again is, there is a dedicated revenue source to support fully not only the repayment of those obligations, but funding of our transportation needs for 75 years.

SENATOR O'TOOLE: I think the--

CHIEF OF STAFF ABELOW: And that's distinctive about what we're proposing. And that's what this exercise is about -- is being able to pay down some of one of these. It's going to leave us, to your point, with lots of obligations.

SENATOR O'TOOLE: My point, Bradley, is that if we eliminate $20 billion in debt, we have a growing unfunded pension liability, a growing -- your terms -- post-retirement medical. We're really potentially not moving anything off of the $115 billion, in terms of savings. Maybe it's $20 billion. If the other two categories grow, we haven't really moved this ball down the road, or this can down the road very much.

CHIEF OF STAFF ABELOW: Well, Senator, I think we could have a debate forever about what is much. I guess what I would suggest to you is that never before has this body -- has anyone brought to this body a proposal to address any of these in a substantive fashion, and that is the challenge. The fact that we're having a discussion about how difficult and complex this is -- and this is helping us address one of these -- speaks to the depths of the challenges that we face today. I don't-- As I listen to that, I don't view that as a reason to not try and attack one of these problems. I hear it as a reason to urge us to move faster and stronger at trying to find a way to attack all three.

SENATOR O'TOOLE: My point is that there are ideas that have been kicked around. I know Senator Sweeney had them, Scutari, Assemblywoman Pou -- to talk about attack at the unfunded pension liability, post-retirement medical liability, which we looked at during that special session. I think perhaps as ambitious as this plan is, again I'm not so sure we're attacking the right components; or if we are, I think we're not being ambitious enough. Because we have to move those two numbers down that add to $83 billion right now. That's part of the larger picture.

But I don't want to get caught up, because I know my time is short, Bradley, so I have three other things I want to touch upon. PBC, the nonpolitical board of directors-- And I just think we have to be real. This is the New Jersey State government. You have Senate advise and consent, you have it coming out of a very political system. I think it's hard for folks to understand how we ever get to a nonpolitical board of directors. And I think we have to sell that, and I don't know how we do that given the environment we live in.

I heard one comment from the Treasurer about: we're going to bond -- I think it was the $40 billion. My question is: Will this PBC have an ability to bond a second or third time within a 75-year life? If in 2022 they say they have some other project, or they are short in terms of their revenue, are they going to say, "We need to go beyond the initial $40 billion and get another $20 billion or $30 billion?"

MS. FELDMAN: To the extent that the PBC were to have the capacity to issue additional debt for capital projects in the future, those capital projects would have to be approved by the State authority. They could issue bonds, but the only purpose would be to invest in transportation and lessen the burdens of government in New Jersey. So therefore the use of any money they would raise would have to be approved and disbursed through the State authority.

SENATOR O'TOOLE: So the answer to that is: There could be an ability to go out and bond a second, or third, or whatever the concession agreement or the PBC thought would further their goal or their stated mission.

MS. FELDMAN: They could bond if their revenues were supportive of it. However, they couldn't spend it on anything that wasn't approved by the State authority.

SENATOR O'TOOLE: Chair, my last question. I appreciate the latitude here.

We have the concession agreement cited on Page 16. Again, this is a new area for me, so pardon the rudimentary nature of the question. The question is with regard to the concession agreement. It says, "The PBC cannot change its form of organization without State authority approval. It cannot engage in any other business without State authority approval. It cannot transfer the concession agreement without State authority approval." I just need to understand what that really means. When you say State authority approval-- I remember Governor Corzine saying, "Well, you may not want to trust this Governor or the next Governor, this Legislature or the next one. You want to trust this public benefit corporation." The question is: If they allow the State to interfere and fiddle with this in the future, I think you leave yourself up to sure problems. We have seen how the State has done, both Republican and Democrat-- This has been-- It's right for-- If they're going to play with this, you can't allow that little loophole -- is my comment to you.

MS. FELDMAN: May I address?

SENATOR O'TOOLE: Sure.

MS. FELDMAN: If you were to turn to the prior page with the three -- the four colored boxes -- Page 15 -- for those who have color copies. The State agency, as the owner of the toll road -- as the State authority that owns the toll road -- would be one of the two parties to this contract. So the things that you just listed are things that would be important for the State authority to have a *no* vote over.

SENATOR O'TOOLE: But then you're relying upon a State agency -- the authority -- as one of those that could, in fact, engage in defining the business, changing its form of organization, or transferring the concession agreement. A political body will have that input over the next 75 years.

MS. FELDMAN: As will the citizens oversight board.

SENATOR O'TOOLE: I know. That's just a scary prospect. I understand.

MS. FELDMAN: I understand.

SENATOR O'TOOLE: Chair, thank you very much.

SENATOR BUONO: Next, Senator Vitale, and then Senator Bucco.

SENATOR VITALE: Thank you, Madam Chair.

I have several questions, and they're not-- Whether it is that I, or we, support this in its current form or not, there are questions that I need to ask and hopefully have answered.

The first deals with the breakdown that you contemplate for each of the roadways currently under consideration for toll increases -- Parkway, Turnpike, AC Expressway -- and what I consider to be -- well, I won't say I consider it to be -- but the 440 addition -- that toll, which would be located in Middlesex County, in my legislative district. Can you tell me what the breakdown is, Commissioner?

MS. FELDMAN: May I just ask for a clarification? When you say *breakdown*, may I ask what-- Are you looking for the percentage increase?

SENATOR VITALE: Well, the percentage increases, but what you actually would contemplate as a dollar value.

MS. FELDMAN: Of each of those roads?

CHIEF OF STAFF ABELOW: The proceeds derived from that.

SENATOR VITALE: In the four stages, beginning in 2010, next step, next step. Because you obviously have-- The end gain is *X* amount of dollars over a certain period of time. You've had to have figured out where that money comes from. Well, we know it's from the tolls. But which tolls will generate how much?

MS. FELDMAN: Well, Commissioner (*sic*), it would be appropriate to say, today, that of the revenues collected by the New Jersey

Turnpike Authority, $500 million of a $700 million revenue stream comes from the Turnpike; and $200 million comes from the Garden State Parkway. The Atlantic City Expressway, today, is approximately a $60 million operation. So that is the existing toll structure and breakdown of revenues that I would suggest is a relative proportion to consider. And we have publicly said, as has the Governor, that the value of Route 440 is plus or minus a billion dollars.

SENATOR VITALE: How much?

MS. FELDMAN: One billion in the overall -- because we don't have a toll revenue for it today. The traffic and revenue report makes some projections however.

SENATOR VITALE: A billion over the course of the service.

MS. FELDMAN: The life, in terms of the initial -- in the initial proceeds.

SENATOR VITALE: The initial proceeds.

So are you then counting on the 440 addition to be twice as much as the others combined -- $500 million for the Turnpike--

MS. FELDMAN: No, I apologize. I've compared apples to oranges.

Commissioner, would you assist?

COMMISSIONER KOLLURI: Yes.

Senator, the revenue numbers that Ms. Feldman was giving is the current revenue that is generated by these authorities. Obviously, 440, as it stands today, is a non-toll road, as you correctly point out. The $1 billion number that Ms. Feldman was referring to was the amount within the $32.6 billion. One billion dollars out of those proceeds are allocated towards the revenue generated from 440. That's how I think about it.

SENATOR VITALE: So you're saying, in a way -- maybe I misunderstand your answer -- that you can't tell me what you think you're going to raise by raising tolls in 2010, 2014, 2018, and the next jump on each of those roadways? I mean, you had to-- You have concluded that there is a number somewhere that you're going to leverage, or money that you're going to earn from the increase in tolls. So you don't know what they are, individually, by roadway? Because if you contemplated adding a toll at 440, you know that it could be a billion dollars over the course of--

MS. FELDMAN: What I'd like to do is-- I need-- I don't have the traffic and revenue study committed to memory. And I would like to take the opportunity to review that and come back to you with the number that you're looking for, which is the equivalent proportion to the revenues that we've just described to you for the Turnpike, the Garden State Parkway, and the Atlantic City Expressway.

SENATOR VITALE: Thank you.

Part of the reason I ask that question is because I need to know-- For example, in my district -- and I don't want to be parochial, but I can relate to a lot of citizens in the state who have some concerns about this proposal -- that the Garden State Parkway, the Turnpike, 440, Route 1, Route 9, Route 35, Route 27, and any other number of numbers intersect my district and intersect my hometown. And there have been those who have suggested that -- and I'll ask this question next, and maybe I'll ask it in concert with this second question -- is, you talk of-- There is some -- through your study -- some discussion or some conclusion about the amount of traffic that will essentially tread off of those paid highways onto local roads -- local roads being Route 1, Route 9, Route 35, and others, to make their way through to their destination. So there will be (*a*) a drop-off in revenue that you are somewhat contemplating; and (*b*) there will be an impact to the local infrastructure in those communities. Whether it's my district, or another district, another town that's impacted by this-- Have you addressed (*a*) how many -- or how much revenue will drop off because of the increase? I know there's a loss-benefit ratio here. But what is the-- What have you-- Have you discussed at all supporting the secondary infrastructure that will be impacted by this, i.e. impact fees for those communities that are greatly affected?

COMMISSIONER KOLLURI: Yes, sir. Let me address the diversion issue by making a couple observations. The averages that are cited on Page 84 of the STG report say that there is going to be an elasticity estimate ranging from 20 to 30 percent on the Turnpike and 440, and 10 to 20 percent on the Parkway, and 20 to 30 percent on the Atlantic City Expressway.

But, again, that diversion number is not mode-specific. By that I mean, what it does not take into consideration is if or how much of that diversion -- if it's accurate, first of all -- goes onto local roads, or onto trains, or onto freight lines. That is not captured in this estimate. And I think that's a very, very important point to consider if and when we do the next level of detailed analysis. That's number one.

And number two is: In the Governor's proposal for the capital program -- the $40 billion capital program I talked about, there is going to be an absolute inclusion of over $3.5 billion in local aid for municipalities and counties, which is a much more robust level than they currently get.

Third is-- If I could just make one observation. Even the report cited the majority of the traffic is going to stay on the toll roads for this one reason. I'll give you an example in your district. Between Exit 11 and Exit 14 -- part of your district -- Exit 11 and Exit 14 -- if you take the Turnpike today during peak hours, the speed limit or the speed with which a commuter can drive it is about 58 miles an hour. If you use that exact same driver -- and if he or she decides to go upon Route 1 and Route 9, their speed limit drops to 40 miles an hour. The same thing applies to the Parkway. Route 9 is a good parallel road. The speed limit on the Parkway is about 50 to 55 miles an hour. When you go on Route 9, it drops to almost 25 miles an hour. What the report does capture very accurately, in my estimation, is that people value their time. And there is an equally important restriction -- is they want to be able to not waste their -- the amount of money they spend on gasoline sitting in traffic and burning it.

So I think those two factors combined add or inform the discussion on diversion. But I want to, again -- if I could, just one last time say that the diversion numbers are projections and, equally important, they do not address where the diversion goes. And I think that's an important part of this analysis.

SENATOR VITALE: They do not address where the diversion is.

COMMISSIONER KOLLURI: No, it's a systemwide diversion, so it doesn't say, "It's going to end up on *X* road or even *X* train line." The Governor's point is it's actually-- If we are-- If there is going to be diversion onto mass transit systems, that's a good thing. It benefits the environment, and it also -- as a practical matter, it encourages mass transit, and it's also a cheaper and good way to travel.

SENATOR VITALE: But that can't be quantified. You said that it can't be quantified, so this is just a guess.

COMMISSIONER KOLLURI: In this report, correct.

SENATOR VITALE: So you're just saying it may happen.

COMMISSIONER KOLLURI: No, I'm actually saying that this report admits that it will happen, but it doesn't know where it's going to happen. So I'm just saying that when we cite the number of 20 to 30 percent, I urge caution in that (indiscernible). That's all I'm saying.

SENATOR VITALE: What has the -- did the report or your expert study -- the financial impact on individuals who will have to pay, and who pays what? Have they done an assessment of someone's -- or the general impact, rather, on their income levels? For example, what's the average income of a driver on the New Jersey Turnpike and the Parkway? Who is on those roads conducting business? Independent truck drivers, independent limousine drivers, people delivering goods and services, who will have to absorb these costs and pass them onto consumers? I mean, have you done any sort of a study to see who it is this will impact? We know that there will be out-of-staters impacted. It's always good to capture revenue from people who use our roadways and the gasoline that they consume. But have they contemplated what it would cost and who it would impact? Is there any kind of breakdown?

COMMISSIONER KOLLURI: Nancy, does the STG report talk about the economic data and the--

MS. FELDMAN: No, the traffic and revenue study is intended to predict and project traffic and revenue. While there are significant amounts of underlying economic data that support those projections, there is not an impact analysis associated with it.

SENATOR VITALE: Could you find out, or could you design an impact analysis? Is this going to impact people across the board, those who can afford the increase and those who can't, those who will--

MS. FELDMAN: I'm certain there are consultants who can do that for us or external parties who could do that for us. We don't have the capability to do that internally. We would have to hire someone to do so.

SENATOR VITALE: Well, have you retained-- Are these consultants still on retainer?

MS. FELDMAN: They were paid for the work that they did.

SENATOR VITALE: And they're done. Is there anything left? I mean, in the contract there's no residual work that they're going to be required to do?

MS. FELDMAN: They can do residual work. I'm not certain. I would have to ask the folks who put the contract together as to whether that type of analysis was contemplated under the request for proposals that went out for this contract.

SENATOR VITALE: If we could find out, I would appreciate it.

MS. FELDMAN: Of course.

SENATOR VITALE: How did you determine that 440 was the roadway to -- upon which to place a new toll in the Middlesex County section, as opposed to the -- excuse me -- Hudson County section?

COMMISSIONER KOLLURI: Senator, I assure you it was not personal. (laughter)

SENATOR VITALE: I would tell Chairman Wisniewski it wasn't. I'm sure he would appreciate that.

COMMISSIONER KOLLURI: Yes, I had multiple occasions to have that pleasant discussion.

SENATOR VITALE: I'm sure you have.

COMMISSIONER KOLLURI: But I will tell you, there were two primary reasons. One is -- and you, knowing the road better than I -- it is 3.98 miles of road we're talking about -- is exactly situated between the Garden State Parkway and the Turnpike Authority. Secondly, and perhaps equally important, when the road was built back in the 1960s-70s, the amount of Federal contribution that was made towards the road was de minimis. By that I mean $300,000. So if there was ever a requirement by the feds that we would have to pay back their share of the contribution for a -- because now it's going to be a toll road, the State would, essentially, absorb, through the Transportation Trust Fund, a $300,000 contribution, and not a $5 million, or $10 million, or $20 million contribution back to the feds.

SENATOR VITALE: Is there a toll at the end of 440 going into Staten Island -- the Outerbridge Crossing? Is there a toll that -- you go through Staten Island to get to Hudson County -- you do that loop around into Staten Island.

COMMISSIONER KOLLURI: There is not one in New Jersey, but there is, I mean--

SENATOR VITALE: One in New York.

COMMISSIONER KOLLURI: The Outerbridge Crossing itself is -- has a toll.

SENATOR VITALE: That's operated by the Port Authority?

COMMISSIONER KOLLURI: Yes.

SENATOR VITALE: New York-New Jersey, and New Jersey shares that revenue?

COMMISSIONER KOLLURI: Yes, sir.

SENATOR VITALE: So someone who pays a toll coming either into or out of New Jersey -- going to pay the toll across the river and then get whacked with a toll to drive on the road.

COMMISSIONER KOLLURI: There is-- The analogy I would offer to that is, it's no different than getting off the Lincoln Tunnel and getting on the Turnpike.

SENATOR VITALE: Easy for you to say.

COMMISSIONER KOLLURI: I know you don't agree.

SENATOR VITALE: Well, no. It's okay.

Lastly -- and I'll come back if there's more time for questions -- and just ask about staff costs for the public benefit corporation. And also, there was some reference in here to penalties back to the corporation for certain activity that-- Who would pay those penalties?

MS. FELDMAN: The penalties that are envisioned to be charged to the public benefit corporation for failure to meet their contractual requirements would be paid by the public benefit corporation. Those revenues, once received by the State agency, would -- (*a*) they would have to be high enough to incent the public benefit corporation to do what they were supposed to do rather than pay a penalty for it. But certainly, to the extent that it was a safety issue, and the State authority needed to go in and correct a safety issue, they would use those penalties to pay for it.

SENATOR VITALE: Those penalties would generate from where?

MS. FELDMAN: The public benefit corporation's revenues, which are primarily derived from the tolls. So they either do their job, or they pay a penalty for not doing their job.

SENATOR VITALE: But they don't pay-- Right. But what about their-- We pay the penalty, because the people who are paying the tolls pay the penalty for them not doing their job. I mean, it doesn't come out of their pocket.

MS. FELDMAN: It's not a personal penalty, no.

SENATOR VITALE: Right. It comes out of the tolls. So there are incentives, certainly, to do the right thing. And I'm not questioning their ability to do their job. But if there are penalties to be assessed, those penalties are not paid for by some magic pot of money.

MS. FELDMAN: Correct.

SENATOR VITALE: It's being paid for by the very same people that you're asking us to increase tolls on, right?

MS. FELDMAN: It is paid from the toll revenues, absolutely.

SENATOR VITALE: And lastly, the cost of the raise of the salaries for those full-time, part-time employees -- and they're paid for as well out of the proceeds of the toll increases of the tolls, correct?

MS. FELDMAN: The operating-- The staff that works for the corporation that operates, maintains, and performs all of the duties on the roads are paid from the overall toll revenues and received by the corporation.

SENATOR VITALE: And have they contemplated what those-- Is there a model for pay? I mean, there must be national models for corporations like this. Do you know what -- how many employees there would be, potentially, and what it would cost the taxpayers -- the tollpayers -- for those individuals, plus benefits, plus pension, plus whatever?

MS. FELDMAN: Well, it is anticipated, as per the Governor's charge to the group who is putting this program together and this recommendation, that the employees of the existing authorities be taken -- be included at the public benefit corporation. So the operating -- the employees that operate those roads per those authorities, today, will have an opportunity to work for the public benefit corporation. It is primarily management and the board that will be recruited through the search firm -- through the executive search firm. That executive search firm, once hired, will make recommendations for compensation levels.

SENATOR VITALE: That's all for now, thank you.

Thank you, Chairwoman.

SENATOR BUONO: Before I turn it over to Senator Bucco, I had just a quick follow-up to Senator Vitale's question. Do you have an opinion as to whether the employees will-- I know you have to go to the Department of Labor also to get an opinion as to whether the employees in the public benefit corporation will be included in the -- in PERS. Do you have an opinion as to whether or not -- what they'll decide? And isn't it preferable, really-- I mean, when you think about it, isn't it preferable to have them in a separate, non-State system so that the pension obligation of the employees is born by the PBC and not the State?

MS. FELDMAN: Well, today the Turnpike Authority is a local -- is considered a local member of PERS. The State general fund does not pay the benefits associated with the Turnpike Authority personnel. So if the Department of Labor were to provide an opinion that says they could stay in PERS, the cost of those employees would be born as they are today, by the operator of the roads.

SENATOR BUONO: Thank you very much. That was very helpful.

Senator Vitale, now I --

SENATOR VITALE: Just one quick--

SENATOR BUONO: And then Senator Bucco.

SENATOR VITALE: Thirty-second follow-up, sorry, Senator.

SENATOR BUCCO: Go ahead.

SENATOR VITALE: There's a statement in here -- I guess it's on Page 17 -- and maybe it's somewhere else. But it talks about the corporation -- its sole -- whose purpose is to, "Lessen the burdens of government." Is that a metaphor for saying, "No politicians welcome?" I mean, I just-- I know that's not a fair question. Let me put it another way.

I mean, we're talking about having this independent body that is free from the shackles and chains of influence of politics -- not the people, but the institution -- that the public benefit corporation and its advisory board will be, essentially, nonpolitical. All of us have an obligation at this table, and the other hundred-or-so members-- We have not only an obligation, but -- well an obligation to represent those not just in our district but throughout the state. And it's not a secret that this Legislature, former governors, former legislators made mistakes, made bad decisions -- former treasurers, former governors, former whomevers made mistakes. But it doesn't mean that the-- I don't believe that this Legislature would want to cast off its -- except for the purposes of approving this legislation, potentially, or some form of it -- its responsibilities. Because in the end, we will be held accountable, as will the Governor, and future governors, and future legislators.

What members are-- The members that are appointed to the public benefit corporation -- how many are-- Are those members appointed by the Governor? How are they all appointed?

CHIEF OF STAFF ABELOW: Senator, before-- I'll ask Nancy to address that question. But can I just address the broader set of questions that you've raised? Because I think it would be unfair not to do that, especially because it may have been an inartful choice of words on our part that created some of the confusion. So as I'm listening to you, let me -- and Nancy will correct me if I'm wrong.

Lessening the burdens of government is meant in only one context, and that is to lessen the burden of government to pay for things that it would otherwise have to pay. And in this instance, what we're talking about is lessening the burden on government to pay for transportation improvements. So that's what that refers to.

SENATOR VITALE: I may have taken that off a different page. On Page 18 it says, "Operation and maintenance levels are set to preserve safety, but capital investments and toll levels are subject to political considerations" -- which is the right side of that box, as opposed to the left.

CHIEF OF STAFF ABELOW: Let me continue and try and address the other issues that I think you've raised, which are quite important. And, again, I think that's why they deserve addressing directly.

Again, we set out to find a structure that allowed us to reduce the State's debt. Pure and simple, if the State went out and borrowed this same amount of money, it couldn't pay off its own debt and have achieved anything. It would have actually increased the State's debt. And so it has to be separate from the State. And we keep saying this -- that it is, in fact, separate from the State. That's really what we were intending to do when-- This *nonpolitical* is really meant as a signal for: not controlled through the vehicles that have been used before to control things like, in particular, the right to raise tolls up to the maximum specified in a schedule that would be approved by the Legislature. And it is the ability under the existing structure of the Legislature and the Executive to exercise influence that would lead to the authority -- an authority, in the current structure, not exercising that right. The people wouldn't lend against those increases because they don't believe they would happen. They believe that the Legislature or the Executive would exert influence and stop those toll increases from ever happening. And this structure is designed to give assurance to the lenders that, if it is necessary to raise revenues to meet those broader revenue goals, that it is, in fact, fully empowered to do so.

Now, I do want to -- just one other point, because we keep-- This is complicated. And I'm aware of that as we listen, as we try to respond to questions. But it's not unprecedented. What's unprecedented is a single innovation. The precedent for this has been transactions that have been done around toll roads and bridges in places like Chicago and Indiana. What they did, that this Governor said he won't contemplate in New Jersey, was, they entered into similar agreements but leased the roads to private enterprise. Those folks did things-- Someone asked the question earlier about refinancing. They aggressively refinanced their borrowings, took the profit that they made on those refinancings out, and paid themselves off inside of 12 months. The Governor said, "I don't think that would be good for the people of New Jersey. And for that reason, we should try and create a structure where all of the benefits are used to lessen the burden of government." And so now we're talking about a set of complexities that arise because we have to create an entity that is not a State entity, but acts to lessen the burdens of government.

I apologize, but I think that's the context in which these comments are written.

SENATOR VITALE: Thank you.

Thank you for your patience.

Thank you, Senator Bucco.

SENATOR BUONO: Senator Bucco.

SENATOR BUCCO: Thank you, Madam Chairwoman, and good evening. It is close to 6:00 already.

In your debt reduction plan, Mr. Abelow, you had said, number one, about freezing the next budget. Is there any consideration -- or have you looked at, at all -- of possibly freezing several next budgets?

CHIEF OF STAFF ABELOW: Senator, I think that the-- I don't-- We have not taken a look at what we would do beyond this year.

The commitment that is Point 2 in the Governor's plan is to only contemplate budgets rising with increases in revenues. I don't know yet -- and I think we're a lot more pessimistic about the revenue outlook today than we would have been a month or two ago. So as a practical matter, I don't know what the next year is going to bring.

SENATOR BUCCO: Well, the reason I ask that is, last week, when the Governor was in Morris County, in my district -- and I think you were there at County College, also -- I think you heard the cry from the people. It is, "Cut down government, cut down spending." And that's why one way of cutting back on government and cutting back on spending is when you're not going to increase your budgets and look for other ways of financing what you have.

CHIEF OF STAFF ABELOW: Senator, I fully understand and I take this extraordinarily seriously. I am glad that my colleague Mr. Rousseau will be here defending the budget that we bring forward. (laughter) Because I promise you that if you don't like this proposal, you're not going to like what it's going to take to have a frozen budget this year.

SENATOR BUCCO: All right.

Also in your reduction plan -- that future borrowing requiring voter approval. And Senator Lance has been the champion on that over the years. He feels very strongly about that, as we all do on this side of the aisle.

My question -- and correct me if I'm wrong. I think in your presentation you said the PBC does not need voter approval for borrowing?

CHIEF OF STAFF ABELOW: Again, I would say the Senator answered it better than I would -- Senator Lance. What I said was that it doesn't require voter approval, because the constitutional amendment goes to approval of State debt. Because this is not debt of the State, not moral obligation, not financial obligation, not general obligation -- it's not State debt -- it's wouldn't be subject to this. It's not issued by a State entity. But as the Governor said -- excuse me, as the Senator said before, his proposed constitutional amendment has an exemption for dedication of revenues. In this instance, there are fully dedicated revenues to support the indebtedness as well. So on both scores it would not require voter approval, under the Lance proposal.

SENATOR BUCCO: Also, on Page 22, Commissioner Kolluri, you had stated that the average trip on the Turnpike today -- and I think you said it was three exits -- $1.20. Is that correct?

COMMISSIONER KOLLURI: Yes, sir.

SENATOR BUCCO: All right. So the average worker having to travel the Turnpike to and from work would pay $1.20 each way, correct?

COMMISSIONER KOLLURI: Yes, sir.

SENATOR BUCCO: Which would be $2.40 a day, which is approximately $12 a week. And in five years, it goes to $2.05, which comes out to about $20 a week. And in 10 years, it's $56 a week in tolls, if he still has a job. And that's what gives me the segue into what my concern is.

My concern is for the economy of the state. Having been in sales for 40-plus years, I've seen the exodus and demise of manufacturing companies in the State of New Jersey. It is unbelievable what has happened on the jobs that we have lost -- manufacturing jobs -- not service jobs, manufacturing jobs; because that's what I deal with -- manufacturing companies.

And I know that freight companies today are charging not only a freight charge, but they charge a surcharge for fuel because of the rise in fuel costs that they're now paying. And I can see them also then paying a surcharge for tolls. And when a manufacturing company is hit with these extra charges, they have nothing to do but to try and pass it on. And when they pass it on, they become uncompetitive -- very honestly. And that's what is happening to our economy -- because of the overregulation, the overtaxation to our companies, we are losing them. And I think-- And this is not going to be a doomsday-- If this passed today as it is, it's not going to be a doomsday. All the companies aren't going to move out tomorrow; but you're going to see more companies moving out of this state, when they can move across the river -- whether it's 10 miles or 40 miles away -- and ship back into this state, because now they can become competitive because their taxes are less, property taxes are less, the working rate is less. So they can become and stay competitive, if you want to stay in business. And that's what happens. At the end of the year when you're accountant comes to you and says, "You didn't make any money this year," and you ask him, "Why?" and he points out all of these charges, they fold up their tent and they move. They don't instead come down here and stand on the steps of the State House and scream and holler, they just move. It's easier to move. And that's what's been happening.

Now, I'm in the adhesive industry. Most of your adhesive companies have moved out of this state. National Starch, the largest adhesive company in the country, was just sold to the largest adhesive company in the world. But National Starch had their manufacturing plant in Hazelton. They have their R & D in Bridgewater, but they're manufacturing was up in Hazelton. Now they're moving to North Carolina.

IFS is out in Reading, Pennsylvania; Adhesive Systems is in Allentown; MBT is right over here in Bristol. They cannot afford to stay in this state, and that's what's happening and that's what we're doing to the people of this state and to the manufacturing. And that's why I'm afraid that when someone has to pay $56 for tolls to go to work, that he's going to be asking his employer, "I need more money if you want me to stay here." And an employer says, "I can't afford to pay you more money, but I can afford to move my business." And that's what I'm concerned about the economy of this state with this plan. We've got to find a better way of reducing our debt.

Thank you.

SENATOR BUONO: Thank you, Senator Bucco.

Senator Turner.

SENATOR TURNER: Thank you, Madam Chair.

I certainly applaud the Governor in terms of his attempt to reduce spending and to freeze spending, and to try to get this State on a good financial footing. I'd like to know, because I do believe that we should pay down our debt, could you tell me why we can-- If we're borrowing the $37 billion, why can't we use all of that money to pay off our debt?

MS. FELDMAN: The Governor asked us to address two key issues in this plan: The first being funding transportation. As the Commissioner indicated earlier, our Transportation funding dollars are in place until 2011, after which we have no additional revenues to fund our transportation capital needs going forward. So we could certainly suggest that all the money could be used to pay down debt, but we would have no funding for our capital investments in our transportation system.

I would also suggest to you that we might consider alternative ways of paying down debt solely, if we were not funding transportation capital as well. We also would -- are significantly investing in the toll roads with this plan, and there would not be funding for the toll road investment either.

SENATOR TURNER: Okay.

I guess my concern too is in regard to the Transportation Trust Fund. According to your proposal here, you indicate that after 2022 the Transportation Fund will be supported entirely by the annual concession fee payments. Is that correct?

MS. FELDMAN: Yes.

SENATOR TURNER: And am I correct in terms of assuming that the gasoline tax that we pay per gallon goes to the Transportation Fund?

MS. FELDMAN: You're correct.

SENATOR TURNER: So we will have double taxation in the years beyond 2022, because we'll be paying a gasoline tax at the same time as the Transportation Fund is being replenished by the concession fee payments. Will we get a rebate of some sort on our gasoline tax?

MS. FELDMAN: May I direct you to--

Kris, do you want to do that? I'm sorry.

May I direct you to a page in this book, which is Page 21. And I understand it's difficult.

SENATOR TURNER: Where's the book?

MS. FELDMAN: The presentation.

CHIEF OF STAFF ABELOW: The presentation.

SENATOR TURNER: Oh.

MS. FELDMAN: Right. I might understand it's difficult when you don't have the colors that are up on the screen to look at.

CHIEF OF STAFF ABELOW: Nancy, before you do that, can I just--

Senator, let me try and answer that in a short form. What we've done in the past, if we continue to fund Transportation Trust Fund in the same way that we have in the past, we would continue to have the existing gas tax fully dedicated to Transportation Trust Fund. And in 2011, when we run out of money, we would have to increase the gas tax by--

COMMISSIONER KOLLURI: Forty-four cents.

CHIEF OF STAFF ABELOW: --44 cents, my colleague tells me, to buy another -- how many years?

COMMISSIONER KOLLURI: Twenty-five years.

CHIEF OF STAFF ABELOW: To buy 25 more years of Transportation Trust Fund funding. So, unfortunately, the answer is, I guess, yes, we're going to have to pay more in taxes for the gas tax if we don't do what we're suggesting. That there's no way that we can use the existing gas tax. It's going to be used for the next 40 years, or 30 years, to pay off the existing principal and interest on debt that's been issues by Transportation Trust Fund. So if we want to fund any investment at all, dollar one after 2011, in State and local roads, we will have to find a different revenue source to support it.

SENATOR TURNER: But after 2022, you said you will be able to fund the Transportation Trust Fund.

CHIEF OF STAFF ABELOW: We have a new funding source at that point, which is the public benefit company.

SENATOR TURNER: So we'll be getting the gas tax, as well as the concession fee, at the same time?

CHIEF OF STAFF ABELOW: Yes. That is--

SENATOR TURNER: Well, then, there's double taxation.

CHIEF OF STAFF ABELOW: No.

SENATOR TURNER: No?

CHIEF OF STAFF ABELOW: I'm sorry. I wouldn't have used the term double taxation.

SENATOR TURNER: But--

CHIEF OF STAFF ABELOW: The way I would say it is, that we have used the existing gas tax dedication for the next -- I don't know whether it will be 20 or 30 years--

ACTING TREASURER ROUSSEAU: Thirty.

CHIEF OF STAFF ABELOW: Thirty years, to pay for the road work that we've done up until 2011. If we want to spend any more money, dollar one, past 2011, we will need a new way to pay for it. I wouldn't think of that as double taxation. It's that we have to pay for work that we want to do, investment in our economy that we want to make after 2011. Yes, that will cost more, but we're not allowed to print money here. So we have to raise revenues to support that spending.

SENATOR TURNER: So then the concession payments fees will not be enough then. Is that what you're telling me? According to what

I'm reading here, it says, "The proposal assumes that the Transportation Trust Fund will be supported entirely by annual concession fee payments after 2022."

CHIEF OF STAFF ABELOW: That's the future expenditure.

COMMISSIONER KOLLURI: That's the way-- The one thing I want to come back to is, the Governor has said he wants a TTF program for 75 years. So essentially, what happens in 2012 to 2022 is the existing $895 million in gas tax will carry us forward for those number of years with a $800 million pay-go program. In 2022, the contemplation and the full expectation is that a program -- around 2, 2.1, whatever it is -- would index the inflation of 1.6, will be supported entirely by the public benefit corporation's excess revenues. So you are right, but I would not-- I'm with the Chief of Staff here. I would not view that as a double taxation, because all you're doing is carrying forward a program from 2022 to 2083, based on those excess revenues that are generated from the--

CHIEF OF STAFF ABELOW: The only way to avoid the need for additional revenue, either from the public benefit company or from some other source, would be to stop having a Transportation Trust Fund after 2011 -- to have no more funding of State and county road investment.

SENATOR TURNER: So this new entity would not be enough to take care of our needs?

CHIEF OF STAFF ABELOW: This new entity would allow us to use the existing gas tax dedication--

SENATOR TURNER: In addition.

CHIEF OF STAFF ABELOW: --through 2022, and then the additional payments after that, to be able to fund a robust Transportation Trust Fund program for 75 years.

SENATOR TURNER: Then I think it's misleading, then, to say that it will be supported entirely by the concession fee payments.

COMMISSIONER KOLLURI: Senator -- and I will take responsibility -- perhaps what I could do-- We're again inarticulate in the way we explained it. I apologize. The intention there was to say that in 2022, the future expenditures will be fully paid for by the PBC on a 100 percent pay-go basis. And perhaps we can say it a little bit better, and I'm happy to try and do that, but that is the intention. So that's how we intend to carry forward a fully-funded Transportation program for the next 75 years to (indiscernible).

SENATOR TURNER: In addition to the current gasoline tax, so it's not going to be covered by these concession fees entirely?

COMMISSIONER KOLLURI: The gasoline tax, remember, it's going to be used from 2012 to 2022 to support a program of 1.6-plus inflation.

SENATOR TURNER: Right.

COMMISSIONER KOLLURI: So those 10 years would need the $895 million.

SENATOR TURNER: Right. But I'm saying after--

COMMISSIONER KOLLURI: Exactly.

SENATOR TURNER: --2022--

COMMISSIONER KOLLURI: The gasoline tax will not be enough. Exactly right.

SENATOR TURNER: And so it's going to be more that's needed. So it's not entirely. Okay.

The other question regards the toll increases. The tolls will be increased every four years by 50 percent. Is that correct?

COMMISSIONER KOLLURI: Yes.

CHIEF OF STAFF ABELOW: Four times.

COMMISSIONER KOLLURI: Four times only, from 2010, 2014, 2018, and 2022.

SENATOR TURNER: And my concern, of course, is in regard to the average working person who has to commute and use those toll roads. Their income is not going to increase proportionately. And my concern is that you assume -- I guess it's an assumption -- that over 50 percent of the people using the toll roads are from out of state. Tell me, how do you make that determination?

COMMISSIONER KOLLURI: Senator, we will -- if we've not already provided through the Chair -- will provide three different memos that lay out how we calculated those for the Turnpike, the Parkway, and the Atlantic City Expressway. The numbers are that 53 percent of the toll payers on the Turnpike are out-of-staters, and we'll provide you a memo that details it. We did it based on E-ZPass transactions, and you're absolutely right. We did make some assumptions, and those assumptions are clearly laid out for your review.

The one thing the Governor has been very explicit on is, he understands that commuters do use these roads. And he has said, in no uncertain terms, he expects to have a frequent-driver discount. And he's even gone further and said there may be some income tax attached to it. So you are right in saying that we need to be acutely aware of the low-income people, and I assure you he is. And that's why he's already said that in a public space.

SENATOR TURNER: Do you have any idea of what this discount would be?

COMMISSIONER KOLLURI: Senator, no. We're still in the process of working those details out. But we will be sure to let you know as soon as we have.

SENATOR TURNER: And you also indicated during your presentation that there is-- Back during the last time the tolls were increased was 1987, and a movie ticket was $4. And even today, as it was then, if you wanted to pay a smaller price, or a cheaper price for your ticket, you could come for the matinee. So now with this toll increase, will there be some discount if you travel that road during off-peak hours, particularly trucks? Because my concern is, as we have seen over the years, each time there's a toll increase there's more and more truck traffic that finds the local roads in order to escape paying those tolls. And that causes unsafe conditions, as well as congestion and a lot of noise and consternation by the people who live along those roadways, as you know.

COMMISSIONER KOLLURI: Senator, first of all, I want to thank you for your help in crafting the truck rule. I know the final product is something that you had some challenges with. And thanks to your initiative, we've agreed to meet with the municipalities along 206 and 31 to figure out what we need to do as a statewide strategy to limit truck traffic on these routes, because of geometric reasons or safety reasons. That is precisely the kind of discussion we should be having.

But on the larger issue of diversion, I want to come back to this point: When this study was done, the truck rules that we put in place yesterday were not taken into consideration. Whether you ultimately agree or not with the truck rules, the net impact of these truck rules will be to keep the trucks where they belong, which is on the national highway system. Secondly, the Governor has not made a distinction on who will get a frequent-driver discount. A frequent driver is somebody who uses a road *X* number of times a year. So ultimately, I don't intend to sit here and opine on what the discount structure will look like, but I assure you if there's a frequent driver and if there is a meaningful discount, everybody will have access to it.

SENATOR TURNER: Okay.

The next question I have is in regard to the PBC. This, of course, has been said earlier. This whole concept is very complicated and it's in many respects foreign to me, because I'm just a novice. And I guess I feel the same way about this particular proposal as I did about the new school funding proposal -- we're having a hearing and we have no bill, we have no legislation before us. And here again, we're being asked to step out on faith, particularly since we have no way of knowing whether the IRS is going to approve this plan as far as whether or not -- or to what extent tax exempt bonds will be approved for use. Now, do you feel comfident -- are we putting the cart before the horse here again, as we did with school funding? Do you feel confident this is going to be approved by the IRS, in terms of issuing tax exempt bonds?

CHIEF OF STAFF ABELOW: I would reiterate what Nancy Feldman said earlier, and that is that we have a great deal of confidence that at least a preponderance of the debt would be tax exempt, or else we would not be sitting here today. That is not based on conversations among ourselves, that's based on advice of counsel, and conversation and active dialogue with the taxation authorities over an extended period of time. And you know, again, we heard from Senator Sweeney -- and I take it from your comments as well -- the sense of urgency around making sure that you have legislation. But you invited us here today, we didn't ask to come down today.

SENATOR TURNER: No, I didn't invite you. (laughter) But we're here.

My, I guess, question too is, if you're borrowing anywhere from $32 to $37 billion -- and we all know right now the financial markets are in turmoil -- are you confident that you're going to be able to raise $37 billion in the market? Because the State is not standing behind this debt, is that correct?

CHIEF OF STAFF ABELOW: That's correct.

SENATOR TURNER: So would someone be comfortable buying these bonds knowing that the State is not backing them?

CHIEF OF STAFF ABELOW: Again, we would not be giving you this presentation unless we were confident in the range that we showed you. That said, I'm glad we're not trying to do it-- We wouldn't want to be in the market today, and so it's very difficult. But none of us would pretend to be able to tell you that on this day, at 10:00, people are lined up to buy $32 billion of debt of the public benefit company, but we--

SENATOR TURNER: It is 32 or 37?

CHIEF OF STAFF ABELOW: The range that we've showed you is somewhere between. So our estimate is somewhere between 32.6, I believe, and 37.6.

SENATOR TURNER: If you're not able to raise that amount -- $32 billion -- does that mean it's a nonstarter? Will you move ahead with this program or this proposal even if you don't raise that amount of money in the market?

CHIEF OF STAFF ABELOW: The Governor has said, to date, that his criteria for a successful venture is one that allows us to reduce the State's debt by 50 percent. I presume if that is consistent with the wishes of the Legislature, that we would proceed if we could do that. And if on a given day we couldn't do it, we wouldn't proceed that day.

SENATOR TURNER: Well, if you could raise $25 billion, then you would go ahead and just use half that amount to pay down the debt?

CHIEF OF STAFF ABELOW: No, not necessarily, because I don't know quite how the numbers work. But there's some minimum below which it wouldn't meet that criteria, and we would choose not to proceed -- at least not on that day.

SENATOR TURNER: I also read in the paper that the Governor now is thinking of eliminating Route 440 from the proposals. Is that true?

CHIEF OF STAFF ABELOW: I think that, again, there are a variety of proposals that we are looking at and that members of the Legislature have advanced, for both discount structures and what the appropriate configuration-- Each of those -- and I think the Governor has said this repeatedly -- has a value associated with it. So every time that we propose a discount structure or say we're not going to include 440, it has a cost. And again, there's a point at which it doesn't meet the objectives that the Governor has set out. And so those things need to be balanced.

SENATOR TURNER: You might have to find another road to place a toll on, or you might have to increase the tolls more on the Parkway, the Turnpike, and the Expressway. Is that accurate?

CHIEF OF STAFF ABELOW: I don't think we've thought about it that way, ma'am.

SENATOR TURNER: Okay. All right.

Thank you very much.

SENATOR BUONO: Thank you, Senator Turner.

Senator Oroho -- is that correct? (indicating pronunciation) Did I get it right this time?

SENATOR OROHO: Yes.

SENATOR BUONO: Okay.

SENATOR OROHO: Thank you very much.

Madam Chair, thank you very much. And I'd like to thank the administration for all the time that you've already been here. And I'd also like to say, at least with respect to the market today, the Dow did go up today. So that was a good thing.

CHIEF OF STAFF ABELOW: It's a good day.

SENATOR OROHO: With respect to some of the concerns I have now on the tax-exempt status -- and apparently there's a mix right now -- you expect some to be tax exempt and some to be taxable. Is there a mix that you have used in the model of the $37 to $32 billion?

MS. FELDMAN: Let me first state that, as I may have mentioned before, there's no one market that could transact this type of a transaction at one time, including the tax-exempt market. So these numbers include a number of variables -- varying interest rates, varying markets -- which are taxable and tax exempt, to identify different markets -- not specifically which ruling or what IRS rulings, but for portions of what the market can accept on an individual day. And so it's not like I could say to you that *X* percent is tax exempt because it's based on an expected ruling. There's a portion that would be a reasonable expectation of how much a specific market -- and in this example, the tax-exempt market could potentially lend on a specific day.

SENATOR OROHO: Is there a mix where -- and I know you're confident, or highly confident, that we'll get the tax exempt status for bonding -- is there a mix below which this transaction doesn't make any sense?

MS. FELDMAN: The more taxable bonds--

SENATOR OROHO: I assume better.

MS. FELDMAN: --the more the cost. Right. The higher the interest costs, the lower the amount of proceeds that can be lent against that. So that does go back to what the Chief of Staff was saying before. At some point, those costs may impact the ability to achieve the goals, and therefore doesn't get done at that point.

CHIEF OF STAFF ABELOW: I think we crossed, in our minds, that bridge that it-- I don't remember the last time we looked at it on a fully taxable basis, because we've reached a level of comfort that we--

We're more in the mix-and-match range; that we knew it was more likely to be some, but not all.

SENATOR OROHO: Looking at the-- I've asked this question before, because one of the concerns I have is that it's expensive. The PBC is obviously a middleman. I understand why, in your proposal to do that -- because if, obviously, it's just the "State" that does it, it adds to the debt. But I think it's an expensive middleman to get a present value of a future cash flow. How much of the future cash flow is used -- is there-- In your models, is there a percentage of that future cash flow that you've used to come up with the $32 to $37 billion? Like, through now, the 75 years, are we using -- how much percentage of that cash flow?

MS. FELDMAN: I can't pick a specific percentage. But what I can say to you is we've made some best-guess projections, in part based on the traffic and revenue study and the expense profile of the corporation as it exists today in the New Jersey Turnpike Authority, as well as the capital plans that are required or will be required over time. After all those expenses are taken into account and the debt service associated with the borrowing -- that amount of debt service that can be serviced is how we got back to this range of 32.6 to 37.6 with the varying factors. Does that answer your question?

SENATOR OROHO: Yes. Thank you.

One other thing that I'm concerned about is, obviously, for the underwriters to undertake the risk of this, that in the concession agreement-- And the way I simply look at this is, we're really selling a concession arrangement here. How much are there in the terms -- and I know the concession agreement hasn't been written yet -- but in the terms, what sort of-- Are there any non-compete arrangements in there? Like, for example, if we're talking about 75 years, who knows what modes of transportation are going to be available, you know, in 75 years.

COMMISSIONER KOLLURI: Well, one of the things -- the way-- You are right, Senator. I mean, in terms of projecting out into year 50 and above is difficult. We're still struggling with--

SENATOR OROHO: We're reminded of George Jetson and we might be-- (laughter)

COMMISSIONER KOLLURI: Exactly.

One of the things we have done, we have contemplated is, as it pertains to competing facilities, if you will, we have essentially said that anything that is contemplated within the capital program that we're going to talk about is off limits. Meaning, all the improvements that are projected to be made over the next 10, 20 years are off limits. Meaning, they can happen on the competing facilities -- so all the State roads that we're talking about.

SENATOR OROHO: So really, for a 10- or 15-year period, per se, anything that's currently in the capital program, or that will be in the capital program, we'll be able to compete after that.

COMMISSIONER KOLLURI: Right. And we've gone one step further than that.

SENATOR OROHO: Okay.

COMMISSIONER KOLLURI: And the other thing we have said is, if we're talking about a congestion relief project by adding another mile, or two miles -- I forget what the mile marker limit we set -- if we need to add a through-put on the highway system-- Like for example, in South

Jersey on 295, and if we're talking about a mile or two of new road onto the existing facility, that too would be allowed. But what I will tell you would be, a true competing facility -- and we probably would have to compensate them for it if we built a brand-new highway right next to the Turnpike. So you are right in saying that we're trying as best we can to anticipate those kinds of questions and try to put in place protections for the taxpayers, precisely to address the same kind of issues you've mentioned.

SENATOR OROHO: Okay.

One other question I have now -- and I apologize if it's already been answered either by -- or asked by Senator Vitale or Senator Bucco -- with respect to the economic impact on our-- Has there been an assessment of what this would mean to our business community, our ports, our tourism industry, or job growth? Has there been any kind of studies like that?

CHIEF OF STAFF ABELOW: The answer is, to the best of my knowledge, there's not been a formal study of that. I think that I would say two things in response -- or three, I guess: And the first is that all of this started in our minds in part with what is the cost to the economy of our doing nothing? And the biggest complaint that we hear from business, as they think about New Jersey as a place to locate or think about leaving, is the lack of predictability that we're providing people today about the budget and about the tax structure.

And as the Governor has said repeatedly, we don't view this as being sweet-tasting medicine. What we do view it as is, we know -- at least we have a pretty good idea of what the potential consequences are of a massive income tax increase, of a massive sales tax increase, and even a gas tax increase. And we really do view those as being components in some fashion, or form, to any reasonable alternative to this, and view those as much more -- at least having the potential to be much more damaging to the economy. I would note, also, you saw yesterday a number of business leaders standing with the Governor and saying, "We need to take the bull by the horns and do something like this." And so we know when a Dennis Bone from Verizon is standing there-- Well, Verizon has-- I don't remember the statistics when he told me once how much time their trucks are on the road. They understand the consequences to their business if we don't maintain a state of good repair of our roads. And that hangs in the balance if we don't do something.

SENATOR OROHO: Thank you very much.

Madam Chair, thank you.

SENATOR BUONO: Thank you.

Thank you very much.

Senator Cunningham.

SENATOR CUNNINGHAM: Thank you.

SENATOR BUONO: It has to be on red. (referring to PA microphone) Yes.

SENATOR CUNNINGHAM: Yes.

Thank you very much. And congratulations, Chairwoman.

SENATOR BUONO: Thank you.

SENATOR CUNNINGHAM: This has already been touched on a little bit, I believe, by Senator Vitale and also by Senator Turner, but it's worth bringing up again. I am particularly concerned about Route 440 in your study, because there is a part of Route 440 that becomes very local. As a matter of fact, I live on a part of Route 440. And I was concerned about -- if when you decided that this should be a part of the roadways included in this plan, since it is not already a toll roadway, did you take into consideration all of 440, and the impact that it would have on the people who live there and who have small businesses there? Because quite honestly, this is going to have a big impact on a lot of our people in Jersey City, primarily.

COMMISSIONER KOLLURI: Senator, the way I would answer that is, we clearly understand the impact exists, but we also clearly understand that Hudson County and Middlesex County have enormous infrastructure needs. The stark reality is that if you look at it just on a per capita basis, the amount of infrastructure needs that exist in those two counties far surpass any other county, with the exception of perhaps Essex. So all I would say to you is, you're very correct in bringing out the impact it would have on the people. But I will tell you, as a practical matter -- and I suggested it to Senator Vitale -- the reasons why we selected it and -- the net impact to the proceeds is about a billion dollars. This is our proposal.

SENATOR CUNNINGHAM: How are you basing it, since-- You could project what it would be for the Turnpike and the Parkway, because they're already toll roads and there is some sort of history. What are you basing that on in terms of 440, which is not currently a toll road?

COMMISSIONER KOLLURI: Based on daily traffic, which is about 84,000 vehicles, plus 2,500 trucks.

SENATOR CUNNINGHAM: And do you have profiles of the people who are using it now?

COMMISSIONER KOLLURI: No, Senator. We don't have demographic data, if that's what you're asking for.

SENATOR CUNNINGHAM: Right.

COMMISSIONER KOLLURI: When I say 84,000 vehicles use that road, we're talking strictly about the average daily traffic that uses it, not the economic or demographic profile of the people who use it.

SENATOR CUNNINGHAM: Okay.

SENATOR BUONO: Thank you, Senator Cunningham.

Senator Haines.

SENATOR HAINES: Thank you, Madam Chair; and looking forward to working with you. Congratulations.

SENATOR BUONO: Thank you.

SENATOR HAINES: And thank our colleagues for doing a great job in preparing for this hearing. And I know there are other witnesses apparently here, and I thank them for their patience. And I will be brief, because I know they want to be heard. And many of the questions have been asked and answered.

And I just want to start out by complimenting the Chair for her initial comments. We are trying to reassure the public here -- and that's putting it mildly -- but I agree, and I think you made a very good point. I think we have a credibility challenge here in New Jersey, and I think you'll agree with me on that. And I think you've heard all this -- echo the same sentiments, similar -- and it's a very bipartisan sentiment that you hear here.

I'm from Burlington County and -- largest county in the State of New Jersey. We have, I believe, four exits on the Turnpike alone. And naturally the concern immediately turns to diversion. And I know you've attempted to quantify what that would be, indicating that it would be a projection, of course, but you feel that it would be less than the 20, 30 percent that's in the Steer's report. Is that correct, Mr. Commissioner?

COMMISSIONER KOLLURI: Yes, sir. It is a projection. And my own view again is that the history of the toll roads have not shown that level of diversion that this report projects. But I'm just basing my analysis on history, not a projection.

SENATOR HAINES: Correct.

So it's possible that it could be, in fact, more than the projection.

COMMISSIONER KOLLURI: And the other thing I would say, Senator, is that the diversion that is mentioned in the report is, again, not mode specific. So the natural tendency to say that the diversion is going to happen to a local road, in my estimation is factually inaccurate, because the report doesn't say it. The report, equally importantly, does imply, if you will, that the diversion could act on the mass transit system or the freight rail system, which actually was a good thing.

SENATOR HAINES: I agree, if that exists, if mass transit and freight exists.

And in Burlington County, a lot of the rails have been torn up for other purposes, and we advocated it would be for the Light Rail in Burlington County. And it took years. And that was a major challenge. We got it through. And as a result of that, we were able to site the industrial park up by the Turnpike bridge that goes into Pennsylvania.

One of my concerns is that, with the increased costs that would be associated with the toll increases, were you successful in avoiding diversion, which you apparently want to do, there would be a major increase and that would be passed on -- that's only a simple, economic theory -- passed on to the consumer, passed on to warehousing here in New Jersey, which would ultimately be passed on to us. I think that's -- you would agree with that?

COMMISSIONER KOLLURI: The tolling structure as proposed, I will tell you, was the result of an extensive conversation the Chief of Staff and I had with the New Jersey Motor Truck Association. This 2010 date for a toll structure is not by accident. It's frankly quite by design.

SENATOR HAINES: Right.

COMMISSIONER KOLLURI: It is to let the industry reconfigure their business model so as to be able to -- so they can continue to compete effectively.

SENATOR HAINES: Well, I think it stands to reason that there would be an increased cost. There would be an economic impact on goods and services here in New Jersey, if the suppliers are paying increased tolls.

COMMISSIONER KOLLURI: Senator, with your permission, if that -- and I certainly don't intend to dispute you on your statement -- but I will tell you, if you currently are a trucker who drives on 195 -- the 11-mile stretch -- you're currently paying 82.5 cents a mile, compared to the New Jersey Turnpike, which is 19 cents a mile. So if we're talking about apples-to-apples, you would suggest that the trucker in Delaware is charging rates which are far less competitive than they are in New Jersey. All I would say to that is, the trucking industry has said to us, in no uncertain terms, they'll want a predictable capital program that makes the improvements to the infrastructure so they can get from point *A* to point *B* in a safe and efficient manner.

And one more thing is, if you look at the distribution investments the Port Authority is making for the freight rail program, over the next 10 years they're going to invest about $750 million in freight rail, in addition to what the Department of Transportation, through the Governor's program, is going to invest in freight rail. So what we're suggesting is, we have a multi-modal approach to movement of people and movement of freight, and the idea is to make sure New Jersey continues to be competitive and sustains its competitive advantages over the states.

SENATOR HAINES: Well, thank you.

I think we're going to have to agree to disagree on the economic impact, because I just feel from the fundamental economic point of view that when costs are increased to the business sector, they're passed on as much as possible to the consumer.

And one thing we have a problem here within New Jersey, and I think you'll agree, is affordability, which is really what this all gets back to -- affordability to live in this state and to raise a family, and to work. As we all noticed during this past year, going out and about among the people, there's a lot of talk about affordability and moving out of the state. And I just somehow don't see how either a diversionary problem or a non-diversionary problem is going to address affordability. I think we will continue to have that. And I think that's a subject for another discussion. But I don't know if what you're proposing, even if it's successful on every count, would solve the problem. But I would also compliment you in passing -- the great job that you've done -- all, today -- preparing for that. And I think I'd feel very comfortable with you being members of the PBC.

And that leads me to another question. The PBC will have incentives, compensation incentives, for the board members and the management team certainly. Is that correct?

CHIEF OF STAFF ABELOW: We've certainly allowed for that, and viewed that as an element of control. That again is -- that if our objectives are to have them minimize the tolls, make the necessary investments in the roads, and make the contributions to lessen the burdens of the State to the degree that people benefit from meeting those objectives, and will work harder to do that -- I think we would be supportive of that.

SENATOR HAINES: Do you sense that there would be an unhealthy competition between the Turnpike and other local roads to the detriment of the local roads? I mean, there's a profit motive with the Turnpike and the other toll roads versus-- I mean, there would be a competition for traffic, don't you think?

COMMISSIONER KOLLURI: And Senator, I think this goes back to your diversion question again. And all I've said is, that if you look at the capital investment the Governor is proposing for the local roads, one is to make sure the roads continue to be safe and vital. That's number one.

SENATOR HAINES: Right.

COMMISSIONER KOLLURI: Number two is, if you take these diversions at face value -- and I don't, I still think they're projections -- then I would say that the kind of competition and the kind of diversion issues you're talking about will be, in my estimation, mitigated. But I want to be clear about this: Nowhere has anyone of us, including the Governor, said that there won't be diversion.

SENATOR HAINES: Right.

COMMISSIONER KOLLURI: But the only time where there was a 100 percent toll increase in 1991 -- and two consecutive 20 percent increases in tolls in 2000 and 2003 on the Turnpike -- we have seen that the traffic comes right back. Because it doesn't make economic sense for a truck driver to be sitting stuck on Route 1 when he should be going from his point of origin to his point of destination in a safe and efficient manner. And I think that's what the report is suggesting. But my only view is that we probably have to explore this a bit more before you come to the kind of conclusion that you, perhaps, are.

SENATOR HAINES: When you say, "come right back," do you have a time period when they would come right back?

COMMISSIONER KOLLURI: Yes, sir.

In 1991, it took two years for the truck driver to come back. And in 2000 and 2003, there was no diversion at all.

SENATOR HAINES: Well, just assuming, for the sake of argument, that it would take two years, starting in 2010, and two years later there would be another toll increase, would you anticipate another diversion at that time?

COMMISSIONER KOLLURI: Well, the answer to that, Senator -- again, the average estimate of elasticity projected in the report is 20 to 30 percent for the Turnpike, when the tolls are fully implemented in 2022. Again, I don't want to belabor the point--

SENATOR HAINES: Right.

COMMISSIONER KOLLURI: I think those are still projections.

SENATOR HAINES: You do concede there would be some diversion in the two years?

COMMISSIONER KOLLURI: Yes, sir. Absolutely.

SENATOR HAINES: Now, I know you probably haven't done it, but in a normal traffic analysis, you would do a traffic impact report.

COMMISSIONER KOLLURI: And what I'm suggesting is, the weakness in this diversion analysis is, it does not have the kind of specificity that you're asking for at the moment.

SENATOR HAINES: I'm sorry.

COMMISSIONER KOLLURI: This analysis doesn't contain the kind of specificity that you've asked for. It doesn't, for example, say, "Road *X* will get the brunt of the diversion, if there is diversion." Nor does it say that, "The New Jersey Light Rail is going to go from 6,000 passengers a day to 25,000 passengers a day," which it doesn't.

SENATOR HAINES: Right.

COMMISSIONER KOLLURI: But I think those are useful bits of information in order to come to the conclusion that you perhaps are arriving at.

SENATOR HAINES: Even a 10 percent diversion would be a substantial volume of traffic.

COMMISSIONER KOLLURI: If you assume that the projections are right.

SENATOR HAINES: And a typical road -- a brand new road would be designed-- Let's say you were building a brand-new secondary road. You would design it for a level of service to handle truck traffic, tractor trailers, so on, and so forth. Of course, the roads that we're talking about weren't designed in that fashion. Senator Sweeney pointed out the roads in South Jersey, as well as other counties, are congested now, overburdened, and wouldn't be able to handle much more than they have now.

COMMISSIONER KOLLURI: And I would argue that's precisely why the diversion won't happen the way you were talking about, because they'll choose not to stay on those local roads and they'll go back to the Turnpike.

SENATOR HAINES: That's a good point. However, nature being what it is, there will be some diversion.

COMMISSIONER KOLLURI: I've never said that there won't be some diversion, but I just don't agree that the projections would fully yield the kind of numbers we're talking about, without further examination.

SENATOR HAINES: You said there would be an impact, like a safety impact, on the local roads? For example, pedestrian traffic, school transportation, bus traffic.

COMMISSIONER KOLLURI: That's precisely why the Governor has proposed a $74 million, 5-year pedestrian safety program.

SENATOR HAINES: Well, that's all well and good, but there's always going to be a period of time where that -- we're catching up to that.

COMMISSIONER KOLLURI: Senator, if you're asking for a utopian ideal on solving all safety challenges, I would suggest to you that there are safety challenges that exist now that the Governor is desperately trying to fix by making the kind of investments that, frankly, the State has not made in over two decades.

SENATOR HAINES: And we welcome it. I can see that.

COMMISSIONER KOLLURI: So, in your own area, there is enormous infrastructure needs that we, frankly, have not met and that's arguably led to much more unsafe conditions than probably should be tolerated. And I'm suggesting to you that the Governor is proposing probably the most robust, sustained capital programs the State has ever seen to address precisely the issues you're raising -- and those are valid concerns -- and I think that's exactly where we should be focusing our efforts on.

SENATOR HAINES: Would the PBC have the power of eminent domain?

COMMISSIONER KOLLURI: The power of eminent domain, I believe, stays with the State.

MS. FELDMAN: A private corporation does not have the power of eminent domain. The owner of the roads, the State authority, would retain the right of eminent domain.

SENATOR HAINES: All right. That clarifies -- because I believe in one of the handouts that we received two weeks ago, it said that the State would transfer to the PBC the power to expand. I did read that language.

MS. FELDMAN: They've transferred the right to expand in the sense of the investment. If it was inarticulate, we apologize. They will not have the right of eminent domain. They will be required to meet the service levels and investment requirements.

SENATOR HAINES: Thank you.

Madam Chair, that concludes my questions. Thank you.

Thank you, lady and gentlemen.

SENATOR BUONO: Thank you very much.

Thank you to all the members, and thank you to this panel.

I just wanted to wrap up by-- I've actually been taking some notes as we have been-- And you have not certainly been inarticulate by any stretch of the imagination, and it has been very helpful. But I think, suffice it to say, that we need a lot more specificity. And while there are a lot of issues to be resolved, one of the prerequisites is, what is key is what will be included in the concession agreement. I know that as a public nonprofit it would not be subject to the disclosure requirements in Sarbanes Oxley.

CHIEF OF STAFF ABELOW: We have suggested that we would include in the concession agreement a specificity around that, that it would, in fact, be subjected to Sarbanes Oxley. It would not naturally. But we, again, would propose to specify it.

SENATOR BUONO: Well, that's good.

How about OPRA -- Open Public-- In terms of--

CHIEF OF STAFF ABELOW: Again, as a technical matter, OPRA, of course, applies only to a public agency, to a State entity, which this is not. So again, we would attempt to solve that through the concession agreement, and as we said earlier, by stipulating reporting that must be done to the State that is automatically subject to OPRA.

SENATOR BUONO: And if I understood your answer, Brad -- to Senator Haines I think it was, when he questioned you with respect to the management incentives or bonuses -- if I can interpret what you said, that one of the reasons you would give bonuses was for lowering tolls. In other words, as a reward for doing a good job. I mean, I'm not criticizing you. Is that basically what you were saying?

CHIEF OF STAFF ABELOW: No, no. Again, I think that's up to us to specify, through again the concession agreement, what kinds of incentives we would contemplate.

SENATOR BUONO: My concern, and what I believe very deeply, is that we need to place some limits on those incentives, because we've seen flagrant abuses -- and not just in the public sector, but as you well know in the private sector.

CHIEF OF STAFF ABELOW: Agreed.

SENATOR BUONO: Okay, good.

And then last -- and I will finish and open it up to the public. When we talked about the amount -- of placing a limit on the amount of cash the public benefit corporation could hold before they were required to pay it back to the State-- We talked a little bit about the current law establishing nonprofits, which would apply in this case. I want to go on record as saying that I have no faith in the current law, in that it simply does not provide sufficient safeguards against abuse. And I don't want to really criticize Horizon, but in the past that's a poster child of how a public nonprofit, that's dedicated to a charitable purpose of providing health care to the public, shouldn't operate there. As you know, their reserve -- it's growing every year in leaps and bounds. And at the same time, it's not giving anything back-- They have begun recently -- with Senator Vitale's persuasion and the Governor's involvement -- to give back to the citizenry in terms of lowering health insurance rates, but there should be more of that. So what I'm saying is that we need to either amend the current nonprofit statute or we need to place some serious limits on the reserves that this PBC can accumulate.

And with that, I want to thank our esteemed panel. And I guess you can go have dinner. We're going to have a public--

CHIEF OF STAFF ABELOW: Thank you, Madam Chair and members.

SENATOR BUONO: If this panel is still here, then we are going to try and call people up in groups, since the hour is getting late.

We have as our first group, Richard Leone -- is he here still? -- Century Foundation, Financial Restructuring and Debt Reduction Campaign Steering Committee; Ray Pocino, Laborers' International Union; and Phil Beachem, Alliance for Action. Any of all of those?

Joe McNamara, I see.

JOSEPH McNAMARA: I'm here for Ray. Obviously, I'm not Ray.

SENATOR BUONO: I did see him here earlier.

MR. McNAMARA: Yes, he was. He had to be in New York. In fact, he had to be in New York before now, so he had to leave.

SENATOR BUONO: Okay.

MR. McNAMARA: So can I say a couple -- on his behalf?

SENATOR BUONO: Yes. Could you just identify yourself for the record?

MR. McNAMARA: Phil is not here. If you want a panel, maybe Bill Mullen from our industry also.

SENATOR BUONO: Sure.

MR. McNAMARA: This way we could do it more quickly.

SENATOR BUONO: Okay. If they could come to the table -- is it Bill Mullen? I see Jack Kocsis. If they could just identify themselves for the record, that would be great.

Please have a seat. Welcome.

WILLIAM T. MULLEN: Yes, hi.

MR. McNAMARA: I'm going to defer to the president of New Jersey Building & Construction Trade Council.

SENATOR BUONO: Again, could you identify yourselves?

I see Tom DiGangi, also. Tom, can you identify yourself.

THOMAS DiGANGI: Yes. I'm here for Jack Kocsis. My name is Tom DiGangi, representing the Building Contractors Association. Thank you.

MR. McNAMARA: Yes. And for the record, my name is Joseph McNamara. I'm Director of the Laborers-Employers Cooperation Trust Fund. Representing Ray Pocino, excuse me.

MR. MULLEN: Madam Chairman, my name is Bill Mullen. I'm President of the New Jersey Building Trades--

SENATOR BUONO: And you're representing yourself? (laughter)

MR. MULLEN: Well, I'm representing our -- over 100 unions here in New Jersey, our 13 local councils throughout the state, our 15 international unions. Basically, we are the people who build New Jersey -- build the roads, the schools. We work hard every day to keep New Jersey what it is.

And before I go on, I'd like to congratulate you on Chairmanship of this important Committee.

SENATOR BUONO: Thank you.

MR. MULLEN: It must be-- I didn't realize -- it's some honor for you to be the first woman. You have to be really proud of yourself; and your family, and all the women in New Jersey.

SENATOR BUONO: Thank you.

MR. MULLEN: I would have congratulated -- just to be on a lighter note -- Steve Sweeney, but I see he had to leave, because he had his pink tie, and get home before dark. (laughter)

But I'll be very quick. We've, at great length, all of our unions and our councils -- we feel very strongly that the State is broke, which we've heard. This State needs a great transportation system. It needs a great economy, as Senator Bucco heard (*sic*) before. We have to attract business. We have to keep business here. And without a strong financial state, a strong economy, that's not going to happen. It's really -- I guess it's-- The doom-and-gloom day is here. You can't point fingers any more.

Going back to Governor Florio, in hindsight maybe he had the right idea, but it didn't work. And he was voted out of office, and it's continued to have perpetuated itself through Governor Whitman, to McGreevey, and up to this day. And I really believe that the time for pointing fingers are over. The Republicans in the minority and the Democrats have to come together -- have to come together -- or else this is never going to happen. This State -- it will just dry up and die, and there'll be no jobs for anybody. Right now, the jobs are leaving New Jersey. There are no middle-class jobs left, and we're in trouble. And I would just say to this Committee, you as the Chairman, to the minority group, and to the Democrats, we have to get together, don't point fingers.

As a group, the Building Trades in New Jersey support the Governor's concept. We applaud him for coming forth with this and staking his political career. It's just so important for this State to do this.

I heard Senator Lance say this before -- we really are in trouble and there's going to be no jobs for anybody.

So thank you, Madam Chairman.

SENATOR BUONO: Thank you so much.

I thank all of you.

Did you want to speak also, Joe?

MR. McNAMARA: I think you've just gotten a copy of Ray's -- some formal remarks or comments from Ray about his testimony. And I think that just -- Bill Mullen's comments. He applauds the Governor for taking the steps to deal with this fiscal problem. It makes a good analogy to the construction industry, which most of the laborers -- the 25,000 New Jersey laborers are involved in construction. You know, in our business, if you overfill a wheelbarrow, you can't get where you want to go. And we've overfilled our wheelbarrow at the State level with debt, and so we're not going where we need to go.

But I think it's important -- he wanted to mentioned about the magnitude of this. There's been a lot of discussion today, and on the radio and others, about, well, why don't we make some more cuts to solve the problems. I think the Treasurer outlined about $2 to $3 billion that's needed now to keep the budget in balance if we freeze it. That does nothing for the long-term problem, nor does that do anything for refinancing the Transportation Trust Fund, which has always been a focal point for the laborers in our industry, and it should be for the Legislature and the people of the State of New Jersey. When we make investments in our infrastructure we create jobs, we create revenues. The other side, besides spending, we need to grow revenue. And the only way we can do that is to attract and retain business. My discussions with businesses, in different lives I've been over for the past few years -- in the Department of Commerce and others -- they talk about the need to move goods and people efficiently. We have a great infrastructure with our airports, ports. If we don't keep them up, we will lose business.

I understand the tolls -- there's some question about the impact. But if we can move people more efficiently through this state, we will keep business. I don't think it's any accident that Fred Hassan, from the pharmaceutical industry, is on that steering committee, and other business people. They recognize that there has to be some pain for these things. But if we don't make the investments, we'll lose revenue. So even all the work we're doing to reduce the debt won't have that total impact. So as Bill mentioned, it's critical for us to make these investments for the future of our economy and of our State.

Thank you, Madam Chair.

And again, congratulations.

SENATOR BUONO: Thank you.

MR. DiGANGI: And Chairwoman, very quickly, representing the employers' side of this equation, BCA represents general building contractors and construction managers. They employ tens of thousands of skilled craft workers annually. We think it's important for this Committee to know that our Association agrees with the Governor that the State's financial situation is in a -- it's great. And some aggressive approaches are going to be required to fix it. And you should also understand that these contractors, as well as the people they employ, are willing to accept some pain to fix what's broken.

We would draw your attention, as you analyze this in more detail, to take a look at the contracting procedures that are outlined. We have some concerns about what the Governor has laid out with regard to competitive contracting. That's different than the tried-and-true, low-bid system that you are aware of and use to -- and know works. We'll talk with you in more detail about that, as we learn more about it. Our testimony details what our concerns are, to read at your leisure. But in the interest of time, we'll leave it at that.

SENATOR BUONO: Any questions from the members? (no response)

Thank you all.

MR. McNAMARA: Thank you. They're tired too.

MR. DiGANGI: Thank you.

MR. MULLEN: Thank you.

SENATOR BUONO: Next, I'd like to call to testify Frank Mikorski of South Plainfield, the Senior Men's Forum, whom I happen to know. He visits my office frequently. Happens to be a Republican, but--

FRANK MIKORSKI: Nothing wrong with that.

SENATOR BUONO: Nothing wrong with that. (laughter)

Peter Humphreys, Save Our Assets New Jersey; and Jerry Cantrell, New Jersey Taxpayer Association. If you would all-- He left? Okay. So then just Mr. Humphreys and Frank.

Welcome.

Mr. Mikorski, could you begin? You just have to press-- And turn off the one next to you. (referring to PA microphone) That's it.

MR. MIKORSKI: I will thank you very much, Barbara. I certainly appreciate the opportunity to be here to speak to you.

As I sat here making notes, because I've been here since 3:00, I heard such words as *credibility* -- boy, and do I have something to say about that. (laughter) There was a reference made-- Well, if you were a corperation -- by one of the Treasury people -- and you were in financial trouble, what would you do? I'll tell you what they would do. Lay off people, cut benefits, do everything in order to survive. And part of our problem, as I see it, is that we're being asked for everyone to make sacrifices except one group, and that's the public sector. Because the presentation here was, "Well, you can't touch any of those benefits" or "you can't touch anything." Well, if that's the case, we'll be here in a couple of more years saying, "We need another PBC," because they'll be no end to it. So that was just an off-hand observation.

And I would like to take a moment. I am a member of the Senior Men's Forum. And what we usually do is meet periodically. We attend our School Board meetings, our municipal meetings. We try to become involved in government. And at one of the most recent meetings, we got to discussing the situation with one of our members who is a retired business administrator. And he told us he just came back from a trip to

Europe, through the Mediterranean, and we said, "That's wonderful." But we don't get some of the benefits that he does. And I don't deny that this is a problem for us. Because if you're going to ask people to sacrifice, it has to be shared equally.

We are told the Governor's proposal is for between $30 and $40 billion dollars of new debt. Has anyone obtained a total cost of this issue over the life of the debt? I think that question was raised previously -- how much it would really cost?

We oppose the Governor's proposal which increases our debt. By establishing another layer of PBC organizational structure to administer the program is purely and simply a device to escape the Supreme Court decisions on new borrowing. The program is nothing more than borrowing with a different format. It seems like the Governor and the Legislature have a one-track mind, and that is more revenue with no desire to cut spending. Look at the budgets -- and this has been referred to previously -- going from 28.5, when Acting Governor Codey was in, to 33.5. Almost a $6 billion increase in the budget in two years.

Now he proposes a freeze in spending. This is not the same as cutting spending. Proposals are for the comptroller's office. And I know, Madam Chair, you have mentioned this, but we're putting more activities on top. Because I feel we have Department of Ed, Department of Community Affairs, SCI, State Attorney General, Schools Construction Corporation -- we just put layer on layer of more administration to do what people should be doing who are already there and being paid.

Let's examine the credibility, or lack over the years, by this Governor and others. And the reference was made to Mr. McGreevey using tobacco settlement moneys, and this has been something that has bothered me over the years. That money was supposed to be dedicated to the health-care delivery system, not for operating expenses. Corzine then floats the bonds to replace transportation funds. Over the years, the transportation fund dollars were used not for necessarily improving bridges and roads, but to build sound barriers. I don't know if that's the most effective use of our money. Over the years, the Governor has squandered every opportunity to reduce costs. A number of study commissions -- and there are a whole host of reports that have been issued -- legislative committees met over the Summer for six months to review benefits, school funding, shared services, etc. They submitted a list of proposed changes -- proposals including changing from defined pension to defined contribution plans, a rollback to age 60 from 55, etc. And he set those all aside. Because he said, "I will put this into negotiations, and I will put in changes." Bottom line: We increase salaries by 13.5 percent. No changes -- in none of those areas. And you all know that, prior to this administration, all issues of pensions and retiree health-care benefits were legislated, they were not negotiated. So we put ourselves in a box now for the future, which denies we, the taxpayers, the opportunity to go after you when you changed those benefits. We have no place to go now. And as I mentioned historically, that was a problem.

And quite frankly -- this is just an aside -- if the negotiations that were conducted were conducted that way at Goldman Sachs, they would have been known as ex-employees.

Just look at what has happened in the auto/steel, and the airlines, and the other industry -- and that was a comment I made earlier. I would bet in the last few years our government State employee numbers have increased. I don't have the figures because you get can't them from the Personnel Department. So the credibility record of the Governor is not very encouraging. Proposals he received for cutting costs were ignored. Changes in the school funding formula were not implemented, but fortunately -- and thanks to you, Senator Buono and bipartisan support -- we will finally have some changes on the school funding formula.

Again, I emphasize, we don't support the Governor's proposal, which is a gimmick to get around the court's decision and deny us, the public, the right to vote on debt. Now, the Governor has said if you have some other ideas; and I'd like to extend some of my ideas. The first thing I would do is cut spending. Cut spending -- ensure that the government sector participates in making sacrifices, just as those of us who work in a private sector and who are retired seniors have to do. Consider an increase in a gas tax and dedicate proceeds to the Transportation Trust Fund. Increase tolls on the Parkway and the Turnpike 50 cents to 75 cents and dedicate the money to reducing debt. A one-time surcharge on the income tax between $100 to $500, based on income, to be applied for one to two years with the proceeds dedicated to reducing debt. Do not issue any more debt -- not one cent. Eliminate a portion of Homestead Rebate and apply those funds to the school funding formula. Combine this with a thorough review of the salaries and benefits, organizational structure, and staffing at Garden State Parkway and Turnpike. Also, tolls should be higher for those paying cash since it requires more labor.

This seems like tough medicine, but I believe in the long run it is cheaper than paying debt, principal, and interest in the Governor's plan for 75 years. Let's get to work. We seniors are available to help, and I'm sure we could find other volunteers.

Thank you very much, Senator.

SENATOR BUONO: Thank you so much, Mr. Mikorski, for coming all the way down and waiting all those hours. Your comments were always very well taken, and very intelligent, and make a lot of sense.

Thank you.

Mr. Humphreys.

PETER HUMPHREYS, ESQ.: Thank you very much, Senator Buono. I appreciate the time and I appreciate the opportunity to speak to everybody today.

I had prepared a handout which I hope you all have a copy of. There are extra handouts if the people in the audience would like. Would you hand them out? Okay.

Good afternoon, everybody. And if I said good afternoon, that's what it says. It's actually, good evening. Good evening, everybody.

My name is Peter Humphreys. I am very pleased to be here to talk about the Governor's plan for financial restructuring. I've lived in New Jersey for about 25 years. But in my day job -- I'm a partner in a law firm in New York City, and I am head of the securitization practice at McDermott, Will & Emory. McDermott, Will & Emory is the 13th largest firm in the United States. We have 1,100 lawyers worldwide.

And so my job is to do securitization transactions -- credit cards, mortgages, things like that. But by some accident of fate, I've also ended up as the spokesman for Save Our Assets, which is a coalition of businesses, unions, and citizens. And we started out, with Save Our Assets, really as an attempt to try to educate people about the Governor's plans. And the idea was to demystify this and to try and bring it into everybody's understanding, because Wall Street guys love to talk in jargon, and I'm probably no exception. So we're trying to demystify.

Two weeks ago, after the State of the State Address, we said we have seven serious concerns. And I'm afraid we've still got seven serious concerns, and we may have eight or nine. So we'll stick with seven for today. Let me just go through real quick, and I'm not going to-- I know the hour is late, and you probably know many of these anyway.

The first concern was: how much are the tolls going to increase? Well, I think we've beaten that one pretty much to death, except for the fact that it's eight times by 2022. We don't really know if it's eight times, because it's not predictable. It's based on inflation. And if anybody would like to have a bet with me about how much inflation is going to go up in the next 14 years, I bet you're wrong. And nobody knows. So we don't know how much the tolls are going to go up in the next 14 years.

The one thing that did come out of the study -- and I brought the study with me, because I've grown to love it in the last four days. The study says the average toll on the Turnpike today is 5.5 cents. Sorry, the toll per mile on the Turnpike today is 5.5 cents for a car; U.S. average, 9 cents; and we propose to raise it to 44 cents by 2022, which is five times the national average. The trucks pay 22 cents on the Turnpike. The national average is 22 cents. So we intend to increase it to eight times the national average by 2022. That's in the study -- not my numbers -- in the study you've all read since Friday.

Concern number two: Who pays? Who is going to pay this increased toll? And I think this one has been discussed quite a lot. The East Coast, the people who live near the Turnpike, the people who live near the Parkway are going to pick up the lion's share of this. Is that fair? People in the north pay more than people in the south, because of the way the tolls are structured. Taking into account the size of the toll and what it's going to be used for, it's a tax. It's a tax on the roads. It's a road tax and it's regressive. It hits working people hard. It's a regressive tax. We shouldn't forget that.

Higher tolls mean higher transportation costs. One of the big selling factors is that out-of-staters are going to somehow pick up our cost for us. But most of the out-of-staters are truckers, and the truckers are just simply going to pass on the costs to the consumers in New Jersey. So we're going to pay it anyway.

The third serious concern we had was, who's going to decide the amounts of the tolls? And we've heard a lot about this public benefit corporation. And today, Mr. Abelow talked about having a citizens oversight board for the new public benefit corporation. Well, actually, we already have a citizens oversight board, and it's called the electorate of New Jersey, and that's who should get to decide who imposes tolls and how much they are. Now they work through you, at the moment, through the Turnpike Authority. And there is some cynicism about the Legislature -- I'm sorry, we already know that. But the fact remains that we have a basic principle that if you're going to impose taxes, or tolls, it shouldn't be an unelected or unaccountable body. And this entity deliberately is to be divorced from control by you and control by the electorate. It's going to be a group that's run, essentially, by five wise men, or three wise men, or however many wise men are going to decide how to run the roads, and it's going to be self-perpetuating for 75 years. And that's a big concern.

Fourth concern: Who's going to control the roads? Do the investors always get paid first? Is safety to be maintained if investors must get paid? Let me just speculate -- I forecast weather as well. Let's assume we have the Winter of 2013, and it's a really bad Winter 2013, so stock up on the salt. In that Winter, the roads have to be salted, and we've run out of salt sometime around February. Now, here's the straight choice: Do we pay the bonds, do we buy more salt? Now, I think probably most of these deals work so you pay the bonds. And I think we should buy salt. I don't know what you think, but I think salt comes before paying the bonds. That's a real issue. You can't just say, "Oh, well, we're going to keep enough money aside to make sure." Because that means we're going to have bigger and bigger reserves in this public benefit corporation, in case we have a bad Winter. That's not very efficient.

What about repairs? Are we going to repair the roads efficiently, or are we always going to be looking over our shoulder to make sure $40 billion of bonds have to get paid. It's a real question. It's one we need to be very clear of before we do this deal.

And what about jobs? You know, one of the classic lines in this is that jobs will be maintained at current levels. Well, I'm sorry. In 1933, if I told you your job was -- you were going to have just as good a job in 2008 as you had in 1933, was that a good deal? I don't think so. We shouldn't be telling people that jobs are going to stay static for the next 75 years.

Now, one of the things it said is that the penalties -- there'll be substantial financial penalties if they don't meet standards. And I think it was Senator Vitale who said, "Well, aren't you just going to pay out of the tolls?" And of course, he's absolutely right. Because the only money the public benefit corporation has is toll money. And so if we impose financial penalties on the public benefit corporation, it gets paid out of tolls, which means, I guess, we've paid our own penalties.

Let's talk about what they're going to do with the bond proceeds. The biggest issue in financial restructuring in New Jersey is property tax reform. You know that, I know that. Property taxes are the most important issue to everybody in the state. And we can't talk about financial restructuring with a straight face and not talk about property tax reform.

There were two other issues that were mentioned today by Mr. Abelow. One is the pensions and the other is post-retirement health care, and enormous numbers were thrown out about them. But if you look at the plan, nothing goes to pensions. Nothing goes to post-retirement health care. So where does it go? Where is this all going?

Well, what I wanted to do was, I wanted to take the same page that Mr. Abelow walked you through and walk you through the same page. It's right at the end of my piece. It's like two pieces in from the end. It was Page 21, I think, in Mr. Abelow's presentation. And it's in color in Mr. Abelow's presentation. Sorry, we couldn't run to color, we only have black and white. But the numbers are good enough in black and white. But what I want to do is just try and walk through this page, which is what we're going to do with $40 billion. I'm just trying to explain what I think this means, and you can take it for what it's worth. Okay?

The funds from monetization will be invested in Transportation and debt relief.

UNIDENTIFIED SPEAKER FROM AUDIENCE: It's Page 18, not 21.

MR. HUMPHREYS: No, it's Page 18 of my handout, but it's Page 21 of Mr. Abelow's handout.

UNIDENTIFIED SPEAKER FROM AUDIENCE: No, it's the same.

MR. HUMPHREYS: No, it's a different one. Okay? Well, maybe you've got -- okay. Well, all right. Well, we've all got the right chart. It's this chart with the numbers on it. Okay? Sorry.

All right. It doesn't really matter which scenario we pick, because the two scenarios really have one distinction, which is how much State debt is going to be paid back at the end -- so we can do either. But let's assume it's $40 billion. And the proceeds from $40 billion are 37.6. so I don't know where the other 2.4 went to -- all right -- but it's gone. So maybe it's not $40 billion, maybe it's $38.1 billion. Maybe it's a smaller deal. So that's the first question.

The next line says toll road capital expenditures, $4 billion. Now that's presumably for repairing the toll roads or widening the Turnpike, something like that. And we're going to take the money up front, and keep it in a pile, and put it to one side, and that's money we're keeping until we need it.

Now, what do we do at the moment? At the moment, if we want to spend $4 billion to widen the Turnpike, we issue Turnpike bonds as we need them and we pay the debt back out of tolls. Here, we're collecting money up front and we're paying it back out of tolls, even though we don't actually need the money this day. There's inefficiency in that one, off the bat.

Then we go to the next line: Required financing reserves, debt service -- that's another $4 billion. Now, why are we keeping back $4 billion? If you run the projections in this study -- this thick book that we got on Friday -- there isn't enough toll revenue to pay interest on 40 billion of bonds for a long time. There isn't enough interest on the Scenario 2 until about 2017, there isn't enough tolls in Scenario 2 until about 2017; and there isn't enough tolls in the bigger deal, in the $40 billion deal, till somewhere around 2022. So we have to keep money back so that we can pay interest currently on 40 billion, even though the toll revenues aren't enough to pay it.

Now, one question I think Senator Turner asked earlier. She said, "How are we going to get to fund the Transportation Trust Fund with money in 2022?" Now, if I'm right and there isn't enough money to pay the debt service until 2022, there won't be enough money to fund the Transportation Trust Fund the same year. By my calculations, there's about $3 billion in toll revenues in 2022. Debt service, we have probably 2 billion. That might leave a billion dollars over for the Transportation Trust Fund. But that's not enough to fund it fully.

Back to the envelope numbers based on this study -- not made up, just based on this study. The next line item coming down is defeasance of all the toll authorities' debt. Let me just clarify what defeasance is, because I'm not completely convinced it was quite accurate what was said early. There are three types of bonds that we know about -- there's callable bonds, which you pay off any time you like with money; there's non-callable bonds, meaning you could never pay them back; and then there's bonds that could be callable with penalties. See, if you pay them five years early, you have to pay an extra percent or an extra 2 percent, and that costs money. What we're talking about is non-callable bonds -- bonds that basically can't be paid off in the current horizon. And that's why we're talking about defeasance. What you do in a defeasance is, I issue new bonds. I take the proceeds of the new bonds, I put them in a pot. And when the old bonds come along for interest payments, I dig in the pot and I pay the interest on the bonds. And I keep paying the bonds off until the actual final maturity date of the old bonds and everything is done.

So in order to defease bonds, I have to invest in very safe investments that will give me enough money to pay the anticipated interest and principal. So usually I have to invest in treasuries. If I invest in treasuries, I'm going to get about 3 percent interest. I'm going to issue these bonds at 5 percent interest. The 40 billion is going to be issued at 5 percent, so I can put it aside at 3 percent. Obviously, we lose money on the deal, we're losing 2 percent a year. Now, the numbers may not be 3 or 5 -- it might be 3.5 and 4.5, but that's the example.

Now, this 5.7 of bonds -- but I don't know how many principal amounts of toll authority debt is going to be defeased. So I don't know if it's 5.7. The last number I saw for toll authority debt was 5, 4.9-something -- $5 billion, which was Summer of June 2006. Because that's the last audit and financials I've seen. So it might be higher, it might be lower. But I think it's less than 5.7. And the reason I think it's less than 5.7 is, when you go down the next line, we see we're going to be defeasing the Transportation Trust Fund debt. Now that's $9.2 billion I've got to put up for defeasance. But if you keep going down the page, you'll see there's a line item: It says, "TTFA-supported debt defeased, $8.4 billion." In other words, we're going to put $9.2 billion in a pot of money to pay off $8.4 billion.

SENATOR BUONO: If we could just--

Senator Lance had a question.

I wanted also, to ask you--

MR. HUMPHREYS: Yes, go ahead.

SENATOR BUONO: How do we know that they're non-callable?

MR. HUMPHREYS: Well, I don't.

SENATOR BUONO: Oh.

MR. HUMPHREYS: Because one of the problems we're having, and one of the problems we're all having, is we don't have the details. But the only reason why I think--

SENATOR BUONO: Well, you're assuming that they're non-callable in this scenario?

MR. HUMPHREYS: Well, we're assuming they're non-callable, because otherwise you wouldn't defease, you'd call them. I mean, if you had a callable bond, you'd just pay it off at the current date.

SENATOR BUONO: Okay.

And then Senator Lance had a question.

MR. HUMPHREYS: Yes.

SENATOR LANCE: Thank you, Madam Chairman.

I begged the Treasury to have callable bonds on the pension bond issue in 1997. As you know, something I opposed, but-- I begged the Treasury that they be callable, because this is an area of practice of mine, when I was in private law practice. And they were mostly not callable because of the lower interest rates. Senator Oroho is the expert on this. I think you have roughly 25 basis points if bonds are not callable.

This Committee definitely has to know whether the outstanding Turnpike debt -- of Turnpike and Parkway debt, because it's now one agency -- whether those bonds are callable or not. And the Chairman and I have been discussing this. You, sir, are assuming that they're not callable. You don't know?

MR. HUMPHREYS: I don't know which specific bonds--

SENATOR LANCE: And then you may very well be right, and your testimony is very, very elucidating to me. And this is certainly something the Committee will ask of the Treasury -- what percent is callable and if they're at all callable. You're also saying that you do not believe that there is enough increase in the tolls until roughly 2022 to pay for the $40 billion in the borrowing?

MR. HUMPHREYS: Well, I'm only-- Obviously, this is another thing that we need to see. I mean, one of the problems we're all having, and I'm having, is that somebody needs to produce a schedule of how they anticipate this bond deal will actually work. There are-- In order to-- You issue $40 billion of bonds. Let's assume it's 5 percent interest rate, which is not untypical for this type of bond -- a triple-A bond. So let's assume it's a 5 percent interest rate -- that's $2 billion a year in interest.

SENATOR LANCE: I would presume the interest rate would be lower if there were a ruling from the IRS that they were tax exempt.

MR. HUMPHREYS: It may be lower. And if it's lower, then that would mean that it isn't 2022, it's 2020, or 2019. But we start out with only-- I mean, in 2010, we're only having about 925 -- or a billion dollars in toll revenues, which is roughly what we have now. So clearly, we won't have enough money to pay the interest service in 2010.

SENATOR LANCE: Does that mean -- and all of my questions are through the Chair -- does that mean that, at least in the initial years -- and this is a very important point, I believe -- if we will be borrowing to pay the initial amortized debt -- borrowing to borrow?

MR. HUMPHREYS: You will be borrowing to pay interest on the bonds, and you will be using some of the proceeds to pay interest on those bonds. It's sort of like--

SENATOR LANCE: I know the hour is late, and I know the audience has dwindled, but this is one of the principles of government that any of us who studied government in graduate school -- this is a principle of government that should never be violated. That you should never borrow to pay the borrowing costs. And you say we won't catch up until 2022 or 2019 or 2020. These are fundamentally serious questions as we're-- In the initial years, are we simply going to engage in this massive debt and use that debt to borrow, to borrow until sometime in the teens? And I would defer to Senator Oroho on this. But this is a critical point, Madam Chair.

SENATOR BUONO: You may continue.

Thank you.

SENATOR OROHO: Thank you, Madam Chair. If I may ask a question, if I could?

SENATOR BUONO: Oh, yes.

Senator.

SENATOR OROHO: Mr. Humphreys, just to understand, to make sure -- if I'm looking at this, you would think the cost of the issue is probably around 2.4 billion.

MR. HUMPHREYS: Oh, I have no idea.

SENATOR OROHO: Well, it looks like that.

MR. HUMPHREYS: We kept on talking about a $40 billion issue, but the proceeds are only 37.6. So I just didn't know any other--

SENATOR LANCE: It's an enormous cost of issue, incidentally. That's a tremendous cost.

MR. HUMPHREYS: Oh, absolutely.

SENATOR LANCE: I'm in the wrong business.

SENATOR OROHO: This is an interesting thing. Now, if I may, just-- Maybe I'm wrong in my mental math here when you talk -- two years-- Right now, our toll authority is about 900 million a year in tolls?

MR. HUMPHREYS: About that, yes. All together, yes, nine.

SENATOR OROHO: The cost of issuance for the first two years -- the incremental -- about almost a billion dollars (indiscernible).

MR. HUMPHREYS: Yes. And Senator Lance is right. I mean, it depends on the interest rate. If the interest rate was 4.5, it would be 1.8 billion.

SENATOR OROHO: Right.

MR. HUMPHREYS: I mean, we just don't know.

SENATOR OROHO: Okay. So that-- If you add those together, you're around -- just call it over $4 billion that you're borrowing for borrowing, for the payoff -- the debt service. And then there's the other 4 billion for the interest that we're paying on the -- maybe I'm looking at this twice. It seems to me that somewhere between $4 to $6 billion we are borrowing, in the 40 billion, that we're not paying off. We're essentially borrowing to pay interest.

UNIDENTIFIED SPEAKER FROM COMMITTEE: Existing debt.

SENATOR OROHO: Yes. To pay interest.

MR. HUMPHREYS: I'm going to borrow $40 billion. I'm going to put $4 billion aside for interest. I'm only going to get 36 in my hand, or 33 in this example.

SENATOR OROHO: That's -- yes.

MR. HUMPHREYS: I'm only actually going to walk away with 33, because I have to pay interest currently on those bonds. And if I do that, that means I have a billion dollars in toll revenue per year, and I have to dip into this pot of money with the $4 billion to make up the full interest payments. And I have to keep doing that for a number of years until the toll revenues go past the interest costs, which is going to take me quite a while, according to this study.

SENATOR OROHO: Have you done any work to look at-- One of the issues I wanted to talk about before is the cost of this capital. And to me, the cost of this capital is going to be extremely high. You look at the cost of the PBC, you look at the cost of the issuance, you look at the

-- obviously, the interest rate itself. Have you done any work as what the cost of capital is?

MR. HUMPHREYS: No, I haven't done -- crunched numbers. I'm trying to find out how much it would be. I mean, when you put money aside in a defeasance pool--

SENATOR OROHO: Right.

MR. HUMPHREYS: --that is obviously a very expensive cost in capital, because you have to put that -- you've got to pay the interest.

SENATOR OROHO: That's my point.

MR. HUMPHREYS: Oh, yes. And it's a good point. It's the actual point. Because you have to put that money in, and that money has to sit there earning 2, 3, 4 percent. When you're borrowing it at higher rates than that, you're just losing money buy putting it aside. It's not a very efficient way of funding.

The way to do a defeasance, normally, is-- Let's assume I had a very high-rated bond. Let's assume I'd issued bonds at 10, 15 percent. It would be good to do a defeasance at 5 percent, because I would be saving overall interest costs. New Jersey already has a defeasance program, as you all know, and we have about $3 billion of bonds that have been defeased. And the government looks at that all the time. Because if we can defease bonds at cheaper interest rates, we obviously should. But here we're defeasing bonds, and I don't know if this is an efficient use of capital or not. But I do know, from this table it says it's going to cost us $9.2 billion to defease $8.4 billion of the Transportation Trust Fund debt.

SENATOR OROHO: I've got to tell you, I do look at this as we're borrowing 40 billion, or it's borrowing 40 billion. To me, it seems to be between 6 to 8 billion that we're borrowing for the cost of the issuance itself, and for the fact that we don't have the money to pay the interest for the first, at least, umpteen years.

MR. HUMPHREYS: Right.

Well, we're doing the same thing with the general fund (indiscernible) debts as well. Because if you look at the numbers, general fund debt here is really two parts -- it's the open space debt and the general fund supported debt. That's about $13.25 billion dollars. And if you look down, we're only -- it's costing us 11,645,000,000. So again, we're putting up -- we're having to put more money up to defease the debt than we're actually paying off.

SENATOR OROHO: Senator Lance and Chairwoman Buono, thank you very much.

SENATOR BUONO: Certainly.

Senator Bucco, and then Senator Lance.

We're losing people quickly here. (laughter)

SENATOR BUCCO: Thank you, Madam Chairman.

And through you, just one question, Mr. Humphreys. I think it was asked of the Treasury Department, they couldn't give us an answer. On the $40 billion borrowed, is there any way of telling us a ballpark figure of what that's going to cost us to pay back over the term of the bonds? And I know it has to do with interest rates and the longevity of the bonds. And if it's over 75 years, is there any way of a guesstimate, or ballpark, of where we'll be?

MR. HUMPHREYS: I don't think I could tell you. It would depend how long the deal is. Today was the first time I'd actually understood that this may be a 35- to 40-year deal. One of the questions I have is, if it's only a 35-, 40-year bond deal, why do we need a 75-year concession agreement?

SENATOR BUCCO: Well, that question was asked also, and I don't think that was answered.

MR. HUMPHREYS: I don't think it was either. And it doesn't really make a lot of sense about giving somebody the roads for 75 years if the financing is over 30 years earlier.

SENATOR BUCCO: Right.

MR. HUMPHREYS: So I think those are all questions, but I don't know. It depends how long it is, how much interest it is.

SENATOR BUCCO: Well, let's take what the Treasury Department said of 40 years, then, on a $40 million bond issue. Is there any way of, again, coming up with a ballpark figure?

MR. HUMPHREYS: Well, I mean, we can sort of-- I can do the ballpark figure.

SENATOR BUCCO: Is it 2.5 times the borrowed? Because I think that's the figure they threw out. I think Senator O'Toole had asked that question.

MR. HUMPHREYS: It was 40 billion. Yes, I think probably 2 to 2.5 times is probably a gross--

SENATOR BUCCO: So 40 billion will cost us 100 billion to pay back?

MR. HUMPHREYS: Eighty to 100 billion, depending on the rates.

SENATOR BUCCO: So my great-grandchildren will be paying off the debt that is incurred today?

MR. HUMPHREYS: Yes. Oh, I don't think there's any doubt about that. I mean, this is not a deal for us. This is the deal that keeps on giving. This is a deal for our kids. It's a deal for our grandkids. It's actually a deal for our great-grandkids.

SENATOR BUCCO: They're not giving, they're taking.

MR. HUMPHREYS: Well, it's a deal that keeps on taking. Great-grandkids -- I'm not really sure I want to look my great-grandkids in the face on this one, because they're going to have to pay increased tolls for this deal.

SENATOR BUCCO: Thank you.

SENATOR BUONO: Senator Lance, and then we really need to move on.

SENATOR BUCCO: Thank you, Madam Chairman.

SENATOR BUONO: Yes, it's getting late. We have people waiting in the back of you.

MR. HUMPHREYS: I know. I'm sorry.

SENATOR BUONO: So I've given you a lot of latitude, because you're very helpful.

SENATOR LANCE: Thank you.

Thank you, Chairman.

Mr. Humphreys, the tolls are not going to increase until 2010, according to the Governor's plan.

MR. HUMPHREYS: Yes.

SENATOR LANCE: How much is that going to cost us in billions of dollars, as opposed to having the tolls increase upon passage of this, and authorization and issuance of the bonds?

MR. HUMPHREYS: I honestly don't know, because it would all depend how quickly we -- what the interest rates are and how much the tolls increased. If you increased the tolls, if you just speed it up two years, then you would be able to reduce the amount held back because you would be getting more toll revenue faster. So unfortunately, even though I don't like this idea, the more you increase the tolls more quickly, the less money you have to keep back.

SENATOR LANCE: Of course. It is our belief, on our side of the aisle, that the tolls will not increase until 2010 because that is the year after the gubernatorial election in 2009. And we make that charge as a matter of public policy, and we will be asking that of others. But I presume that the $40 billion could be reduced by several billion dollars at least, and maybe more than that, if tolls were to increase immediately upon issuance of the bonds.

MR. HUMPHREYS: Yes, I don't know.

SENATOR LANCE: Thank you.

MR. HUMPHREYS: Can I just make-- Senator?

SENATOR BUONO: Very quickly sum up. But we really have to be considerate of the others who are waiting.

MR. HUMPHREYS: I understand, and I'll be very quick. Can I just ask you to focus on Page 13 of the presentation I gave you. The study says that the decline in usage of vehicles on the Turnpike, the Parkway, and Atlantic City (*sic*) will be approximately 120,000 vehicles a day in 2010 and about 240,000 vehicles a day in 2014. That's what the study says. My question for everybody is, where are all these cars going to go? Are they going to stay at home? Are they all going to get mass transit? Are they all going to drive through the center in Metuchen? I don't know. And somebody needs to find out where they're all going to go. That's a study that needs to be done. It hasn't been done yet, as I heard today, but we really need to understand the impact on all the roads and on the communities.

Look at Atlantic City, the study says that traffic on the Atlantic City Expressway will decline by 20 percent by 2014. Now, what does that mean in lost revenue to Atlantic City? Twenty percent, if you translated that straight through, it's a loss of about $800 million to Atlantic City in the next six years. Somebody needs to start asking those questions and do real impact studies on this.

Thank you.

SENATOR BUONO: And thank you very much, Mr. Humphreys.

Bob Briant, I see you in the back of the room. Mr. Briant, with the Utility and Transportation Contractors Association.

R O B E R T A. B R I A N T JR.: Thank you, Madam Chairwoman; good evening--

SENATOR BUONO: Good evening.

MR. BRIANT: --members of the Committee.

I'll be brief. There's a lot that has been discussed today, but I do want to touch on the few things that have not been discussed at this point in time.

I'm Robert Briant Jr., the CEO of the Utility and Transportation Contractors Association. Our organization's numbers are approximately 1,100-member firms, active in all phases of heavy, highway utility and transportation construction throughout the state. Our organization has reviewed the information that has been presented to the public.

There's no doubt about it that this State is in a serious financial problem. I mean, we've got some big problems with this State. We applaud the Governor for trying to head this off and take this on to resolve this problem. There's been a lot said about pension bonds and some of the other post-medical retirement requirements that the State has. I just want to focus my comments on transportation and try to get through this quick. It's a long night for all of you.

There's been a lot of discussion about the Transportation Trust Fund. This plan does put the Transportation Trust Fund on solid financial ground. It's in a much better position than it is today. This actually leads to the year 2022, where it will be 100 percent cash funded through the proceeds from the public benefit corporation. But I also want to remind the Committee, this plan -- what it also does -- it allows the New Jersey Turnpike to continue -- actually to begin its widening program, and the Parkway to begin its widening program. Right now, there are no funds to do that. This program also allows the State to come up with these matching funds for the Trans-Hudson rail line project, which we do not have now. We stand to lose $7 billion in Federal funding in that project if we don't come up with those dollars and cents. This program is going to allow the State of New Jersey to begin new mass transit rail systems in

North and South Jersey. This plan that we have will be able to achieve those things.

Something else that I want to mention: If we don't act now -- we've been discussing this and, Madam Chairwoman, you know we've talked to you about this for many, many years -- if we don't act now, those 700 deficient bridges, 10,000 miles of deplorable road surface conditions are going to increase. Traffic congestion is going to continue to increase. And do you want to talk about the cost of businesses? It's going to skyrocket. We have businesses that do not want to expand their facilities in this state because they can't get their people to and from work, they can't get their goods to and from the manufacturing process to a delivery process. We have one of the largest ports on the East Coast, with more traffic -- one of the largest in the world. We've got to move that goods and services through our state from those ports.

What do we stand to gain if we adopt this program, or some other similar program? We view this as also an economic stimulus package. This is going to create jobs, good jobs. Public transportation investments in the short run substantially boost job creation, and in the longer run help advance productivity. The Federal Highway Administration estimates that the effect of each $1 billion in construction spending results in an additional 47,000 jobs and up to $6 billion additional GDP. Governor Corzine's plan provides $3.9 billion annually for transportation capital investment projects. This equates to approximately 183,000 direct jobs. And these jobs are mostly held by the middle-class, hard-working citizens of this state; those that really need the help in these economic times right now. Some may feel we're not in a recession. If not, we're close. These jobs are important, and those are direct jobs. And in fact, the Federal Government reports have indicated that investment in infrastructure is one of the largest rolling economic dollars that government can make investments in.

Some of these other statements have been backed up by the studies done by the Bloustein School of Planning and Public Policy at Rutgers. They've indicated that the economic -- some of the largest economic increases in the economy in the State of New Jersey were preceded by substantial public works investments, particularly in our transportation systems. So there's a direct correlation with investment in transportation and the economy of this state.

I know we're getting late, and I really thank you for your time to discuss this with you.

I do want to just mention a few other things too. I do sit on the Transportation Trust Fund Authority. We look over the bonds every year with the Transportation Trust Fund. I've served there for two years now. This is a great democracy and people get to testify and express their opinions, and that's what makes this State and makes this country great. But I do like to point out -- I mean, there has been some testimony that has been given-- I don't want to argue every point that has been made, some of which, I think, not very accurate. But there's been some testimony submitted for the record -- people prior to me -- that indicates that the Transportation Trust Fund is not in a financial problem, it's not collapsing. I can tell you now that -- we go to the year 2011 on our current plan. Every cent that is collected from the Transportation Trust Fund from our gas taxes, the $200 million from the Petroleum Gross Receipts Tax that comes in to fund the Transportation Trust Fund, the $200 million that comes from the sales tax of automobiles/new automobile sales -- every cent of that will be locked up for 30 years to pay for the bonds that have already been borrowed, that we've been borrowing for 15 years to run this Transportation Trust Fund. We've borrowed the money to pay for this. They'll be locked up. One hundred percent of the revenue will be gone, unless a new revenue source is identified. Highly unlikely it's going to come from the general budget, from the testimony that we've seen here today.

So the people who testify that the Transportation Trust Fund is not broke or a 4 cent gas tax increase is going to solve our problems-- By the way, 4 cents is only going to produce about $212 million a year. That's one bridge project. Some of the larger bridge projects we have this year, one of those projects is going to cost over $200 million. We just had Route 36 -- $110 million. Not much you can do with that. Capital needs in this state need $3 billion a year in capital projects, and we're still way behind.

I know it's late. I'm sorry to take up your time. I really appreciate the opportunity. And if somebody has questions for me, they can contact me in my office, or I'll be happy to take more time now.

SENATOR BUONO: Thank you.

Any questions? (no response)

Next, Charles Barnes -- is Charles still here? -- from the Association of General Contractors, and the Asphalt Pavement Association.

C H A R L E S A. B A R N E S II: In the interest of time, thank you Madam Chairman and distinguished members of the Budget Committee. In absence of Brian Tobin, who is the Executive Director representing AGC and NJAPA, I just wanted to say that it's our position that the general principles of Governor Corzine's plan, as is, looks good, and we expect to support it. But as we all know, the devil is in the details. And once the applicable details are made available, we will be able to render an official opinion.

The plan, however complex it may be, is palatable, valuable, and feasible in that it offers New Jersey with the much-needed and necessary resources to rebuild our transportation infrastructure. Our transportation needs must not be overlooked.

While some New Jerseyans may actually enjoy being in debt, most will seek solutions to escape this financial disaster. While I can't speak for all, I can certainly say that I would prefer not to remain in a state that continues to function with a financial mismanagement mentality. More importantly, I would not want my children or my children's children, as a result of this ill-fated practice, to have to pick up the ever-increasing tab.

To echo Congressman Bob Franks -- former Congressman Bob Franks -- "We have definitely got ourselves in a hole and it is now time to stop digging."

The time for fiscal management or fiscal responsibility begins with you and I. It's imperative we learn from our past mistakes, particularly as it relates to the financial stability of our State. I can only think of Otis Redding -- Otis Redding said it best, "A change is going to come." And quite frankly, that change is now, one way or another. That need for change must occur sooner rather than later.

Thank you.

SENATOR BUONO: Thank you so much.

Next is Brian Racin, Racin (pronunciation). R-A-C-I-N. Is he still here? (no response)

Vincent Frantantoni, United Taxpayers of New Jersey.

And again, we do have some more people on the list. So I thank you for being brief -- the last speakers -- and I would hope to extend that to you, as well, sir.

Thank you.

VINCENT J. FRANTANTONI: Thank you, Madam Chair Lady. Congratulations on your new position.

Senator Vitale -- I just want to make sure that we accentuate what he said: that this is Governor Corzine's proposal. Ultimately, whatever plan is adopted will be the Legislature's plan. So you folks are the ones responsible for this. We will not go back and blame Governor Corzine.

If we don't study history, we shall repeat the errors of the past. Four decades ago, New Jersey instituted a sales tax. It was soon followed by the income tax, the lottery, casinos, new and increased fees, and hundreds of costly regulations on our lives and businesses. Our governors and legislators took our money and made New Jersey government severely obese. Governor Corzine is putting the final nails in the coffin. He and the obedient Legislature refinanced the Transportation Trust Fund again, creating additional interest that puts our children in hock for the next three decades. The Legislature increased the sales tax last year 16.7 percent. You increased State spending over 5 billion in two years. Now Governor Corzine wants a new credit card with an unprecedented limit.

Stop the madness. We, the people, know the problem. We remember the hundreds of million dollars wasted on HOV lanes; the half billion dollar down the tubes with the first E-ZPass contractor; the ill-conceived $8.6 billion school construction money approved without voter approval, and resulted in mismanagement, corruption, and displacement of many decent citizens and neighborhoods. We watched a steady stream of corrupt politicians march off to jail. We remember when the Legislature increased government pensions 9 percent and lowered the retirement age to 55, without going to the bargaining table. Let me repeat that -- without going to the bargaining table or asking the people's approval.

We also recall the phony shutdown of State government last year, and State employees got paid for not working. We, the people, also know the solution -- cut spending now. Heed the advice of the Benefits Review Task Force created by former Governor Richard Codey. Bring public employees back to the bargaining table. Tell them the State is bankrupt, the citizens are broke and fleeing the state, and the onus is upon them to make concessions to save their jobs and save New Jersey's future.

After all, look at what happened: Airline pilots took a 30 percent pay cut to save their industry. Our major corporations are cutting staff, negotiating givebacks on salaries, benefits, and pensions. These same actions are now required to save our State. We, the people, are also willing to sacrifice. End the Homestead Rebate program and use this $2 billion to fix our roads. End municipal aid -- and I'm a former elected official and I can tell you the waste on the local level. Five hundred and sixty-six municipalities demand home rule. You can't demand home rule and demand State pay. Municipalities must learn to fund their own budgets and wish lists as we did prior to 1990. Municipal aid has only allowed local governments to raise salaries and benefits to onerous levels and cover much of the increases -- which is State aid, which is our tax dollars.

Next, read and obey the New Jersey Constitution. It requires the Legislature to provide education for children age 5 to 18 years. Stop funding preschools; cut spending, and one parent will be able to stay at home and provide natural, loving preschool nurturing. Our Constitution, in Article VIII, also requires voter approval of large bond issues and requires the debt to be retired in 35 years. You, the Legislature, with the aid of our Supreme Justices said, "To hell with the Constitution," when you approved the $8.6 billion school construction bond. We, the people, are now paying for this ill-conceived fiasco.

The sale, lease, or monetization of our toll roads is not -- is not -- an option. Tolls are for construction and maintenance of our roads, and should not be used for funding other government programs for debt incurred other than the road debt. The creation of yet another independent authority -- Corzine's public benefit corporation -- reduces the power of you, the Legislature, and eliminates public input on the creation of large debt. Corzine states that 50 percent of the toll payers are out-of-state drivers. This plan has recently been debunked as we find out that a large number of E-ZPass accounts are New Jersey residents who have E-ZPass accounts in other states. Also, as previously stated, a large number of our out-of-state drivers are actually truckers delivering food and goods to our citizens. Higher tolls will dramatically increase our cost of living.

The real beneficiaries of Corzine's plan will be the Wall Street brokers, underwriters, bonding attorneys, and consultants who will reap billions in fees. Stop the madness. This Legislature must comply with the Truth in Lending Law. We, the people, deserve to know -- I think as one of the previous legislators stated -- we deserve to know the actual dollar amount we'll be paying to Wall Street brokers, bond attorneys, and consultants in fees and commissions. We also must know the actual amount of interest we'll be paying to the wealthy investors who will buy these bonds. This knowledge, I'm sure, will certainly kill the plan.

Senators, may I remind you of all the great programs and committees that were to solve our fiscal problems -- the Government Consolidation and Shared Services committee; the Joint Legislative Committee on Public Benefits Reform (*sic*); the Municipal Efficiency Promotion Aid Program; the task force on government salaries, pensions, and benefits; the Core Curriculum Standards; the Comprehensive Plan for Educational Improvements and Financing; and dozens more too numerous to mention in my limited time. I testified at many of these, and I've got copies of these sitting in my file cabinet. I'm sure they're also gathering dust in the State House. The Governor's new plan--

SENATOR BUONO: Excuse me. Do you think you could sum up now, because we have other people behind you waiting?

Thanks.

MR. FRANTANTONI: I just have another paragraph.

SENATOR BUONO: Okay.

MR. FRANTANTONI: The Governor's new plan -- Financial Restructuring and Debt Reduction Plan -- is fatally flawed. You don't reduce debt by replacing it with another owner's debt. The owner's only solution is to cut spending. In the State of the State Address, Governor

Corzine stated, "Let me be clear. PCB borrowing isn't State borrowing." Does he think we're idiots? Oops, I'm sorry. You guys and gals are limited to the use of that word.

Governor Corzine also said his father once told him, "When you're in a hole, stop digging." Great advice. New Jersey is in a fiscal hole; stop digging, senators, cut spending, renegotiate these benefits and salaries so we can slowly climb out of this hole and save our once great state.

And I submitted my testimony. The next page is a copy of the suggestions for the Transportation Trust Fund solution--

SENATOR BUONO: Right, we see that.

MR. FRANTANTONI: --I submitted to the Governor on March 10, 2006. And we can solve the Transportation Trust Fund problem.

SENATOR BUONO: Thank you, sir. Thank you.

MR. FRANTANTONI: Grant me one thing here, Chairman?

SENATOR BUONO: No. We really have other-- It's really not fair to the rest of the people that are waiting.

MR. FRANTANTONI: Can I ask what's fair to -- what should be fair to the citizens of New Jersey, that the actual citizens who are paying these bills be allowed to testify when the full bodies are here. This is-- For 30 years I've been coming here, and we're left to the end and there is nobody here to listen to us.

I thank the remaining members who have stayed to hear the citizens of the state.

SENATOR BUONO: Well, we're very interested in hearing what you have to say, and we also have your testimony.

MR. FRANTANTONI: The bureaucrats had their opportunity to speak at length, and we're limited in time, and we're down at the end when nobody's around.

So I thank you--

SENATOR BUONO: Sir, you've been speaking about 15 minutes, so--

MR. FRANTANTONI: Thank you.

Next, Michael Riccards from the Hall Institute of Public Policy, New Jersey. (no response)

Is Tom Manning here? (no response)

Does anyone else wish to testify? (no response)

Okay. Well, with that, I want to conclude this first meeting of the Senate Budget and Appropriations Committee. I thank all of the members for staying until the end. We are certainly at a crossroads in New Jersey. Whatever course we take will depend upon meetings such as this where we have bipartisan, collegial discourse. And obviously, I think that this merits -- this proposal put forth by our Governor merits much closer study and analysis. And I'm sure we will meet once again to do so.

SENATOR LANCE: Thank you.

Very well run, Madam Chair, very well run.

(MEETING CONCLUDED)