

REPORT OF THE NEW JERSEY TOLL ROAD CONSOLIDATION STUDY COMMISSION

Presented To The Hon. James E. McGreevey
Pursuant to Executive Order No. 15 (2002)

Paul P. Josephson, Chair
Toll Road Consolidation
Study Commission
February 14, 2003

I. EXECUTIVE NARRATIVE

The New Jersey Turnpike and the Garden State Parkway are more than roads. They are vital economic resources to our State, important to the quality of life in New Jersey, essential to directing smart growth and development and, perhaps most important, critical to providing safe passage to the millions of people who travel on them each day.

To repair, improve, and enhance these vital arteries well into the future, the Commission recommends placing the Garden State Parkway under the auspices of the New Jersey Turnpike Authority ("NJTA"). The Commission further recommends restructuring over \$300 million of E-ZPass debt issued on the faulty premise that violations could pay for the system. We also propose refinancing existing Turnpike and Parkway debt. These operational and financial measures will achieve an estimated \$198 million in actual dollar savings (\$108 million in present value) that can be devoted to sorely needed improvements that will reduce congestion and help keep each highway safe and sound.

Joining the Turnpike and the Parkway into a single State agency will streamline government at a time of severe fiscal constraints, while maintaining the historic identities of each roadway. A consolidation of the two highways under one umbrella will achieve economies of scale; produce financial savings; obtain efficiencies in administration,

management, and operations; permit a pooling of economic resources to fund essential capital projects; and implement more coordinated transportation planning. These reforms will create in the Turnpike and Parkway a safer, better maintained, less congested and improved, integrated road network.

The Commission recommends excluding the Atlantic City Expressway, or any other responsibilities of the South Jersey Transportation Authority ("SJTA"), from the consolidation of the Turnpike and the Parkway. The SJTA's unique role as a regional transportation and economic development authority with multi-faceted responsibilities over an airport, bus lines, economic development, and the interrelationship of its financial structure, obligations, and diverse powers, strongly favors continuing the SJTA as a separate entity.

We also recommend that the Garden State Arts Center be transferred to the Turnpike Authority, because under our proposal, the Highway Authority will be abolished and only the Turnpike Authority will remain. Although the Turnpike Authority may not be best suited to administering an entertainment facility, the Commission recommends giving the Turnpike Authority the power to dispose of the Arts Center to the New Jersey Sports and Exposition Authority or such other entity as it determines to be in the best interests of the public. Finally, the Commission recommends that the Turnpike Authority be empowered to pursue other transportation projects in order to promote more coordinated transportation planning.

II. SUMMARY OF BENEFITS OF TURNPIKE AND PARKWAY CONSOLIDATION

A. FINANCIAL

--Estimated \$198 Million in Actual Savings (approximately \$108 Million Present Value) From Consolidation and Restructuring of E-ZPass and Turnpike and Parkway Debt for Needed Capital Improvements

--Elimination of Duplicative Administrative and Operations Functions and Implementation of Best Practices Reduces Costs

--Economies of Scale Promote Increased Creditworthiness and Purchasing Savings for Materials, Supplies, and Equipment

--Coordinated Financial Planning and Debt Management

--Reduce Size of State Government

B. E-ZPASS REFORMS

--Puts E-ZPass on a Stable Financial Footing Without a Toll Increase

--Ensures Implementation of High-Speed E-ZPass

--Improves E-ZPass Through Unified Management, Back-Office Efficiencies, and Savings

--Continues Benefits of Convenience and Reduced Congestion to the Approximately 60% of Drivers Who Use E-ZPass on the Turnpike and Parkway

C. TRANSPORTATION RELATED IMPROVEMENTS

--Pooling of Capital Resources and Prioritized Planning to Meet Critical Needs

--Promote Comprehensive and Integrated Planning and Smart Growth Development

--Increase Coordination with Regional Transportation Planning Agencies (North Jersey Transportation Planning Authority; South Jersey Transportation Planning Organization; and Delaware Valley Regional Planning Commission), and bi-state agencies.

D. SOCIAL

--Ensure a Safer, Better Maintained, Integrated Road Network for the Driving Public
--Reduce Congestion and Improve Quality of Life for Drivers Through Implementation of E-ZPass Reforms and Better Designed and Maintained Roadways

--Coordinate Highway Development and Maintenance of Turnpike and Parkway as the Spine of New Jersey Transportation Network to Promote Economy and Smart Development

--Maintain Separate Historic and Cultural Identities of Turnpike and Parkway

E. ADMINISTRATIVE

--Coordinate Management and Operations Functions to Achieve Greater Productivity Efficiencies, Reduce Costs, and Adopt Best Practices

--Trim and Unify Administrative, Purchasing, Legal, Human Resources, Internal Audit, Personnel, and Other Functions to Reduce Costs

--Uniform Contracting, Consulting, and Procurement Priorities

--Uniform Design, Construction, and Maintenance Standards

--Uniform Personnel and Workplace Standards

F. LEGAL/STRUCTURAL ISSUES

--Acquisition by New Jersey Turnpike of Garden State Parkway and Other Highway Authority Functions Promotes Refinancing Structure and Tax-Exempt Financing

--Abolish Highway Authority Board; Retain Turnpike Board

--Empower the Turnpike Authority to Operate, Transfer, or Sell the Garden State Arts Center

G. SOUTH JERSEY TRANSPORTATION AGENCY

--Maintain SJTA (Including Atlantic City Expressway) as a Separate Regional Transportation and Economic Development Entity

--Diverse Projects of SJTA and Intricate Financing Structure Make Consolidation with Turnpike and Parkway Impractical and Unwise

III. THE PROCESS

On March 26, 2002, Governor James E. McGreevey signed Executive Order No. 15 creating the Toll Road Consolidation Study Commission (the Commission"). The Commission's charge was to consider and report on the viability of consolidating two or more of the three authorities that operate New Jersey's three toll roads: the New Jersey Turnpike (operated by the "New Jersey Turnpike Authority" or "NJTA"), the Garden State Parkway (operated by the "New Jersey Highway Authority" or "NJHA") and the Atlantic City Expressway (operated by the "South Jersey Transportation Authority" or "SJTA").

This report is the culmination of ten months of study led by the Chief of the Governor's Authorities Unit and two Commissioners of the Department of Transportation, in consultation with the chairs and executive directors of the three authorities, affected constituencies, and transportation, finance, management and legal experts. The State sought the assistance of UBS PaineWebber, Morgan Stanley, and Salomon Smith Barney to assess the financial issues arising from a consolidation. The State also engaged the Hay Group to study and evaluate administrative and operations issues and the potential savings that could emanate from a consolidation. The Hay Group had previously conducted management studies of both the Turnpike and Parkway. The Commission also drew upon the expertise of the Treasurer's Office and the staff and professionals employed by the three toll road authorities.

IV. HISTORY AND BACKGROUND

Since their inception, the mission of the separate toll road authorities has been to ensure the timely and safe construction, maintenance, and operation of their respective highways, to be paid for by charges imposed on the users of the highways. By charging different entities with undertaking these functionally similar activities at the outset, the State certainly benefited. The commercially-oriented Turnpike was authorized and completed in under two years between 1949 and 1951; and the passenger-oriented Parkway was authorized in 1952, opened to traffic in 1954, and completed in 1957.

Fifty years later each roadway remains an exemplar of its respective type. Transportation officials from around the world regularly visit the Turnpike to examine how that organization efficiently and safely serves one of the largest and most diverse streams of interstate traffic along the nation's critical I-95 corridor. Likewise, transportation experts marvel at the beauty of a Parkway that dispels popular misconceptions about New Jersey while simultaneously serving as a key artery for commuters and vacationers. Each roadway was designed with these specific attributes in mind, and the existence of separate organizations to conceive and promote these important and complementary needs certainly improved the final road network that motorists often take for granted today.

A. THE IMPETUS FOR CHANGE

As the State and the highways that serve it have matured and grown in the last half century, the need for separate entities to maintain and operate these highways has diminished considerably. Indeed, two recent experiences highlight the value of consolidating the NJTA and the NJHA today: the E-ZPass funding crisis and the Driscoll Bridge rehabilitation project, a long overdue Parkway capital project held in abeyance for years until 2002, when Governor McGreevey and then-DOT Commissioner James P. Fox finally broke ground on this critical Parkway project by forging an unprecedented financing plan with the Turnpike Authority.

E-ZPASS

The capital and operational requirements needed for a uniform and state of the art electronic toll collection system, led to the creation of the Regional Consortium, which tied the Turnpike and Parkway to a single electronic toll collection system notwithstanding their vastly different collection operations (one based on tickets issued at the point of entry and collected at the point of exit, and the other based on a flat cash rate collected primarily along the mainline of the roadway). Although brilliant in theory, E-ZPass was critically flawed in its implementation. By creating a Regional Consortium that both protected and intensified the cultural differences between its member authorities, different visions of how to achieve the goal of making it easier to pay tolls clashed. An implausible self-financing plan, based on funding from toll violations, was selected over the objections of Parkway and Port Authority of New York and New Jersey officials. Six years later, the operational and financial difficulties created by E-ZPass imperil the financial health and credit ratings of all the members of the Consortium. To

best resolve these issues, the Turnpike and Parkway (which together account for some 96% of E-ZPass transaction activity and financial obligations) have been compelled to work together to agree on a single replacement vendor to eliminate the multitude of operational problems and on a realistic refinancing plan to put the system and the authorities on sounder financial footing.

Today, the executive directors and their senior staff are working together with the Transportation Commissioner to solve these vexing problems. About 60% of the drivers on the Turnpike and Parkway enjoy the convenience, safety, and reduction in congestion that E-ZPass brings. Reform in this area is thus essential to maintain these benefits and improve the system with the introduction of high-speed E-ZPass.

DRISCOLL BRIDGE

The Driscoll Bridge, perhaps the most well-known bridge along the Parkway, spans the Raritan River and connects Bergen, Essex, Union and Middlesex counties with the burgeoning suburbs of Monmouth, Ocean, Atlantic, and Cape May counties to the south. It is a primary artery for traffic from the southern counties to the Turnpike and points north. Because it has become so essential to New Jersey motorists, heavy use has deteriorated the Driscoll Bridge to the point where substantial rehabilitation is needed. Volume has increased to such levels that a companion bridge is also needed to combat congestion and ensure the safety of motorists for the future. The projected costs of this rehabilitation/construction project is \$200 million. The Highway Authority's inability to raise tolls since 1988 -- the first and only toll increase ever adopted on the Parkway since its opening -- left it with insufficient revenue to repair/replace the structure at the end of its useful life. Recognizing the necessity of the project to its essential needs, and the fact that the Driscoll Bridge serves the Turnpike as well as the Parkway, the Turnpike Authority decided to dedicate some of its capital funds to the project. Governor McGreevey and Commissioner Fox forged a financial plan that permitted the Driscoll Bridge rehabilitation to move forward.

With the Parkway passing its fifty year milestone, many other of its existing bridges and structures are nearing the end of their useful lives. Because of the growth along the southern portion of the Parkway, other compelling capital projects must be undertaken but cannot be fully funded by the Highway Authority absent significant toll increases. In view of the long term goal of reducing if not eliminating barrier tolls on the Parkway, only the Turnpike Authority has the financial resources to fund these needed projects. The Turnpike Authority's acquisition of the Parkway will allow the Turnpike Authority to pool its capital resources and engage in joint capital planning for the benefit of the State as a whole.

V. THE SOUTH JERSEY TRANSPORTATION AUTHORITY

The South Jersey Transportation Authority was created to serve a unique function in a region that, by virtue of its own special characteristics, requires special attention to facilitate its growth and development. The casino industry has spawned a great need for a

coordinated and sophisticated approach to addressing the transportation needs and concerns of South Jersey. In addition to fulfilling transportation needs, the SJTA fulfills a vital and unique role in developing the region with a watchful eye toward economic growth, preservation of the environment, and marketing the region for tourism purposes. The counties of Atlantic, Camden, Cape May, Cumberland, Gloucester, and Salem have specific concerns which create a need for a multifaceted transportation authority to deal with those concerns on a strictly regional basis. Therefore, the State Legislature created the SJTA with the express purpose of addressing region specific concerns and issues.

Furthermore, the Legislature recognized that this region, by virtue of being a major tourism center of the State, has the need for "the ancillary establishment of economic development facilities directly related to transportation projects in the region which are to be funded by the transportation authority." N.J.S.A. 27:25A-2(c). Thus, the economic development facilities encourage the use of the transportation system and the economic growth and development of the region.

The Legislature also recognized these needs and concerns by creating a body of individuals who have strong ties to the region. The SJTA's enabling statute provides for the appointment of seven members to the SJTA Board. Of the seven appointed members, six must come from the six counties considered part of South Jersey. Four of those six must live within 30 miles of the Atlantic City International Airport and two must come from outside that area.

Additionally, the federal government has recognized the benefits of a regionally based body to serve the southern New Jersey area. Specifically, the agreements between the United States Department of Transportation, Federal Aviation Administration ("FAA") and SJTA pertaining to the management and control of the Atlantic City International Airport require the SJTA's governing body be partially comprised of local representatives from cities adjacent to the Airport. The Board Members are further required to have qualifications to assist with the planning, operation, and management of the Airport.

In light of the unique nature of the SJTA, a threshold question for the Commission was whether the SJTA or the Atlantic City Expressway should be included in the consolidation process in the event it was determined that combining Turnpike and Parkway operations would be viable and cost effective.

Based on the findings of all investment advisors, the inclusion of the SJTA would do little to reduce the overall debt service costs that are currently incurred by the three authorities. Concerning operational matters, the significant non-highway activities of the SJTA raised barriers to a complete consolidation, and made it unlikely that significant administrative and cost reductions could be achieved by including the SJTA in a merger of functions.

Moreover, the SJTA's extensive powers and current activities as a regional transportation authority, as compared to the Turnpike and Highway Authorities' powers as essentially single purpose highway authorities, illuminated the reason to not include the SJTA in any consolidation plan. An analysis of the SJTA's role as a regional transportation regulator

and planner, its regional board composition, its agreements with the federal government, and its reliance on Expressway tolls to finance many of the SJTA's non-highway projects -- the Atlantic City International Airport, the New York Avenue parking garage, and the Atlantic City Connector, among others -- would present numerous legal, financial, and operational challenges that would serve only to jeopardize any effort of combining Turnpike and Parkway operations.

Accordingly, the Commission believes that including the SJTA with the Turnpike and the Parkway would not advance the benefits of consolidation. In fact, doing so could impair the important regional transportation and economic development activities now pursued by the SJTA.

VI. FINANCIAL ANALYSIS AND STRUCTURE

Background

UBS PaineWebber ("UBS"), as a consultant to the Treasurer's Office on the subject of Toll Road Consolidation, reviewed the financial impact of a debt consolidation between the NJTA and the NJHA. It determined that such a debt consolidation would be an important step in achieving the operational consolidation of the two authorities. The following parts of this section outline the assumptions made, the methodology used, and the results of the analysis prepared by Morgan Stanley as Senior Manager to the NJTA and reviewed by UBS Paine Webber.

Over the years, both the Turnpike and Parkway have issued multiple series of bonds for their own funding purposes. In order to consolidate the revenues, expenses, and operations of these two agencies, UBS recommends this debt should be consolidated into a single agency's debt instruments. This will allow the agency to more effectively manage its financial affairs. Most important, it will allow the agency to make toll pricing decisions in the future and capital investment plans for the single consolidated agency. If the current debt instruments were retained, each authority's facilities would have to be managed separately pursuant to the existing debt documents which address these two critical issues of pricing and capital investment in different manners.

In addition to consolidating the debt for the two agencies, the refinancing of the existing debt offers the opportunity to restructure the existing debt that currently has higher near term total obligations than future ones. Restructuring some of the existing payments to reduce the near term obligations will provide monies for reinvestment in these critical transportation facilities.

As the NJTA and NJHA prepare for consolidation, one of the existing commitments that each authority has is to the E-ZPass system. Both authorities have recognized the need to change service providers and the methods and amounts of payments for these services in order to have an efficient system serving the needs of the authorities' customers. As a first step in the process of consolidation, both authorities have approved a new contract to be entered into with ACS as a service provider. In order to effect this change in service

providers, it is necessary to eliminate existing obligations of these two authorities created by the original E-ZPass financing issued through the New Jersey Economic Development Authority.

In order to expedite this change, and begin the operation of a more efficient E-ZPass system, both authorities have begun the actions necessary to refinance their existing obligations and thereby be released from the original financing restrictions. Through the use of an interim financing solution, the two authorities can implement the change in vendors while preserving the ability to assume this new financing obligation into the Turnpike Authority. This temporary solution will be replaced with cost effective permanent financing as part of the overall debt consolidation.

Assumptions of UBS

It is important to understand that the final determinants of the cost effectiveness of debt consolidation will be based on the facts that exist in the marketplace at the time the transaction occurs. The analysis assumed the full defeasance/refunding of all debt of the NJHA. A portion of the debt of NJTA is additionally defeased/refunded. The interim refinancing of the E-ZPass debt of these two agencies is also defeased/refunded. The analysis assumes only conventional fixed-rate bonds are issued.

Structure

The new debt issued is structured to create a reasonable overall debt profile and to minimize the debt service obligations. The debt service "coverage" (i.e. cashflow in excess of debt) is monitored in the analysis to ensure sufficient liquidity existing at the agency. According to UBS, this level of liquidity is important to the credit integrity of the agency as an issuer of debt and maintaining current bond ratings.

Operational And Other Savings

Upon the completion of the debt consolidation, the Authority will have the ability to manage the two facilities as a single business. As evidenced by the Hay Group's report, this will allow for significant operational savings to occur. As shown below, these operational savings are also incorporated into the final determination of the present value savings from consolidation as set forth below:

Operations Savings \$130.8 million

E-ZPass Refinancing Savings \$ 9.98 million

Debt Costs \$31.9 million

Total Present Value Savings from the Consolidation \$108.88 million

VII. THE HAY GROUP EVALUATION

The Hay Group evaluated the administrative and operational benefits for partial toll authority consolidation. The Hay Group concluded there were no insurmountable barriers to joining the NJTA and the NJHA, although it determined that inclusion of the SJTA was inadvisable.

Over the course of several months, the Hay Group deployed expert management consultant teams to conduct extensive interviews with every department head and many staff members identified as critical to specific functions. From the information obtained, the Hay Group prepared a final report of conclusions and recommendations to implement a consolidation.

The Hay Group has determined that a consolidation of the NJTA and NJHA is both feasible and beneficial to the operation of the Turnpike and the Garden State Parkway. Specifically, the Hay Group found that a merger of the two authorities would result in cost reductions, elimination of duplicative activities, enhanced financial and managerial efficiencies, as well as significantly improved strategic planning and capital budgeting. The end result will be a safer, better maintained and administered and more economically run highway network supporting the State's transportation, economic and development needs.

The Hay Group has proposed an organizational model that consolidates all administrative functions of the two agencies, but provides for separate operating functions. Under the Roadway Operating Model, the corporate structure would include one executive director and three deputy executive directors. The following administrative departments would be consolidated:

- (1) Human Resources;
- (2) Finance;
- (3) Law;
- (4) Technology (Management Information Systems); and
- (5) Purchasing.

The departments that would remain separate are:

- (1) Engineering;
- (2) Operations;
- (3) Toll Collection; and
- (4) Maintenance.

The Hay Group concluded that the implementation of the Roadway Operating Model will provide significant operating and productivity savings while preserving the culture of the two roadways.

The Hay Group estimates that consolidation of these two agencies will result in salary/wage savings, improvements as the result of combined systems, and real dollar savings from combined purchasing power of a single, larger entity. By the close of 2003, the Authorities will have reduced staffing by 5%.

Estimates of these savings in actual dollars by the Hay Group savings are as follows:

- 2003: \$4,000,000
- 2004: \$5,935,000
- 2005: \$6,600,000
- 2006: \$7,460,000
- 2007: \$8,160,000
- 2008 and thereafter: \$9,810,000

These estimates are based on information currently available and may be refined over time. The Hay Group expects that these estimates will only improve.

VIII. PROPOSED LEGISLATION

Proposed legislation to implement the Commission's report is attached. The structure of the bill proposes the acquisition of the functions of the NJHA, principally the Garden State Parkway and the Garden State Arts Center, by the NJTA, as the best structural mechanism to promote the availability of tax-exempt financing.

The proposed legislation abolishes the New Jersey Highway Authority and vests the powers of that entity in the existing Board of Commissioners of the NJTA, without changing the composition or size of the NJTA Board.

The draft bill gives the NJTA the power to take necessary anticipatory acts to facilitate a transfer of responsibilities from the NJHA to the NJTA. The proposed legislation also gives the NJTA, after the transfer date, the flexibility to adopt interim rules to facilitate the smooth integration of the two authorities.

The legislation also proposes that the NJTA engage in an annual transportation and related economic development planning process. It further proposes that the NJTA be granted the power to promote an integrated statewide transportation network.

The Commission further recognizes that the NJTA may or may not, at this time, be best suited to administer the entertainment functions of the Garden State Arts Center. Accordingly, the draft legislation leaves for a later determination whether the NJTA should operate, transfer or sell the Arts Center.

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The Commission firmly believes that these reforms, if adopted, will be of great benefit to the people of New Jersey.

Toll Road Consolidation Study Commission
Trenton, New Jersey
February 14, 2003

