APPENDIX

File: ETC Executive Council

Agenda Item Eng & Constr

CHRISTINE TODD WHITMAN
GOVERNOR

FRANK J. WILSON
COMMISSIONER

STATE OF NEW JERSEY
DEPARTMENT OF TRANSPORTATION
1035 PARKWAY AVENUE
CN 601
TRENTON, N.J. 08625-0601
609-530-3536

~~P-NJENJ~~ 8100.16

September 22, 1995 NJDOTNJC00015

RECEIVED
SEP 22 1995
EXECUTIVE DIRECTOR

The Honorable Frank X. McDermott
Chairman, New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Frank

Dear Chairman McDermott:

In order to carry out Governor Whitman's policy on timely and cost-effective implementation of electronic toll collection, we must work together to provide a unified system for New Jersey's toll roads.

For that purpose, I offer the enclosed resolution which provides Board authorization for the Authority to participate in an Electronic Toll Collection Council that will coordinate the procurement of services and products across the agencies. The efforts of the Council will build on the work of the E-ZPass Interagency Group (IAG) to install a single electronic toll collection system throughout the region. Working together to provide a unified system will maximize customer service and convenience and will allow economies of scale and a rational implementation schedule.

I ask that this Resolution be presented to the Commissioners at the September Authority meeting.

Sincerely,

Frank

Frank J. Wilson
Commissioner

Enclosure

EXHIBIT
C-86
8/19/03 RP

NJTASCI 096117

RESOLUTION NO. ____

RESOLUTION IN SUPPORT OF FORMING A COUNCIL FOR THE IMPLEMENTATION OF ELECTRONIC TOLL COLLECTION

WHEREAS, an efficient program of highway Electronic Toll and Traffic Management (ETTM) is critical to the movement of people and goods in New Jersey and the region; and

WHEREAS, a critical element of ETTM is an electronic toll collection system which will eliminate the need for highway customers to stop and pay highway tolls with cash, tokens or tickets; and

WHEREAS, the highest level of customer service and convenience is achieved by providing a single electronic toll collection system across the State's toll facilities; and

WHEREAS, the New Jersey Turnpike Authority desires to implement regional electronic toll collection and has been involved with the *E-ZPass* Interagency Group in the cooperative evaluation of such equipment; and

WHEREAS, greater efficiencies can be achieved by cooperation and coordination among the involved agencies to ensure efficient and effective implementation and operation of electronic toll collection; and

WHEREAS, it is most beneficial to the State of New Jersey for all three toll roads to proceed simultaneously; and

WHEREAS, Governor Whitman has directed the Commissioner of Transportation to lead New Jersey's program and proceed in conjunction with outreach efforts to other northeastern states;

NOW, THEREFORE, BE IT RESOLVED, by the New Jersey Turnpike Authority and the members thereof that:

1. The New Jersey Turnpike Authority shall join with the New Jersey Highway Authority and the South Jersey Transportation Authority to form an Electronic Toll Collection Council for the purpose of implementing and operating a Statewide electronic toll collection system.

2. The Council shall be chaired by the Commissioner of Transportation. The Council shall include the Executive Directors of the New Jersey Turnpike Authority, the New Jersey Highway Authority, and the South Jersey Transportation Authority, and may be expanded to include other agencies.

3. The Turnpike Authority Chairman shall designate one Board Member, other than the Commissioner of Transportation who serves as Council Chairman, to serve on the Council in a policy oversight role.

4. The Council shall work cooperatively to expedite the implementation of an electronic toll collection system on the New Jersey Turnpike, the Garden State Parkway, and the Atlantic City Expressway. In addition, the Council shall also cooperate with other agencies operating toll facilities in New Jersey on subsequent expansion of the electronic toll system.

5. The Council shall develop procedures for soliciting proposals and awarding a contract for delivering and operating a Statewide system in the most expeditious and cost-effective manner available. These procedures will be submitted for approval by the Authorities. The Council shall also be responsible for overseeing the timely implementation of the project.

6. The New Jersey Turnpike Authority shall act as the lead administrative agency to effect the joint procurement, installation and operation of the common system. As lead administrative agency, the Turnpike Authority shall act on behalf of the Council to initiate all actions required to procure professional services or products necessary for the purpose of implementing and operating the Statewide system.

7. The Commissioner of Transportation is authorized to call upon any department, office, or division of this Authority to supply him with data, and any other information, personnel or resources he deems necessary to discharge his duties as Council Chairperson.

CHRISTINE TODD WHITMAN
GOVERNOR

FRANK J. WILSON
COMMISSIONER

STATE OF NEW JERSEY
DEPARTMENT OF TRANSPORTATION
1035 PARKWAY AVENUE
CN 601
TRENTON, N.J. 08625-0601
609-530-3536

August 20, 1996

RECEIVED
AUG 22 1996
EXEC COMM ON
ETH... ST...S

Honorable Christine Todd Whitman
Governor
State of New Jersey
CN-001 - State House
Trenton, New Jersey 08625

Dear Governor Whitman:

Please be advised, that effective immediately and until further notice I intend to avoid any business dealings including but not limited to actions, decisions, considerations, discussions, etc. with the following firms:

- AE Comm
- Booz Allen & Hamilton
- Dames & Moore

Deputy Transportation Commissioner, Sharon L. Landers should be contacted regarding any business dealings, transactions or decisions affecting the above referenced firms. She may be reached at (609) 530-2002.

Thank you for your cooperation in this matter.

Sincerely,

Frank J. Wilson

c. Harriet Derman
Michael Torpey
Peter Verniero
Sharon L. Landers
Rita L. Strnensky

EXHIBIT
C-142
10-10-03 TPinsh

ATTACHMENT # 1 :
PAGE 1 OF 5 PAGES

10/10/96

MFS TransTech

1256 No. Church Street, Unit 4
Moorestown, NJ 08057
PHONE: (609) 235-5252
FAX: (609) 235-7488

FAX Transmittal

DATE: 10/10/96

SENDER: Bill Rapp

Pages (incl. cover): 36

RECIPIENT: Paul Carris

FAX #: 609 530 5340

SUBJECT: BAFO

Remarks:

Hardcopy coming!

+$179.6 M NET

609-530-5340

Issues +

Contact.

EXHIBIT C-54 7/14/03 LMM

EXHIBIT G-5 7/14/03

IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL AS SOON AS POSSIBLE

1177

MFS TransTech

MFS TransTech, Inc.
1256 North Church St., Suite D
Moorestown, New Jersey 08057-1129
TEL (609) 235-5252
FAX (609) 235-7488

October 10, 1996

Mr. Paul A. Carris
ETC Program Manager
New Jersey Turnpike Authority
Administration Building
P.O. Box 1121
New Brunswick, NJ 08903

Dear Paul:

Attached is our revised BAFO submission. Included are our overall financial projections, violations/collections/*E-ZPass* penetration sensitivity analysis, the responses to your questions, potential revenue opportunities and financial documentation are all included in this attachment. We have not been able to complete several of the analyses the Consortium requested, but are very interested in providing you with additional background information on these points should the opportunity present itself in the future. These incomplete analyses include:

- Sensitivity analysis based on Approach 2.
- An analysis of the impact of the inclusion or exclusion of Delaware from the financial analysis.

Our financials include fixed pricing for *E-ZPass* replenishment, elimination of capitalized maintenance, and an explicit treatment of financing charges for this project.

After reviewing *E-ZPass* with our project finance advisor, ~~we believe that there~~ are circumstances in which this project could generate sufficient revenues to pay for itself and generate net revenues for the Consortium. However, to finance this project, it will be necessary for the Consortium to provide assurance that it will underwrite its financial performance over the project life. If revenues are insufficient to cover capital and operating costs, the Consortium will need to make payments at the conclusion of the project to make up for the shortfall. Reflecting our updated financial assumptions and the changes you have requested, we anticipate that the Consortium would be required to make a $12MM payment at the conclusion of the project assuming the Consortium's violations rates and a 50% collections rate on citations sent to violators. We

Why this change

anticipate that the project would be self-funding at a 1.0% violations rate and a 50% collections rate.

We have identified enhanced revenue opportunities beyond those we have discussed with you previously that collectively could generate in excess of $250MM in revenues. The potential profits to the Consortium (after sharing with the MFS Team) that might exceed $100MM. We itemize and discuss the basis for these estimates in the attachment.

Paul, I would like to reiterate our thanks for the professional and objective manner the procurement has been conducted. We remain very committed to the success of *E-ZPass* and look forward to working with the Consortium to set the standard for Electronic Toll Collection implementation in the U.S.

Best regards,

William P. Thompson
President & COO

New Jersey Turnpike Authority
ADMINISTRATION BUILDING P.O. BOX 1121 NEW BRUNSWICK, NEW JERSEY 08903
(908) 247-0900

September 20, 1996

Mr. William Rapp
MFS Network Technologies, Inc.
1200 Landmark Center
Suite 1300
Omaha, Nebraska 68102

Dear Mr. Rapp:

Attached please find the guidelines MFS Network Technologies should use in the preparation of its BAFO to the Consortium.

If you need any clarification, please call me at (908) 247-0900, extension 5280.

Very truly yours,

Paul A. Carris

Paul A. Carris
ETC Program Manager

PAC/js
Attachment

EXHIBIT
C-52
7/16/03 WM

EXHIBIT
C-3
7/16/03 WM

NJTASCI 079951

CONSORTIUM REGIONAL ETC IMPLEMENTATION PROGRAM
GUIDELINES FOR BEST AND FINAL OFFER
MFS Network Technologies
September 20, 1996

Member Agencies of the Consortium Regional Electronic Toll Collection (ETC) Program (the New Jersey Turnpike Authority, the New Jersey Highway Authority, the Port Authority of New York and New Jersey, the South Jersey Transportation Authority, and the Delaware Department of Transportation) are soliciting Best and Final Offers (BAFO) for deployment of an ETC system and operation of a regional ETC Customer Service Center. Twenty copies of your BAFO response shall be delivered no later than 1:00 p.m., Friday, September 27, 1996 to:

Mr. Paul A. Carris
ETC Program Manager
New Jersey Turnpike Administration Building
East Brunswick, New Jersey

Based upon discussions and interaction with the MFS/Chase Team over the last several weeks, it is the opinion of the Consortium that this program will be self-funding by the proposer. The Consortium believes that the systems and services it seeks to acquire will be provided at no cost to the Consortium and may, in fact, generate revenue in excess of costs based on the composition and structuring of your BAFO. In addition, it must be recognized that the Consortium agencies operate in an environment that requires "annual budgeting certainty." Therefore, a goal in the deployment of this ETC system and CSC operation is to receive a BAFO that is technically sound; puts forth a solid, well organized team; and provides, with certainty, the cost to the Consortium of the ETC system and CSC operation.

The Consortium is prepared to select the offer that represents the best value to the Consortium considering technical, cost, and other factors described in the original RFP and Addenda. To reduce the financial risk for proposers in structuring an offer that provides budgeting certainty, the Consortium is prepared to allow proposers to retain a portion of the revenues generated directly or indirectly over the contract term through the operation of the ETC system and/or the CSC operation. There will, however, be no sharing of any agency's toll revenue. The BAFO shall clearly specify the details of the offeror's price proposal to the Consortium, including any cost or revenue sharing arrangement, as applicable.

To assist the proposers in preparing their BAFO responses, it must be understood that the estimated market penetration rates cited in the RFP and the following estimated violation rates are provided as guideline estimates for the purposes of this procurement. Proposers are free to use these estimates or, independent of these and other assumptions, proposers may generate their own estimates in preparing a response that achieves the Consortium's goal of annual budgeting certainty. Furthermore, the Proposer's response must positively indicate the vendor's understanding that penetration and violation rate estimates do not represent a guarantee as to the level of activity.

MFS TransTech

MFS TransTech, Inc.
1256 North Church St., Suite D
Moorestown, New Jersey 08057-1129
TEL (609) 235-5252
FAX (609) 235-7486

September 27, 1996

Mr. Paul A. Carris
ETC Program Manager
New Jersey Turnpike Administration Building
P.O. Box 1121
East Brunswick, New Jersey 08903

Dear Mr. Carris:

MFS Network Technologies Inc. (MFSNT) and our associated team members are pleased to present our Best and Final Offer (BAFO) to the member agencies of the New Jersey regional Consortium for the deployment of an advanced Electronic Toll Collection (ETC) system and operation of a regional ETC Customer Service Center (CSC). As the Prime Contractor, MFSNT will continue to be the single point of contact for program management and responsibility for this project throughout the life of the contract.

The MFS Team offers the Consortium a unique public-private partnership approach that will provide the system and level of service needed to successfully implement and operate the E-ZPass program at an acceptable level of risk to both parties. Our partnership approach recognizes the unique contributions that each party brings to a venture of this nature.

Our analysis of the business conditions as stated in the BAFO guidelines provides the basis for offering the Consortium several financing options. We are able to provide this offer based on certain assumptions that include revenues and business risks shared between our public/private partnership. The two basic approaches, detailed in the pages immediately following this letter, are:

1. **$0 Down, $0 Payments** – No initial payment and no recurring payments subject to a Consortium guarantee that the aggregate potential violation rate will not fall below 0.8% over the life of the eight-year contract. If the violation rate exceeds 0.8%, we will provide 15% of the profits, associated with this "surplus" to the Consortium, net of collection expenses – approximately $9 million over the life of the contract (including Delaware). The 0.8% violation rate is relatively conservative compared with the Consortium's estimated violation rate of 0.93% over the eight-year contract life. We will work with the Consortium to fully define violation events, including the necessary "mix" of events.

EXHIBIT
C27
2/11/03

2. $0 Down, Budget Certainty – No payments for the first two years, followed by fixed annual payments of $60 million dollars in years 1999 and 2000. Within this framework, the Consortium and the MFS Team share in the actual profits associated with violations enforcement. Under this assumption, the Consortium can expect to receive approximately $150 million over the life of the contract.

Our team prefers the second approach as it truly aligns our interests with those of the Consortium over the eight-year contract, creating congruence for our mutual goals and objectives. We must emphasize that, based on our assumptions and predicated on all parties achieving mutually agreeable documentation, we are confident that it is possible to secure financing for either of these approaches. We are prepared to work with the Consoitium for these approaches or other negotiated alternatives and variations. Additionally there are certain revenue projections (e.g. Fiber Optic R.O.W. revenues) that we have of necessity stated conservatively.

Our BAFO includes by reference our cumulative responses to all requirements as stated in the Request for Proposal and subsequent Addenda and Clarifications.

The MFS Team remains committed to the New Jersey Regional ETC program. We offer our proposal to provide the Consortium with a technically sound, cost efficient, well-managed and financially attractive offer that presents the highest value and lowest possible risk solution. Bill Rapp, our Sales Manager, is available should there be any questions regarding our submittal.

Sincerely,

William P. Thompson
President and COO
MFS TransTech, Inc.

Clarifications to Approach 1

$0 Down, $0 Payments

- No initial payment and no recurring payments
- Payment schedule subject to a Consortium guarantee that the aggregate violation rate will not fall below 0.8% over the life of the eight-year contract
- If the violation rate exceeds 0.8%, we will provide 15% of the profits associated with this "surplus", net of collection expenses, to the Consortium. Using the Consortium's violation rates and including Delaware, this will generate an estimated $9 million for the Consortium over the eight years of the contract
- Administration Fee sharing matrix for violation rates and collection rates other than those of this base case to be established during negotiations
- All tolls associated with citations collected will be forwarded to the appropriate Consortium member
- New citation issuance criteria (e.g., six-month guidelines for NJHA and SJTA) as presented in the BAFO details
- CSC costs, including banking charges associated with replenishment, are based on stated penetration levels. Deviations from the penetration assumptions will result in the appropriate pass-throughs to the Consortium
- Definition of a violation to be finalized during negotiations, but understood to include "non-payment", "partial payment", "missed basket", "unread tag" and "license plate not readable"
- Consortium members will provide operational support to MFSNT's VPC processes to maximize its effectiveness
- Offer assumes implementation of the MFSNT fiber optic network R-O-W option
- These projections include Delaware.

Clarifications to Approach 2

$0 Down, Budget Certainty

- No payments in 1996, 1997 or 1998
- Annual payments of $60 million in 1999 and 2000
- No payments in 2001 and beyond
- Sharing of violations revenues net of collection costs; using the Consortium's estimated violations rate and a collection rate of 50% on citations sent, the Consortium will receive violations sharing of an estimated $150 million over the eight years (including Delaware)
- Administration Fee sharing matrix for violation rates and collection rates other than those of this base case to be established during negotiations
- All tolls associated with citations collected will be forwarded to the appropriate Consortium member.
- New citation issuance criteria (e.g., six-month guidelines for NJHA and SJTA) presented in the BAFO details
- CSC costs, including banking charges associated with replenishment, are based on stated penetration levels. Deviations from the penetration assumptions will result in the appropriate pass-throughs to the Consortium
- Definition of a violation to be finalized during negotiations, but understood to include "non-payment", "partial payment", "missed basket", "unread tag" and "license plate not readable"
- Consortium members will provide operational support to MFSNT's VPC processes to maximize its effectiveness
- Offer assumes implementation of the MFSNT fiber optic network R-O-W option
- These projections include Delaware.

NEW JERSEY DEPARTMENT OF TRANSPORTATION
MEMORANDUM

TO: Jack Naiman
Director, Division of Procurement

FROM: Chris Cox Chris

SUBJECT: Addendum for additional scope of work for Kingston Cole & Associates

DATE: September 19, 1995

Action Requested:

The basic tasks required in contract # A70745 with Kingston Cole & Associates are nearing completion. One of the outcomes was the recommendation to Commissioner Wilson that two functional specifications and RFP's be issued as soon as possible, on a parallel track.

- The first RFP will package all the right of way in the various transportation agencies' domain, and offer it through a "bidding" process to qualified proposers to construct, operate, maintain and market a fiber optic backbone system. The successful proposer will share revenues and other perquisites, with NJDOT and the Authorities, derived from their commercial licensing or leasing of the fiber optic system. The RFP will be functional, and will allow the proposers to present the structure and relationship which offers them and the transportation authorities the optimal revenue stream.

- A second RFP is recommended to select a qualified proposer to construct, maintain, and operate an electronic toll collection system (referred to generically as ITS in the attached scope) on the Authorities' rights of way. This is also expected to generate revenue for the state. This system will use the fiber optic backbone as part of the necessary technology to operate the systems. This RFP will also be functional in nature, inviting creative proposals to develop the business relationship between public and private sectors.

A scope of work to define further the necessary tasks and associated costs was requested from Kingston Cole & Associates in August. (See attached memo.) **This is a request for an addendum to the original contract, pursuant to the attached scope of work, to authorize Kingston Cole & Associates to assist in developing requirements, soliciting proposals, evaluating responses, and negotiating resultant agreements or licenses for two RFP processes.**

EXHIBIT
C-144
10-10-03 Thirsty

PENGAD-Bayonne, N. J.

DOT00614

faxed to Susan Roop 9/19, 4:00pm

Background:

The contract issued in February, 1995, to Kingston Cole & Associates, was to determine the market feasibility for and assess the value of the state's right of way to the telecommunications industry. Also explored was the feasibility of "partnering" with the private sector to build intelligent transportation applications on a revenue-producing fiber optic infrastructure in the right of way. Pursuing those tasks has resulted in the conclusion **that there is significant private sector interest in the right of way of the transportation authorities (Turnpike, Garden State Parkway, and Atlantic City Expressway) as well as key state roads and interstates. There is also interest and revenue potential, from a different mix of companies, in installing and operating electronic toll collection on authorities' roads.**

The timeliness of this second conclusion was brought to bear in the past week with the announcement by the Governor that she wants to move ahead with electronic toll collection implementation. Commissioner Wilson has announced that a consortium of the New Jersey transportation agencies will be moving full speed ahead to install electronic toll collection. Based on the feasibility research from the Kingston Cole & Associates contract, Commissioner Wilson has recommended that a public/private approach is the method to use, rather than just building everything entirely with state or federal funds.

Discussion:

Throughout his work with NJDOT, Kingston Cole has been supported by DAG Susan Roop for advice and guidance about the framework within which his recommendations can proceed. Mr. Cole and Commissioner Wilson have met with the Director of Law and DAG Roop to discuss the alternatives for proceeding, and that review is ongoing. The Commissioner has also kept the Treasurer informed of the public/private approach which is recommended for the fiber backbone and the electronic toll installation.

The attached scope of work from Kingston Cole & Associates is the necessary next step to continue the process which is underway. There is no change in the hourly rate for Mr. Cole from the original contract. The firm SRI International is being proposed by Mr. Cole as a subcontractor for this work. Mr. Cole interviewed a number of firms and chose SRI. Their qualifications are a part of the scope, and an explanation of that choice is included. The nature of this RFP and procurement is entirely new to New Jersey, and likely new within the country. It is not work which the Department or the State has the background, expertise, or time to undertake.

Recommendation:

Proceed with addendum to contract with Kingston Cole & Associates.

KINGSTON COLE & ASSOCIATES

September 12, 1995

Ms. Christine Cox
Department of Transportation
State of New Jersey
1035 Parkway Avenue, CN-600
Trenton, NJ 08625

Subject: Change Order and Related Scopes of Work for Fiber Optics and Intelligent Transportation Systems (ITS) Requests for Proposal (RFP's)

Ms. Cox:
Dear Chris,

Per our findings and conclusions, Kingston Cole & Associates is recommending issuance of two (2) Requests for Proposal (RFP's). The objectives for each RFP will be:

- **Fiber Optic RFP:** To select a qualified proposer who will construct, operate, maintain and market a fiber optic backbone system along various NJDOT and Authorities' rights of way (ROW). The proposer will also share revenues and other perquisites, to be determined in negotiations, with NJDOT, the Authorities and the State of New Jersey from the commercial licensing or leasing of the fiber optic system.

- **Intelligent Transportation Systems (ITS) RFP:** To select a qualified proposer who will construct, maintain and operate an ITS system along selected Authorities' rights of way. The approved system(s) will significantly alleviate traffic congestion problems, provide compatible and much-needed technological applications to the State's major toll roads and generate new sources of revenue for New Jersey's Highway Trust Fund, the General Fund and the Authorities.

Given the disparate objectives, potential proposers and needs of the two RFP's, separate Scopes of Work are submitted for this project. In terms of work effort, we assume that the two RFP's will be issued in the same approximate time frame (last quarter, 1995 and/or first quarter, 1996). The two projects will therefore closely parallel each other in terms of milestones and other significant events and dates.

Per your request to Kingston Cole & Associates, I am submitting to you a Change Order and related Scopes of Work to provide assistance to NJDOT in the development of RFP's for the above noted areas. The details and justifications for the Change Order are as follows:

1537 FOURTH ST., SUITE 169, SAN RAFAEL, CA 94901 TELEPHONE: (415) 455-0800 FAX: (415) 456-0

CHANGE ORDER

Submitted by: Kingston Cole & Associates (Vendor No.: 347404720)
Requested for: Contract No. A70745

Per your memorandum to us of August 16, 1995, Kingston Cole & Associates now submits a Change Order and related Scopes of Work (Attachments 1 and 2) to the New Jersey Department of Transportation (NJDOT). Your memorandum succinctly states the rationale for the requested additional work, "... Assistance with a specific procurement process is too large an effort to handle that way (through small add ons to the existing contract). Therefore, I am asking for a scope of work, cost estimates and time lines which you propose for the completion of a full scale procurement. Include subconsultant information as well."

To this rationale we would add the following additional justifications:

- The proposed RFP's, one for development of a fiber optic backbone system and the other for ITS development of the Authorities' rights of way, are a logical extension of much of our work to date. Essentially, Kingston Cole & Associates has been conducting market research, i. e., to determine if the fiber optics, intelligent transportation systems (ITS), cellular and personal communications systems (PCS) industries are ready and willing to develop NJDOT's rights of way in public/private partnership arrangements. The answer has been a resounding "Yes".

  Rather than just analyze and study the current situation, as most consultants do, Kingston Cole & Associates has actively solicited and encouraged the various telecommunications industries to develop proactive plans for deployment of the networks, applications and services along NJDOT and Authorities' rights of way.

  The affected industries are therefore closely monitoring our progress and efforts. Indeed, major corporations now expect release of requests for proposals (RFP's) on or before the first quarter of 1995. Delay caused by a protracted consultant selection process could significantly alter industry expectations and jeopardize revenue producing possibilities for the State and NJDOT. We cannot emphasize enough the need for rapid, albeit prudent, development and issuance of RFP's that will capture the current "Window of Opportunity."

- Our estimates of annual revenues from the various projects, depending on the degree of privatization offered by potential proposers are: 1.) $8 to $10 million for the fiber optics RFP; and, 2.) $7 to $30 million for the ITS RFP, contingent upon the degree of privatization offered by the winning proposer. These are new revenues not anticipated or projected in NJDOT's current or future budgets. Our understanding is that looming transportation problems, e. g., future toll road increases, could be obviated by the revenues estimated for our telecommunications projects.

- The personal relationships that we have developed with key leaders in the telecommunications/ITS industries, as well as the liaisons that we have created with NJDOT and other State personnel (e. g., Department of the Treasury, Department of the Attorney General, etc.) must be maintained and nurtured through the RFP processes. These intangibles might be wasted, should another consultant, or consultant group, now replace Kingston Cole & Associates.

  This Change Order is thus a logical extension of those earlier efforts that now requires extensive new skills, expertise and funding to meet the comprehensive challenges of designing, issuing, managing and negotiating two RFP's that will set new standards for state governments throughout the country.

With this Change Order, Kingston Cole & Associates is also submitting the credentials of a new subcontractor to assist us throughout the various steps of the competitive bidding process. That subcontractor is SRI International. We have already provided you with information concerning the credentials and experience of SRI and related personnel who will work on the proposed projects.

The justification for the inclusion of SRI International (SRI) is simple and compelling: The RFP's that we will develop for NJDOT will be the most complex and innovative ever issued in the United States for either a public/private partnership agreement or revenue sharing potential. Per our reports to NJDOT, we believe these projects, and the proposals that will be received, will exceed any similar efforts to date by orders of magnitude.

In order to match these efforts, a commensurate increase in technical expertise and background will be required. Kingston Cole & Associates's previously subcontracted technical expertise is simply not sufficient for the proposed Scope of Work. We think that NJDOT and the Department of the Treasury will agree that the exceptional credentials of the SRI International team are more consistent with the comprehensive work effort now proposed.

Finally, SRI was not selected by us without extensive inquiry and investigation. More than seven firms, large and small, with expertise in engineering and telecommunications related fields, were interviewed. NJDOT personnel were queried as to their relationships and perceptions of firms currently approved for contract work with the Department. A major emphasis was placed on employment of a qualified firm with substantial connections and contacts in the State of New Jersey. SRI was the outstanding firm on all counts; including a major New Jersey presence in the form of the David Sarnoff Research Laboratory facility on Route 1 that is wholly owned and operated by SRI.

To facilitate the review and approval process, we are providing you with two Change Orders, each with its respective Scope of Work that includes estimated hours for completion of the RFP projects and a total dollar amount not to exceed three hundred and ninety six thousand dollars and no cents ($396,000.00). Should you have any questions or concerns, please do not hesitate to contact me. Thank you for your time and effort in consideration of this matter.

Submitted by:

Kingston Cole

Kingston Cole, Principal

Kingston Cole & Associates

Attachments

1537 Fourth St., Ste. 169 San Rafael, CA 94901
Tel: 415-455-0800 Fax: 415-456-0558

Kingston Cole & Associates

Fax

To: Paul Carris
From: Kingston Cole
Fax: 908-247-3811
Pages: 8
Phone: 908-247-0900 x5280
Date: 9/3/96
Re: Fiber Optic System
CC:

☐ Urgent ☒ For Review ☒ Please Comment ☐ Please Reply ☐ Please Recycle

• Comments:

The following is a memorandum for file I am sharing w/ you on an informal basis only. Any distribution is not advised.

Kingston

EXHIBIT C-72

NJTASCI 013202

MEMORANDUM FOR FILE

BY: Kingston Cole
RE: Initial Negotiating Positions for Fiber Optic Network/ETC
DATE: September 3, 1996

I. Introduction/Overview

MFS has clearly presented the better proposal in this area. They have "been there, done that" with resource sharing arrangements negotiated at BART and the New York Throughway. BART's deal remains preeminent with a 91% (for BART) share of the revenues and a $40 million integrated SONET and trunked radio system, and 48 strands of fiber, being paid for with BART's share of the revenues. The New York Throughway deal has been the subject of much criticism, with the agency receiving only 25% of the revenues, as well as some fiber and service. Rumor has it that Throughway management is very upset and trying to re-negotiate the deal.

Nevertheless, MFS has at least offered something for each of the Authorities, as well as the future potential to grow the fiber optic system along NJDOT's public access roads in the near term future. Two small sections of NJDOT's public roads are specifically requested in MFS' proposal, to provide system redundancy.

Lockheed's offer is for one Authority only, the NJ Turnpike. Clearly, this has irked all the Authorities, in one form or another. NJ Turnpike personnel told me they believed theirs was the only right of way (ROW) with value (based on both proposals), and they should therefore receive a larger piece of any revenue "pie." NJHA personnel informed me:

1.) They find Lockheed's proposal absolutely unacceptable and insulting on its face ($150,000 for a one year option solely to look at their ROW);

2.) They have devoted the best and most knowledgeable personnel to this project (Thus working harder than other Consortium members?); and,

3.) They know they have value because of previous fiber optic deals, existing empty conduit, etc.

NJHA therefore believes it should have a bigger slice also. SJTA is not even mentioned. As usual, they undoubtedly will accept this slight with quiet resentment.

II. MFSNT

MFS has put a bona fide, comprehensive offer on the table--in sharp contrast to Lockheed and their inexperienced developer, Symphony Management. My initial recommended negotiating posture is: KC&A and the Consortium negotiating team use this segment of the negotiations to

NJTASCI 013203

determine how tough, flexible, etc. the Chase Manhattan/MFSNT team will be. We "take the point" for the entire negotiations. The rationale for this approach is:

- MFS' offer in this area is similar to the one made to BART. We have much to negotiate, but, as described in detail below, the relative negotiating positions, personalities involved, etc. are known quantities, i. e., we all have a rough idea of the price tag on this segment of the RFP. There are a lot fewer unknown factors here than in the larger ETC negotiations.

- I believe MFS thinks the fiber optic offer will clearly differentiate their overall offer from Lockheed's. Although this is just an option, per the terms of the RFP, MFS clearly believes the proposed revenue streams, new SONET equipment and generally sophisticated approach and presentation will put them over the top--all other factors being equal.

- Despite MFS' brave talk about their options and alternative routes to build an East Coast (Boston to Miami) fiber optic system, we can minimize, if not remove many of these options from the table. We are poised to impose much higher fees, penalties, etc. for access onto NJDOT public roads. No longer will so-called "public utilities" be able to drill, trench and bore with impunity. Furthermore, I will recommend a moratorium to Commissioner Wilson on any fiber optic construction for a period of 6 to 9 months. The rationale for the moratorium is ~~one I have used~~ in California several times with other clients: Too many companies want access; they are causing safety problems and eroding the useful life of the public access roadways. A moratorium for a reasonable time is therefore warranted while we study the situation.

  MFS' other option to get from New York to Florida is AMTRAK. I question whether MFS is willing to imperil its relationship with Chase Manhattan--and the overall ETC proposal--to build a fiber optic conduit system for 6 carriers along AMTRAK's alternative route. I think the overall project, with all its implications, potential revenues and ETC market dominating potential is more important than just another fiber route. Furthermore, AMTRAK's new ROW director, Joe ~~Baybado from BART, just arrived.~~ He's not going to be able to cut a deal of this magnitude for at least 6 months.

I therefore recommend that we take the "point position" in testing the mettle of the other side's negotiating team. If there are other areas where the Consortium knows with reasonable certainty what it wants, we can move in parallel; preferably exchanging perspectives on how the other side is reacting to our respective positions.

The following are some early thoughts regarding specific negotiating positions vis a vis MFS:

1. Revenue Stream

MFS calculations in this area are extremely conservative. The company calculates revenues at $175 per duct per mile per month, which translated to $2100 per year, or $ .40 per foot per year. In contrast, BART is receiving rates of $5 to $8 per foot per year for the Transbay Tube, $3.75 for routes through San Francisco and Oakland to the Tube and $1.85 (more than 4 times their projections for New Jersey) in the less desirable outlying parts of the Bay Area. NJHA is now doing better than $2 per foot in certain sections of its ROW.

The company's dark fiber estimates represent a similar low evaluation. I believe we can safely estimate at least double MFS' proposed revenue stream from this project. They are estimating $6.8 million per year when filled; I believe $15 million is a more realistic projected revenue stream. Only the market will determine the actual price level--but a reasonable starting perspective helps us with other areas of the negotiations. MFS is playing mind games--minimizing the revenue estimate (in the guise of conservative financial estimates) to give themselves an edge in other area, e. g., financing the system.

2. Financing the System and Related Terms

MFS calculates the cost of the system at approximately $50 million in the interview on Friday, August 30. According to their written proposal, if the Consortium borrows the money (presumably from MFS' partner, Chase Manhattan) to build the system over a 7 year period, the debt is amortized with 84 monthly payments of $2,179,028 each for a total payment of $183,038,352. Something is off here that must be checked.

In any case, MFS indicated that a 30 year term (probably the present value calculation for the $50 million over 30 years) is more acceptable to industry standards. I agree on the term, albeit we should put escalators (COLA's) in at 20 years for the remaining term.

More importantly, MFS is pushing for the Consortium to put the full faith and credit of the Authorities behind the debt that would be incurred. The debt would be paid with proceeds from fiber and conduit rentals. Should those not prove sufficient, the Authorities would be required to subordinate other debt to payment of any shortfall. Implicit to this is that if the Authorities want any other type of deal, they will have to radically alter the revenue split; probably closer to the NY Throughway deal of 25%.

I am negotiating non recourse financing in another deal now. There, the equipment is the lender's only real recourse. No tax exempt bond indebtedness can be incurred because the government agency refused to accede. On the other hand, the lending institution (JP Morgan) not only is reputable; but believes it will do quite well with a private placement financing at market (not tax exempt) rates. I do not see why this approach, keep the 85%, use market rate financing and keep the Authority's credit ratings and obligations out of the deal, cannot be our initial negotiating position. We can back down gradually on the percentage, if necessary. As I understand it, the Authorities cannot subordinate their debt in any case.

3. License Fee

MFS has put no money on the table for this venture. This negotiating posture is consistent with the remainder of the ETC proposal with their partner. Nevertheless, it is inconsistent with what they offered BART, i. e., $3.5 million, essentially as a license fee, to construct, maintain and market the system. MFS makes money several ways once it signs a deal, including: 1.) Profit margins on construction (which we will have to control); 2.) a possible fee for placing the loan; 3.) fees for pulling the fiber of the various carriers occupying the system; 4.) fees for maintenance and repair of the system; and, 5.) their 15% percent of the gross receipts.

I believe our initial posture should be to ask for $8 to $10 million (I am not sure at this point how much) as a license fee for participating in this deal. They will go ballistic--but as noted above, I believe they really want this deal.

4. Term and Payments by the Industry

As indicated above, 30 years should be acceptable to both sides. We should demand COLA's at 5 year intervals, after the first 20 years. I prefer annual payments. As MFS indicated in the interview, some companies will want to pay the net present value of a 30 year lease with a lump sum payment now. This may be an attractive option to the Authorities. The market will tell us which option is better. MFS, in sharp contrast to Lockheed, will give the consortium right of approval on all leases/licenses to carriers in the system--a necessary control issue to prevent conflict of interest situations.

5. Fiber and Duct Space for the Consortium

MFS says 8 fibers throughout the system will be dedicated to the Consortium. They believe these will be more than enough to meet the Authorities' needs. While this may be true, I believe the real reason for this meager offer is that MFS wants the Consortium to be "fiber poor" so that potential competition (with MFS telecom services) for the rest of New Jersey's telecommunications business will not arise from the Consortium. The $50 million in annual telecommunications revenues that now goes to Bell Atlantic and AT&T could go to MFS and others--or it could be handled, at least to a limited degree, by the SONET system we are negotiating here.

I believe our initial negotiating position should resemble the BART deal: 1 innerduct and 48 strands throughout the system for the Consortium. If MFS does not want any competition, let them offer something else in return for a non compete clause.

6. Technical Aspects

MFS is offering OC-1 speed on this system. I believe we should go up to OC-3 capability. This higher speed network is closer to the industry standard. SONET is correct for the applications platform, so I have no problems there. The ADM/Drop Multiplexed configuration, SNMP software, etc., need to be reviewed in greater detail by one of my people (and Consortium personnel) during negotiations. It is not critical now.

7. Miscellany

a. Expediting the Deal

While there are a great many details and issues to be negotiated, MFS knows that if we can reach agreement in principal on major terms and conditions regarding the fiber optic system, the rest of negotiations will move very quickly. That is because of my past experience in negotiations with them--we do not have to start from scratch. The thought of a signed contract, which is what they need to begin marketing (and really pre-funding) the fiber optic system is a powerful incentive to both sides.

b. Exclusivity

As opposed to Lockheed's offer, MFS should go along with a BART-type of approach that specifies a non-exclusive license arrangement with several conditions that take care of MFS' concerns. No one wants to run afoul of the new Telecommunications Act, particularly the various attorneys representing Consortium members. We can give them first rights to negotiate for a reasonable time after a conduit is filled. We can also offer non-compete assurances, if we deem it appropriate, for use of the Consortium's own fiber. All these moves amount to sufficient "exclusivity", without actually stating it, to satisfy both sides.

c. Joint Governing Board

MFS alludes to the formation of a joint governing board in its proposal. I have used this device before and think the Consortium could employ some type of Joint Powers Board that could resolve payment and other disputes. Given my discussions with representatives form the Authorities, I will recommend that more thought be given to this option. Whether it fits for the entire ETC project is problematic.

d. Extra Conduit Space

Both NJHA and NJDOT have existing, empty fiber optic conduit space. This space could be utilized to reduce the overall costs of construction considerably. I have an inventory of NJDOT empty conduit; Dave Ryan of NJHA will work with us on this. There is an outside possibility we can use this RFP process to parlay a larger network through key NJDOT access roads with empty duct space. I recommend holding this issue back in negotiations until an appropriate moment, i. e., we have something to offer--but I want to know what MFS will trade for it.

III. Lockheed/Symphony Management/Bell Atlantic

I cannot determine from their offer whether these players are serious or simply believe a minimum, almost laughable offer is all that is needed to get them through negotiations. Bell Atlantic used this type of ponderous, imperious approach last year in its negotiations with NJHA. Symphony Management (SM), the ostensible developer for the fiber optic system, is a bunch of minor cable TV and other minimal technologies company that has submitted one bid (to the Penn. Turnpike) and has not track record whatsoever in these types of fiber optic/revenue sharing deals.

The Lockheed offer on the table is clearly unacceptable. In both sets of interviews, their personnel were told informally that the offer was not enough, i. e., just putting fiber on the Turnpike and ignoring the needs and revenue potential of the other Authorities is unacceptable. Claims by Symphony Management that they do not know the potential market value of the NJHA are disingenuous; Bell Atlantic has all sorts of information, based on more than two years of negotiations for the same ROW. They could not share?

Recommended Strategy: See if Lockheed/Symphony Management has gotten the message to seriously amend their proposal. If not, we should consistently tell them that winning the ETC portion of the RFP does not include any type of fiber optic system. The Consortium, or its various members, reserve the right to seek an alternative approach to building a State-wide system exclusive of the ETC project.

I find an objections and "deal breakers" to almost every position in the Lockheed proposal. Some of the problem areas include:

1. Exclusivity

SM seems to believe the entire NJT will be locked up for 40 years with an exclusive arrangement for them. Somehow, the Consortium will have no right to review licensing agreements and will have to take SM's word that they are valid, industry-priced awards. Future growth of the system will be strictly determined by SM. None of this makes any sense, either from a business or legal sense. All SM is doing is tying up the Turnpike for a minimal annual fee of $450,000. Given my estimation of the system's worth, as well as even MFS' first minimal estimate, $450,000 is a fabulous deal for Lockheed, SM and most obvious of all--Bell Atlantic. I believe the rest of the telecommunications industry, now trying to access New Jersey in major ways, would seriously consider litigation (under the new federal Telecommunications Act) to try and stop this type of arrangement.

2. 16 Strands of Fiber

In addition to the annual fee, SM is offering 16 strands of fiber along the entire length of the Turnpike. SM values this at $1.8 million per year, or $40 million over the 40 year term of the proposed agreement. The assumptions supporting this "value" are not offered. Nor are their any indications of whether any type of service will be offered, and at what rates, to make this fiber operational (lighted fiber). In response to a question, SM personnel indicated that these 16 strands would be in their own, NJT-owned, innerduct. A standard innerduct can hold up to 216 strands of fiber. Not only is the SM offer a waste of space, I was dumbfounded that they would concede the extra innerduct space during the interview--before negotiations have even begun. I had assumed (as would anyone familiar with the technology) that NJT's 16 strands would fit nicely in the same conduit with the 96 strands SM proposed to offer to the market--all very comfortably with room to spare! Symphony Management has little experience in these matter--a point conceded during the interviews by one of their bidding partners, Bell Atlantic.

3. Revenue Estimates

Symphony Management's offer, 25% of all revenues with a cap at $25 million (NJT can only make a maximum of $6.25 million annually) is also very perplexing. Why the cap? What are the assumptions? Rather than speculate, I will discuss this more with Paul Carris, Tom Margro, et. al. as we get closer to actual negotiations. Like the entire proposal, it makes no sense other than just as a holding pattern while the other parts of the ETC proposal from Lockheed are discussed.

KC

Garden State Parkway

Memorandum

CONFIDENTIAL

DATE: January 8, 1997

TO: Dave Mortimer, Chief of Staff NJDOT
Edward Gross, Acting Executive Director NJTA

FROM: Lewis B. Thurston III, Executive Director LBT

SUBJECT: **Electronic Toll Collection**

Throughout the procurement process our representatives have been concerned and have expressed these concerns about public acceptance of the massive enforcement effort necessary to attempt to deal with all violators and the reliability of revenue to be derived from the administrative fee associated with the violations. We continue to have these concerns.

Because of the tightness and intensity of the procurement schedule, it was not possible to do as much analysis of the revenue potential to verify the vendors assumptions as we might have liked. Because of the recent delays in the process, our staff has had an opportunity to do some further evaluation relative to this concern.

Enclosed is a copy of an evaluation report which our three principal project representatives have submitted to me which includes some analytical data and a recommendation to have an independent firm do further analysis. Chairman Buckelew and I have reviewed this and feel we should share this information with you at this time so that you, as the lead persons and agencies in the consortium, may have the benefit of it. We believe it would be beneficial to have further analysis done and I will be glad to discuss with you the appropriate manner in which that should be done both for the consortium and for the Highway Authority.

I look forward to discussing this matter with you after you have had an opportunity to review the enclosed information.

LBT:pm
enc.
cc: Chairman J. Buckelew
Frank Scangarella

EXHIBIT
C-65
7/31/03 LMA

Violator Stats/Assumptions

Current violation rate approximates 2%

Of 1.4 million transactions per day, this is 28,000 per day

Average transactions per day per patron is 3

Violations, as a percentage of revenue, peak in the winter months and are at their lowest levels in July and August.

No specific statistics are available regarding the number of individual violators on our road.

Some % are frequent repeat violators - daily, weekly
Some % are infrequent repeat violators - monthly, 3 in 6 months
Some % will be non enforced violators - less than three in 6 months

Most repeat violators violate at least once each way(two per day)

Some repeat violators violate less than twice per day(1 per day, 1 per week)

To be conservative, assume repeat violators will accumulate a weeks' worth of violations before receiving the first notice. This equals $325.00 in admin fees.

Infrequent repeat violators - to be conservative, use $325.

63-102-HA (Rev. 2)

Garden State Parkway

Memorandum

CONFIDENTIAL DATE: 12/27/96

EXHIBIT C-64 7/31/03 CMH

TO: Lewis B. Thurston III, Executive Director

FROM: NJHA MET Members

SUBJECT: ETC Evaluation

Since receipt of the best and final offers, the project team has reviewed the proposals for electronic tolls from various viewpoints in an effort to verify the projected revenues from the violation enforcement.

Although the percentages represent our collective best estimate, another approach is to estimate the number of actual violators and the fees required from each.

The following facts represent the NJHA violation history:

1. Violations as a percentage of income peak in the winter months and are at their lowest levels in July and August. This suggests that most violators are regular commuters, not seasonal or recreational travelers. (Analysis attached.)

2. Our annual violation rate for 1994 and 1995 has been 1.89 and 1.9, respectively. This year appears to be coming in about 2.10.

3. Given our daily transactions of 1.4 million, we average about 28,000 violations per day.

4. The average patron accounts for three transactions per day.

Based upon the above, it would be reasonable to conclude that most violators are repeat violators. No specific statistics are available which would define the exact number of individual violators. However, reasonable assumptions suggest that the core violators approximate 15,000 to 18,000.

The vendor's projections of NJHA related violation administrative fee income over the eight years is $244,225,000. The vendor indicates that this income stream is achievable based on the RFP data and on the vendor's past experience. The vendor's projected collection rate is approximately 50% of violations mailed.

We recently contacted the New York State Thruway. Their collection experience approximates a 36% collection rate.

Various assumptions can be made. By the time a repeat violator receives his first notice, he would probably have at least a week's worth "in the mail." This would result in 10 to 15 violations. Assuming the maximum of 15, this represents $325.00 in administrative fees.

Using the high end of 18,000 core violators and allowing for 10% additional violator turnover per year over the eight year life of the contract, there would be a total of 30,600 violators. Projecting this times $325 results in only $11,475,000 in administrative fees. At a 50% collection rate, this is $5,737,500.

Furthermore, even allowing for 100% error on both factors of the projection (doubling both the 30,600 and $325), the administrative fees generated at a 50% collection rate would be $19,890,000 (61,200 x $650/2).

Looking at the figures from another perspective, the vendor expects to collect $172,303,250 from NJHA violation administrative fees during the first three years of operation. This results from the mailing of 13,518,750 collection notices ($25.00 each) per the BAFO. These are the years with the highest projected violation rates.

Using the above repeat violator assumptions and the average fee of $325, this would translate to the equivalent of over 1,060,000 violators in a three year period. Or, using our maximum projected figure of 43,200 for three years, this represents fees of $7,977 per person.

<u>**CONCLUSION:**</u> Based upon the above scenarios, the cost sharing formula, particularly Tier 2, becomes critical for the Authority, as it appears that the violation income projections will not be realized. The agency that benefits the most from ETC implementation must bear the major share of the costs.

It seems that, at this point, it would benefit the Authority to have an independent firm, such as Deloitte & Touche, review the figures and projections for any impact on the Authority's financial statements and budget. In addition, the firm would provide a valuable resource to the Authority in guiding us through the negotiations of terms and conditions. Certainly, after a contract is signed, they would find it necessary to review its impact, so it may be in our best interests to have them review the figures beforehand, if any non-disclosure and conflict of interest issues can be resolved.

Charles D. McManus Thomas F. Butler Stanley Ciszewski

Charles D. McManus | Thomas F. Butler | Stanley Ciszewski

TFB:acs

cc: J. F. Flynn

NEW JERSEY TURNPIKE AUTHORITY

From the Desk of

PAUL A. CARRIS

NTPJ TURNPIKE

3 45 PM

TO: Ed Gross DATE 1/17/97

- My comments are written on Phoenix's memo commenting on the NJHA mer re: projected admin fee.
- At Dave Mortimer's direction a clean copy of the Phoenix memo has been faxed to Jim Crawford and Lew Thurston.

Paul

EXHIBIT C-66 7/31/03 CM

MEMO

phoenix
planning & evaluation ltd

3204 Tower Oaks Boulevard
Rockville, MD 20852
(301)984-4210

Date: January 17, 1997

To: Paul Carris
Fran O'Connor
NJTA

From: Margaret Melhem

Subject: NJHA Revised Violation Revenue Projections

As the NJHA MET Team members indicated in their 12/27/96 memo to Louis Thurston, violation rates post ETC implementation are difficult to predict. As a point of reference, the rates provided by the Authorities to vendors during the BAFO process were:

	NJHA	NJTA	PANYNJ	SJTA	DelDOT
6/97-12/97	0.0%	0.0%	1.0%	2.5%	0.0%
1/98-12/98	2.5	0.5	1.0	2.5	0.0
1/99-12/99	2.0	1.5	0.5	2.0	0.5
1/00-12/00	1.0	2.0	0.5	1.0	1.0
1/01-12/01	0.5	1.0	0.5	0.5	0.5
1/02 & Beyond	0.5	0.5	0.5	0.5	0.5

Given as Consortium estimate Vendors to use their own best estimate which resulted

As shown below, the average rates used by the Vendor to predict violation revenues indicated a more rapid decline in violation rates than those projected by the Authorities.

	Average Rate
1997 (6 mos)	1.52%
1998	1.85
1999	1.67
2000	0.60
2001 & Beyond	0.50

The revised projected NJHA violation rates presented in the NJHA Met Team 12/27/96 memo are dramatically lower than previous Authority projections. They are based on the following assumptions:

- There is a core set of violators, estimated at 18,000, made up of regular commuters who are responsible for most violations. While we are not clear on the basis for their estimate, it appears to contradict information provided by

NJHA during proposal negotiations when it was indicated that only about 35% of violations come from repeat violators. It also seems to contradict information provided by vendors —that in their experience most violations result from individuals who do not have ETC accounts (i.e. non-commuters).

The NJHA analysis seems to suggest that transient drivers are not responsible for any violations. As shown in Attachment 1, if transient or non-repeat violators account for 65% (100% minus 35% repeat violators) of violations, as previously estimated by NJHA, then expected NJHA violation revenues at a collection rate of 25% of all violations would be about $332 million over the eight year life of the contract from non-repeat violators. Should non-repeat violators account for only 45% of violations, then NJHA violation revenues would be $230 million over the eight year life. At 20% of violations, revenues from non-repeat violators would be $102 million. As NJHA indicates, the percentage of transient violations is a key indicator of violation revenues. These calculations do not included revenue from repeat violators and are based on current violation rates.

- A second key NJHA assumptions is that violations will decrease dramatically, once ETC is implemented. According to the NJHA analysis, within a week or so the repeat (commuter) violator will accumulate 15 citations. After receiving these citations they will cease to violate. NJHA estimates the annual turnover rate in these core violators at 10%. At the low end, NJHA analysis results in a prediction of 30,600 violators or 459,000 violations over the eight year life of the contract resulting in violation revenues of $5.7 million. At the high end, NJHA analysis results in 61,200 violators or 1.6 million violations over the contract for $19.9 million in violation revenues.

  As Attachment 2 indicates, violation revenues falling to these levels, within a week or so of ETC start up, equates to NJHA violations decreasing from the current average of 28,000 violations per day to an average of just 74 violations per day at the low end estimate or 256 violations per day at the high end estimate. On a positive note, however, if these rates could be achieved, NJHA would benefit from a $33 million reduction in lost toll revenue over the eigth year contract period.

Vendor projections of violation revenue were very close: $399 million by MFS/Chase and $384 million by Lockheed. In any case, there would be no benefit for MFS/Chase to dramatically over estimate violation revenues, as the NJHA analysis suggests, since they are financing the project and under any circumstances will receive no payments from the Consortium for eight years. Indeed their very premise in offering the Consortium a zero cost; zero payment deal is the belief that revenue from violations and related operations will more than pay for the system.

Again, we agree with NJHA that violation rates are difficult to predict and believe it would be worth while to survey existing ETC operations to obtain information on the violation rates being experienced in these operations.

- NJHA gives "violations as a percentage of income", which is a measure never used in our analysis or the vendors' analysis.
- I cannot determine whether the violation rate given by NJHA is even an "apples to apples" comparison, since the vendors ~~and~~ defined violations as a % of non-ETC account holders.
-

Attachment 1
NJHA: Revenues From Non-Repeat Violators

Current Annual NJHA Violations	Percent of Non-Repeat Violations	Total Non-Repeat Violations Per Year	Collection Rate (1)	Total Annual Number of Collections	Total Annual Violation Revenues	Total Violation Revenues Over 8 Years
10,220,000	65.0%	6,643,000	25.0%	1,660,750	$41,518,750	$332,150,000
10,220,000	50.0%	5,110,000	25.0%	1,277,500	$31,937,500	$255,500,000
10,220,000	45.0%	4,599,000	25.0%	1,149,750	$28,743,750	$229,950,000
10,220,000	35.0%	3,577,000	25.0%	894,250	$22,356,250	$178,850,000
10,220,000	20.0%	2,044,000	25.0%	511,000	$12,775,000	$102,200,000

(1) The projected collection rate is 50% of citations sent or about 25% of violations overall.

Attachment 2
New Jersey Highway Authority
Projected Violation NJHA Rates Per 12/27/96 Memo to L. Thurston

	Avg. No. of Violations Post ETC Implementation			
	Low End Projection		High End Projection	
	Daily	Annual	Daily	Annual
Year 1	740	270,000	2,564	936,000
Year 2	74	27,000	256	93,600
Year 3	74	27,000	256	93,600
Year 4	74	27,000	256	93,600
Year 5	74	27,000	256	93,600
Year 6	74	27,000	256	93,600
Year 7	74	27,000	256	93,600
Year 8	74	27,000	256	93,600
Total Over 8 Years	1,258	459,000	4,356	1,591,200
Violation Revenue @ 50% Collection Rate	$15,725	$5,737,500	$54,450	$19,890,000

- 74 daily violations represents 0.00528 percent violation rate (measured against all ~~tr~~ansactions). This is what the NJHA 12/27/96 memo indicates violations will drop to after 1 week. The NYS. Thruway after several years of operation show a weekday violation rate of 0.44 percent of total transactions which is almost 100 times greater than NJHA's newest assumption. The MTA shows a 1.42 percent violation rate or 270 times greater.

- The 12/27/96 NJHA memo leads one to conclude that video enforcement will reduce the current 28,000 daily violators to 74. This should please everyone.

A-ETC

New Jersey Turnpike Authority

MEMORANDUM

December 27, 1995

MEMORANDUM TO: Thomas E. Margro
Director of Maintenance and Engineering Services/
Chief Engineer

SUBJECT: Electronic Toll Collection

As has been discussed on numerous occasions, implementation of Electronic Toll Collection will have a significant impact on the Finance & Budgets Department's operations.

I have assigned Pamela Varga and Donna Manuelli to represent this department. I would appreciate it if they were kept apprised of the process. They are also available for any input required for this process.

Catherine A. Schladebeck
Comptroller

/bdg

cc: P. Varga
D. Manuelli

New Jersey Turnpike Authority

MEMORANDUM August 23, 1996

MEMORANDUM TO: Edward Gross
Acting Executive Director

..IVED

6 1996

EXECUTIVE DIRECTOR

SUBJECT: ETC

I have discussed my concerns regarding the coordination of ETC efforts with Tom Margro on many occasions. These concerns have also been revisited at staff meetings.

Tom has made many attempts to correct the problems we have experienced. However, I continue to have concerns which are highlighted by Tom's resignation from the Authority.

I believe Finance & Budgets has a very important role to play in ETC procurement and have assigned two extremely competent professionals to this task. While the Authority has an ETC staff, I have been told that their purpose is to represent the Consortium as a whole, not the Authority. Since this is the case, I believe it to be critical that financial matters receive the attention they deserve. The best interest of the Consortium and the best interest of the Authority will not always be the same and the Authority needs unbiased representation. We believe the ETC process to be important however, this is only one of many important responsibilities of the Finance & Budgets representatives.

Overall, there have been activities where Finance & Budgets participation would have been very beneficial to the process. I realize that the ETC project has been an intense effort however you should know that this department is often left out of the loop. The lack of notice makes it is extremely difficult to plan anything and reduces the opportunity to give things their proper attention. This department is repeatedly not informed of meetings or is asked to review things at the last minute. In fact, we were just invited today, Friday, to attend presentations on Monday. Most of the time we need to rely on information from our colleagues from other agencies since they usually receive information and prior notices.

I just want you to be aware of the extent of our efforts as well as our frustration.

CAS

Catherine A. Schladebeck
Comptroller

/bdg

EXHIBIT
C-112
9/3/03 LMM

A-43

NJTASCI 059417

New Jersey Turnpike Authority

MEMORANDUM

August 30, 1996

MEMORANDUM TO: Paul Carris
ETC Project Manager

SUBJECT: Notification of Meetings

As you know, I have spoken to Tom Margro and Ed Gross several times, and Pam Varga has spoken to you, regarding not being properly notified about ETC meetings. Ed assured me on August 29, 1996 that he had discussed this matter with you and there would no long be a problem

On August 28, 1996, Donna Manuelli attended a meeting where additional oral presentation were discussed. At the time she left the meeting, the location and date had not been confirmed.

Since we had not received notification of the meeting, we called both your office and Tom Margro's Office to determine if our attendance at the meeting was appropriate. We were told that we would receive a call from Francis O'Connor to advise us if we should attend.

At 5:00pm, Pam called Mr. O'Connor's office to attempt to determine if our department was expected to attend. She left a message and waited, with Donna, until 5:30 pm. No call was received.

On August 30, 1996, at 8:50am, Alex Richardson came to our department with a message that Donna was welcome to attend the presentations and if she wasn't available, Pam was welcome. He stated that the meeting started at 9:00 am at the Highway Authority's Executive Offices.

Several other Turnpike employees attended the meeting. All of them were notified in advance. Once Again, Finance & Budgets did not receive the appropriate notice of a meeting we should be involved in. However, even with the extremely late notification, Donna Manuelli did make arrangements to attend the meeting although she unfortunately had to miss a part of the first presentation.

At the presentation, members of the other Authority's information Donna that they were expected to be at the negotiation meetings and that they received a schedule for the next three weeks. We have not received any notification of the negotiations meetings or schedule. I would appreciate this matter being addressed once and for all.

Catherine A. Schladebeck
Director of Finance & Budgets/
Comptroller

/sv
cc: E. Gross

EXHIBIT
C3
2/11/03

MFSNT BAFO Clarification Questions
October 1, 1996

1. **Although a violation rate of 0.8% seems reasonable, for either Approach (i.e. 1. $0 Down, $0 Payments, 2. $0 down, Budget Certainty), please clarify the Consortium obligations should the violation rate fail below 0.8% at any time during the contract. (We note that your BAFO Parameters show the rate falling to 0.5%). Your offer, at least Approach 1, indicates that it is based on the premise that the "aggregate violation rate will not fall below 0.8%". Does "aggregate" mean "average" rate? Is Approach 2 also predicated on the expectation of a 0.8% violation rate?**

   * **How will the violation rates be monitored? do these figures include DelDot?**

We have calculated the average violation rate (weighted by transactions for the different Consortium roadways) over the 8 year project life to be 0.93% using the Consortium's estimates. In some years, the Consortium's estimated overall violation rate is higher than this level on a weighted average basis, and in later years, its estimate (0.5% for all roads) is lower. The 0.8% violations rate introduced in our BAFO response is a number that is similar in nature to the 0.93% rate – an average over the eight year period of time. The framework we are proposing places no financial obligations on the Consortium if the overall violation rate drops below 0.8% for a year or a specific period of time in the eight year period, but does place a financial obligation on the Consortium if the violations rate falls below 0.8% over the eight year life of the project.

Our financial concern with the terms requested by the Consortium is based on our view that the E-ZPass project including potential revenues (from statement inserts, float from E-ZPass account balances, the potential sale of customer lists and other incidental revenue sources) is not likely to be self-financing. Our estimates for revenues from a fiber optic telecommunications system help narrow the financial gap, but do not change our fundamental conclusion. As a result, we have developed the two financing approaches outlined in our BAFO response. If the violation rate is as high as the Consortium has estimated and the MFS team receives the resulting administrative fees as outlined in our BAFO response, we will be able to provide E-ZPass equipment and services at no cost to the Consortium, and forward $8.5MM of administrative fees to the Consortium, as outlined in Approach 1. We believe that our rate of collections will be high enough to allow us to make this offer. If the violations rate falls below the Consortium's estimates, the MFS team faces increasing levels of financial risk, and will be in a money-losing position if the violation rate falls significantly below the Consortium's forecasts. We are only able to present a financial package of the sort the Consortium has requested ($0 down, $0 payments) if it guarantees to insulate the MFS team from losses resulting from violation rates significantly below its estimates over the eight year period of the project.

Approach 2 addresses the financial risks of the MFS team in a different manner. The two payments of $60MM (one in 1999, one in 2000) provide a financial backstop on the risks we face from lower than estimated violations rates, and -- very importantly -- align the Consortium's interests and ours in a number of important financial and operational ways. As a result, we believe this approach is a sounder framework for our relationship with the Consortium. We believe this very strongly, and have structured it so that it will be more attractive financially to the Consortium than Approach 1. We are recommending it for your serious consideration even though it yields lower returns to us than Approach 2. In a complex and dynamic service business such as E-ZPass, we believe that alignment of interests between the Consortium and its service providers is critical to a successful working relationship over a long contract period. We are asking no violations rate guarantees from the Consortium under Approach 2, and it is not predicated on the expectation of a 0.8% violations rate.

DelDOT is not included in our proposal, but the percentages we propose are valid if DelDOT is included.

We suggested that we should develop a mutually agreeable set of definitions and monitoring protocols if Approach 1 is the option most preferred by the Consortium. We suggest an annual monitoring (and, if necessary, reimbursement) process, developed with the expectation that the violation rate will be higher in early years than in later years. We are proposing an average violations rate over an eight year period with the understanding that this approach will require a financial settlement at the end of the project in addition to the annual monitoring and reimbursement process.

In addition to a process for monitoring results and triggering reimbursements, Approach 1 also requires the MFS team and the Consortium to arrive at a common definition of a violation, the policy for handling customers who drop to zero balance, partial coin violators and so on. We have made allotments for the magnitude the potential violations that will not generate citations because of the Consortium's policies. An unfortunate feature of Approach 1 is the fact that the MFS team has a strong financial interest in limiting this loss of fee income, and needs financial protection from expansion of leniency programs, special consideration for customers who generate violations, etc., beyond the allotment we have assumed. All in all, Approach 1 will require a great many operational definitions and careful delineation of the financial obligations of the two parties, with the recognition that the parties' interests might conflict numerous times as new conditions arise.

2. **Please clarify the 7th bullet in the page that details Approach 1. This bullet states that "Deviations from the penetration assumptions will result in the appropriate pass throughs to the Consortium." What are the nature and extent of the pass throughs?**