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PUBLIC HEARING

before

ASSEMBLY TRANSPORTATION AUTHORITIES, TELECOMMUNICATIONS  
AND TECHNOLOGY COMMITTEE

"The proposed sale of State highways  
to the New Jersey Turnpike Authority"

May 1, 1991  
Room 341  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman George A. Spadoro, Chairman  
Assemblyman Bernard F. Kenny, Jr., Vice-Chairman  
Assemblyman Frank Catania  
Assemblywoman Marion Crecco

ALSO PRESENT:

Amy E. Melick  
Office of Legislative Services  
Aide, Assembly Transportation Authorities,  
Telecommunications and Technology Committee

\* \* \* \* \*

Hearing Recorded and Transcribed by  
Office of Legislative Services  
Public Information Office  
Hearing Unit  
State House Annex  
CN 068  
Trenton, New Jersey 08625





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*Vice-Chairman*  
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**New Jersey State Legislature**  
**ASSEMBLY TRANSPORTATION AUTHORITIES,**  
**TELECOMMUNICATIONS AND TECHNOLOGY COMMITTEE**  
STATE HOUSE ANNEX, CN-068  
TRENTON, NEW JERSEY 08625-0068  
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## NOTICE OF PUBLIC HEARING

The Assembly Transportation Authorities, Telecommunications and Technology Committee will hold a public hearing on the proposed sale of State highways to the New Jersey Turnpike Authority. The State Treasurer, the Commissioner of Transportation and the Chairman of the New Jersey Turnpike Authority have been invited to present testimony on the proposed sale.

The hearing will be held Wednesday, April 24, 1991 at 11:00 a.m. in Room 341, State House Annex, Trenton, New Jersey.

*The public may address comments and questions to Amy E. Melick, Committee Aide, at (609) 984-7381. Persons wishing to testify should contact Kim Johnson, secretary, at (609) 984-7381. Those persons presenting written testimony should provide 10 copies to the committee the day of the hearing.*

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ASSEMBLYMAN GEORGE A. SPADORO (Chairman): Ladies and gentlemen, I would like, first of all, to welcome our invited guests and welcome the public and the media to this public hearing, which has been called by the Assembly Transportation Authorities, Telecommunications and Technology Committee.

I will call the hearing to order, and I will first ask our aide whether, in fact, public notices have been distributed in accordance with the law. Yes?

MS. MELICK (Committee aide): Yes.

ASSEMBLYMAN SPADORO: Good. As you all know, today's hearing is to discuss the proposed sale of the State roads which is anticipated to raise some \$400 million to balance the State budget. This proposed transaction has raised numerous questions and concerns, which I hope will be addressed today.

A few months ago, I forwarded a letter to Treasurer Berman which outlined my concerns. At that time, I indicated that I was quite concerned regarding the utilization of what I referred to as "one-shot" solutions to deal with the difficult budget problems we are having. I was also concerned with the effect of this transaction on future bond offerings, and I was also concerned with how we will avoid the need for additional such solutions in future budgets.

Many of my colleagues, including Senate President John Lynch, have expressed similar concerns. Based on the information I have received, I believe it is necessary that we determine whether the proposed sale of State assets, in this case State roads, is the best option available during hard times. Through prudent streamlining of government spending, we have so far been able to keep program and service cuts to a minimum. We have also managed to reaffirm New Jersey's AAA bond rating, the highest in the country.

The proposed sale of State roads, however, is an option which may have dramatic consequences on New Jersey's bond rating. The refinancing of roads -- excuse me, the

refinancing of the bonds may have a negative effect on the State's Wall Street credibility. I also have concerns about whether the State will be required to reimburse the Federal government for previous transportation grants.

Finally, we have reservations regarding the Turnpike Authority's purchasing any roads upon which they may impose new, or additional tolls. At the same time, we must be honest about the situation we are in. We are fighting a budget gap which began during former Governor Kean's free-spending years, and has been increasing as a result of a fading national economy. If the State does not sell these roads, we must expect, and plan for, extraordinary service and program cuts, together with additional massive layoffs, to make up the \$400 million shortfall in the budget.

Either way, we must recognize that, like every other state in this region, New Jersey is experiencing the economic slowdown of this recession. Rather than speculate on personal interpretations of the effect or validity of the proposed sale, this Committee has invited Treasurer Doug Berman, the Chairman of the Turnpike Authority, David Goldberg, and Transportation Commissioner Tom Downs, to explain the provisions of the sale. Before we can make responsible decisions, the hard questions must be asked and answered.

At this time, I would like to invite Treasurer Berman to provide us with an opening statement, if he would care to.

**S T A T E T R E A S U R E R D O U G L A S C. B E R M A N:**  
Good morning, Mr. Chairman and members of the Committee. I think we will all make brief opening statements. To my left is Commissioner Tom Downs, from the Department of Transportation, and to my right, Mr. Chairman, is David Goldberg of the New Jersey Turnpike Authority.

It is unfortunate that we must get together today to discuss an issue like this. We are, however, facing trying economic times as a result of the national recession and past



State spending practices. Consequently, we must face the daunting challenge of balancing the Fiscal Year 1992 budget.

If the State had not imprudently spent its record budget surpluses of the 1980s, we would not be here today. But that money was not set aside for a rainy day.

So, we are here today, and I will be straightforward. The sale of a State road to the New Jersey Turnpike is not a standard budget practice. Tapping one-time revenue sources is a solution that should be considered and scrutinized carefully. In making that valuation, we must consider and fully understand not only the consequences on State finances of moving forward with this road sale, but also the consequences if we choose not to proceed with it. That is the cutting issue.

In this context, I recommend the plan we are here to discuss today because, on balance, it is the best way to deal with the State's financial problems and at the same time advance a commonsense transportation policy. If others have alternatives to raise or replace the funding that would be provided by this sale, this administration certainly will listen. Unfortunately, the critics so far have been long on the negative, absent with the constructive.

The Fiscal Year 1992 budget is largely molded by the determination of Governor Florio and the Democratic Legislature to provide the property tax relief benefits promised to the people of New Jersey nearly a year ago. While other states are cutting aid to schools and local governments, New Jersey is increasing such assistance. We are not passing the buck like Washington. And we are proud of that. But that is not the only thing that sets us apart from most other states wrestling with budget problems. Other states are dipping deeper into the pockets of their commuters or cutting back on mass transit services. In New Jersey we are holding the line on bus and rail fares and maintaining the level of services. And we are proud of that, too.

Still, I don't have to tell you that we cannot spend what we don't have. It's in black and white in the State Constitution. The budget must be balanced. We've made tough spending cut proposals. Spending for the first time in years is down for State government operations. There will be a reduction in the number of workers on the State payroll. It is regrettable, but there will also be layoffs. We are making State government smaller. But all this is not enough. There remains a big hole in the budget. The \$400 million road sale will help fill that void.

Chairman David Goldberg and Tom Downs -- Commissioner Downs -- are here with me to deal with a number of questions regarding the location of the road to be purchased and how the acquisition fits into the State's overall transportation policy. There also have been a number of legal questions raised, and you will hear how this sale can be accomplished. The bottom line is that we are confident this transaction can move forward.

But one point I want to emphasize: There should be no free ride for those who oppose this road sale. The budget has to be balanced. Without this road sale, there is a \$400 million gap. Critics must offer an alternative.

If the alternative means eliminating the jobs of over 10,000 more State employees, then we say the road sale is more acceptable. If the alternative is cutting State assistance for mass transit and hiking commuter fares, or further cutting funds for colleges and boosting tuition, then we say the road sale is more acceptable. If the alternative means reneging on one dollar of the property tax relief that was promised to the people of our State, then we say the road sale is more acceptable.

The thrust of what I'm saying is simple: In an ideal world, we wouldn't be here discussing solutions like this. But we are not in an ideal world. We are in a real world and we

need real solutions. We welcome your questions on how we may move forward with this solution.

Now I will turn to Chairman Goldberg.

DAVID J. GOLDBERG: Mr. Chairman, I have a brief written statement. I will go through it quickly. Obviously, after all of the statements have been submitted, I will be happy to answer any questions any members of the Committee might have.

I think the text of my statement is before the group, but for the benefit of those who may not have it, let me just say that the Turnpike Authority has worked cooperatively with Governor Florio and his administration, which includes Doug Berman and Thomas Downs, with regard to this specific proposal, and the administration's more comprehensive request that the Authority reexamine how the Turnpike can be more responsive to the overall transportation needs of the State. Some of this is reflected in the business plan that we recently adopted, which reassessed and reprioritized the projects of the Authority.

Based upon discussions with the State administration and our review of the Turnpike operations generally, the Turnpike has reached the following tentative conclusions:

First, to eliminate possible legal and policy questions, the proposal for the sale of assets to the Turnpike Authority should be done pursuant to appropriate legislative authorization. The Turnpike Authority's legal counsel have reviewed this issue with the Attorney General's Office, and there is general agreement that it would be appropriate to act by legislative authorization. I think this is an important point for everyone to understand. There has been, I think, much discussion and speculation about whether the transaction would be legal or not. Those are appropriate questions in my mind. Those questions can be put to rest very easily and very simply by the determination, if it comes, by the Legislature to authorize what we are proposing.

Secondly, the Turnpike has retained bond and tax counsel, as well as a financial advisor-- Well, we had a financial advisor, and we will have another one before the end of this week. We are in the process now of a thorough reexamination of our present debt structure. This review is required, in part, because of the present debt instruments, which restrict the Authority unduly with regard to the use of its resources in connection with its programs.

Our initial review and analysis suggest that it should be possible to carry out a restructuring of the Authority's bonded indebtedness to eliminate undue restrictions at no overall cost to the Authority and with the additional possibility of generating significant savings. I might just add parenthetically that the move yesterday, that came after I drafted this statement, that reduces interest rates, just reenforces the belief we hold; that a debt restructuring can be done, and it can be done with possible savings to the Authority.

We are now examining thoroughly the refinancing of our debt structure. This review, I should emphasize, is not contingent or dependent upon the \$400 million transaction. It will be consistent. We are doing that transaction, but the issue as to whether we should refinance even without the transaction, is something we are actively considering.

Three, the Authority agrees with the State administration that the portion of I-95 from the northern terminus of the Turnpike to the George Washington Bridge is an appropriate addition to the Turnpike's jurisdiction. From the standpoint of overall transportation policy, it makes eminently good sense for this portion of the roadway to be under the control of the Turnpike. The Authority further agrees, based upon the analysis conducted by the respective staffs of the authority and NJDOT, that this section of roadway can be valued at approximately \$400 million. This valuation reflects the cost to reproduce this facility, as well as the value of the

roadway corridor. The Authority support for this proposal, however, is not predicated on such a valuation, per se, or exclusively.

Let me also add, the transaction we are talking about also contemplates that this portion of the roadway will continue to receive interstate funds for major repairs and rehabilitation. The Authority, in turn, has agreed to commit from its resources the required non-Federal share, in order to make sure we get those funds.

Finally, I want to emphasize what I believe, and what I think anyone who looks carefully at this problem from time to time will conclude, and that is: The Authority does not exist or function in a vacuum. We can't examine these problems solely from the perspective of our programs or our objectives. We are dependent upon the benefits that are provided as part of an overall transportation network. These benefits include the critical assistance received during peak commuter hours -- for example from State facilities such as N.J. Transit.

I have in mind, for example, the critical problems facing SEPTA in Pennsylvania. I don't know how the SEPTA problem will be resolved. Fortunately, that is someone else's responsibility. But I know that is a difficult problem in Pennsylvania. I know people are seriously talking about the possibility of either substantially curtailing or even closing down the facility. I know the capital structure of the Franklin El, which I used when I commuted to law school in Pennsylvania, is now so bad that no one is sure how to put the capital investment in that is necessary to maintain that facility.

Facilities like that are at peril, and we have some of that problem -- fortunately not to that intensity -- with our own facilities, such as N.J. Transit. Those facilities are critical to a highway like the Turnpike. We have a mission to perform, and we have a certain capability in performing that

mission. But during critical peak periods, during the commuter rush hours, our facilities, even now, are taxed close to capacity, or beyond capacity at times. We are carrying out a very expensive widening program that will make very limited, modest improvements to the portion of our project from Exit 11 through Exit 14, at a cost of approximately a half-a-billion dollars, more than we are talking about in this transfer program.

The benefits that will come from that widening could be wiped out with a substantial diminution in the diversion of traffic from the Turnpike that now is possible by virtue of both the bus and transit traffic we have available. So, when people look to us in terms of what we can do or not do, we, in turn, look at what we are dependent upon. The Authority recognizes, and understands that it is a part of the State's overall resources. We understand that the allocation of our resources on a priority basis must, therefore, also reflect a recognition of the State's overall needs, particularly those needs in the transportation sector.

When the State's present financial situation is taken into consideration, along with the broader transportation objectives of the State, the proposed Turnpike acquisition of I-95 and the transfer of \$400 million from Authority resources to the State can be justified, in my opinion, as a matter of sound transportation policy.

In the final analysis, however -- and I want to emphasize this so that there is no mistake -- this is a fundamental policy issue. It is not one, in my opinion, that I, as Chairman of the Turnpike Authority, can or should make. It is a decision that has to be made by the Governor and the Legislature. We support the making of such a policy decision, but we will follow your lead and your direction.

TREASURER BERMAN: Now, Mr. Downs.

COMMISSIONER THOMAS M. DOWNS: Good morning, Mr. Chairman and members of the Committee.

ASSEMBLYMAN SPADORO: Good morning.

COMMISSIONER DOWNS: About a year ago, the Governor appointed me as Chairman of the Transportation Executive Council to make a series of recommendations about coordinated transportation policies within the State. One of the key points that was made in that initial report was the need to manage certain key corridors within the State of New Jersey -- highly congested corridors -- that require coordinated traffic management, instant management, and smarter highway technology. The key corridor for doing that within this region, both for Federal funding and for the expenditure of Port Authority funds and our own capital, is this corridor along I-95.

The traffic situation along the 95 corridor between the Turnpike's northern terminus and the George Washington Bridge could be greatly improved by integrated corridor management. We now have three separate agencies -- the New Jersey Turnpike, the New Jersey Department of Transportation, and the Port Authority -- all managing segments of a critical national road -- the Northeast Corridor -- within a five-mile range of each other. Placing this critical 4.4 mile segment of roadway under the Turnpike jurisdiction and control would reduce the complexity of operations, planning, maintenance, enforcement, and the coordination of electronic technology that will be required to carry out traffic management and communications in this corridor in the immediate future.

This acquisition allows for a natural extension of the Turnpike and provides for singular operating jurisdiction and responsibility between the Delaware Memorial and George Washington Bridge crossings. The Transportation Executive Council strongly recommended moving forward aggressively with plans to implement an automatic toll collection system, and

priority treatments for high occupancy vehicles. In addition, the Port Authority of New York and New Jersey will be working with the Turnpike, the New York State Department of Transportation, and the New Jersey Department of Transportation in developing a comprehensive traffic management program in the George Washington Bridge/Cross Bronx Expressway corridor, probably the most congested and highly traveled corridor in the bistate region. The Turnpike acquisition will facilitate the implementation and coordination of these important traffic management projects over the next several years.

While questions have been raised about whether motorists would have to pay to drive this stretch as a result of the acquisition, under existing and proposed law this segment cannot be tolled. Federal law prohibits the tolling of an existing free interstate highway or segment, and there are no proposals in Washington now that would change that.

In the same vein, I have read that there is some concern that this acquisition would trigger a Federal payback provision. I wrote to the Federal Highway Administrator about that to make sure we had an official position from the Federal government. Dr. Larson, who is the Administrator of the Federal Highway Administration, wrote to assure me that no repayment is necessary under Section 156 of Title 23 of the United States Code, as long as no tolls are assessed and the roadway is properly maintained in accordance with Federal standards. Furthermore, Federal law does not prohibit the transfer of a Federal aid route, or portion thereof, to another entity.

I would read a portion of his letter, as well, to emphasize the same point.

ASSEMBLYMAN SPADORO: Is that a letter from home again?

COMMISSIONER DOWNS: I will give a copy of this to the Committee. It should have been attached as part of my testimony. This is from Dr. Tom Larson, the Administrator of



the Federal Highway Administration at the United States Department of Transportation:

"I can confirm opinions offered by my staff. Federal law does not prohibit the transfer of a Federal aid route or a portion thereof to another entity, as long as project agreement terms are satisfied by the new owners. The terms include a prohibition on toll collection. Based on our preliminary review, we believe that if a transfer were made under Section 156 of Title 23 United States Code, payback will not be required for Federal aid funds used for the construction or improvement of the transferred roads." He further confirms the continued eligibility for Federal Highway Administration Interstate Reconstruction Funds.

I would like to note that after this conveyance, this portion of roadway will continue to be eligible, as I said, to receive interstate funds for its rehabilitation, repair, resurfacing, and reconstruction.

I think it is also important to note that this conveyance is not unusual in connection with the management of transportation facility operations. For example, New York State recently sold a segment of Interstate 287, commonly known as the Cross Westchester Expressway, to the New York State Thruway. The State of New York is also proposing that it enter into a five-year lease with the New York State Thruway Authority for the construction, rehabilitation, and repair of Interstate 84, from Port Jervis to the Connecticut State border, including the Newburg Beacon Bridge. The value of that transaction has not yet been determined. I also noticed in one of the articles in this morning's press that they are considering, apparently, the sale of the entire New York State interstate system to the Thruway.

In closing, there are significant long-term transportation benefits associated with this transaction. I support this proposal as Commissioner of Transportation, as

Chairman of the Transportation Executive Council, and as a Commissioner of the New Jersey Turnpike Authority.

Thank you, Mr. Chairman.

ASSEMBLYMAN SPADORO: Thank you. At this time, I have a number of questions, and I am going to ask my Vice-Chairman, Assemblyman Kenny, to ask a number of questions. Then I will turn to my colleagues, Assemblyman Catania and Assemblywoman Crecco, for their questions.

First of all, I want to thank you all for giving a brief, but thorough review of the critical issues that have been discussed not only by myself, but by other members of the Legislature, and by the public.

One of the issues that has been discussed-- I guess it has been speculation, but I guess you have announced formally today that the segment that you are going to be proposing to sell is the segment that runs north -- I guess the northernmost part of the Turnpike.

MR. GOLDBERG: I am the buyer.

ASSEMBLYMAN SPADORO: I'm sorry, that's right. You are going to buy.

COMMISSIONER DOWNS: We are proposing to transfer--

ASSEMBLYMAN SPADORO: You are the transferee, okay. Now that we know what roads are to be sold-- I think Tom Downs just indicated that as far as he can tell, there are no restrictions. So you are stating firmly today that from what you know-- Your staffs have looked at this, and there are no legal restrictions to the transfer that has been proposed?

COMMISSIONER DOWNS: The Federal Highway Administration has confirmed, in writing, that there are no restrictions that they know of that would prohibit the transaction, or require payback, under Federal law, of this section of the interstate.

ASSEMBLYMAN SPADORO: Okay. The converse-- As far as your staff can tell, Chairman, does the Turnpike have the proper legal authority to acquire this asset under current law?

MR. GOLDBERG: No, I couldn't answer that under current law we do, although it might be arguable that we do. But what the Authority is saying here today, and what it has discussed with the administration, is its view that this transaction, because of its nature, and because of its scale, if nothing else, should be authorized by appropriate legislation. I have no doubt in my mind, however, that there are no legal impediments to doing the transaction, provided:

One, appropriate legislation is passed, and we are in the process of drafting a proposal that we would request the Legislature to consider. So we will give you, in conjunction with the administration, what we think is an appropriate way to authorize the actions we are talking about here.

Secondly, if, in fact, we carry out a refunding -- as I have indicated we are looking at seriously right now, and which, in my judgment, based on what I know now-- It looks quite likely that we could do it at no financial cost to the Authority, and hopefully at some benefit -- financial benefit to the Authority.

If those two things are done, then I see no legal impediment to going ahead with this transaction.

ASSEMBLYMAN SPADORO: Okay. I was just trying to distinguish, so I could understand-- There are certain transactions that the Turnpike can do, which are subject only to a gubernatorial veto of your minutes. So what you are saying is: You are distinguishing this from that sort of a transaction and, in fact, are suggesting that, from the Turnpike's standpoint, to avoid any questions as to the legality of the acquisition, that legislation would satisfy any questions.

TREASURER BERMAN: Mr. Chairman, I think that the collective--

MR. GOLDBERG: The answer is, "Yes."

ASSEMBLYMAN SPADORO: Okay.

TREASURER BERMAN: The collective view of the administration, the Attorney General's Office, and counsel for the Turnpike, after having looked at it, is that the most appropriate way to go is to make sure, in legislation, that this piece of road can be joined as part of the Turnpike. And, as the Chairman emphasized, this is a policy decision in a fundamental way, and the best way is for everyone -- the administration and the Legislature -- to decide that this is the way to proceed at this time.

ASSEMBLYMAN SPADORO: Fine. Thank you. Mr. Chairman, you also mentioned during your testimony on the valuation question, that staff has taken a look at this. I guess you are all here, so I should ask: Has someone in the Treasurer's Office looked at the valuation, or has it only been the Turnpike Authority? Or, has it been the DOT? Who has actually looked at the valuation?

MR. GOLDBERG: It has been both DOT and the Turnpike Authority, working together on the issue. I think there is a general concurrence that an appropriate valuation for this section of road, which is an extremely critical piece, certainly as far as the Turnpike is concerned, but as far, I think, as the entire State is concerned -- that a valuation of the magnitude of \$400 million is an appropriate level.

ASSEMBLYMAN SPADORO: Turning now to the mechanics of the actual transaction-- I guess I will direct this to the Treasurer: What do you see as the timetable in the event that legislation is approved and signed into law by the Governor? What do you see as a timetable for the actual transfer of the title to the road?

TREASURER BERMAN: Well, I think there are a number of issues to be worked out. The contingencies on whether the Turnpike decides to refinance its debt will influence the timing of when a transaction would be closed. But it will happen in Fiscal Year 1992, if we authorize it during this budget cycle.

ASSEMBLYMAN SPADORO: I guess another way to put it is: Is it necessary that you consummate this transaction before the certification of the revenues that are expected to be anticipated?

TREASURER BERMAN: We believe that if the legislation is passed and it is reasonably certain that the transaction will be consummated, that the Governor and the Legislature can anticipate that revenue in the budget. The transaction only has to be consummated during Fiscal Year 1992, in fact, for it to be counted as revenue.

ASSEMBLYMAN SPADORO: Then I should assume that the legislation you are referring to will be addressed between now and June 30?

TREASURER BERMAN: That is our intention, to send it over fairly soon. I think counsel in the Attorney General's Office are just now resolving the last issues on what it should contain.

ASSEMBLYMAN SPADORO: Commissioner Downs, you talked about the absence of conditions, and you mentioned in your statement a prohibition on tolls. Is that a blanket prohibition at anytime from tolling Federal highways?

COMMISSIONER DOWNS: The existing Federal law prohibits tolling any existing interstate, unless-- The only exemption from that is if the State chooses to pay back to the United States Treasury all previous Federal investment in the roadway. In other words, it makes the Federal government harmless -- holds it harmless -- in that decision. It was not our intent to pay a substantial amount of money back to the United States Treasury. That's the wrong Treasury.

ASSEMBLYMAN SPADORO: I assume you have taken a look at the issue of-- I am not sure I should assume this. Has anyone taken a look at the issue that if you, in effect, were ever to choose to do that, what it would cost to reimburse the Treasury for the Federal assistance in connection with that segment?

COMMISSIONER DOWNS: We have not looked at all of the-- It would be all of the initial and any follow-up improvements that had been made over the last three decades. The north segment of 95 from the George to 80 was opened in 1964. So there have been a number of investments over the years that have been made in that roadway with Federal funds. I could not tell you the size of it. It would be substantial amounts of money.

ASSEMBLYMAN SPADORO: I have heard -- and I am not sure where I heard it, whether in the press or from my staff or in conversations with administration officials -- the number of \$100 million being bandied about. Is there any--

COMMISSIONER DOWNS: It's probably in that neighborhood.

ASSEMBLYMAN SPADORO: Just for the record, do you know if that would include interest on those expenditures, or whether it would just simply reimburse them for the principal they expended?

COMMISSIONER DOWNS: There is some latitude within the law that the United States Treasury and the Federal Highway Administration have about how they value their investments. Sometimes they can include a requirement for a current value dollar -- in other words, an inflated dollar -- repayment. In many instances, though, they have not charged interest on their investments. They simply want their initial cash back. But it is the initial investment, plus all other Federal investments that have been made over the decades, in that roadway.

ASSEMBLYMAN SPADORO: Do you know of any situation in which a Federal road has been converted to a toll road, nationally?

COMMISSIONER DOWNS: Interstate 95 in Maryland and part of it in Delaware were built with interstate funds. The states chose-- I think in Maryland's case, they chose to spend \$125 million or \$150 million worth of state capital to repay

the Federal government for the interstate costs of the initial construction of that. That was done a number of years ago. I think both Maryland and Delaware, at one point, chose, on 95, to simply repay the Federal government.

ASSEMBLYMAN SPADORO: And they then tolled it? That was the purpose?

COMMISSIONER DOWNS: Yes.

TREASURER BERMAN: Did you ever drive to Washington, George? It seems like every five minutes--

ASSEMBLYMAN SPADORO: There's a toll.

TREASURER BERMAN: --there's a toll. The Turnpike only gets you once.

MR. GOLDBERG: There's only one toll, but it's a good one.

ASSEMBLYMAN SPADORO: I will address this to the group, or maybe the Chairman can address this: One of the big concerns-- I mean, there are a number of concerns regarding this transaction, but the one that has cropped up in my discussions with constituents has been the concern regarding tolls. I am wondering whether, in fact, the Turnpike, by its nature, has roads -- raises money with bonds, and then tells its bondholders, "We are going to pay you back with toll revenues"?

MR. GOLDBERG: Either that, or we don't get the money.

ASSEMBLYMAN SPADORO: Right, or they don't lend you the money. How do you balance that against the possibility of acquiring an asset on which there is not going to be any tolls?

MR. GOLDBERG: Well, we have just gone through an extensive process that led to a recent toll increase. It was a significant toll increase. It was driven by the fact that, back in 1985, the Authority borrowed \$2 billion. It also had existing, at that time, approximately a half-a-billion dollars worth of accumulated debt. So, at the present time, the Authority has an overall debt structure of about \$2.5 billion. We have that much obligation that we must pay.

At the time that borrowing was undertaken, it was publicly stated by the Authority -- in its indentures and other documents -- that there would be a need for a series of toll adjustments to cover the cost of that borrowing and the program that it was going to finance. It was presumed that there would be toll increases, I think, approximately in '86, '88, and '92, so that by now we would be on the threshold of a third toll increase.

As this Committee probably knows, that program was not followed on that schedule. We did not raise tolls in '86 or '88. There were serious discussions about a toll increase within the Authority in '90, and it culminated in the increase in '91. So, while the Authority was supposed to deal with its financial problems through a series of adjustments -- and there were to be more beyond '92-- When I came in as Chairman, the fact is that none of that had happened, and we had to face that reality. We did face that reality.

In doing so, we also examined and looked at where that left us in terms of future tolls. This past toll increase, separate and apart from this program, without regard to what we are talking about here today, in our opinion, was going to be adequate only to take us to around '95. We publicly stated, as part of the process -- and at the time that we increased tolls -- that the toll increases we had just put into place would carry us to 1995, but we would then have to reexamine our financial situation, and it would certainly be possible that at that time some further toll adjustment would be required.

What I can say with regard to this transaction is that, in my opinion, it will not change that schedule. I do not foresee, even with a refinancing -- because I don't think the refinancing is going to change our financial situation; if anything, it should improve it -- that we will have to reexamine the issue of toll increases before 1995. In my opinion, although this program will undoubtedly have some



impact on our revenue situation, I don't see the approval of this program making a significant change in terms of what we will have to do in '95 with regard to tolls.

I am not sure whether that answers the question, but I hope it does.

ASSEMBLYMAN SPADORO: It generally does. I will need you to be a little more precise, so that just for the record we--

MR. GOLDBERG: We are not going to raise tolls before 1995.

ASSEMBLYMAN SPADORO: Right, but more specifically, in the event this transaction were to proceed as proposed, would there be tolls erected on the extension -- the new extension up to the George Washington Bridge?

MR. GOLDBERG: We do not contemplate that.

COMMISSIONER DOWNS: Mr. Chairman, not only does the Turnpike not anticipate that, but the Federal law prohibits it. That may be a different way of answering your question.

ASSEMBLYMAN SPADORO: Unless you are prepared to invest--

COMMISSIONER DOWNS: An extra \$100 million or so in payment back to the U.S. Treasury, as the price of doing that. I will have to get back to you on how much that would actually be, but it would be a substantial amount of capital back to the U.S. government.

ASSEMBLYMAN SPADORO: Well, I think that is an important issue, because I think that if it is a very large sum, then it may lead all individuals to the conclusion that there will be no economics in putting tolls there; that is, the costs -- the reimbursement costs -- could probably never be recovered by the tolls that would be collected. But, certainly I would like to see, if you could provide it to this Committee, your best estimate as to what the reimbursement costs would be.

COMMISSIONER DOWNS: I would be pleased to.

ASSEMBLYMAN SPADORO: Okay. Chairman Goldberg, you talked, in your opening statement, about, I guess, restrictions on the Turnpike's ability to operate, and that one of the advantages of the refinancing was going to be to free you from those restrictions. What were you referring to, generally?

MR. GOLDBERG: Well, at the present time, we have a set of restrictions that were really tailored to the '85 borrowing. There has been a substantial moving away from where we were in '85, or what was contemplated as a result of that borrowing.

For example, a major portion of that borrowing presumed that there would be a widening of the Turnpike north of Interchange 14 up to Route 46, in the vicinity of where we are now talking about taking over I-95. For a variety of reasons, including environmental reasons, my predecessors determined that that was not going to be doable, or at least it was not a financially desirable project because of unanticipated costs.

We also, during this past year, have had a series of conversations with the administration on ways we could be of assistance to mass transit. I have already emphasized that, in my opinion, we have a vested interest in trying to help and support mass transit. Among the other things we were interested in considering at least, was not requiring tolls from commuter buses. The indenture does not permit that.

The reality is that our ability to allocate our resources as the State wants us to allocate them, is now significantly restricted by the way in which the covenants were drafted. We think that as part of a refinancing, we can come up with a set of covenants that on one hand protects the financial integrity of the Authority. I have a very strong interest in making sure that the financing integrity of the Authority in its ability to honor its commitments, both financial and construction-wise, is protected. At the same

time, to put us in a position where we have the financial wherewithal to respond to whatever is an appropriate policy direction from the State-- It is at this point, on occasion, impossible and, if it is not impossible, in many cases it is extremely difficult, to do things that logic might dictate. Therefore, one of the driving forces in my mind behind the reexamination of our present debt structure, is to see whether we can improve on those provisions.

ASSEMBLYMAN SPADORO: I want to-- Oh, I'm sorry. Go ahead.

COMMISSIONER DOWNS: Mr. Chairman, when the Governor gave the charge to the Transportation Executive Council, he asked us to look at areas where we could make the system work together better. I was surprised to find, for instance, that the bond covenants that were part of the '85 Act, prohibited any capital expenditure off of the immediate metes and bounds of the Turnpike itself. The authorizing legislation for the Turnpike allows, for instance, service roads -- access roads of up to three miles in length to the Turnpike, to be part of the Turnpike's capital program. While we would have liked to have had a different set of capital investments along the road with these funds, it was not possible.

Why those covenants were drawn in such a Byzantine and convoluted fashion I am not sure. I would have expected better for what was paid for those services. But they were incredibly restrictive in what they left the Turnpike as its investment business. I think even the Board that had to live with that afterwards, in '86 and '87, was distraught to find out how restrictive those covenants were. They do not work to the State's best interest about a coordinated transportation network.

ASSEMBLYMAN SPADORO: Assemblyman Kenny?

ASSEMBLYMAN KENNY: Thank you, Mr. Chairman. Good afternoon, gentlemen.

The first question I have is for the Chairman -- Chairman Goldberg: If the Turnpike takes over this stretch of roadway we are discussing, you would then be responsible for maintenance of the road. Do you feel the Turnpike is capable of bringing that road up to the type of condition that the roads are presently for the Turnpike itself? What do you see as being the task before you there?

MR. GOLDBERG: Well, first of all, we think it is critical that this road be maintained up to the kind of standards we maintain for the project, because in reality whether we keep the fiction that the Turnpike ends at 46 and that what continues is, you know, someone else's project or not, the reality is, it is one project. The great bulk of our users in that area are through trips. They use the Turnpike up to where our jurisdiction ends, and then they pick up I-95. In order for them to make that kind of trip, that entire corridor has to be maintained.

The fact is, DOT has difficulty in maintaining that road up to the standards that we think are required. We know that there is an accumulated backlog of improvements needed on 95, particularly with regard to structures; that the amount that over a period of time will be required to do that will be significant, possibly in excess of \$150 million.

In my statement, I mentioned the fact that the understanding we have between the agencies and with the administration is, while we will take over the road, and we will absorb within our budget the regular ongoing maintenance, and we will maintain it, probably, with a greater investment than DOT has put in on an annual basis to date, where we get to the extraordinary costs of structure repair and the like, we will require, and we would expect and hope to be a participant, along with DOT, for its other projects, in the Federal funds that are available for those kinds of improvements.

If, for any reason, the State does not follow through on that, or can't follow through on that, or the Federal government program, for some reason, is reduced or diminished so that the funds are not there, obviously we will be confronted with a significant financial problem, but so will the State. I mean, the reality is, those bridges have to be fixed, and they have to be maintained, and if we don't do it, somebody has to do it. So the issue isn't, is that money going to be spent? The issue is, how are we going to provide the funds to spend it? We are probably in better shape to do the job than DOT. That is a very important piece of roadway, so we want to make sure that job is done. One way or another, we will work with you to make sure it is done. But I want that Federal money.

COMMISSIONER DOWNS: That is why it was important that we get the reconfirmation from the Federal Highway Administrator about the continued eligibility for interstate money, which is, in essence, 90% Federal 4-R money, for the reconstruction of the segment, and that those funds would be part of our ongoing capital program. Our commitment is that those will be there to meet the needs on this segment.

ASSEMBLYMAN KENNY: I think it is important to note what the Chairman just stated: that I-95 is, in fact, a continuation of the main thoroughfare that leads up from the Turnpike, and also, of course, it is a gateway road into the State from New York State, and that it is not maintained at the level that the Turnpike is, and the Turnpike could bring the maintenance level up to a better standard.

Coincidentally, yesterday Commissioner Downs was before the Appropriations Committee. Just very briefly, would you just inform the public as to DOT's difficulties in next year's budget as far as maintenance is concerned?

COMMISSIONER DOWNS: As I said yesterday before the Committee, we will have approximately 400 fewer people in our

General Fund budget as a result of a number of cutbacks. While we are not abandoning any type of maintenance, our maintenance capabilities are obviously diminished by having 400 fewer people maintaining our entire State's road network. You will see some changes in the level of maintenance, for instance, on road right-of-way mowing and on litter pickup. We will still cover every road in the State we can, but our level of service is going to be far less. It goes without saying, obviously, that with a rapid decline in the Department's budget on the General Fund side, we don't have any funds within the Department's budget account to come anywhere close to \$400 million. Our entire General Fund is proposed in this budget to be, in effect, \$120 million for the New Jersey Department of Transportation.

ASSEMBLYMAN KENNY: Thank you, Commissioner. Mr. Chairman, there is some proposed legislation floating around which would mandate that no new tolls be placed on this roadway or other contemplated -- if there are any contemplated roadways -- taken over by the Turnpike. What is your view on this type of legislation?

MR. GOLDBERG: Well, as has been said, I think several times this morning already, there is no possibility of tolls being put on this stretch at the present time, because there is a Federal prohibition. Secondly, even if that prohibition were to somehow or another be dealt with, it would appear that there would have to be a substantial repayment of funds, which would be a serious obstacle, if not a total bar, to that.

Thirdly, at least for a significant period of time -- through '95 -- in my opinion, the toll issue is not going to be revisited by the Turnpike in any event. I don't see the necessity, therefore, for that kind of a prohibition. I will also add that while somebody can say, "Well, if you are not going to do it, why not have it?" the reality is that those kinds of prohibitions have a way of coming back and biting you when you least expect it.

I mentioned that we are in the process of looking seriously at a refunding of our debt -- \$2.5 billion. That kind of legislation may well signal the market the wrong way. And, even if they are wrong, even if their perception is an inappropriate one, if I spend a lot of time trying to explain it away in terms of what we can or cannot do, it has the potential of increasing the cost to us if we undertake an underwriting. I would hope that the Legislature will not see the necessity for that.

Finally, when you start segmenting who pays and who does not pay, what you are losing track of is that somebody is going to pay. I mean, somehow or another, if something has to be done and there is a cost element to it, if it cannot be apportioned on a fair and rational basis, then it is going to be apportioned on whatever basis the law permits.

The present users of the Authority's property right now are paying significant tolls. My objective, and my approach, is to try and not unduly burden any of our users. I have had many legislators saying, "Well, I don't mind toll increases, as long as my constituents don't pay," or, "I don't mind toll increases, as long as only the out-of-staters pay." In fact, I have gotten letters from people I will not name who have expressly said things like that.

I don't think it is helpful to those of us who are saddled with the responsibility of trying to run an agency like this, meet its obligations, carry out a rational policy, to have any more restrictions on what we do in the future, when we, at this time, at best can only guess what the problems are and how we are going to meet them, by just putting obstacles in the way.

I mean, the reality is, this kind of a transaction would not have been contemplated five years ago, and should not have been contemplated five years ago. But five years ago, we did not anticipate being in this kind of a situation. We did

not anticipate being confronted with the kinds of financial difficulties and the hard choices that we have to pick and choose among. One of the reasons we are looking at refinancing and legal changes, is that we have those obstacles to try and respond to that are the conditions of today.

So, by way of a very long answer, I think, as a general policy, the Legislature does not help its constituents, it does not help itself, it clearly does not help the Authority when it starts putting on broad prohibitions as to what we can do in the future, when no one can say with certainty, what they mean, particularly when there is no significant exposure that the immediate problem you are focusing on is going to happen.

ASSEMBLYMAN KENNY: Thank you. Mr. Chairman, during former Governor Kean's tenure in office, the original \$2 billion bond issue was financed, and over \$65 million was spent on fees and various commissions. This has been subject to a lot of discussion and criticism, in fact, before this Committee not too long ago. The proposed \$2.5 billion bond issue-- Are we going to be looking forward to those types of fees again?

MR. GOLDBERG: Not of that magnitude. If there is a refinancing, there will be costs. There is no question about that. In my mind, the costs ought to be held to an absolute minimum. I can tell you that the '85 refinancing, in terms of the cost of that, was approximately \$29 million. The '87 reshuffling of the debt apparently cost slightly in excess of \$21 million. Quite frankly, when I saw that number, that really surprised me, because I didn't think the Authority had done anything that significant. It really doesn't much matter what I think; it did cost \$21 million.

You put that together, and that gives us a cost of around \$50 million. I don't have the '84 costs before me, but they could well be of the order and magnitude that would bring it up to the \$65 million that you mentioned. So, in connection with three transactions, the Authority has incurred substantial



costs. If we do a refinancing now, I would hope -- and I am determined -- that our financing costs will be held to a minimum. I think we will do substantially better than we did on any of the prior occasions. But I think also that the measure has to be this: If we can do the refinancing, incur the absolute minimum costs that it is going to take for the market to absorb \$2.5 billion worth of paper -- and that is a big marketing job that requires expertise, for which they are legitimately entitled to a fair fee-- If we can do that at the same time as we can reduce the overall costs to us -- and I think we have a window of opportunity here where that is reasonably possible -- then, even though it costs money, we will make money.

I intend to explore that opportunity. If we can do it on that basis, I think the Authority will seriously consider doing that. We are in the process right now of positioning ourselves to try to take advantage of the financial condition that exists right now. I mean, the economy is in difficult straits. The administration has recognized that in Washington. They have moved -- just yesterday -- to significantly further reduce interest rates, and that opens, I think, some advantages that I don't want to miss.

TREASURER BERMAN: I think it should also be noted -- and the Turnpike is to be commended -- that they set forward a very public Request for Proposal process so there is open scrutiny. They are picking only the very best firms to work on this. We have noted that they picked bond counsel. They went through a public process to pick a financial advisor. They have announced, and are getting very public about how they will select, a team of underwriters, or an underwriter, or however they proceed, so that the public can scrutinize these questions, and so that we can get the best price for the State.

ASSEMBLYMAN KENNY: I have one last point that is related to the new bond: Will the covenants in the new bond

permit application of Turnpike revenues to other transportation-related projects, such as mass transportation?

MR. GOLDBERG: Well, certainly the objective is to give us a maximum amount of flexibility. I am reluctant to start negotiating covenants right now, particularly when I have to negotiate with the lenders. They will have something to say. Whatever we do in the covenants, what is clearly going to have to be in there, are provisions that assure the lenders, so that they are satisfied that the Authority's ability to pay its debts is not going to be undercut.

But, I believe we will end up with covenants that will give us flexibilities so we can respond better than we can now to the wishes of the Legislature and the Governor. I think that is what you want.

ASSEMBLYMAN KENNY: Okay, thank you. Mr. Chairman, after questioning has been completed, if I might just have a brief opportunity to make a closing statement? I am finished with my questioning.

ASSEMBLYMAN SPADORO: Of course. I have a couple more, and then I will -- I know you are patiently waiting -- turn to my colleagues.

Just on the point that you made, speaking as the Chairman of this Committee, and as someone who is interested in the improvement and expansion of mass transit in this State, and every effort we can make to make it more affordable, I think it is critical that when you do consult with counsel, that you design covenants which give you the most flexibility, taking into account, of course, their concerns regarding making the bonds marketable. The Governor's Transportation Executive Council -- as I think was indicated by the Commissioner-- One of their goals is really to get a coordinated transportation policy and use, or maximize, in these tight times, all the resources that are at their disposal to put together a comprehensive transportation policy.

You are to be complimented as the Chairman of a Highway Authority that you recognize that affordable trains and buses and, I guess, the increasing use of those facilities, are actually to your advantage. I think that -- I won't say it is your change of heart -- but that change of heart from the tradition, which has been that the Highway Authority's job is to attract people to ride on highways-- I think that is critical.

So, I would only ask that when you go through your process that you bear in mind that -- and I am sure that the Commissioner will see to it that you will do this -- our desire -- the legislators' desire -- is that we be able to work together to deal with some of our critical mass transit problems.

Turning back to some of the questions I have: We are talking about a \$400 million expense. Have you done a calculation as to what that will play out to if you were to pay the bonds from the time of issue until they are paid off? You are going to be issuing \$400 million worth of bonds to cover this one expense. What are we talking about? Do you have any sense of that in terms of interest and principal to maturity?

MR. GOLDBERG: I haven't done that calculation in that fashion. I can tell you that the Authority essentially has in hand approximately \$400 million, which we have indicated publicly is part of the toll review process, and which we will not require for our first-tier program in the next five years. Therefore, we essentially have, within our existing finances, or we would have within a refinance structure, funds in that order or magnitude. Those costs are built into all of our present assumptions about costs right now.

ASSEMBLYMAN SPADORO: So, you don't have the specific answer as to what it would play out to in terms of principal and interest today. Do you have the authority-- Assuming that none of this were to happen, do you have the authority simply

to take the \$400 million you currently have sitting in a bank account, and just use that to pay back bonds that have been issued? Or, do you have to use that money to purchase roads or expand the facility you have?

MR. GOLDBERG: The Authority, if it follows the appropriate process, could refund \$400 million worth of bonds now. We could.

ASSEMBLYMAN SPADORO: Okay, so theoretically you could use this to pay back, if you chose to?

MR. GOLDBERG: That's correct. In fact, that was one of the options that was focused on during our considerations. We concluded that it would make more sense for us to keep those resources for our programs. That decision was made prior to our getting into these discussions. So, the judgment as to whether we should keep it or refund it, as far as the Authority is concerned, was made prior to this coming up. Now that this has come up, it is an issue of priorities. You know, how to utilize the resources you have, is precisely the issue that is now before the Legislature in this transaction.

ASSEMBLYMAN SPADORO: Mr. Treasurer, one of the issues that has been talked about in the press, and one I think I have actually read about in some of our financial reports, is that one or two of the rating agencies have indicated that a transaction of this sort would not be looked upon kindly. I think I saw the terminology "credit watch" mentioned. Assuming the Legislature was to proceed and authorize this transaction, how do you see this transaction affecting this State's AAA credit rating?

TREASURER BERMAN: I don't think they have put us on "credit watch." What they did was make a report and say, "Like other states in the region, things are not good here." They are concerned about how this year's budget situation will be resolved.

The overall question of what the implications are for our credit rating is how we solve the total budget problem we have, and this is one part of it: how we end up in terms of an agreement with the labor unions. We have been suggesting, and we will shortly be back in front of the Legislature with what we think are revised revenue estimates, in which we anticipate thinking there is still more problem yet to solve.

We believe that it is part of a responsible budget solution, where there are real savings in an attempt to downsize government, where we pursue property tax relief, that ultimately the credit rating agencies look to the overall long-term health of the State, as long as you understand that this is a one-time revenue -- we show them how we will step off of using them -- and that they will reaffirm our AAA. What they have said to us is: "It is a dangerous step." That is why I said that we need to be very clear-eyed about using it. But, in and of itself, it is not necessarily anything that jeopardizes the credit rating. It is only if you begin to abuse that. If we had a rainy day fund because we had had more foresight in the '80s, we would not be here today. We didn't.

A way of dealing responsibly with the recession-- If you have taken the steps to put your tax structure in balance with your spending levels in normal economic times, when you then encounter a recession-- You need some kind of a cushion. We didn't build that. This is, in effect, what we are looking for here. I think, in that context, they will affirm, as they did last year, that New Jersey is being responsible with its finances.

ASSEMBLYMAN SPADORO: As you know, I have, on more than one occasion, publicly raised concern regarding what I describe as a "one-shot" solution to the problem which we all agree the State presently has. I have talked-- Even in my opening comments, I talked about the possible repercussions if we were not -- if the Legislature were not to approve this

transaction. I described program cuts, service cuts, and extraordinary layoffs.

If the Legislature elects not to approve this transaction, what do you believe the consequences are going to be from the administration standpoint in terms of presenting a balanced budget in six weeks, or eight weeks?

TREASURER BERMAN: Well, as I suggested, I think this is only part of our solution. I think it would be fair to say three things would likely happen: We will not be able to support the level of property tax relief that is currently anticipated. We made a lot of changes last year to deal with that issue. Whether we could live up to every one of those commitments -- the homestead rebate or the takeover of county social service costs -- and where those then play out in property tax rates, is very questionable.

I am not sure we would be able to hold the line on transit subsidies. I think that would be one of the places we would clearly have to look to. That would mean transit fare hikes or service cutbacks, and it will be a real problem long term for the State if we do that. We would then really be very shortsighted.

And, it would mean more layoffs. I don't know that it would all be translated into layoffs, but I do think it would necessarily mean a decrease in workers. We have tried to downsize the work force responsibly. The Commissioner, as he alluded to before yesterday's Appropriations Committee-- Every department is going to have to do more with less, and it is really going to be challenged. Whether we could absorb it all in layoffs is a serious question.

We have never started down the road of deficit financing, and we say that the Constitution prohibits it, but we will really begin to push the edge of solutions if we do not use this.

ASSEMBLYMAN SPADORO: Can you be more specific when you talk about layoffs? What magnitude of additional layoffs beyond those that have already been discussed publicly would we be looking at, if this proposal were not approved?

TREASURER BERMAN: Well, I can't say what the balance of everything would be. But if we were to take the whole \$400 million in layoffs, it would translate to 13,000 workers -- 13,000 more unemployed people in this State. That is not a prudent way to go.

ASSEMBLYMAN SPADORO: Other than layoffs, what you talked about was the risk to mass transit fares. You mentioned two things: You mentioned property tax relief, and the impact on mass transit. Are there any other areas -- other than layoffs -- where you see that possibly this sum could be made up?

TREASURER BERMAN: No.

ASSEMBLYMAN SPADORO: Chairman Goldberg, I neglected to ask earlier -- and I should know the answer -- what are the current short-term bonds rated at? Are they AA, or AAA?

MR. GOLDBERG: I'm not sure.

D O N A L D L. W A T S O N: (speaking from audience) A.

MR. GOLDBERG: A, okay.

ASSEMBLYMAN SPADORO: So, just to crystallize your earlier points, what you are suggesting is that, if there were restrictions put on this asset, it is possible there could be some impact on that rating which would ultimately translate into more costs to the Turnpike for issuing the bonds.

MR. GOLDBERG: I think that is very possible. First of all, assuming that we proceed with an underwriting, we will, very aggressively, as best we can, try to satisfy all of the legitimate questions of the rating agencies, and give them assurances that the program we will be carrying out, pursuant to legislative direction, is not going to adversely affect our ability to do our job. I think we can do that honestly and properly.

But, the more we have to address and explain restrictions, limitations, and so forth, the more complicated the explanation will be, the more difficult it will be to satisfy them, and the more likely would be the possibility that our current rating might, perhaps, be looked at with some skepticism. We don't want to do anything that would lead to that and, quite frankly, we don't think that any of the actions we are contemplating should necessitate any adverse view of our actions. My intention is to try to give those assurances, but I really would hope that we would have the active cooperation of the Legislature as we try to do it.

ASSEMBLYMAN SPADORO: I know you mentioned this earlier -- and I should know this statistic, but I don't recall it-- What percentage -- you may have this off the top of your head -- of your passengers, or the vehicles going through the Turnpike, are in transit; that is, people who are just using New Jersey as a way to get to the south?

MR. WATSON: Forty-seven percent.

MR. GOLDBERG: My expert says 47%. That is higher than I would have guessed.

ASSEMBLYMAN SPADORO: It is higher than I thought, also.

MR. GOLDBERG: Which leads me to believe I am going to ask him to check that.

ASSEMBLYMAN SPADORO: Okay. Mr. Downs, mass transit fares are a great concern to me. You and I have talked about this before. Earlier this year, I was pleased when during the Governor's Budget Address he stated that he was going to hold the line on mass transit fares, even though I would like to see the day when we could actually start reducing them to increase ridership. But, holding the line is satisfactory in this climate.

After that, there were a number of public disclosures regarding activities in Washington. I think some comments you



made publicly appeared to indicate that there was a possibility that, depending on what happens in Washington, that may not be possible. As we sit here today, can you definitively state that if this transaction were to proceed -- the sale of the road -- that, in fact, the Governor's pledge to hold the line on mass transit fares will be fulfilled, notwithstanding what the Federal government does?

COMMISSIONER DOWNS: I would be glad to reaffirm that. This is the largest single cloud over my budget -- New Jersey Transit's budget -- this unresolved \$400 million. The Federal side of it is, the Bush administration proposed to eliminate \$38 million worth of New Jersey Transit operating assistance, and to charge us an extra \$25 million for the privilege of operating in the Northeast Corridor between Trenton and Newark Penn Station.

In talking with the congressional delegation, including Congressman Roe, who is Chairman of the House Public Works, which has Committee jurisdiction over that legislation on the House side, and Senator Lautenberg, who has part of that jurisdiction in his Senate Environment and Public Works Committee-- Both have assured us that the administration's proposals will not be enacted into law. If that is the case, then we will be whole, intact, for our service levels and funding requirements for this coming year.

ASSEMBLYMAN SPADORO: Well, I am looking for something a little bit more than that. What I am asking is: As we sit here today, if this transaction were to proceed, can the mass transit riders of buses and trains in this State be assured that one of the benefits will be stable fares for the Fiscal Year 1992?

COMMISSIONER DOWNS: Yes, absolutely.

ASSEMBLYMAN SPADORO: Good.

COMMISSIONER DOWNS: The Treasurer is saying, "If the Feds--"

TREASURER BERMAN: If the Feds--

COMMISSIONER DOWNS: --"live up to their commitments."

ASSEMBLYMAN SPADORO: You are suggesting, then, that even if we were to proceed with this transfer, if the Feds were to waffle on their commitments, there would still be a risk of fare increases?

COMMISSIONER DOWNS: I understood the question answered the Federal side. If this is--

ASSEMBLYMAN SPADORO: I am saying irrespective of the Federal side. What I would like to think--

TREASURER BERMAN: If the Governor's commitment is to hold the line-- We have been trying very hard, Mr. Chairman, from the first day we started discussing this budget proposal, to make sure that we hold the line. We have done a number of things to do that. I think the Governor is still committed to trying to work that out. But, if you say, can we absorb another \$30 million problem, either in the New Jersey Transit budget or in the State budget, that is a significant hurdle. We still have a number of hurdles to solve in this year's budget problems. So, yes, it is the Governor's intention and desire. But if you want an ironclad commitment, I don't think we can get it. The problem will be much greater without this.

ASSEMBLYMAN SPADORO: Yes, I would like an ironclad commitment. But let me go back. When will I know--

TREASURER BERMAN: We live in a real world, Mr. Chairman.

COMMISSIONER DOWNS: Let me put it in the Governor's words, when he testified in front of the Senate several weeks ago about the importance of getting the right Federal answer to the administration's proposals on transit funding reductions.

He said, specifically, "If the administration's proposals are enacted into law, it would require either a service reduction or a fare increase on New Jersey Transit." He said, "There are no other State resources available to take

that kind of a hit of almost \$60 million worth of funding shortfall, if the Fed completely withdraws." He said, "It is important that the nation understand how fragile our transit investment is in states like New Jersey."

He made it very clear. We have at risk further reductions in transit. But my categorical, "Yes," was on the assumption that you meant, if the congressional delegation has said that we are relatively okay about not having to live with painful Federal reductions, does this mean that the Governor's commitment about no fare increases or service reductions for New Jersey Transit will be intact? The answer is, "Yes." The State's side of this piece is intact. The Federal side, I think, is going to be intact, having listened to a lot of what the congressional delegation has said on both sides of the aisle.

ASSEMBLYMAN SPADORO: Just so I can understand the time line here, when will we know definitively regarding the Federal contribution?

COMMISSIONER DOWNS: The existing Federal law on highway and transit legislation expires the end of September of this year. The Senate and the House have both said that they will have a bill out by the end of June, hopefully to the President for signature by July or August.

ASSEMBLYMAN SPADORO: So what you are saying is, if there was going to be a problem with fares due to the shortfall of Federal funding, that is not going to happen until September of 1991?

COMMISSIONER DOWNS: It would start October-- If there were a Federal withdrawal, the impact of that would start October 1 of this year.

ASSEMBLYMAN SPADORO: So you would have to address it at that time, I guess?

COMMISSIONER DOWNS: Yes.

ASSEMBLYMAN SPADORO: At this time, before we have further questions, I am going to ask that we take a few-minute break so we can all stretch our legs. Then we will resume. Take five minutes.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN SPADORO: Ladies and gentlemen, at this time I will ask my colleagues, Assemblyman Catania and Assemblywoman Crecco, do you have any questions?

ASSEMBLYMAN CATANIA: Thank you, Mr. Chairman. Today I would like to focus on today. I don't want to focus on the 1980s, when we had a different Republican Governor, or when the Senate was controlled by the Democrats, or when the Assembly was controlled by the Democrats. I am glad today that we can finally see that the speculation is gone. We can set it aside and see what roadway is actually for sale, in that we are going to have some bipartisan input on this, even though I am sure the matter is going to easily pass the Assembly and the Senate because of the administration's proposal for this manner of financing.

I would like to first address some questions to Mr. Berman. Mr. Berman, in your statement you indicated that there should be no free rides. What do you mean by, "no free rides"? Does this mean that we are going to get some tolls off of some highways?

TREASURER BERMAN: No. It means that if you are going to criticize this, I want to know what your solution for balancing the budget is, sir.

ASSEMBLYMAN CATANIA: Have you yet-- Have you, at any time, asked for any input from the other side of the aisle?

TREASURER BERMAN: Absolutely. Rodney Frelinghuysen and I have debated at great length at any number of hearings whether or not we are ever going to hear a proposal from the Republicans.

ASSEMBLYMAN CATANIA: Mr. Berman, today is the first time I have heard about the sale of I-95. I am very concerned about the sale of I-95, since it affects my district -- District 35 -- which is part of Route 80; also Bergen County, and Morris County. Many people use this roadway for their commute to New York City every day. It is not only mass transportation that is needed. There are also roads in that area that are needed.

How did we determine that it was \$400 million -- that that was the amount of money that the Turnpike Authority was going to pay for this roadway?

TREASURER BERMAN: I think two things really went forward: One, we looked at what was the Tier 1 Program which was being developed by the Turnpike, and what they had already expended in some instances on a project that was going nowhere. Back when they first did it, I think they spent \$70 million or \$80 million on environmental studies for roads for which they never had a plan. But after you took what had been spent on the widening program and what was anticipated in the Tier 1 Program, there was going to be in the neighborhood of \$400 million uncommitted, which the Turnpike could possibly use for a Tier 2 Program or possibly use to refund the bonds.

We then said we wanted to explore the sale of roads further, in terms of this transaction. After DOT and the engineers from the Turnpike reviewed the road, they came to the conclusion that approximately a \$400 million valuation on this property was appropriate.

ASSEMBLYMAN CATANIA: Are you saying that the \$400 million that you determined was the value of this road-- Did you back into it, because this is the amount of money that the

New Jersey Turnpike had left over from the \$2 billion bond issue, or any moneys that were available for the latter part of the 1990s?

TREASURER BERMAN: I think we started by saying that we believed there was \$400 million available, and then we would design a package, or a transaction that might equal \$400 million. I will let the Commissioner answer how they did the valuation.

ASSEMBLYMAN CATANIA: Commissioner Downs, if I may, how did you-- Was some type of an appraisal done of this portion of I-95 -- the 4.4 miles from, I guess, Ridgefield to Fort Lee?

COMMISSIONER DOWNS: The answer to your question is, "Yes." The Right of Way Division within the Department, in cooperation with the professional staff at the Turnpike, using the National Appraisers' Manual, did an evaluation of all of the acreage in this corridor against current market values. They took a depreciated value of the construction on the roadway and the elevated structures, and agreed to an approximate price of \$410 million, and that is a conservative estimate based on accepted appraisal methodologies on build, environment, and on raw land.

ASSEMBLYMAN CATANIA: Conservative on the high side or the low side?

COMMISSIONER DOWNS: Conservative on the low side.

ASSEMBLYMAN CATANIA: On the low side. So, conservatively speaking, you worked it in to meet the \$400 million that was in the New Jersey Turnpike?

COMMISSIONER DOWNS: No. This section by-- Sir, if you used, for instance, a more aggressive valuation on one factor, the corridor assembly factor, where land within a corridor is appraised at a higher value than raw acreage, which within the New Jersey State court system is a value that has run anywhere from a factor of one to a factor of four times the

raw acreage appraisal-- If you adjust that to a median of two, you would practically double the size of this.

Our conservative estimate of the corridor value was a factor of 40% to 100% of the valuation per acre. It is incredibly conservative, and if it had been a higher factor, the appraised value would have been higher. The approach we took was that the appraisal had to be defensible against common industry standard practice. We think it is more than defensible against those practices.

ASSEMBLYMAN CATANIA: Is that appraisal available to this Committee?

COMMISSIONER DOWNS: I have some of the working papers. I do not have all of the working papers that went into that. I would be glad to share those with the Chairman.

ASSEMBLYMAN CATANIA: Through the Chair, if I may, if we could get copies of that appraisal, so that we--

ASSEMBLYMAN SPADORO: If you could provide us with that background data, we would appreciate it.

COMMISSIONER DOWNS: I would be glad to.

ASSEMBLYMAN CATANIA: Mr. Downs, also, if I may ask while discussing this with you, what could the New Jersey Turnpike Authority do for this stretch of roadway that the Department of Transportation could not do?

COMMISSIONER DOWNS: It is not what we cannot do-- First, let me put it in a different way: The Turnpike has more money than the Department of Transportation, for a variety of reasons. It is a toll authority -- single purpose. It generates revenue. The Department of Transportation has General Fund money, and there is a lot less of it. You can expect, I think, a higher level of road maintenance than we can currently afford within the Department of Transportation.

But, more importantly, by taking the Department of Transportation out of the corridor, you can better assure your constituents a coordinated response on incident management,

signage, and intelligent corridor management, with the kind of a control center that the Federal demonstration money is proposing for that corridor about TV monitoring and instant management. You can wind up with, I think, a better-- You can tell your constituents that you will wind up with a better roadway, better managed under this proposal, than if we had stayed in it.

ASSEMBLYMAN CATANIA: Then why not take part of Route 80 from Ridgefield back going toward the New Jersey border with Pennsylvania?

COMMISSIONER DOWNS: Because it is not a part-- This is an integrated corridor from the George Washington Bridge. The New York side has said that the Cross Bronx is part of this corridor. The agreement with the Port Authority and the State of New York is that they are going to put \$10 million into the management of the Cross Bronx Expressway to make their side of this work better.

Our portion of this, in terms of an integrated corridor, is from the George Washington Bridge to the Turnpike tolls.

ASSEMBLYMAN CATANIA: Mr. Goldberg, at the current time I have a bill pending in the Assembly that would dissolve all the independent authorities, such as the New Jersey Turnpike Authority and the New Jersey Highway Authority, and lump them all into one authority. In your opinion, with your proposal here, wouldn't it be better to have one authority regulating all roadways in New Jersey, instead of-- I think at this point we either have four or five authorities. Wouldn't that avoid duplication, and wouldn't the avoiding of that duplication save the taxpayers money?

MR. GOLDBERG: First of all, I have not seen your bill, but I have seen bills like it over the years. As I am sure you know, this proposal, in one form or another, has been made, I think, ever since the toll authorities were created. I



have seen proposals of this nature going back at least 30 years. And I think there is a rationale to that. I think there are arguments that can be made -- effective arguments that can be made -- for consolidating the authorities together.

That is a fundamental policy issue for the Legislature and the Governor. I have found that although there is a rationale for that approach, there has been a continuing reluctance within the Legislature over the years to support it, for reasons that I won't attempt to explain because, quite frankly, I am not quite sure of them, other than this:

There are some advantages to having the separate agencies. One is that each of the roadways have the attention and the commitment of a separate group of operators. I think, given the geographic areas that the different roads serve -- certainly the Atlantic City Expressway -- that there has been a greater comfort level within the Legislature that the legitimate concerns of each of these geographic areas are better attended to through the separate authorities. I think that is a legitimate concern, and also a policy consideration.

What happens when you consolidate, is that you are going to have one group running all of the agencies. Maybe you will have one person. Maybe you will make the Commissioner of Transportation the head of it. I mean, that is a possibility, too. Or, some other individual. That group, or that person, I am sure, will do the best job possible, but in terms of people's perception as to whether they are sensitive to the problems of Atlantic County, if the authority or the individual is from North Jersey, or the like, is, I think, always an issue.

So, over the years, as you know, I have found myself coming and going on some of these positions. I have said a variety of things. I try to be reasonably consistent, but I also try to respond in terms of what the current situation, I think, requires. The notion of consolidating the authorities, in abstract, I think is worth looking at seriously. But I am

less certain as to whether the Legislature, as an entity, really wants to do that. That is something that you can, obviously check out.

ASSEMBLYMAN SPADORO: I am sorry to interrupt. I have asked the administration's representatives here to talk about the sale of the roads. The temptation for all of us, probably, is to get into a lot of other interesting subjects. I am very interested in that particular subject myself. I would only ask, if you could, to try to keep your questions somewhat relevant to the road sale itself.

ASSEMBLYMAN CATANIA: Fine. You mentioned about the attention of operations. Now, the New Jersey Turnpike has the attention of their operation of that toll road, and the Atlantic City Expressway theirs. In expanding this and taking on this additional part of I-95, aren't you expanding your attention of operation?

MR. GOLDBERG: Not really, because this is such an integral part of our operation that we, I think, are more comfortable if we have some control over our own destiny. At the present time, for the reasons that Commissioner Downs has explained, DOT has a limited ability to service its entire network, of which I-95 is a very small part. And he must, of necessity, make difficult decisions in terms of prioritizing and allocating whatever funds he has available.

We do have some advantages as a toll agency. We do have a revenue stream of our own and, yes, we have to prioritize and we have to pick and choose to some extent. But when it comes to picking and choosing, I have to tell you that I-95 would have a very high priority to us. I will tell you right now that DOT is maintaining this road in terms of the amount of dollars allocated to it right now, at a level below what we would like to see in that road. And, one way or another, to the extent that I am responsible for the management of the Authority, I will endeavor to make sure that our

commitment to that stretch, tolled or not -- or untolled -- is as appropriate as possible.

I see us, in fact, spending annually more on 95 than the State of New Jersey at the present time is able to do. I think that is in the interest of our toll payers, because they don't stop, many of them, right at that exit line. They keep going. So they are not really going to be benefited. If we can give them the best possible value up to our terminal point, then they have to, you know, continue the rest of the way on a road that is in as good a shape as the State can provide.

So, in terms of our capabilities in taking on this responsibility, I don't have any qualms about doing it. This is not a big addition to our responsibility in terms of a work force. It is a significant addition to our responsibility in terms of finances. I am not unaware of that, or unconcerned about it, but I think it is something that is desirable that we do from our own internal selfish purposes. I am perfectly willing to support doing it. And, if you tell us not to do it, we won't.

ASSEMBLYMAN CATANIA: You mentioned before about the Turnpike enabling legislation and whether or not at this point the acquisition of this roadway is actually -- the legality of it. Am I correct in my assumption?

MR. GOLDBERG: I'm sorry, I really missed the beginning of that question.

ASSEMBLYMAN CATANIA: The enabling legislation for the Turnpike Authority at this time, as it stands today-- Do you question the legality, under that enabling legislation, as to whether or not the Turnpike Authority has the right to purchase this road from the State?

MR. GOLDBERG: I think people could make serious arguments that we don't have the right to do it. My view is that we should not get into the legalisms of this transaction. I think it can be done legally, without any question. If I

wanted to lawyer it -- and on the side, I make a living trying to do a little lawyering-- I could probably lawyer the argument that says we have the right to do it. But then I would have a whole group of people on the other side saying: "No, you don't." And we would spend a lot of time, a lot of money, and a lot of effort fighting that fight, when in my mind, that isn't where the discussion ought to be. The discussion ought to be on the fundamental policy. If the policy is right, then you ought to legislate it, and if you legislate it, then there won't be a big argument about it.

ASSEMBLYMAN CATANIA: So what you're saying is that we should change the enabling statute in order to allow for this specifically, without any ambiguities?

MR. GOLDBERG: You give shorter answers that I do, but, yes.

ASSEMBLYMAN CATANIA: I try to keep them short. I am a lawyer, too. I do a little more trial work, I guess, than you do, and I try to keep those questions short and succinct.

MR. GOLDBERG: Okay, yes.

ASSEMBLYMAN CATANIA: Okay. Now, if enabling legislation is passed that gives you the right -- the New Jersey Turnpike the right to purchase I-95, what would prevent it from purchasing part of 195, or any other roadway? Would you want specific legislation for this roadway?

MR. GOLDBERG: I want specific legislation for this roadway.

ASSEMBLYMAN CATANIA: Just for this roadway?

MR. GOLDBERG: The Turnpike already in the legislation is specifically delineated. The Turnpike is defined in the legislation.

ASSEMBLYMAN SPADORO: By metes and bounds.

MR. GOLDBERG: By metes and bounds, so you would include this as part of the Turnpike.

ASSEMBLYMAN CATANIA: So this would be part of the New Jersey Turnpike?

MR. GOLDBERG: That is correct.

ASSEMBLYMAN CATANIA: Okay. You mentioned before that there would be no tolls on this. Am I correct in saying that?

MR. GOLDBERG: What we said was, the Federal law precludes tolls; that we have no intention of putting tolls on it, and that we have no intention of revisiting the toll issue generally again until '95.

ASSEMBLYMAN CATANIA: Okay. The answer is not what I wanted to hear, and it is not an answer to my question. Basically what you are saying-- I gather from your testimony that the States of Delaware and Maryland purchased parts of 95. They paid back the Federal government that part of the assistance that they had to pay back. I believe it was approximately in the amount of \$100 million, or whatever the amount was. They were then able to levy tolls on the use of that.

MR. GOLDBERG: First of all, I am not sure of the facts. My recollection -- and Tom may know better than I -- was that they didn't purchase it and pay back the Federal government. They structured a deal where I think they were able to use Federal money and toll it with an agreement. But, I am not sure of that. I really don't know.

Delaware, I thought, built that as strictly a toll road -- that piece of 95. I didn't think there was Federal money in that. But I guess the simple answer is, I have not really researched that. I do not have the facts. Tom, do you have something on that?

COMMISSIONER DOWNS: There is a separate price you pay for tolling this beyond the repayment of the Treasury. As I said earlier, this segment remains eligible for Federal 4-R money, which is 90% Federal and 10% local funding. If it is tolled, it foregoes, forever, the ability to have Federal funds

spent on this section. There are capital needs on this because that section, in particular the George to I-80, was completed in 1964. There is a significant number of elevated structure needs, like redecking, that the Chairman alluded to in his testimony, that will have to be met over the next five, six, seven, eight years.

If you toll it, you not only pay back the Treasury. In other words, you forego all future Federal funds that would be eligible for construction or reconstruction on this segment. So, if it is, say, an arbitrary figure over a period of time-- If you were looking at \$150 million worth of Federal funding on it, you simply forego that. That is the other price you pay in terms of making a decision about tolling that segment. So it could easily be a quarter of a billion dollars in net impact on putting tolls on that segment.

ASSEMBLYMAN CATANIA: But right now we are receiving that Federal assistance, and that is not enough to really offset the costs to the Department of Transportation in that area and still make it feasible or better for the Department of Transportation to maintain it, rather than the New Jersey Turnpike Authority.

COMMISSIONER DOWNS: We have just started the new 10-year capital program with DOT. There are envisioned in the new Federal Act increased funding levels for reconstruction of interstate segments, so that there will be some enhanced Federal capacity about interstate reconstruction coming over the next five or six years.

There are, I think over a period of time, enough funds to make sure, both statewide and on this segment, that capital funds for the reconstruction of the elevated structures here are taken care of.

TREASURER BERMAN: Assemblyman, you know, we always have to distinguish between the maintenance budget, which is an operating budget, and the capital budget. We are up against

maintenance budget restrictions all over the State budget this year and next year. So it is the current maintenance budget that we are not keeping up with. We would believe, whether it is at the Turnpike or DOT, we will find a way to do the capital upgrades we need.

COMMISSIONER DOWNS: The maintenance of this section is not Federal fundable. Picking up dead animals, cutting the grass, sign restoration, litter control-- Those are all General Fund items out of the New Jersey DOT budget, and would be transferred as responsibilities of the New Jersey Turnpike.

ASSEMBLYMAN CATANIA: My concern, besides the question about the transfer of the road -- the sale of the road to the New Jersey Turnpike Authority, is, once the Turnpike Authority gets it, in 1995 or 1998, are we going to have tolls on this part of the roadway? I am concerned about that. I am concerned about that because the Port Authority recently just increased the Bridge to \$4, and I think they intend to increase it again in 1994. Someone traveling from Paterson to New York City on a daily basis, is going to be paying the toll on this part of the roadway, where they meet Route 80 to the George Washington Bridge, and they then have to travel into New York and will pay another \$5 at the end of the century.

You know, is it going to be feasible for them to travel or commute to their jobs? It is going to be money out of their pockets. All I am asking for is a simple yes or no. Are you going to put tolls on this roadway?

TREASURER BERMAN: The answer we think is the best is, there is no likelihood that that will be the case because of current Federal law, and because of the expenses involved in doing it any other way. It is not part of what the Turnpike is presently contemplating. What you are worrying about for the year 2000-- I mean, what is that person going to be earning? You know, costs for everything go up. That is part of the equation. It is always great-- I am waiting to hear, because

last year, as you have said any number of times, taxes had to be raised to balance the budget because the Assembly, in 1989, was not willing to face up to that issue. You know, these are serious questions, and so far it has all been criticism.

ASSEMBLYMAN CATANIA: They are serious questions, and I want to keep it on a bipartisan basis. You know, someone said, "Read my lips," and we had new taxes. We had someone -- when he was running for office -- who said, "I foresee no new taxes." All I am asking for is a simple answer: Can you tell me there are going to be no tolls on this roadway? No one has answered my question yet.

TREASURER BERMAN: There is only one certainty -- I mean, not to be morbid about it -- to which I can answer: We will all die.

ASSEMBLYMAN CATANIA: Most people say there are two certainties: death and taxes. But the only thing is, death gets no worse.

COMMISSIONER DOWNS: I think what we have said consistently is, it is not legally possible; it is not financially feasible. But, as circumstances of the last five years have proven, nothing is certain. If we were looking at the financial status of the State five years ago -- I would have loved to have been the Commissioner of Transportation then -- it would be easy to say in an environment where there was a good deal of certainty about the State's financial future and about even the ability to fund the operations of the Department of Transportation or New Jersey Transit, that it is absolutely never, ever, ever going to happen. I can't -- as the Treasurer said-- I don't think any of us can say that, except that it is not legal -- you cannot do it legally -- and it is not financially feasible to toll this section.

ASSEMBLYMAN CATANIA: Okay. You just said, Commissioner Downs, that it is not legal. That means, if it is not legal, there will be no tolls. Is that what you just said -- there will be no tolls?



COMMISSIONER DOWNS: I said, "It is--

TREASURER BERMAN: You guys change laws all the time.

COMMISSIONER DOWNS: --against the Federal law to toll this section."

ASSEMBLYMAN CATANIA: If you don't pay them back. You know, we are losing sight of a lot of things that are being said. You are saying one thing with one breath, and then you are just changing it.

COMMISSIONER DOWNS: But I added, as well--

ASSEMBLYMAN SPADORO: Let's not get into a-- Let's do a question and answer. Just for the record, I think it is pretty clear, based on the answers to your questions, and I think based on the answers to my questions, that if, in fact, the State was willing to invest what might be as much as a quarter of a billion dollars, or the Turnpike was willing to invest -- if the transaction goes through -- a quarter of a billion dollars, it would, in fact, then become legal to toll this road. At least that is what I am being told today. In fact, the individuals testifying today have stated that it is not, in their opinion, going to happen.

ASSEMBLYMAN CATANIA: Mr. Spadaro--

ASSEMBLYMAN SPADORO: But, you're right, it could happen.

ASSEMBLYMAN CATANIA: I am very concerned about tolls on this roadway -- on this portion of this roadway, because of the people who travel that roadway from Morris, Passaic, and Bergen Counties.

TREASURER BERMAN: Are you concerned about your constituents who pay transit fares, too, because that is the alternative?

ASSEMBLYMAN CATANIA: I am concerned about anybody in this State who is paying any more taxes in any areas at all. What I am for, in this case-- If the people who use the New Jersey Turnpike-- If that money were to be used on the New

Jersey Turnpike, it is all well and good. But to use that money from the New Jersey Turnpike on any other expenses, I do not agree with, because--

TREASURER BERMAN: So, what is your alternative for balancing the budget, Assemblyman?

ASSEMBLYMAN CATANIA: You didn't let me finish. What's happening is, you are increasing the debt service of the Turnpike, without increasing the service to the users.

TREASURER BERMAN: And so, your alternative, sir?

ASSEMBLYMAN CATANIA: No one has asked me for any. If you--

TREASURER BERMAN: No, I asked you earlier, and I am asking you now.

ASSEMBLYMAN CATANIA: Mr. Berman, if you want to sit down with me, I would be happy to sit down--

TREASURER BERMAN: No, no, do it in public, so that people can criticize it if they don't agree with your solution, sir.

ASSEMBLYMAN CATANIA: The first I knew about the sale of this road was today. I didn't know which roadway was being talked about. I found out this is in my backyard. You are buying my part of I-95; you know, my constituents' part of I-95. It was just today. How could I prepare for--

TREASURER BERMAN: I will be eager to read your alternative then, in the paper.

ASSEMBLYMAN CATANIA: Fine, then let's sit down and talk about it.

TREASURER BERMAN: No, I would like to read it. Just put it out.

ASSEMBLYMAN CATANIA: Mr. Berman, the only reason you don't want to talk about it with me in private, or in public, is because whatever you are deciding to do is going to happen. What is going to happen, very simply, is--

TREASURER BERMAN: No, I will talk with you in public about it.

ASSEMBLYMAN SPADORO: Wait a minute. As influential and powerful as the three individuals are before us today, one thing that is quite clear is that this transaction will not occur unless the legislation which is going to authorize it is approved by both Houses and signed by the Governor. The reason we are having this hearing today, quite candidly, is because there are a number of serious issues raised by this transaction.

I, for one, have not stated publicly that I am supporting the transaction, and I reserve decision. So I think it is inappropriate to suggest -- for any member of this Committee to suggest that this is a done deal. Ultimately, it looks as though we are going to have the responsibility, at the first level, of reviewing the legislation, and we will have a chance to do that.

ASSEMBLYMAN CATANIA: Mr. Spadoro, I am aware of that, but I am still concerned about the tolls.

ASSEMBLYMAN SPADORO: Well, I appreciate that.

ASSEMBLYMAN CATANIA: I am concerned about the tolls, and I am concerned about the--

COMMISSIONER DOWNS: One brief, kind of a correction: When the Transportation Trust Fund to legislation was passed by the Assembly and the Senate, it contained a provision that both the Turnpike and the Highway Authority would pay additional revenues of theirs into the Transportation Trust Fund. That figure, I think, is about \$12.5 million for the Turnpike, which is annually paid into the Transportation Trust Fund as a recognition that the Turnpike has broader State responsibilities than simply the metes and bounds of the road itself. That was part of the recognition and the change of the initial bond covenants that allowed that payment to be made. It was part of the legislation itself.

So, the Legislature itself has recognized that the Turnpike and the Highway Authority both have broader fiscal responsibilities than simply the metes and bounds of their roadways. It is part of the existing mechanisms that fund the Transportation Trust Fund now.

MR. GOLDBERG: Let me just add something: Look, it would be very easy for me, as Chairman of the Turnpike Authority, to come in here and say, "Leave us alone. We've got the \$400 million. We like what we have, and don't bother us." And there is a temptation in saying that. (laughter)

ASSEMBLYMAN CATANIA: Mr. Goldberg, I have no objection if you want to say that at this time.

MR. GOLDBERG: However, I suppose I would also want to say that I would be, perhaps, more concerned if the Turnpike were to end up an island of prosperity in a sea of despair. I don't think the Turnpike is going to be better off if it is allowed to function essentially in a vacuum, focusing on a very limited mission, if at the same time what is happening around us is going through the kind of constraints and pressures that apparently are happening.

I wish this were not so. I wish the DOT didn't have any problems, and the State of New Jersey didn't have financial problems, and that we could focus just on the problems we have, because we do have our own concerns. But I find it difficult to tell you, or any member of the Legislature, that it is unfair of you to come to us and say, "Hey, look, you are part of the State of New Jersey. You are part of the resources that the State has. We could have created you as part of DOT, and you could have been run directly by the Commissioner of Transportation. But, for whatever reason, it was decided that you were going to be a separate entity.

"We could have done that, and if we had done that your revenues would have gone into the common pot and we could have used them that way. If this year the priority was that \$400

million of your money goes this way, then we would go that way." By happenstance, we do have a certain autonomy and independence. Having said that, however, I don't think that we properly serve the people we are responsible to -- and I list among them the Governor and the Legislature -- if in response to the problems and concerns that have been laid out we take the position that, "They are your problems. Solve them whatever way you want."

Now, I am not about to tell you that you have to take the \$400 million. I would not be unhappy if there were a better solution to the fiscal problem the State of New Jersey has. I have no solution to offer you because, quite frankly, I have enough problems of my own, and I have not focused on that. But I have not thought of anything that I would offer as a way of fending you off. I do think that this is a fundamental policy issue. I can appreciate -- seriously and honestly -- the differences of opinion that ought to exist on this kind of a proposal, because it is not a cut and dried proposition. It is not an easy proposal. I share the same reservations that you hold with regard to increasing tolls or imposing tolls on anyone.

I will tell you, however, that so long as we want these facilities operated, and so long as we intend to operate them up to the standard that the users deserve, somebody from some source is going to have to pay for it. I am not really that apprehensive about toll payers paying for the use of the facility. I think that is a proven and justifiable way of raising revenue. There are other ways. Connecticut, you know, took tolls off the Connecticut Turnpike.

ASSEMBLYMAN CATANIA: Have you seen the condition of I-95?

MR. GOLDBERG: It's terrible. I thought that was a dumb solution--

ASSEMBLYMAN CATANIA: We agree.

MR. GOLDBERG: --but that would have to be irrelevant, because they did it regardless of what I thought. (laughter)

COMMISSIONER DOWNS: I didn't know they asked.

MR. GOLDBERG: But, they have to live with the consequences of that decision. The consequences are that that road is not being maintained up to the level that they, themselves, want, and they have not gotten themselves out of their financial problem.

All I'm saying here today on behalf of the Turnpike is, we have tried to respond to the request of the Governor and the administration that we examine whether there is a way in which we can assist at a time of critical financial need. We can. If you feel that that response, for good and sufficient reason, is an undesirable one, we can understand that. But we do not think it is wrong to examine, very carefully, whether you want to utilize us in this fashion.

ASSEMBLYMAN CATANIA: Mr. Goldberg, my problem is that on March 17, the New Jersey Turnpike doubled tolls for all trucks, increased tolls for cars--

MR. GOLDBERG: Seventy percent.

ASSEMBLYMAN CATANIA: --70%. And now what is happening, on May 1, we are hearing that you have money to give to the State -- to the Governor and the administration -- to help solve the budget woes, when before we heard from you that this money was needed for the Turnpike.

Now, is your responsibility to the user? Shouldn't that be your number one responsibility -- the user of the Turnpike? Or, are you going to continue to turn people away from using it because of the tolls being increased? Are you going to use those funds from the people who use the Turnpike to help the general revenues?

MR. GOLDBERG: I am going to do what the Legislature and the Governor direct me to do. I think that is a policy issue that ought to come from you, and there are consequences

of asking us to do that. I think it is fair of you to look at the consequences. I think you ought to look at them, and we are trying to go through them. I don't think I have said anything here today, on May 1, that is inconsistent with anything I have ever said in the past in terms of what our needs are, what our funds are, what our requirements are.

I will tell you that at the time we went through the toll process, we were not contemplating this transaction. This developed after that process, but part of that process-- Publicly, on the record, I made it clear that we would not have to draw down approximately \$400 million of funds we had in hand before 1995; that the program we are going to carry out between now and '95 is fully funded within the resources we have; that the construction we are undertaking -- and I hope to have a couple of hundred million dollars worth of contracts out this year; we have the funds to pay for them -- and that in reality there were funds there that we would not have to utilize immediately.

It then now becomes an issue as to whether the availability of those funds and the circumstances of your financial condition make it desirable to change our priorities. I am not going to change those priorities by myself.

ASSEMBLYMAN CATANIA: Okay, but now what--

MR. GOLDBERG: So now I am looking to you to tell me what my priorities should be.

ASSEMBLYMAN CATANIA: In today's newspaper-- I read in The Star-Ledger today that you are talking about-- You are thinking about refinancing the existing bond issues, the \$2.5 billion. You have \$1.3 billion left from the \$2 billion bond issue. Is that correct?

MR. GOLDBERG: Approximately, yes.

ASSEMBLYMAN CATANIA: Approximately, you are going to spend another \$960 million over the next five years for various projects.

MR. GOLDBERG: Nine hundred plus.

ASSEMBLYMAN CATANIA: Right. That leaves you with approximately \$400 million left on that bond issue, which you had intended to use in the second half of the 1990s.

MR. GOLDBERG: That is correct.

ASSEMBLYMAN CATANIA: Okay. So what you are doing is taking that \$2 billion and refinancing it, but you are getting some more cash in your pocket, another half a billion dollars.

MR. GOLDBERG: Oh, no, no.

ASSEMBLYMAN CATANIA: Why?

MR. GOLDBERG: I don't want to confuse you on that. The Turnpike's debt right now is \$2.5 billion.

ASSEMBLYMAN CATANIA: Okay.

MR. GOLDBERG: So, if I refinance \$2.5 billion, I essentially end up with the same amount of debt that I have now.

ASSEMBLYMAN CATANIA: Okay. What about the costs in the borrowing procedure?

MR. GOLDBERG: If we can refinance this paper at a better rate, I can make a buck.

ASSEMBLYMAN CATANIA: You can make money?

MR. GOLDBERG: Yes, and I would like to do that.

ASSEMBLYMAN CATANIA: What about the ratings of the bond? If the enabling statute is changed, and you are able to go out and buy roadways, do you think that would adversely affect the rating of the bond? I think we said it is a single A right now. Do you think you would still be able to get that single A rating?

MR. GOLDBERG: I think we have to be very careful at this point. I am here supporting this proposal, which does divert from the Turnpike Authority a certain amount of its resources. I do not think that this is a resource that can be tapped without limit. Therefore, I think it is critically important if the decision is made to utilize the Authority to this extent, that it not be looked upon as a reoccurring source



of substantial magnitude, because if the market were to conclude that it was going to be the ongoing policy of the State of New Jersey to siphon significant funds out of the Authority and away from its programs and its obligations, I think that could affect our bonded indebtedness. And I think the concern you raise is a very legitimate one.

However, if we present the program as it is within the limitations that we are now talking about, I do believe that the Authority can make a very solid case with the rating agencies that there is no reason to downgrade our rating. I believe we can be successful with that, but I certainly would not encourage the Legislature to take actions which would suggest that either we are not going to be able to raise the revenues we need, or that we may be subject to diversions that would overtax our financial capacity to meet our obligations. So we have to walk a very careful line.

COMMISSIONER DOWNS: Assemblyman, I would also like to add from my previous experience as President of the Triborough Bridge and Tunnel Authority in New York -- which was, and still is the largest toll authority in the world -- that almost half of their money every year collected from tolls goes to support the operating assistance of the New York City Transit Authority. It also provides capital for the Transit Authority. Theirs are some of the highest rated revenue bonds in the country. Triborough's bonds have varied between A and AA for decades.

The market's concern about the viability of the bonds is based on the revenue production capabilities of the Authority. They are only secondarily interested in how the funds are expended, as long as they are covered on revenue. That has been the experience of Triborough for some 50 years. In this case, this is not unusual practice for the marketplace about toll authorities and the use of toll proceeds.

ASSEMBLYMAN CATANIA: Mr. Berman, if this sale does not take place, you indicated that there would be 10,000 layoffs?

TREASURER BERMAN: If the sale does not take place and we choose to make up all the \$400 million gap through a reduced work force, it would probably be closer to 13,000.

ASSEMBLYMAN CATANIA: Thirteen thousand would be laid off statewide?

TREASURER BERMAN: We would have to reduce the work force by an additional 13,000 people, yes.

ASSEMBLYMAN CATANIA: Have you made contingency plans to laying off these 13,000 people if this does not happen?

TREASURER BERMAN: We are evaluating contingency plans for a variety of things that the Legislature may or may not do as it considers the budget. It may choose to spend more money in certain instances. It may choose not to go forward with all of the employee changes in the pensions or health benefits that have been proposed. It may choose not to go forward with the wage freeze. I have been warning the Legislature that I anticipate that the revenue problem will be worse, and that we will be back in front of them in mid-May. We have been developing a variety of contingency plans and things that we would suggest, if they choose not to go this way.

ASSEMBLYMAN CATANIA: How many layoffs do you expect at this time? Do you know?

TREASURER BERMAN: The current budget plan estimates that it will be on the order or magnitude of 2500 layoffs. There will be further work force reductions as a result of an attrition program and the early retirement program.

ASSEMBLYMAN CATANIA: Has the current budget taken into account receipt of the \$400 million from the sale?

TREASURER BERMAN: Yes. The Governor's proposed budget anticipates the \$400 million.

ASSEMBLYMAN CATANIA: I have nothing further.

ASSEMBLYMAN SPADORO: Assemblywoman Crecco? We have covered a lot of ground, but if there is anything left that we--

ASSEMBLYWOMAN CRECCO: After all of that, there is not too much left. I must say that I have been on this Committee for six years, and I always felt that the Turnpike Authority was one of the best run agencies. So I am rather disappointed insofar as your going out to buy this road. I hate to disagree with it, and Assemblyman Catania has already been all through this. However--

MR. GOLDBERG: First of all, I share your opinion that the Turnpike Authority is well run. (laughter) Quite frankly, I don't mean since I arrived. I think the Turnpike Authority, over the years, under a variety of administrations, has acquitted itself extremely well. I have a high regard for the people who were there when I came, and who will be there after I go, in terms of their commitment and their zeal. I would also tell you that whether this goes ahead or not-- If this goes ahead, we would hope that our level of operations are not only maintained, but are improved. I do not see this program as a program that is going to result in our operations being worse off. And to some extent, because 95 is really critical to the functioning of the Turnpike, in some respects, I would hope it would be better.

ASSEMBLYWOMAN CRECCO: Also, I wanted to say to Treasurer Berman, I am Cochairing a Task Force on Government Efficiency with Rodney Frelinghuysen. We had our last meeting this morning, so we will give you a full report on that. But what I would like to say is, it is the responsibility of the Legislature and the administration to solve this budget problem. I think we just have to bite the bullet and do it. If we work together, I think it can be resolved.

TREASURER BERMAN: Well, I am eager to read-- I see that the Republican State Chairman and one our distinguished Assemblymen is here, and I am eager to see it when he finally puts a proposal on the table for a budget--

ASSEMBLYMAN CATANIA: I am waiting for someone in the administration to ask me.

ASSEMBLYWOMAN CRECCO: That's all. Thank you.

ASSEMBLYMAN SPADORO: At this time, if any of you have any closing comments--

ASSEMBLYMAN CATANIA: I have nothing further.

ASSEMBLYMAN SPADORO: Okay, fine. Mr. Vice-Chairman, do you have any closing comments?

ASSEMBLYMAN KENNY: Yes, just very briefly. From today's New York Times "Business Day," "General Motors Corporation, the world's largest car maker, reported a net loss of \$377 million. It would have reported a \$1.1 billion loss, except for the one-time gain from an accounting change and the sale of the GM building in New York. The Ford Motor Company posted a quarterly loss of \$884 million, the highest since 1973."

Now, I think that what we have heard today shows that this proposal has merit; that there is a rational basis for it; and that it is deserving of further review. I think the Minority members' questions showed that the areas of disagreement, if you will, are areas that are understandable, but in view of the crisis that the State is in, this type of flexibility is called for. In fact, Governor Kean, when he created the Transportation Executive Council-- It was created partly in order to bring together the various transportation agencies, along with the State, in order to address problems that the entire State has, and to allow for that flexibility.

This is not a new concept. The 13-mile section on the Parkway between Middlesex and Union Counties is being maintained by the Garden State Parkway. This came about through the TEC directing that. Previously, it was maintained by the State of New Jersey. I think the concept here deserves merit. If we get away from a lot of the political posturing, I think what we will be left with is a solution that is well

deserving of debate, and a solution that might be the only solution we have before us in the State today.

I want to commend the Treasurer, the Chairman, and the Commissioner for their testimony. Yesterday, before the Appropriations Committee, the Republican leadership was very anxious to get at Commissioner Downs on this issue. We invited them here today so they could hear his testimony. I think that the Assemblyman from the Republican side here did an excellent job of questioning, but I am a little disappointed that the Republican leadership in the Assembly is not here. Speaker Hardwick made a little industry over this issue over the last two months, holding hearings on the sale of roads, yet he is not here. Under Rule 70, he would be allowed to sit in here as an ex officio member of this Committee to question these high level officials of the State of New Jersey.

I assume the Minority leader had other business that was very important and he could not be here today. However, there is really no issue right now before us that reaches the magnitude of this \$400 million issue. So, I think we have really narrowed the focus now to what is before us. I think we are seeing something that does have merit, a rational basis for it, and I am hoping that we can proceed further on in the future.

I would like to say that I am supportive of it. Thank you.

ASSEMBLYMAN CATANIA: Mr. Spadaro, if I may just correct him. It is not Speaker Hardwick.

ASSEMBLYMAN SPADARO: I know, it's former Speaker Hardwick.

ASSEMBLYMAN CATANIA: It is former Speaker Hardwick, or Minority leader Haytaian. It is Speaker Doria at this time.

ASSEMBLYMAN SPADARO: Fine, okay. First of all, on behalf of the Committee I want to thank the Commissioner, the Treasurer, and the Chairman of the Turnpike Authority for

coming today. I appreciate your candid responses. I do say that it is apparent that we do not have a consensus on this Committee. I, for one, have further questions. Issues have been raised today that I would like further information on. I look forward to receiving from the administration your proposed legislation. I can promise you that we will promptly consider same, in view of the extraordinarily short deadline we have. It is only about-- I guess it is only eight weeks until our time clock runs out.

TREASURER BERMAN: Until June 30.

ASSEMBLYMAN SPADORO: So, thank you again. I look forward to working with you to try to resolve this problem.

(HEARING CONCLUDED)

## APPENDIX





Testimony Before the  
Assembly Transportation Authorities Committee  
on the Transfer of State Roads to the NJ Turnpike

by the  
National Motorists Association

May 1, 1991

I'm Declan O'Scanlon, a representative of the National Motorists Association. I'm commenting today as a representative of the motorists view of the Governor's proposal to transfer some NJ State roads to the Turnpike Authority in exchange for \$400 million.

We oppose the transfer of roads and the transfer of funds.

The Florio Administration want's to make the swap in order to help reduce the \$800 million State budget deficit. As a one shot cash infusion the transfer will only postpone the day of reckoning for the State without resolving any of the systemic problems that caused the deficit in the first place. Not only would the transfer not solve any State budget problems it would ultimately result in major budget problems at the Turnpike Authority the most likely solution for which will be increased tolls.

In order for the Turnpike Authority to use its \$400 million for the transfer it would have to refinance some or all of its current debt. Its current bond agreements do not permit the use of funds for acquisitions of State controlled roads. This refinancing could cost up to \$50 million. The new, more liberal, bond covenants might also permit the State to appropriate even more funds at a later date. The precedent set here could lead to a string of irresponsible accounting maneuvers that would do nothing but mask serious financial mismanagement on the part of the State.

The Authority would have to spend several million dollars to bring the acquired roads up to Turnpike standards.

In addition to the initial refinancing and upgrading costs the Authority would be saddled with the ongoing maintenance of the transferred roads. The stretch of Route 95 which connects the Turnpike's northern end with the George Washington Bridge is heavily worn and has 26 bridges all of which would become the Turnpike Authority's responsibility.

Who will shoulder all these additional costs? The driver who uses the Turnpike. Those who use the Turnpike will be expected to supply the cash the State needs to mask its deficit. Every aspect of the State's proposal will cost the Turnpike Authority millions of dollars. The bond refinancing, the initial transfer of funds, and the upgrading and continuing maintenance of acquired roads all will lead to dramatic increases in Turnpike tolls. Judging from the volume of the public outcry over recent toll increases it seems clear that the drivers of New Jersey simply can't handle and will not tolerate the toll increases that would be an absolute necessity if this plan is aloud to proceed.

The States plan is tantamount to the treatment of pneumonia with nose drops. The stuffy nose goes away for a little while but the real problem is left untouched. The States proposal would also use some of the most expensive nose drops ever envisioned. The States drivers can not afford this treatment.

The National Motorists Association emphatically opposes the State's plan. The State must face its own fiscal woes responsibly - not procrastinate or attempt to use accounting tricks the sole purpose of which is to pass the buck - or transfer the buck as the case may be.

Prepared by:

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