

Committee Meeting

NJ
10
F491
1993d
v.5

of

ASSEMBLY APPROPRIATIONS COMMITTEE

"Committee meeting directed by Assembly Resolution No. 150, to investigate the issuance of debt by the State, State agencies and authorities. The discussion is continued with the New Jersey Turnpike Authority"

LOCATION: Committee Room 9
Legislative Office Building
Trenton, New Jersey

DATE: December 14, 1993
10:30 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman C. Richard Kamin, Vice-Chairman
Assemblywoman Joann H. Smith
Assemblyman Richard H. Bagger
Assemblyman John C. Gibson
Assemblyman Walter J. Kavanaugh
Assemblyman Leonard Lance
Assemblyman Robert G. Smith
Assemblyman Louis A. Romano
Assemblyman John S. Watson



ALSO PRESENT:

Michael J. Basarab
Office of Legislative Services
Aide, Assembly Appropriations Committee

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





RODNEY P. FRELINGHUYSEN
Chairman
C. RICHARD KAMIN
Vice-Chairman & Sub-Committee Chair
JOANN H. SMITH
Sub-Committee Chair
CLARE M. FARRAGHER
Sub-Committee Chair

New Jersey State Legislature

ASSEMBLY APPROPRIATIONS COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NEW JERSEY 08625-0068
(609) 984-6798

RICHARD H. BAGGER
JOHN C. GIBSON
WALTER J. KAVANAUGH
LEONARD LANCE
JACKIE R. MATTISON
LOUIS A. ROMANO
JOHN S. WATSON

COMMITTEE NOTICE

TO: MEMBERS OF THE ASSEMBLY APPROPRIATIONS COMMITTEE
FROM: ASSEMBLYMAN RODNEY P. FRELINGHUYSEN, CHAIRMAN
SUBJECT: COMMITTEE MEETING - December 14, 1993

The public may address comments and questions to Michael J. Basarab, Committee Aide, or make bill status and scheduling inquiries to Patricia Scott, secretary, at (609) 984-6798.

The Assembly Appropriations Committee will meet on Tuesday, December 14, 1993 at 10:30 AM in Room 9, Legislative Office Building, Trenton, NJ.

This is the fourth meeting of the committee in accordance with Assembly Resolution No. 150 of 1993 which directs the committee to investigate the issuance of debt by the State, State agencies and authorities. The topic of discussion is continued with the New Jersey Turnpike Authority.

The following witnesses have been invited to testify:

- 1) David Goldberg - Chairman
N.J. Turnpike Authority
- 2) Donald Watson - Executive Director
N.J. Turnpike Authority

**THE CHAIRMAN REQUESTS THAT ALL LEGISLATIVE AGENTS
PLEASE DISPLAY IDENTIFICATION BADGES
WHILE IN ATTENDANCE AT COMMITTEE MEETINGS.**



TABLE OF CONTENTS

	<u>Page</u>
David J. Goldberg Chairman New Jersey Turnpike Authority	3
Mario V. Mirabelli, Esq. Baker & Hostetler Washington, D.C.	4
Donald L. Watson Executive Director New Jersey Turnpike Authority	5
APPENDIX:	
Statement submitted by David J. Goldberg	1x
"Report to Governor Jim Florio, Treasurer Samuel F. Crane, and Chairman and Members of the New Jersey Turnpike Authority on the 1991-'92 Bond Refinancing" submitted by Donald L. Watson	8x
Letter plus attachments dated October 8, 1993 addressed to The Honorable Rodney Frelinghuysen from Donald L. Watson	111x
Letter plus attachments dated October 7, 1993 addressed to The Honorable Rodney Frelinghuysen from Donald L. Watson	114x
Memorandum addressed to David J. Goldberg, Chairman from Donald L. Watson, Executive Director "Response to Testimony of William Cobbs of Public Resource Advisory Group"	147x
mjz: 1-121	

* * * * *



ASSEMBLYMAN C. RICHARD KAMIN (Vice-Chairman): Good morning, and thank you for coming.

During the past two and a half months, this Committee has been attempting to take a long look, a hard look, at the bonding practices of our State government, State agencies, and authorities. After watching our State government become a focal point of Federal and State investigations into alleged illegal activities with regard to bond sales, we felt it was necessary for the Legislature to take an objective look at how the State handles its bond business and what reforms may be needed in the future.

Today, this Committee will be focusing on the bond practices of the New Jersey Turnpike Authority. Our goal here today is not to just review and analyze the issuance of debt by the Authority, but to delve into the rationale and decision-making process that led to the selection of underwriters, attorneys, financial adviser, and other professionals for the Authority's \$2.9 billion bond issuance of 1991.

As you all know, many concerns were raised in 1991, when the Turnpike Authority and the administration worked hand in hand to craft the now infamous \$400 million road sale to help to balance the budget. Many of us sitting here today questioned at the time the fiscal sanity of that proposal, but our objections fell on deaf ears. What is even more disturbing, however, is that the serious ethical and legal questions about the entire \$2.9 billion bond deal have been raised by State and Federal officials.

It is our hope that once these bond investigations are completed this unfortunate chapter in New Jersey's history will be closed, and we can begin to move forward. We want the people of New Jersey to feel confident that the State government is spending its tax dollars wisely and prudently. More importantly, we want to make certain that New Jersey's

State government, as well as its agencies and authorities are never again the target of any investigations.

It is my belief that State government, like any individual sitting in this room, can learn from its mistakes and do things better in the future. With the new administration poised to take over the reins of government in Trenton, we have the opportunity to wipe the slate clean and start anew. But if we cannot recognize the errors and mistakes of the past, this dark ethical cloud will hang over State government during the Florio administration. If we can't recognize the errors and mistakes that have cast this stark ethical cloud over State government during the Florio administration, how can we possibly expect to avoid such practices in the future? We have an obligation to the people we represent to identify the problems and to propose solutions.

With that, I would like to introduce the Chairman of the New Jersey Turnpike Authority, Mr. David Goldberg, and the Executive Director, Mr. Donald Watson, who have agreed to testify before our Committee today. Gentlemen, thank you for being here, and welcome.

ASSEMBLYMAN WATSON: Mr. Chairman?

ASSEMBLYMAN KAMIN: Yes, Mr. Watson?

ASSEMBLYMAN WATSON: Mr. Chairman, I see we have information before us today that was requested October 7 and 8. I know this is supposed to be a bipartisan hearing. Our side of the aisle, or our staff, as I am told, did not receive it. I haven't received it. I just want to ask a question of the Chair: Why did we not receive the information that is before us today?

ASSEMBLYMAN KAMIN: This is material that was requested by our staff, and it has been part of our investigation.

ASSEMBLYMAN WATSON: I'm not saying the Committee as a whole, but, Mr. Chairman, I am the Chairman on our side of the

aisle, and if the Chairman received his copy, I should have gotten mine, too. That is my--

ASSEMBLYMAN KAMIN: Well, Mr. Watson, thank you. You have the material. We have been conducting this investigation. When you choose to help and assist in the investigation, any material you have that you would like to share from your side to us, fine.

ASSEMBLYMAN WATSON: Well, it is just that--

ASSEMBLYMAN KAMIN: First of all, for Mr. David Goldberg, I have to go through a series of questions for you.

ASSEMBLYMAN WATSON: Mr. Chairman?

ASSEMBLYMAN KAMIN: Yes, Mr. Watson?

ASSEMBLYMAN WATSON: I am sorry to interrupt, but I have not finished. You know, we had requested the different people whom we would have liked to have had before this Committee. This is one of my reasons for protesting the way this was handled, because of the fact that this was supposed to have been bipartisan, and, of course, even the Speaker had granted us the right to have our people in. Of course, we didn't. We still have been denied that. I just wanted that to be part of the record this morning.

ASSEMBLYMAN KAMIN: Your objections are noted, Mr. Watson. Thank you.

Mr. Goldberg, did you receive a subpoena from this Committee compelling your attendance at this hearing today?

DAVID J. GOLDBERG: I don't believe so. Did I get a subpoena? (consults with associate, whose response is indiscernible) No. We were not subpoenaed, nor did the Authority indicate that it would require a subpoena in order to appear.

ASSEMBLYMAN KAMIN: That is correct. Thank you.

Have you received a copy of the Code of Fair Procedure here today--

MR. GOLDBERG: Yes. That--

ASSEMBLYMAN KAMIN: --before testifying before this Committee?

MR. GOLDBERG: Yes, we received that.

ASSEMBLYMAN KAMIN: The Code of Fair Procedure gives you certain rights as a witness testifying under oath here today before this Committee. For example, you have the right to be accompanied by counsel, who may wish to advise you of your rights during the proceeding. Do you have counsel present here today?

MR. GOLDBERG: I have Mr. Mirabelli in the room. It is not likely, but if for some reason consultation with him is necessary, I will either request that or during a break I will proceed with that.

ASSEMBLYMAN KAMIN: Mr. Mirabelli, would you spell that name, please, for the record?

M A R I O V. M I R A B E L L I, E S Q.: M-I-R-A-B-E-L-L-I.

ASSEMBLYMAN KAMIN: Thank you. Your counsel may submit proposed questions to us on your behalf. Does your counsel have any questions for us today?

MR. MIRABELLI: No, I don't.

ASSEMBLYMAN KAMIN: I may now ask you to raise your right hand: Do you solemnly swear that the testimony you shall give in the matters now pending before this Committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

MR. GOLDBERG: I do.

ASSEMBLYMAN KAMIN: Do you understand that if the statements you make today are willfully false, that you may be subject to penalties under the law, including monetary penalties and incarceration, if you fail to answer a pertinent question or commit perjury, which is the making of a false statement under the oath in an official proceeding such as this? Do you understand this?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: Is the testimony provided today of your own free will?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: Have you been directed or ordered to appear here today?

MR. GOLDBERG: Well, we have been requested to appear. We didn't request the opportunity to appear.

ASSEMBLYMAN KAMIN: Thank you, Mr. Goldberg.

And, Mr. Watson, for you: Did you receive a subpoena from this Committee compelling your attendance at this hearing today?

D O N A L D L. W A T S O N: No, I didn't.

ASSEMBLYMAN KAMIN: Have you received a copy of the Code of Fair Procedure here today before testifying before this Committee?

MR. WATSON: Yes, I have.

ASSEMBLYMAN KAMIN: The Code of Fair Procedure gives you certain rights as a witness testifying under oath here today before this Committee. For example, you have the right to be accompanied by counsel, who may advise you of your rights during the proceeding. Do you have counsel present here today?

MR. WATSON: Mr. Mirabelli is here.

ASSEMBLYMAN KAMIN: Your counsel may submit proposed questions to us on your behalf. Does the counsel have any questions for us today?

MR. WATSON: No, he doesn't.

ASSEMBLYMAN KAMIN: Under the Code -- if you would raise your right hand -- do you solemnly swear that the testimony you shall give in the matters now pending before this Committee shall be the truth, the whole truth, and nothing but the truth, so help you God?

MR. WATSON: I do.

ASSEMBLYMAN KAMIN: Do you understand that if the statements you make today are willfully false, you may be

subject to penalties under the law, including monetary penalties and incarceration, if you fail to answer a pertinent question or commit perjury, which is the making of a false statement under oath in an official proceeding such as this?

MR. WATSON: Yes.

ASSEMBLYMAN KAMIN: Do you understand this?

MR. WATSON: Yes.

ASSEMBLYMAN KAMIN: Is the testimony provided here today of your own free will?

MR. WATSON: Yes, it is.

ASSEMBLYMAN KAMIN: Have you been directed or ordered to appear here today?

MR. WATSON: We have been requested.

ASSEMBLYMAN KAMIN: Thank you.

With that, Mr. Goldberg and Mr. Watson, since you have prepared statements that have been distributed to the Committee, we welcome your opening remarks.

MR. GOLDBERG: Thank you, Mr. Chairman. My prepared remarks do not respond to some of the comments the Chair made at the outset, but I assume that during the questioning section we will have an opportunity to address them. I think the concerns you expressed are understandable concerns. Our view of our involvement, and the extent to which the Authority itself is involved in whatever investigations are going on, are things that we should address further, but let me proceed with the statement that has been prepared.

The Authority appreciates the opportunity to appear today before this Committee to respond to any questions you may have.

During the last 10 years, the Authority refinanced its entire bonded indebtedness on two occasions. The first occurred between 1984 and '87; the most recent occurred in 1991-'92.

The '84-'87 refinancing took place primarily because the Authority in 1985 borrowed \$2 billion to finance a widening of the Turnpike in the north between Interchanges 11 and 18, including both the eastern and western spurs. The widening also included dualization of the portion between Interchanges 8A and 9.

At the time of its \$2 billion borrowing, the Authority's program was conceptual. The Widening Program had not been designed, and essential State and Federal permits had not been obtained.

In undertaking this refinancing, the Authority:

1) Did not retain or use an independent financial adviser until 1987, at which time the program was substantially completed.

2) Did not engage in any public solicitation of underwriters to carry out the program.

3) Assigned the responsibility to act as Authority financial adviser and lead underwriter to a single underwriter, Smith, Barney, Harris, Upham & Co., Inc. -- Smith Barney.

4) Left the structuring of the underwriting essentially to Smith Barney.

5) Did not undertake an effective cost control effort. As a result, the cost of the refinancing was approximately \$67 million. Underwriting costs alone exceeded \$57 million. Payments to Smith Barney for its services as financial adviser exceeded \$4 million. Printing costs were more than \$2.5 million.

By contrast, the 1991-1992 refinancing cost \$26 million, \$40 million less than the 1984-1987. The financial adviser received \$2.275 million, and the underwriters \$20 million. Printing costs were held to less than \$600,000, and in the attached chart is a detailed comparison of the costs incurred by the Authority in these two financings.

Moreover, significant problems arose because the Authority decided to borrow \$2 billion before its program had progressed beyond the conceptual stage. The \$2 billion borrowing was premised on the widening project being completed by the end of 1990. However, the Authority was able to place under construction between January 1986 and April 1990 less than \$250 million. In an effort to accelerate construction, the Authority spent approximately \$70 million to plan and design the widening of the western spur before obtaining required State and Federal approvals. Because the required permits were not issued, the administration of Governor Kean, in 1989, abandoned this project. The \$70 million expended on these plans have been of no value to the Authority.

In addition, the borrowing of \$2 billion also substantially distorted the Authority's financial decisions. In 1985, as part of the \$2 billion borrowing, the Authority committed itself to increasing tolls by 40 percent effective July 1, 1986, and by an additional 40 percent January 1, 1990 -- and, in fact, there was a commitment to impose an additional 20 percent increase in 1992 -- to pay for the increased costs that this borrowing would require. The 1985 borrowing predated more stringent tax limitations imposed by Federal law in 1986.

The Authority, therefore, for a five-year period, was able legally to invest unexpended construction funds and to divert the arbitrage earnings from such investments to pay Turnpike expenses. Since the construction program did not proceed on schedule, most of the \$2 billion borrowing remained available for investment and produced substantial short-term earnings. The Authority decided in lieu of raising tolls on schedule, to apply these investment earnings to the growing shortfall between toll revenues and Authority expenses.

Between 1986 and 1990, the gap between revenues and expenses increased to \$462 million. The shortfall was covered by arbitrage earnings. In 1990, however, under the tax laws,

arbitrage earnings could no longer be used for this purpose. To close the revenue gap, it was necessary for the newly appointed Commissioners -- and I would add inferentially that I became Chairman at the end of April 1990 -- to adopt a disproportionately large toll increase. The toll increase was approved in January 1991, effective in March 1991. It was the first increase that followed the borrowing that occurred in 1985.

In 1991, we again turned to the issue of refinancing. In February 1991, Governor Florio's administration proposed the sale to the Turnpike Authority of the portion of Interstate 95 from the northern terminus of the Turnpike to the George Washington Bridge. The Turnpike Authority, during a series of hearings before the New Jersey Senate and General Assembly, supported this proposal provided:

- 1) Legislation was enacted which directed the Turnpike Authority to purchase the section of I-95 for \$400 million; and

- 2) The Turnpike indebtedness was fully refunded.

The refunding of the Turnpike debt was considered desirable in order to remove restrictive provisions within the existing bond resolution, and essential to eliminate any questions concerning the use of Turnpike funds for such a purpose.

The State supported the sale of I-95 to the Authority to obtain \$400 million to assist the funding of essential State services for the fiscal period starting July 1, 1991. It was clearly stated that if legislation directing the Authority to purchase I-95 was adopted, the Authority not only would have to refinance its existing debt, but also would have to complete such refinancing quickly to have funds to pay for the acquisition of I-95.

Although the legislation directing the Authority to purchase I-95 was not approved until June 30, 1991, the

administration and the Authority, in anticipation of its possible approval, started discussions concerning a possible refinancing in February and March 1991. Extensive discussions between the administration and the Authority continued through June. These discussions concerned the details of the purchase agreement between the State and the Authority, the redrafting of the Authority's bond resolution, particularly the extent to which excess Authority funds could, or should, be used for general State purposes, and the manner in which this extremely large refunding would be carried out.

Because of these preparations, it was possible for the Authority to adopt its Plan of Finance on July 2, 1991. The Authority's prompt action was key to the ultimate success of the program.

The Turnpike Authority considered itself responsible for carrying out the refinancing that would be mandated by legislative action. It did not believe, however, that it had sufficient expertise to undertake such a difficult assignment without the services of the well-qualified professional consultants and the assistance of the administration, particularly the Treasury Department.

At the outset, the Authority reviewed the manner in which the 1984-'87 refinancing had been carried out. It was our judgment that the procedures used during that refinancing could not, and should not, be utilized.

The Authority concluded that it required the assistance of an independent financial adviser. It solicited requests for proposals from qualified firms, including Kidder Peabody & Co., Inc. -- Kidder Peabody -- the firm that had been providing such services to the Authority since 1987. The Authority provided that the firm selected as financial adviser would not be permitted to participate in any future financing in order to avoid a possible conflict of interest. This condition resulted in the resignation of Kidder Peabody and its

withdrawal from consideration. Its letter of resignation, I think, has been submitted here. It indicates that it would much rather prefer to participate as an underwriter. Details concerning the selection of Chase Securities and its resignation and replacement by Lazard Freres & Co. are set forth in prior Authority reports and are not repeated in this statement. I will come back to those materials shortly.

Before retaining bond counsel and special tax counsel, the Authority also solicited requests for proposals from qualified firms. Moreover, the Authority decided not to concentrate the responsibility for implementing its refinancing plan in the hands of a small, select group of underwriters. The newly designated financial adviser was directed to develop a proposed refinancing plan and to recommend how the refinancing should be implemented. The Authority directed the financial adviser to open the selection process to the entire financial community. The Authority also insisted that underwriting firms based in New Jersey, and such firms that were owned by women or minorities, be given a fair opportunity to be included in any proposed refinancing to the greatest extent possible consistent with a successful refinancing.

The Authority established objectives to be achieved by the financial adviser. One objective was to reduce underwriting costs from the \$57 million spent in 1984-'87 to approximately \$20 million. Remaining costs were to be held to about \$6 million. It was understood that the Authority would negotiate a fee substantially less than the \$4.1 million spent for management and financial advisory services paid Smith Barney in 1985-'87. The actual amount paid for such services would reflect the success of the financial adviser in achieving Authority objectives.

RFPs were solicited from the entire underwriting community. A total of 49 proposals was received. The 11 firms that requested to be assigned a role as senior manager were

interviewed. Based upon the recommendations submitted to the Authority by its financial adviser, all 11 firms received a senior underwriting assignment. The Authority approved, without change, the financial adviser's recommendations for the refinancing and the underwriters' assignments at its public meeting on July 2, 1991. The Plan of Finance and the underwriter assignments were publicly set forth by the Authority and its financial adviser at that meeting. No expressed criticism or public disagreement with the Authority's actions concerning the proposed underwriting were received.

I will not burden the Committee members at this point with further details of the refinancing program. There are submitted with this statement for inclusion in the public record of the Committee proceedings, the following documents -- and there are four documents that I won't read from the statement. Copies have been given to all the members, and at an appropriate point we would request that Committee staff mark these for identification and place them into the record.

In conclusion, the Authority undertook a mandated refinancing at a time not of its choosing, and at the direction of the State's highest policymakers -- the Governor and the Legislature. It is our belief that we handled this assignment responsibly and successfully.

At the time that the Plan of Finance was adopted, the opinion of most knowledgeable observers was that the Authority would be fortunate if the refinancing did not increase debt service costs. In fact, the Authority reduced the debt service costs on its existing debt by more than \$260 million.

When the refinancing was undertaken, in view of the downgrading of the State's credit rating at the same time, it was believed likely that the Authority's favorable bond rating would also be downgraded. The Authority was successful in maintaining its rating, which translated into more favorable prices for its bond sales.

By comparison with the 1984-'87 refinancing, the Authority reduced issuance costs by \$40 million. We believe we conducted a proper and a successful refinancing.

I would be pleased at this time to answer any questions the Committee may have. I would also add that Mr. Watson is here with me this morning. Mr. Watson has familiarity with certain aspects of the refinancing that he can probably answer more appropriately than I. Mr. Watson does not have a separate statement to submit to the Committee, but we are both available for any questions the Committee may have.

ASSEMBLYMAN KAMIN: Thank you, Mr. Chairman.

Mr. Goldberg, you indicated you came on in April of '90.

MR. GOLDBERG: That is correct.

ASSEMBLYMAN KAMIN: Mr. Watson, when did you join the Turnpike Authority?

MR. WATSON: May 1, 1990.

ASSEMBLYMAN KAMIN: Your charge was to review the financial structure and suggest needed reforms, when taking over the role of Chairman. Mr. Goldberg, where did that direction come from specifically, the administration?

MR. GOLDBERG: It did not come in a formal way, but the reality is that I came about being requested to serve as Chairman because there was a clear difference of view between Governor Florio and the Authority and its Chairman at that time, Mr. Loveys. Mr. Loveys, if I remember correctly, resigned. There were public statements made by the Governor indicating that he had no confidence in the Authority's capital program. There was a proposed toll increase. There was a series of questions that the Governor and the administration raised publicly at that time as to whether a toll increase was needed and, if so, the size of the toll increase.

So, when I took over, it was clear, although it was not expressed in any specific manner, that the Authority

expected -- that the Governor or the administration expected the Authority to review its programs, its capital program in particular, to review the proposal for a toll increase, and to report back. We spent most of 1990 dealing with those issues. The capital program was reviewed in detail. It was revised and structured into what we call a "Business Plan."

In view of the problems that arose from not really prioritizing their program and proceeding in an orderly fashion, we structured the program over a 10-year period. We separated it into two tiers; Tier 1 being those projects which were buildable, permitted, or that we were confident could be permitted and could be constructed within a five-year period. The second tier, or the Tier 2 programs for the remaining five-year period, were those projects that the Authority would review and consider for possible future construction. The only funds committed to those projects, however, would be funds for study and the work necessary to prepare those projects for approval. And that is the process we have followed through the past four years.

Having restructured the program, we then proceeded to the issue of the need for a toll increase. The members of the Authority concluded, without any question, that something had to be done with regard to increasing tolls. I alluded to the problems that had already occurred because scheduled toll increases had not occurred as had originally been committed by the Authority. There was a growing gap between revenues and expenses. The debt service schedule was increasing in size. We went through that in considerable detail. We went through a series of public briefings before we went into actual public hearings, and that process culminated in the adoption of a revised toll schedule in January of 1991.

So those were the activities we engaged in for the first nine months that I was Chairman.

ASSEMBLYMAN KAMIN: A very busy time.

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: You were asked to be Chairman of the Turnpike Authority by whom?

MR. GOLDBERG: By Governor Florio.

ASSEMBLYMAN KAMIN: It came directly from the Governor?

MR. GOLDBERG: Directly by the Governor.

ASSEMBLYMAN KAMIN: In communicating your developments as they took place in the Authority in refinancing, who was it in the administration that you worked with?

MR. GOLDBERG: During 1990-- Well, first of all, the Governor's Office has had, for a number of years -- and still has--

ASSEMBLYMAN KAMIN: No, specifically a name, Mr. Goldberg, is what I am looking for. My question is, then, maybe more specifically, did Treasurer Berman work with you on the refinancing? Was it his initiation of the refinancing?

MR. GOLDBERG: Well, I am a little-- I am not sure what you-- Are you talking now about the refinancing, or are you talking about the activities during the--

ASSEMBLYMAN KAMIN: The 1991 refinancing.

MR. GOLDBERG: Okay. In the 1991 refinancing, that was really a group effort. It was not a matter of reporting to any one individual. There was a series of meetings and conferences, some of which involved me, some of which involved staff and our consulting group. Those conferences included, in almost every instance, representatives of the Treasury Department, representatives of the Department of Transportation, representatives, on occasion, of the Governor's Office itself, largely through Mr. Van Horn's office. He also included representatives of the Attorney General's Office.

The process was a continuing process. It was not necessary, on most occasions, to have individual conversations with anybody either in the Governor's Office or the Treasurer's

Office, but I would periodically talk with Treasurer Berman as the matters proceeded.

ASSEMBLYMAN KAMIN: Mr. Goldberg, did Treasurer Berman suggest the refinancing?

MR. GOLDBERG: No. The refinancing was something that the Authority insisted upon, I insisted upon, as we proceeded on the administration's proposal that the Authority use a portion of its resources to purchase a State asset at the outset.

ASSEMBLYMAN KAMIN: You're saying that the idea of refinancing was not initiated by the administration? It was not suggested or directed by Treasurer Berman or anyone else in the administration; that it was the Authority's--

MR. GOLDBERG: Well, you're asking a series of questions. Let me try to separate them out.

There were discussions from the time that the administration raised the possibility of the Authority purchasing I-95 that focused on the refinancing. From the outset, my position was that if the Authority were going to take a portion of its assets, that in order to be able to do this without any significant legal question, in my opinion we would have to refinance. That opinion, although it was not initially shared by the Treasury Department, ultimately, I think, became commonly agreed upon between the administration and the Authority.

At the outset, there were--

ASSEMBLYMAN KAMIN: So was the-- Excuse me.

MR. GOLDBERG: Let me just finish. At the outset, there were-- The Attorney General's Office initially was exploring whether our existing bond covenants and indentures could be interpreted to allow us to proceed without a refinancing. My position was that regardless of what the lawyers might conclude, that as a matter of policy if the Authority was going to be asked to use a portion of its

borrowed funds for something that had clearly not been contemplated at the time the funds were originally borrowed, that the proper way to proceed would be by way of financing, and I insisted on that.

I further insisted -- and I made this point in my statement -- that if the Authority was going to use its funds for its purposes, that would not be a decision that, in my opinion, was appropriate for the Authority to make on its own; that it would be willing to do that, and that I could support such a proposal -- and I did support such a proposal publicly -- but that we should not proceed to use Turnpike funds in that manner unless directed by the State's highest policymakers -- the Governor and the Legislature. That is why it was necessary to pass legislation which directed the Authority to acquire I-95 and to pay an agreed upon price for it -- \$100 million. That is how the refinancing was wrapped into the I-95 transaction.

ASSEMBLYMAN KAMIN: The idea to use the funds came from the administration?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: From whom in the administration?

MR. GOLDBERG: Oh, I don't know. There was an initial statement in the press. At one point, I had a brief conversation with the Governor, who advised me that the administration was considering such a proposal. He asked me to consider whether the Authority could cooperate on such a proposal, and I--

ASSEMBLYMAN KAMIN: He, the Governor?

MR. GOLDBERG: The Governor.

ASSEMBLYMAN KAMIN: Personally asked you?

MR. GOLDBERG: Yes. I advised him in that conversation that we would require more information, and that when we had more information, we would indicate whether the

Authority could support such a proposal or not, and he said, "Fine."

ASSEMBLYMAN KAMIN: I understand from your testimony here today that the Authority, in order to participate and support it, worked with the refinancing and made the decision that that would have to be part of the package. In order to use the funds and to have the Authority be comfortable with that process, it was your view that the refinancing must take place?

MR. GOLDBERG: Well, they were separated out. The first decision, in my mind, was whether, as a matter of policy, the Authority would be supportive of such a proposal. In reviewing that, considering it at the Authority, and in my own personal judgment, I concluded that if the State, given the financial condition it was in, wished the Authority to use a portion of its funds for such a purpose, the acquisition of I-95, in my mind, could be in the best interest of the Authority, as well as the administration. Therefore, I supported it and, in fact, recommended it to the Authority generally.

That stood separate and apart from how you then carry out such a proposal. On implementing that proposal from nearly the outset, even though there was a lot of lawyering going on as to whether it could be done without refinancing, I very early on concluded that I would not be comfortable in proceeding with this kind of complex transaction unless we were backed up by a clean refinancing where I would not have to worry about somebody's interpretation of existing bond indentures as to whether what we were doing was legally permissible or not.

That view, which originated, I think probably, with me -- but I think it was a view that quickly became common -- was a view that was pursued by the administration, with the Legislature. We had hearings, and in those hearings when I

submitted statements to both the Senate and the Assembly, I think we made it very clear that if the State wanted the Authority to use funds for the I-95 acquisition, considering that proposal, they would have to understand that we would undertake a refinancing of the entire debt; that it was, in essence, something that included that as well.

ASSEMBLYMAN KAMIN: Let me back up for a minute, if I may, to a little bit of the history of the Turnpike Authority, which some of the senior members of this Committee will remember -- some of the debt issuance in the '80s.

There were some proceeds, as we understood it, of some \$800 million that was still around toward the end of the Kean administration. One of the proposals that was floated through our Transportation Committees and through the Appropriations Committees was to divert those funds and use them for things other than the Turnpike -- I think, the circle of transportation.

MR. GOLDBERG: Circle of mobility, I think.

ASSEMBLYMAN KAMIN: Mobility?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: There was a pool, as I understood it, of about \$800 million. Is that correct?

MR. GOLDBERG: No. There was a lot of talk. The \$800 million figure-- I don't know what that represents. I know that when I came in as Chairman, some of the first things I wanted to know were: Where do we stand with regard to the \$2 billion borrowing? What happened to the money? How much do we still have? How much have we spent?

We conducted a special audit. It was done by Coopers Lybrand. Copies of this were publicly distributed at the time it was completed. That study indicated that of the \$2 billion, approximately \$240-some million had actually been used for construction. There was another \$150 million that had been expended for activities in connection with the widening, but

\$70 million of that was preparing detailed plans -- which we have on a shelf back at the Authority -- for the widening of the western spur, which never proceeded because it was concluded that the environmental permits would never be issued. So a good deal of the money that the Authority had borrowed in 1985 had not been expended in connection with that program.

There was a program when we came into office; there was a capital program. It consisted primarily of the widening from Interchange 8A to 9, which was actively under construction and has since been completed. The funds which were not expended, but were reserved for the widening that we are now doing from Interchange 11 to 14 and the southern mixing bowl, that area -- that also had not been permitted when Mr. Watson and I came into office. There was an issue at the outset as to whether that part of the widening could be built or not. It was my position that since we had borrowed all these funds for widening, we were going to do everything we could to widen that section. Despite a lot of skepticism, we, in fact, were ultimately able to get that portion of the widening permitted, again, around February of 1991.

So as we went through 1990 to determine what money we had, we determined that of the funds allocated to the portion of the widening which we could still proceed with, and the funds that had already been expended one way or another, we had approximately \$400 million that, in our opinion, we could not use during the initial five-year period. I am not saying we couldn't have used the \$400 million for Turnpike activities at some point, but in terms of what we were going to be able to actually get approved and under construction, we had from the borrowing enough to cover the five-year program that we thought we could put out, and we had an additional \$400 million available.

ASSEMBLYMAN KAMIN: So you treated these two pots of money --- if I may characterize it this way -- the old money during the Kean administration as something that could not be applied to the purchase of the Turnpike section up to the bridge, but that you could, with the refinancing, legally buy that section of road out of the new money in the refinancing.

MR. GOLDBERG: It was my view that we would not use the borrowing money to buy I-95. I didn't want to have a lot of talk with the lawyers as to what I might do under one kind of interpretation or what I might not do. My view was we would not use the money if we were proceeding under the original indenture; that if there were going to be a requirement that the Authority expend \$400 million for I-95, we would want new covenants that were key to the use of Turnpike funds for that specific use, and we would be willing to proceed under those circumstances.

ASSEMBLYMAN KAMIN: Just two more questions on this point, and we will move on to other questions.

Were you aware of a proposal, as you took over the chairmanship in 1990, by the previous administration and previous Authority leadership to pay \$6 million a year for the maintenance of that stretch of road from the end of the Turnpike up to the George Washington Bridge?

MR. GOLDBERG: For the State to pay \$6 million a year?

ASSEMBLYMAN KAMIN: For the Turnpike Authority to pay the State \$6 million and maintain it.

MR. GOLDBERG: For I-95?

ASSEMBLYMAN KAMIN: Yes.

MR. GOLDBERG: There was no such agreement when I came into office.

ASSEMBLYMAN KAMIN: There was a proposal.

MR. GOLDBERG: No, I don't think there was.

ASSEMBLYMAN KAMIN: You are not aware--

MR. GOLDBERG: It was not a proposal that I recall. I don't know about -- before I got there whether there was discussion or not, but from the time I arrived at the Turnpike until we got into the actual acquisition of I-95 itself, there was no discussion and no agreement that Turnpike funds would be used for maintaining the portion of I-95 which was maintained by the Department of Transportation.

There was a requirement under the bond indentures enacted -- or adopted in 1984 through '87, that \$12 million of Turnpike funds be paid annually to the State of New Jersey and, in fact, the Authority has been paying to the State of New Jersey for its use as general revenues the amount of \$12 million since at least 1985, and we are, in fact, continuing to make those payments annually currently.

ASSEMBLYMAN KAMIN: The takeover of that section of the interstate highway makes us ineligible for Federal funds.

MR. GOLDBERG: That is not correct.

ASSEMBLYMAN KAMIN: That is not correct?

MR. GOLDBERG: That is not correct. We are eligible; so long as we do not put tolls on it, we are eligible, and the law that passed--

ASSEMBLYMAN KAMIN: So it is your view that we have not lost any Federal funding as a result of the takeover of that section?

MR. GOLDBERG: Oh, no, we have not lost-- As a matter of fact, as part of the agreement that was negotiated, because there is-- The section of I-95 that we took over is critical to the functioning of the Turnpike. It is the feed to the Turnpike. Regardless of whether we were using State funds or Federal funds, the level of maintenance that the State could allocate to that section was below the level of maintenance that the Authority expends on its road. As a result, there is, and there was, an accrued backlog of improvements required on

that stretch of I-95. Mr. Watson is probably better on the numbers than I, but it was estimated at something like \$150 million--

MR. WATSON: In deferred maintenance.

MR. GOLDBERG: In deferred maintenance. We went through an extended negotiation with the State -- the Authority did -- as to terms and conditions of our takeover of 95. One of the agreements we reached that I pursued vigorously was an agreement that the State would continue to provide from its Federal funds to us, the sum of -- what?

MR. WATSON: Six million.

MR. GOLDBERG: Six million dollars a year for a period of--

MR. WATSON: Five years.

MR. GOLDBERG: For a period of five years. So not only did we not lose -- we, the State -- any Federal money, but of the Federal funds that continue to flow to New Jersey, there is an agreement between the State and the Turnpike Authority that a portion of those funds will be made available to the Authority to help pay for the deferred maintenance that had occurred in that stretch.

Having said that, I will tell you that the Authority is putting in substantially more than that to bring I-95 up to what we consider Turnpike standards. In fact, I think anyone who compares the condition of that roadway before we took it over, which was in July of '92, and its condition now, it is in a vastly improved condition.

ASSEMBLYMAN KAMIN: Did we pay too much for the road, then?

MR. GOLDBERG: Who's "we"?

ASSEMBLYMAN KAMIN: Did the Turnpike Authority pay too much to the State? It wasn't worth \$400 million?

MR. GOLDBERG: No, I wouldn't say that. I think the Authority paid fair value. It was an issue that was talked

about at some length. It was a number that ultimately was agreed upon between the administration and the Authority. If anything, I think potentially it was an acquisition by the Authority that is of extremely good value. At the present time, of course, you cannot place any tolls on that stretch of road. So there is a policy decision, largely coming from the Legislature and the administration, that in raising funds to pay for the use of its facilities, the Authority should not impose any charge for the use of that stretch of the road. That is a policy that is in the law. So long as it stays in the law, it is a policy that must be adhered to.

But let me just point out to you that the Authority is carrying out a widening program from 11 to the southern mixing bowl. It is a distance somewhat equivalent to the stretch of I-95 that we bought for \$400 million. That widening will give the Turnpike additional capacity of a single lane in each direction. That one lane in each direction will cost over \$450 million. So, in my judgment, the Turnpike, in acquiring a facility that was an eight- or ten-lane facility for \$400 million, albeit it needed deferred maintenance attended to and so forth, was not an unrealistic price.

If you want to get back into the question of why buy something when you can't put tolls on it, those issues can be addressed, I guess, at some length, but it is going to be a very long hearing.

ASSEMBLYMAN KAMIN: No, I didn't want to get into that point. Who determined the value at \$400 million?

MR. GOLDBERG: It was discussed at length between the staffs of the Authority and the administration, plus consultants. They went through a series of calculations to justify what would be an appropriate number. I think that after all the numbers were laid out, there was a consensus that while you could not state with precision the exact value of that property, \$400 million was within the range of reason. As

I say, in my mind, very simplistically, if I am spending \$450 million to get an additional lane in each direction, I wasn't overextending the Authority in acquiring a critical feeder road for \$400 million.

ASSEMBLYMAN KAMIN: So the value of \$400 million-- Was that figure established and then the figures developed to support it, or vice versa?

MR. GOLDBERG: I think we started out -- the administration started out -- looking for something that had a value of at least \$400 million. So the \$400 million figure was a number that the administration, for its now purposes, you know, had fixed as an amount that it would seek from the Authority.

ASSEMBLYMAN KAMIN: That was from Treasurer Berman?

MR. GOLDBERG: It's hard to say. It was from the administration. I mean, there was a whole group there. I had no discussions at the outset with anyone who said, "We want \$400 million. How do we work it out?" or anything like that. I don't know who fixed the number, whether it was Berman, whether it was someone on his staff, whether it was someone--

ASSEMBLYMAN KAMIN: But it was fixed by the administration?

MR. GOLDBERG: It was fixed by the administration.

ASSEMBLYMAN KAMIN: All right.

Mr. Lance, you had a point of order or a question?

ASSEMBLYMAN LANCE: Yes, a question relating to something you said, Mr. Goldberg. The \$12 million that the Turnpike Authority contributes annually to the State Treasury, is that related to the law enforcement responsibilities on the Turnpike?

MR. GOLDBERG: No, no. Over the years, the State has made policy decisions as to what the Authority's obligation is to its parent. After all, the Authority is a creation of the State. It is controlled by the laws that the Legislature

passes and by the administration. During negotiations that predate me, going back at least into the '80s, a decision was made that the Authority ought to be helpful to the State, at least to the tune of \$12 million. That got codified in the trust indentures that were written back in '85. So it was now more than just, you know, a preference of the State. It became part of the cash flow obligations of the Authority.

That requirement of a payment of \$12 million a year is, again, now recodified in the bond indentures of the Authority. So in our documents which dictate what happens to the revenues of the Authority, very early on in the cash flow sequence, we are obligated to pay over to the State annually \$12 million. The \$12 million is a payment to the State. It has nothing to do with our expenses as far as the State Police are concerned. We expend annually something like \$18 million for the cost of maintaining that, and periodically we get calculations from the State that suggest that we should pay more.

So we end up discussing that, and we tend to end up paying more. We have a new administration coming in and, you know, if the new administration would be content with less from the Authority, we could probably recalculate some of these amounts. My experience has been that no administration comes in and wants less from the Authority. Now this is a new world, and one never knows.

ASSEMBLYMAN LANCE: I am not suggesting that. I just wanted to know whether the \$12 million was related to State Police or law enforcement. I recognize that it wasn't begun in 1990, Mr. Goldberg. It was begun sometime in the middle 1980s, or perhaps--

MR. GOLDBERG: It goes into the General Treasury. It is money that ultimately the Legislature, in its budget process, utilizes as part of its revenues.

ASSEMBLYMAN KAMIN: I might add that the members of this Committee agreed with your analysis of why you could not

use the money from the '84-'85 refinancing. You could not use those dollars because of the bond covenants on the \$12 million payment to the State. To use those dollars would have been a violation of those bond covenants, and I agree with you that the only way you could have done the \$400 million was to refinance.

MR. GOLDBERG: I never really concluded-- I didn't come to the lawyers' answer. My view was that this was not the kind of procedure that you want to do by a narrow interpretation that clearly would be, at the least, arguable. I mean, your view was that it couldn't be done. I certainly didn't disagree with it, but my decision was not driven by a lawyer review. My decision was driven by a policy view that that wasn't the right way to do it. The right way to do it was, if you want to use those moneys for a purpose totally different from what they were borrowed for, then the right way to do it was to refinance, and I didn't care what the lawyers said. I mean, if the lawyers had come back to me with an opinion that said, "You've got the right to do it," I still would have insisted on the refinancing. It was as simple as that.

ASSEMBLYMAN KAMIN: Mr. Lance?

ASSEMBLYMAN LANCE: To follow that up, Mr. Goldberg, under the existing covenants, the new covenants, would it be possible for there to be an additional purchase of a road, or does the covenant apply exclusively to what occurred up at I-95?

MR. GOLDBERG: The covenants have been restructured. I probably can't give you the definitive answer, but I can give you something that I hope is reasonably accurate. There is a cash flow sequence, and the funds go through a series of what sometimes are referred to as "pots." In other words, when money comes into the Authority, the first thing we have to use that money for is our operating costs. That comes ahead of everybody. Secondly, we have to pay debt service, and that

comes next. Third, we have to pay the State of New Jersey 12 million bucks. You've got a very high, you know, lien on our money for that.

We then go into certain maintenance -- reserve maintenance accounts that ensure that the Authority has funds for those things that will maintain the integrity of the Authority itself. At some point you reach a point, if things are good, where you have dollars that are free. Those dollars-- As I recall the indentures generally, there is some flexibility as to what happens to them. At one point in the negotiations with the State, the State, in effect, wanted that money to go, you know, pretty freely-- They wanted a pretty free hand with what happened to that money.

My position was that I was not willing to support that. Where we ended up was with a situation where if you have surplus funds, those funds, in essence, can be diverted to either new projects or to other activities, but only with the active involvement of the Authority itself. Now, that isn't to say that it couldn't happen, but what it is to say is that the Authority at least is going to have some say in what happens to funds.

I would also add that even though in theory funds in that category may be available for various uses, in the short run, certainly over the next, you know, short span of years, it is not likely that there will be any significant amount of money in there. Now what could come up is that if we had borrowed, as we did in '85, capital funds and, for some reason or another, we couldn't use them for the reasons we had contemplated, then those moneys would be freed up. But, unlike the '85 borrowing, where they borrowed at a point before they were really sure of what they could carry out or not, when we refinanced in '91-'92, we knew pretty well what we were going to be able to do. We have carried out the widening project. We

will have completely contracted that project out, probably by March of this year.

So the great bulk of the capital funds we have will, in fact, be spent for the purposes that we borrowed them for. We are not likely, therefore, to have big sums of money all of a sudden freed up because we will not be able to carry out the program. In fact, one of the major policy issues that is going to have to be dealt with at the Authority with the incoming administration over '94-'95, will be, you know, the decision as to whether the Authority proceeds with what I will call the "Tier 2 Project." We are studying, but we are not expending large amounts of money to design, projects that people have urged us to look at: Allied Junction, Route 92, the connection between the Turnpike Authority and the Expressway, being the three major ones. And there will be an issue early on as to whether those projects should be proceeded with and, if so, where are the funds going to come from?

ASSEMBLYMAN KAMIN: Funny how those projects follow a pot of money.

Mr. Lance?

ASSEMBLYMAN LANCE: Yes, through the Chair: Mr. Goldberg, I gather that no other portion of road has ever been sold to the Authority by the State before the I-95 situation. Is that accurate?

MR. GOLDBERG: I think that's accurate. The Highway Authority had a slightly different situation, and their history may have been a little different because when they were built, they were built-- The Highway Authority took over existing sections of what was initially going to be a State highway project. But the Turnpike, I don't believe, ever purchased anything before.

ASSEMBLYMAN LANCE: Has any other portion of road been given to the Authority by the State?

MR. WATSON: No.

MR. GOLDBERG: I don't think so.

ASSEMBLYMAN LANCE: Thank you.

ASSEMBLYMAN KAMIN: Thank you, Mr. Lance.

Assemblyman Watson, to be followed by Mr. Bagger.

ASSEMBLYMAN WATSON: Thank you, Mr. Chairman. Mr. Chairman, I would like to address my questions to the Executive Director, Mr. Watson -- and through you, Mr. Chairman.

Mr. Watson, at a previous hearing before this Committee, a Mr. William Cobbs made some harsh statements about the Turnpike's refinancing, to which you have responded here today in a written presentation. I would just like to make sure that I understand all that you have presented here.

Mr. Cobbs claimed that his firm is ranked as the largest financial advisory firm, yet you claim he was not at the time of this refinancing. What was the firm's ranking at the time of your refinancing transaction?

MR. WATSON: Assemblyman Watson, we were looking at-- The time frame when we were looking for financial advisers was early in the spring of 1991. When you look at a financial advisory's history to get a track record, you normally look at the Securities Data information, which was available to us. That was in 1989 and 1990. At that time, Mr. Cobbs' firm was ranked eighth in the nation for financial advisory services in general. But what we were looking for was someone with expertise in transportation. Their strengths seemed to be in wastewater management -- in that area. They were not ranked in the top 10 at all in transportation financing, which was our emphasis.

We also looked at 1990, because we did have that information available. Again, they were not ranked in transportation expertise at all in the top 10. I don't know what Mr. Cobbs' reference was.

ASSEMBLYMAN WATSON: Mr. Watson -- and through you, Mr. Chairman -- I just want to remind the Committee that this ranking is based solely on volume of business, and does not include any of the performance measures. Is that correct?

MR. WATSON: That is my understanding on what Securities Data puts out, yes.

ASSEMBLYMAN WATSON: Mr. Cobbs also claimed he was only given 24 hours notice to respond to your RFP at a meeting that he attended here, but you seem to be indicating that his watch must have stopped. Could you tell me about the time he said had elapsed before?

MR. WATSON: The Authority began looking for a financial adviser in early March, and we developed a Request For Proposal and sent it to 12 firms, including Mr. Cobbs' Public Resources Advisory Group. We sent that out on March 7, 1991. We gave each of the 12 firms one week to respond. I mean, that is normal. It may have been quick, but it is acceptable in the industry.

We got a letter from Mr. Cobbs' firm on March 15 saying that they would not propose. We got letters from others who said the same thing. We subsequently went through the process and selected another firm, Chase Securities. Chase Securities was selected as our financial adviser on March 28, and we were proceeding to go along with Chase Securities when they went through a reorganization. They notified us that they were getting out of the business, and the Authority had to again seek a new financial adviser.

Since a little time had passed, we went back to the original 12 proposers. We did not change the RFP at all; it was the same RFP. We asked if they were now interested in becoming a financial adviser, since Chase Securities had dropped out of the running. The Public Resources Advisory Group was one of the firms we went back to, along with Lazard Freres and Lamont Security Services, which is also a very top

firm. Each of them said they were interested. Now the response to the RFP is two months from the date it was issued. So Lazard Freres, a public resource advisory group in securities management, whom we interviewed on March 3, had the RFP for two months. It only takes a very short time to prepare a RFP.

The one day could have been the fact that we called the three firms the day before to set up the interview. That may be Mr. Cobbs' reference, but he, along with all the proposers, had two months to prepare their RFPs.

ASSEMBLYMAN WATSON: Through you, Mr. Chairman, in other words, this firm was treated equally as all the others were treated?

MR. WATSON: Just like all the other firms, and handled the same way through the interview process.

ASSEMBLYMAN WATSON: The heart of the refinancing was the Authority's ability to save money. Lazard Freres received \$2.27 million in fees. Mr. Cobbs claimed, before this Committee, that he could have done the work for \$200,000 and \$300,000 -- or \$300,000.

In your opinion, could Mr. Cobbs' firm have done the same work as Lazard Freres did, for the smaller amount?

MR. WATSON: In my opinion, no. Two or three hundred thousand dollars translates into about 15 cents per \$1000 bond. The average running rate for a \$1000 per bond issue that we have been able to discover runs around \$1.00, \$1.25, \$1.50. Two or three hundred thousand dollars translates into 15 cents. The firm quickly would go broke.

I think where the difference comes is in understanding the scope of what we were asking them to do. We were asking them to be a financial adviser, not run the underwriting process, which had not even been determined that we would do in March. Each of the firms were given a clear understanding that the amount of money the Authority was willing to pay for

routine financial advisory services -- which is primarily running computer runs to make calculations on various scenarios as to what would be your financial condition if you did this or that-- You are buying basically computer time and expertise in that area, and also some advice on various scenarios of refinancing. Fifty thousand dollars was our cap, and all firms that we interviewed understood that. Mr. Cobbs' firm understood it. His proposal clearly indicated it. Where the \$200,000 or \$300,000 comes from, I don't know. Mr. Cobbs indicated he called someone at the Turnpike by telephone. We checked every record that we have at the Turnpike. No such call was ever received. If he had made the call, I can tell you this: We would not have accepted it. We do not accept proposals on the telephone. I don't know any reputable organization that does. We accept all proposals in writing. So if he made the call and said what he said, we never got it. It was meaningless.

So the \$200,000 or \$300,000 we cannot put any credibility on.

ASSEMBLYMAN WATSON: In my recollection, when Mr. Cobbs was here-- Of course, our good Assemblyman, Mr. Lance -- and I have high respect for Mr. Lance -- stated at that particular time that this company was one of the finest in the country and had a very high rating. I don't recall, and I cannot quote verbatim, Mr. Lance, but I got out of the conversation that they were very high in their rating here in the country with regard to this refinancing situation. When Mr. Cobbs was making his statement, in the beginning he said, I think, that this could have been done for \$300,000 or \$400,000, and then later on he began to read further down, and said, "No, I must change that. Maybe we could have done it for \$200,000 or \$300,000."

It seems as though he did not understand fully what he was giving as an answer to what we had proposed in your proposal.

MR. WATSON: It appears so; I am not sure. They are a good firm. I don't want to give you the impression that they are not a good firm. They are a good firm. We would not have sent them a proposal if they hadn't been a good firm. They were one of the top firms in the country at that time. Their expertise was not in transportation. That is my point. That is what we were looking for. The RFP was very clear on what we were looking for. Our dollar value for financial advisory services was very clear.

In fact, for the first year of Lazard's appointment as financial adviser -- since we selected them in May, they only worked part of a year -- it was \$30,000. That is what we would have paid, basically, any financial adviser for the type of service we were asking them to do. Keeping in mind, as Chairman Goldberg said, the Authority didn't make a decision -- we're talking March '91-- The Authority didn't make a decision to go on with the financing until the Legislature required the I-95 purchase, and the Authority adopted a plan of finance in July of '91. So there was nothing available on which anyone could have made an estimate of what it would cost to do a major restructuring and to manage it. It simply wasn't available.

ASSEMBLYMAN KAMIN: Director Watson, Chase Securities was an expert in transportation?

MR. WATSON: Yes. Chase Securities was a well-known firm, and they had some transportation expertise, along with all of the other firms -- some of the other firms we looked at.

ASSEMBLYMAN KAMIN: Assemblyman Watson?

ASSEMBLYMAN WATSON: Through you, Mr. Chairman, the reason for my line of questioning is that I want to be fair also to Mr. Cobbs. I think now, and it is our understanding, that he didn't fully understand what he was giving his figures on and, therefore, he was way out of line.

ASSEMBLYMAN KAMIN: Mr. Kavanaugh, on a point here?

MR. WATSON: I don't know what he understood. I can tell you that my response is basically what I have said.

ASSEMBLYMAN KAVANAUGH: Mr. Watson -- through you, Mr. Chairman -- regarding Cobbs and experience, looking at the RFP that you received, they state Turnpike experience; they state State experience. They worked the New Hampshire Turnpike system, the Oklahoma Turnpike Authority, the State of Connecticut, Alabama, and also the New Jersey Highway Authority from '84 and '86 financing.

I think maybe the numbers and the questions that are being asked, or were prepared to be asked either by Mr. Watson or other members, are somewhat confusing. Now, this RFP which I have before me-- This is an RFP, is that correct?

MR. WATSON: That is correct. That is the one they submitted.

ASSEMBLYMAN KAVANAUGH: Now, they originally said no.

MR. WATSON: They originally did, yes.

ASSEMBLYMAN KAVANAUGH: Then after Chase pulled out as the financial adviser, you called and asked for a response within two days. Is that correct?

MR. WATSON: Yes. We asked would they be interested in an interview, not only them, but two others.

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman, along with an RFP?

MR. WATSON: Yes.

ASSEMBLYMAN KAVANAUGH: It seems to me, not being an expert in this area, that it would be somewhat enlightening to the members of the Committee that you say this could be put together in two days, when initially they said they weren't going to give an RFP, then coming and asking for it. Yet that challenge was given to them, and that challenge was met. Is that correct?

MR. WATSON: The challenge was met by them and by two other firms, keeping in mind that the RFP had not changed.

ASSEMBLYMAN KAVANAUGH: But they hadn't responded to the original, or prepared an RFP originally.

Going back to the experience, when we were talking about the experience of these companies, I think in all fairness we have to look and have to read in here -- and I don't want to have to read all of this into the record-- I do want to say that this could be made a part of the record, the former proposal submitted to the Turnpike Authority on May 2, because they have the: State of Alabama, Connecticut, New Hampshire, Montana, New York, Oklahoma, Commonwealth of Virginia, along with the Alabama Highway Authority, the New Jersey Highway Authority, the New Hampshire Turnpike System, and the Oklahoma System. So they certainly could say that they are experts in this area.

I think, just to make sure that the record is clear and that we are not going to be castigating individuals, we should look at the record and also the time schedule that is going about. I personally--

ASSEMBLYMAN WATSON: Mr. Chairman, I--

ASSEMBLYMAN KAVANAUGH: Mr. Watson--

ASSEMBLYMAN WATSON: Mr. Kavanaugh, I thought you had a point of order. I didn't think that you were going to have your own line of questioning now. I think it is my turn to question.

ASSEMBLYMAN KAVANAUGH: I am not questioning.

ASSEMBLYMAN WATSON: Do you have a point of order?

ASSEMBLYMAN KAVANAUGH: Yes. My point of order is that the purpose here-- I think that the concern we have as taxpayers and as legislators is: What happened during this bond transaction? Where did all this come from? I mean, if we are not castigating the Chairman, the Director-- I think what we are looking for, and what the public wants to know, is: Did somebody get rich on this deal? That is what I am concerned about.

ASSEMBLYMAN KAMIN: Back to you, Assemblyman Watson.

ASSEMBLYMAN WATSON: Well, Mr. Chairman, I think the information that was given by the Executive Director was the kind of information that was given to him through Securities Data. It is not your--

MR. WATSON: That is correct.

ASSEMBLYMAN WATSON: All right. I want to say that for the record.

Through you, Mr. Chairman, Mr. Watson, this is not the Turnpike's first refinancing, is it?

MR. WATSON: No, it is not.

ASSEMBLYMAN WATSON: When was the last refinancing?

MR. WATSON: Mr. Goldberg's statement pointed out that it was in the '84-'87 period.

ASSEMBLYMAN WATSON: What were the total fees paid out connected to that refinancing in '84-'87?

MR. WATSON: If you will refer to the Chairman's statement, there is a chart following page 2 that lists the dollar values as part of the financing of '84-'87. Do you see that chart, Assemblyman?

ASSEMBLYMAN WATSON: Yes.

MR. WATSON: Well, in 1984-'87, the underwriting remarketing fees were \$57 million. The fee paid to the financial adviser -- which was Smith Barney -- for managing that underwriting, and also as financial adviser, as we understood it, was \$4.1 million.

ASSEMBLYMAN WATSON: All right. There was a \$57 million underwriting fee.

MR. WATSON: For underwriters.

ASSEMBLYMAN WATSON: And the total was \$66,897,000?

MR. WATSON: That is what our records show.

ASSEMBLYMAN WATSON: That is your total. Now, the one who got the management fees was Smith Barney.

MR. WATSON: At the time, Smith Barney was the Authority's financial adviser and also managed the underwriting process.

ASSEMBLYMAN WATSON: Tell me, in your most recent refinancing, what was the total cost of the refinancing?

MR. WATSON: As the chart shows, the total cost was \$26 million. As the Chairman indicated, that was one of the objectives of this refinancing that the Commissioners had; to keep the refinancing costs, based on the history of '84-'87, somewhere in the \$20 million to \$26 million ballpark, and that is what we did.

ASSEMBLYMAN WATSON: Can you give me some kind -- through you, Mr. Chairman -- of comparison? Why was one \$66 million and your most recent one \$26 million? What was the difference there, or what made the difference?

MR. WATSON: Well, you see, the differences are in the underwriting and the financial advisory fees, and primarily in the printing fees. The process itself was a closed process. We examined it very carefully. It wasn't an open process. It was limited to very few underwriters. I think, looking at the history of that, that is why the Commissioners came up with the objectives they developed for this recent financing; that it was going to be open; that it was going to include every underwriter who was qualified to perform as an underwriter. I think that is why we received 49 proposals and all 49 were in the underwriting process.

I think it was a combination of a closed process versus an open process and the limited participation of the underwriting community.

ASSEMBLYMAN WATSON: Through you, Mr. Chairman, didn't one firm make about \$30 million overall in the '84-'87 refinancing?

MR. WATSON: Well, the \$57 million was divided up among a very few firms. I can't say for certain that one did

that, but there were very few firms which divided up the \$57 million. -

ASSEMBLYMAN WATSON: Didn't Smith Barney make about \$30 million altogether on this?

MR. WATSON: I don't recall the exact number, but it is somewhere in that ballpark.

ASSEMBLYMAN KAMIN: Excuse me. Mr. Watson, in your opinion, the market had nothing to do with the margins?

MR. GOLDBERG: Oh, no. These costs are not market-driven costs.

ASSEMBLYMAN KAMIN: Is that right?

MR. GOLDBERG: That's right. Let me put it this way: We did not undertake to do an investigation of the '84-'87 costs. What we undertook was to examine what occurred and understand the costs. To determine the reason for the amount that the Authority paid back in '84-'87 would have required a great deal of time and energy that we did not commit to this. Beyond this, it was my judgment, shared in by the discussions I had with the Treasurer's Office, that the Authority, when it did the '84-'87 financing, vastly overpaid for the activities that occurred.

The question then was, you know, what would be an appropriate level of expense, and judgmentally, after discussions particularly within Treasury with the people they had who worked with the markets on a regular basis -- and the Authority does not work with the markets on a regular basis -- it was decided that the financing that was done in '84-'87 could have been done for far less. So our endeavor, once we understood that we were likely to have to replicate the process, in broad terms, was to make sure that we reduced those costs as best we could.

In doing that -- and I do not hold myself out as an expert -- there is always a concern, because if all the interest is in making sure that these costs are low,

sophisticated underwriters have ways of making money in other ways. For example, the pricing of the bonds can be adjusted in a way where they can more than make up whatever they give away in these costs. So the objective was, on one hand, to hold the real costs of issuance down, at the same time not ending up finding that those costs were being shifted into an increased price that, in effect, just gave the same kind of payoff to the underwriting group, but in a different fashion.

In pursuing this objective, the only mechanism that we came up with-- You know, maybe someone can come up with a better mechanism. I don't think I am going to have to go through another one of these refinancings, but someone else someday undoubtedly will have to. The only mechanism that we came up with that seemed to be likely to be effective was to utilize our financial adviser, and insist that the financial adviser extend every effort to produce an end result that combined to reduce financing costs, with a sale of the product -- and we had five sales, I guess -- at prices that in the market were real market prices. That was, in very simplistic terms, the charge that we gave to Lazard. Lazard understood at the outset that there was no way in which we were going to accept costs anything near what the Authority had incurred in the earlier financing.

My directions, repeatedly to Lazard, were that their fee would ride on, you know, the end product. If we had a successful underwriting, we would deal with them fairly. We would compensate them in recognition of the results achieved. But if we didn't have a successful financing in terms of the market price of the bonds and in terms of the underwriting, they should not expect their compensation to be, you know, anything beyond a certain level.

ASSEMBLYMAN KAMIN: I think we will get right into that.

Mr. Bagger?

ASSEMBLYMAN WATSON: I have not finished yet.

ASSEMBLYMAN KAMIN: Mr. Watson, respectfully, would you mind suspending questions at this point for Mr. Bagger?

ASSEMBLYMAN WATSON: Fine.

ASSEMBLYMAN KAMIN: Then I will come right back to you.

ASSEMBLYMAN WATSON: Okay.

ASSEMBLYMAN KAMIN: Thank you.

Mr. Bagger?

ASSEMBLYMAN R. SMITH: May I ask what the basis is for stopping the questioning by Assemblyman Watson?

ASSEMBLYMAN KAMIN: It is a respectful request from the Chairman because the one particular member has a time constraint and would like to ask a few questions prior to his departure. Then I will come right back to Assemblyman Watson.

I appreciate the courtesy. Thank you, Assemblyman Watson.

Mr. Bagger?

ASSEMBLYMAN BAGGER: I appreciate that, Mr. Chairman, but since I have to leave, Assemblyman Lance will ask my questions. I am happy to yield to the Minority Budget Officer.

ASSEMBLYMAN R. SMITH: Is Assemblyman Lance similarly under a scheduling conflict? (no response) Then allow Assemblyman Watson to finish his questions.

ASSEMBLYMAN KAVANAUGH: He clearly stated, Mr. Smith, that he is yielding to the Minority Budget Officer.

ASSEMBLYMAN LANCE: I have just been deputized, since Richard has to leave, Bob.

ASSEMBLYMAN R. SMITH: Very good.

ASSEMBLYMAN KAMIN: Go ahead, Assemblyman Watson.

ASSEMBLYMAN WATSON: Thank you.

Mr. Watson, I just want to say that it is my feeling that even if the market was, at that particular time, a part of what we are dealing with here today as far as the questions are

concerned, I don't feel -- I don't feel -- that it would have meant an over 100 percent increase in the total of this deal that was made in '84-'87.

MR. WATSON: As the Chairman said, Assemblyman Watson, we did not go into that thorough an investigation. These are the numbers as they occurred. It appeared to us that it was excessive. The Commissioners did not want to have that experience with the '91-'92 bonds.

ASSEMBLYMAN WATSON: Through you, Mr. Chairman--

ASSEMBLYMAN KAVANAUGH: Mr. Chairman, just one point, and I hate to keep interrupting my dear friend, Assemblyman Watson. But I think it is clear, Mr. Watson-- We'll have to have number one and number two -- Assemblyman Watson and Mr. Watson.

Mr. Executive Director, in 1985, isn't it true that the resetting of interest rates until these bonds were converted to fixed rate bonds took a lot of energy, time, and effort? I mean, you weren't there, but it was continuous remarketing work occurring during that entire period. Also, the bond market was significantly changed from that period to now. There is such competition, as you mentioned, with the numbers that are out there. So testimony in prior hearings, that we have had from individuals that support your position-- They have all said that the comparison spreads are not appropriate. The analogy that somebody got a lot more then than now is not something that holds water.

ASSEMBLYMAN KAMIN: Back to you, Assemblyman Watson.

ASSEMBLYMAN WATSON: I think they may wish to respond here.

ASSEMBLYMAN KAMIN: Would you care to respond, Mr. Goldberg?

MR. GOLDBERG: I find it difficult to believe that anyone would seriously try to defend the level of expenditures that the Authority incurred in '84-'87. I am not about to

argue what would have been the proper level, because that would take more time and energy than has been devoted to this issue, certainly, by me.

But in my discussions with people who are familiar with that financing, I think there was a general recognition in the street that this was a very generous underwriting, where everyone who engaged in it did extremely well. Anyone who wants to argue that the Authority was getting a reasonable value at a \$67 million price, of course, is free to do so. But I will tell you, as Chairman, that when I looked at those numbers, regardless of how you want to argue market conditions, complexity of the deal, or whatever, there was no way that costs at that level were going to be acceptable to me. This is where we proceeded from.

Now, obviously, since we are sitting here talking about how much we spent, people can argue whether a much lesser amount -- \$26 million -- was more than it would have to be. I don't know. I don't know how anyone can effectively, you know, determine what the bottom-line price is in an area which essentially is a subjective area. There aren't, to my knowledge, precise pricing guidelines which give you absolute certainty. I do know that in discussing it, particularly within the administration, that we tried to make a judgment as to what would be a realistic level of costs, and we struck, you know, what we thought were attainable objectives. We measured them against what we knew we had spent in '84-'87, and we looked for very substantial reductions from those amounts. We ended up pretty well achieving those objectives.

I took a great deal of satisfaction out of the fact that we could do essentially the same transaction, certainly in order of magnitude, and certainly in order of complexity, for \$40 million less. It was our belief that we had this underwriting come in at a realistic level. What was also important to us is what I alluded to before; that is, when the

bonds were marketed and they were priced, we were able to sell our issue at a price that was as good or better than any comparable issues that were being marketed at the same time. So we looked at, and we were satisfied that we achieved not only a substantial reduction in the financing costs, but that we achieved a pricing result which was a true market price. Therefore, in our view, we had carried out the refinancing in an effective manner.

In addition to that, even though there was great skepticism whether this refinancing could actually reduce debt service costs, we managed to reduce the cost on the existing debt by about \$260 million. Coupled together, we considered that an excellent result. If somebody wants to say, "Well, they could have done better," hopefully those people will have an opportunity someday to show it. But we did the best we could, and we thought we did an effective job.

ASSEMBLYMAN KAMIN: You have characterized -- I think Mr. Smith wanted to hop in on that softball that was served up -- characterized the '84-'87 issue as very generous, and somehow the current issue as being other than very generous. One thing is different, however; that is, that the current one is the one that is under investigation.

Mr. Smith?

ASSEMBLYMAN R. SMITH: Just two quick questions in here. It would appear that these are comparably sized bond issues, yet--

MR. GOLDBERG: They are.

ASSEMBLYMAN R. SMITH: --the one in '84-'87 cost the State of New Jersey taxpayers, through the Turnpike Authority, \$40 million more -- \$26 million versus \$67 million. I don't think you can necessarily say there is a cause and effect relationship, but when we have reviewed the reports of the Election Law Enforcement Commission, from 1984 through 1989, the Republican State Committee received \$1,448,057.26 from bond

underwriters and bond counsel. Now, I don't think that you can deal with whether there is a cause and effect relationship, but if you are a member of the public, don't you have to view the transaction with suspicion because at a time you were paying very pricey costs for these professional services, these campaign contributions of such enormity were coming into the party-in-control's coffers.

I mean, doesn't that look bad? Isn't that really-- How can we solve that problem?

MR. GOLDBERG: Well, look, I think the State is always going to be confronted with some question so long as people who are rendering services to public entities are also actively involved in the political process. I think that question is always going to be there. So there are proposals around on the Federal level, perhaps on the State level, which would either limit or prohibit the extent to which members of the underwriting community get involved in the political process.

There are important judgments to be made on those issues, but what I would like to emphasize is that we at the Authority who were, in effect, directed as part of our public responsibilities to carry out a refinancing, were not in a position to, you know, restructure the rules of political involvement. We had to carry out our financing regardless of what was permissible or considered acceptable in terms of political involvement. I guess that was certainly true back in '84-'87.

I don't have any information that would indicate that in '84-'87 decisions were made on the basis of the political activity of the underwriting community. I don't have any information.

ASSEMBLYMAN R. SMITH: Right.

MR. GOLDBERG: That isn't to say it didn't happen; that isn't to say it did happen. It was not an issue that I focused on. By the same token, I don't have any information

that would indicate that any of the decisions that were made in the '91-'92 refinancing were affected by virtue of the political activity of any members of the underwriting community, or any of the underwriters who worked with the Authority or performed services for the Authority. I can tell this Committee that the judgments that the Authority made were made without regard to those issues.

Having said that, you know, the reality is that the underwriting community traditionally in New Jersey has been extremely active. It is there. I think there is a public reaction that questions the desirability of that practice. I think that is something that the appropriate bodies, including the Legislature, could well address. From the standpoint of somebody who had the kind of responsibility I had as Chairman, life would probably be simpler if the issue of political activity of the people you are doing business with were eliminated. If it weren't there, it would be something less that you would have to worry about or deal with, or at least be concerned about in terms of misimpressions anyone would have.

But we were not given that option. Our option was to carry out a refinancing at a time when it was considered, I guess, permissible for underwriters to do whatever they do. We did not get involved in that process. I personally did not do any campaign fund-raising from anybody who did business with the Turnpike during the period of time that we were dealing with the financing. As a matter of policy, I have tended to minimize any campaign activities that I have when I hold a position like that, because I don't know any way in which you can really avoid the misimpressions that can inevitably happen if you are heavily involved in campaign fund-raising. So I don't do it.

ASSEMBLYMAN R. SMITH: Mr. Chairman, Mr. Mulcahy, at the last hearing-- We asked him his opinion on that issue. It was his opinion that in light of the fact that the Legislature

already regulates and prohibits campaign contributions from utilities, banks, insurance companies, and the casino industry, that if we so chose to put the same prohibition on underwriters and bond counsels, we would probably be doing a very good service to the State of New Jersey; that in effect, the decisions of these independent authorities to select bond counsels or underwriters would then not be challengable, at least in the minds of the public, because there is no quid pro quo. You are selecting the person who in your judgment is best able to provide those professional services to the Authority.

Do you generally concur with Mr. Mulcahy's impression on that issue?

MR. GOLDBERG: Yes, I would generally concur. Look, I think the members of this Committee, since you all run for office, understand this problem probably better than I, but the reality is that political contributions are a symptom of what you might characterize as a much bigger disease. The disease is that in order to run for office in this day and age, it requires a lot of money, and that money has to be raised from somebody. We have not yet figured out an effective way to deal with the issue of: How do you finance campaigns?

To the extent that you start to eliminate areas where you can solicit funds, that is beneficial, particularly in terms of avoiding misimpressions about undue influence and the like. But it isn't going to cure the dilemma of how in the world people who run for office are going to have sufficient funds to properly present themselves.

I consider these highly sophisticated questions that I do not have quick, easy answers for.

ASSEMBLYMAN KAMIN: I can give you a very easy answer to that question. The only thing that counts in the game of disclosure is disclosure. If the public understands where the fees -- where the contributions are coming from in full disclosure, the public then can make the judgments. The

problem is the process which we are investigating today. It is the process that has not been disclosed.

MR. GOLDBERG: Well, I am not sure what you mean, that the "process has not been disclosed." I can tell you that, in contrast to what happened in '84-'87, everything we did was public. There was disclosure at the time we did it. There was a full awareness as to who was receiving assignments. There was full disclosure as to how much people were receiving for whatever services they performed. So in terms of the Authority disclosing what it was doing, I think we disclosed fully.

In terms of disclosure of political contributions, the laws now require disclosure, and the skepticism and the distrust of the system, if anything, is growing.

ASSEMBLYMAN R. SMITH: It is rampant.

MR. GOLDBERG: So I am not really the appropriate person to debate that issue of what is the right way to control political contributions. I don't hold myself out as an expert in that area. But as an observer I will tell you, I do not think the public feels that simply requiring public disclosure goes far enough. If you want to, you know, take issue with that, all right, but I don't think you are going to find that the public is satisfied simply with disclosing how much people pay, or contribute to political activities. They are going to expect more.

ASSEMBLYMAN KAMIN: Well, in looking at how the decisions were made, that is part of the process.

Mr. Smith?

ASSEMBLYMAN R. SMITH: Mr. Chairman, just so I understand the statement you made, was the statement you made a minute ago your personal opinion; that the only thing that is required with regard to the four hearings we have had here and the possible linkage of campaign contributions with the selection of bond counsel and underwriters is merely the disclosure of who makes contributions?

ASSEMBLYMAN KAMIN: No, no. I was responding to Mr. Goldberg's rhetorical question about how do we find a way to finance campaigns. Where is the money going to come from? And regardless of where the money comes from -- and I would hope it is not publicly financed through taxpayer dollars -- the most important thing is the disclosure aspect.

ASSEMBLYMAN R. SMITH: As I understand it, this is the last hearing. Are we going to do anything about campaign contributions from bond counsels and bond underwriters? Are we, as a Committee, going to do anything?

ASSEMBLYMAN KAMIN: That is a great rhetorical question.

Mr. Watson, back to you.

ASSEMBLYMAN WATSON: Thank you, Mr. Chairman.

ASSEMBLYMAN KAMIN: Well, most of that legislation is not in our Committee, so--

ASSEMBLYMAN R. SMITH: Well, it seems like we have had four hearings--

ASSEMBLYMAN KAMIN: Do you have more questions, Assemblyman Watson, or is it--

ASSEMBLYMAN WATSON: Yes, I do have just a few here.

ASSEMBLYMAN KAMIN: Okay.

ASSEMBLYMAN WATSON: You know, Mr. Chairman, putting everyone's political job and speculation aside, so far what we can see and understand here today is that the last refinancing that was done, was done at least by half of what it cost to refinance the '84-'87. That is a clear understanding -- less than half. So over the span of the refinancing that we just-- What is the savings on that today over the life of the bonds?

MR. WATSON: Over the life of the bonds?

ASSEMBLYMAN WATSON: Yes.

MR. WATSON: It is approximately \$260 million in reduced debt service over the life of the bonds.

ASSEMBLYMAN KAMIN: What was the -- if I may interrupt you, Assemblyman Watson -- amount of debt prior to the refinancing?

MR. GOLDBERG: Prior to the refinancing, it was \$2.5 billion. It is now approximately \$2.9 billion.

ASSEMBLYMAN KAMIN: So we went up \$400 million?

MR. GOLDBERG: Approximately.

ASSEMBLYMAN KAMIN: Interesting. That is a great number -- the \$400 million difference.

Go ahead, Assemblyman Watson.

ASSEMBLYMAN WATSON: Through you, Mr. Chairman, Mr. Watson, do you think that Lazard Freres, or any other firm involved in this transaction, received excessive fees to which their work would not have entitled them?

MR. WATSON: What Lazard Freres received was a negotiated fee that represented the accomplishment of the objectives that the Commissioners had laid out for them to accomplish, in which it was made very clear that their performance was going to be judged upon that accomplishment. They kept us at our A bond rating, which was something the Commissioners wanted to obtain; they saved \$260 million over the life of the bonds, which is something we wanted to accomplish; and they kept the financing costs \$40 million less than the previous financing, all major objectives that the Commissioners were very interested in achieving. The negotiated fee reflects that satisfactory performance.

ASSEMBLYMAN WATSON: Thank you.

Through you, Mr. Chairman, do you have any regrets with regard to the last refinancing, from your perspective?

MR. WATSON: Not at all. We were given a major responsibility to accomplish a major task. We did it within a very short time frame. The time frame was dictated, in my judgment, by the sale of Interstate 95 and the requirement that it be done within -- before the end of the State fiscal year. That time constraint was met. It was a complicated refinancing and, in my judgment, it was done very well and in the public's interest.

ASSEMBLYMAN WATSON: Thank you.

Mr. Chairman?

ASSEMBLYMAN KAMIN: Yes?

ASSEMBLYMAN WATSON: What we have so far gathered here, as far as our information is concerned, is that the last refinancing was less than \$40 million from the financing of '84-'87. Just as a statement, Mr. Chairman, it seems as though, from my perspective, that we have probably chosen the wrong investigation here, as far as the refinancing is concerned. Maybe we should have taken a look at the '84-'87. We probably would have gotten more out of that than what we are getting out here today.

ASSEMBLYMAN KAMIN: Perhaps you may want to suggest that to Attorney General Janet Reno.

ASSEMBLYMAN WATSON: Well, you know, this here, Mr. Chairman -- and we don't want to get into a debate on this-- It seems as though the answers we have gotten today have been good, clear-cut answers to what they have done. We can see here, point blank, what has been saved and what has happened. I have yet to hear any discussion with regard to coming up with the kind of figures as was done in the '84-'87, which was more than 100 percent that we are dealing with here. You have done the same thing for \$40 million less. It looks as though we have chosen the wrong refinancing.

ASSEMBLYMAN KAMIN: Assemblyman Watson, respectfully, I am not arguing over the fact that the marketplace responded to different conditions and, in fact, costs were reduced for this most current issue. We did not initiate the investigations. That was done by other interested groups, like the Securities and Exchange Commission; like the National Association of Securities Dealers; like the Municipal Securities Rule-Making Board. So we didn't set the ground rules for this, or the table.

ASSEMBLYMAN WATSON: I am not pointing the blame, Mr. Chairman.

ASSEMBLYMAN KAMIN: Let me now go, if I may--

ASSEMBLYMAN WATSON: Mr. Chairman, yes, but I am not pointing the blame. The thing that I am saying is that maybe if we are very serious about what we are doing here today, we would request, through the Chairman, to at least have a hearing on that to find out just where these excessive fees were charged.

ASSEMBLYMAN KAMIN: Assemblywoman Smith?

ASSEMBLYWOMAN J. SMITH: Thank you, Mr. Chairman.

Mr. Goldberg, Chairman, sir, the bonds that were issued in previous years, what lifetime did they have?

MR. GOLDBERG: I don't recall. They are probably 30-year bonds, but I don't remember.

ASSEMBLYWOMAN J. SMITH: The new bonds that were issued, what lifetime--

MR. GOLDBERG: I think they are also 30-year bonds. That is sort of the standard time period.

ASSEMBLYWOMAN J. SMITH: Well, I don't know, because I wasn't there and, I mean, we are not privy to that unless we really look into it, so I have just these few questions I would like to ask.

MR. GOLDBERG: Sure.

ASSEMBLYWOMAN J. SMITH: You refinanced-- You had approximately \$400 million that you had reinvested and made money on because you didn't have the opportunity or a way to get it out to do the projects because of the denials of permitting and so forth and so on?

MR. GOLDBERG: No.

ASSEMBLYWOMAN J. SMITH: Isn't that what you said before?

MR. GOLDBERG: No, no. I may have misled you or confused you, but that isn't what I said.

ASSEMBLYWOMAN J. SMITH: You said \$200-and-some million was able to go out to contract, and the rest you couldn't expend in a timely fashion so it was there to reinvest.

MR. GOLDBERG: What I said was that from the period -- from 1985 when the funds were borrowed until April of 1990 when we did the audit, of the \$2 billion that had been borrowed, less than \$250 million was actually applied to construction contracts; and that, in fact, if we projected ahead five more years, from 1990 to 1995, and estimated as accurately as we could how much of that \$2 billion we would be expending for construction and other project activities, that we would still have from that original borrowing of \$2 billion in 1985, approximately an additional \$400 million that would not have been used through 1995.

We, obviously, have expended from 1990 through 1995 the bulk of the \$2 billion borrowing, that remainder. That money has gone into a very active construction program. So the \$400 million figure that I mentioned earlier represented that amount of money that even after we ran a major construction effort for five years, we still would not get to the point where we would be using those funds for Turnpike capital projects. So we had \$400 million in 1991 that we knew we would not be using. I mean, the fact that we had the money did not mean that we would have any effective way of applying that money to the proper capital projects.

ASSEMBLYWOMAN J. SMITH: Without saying it was a surplus, but, in effect, it was something you had in the back there as a cushion?

MR. GOLDBERG: Well, what it really represented -- what it meant is, the Authority, in 1985, borrowed \$2 billion which, as a practical matter, it had no effective way of using over the next 10 years. You know, the decision to borrow \$2 billion, again, is a decision that is there historically.

ASSEMBLYWOMAN J. SMITH: But we are not talking about that now.. We are talking about--

MR. GOLDBERG: Well, that is where the money comes from.

ASSEMBLYWOMAN J. SMITH: Okay, but we are talking about further down the road and how much was left, how much was made use of, how much was invested, and so forth and so on.

MR. GOLDBERG: Forget-- The investment--

ASSEMBLYWOMAN J. SMITH: I am looking at what was left there. You just told me yourself there was \$150 million over a projection of so many years.

MR. GOLDBERG: We had, from borrowed funds, more than \$400 million in 1990. We had a great deal more than that. We had \$1,300,000,000. Of that amount, we expected that we would utilize approximately \$900 million, but that we would not expend the \$1.3 billion. In short, the Authority had more money borrowed and available than we were going to be able to use over a five-year period starting in 1990.

ASSEMBLYWOMAN J. SMITH: Okay. Could you please refresh my memory: When was the decision to increase the tolls? When did that go into effect?

MR. GOLDBERG: A toll increase occurred in March of 1991. That was the first toll increase that the Authority approved since it borrowed the funds back in 1985, even though when it borrowed the funds it had estimated that it would have to increase tolls in '86, '90, and '92, but those things didn't happen.

ASSEMBLYWOMAN J. SMITH: Well, my concern is that if they went out to increase the tolls before you increased and redid the rebonding-- Well, actually you were looking at the rebonding at the same time, according to what you sent out to us in '91.

MR. GOLDBERG: No. When we did the review of our capital program and the review of our financial condition, the decision that a toll increase was essential was not at all related to the possibility of refinancing. It was driven by the fact that in 1985 the Authority had borrowed \$2 billion that it had to pay back. It hadn't raised tolls since '85 to do anything about that increased cost, other than this. For a short period of time -- five years -- it was possible to make money on borrowing. In short, you could borrow \$2 billion. You could then take that cash and you could go and invest it and make-- Since we sell tax-exempt securities, we could take that money, and in a decent market we could make a profit on it.

So the Authority did precisely that. It took that money and it made a profit on it called "arbitrage." We then took that income profit and we used that income profit to avoid raising tolls, except that what was happening was, our revenue base was staying low -- our real revenue base -- and our cost base was climbing, and there was a growing gap between the dollars that were coming in from our tolls and what we were obligated to pay. Those years of making money on money came to an end in 1990, because the Congress, in 1986, changed the Federal tax laws. They said, "We are not going to permit that anymore." As a matter of fact--

ASSEMBLYMAN KAMIN: It was the Bradley/Gephardt bill.

MR. GOLDBERG: Whatever. And the law now prohibits public agencies from making money off of borrowed money. Therefore, even though we may have funds available for investment purposes, we literally make not a dollar on those funds. Even though in theory in the marketplace we could, we are not legally permitted to do that.

ASSEMBLYWOMAN J. SMITH: Okay. Bottom line--

MR. GOLDBERG: Bottom line? I don't know, what bottom line?

ASSEMBLYWOMAN J. SMITH: Did you approach the administration to sell the road and give them the \$400 million, or did they approach you? I just need a clarification of that. I think you answered it already.

MR. GOLDBERG: The answer is very simple. The proposal that Turnpike funds be used to purchase I-95 originated with the administration.

ASSEMBLYWOMAN J. SMITH: Had you any idea that you were going to redo your bonding? If this initiative was not proposed to you, would the Turnpike have gone out to rebid and to reissue its bonds -- the way you were without the \$400 million?

MR. GOLDBERG: That is a possibility, because there had been some very limited general discussion about the desirability of refinancing at some point, because the feeling was that the trust indentures in the '85-'87 borrowing were unduly restrictive. They certainly limited the extent to which you could change projects and the extent to which funds might flow to the State of New Jersey.

So, in abstract, there was some general discussion about a possible refinancing. The difference, however, was that we-- If we were going to refinance for those kinds of reasons, we would not have come to the decision to refinance unless we had concluded at the outset that we were going to do it in a market where we were sure that it was going to be profitable to the Authority.

ASSEMBLYWOMAN J. SMITH: It was a tough market, right.

MR. GOLDBERG: When the decision was made by the Legislature and the Governor to do the I-95 transaction, we were required to do a refinancing whether in our judgment, or in the judgment of our financial advisers, this was a good time to do it or not. That decision, in essence, had been the option of-- You know, deciding when you do it or not do it, that option was eliminated.

ASSEMBLYMAN KAMIN: It was driven by the budget.

ASSEMBLYWOMAN J. SMITH: It was driven by the budget.

MR. GOLDBERG: It was driven by the budget. That is exactly right.

ASSEMBLYMAN KAMIN: Assemblywoman Smith?

ASSEMBLYWOMAN J. SMITH: Okay. So the bottom line is that there was a possibility, but a slim possibility, that you might have gone and--

MR. GOLDBERG: There was no real serious--

ASSEMBLYWOMAN J. SMITH: There was no real need for it, unless you were going to expand your indebtedness and add the \$400 million to it.

MR. GOLDBERG: No, I would not say there was no real need for it. There were arguments in favor of it. We never got to the point where those arguments were the focus of possible action, because as events transpired, the proposal for I-95 came along, and that, in effect, you know, eliminated the other abstract possibility.

ASSEMBLYWOMAN J. SMITH: In view of the fact that the bonds were issued for "X" amount of years and you are going to reissue bonds, maybe even at a better rate, with any luck in the world-- The marketplace has been good and bad in the last few years, and people do take advantage of that on investment. I understand that.

The bottom line is, when you reinvest and you reextend, you extend the longevity in turn. Okay? So even though you may save a percentage, the money you spent over the length of time sometimes breaks you even, or you don't save any money at all because you extended the lifetime of the indebtedness. Is that a fact?

MR. GOLDBERG: That can occur. It can occur either way. Either you can save money or you might not save money, depending on how--

ASSEMBLYWOMAN J. SMITH: Well, at the same time, the people who handle it, they make the money -- the millions of dollars that were spent -- regardless of who shared the pot for their investment and their concern and their care, whether they were the broker that went out, like a real estate man. I called on this R. Ferris, the real estate agent who went out and got the brokers, and he got his fee for bringing them in. It is like a Realtor going out and getting a mortgage rate of 1 percent when they bring in "X" amount of dollars and they get their fee. Okay? I am equating it to that world so that the general public out there can understand it.

I can understand the bonding world, and I--

MR. GOLDBERG: At this point, I am not sure I understand, so you--

ASSEMBLYWOMAN J. SMITH: The bottom line is, had you not been approached to give the State \$400 million, the chances are slight that you would have gone to rebond, unless the market were more viable and more amiable to save the Turnpike more money, because you extended your indebtedness. You maybe broke even, but at the same time there were people out there who made a heck of a lot of money, which they would not have made as the agents and the brokers had those bonds not gone out to sale. Is that not a fact?

MR. GOLDBERG: Well, the difficulty I have is that you are not really asking a single question. You have given me a series of--

ASSEMBLYWOMAN J. SMITH: The bottom line is--

MR. GOLDBERG: But, look--

ASSEMBLYWOMAN J. SMITH: I can understand it, and I am just a layperson that works in a bank.

MR. GOLDBERG: Oh, all right. Let me do the best I can.

ASSEMBLYWOMAN J. SMITH: I'm not a lawyer or a bond person.

MR. GOLDBERG: If it is a question, I will try to answer it. If it is a statement, then you don't need anything from me. I am not sure what I am dealing with.

ASSEMBLYWOMAN J. SMITH: I said, is it not a fact -- all you have to do is say yes or no--

MR. GOLDBERG: Oh.

ASSEMBLYWOMAN J. SMITH: --that people would not have made all these millions of dollars for handling, had you not gone out and reinvested the money?

MR. GOLDBERG: If we had not-- It is not "reinvested." If we had not refinanced, we would not have incurred--

ASSEMBLYWOMAN J. SMITH: Okay, so it is "refinanced," instead of "reinvested"? Correct me.

MR. GOLDBERG: Let me try to respond to your question. If we had not refinanced, we would not have incurred financing costs. If that is your question, that is the answer.

ASSEMBLYWOMAN J. SMITH: Thank you for the answer, sir. That's all.

ASSEMBLYMAN KAMIN: Thank you, Assemblywoman Smith.

ASSEMBLYWOMAN J. SMITH: Thank you.

ASSEMBLYMAN KAMIN: You mentioned that there was \$1.3 billion, roughly, left over from the previous issue.

MR. GOLDBERG: As of April 1990, there was, from the original \$2 billion, approximately \$1.3 billion that essentially had not been committed.

ASSEMBLYMAN KAMIN: And that of that \$1.3 billion, an aggressive plan over five years would have been about \$900 million?

MR. GOLDBERG: That's what we ultimately concluded.

ASSEMBLYMAN KAMIN: So we had a cushion of about \$400 million in the old issue?

MR. GOLDBERG: That is correct.

ASSEMBLYMAN KAMIN: We went, taking the whole debt, retiring -it, refinancing -- taking the old \$2.5 billion and expanding it to \$2.9 billion, which added another \$400 million?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: That sounds like \$800 million to me. I only know that \$400 million went to buy the road. What happened to the other \$400 million?

MR. GOLDBERG: I'm not sure--

ASSEMBLYMAN KAMIN: We had \$400 million-- With the exception of the Turnpike's purchase, that was the only thing that was different in your plans from '90 -- before you refinanced and after you refinanced. You had \$400 million extra before the refinancing. You expanded the needs of the Turnpike Authority by an extra \$400 million, which, at the time, was justified because we were buying the Turnpike section. What happened to the unused \$400 million that was in the pot before refinancing?

MR. GOLDBERG: Well, the \$400 million we had was actually used to call bonds. So we retired bonds with that call amount.

ASSEMBLYMAN KAMIN: Four hundred million?

MR. GOLDBERG: I am not sure I understand your question beyond that point.

ASSEMBLYMAN KAMIN: I'll try it again. Was that the cost of the penalty for retiring the bonds from--

MR. GOLDBERG: No, no.

ASSEMBLYMAN KAMIN: Okay. My question was -- as you testified before the Committee this morning -- there was about \$1.36 billion -- I think that was the number you gave us -- left over from the issuance of the '84-'87 period. And on an aggressive building schedule for the Turnpike, you were estimating to spend \$900 million -- an aggressive five-year plan -- leaving \$400 million as, let's say, discretionary funds. The idea to refinance came from the administration. It

was the legal opinion of your counselors that you could not use that \$400 million, perhaps, that was left over, because of the bond covenants on the old bonds.

MR. GOLDBERG: No, it was not based on any formal legal opinion. I think I have already said that several times.

ASSEMBLYMAN KAMIN: But it was your opinion that you couldn't do it under current-- You couldn't use your current money to buy the extension of the--

MR. GOLDBERG: I don't know where the lawyers ultimately would have ended up. What I think I said was, my position on refinancing was not based on technical legal opinions as to what could or could not be done under the existing indenture. My position was that if the decision was made, through legislation, that Turnpike money should be utilized for a purpose that was not originally contemplated at the time of the '85 borrowing, that it would not be appropriate, as a matter of policy, to do that without a refinancing.

There were others who would argue -- and I think you indicated that this is your belief -- that we could not have done it legally. All I am saying is, I didn't--

ASSEMBLYMAN KAMIN: Right, because of the bond covenants.

MR. GOLDBERG: --bother to get to that point. I guess I might have had to get to that point, but I made my decision short of that point. My decision was driven by my view, as Chairman of the Authority, that even if I had the right to do it legally, I did not think the Authority should do that, and that therefore if the policy decision was going to be made to use Turnpike funds for such a purpose, it should be made with the understanding that the Authority would then undertake a refinancing. In making the decision on whether to buy I-95 or not, I wanted the Legislature to understand that if they made that decision, we were going to refinance.

ASSEMBLYMAN KAMIN: All right. I will pursue further my assessment of the situation. We have a pool of \$400 million that was not, at the time -- prior to refinancing -- obligated then over the next five years.

MR. GOLDBERG: But it was money that was going to be utilized by the Turnpike for Turnpike activities in the subsequent five-year period. Therefore, it was money that if we were going to use it for I-95 would not be available for the activities that the Turnpike would engage in, not in the next five years, but in the subsequent Tier 2 period. So the question on the \$400 million was really an issue of cash flow. What we were saying was, from a cash flow standpoint, we were going to have \$400 million that was not going to be drawn down for Turnpike activities before 1995. We were not saying that the \$400 million would not be required or applied to the Turnpike's business plan. What we were talking about was simply a cash flow issue.

ASSEMBLYMAN KAMIN: So it would be unfair to say that we borrowed \$400 million too much, rather than reissuing \$2.5 billion?

MR. GOLDBERG: It would not be correct.

ASSEMBLYMAN KAMIN: My question still remains: What happened to the \$400 million?

Mr. Lance?

ASSEMBLYMAN LANCE: I am going to ask a series of questions, Mr. Goldberg, related to the selection of the financial adviser. We have covered that to some extent this morning, and I apologize for jumping around.

MR. GOLDBERG: That's all right.

ASSEMBLYMAN LANCE: It is my understanding that only four firms responded to the RFP, and that was because -- as you have explained -- they could not be involved further in the underwriting. So there were fewer firms than might have otherwise been the case.

MR. GOLDBERG: Yes. The answer to that is yes, but let me just take a moment, if I may.

ASSEMBLYMAN LANCE: Certainly.

MR. GOLDBERG: In '84-'87, the Authority combined responsibilities and focused it in a single underwriter. Therefore, the advice they were getting as to what to do and how to do it was coming from the same underwriter who ultimately was the lead underwriter in the transaction itself. That happens. I mean, as far as I understand, in the business it is permissible. It is not barred by anything that I know of. Therefore, it is done from time to time by various public entities.

When we were confronted at the outset of contemplating a possible refinancing, we at the Authority decided, as a matter of policy, that we did not want to do that; that we thought it was important to get the best, most objective counseling and advice from a financial adviser as we could, and that one way of trying to ensure that we were getting objective advice, was to say to our adviser, "You are going to advise us, but you are not going to have an opportunity to participate in whatever you advise us to do. You are not going to be able to benefit from that. To the extent that you are going to get compensated, you are going to get paid only for serving us, because you are not going to make any money out of the refinancing."

Now, when we did that, what we found out very quickly was that the bulk of the underwriting community was not interested in serving as financial adviser. They preferred to seek to have an opportunity to participate in a future underwriting, if one occurred. The best example of that, I guess, was Kidder Peabody, which is a very fine, reputable firm, and which had been doing services as financial adviser for the Authority after the '84-'87 financing. When we undertook to solicit proposals, we told Kidder they would be

considered, along with anyone else who wanted to apply. Kidder very quickly said that their preference would be to have the possibility of participating in the financing, and they resigned.

ASSEMBLYMAN LANCE: I guess if a balance has to be struck, if they were permitted to engage in underwriting, you probably would have gotten more proposals, but yet it may not be the best operating procedure to permit--

MR. GOLDBERG: It would have taken away from us the objective that we were seeking; that is, trying to get the most honest, objective advice we could from a sophisticated adviser. One of the techniques, you know, was to just say, "You are not going to be on both sides of this transaction. You are going to advise us; you are going to be out of the underwriting."

ASSEMBLYMAN LANCE: When Chase withdrew because -- as you have explained to us -- there was a restructuring and they had decided not to go forward with this type of work--

MR. GOLDBERG: Chase just went out of business.

ASSEMBLYMAN LANCE: They went out of business. When they withdrew, you were faced with the prospect of having to hire a new financial adviser. Was either the Governor's Office or the Treasurer's Office involved in determining the list, or in actually choosing Lazard?

MR. GOLDBERG: Well, they weren't involved in the list per se, because basically -- and Mr. Watson has talked about this, and he really did most of this-- But basically what we did, since we were caught short and since we were now back to square one, you know, two months later with an issue that had a real time frame in it, we went back to the group that we had started out with. So there really weren't any discussions. We just went back to the group that initially had been solicited and had given us some idea as to whether they would or would not participate.

ASSEMBLYMAN LANCE: Lazard was not one of the original firms the first time around?

MR. GOLDBERG: They were solicited initially. Initially they indicated that they were not going to submit a proposal.

ASSEMBLYMAN LANCE: That is what I meant.

MR. GOLDBERG: But they were on the list. So when we had to reopen the question of who would serve as financial adviser, we went back, not only to the three remaining companies that had submitted proposals, but we went back to the others that were on the list. From that group, in addition to the three that had been considered back in March, we had several other firms that had indicated a willingness to be considered, including Lazard.

ASSEMBLYMAN LANCE: So Lazard was not the only one other than the three that had submitted proposals?

MR. WATSON: Maybe I can help you.

ASSEMBLYMAN LANCE: Certainly, Mr. Watson.

MR. WATSON: We sent out proposals to 12 firms, including Lazard, which was in the group.

ASSEMBLYMAN LANCE: This is the second time around?

MR. WATSON: No, I am starting with the first time--

ASSEMBLYMAN LANCE: Oh.

MR. WATSON: --the first time, back on March 7. We went through-- Four of them proposed. Lazard did not propose, neither did the Public Resource Advisory Group, which we talked about earlier, but four did. Chase was selected through that process. They withdrew. Now we had to get back and get someone else.

We went to the original group of 12. Four of them we had interviewed previously when we selected Chase, so we had information on three of the four. We didn't have to go back and interview them. We still had their information on file. So we considered those three which had previously interviewed,

and we went out and sought some from the remaining list, which included Lazard, the Public Resource Advisory Group, and Lamont Securities, I believe. We brought them in to interview because we had not interviewed them before.

So from the information available to us on six firms--

ASSEMBLYMAN LANCE: Six?

MR. WATSON: Three that we had previously interviewed when Chase was selected, and three that we called back in and they agreed to come back. Considering those six that were before us, Lazard was selected.

ASSEMBLYMAN LANCE: And the three additional ones to the three that had submitted proposals, was there any involvement from either the Governor's Office or the Treasurer's Office to go back to those additional -- those new three, Lazard, and you said the others, Lamont and the Public Resource Advisory Group?

MR. GOLDBERG: During this entire process we were in, I think, regular communication particularly with Treasury, much less so with the Governor's Office. First of all, we were leaning heavily on the Treasury Department for whatever expertise they had. This was not an area where the Authority had, in-house, any real expertise. We didn't consider this refinancing an activity that we were really particularly well-equipped to carry out by ourselves, without considerable assistance. The primary assistance that we were going to look to was a financial adviser, but by the same token, we tried to pick the brains and get the advice and counsel of the Treasury Department, because they do have in-house, you know, much greater expertise and more knowledgeable people.

So throughout the entire process, including the initial selection and the ultimate selection of Lazard, there was, I think, a complete awareness at Treasury as to what was happening. When we were surprised by the withdrawal of Chase, I am sure I had some conversations with the Treasury Department

that would include Berman, but would not be limited to Berman -- it would include people like Bob Lurie -- expressing the Authority's concern. We were caught short, and we were concerned about how to best proceed to get a replacement for the Chase firm.

So Treasury, you know, knew as much about what was going on as we knew, because we were, you know, really talking together about how to best handle this situation. The process that we went through, Mr. Watson has explained. As I recall it -- and I think it is in the documents we have provided--

MR. WATSON: Yes.

MR. GOLDBERG: --the Authority, of course, meets as a rule only monthly. When the Chase situation happened, it was clear that we were not going to be able to deal with a replacement at our April meeting. It was also clear that we were going to want to take some action before the May meeting, which would be at the end of May. Our meetings tend to be at the end of the month. So as I recall, in the April meeting we did something different from what we did back in March. In March, we went through the process-- The Executive Director came in with a recommendation that was presented to all of the members, and the members, you know, made the final decision based on the recommendations of staff and the Chairman.

In the April meeting, we were not prepared to make a recommendation. We didn't know who could possibly be selected. So I think the Authority, because of the limitations of time, authorized the Executive Director, with the approval of the Chairman, to handle a replacement, you know, subsequently to be confirmed at the May meeting by the Authority. And that is the process we went through.

ASSEMBLYMAN LANCE: Mr. Watson, did anyone in the Governor's Office or the Treasurer's Office request that Lazard be put on the list--

MR. WATSON: No.

ASSEMBLYMAN LANCE: --or be selected?

MR. WATSON: No, that is not my recollection at all. When we put the list together-- When the list was put together, it was based on reputation-of-the-firms information, and I think the Treasurer's staff probably did get some input on names from the Treasurer's Office. I don't remember whether Lazard was on it or not, but I think some of the names did come from Treasury that we should look at, given their experience with financial advisory firms. So some of them did, but I do not know exactly which ones.

ASSEMBLYMAN LANCE: We can ask the appropriate officials, but your best recollection is that perhaps you were given some names by the Treasurer's Office?

MR. WATSON: Yes, as part of the input to the process.

ASSEMBLYMAN LANCE: Is it your testimony that it is fair to say that Lazard may have been one of those names they gave?

MR. WATSON: It could have been.

ASSEMBLYMAN LANCE: Was your interaction, Mr. Watson, basically with the Treasurer's Office, or was it with the Treasurer's Office and the Governor's Office?

MR. WATSON: No, it was with Bob Lurie. He is the only person I ever spoke to, yes.

ASSEMBLYMAN LANCE: Bob Lurie-- I can't recall at that time whether-- Was Mr. Salema in the government at that time?

MR. WATSON: I don't know.

ASSEMBLYMAN LANCE: He wasn't yet? You had no involvement with Mr. Salema?

MR. WATSON: No.

ASSEMBLYMAN LANCE: One of the concerns that has been raised regarding Lazard is that it was involved in bonding in

Florida, and apparently there was great controversy regarding that.

MR. GOLDBERG: In '91?

ASSEMBLYMAN LANCE: My understanding is that Florida ended up paying three times as much for an \$860 million bond issue in 1989 in which Lazard had been the lead underwriter. There was controversy about the amount of money in Florida. As I understand it, it was 1989. You may not have known anything about that, and maybe my date is wrong. Did you, Mr. Watson, or you, Chairman Goldberg, know anything about Lazard and Florida at the time you were putting together the list and then ultimately selecting Lazard?

MR. WATSON: No, I didn't.

MR. GOLDBERG: No, I didn't either.

ASSEMBLYMAN LANCE: You have explained how your recollection differs from Mr. Cobbs'. Mr. Cobbs was here and Mr. Watson pointed out that I had asked him several questions, and he said he telephoned you. But you explained already that you have no recollection of that incident. You have gone through the records of the Authority and there is no indication that that telephone--

MR. WATSON: That is correct.

ASSEMBLYMAN LANCE: --call ever occurred.

MR. GOLDBERG: It also just doesn't make sense. I mean, the Authority, from companies that it is considering for possible selection, does not solicit nor does it welcome nor does it consider appropriate for somebody to call up and start to volunteer pricing information over the phone, unless we are calling them to get a confirmation. So I mean, it is not a procedure which would be a typical procedure that occurs.

If someone wants to submit pricing information, there are ways to do it, and the RFP generally sets forth what you do or what you do not do. But it is not the ordinary course.

ASSEMBLYMAN LANCE: Is this the period where you were giving these firms two days to respond, or not?

MR. WATSON: Well, let me go back over that again. We submitted the RFP to 12 firms, the same 12 you are talking about, on March 7, 1991. March 15, this particular firm -- PRAG -- indicated they were not going to propose. That was, I think, the time frame we had asked everyone to respond within. They had about a week.

ASSEMBLYMAN LANCE: That is the initial set?

MR. WATSON: This is the initial set. Four did propose; four did propose.

ASSEMBLYMAN LANCE: Did the Cobbs firm reply to the second inquiry?

MR. WATSON: Well, yes, they did after we contacted them, along with two other firms, once Chase withdrew.

ASSEMBLYMAN LANCE: Yes, sir.

MR. WATSON: And I had gotten the authority from the Chairman and the Commissioners to continue the process, because now we were at the end of April and the next meeting was going to be in May. I was given, through a special resolution, the authority to continue the process.

What we did, rather than go back out, issue a new RFP, and find different firms, was that we went back to the original 12, talked -- had interviews information-- Well, I won't go back over that, because I just covered it.

ASSEMBLYMAN LANCE: Is it possible that Mr. Cobbs was responding by telephone to the time frame for the second proposals -- to the second set?

MR. WATSON: On the one-day turnaround? It could have been -- it could have been -- but that would have been, you know-- The point I made in my testimony was that the RFP had never changed. It had been available since March 7, so two months had elapsed in which to respond. We didn't think the day was out of line, particularly since two other firms were

able to accomplish the same thing. It was a level playing field, as far as we were concerned.

ASSEMBLYMAN LANCE: I want to move on to some other areas.

ASSEMBLYMAN KAMIN: Before you come off that point, if I might, Mr. Lance--

Mr. Watson, you indicated the contact in the administration was Bob Lurie in the Treasurer's Office.

MR. WATSON: The contacts I had during that time were with Mr. Lurie, yes. That is correct -- Bob Lurie.

ASSEMBLYMAN KAMIN: Was it the same, for the most part, with you, Mr. Goldberg?

MR. GOLDBERG: I think most of the day-to-day contact was with Lurie, but I am sure I had some conversations with Berman, as well.

ASSEMBLYMAN KAMIN: On the issues of selecting or proposing for your consideration professionals -- whether they be financial advisers, attorneys, or bond counsel, whatever it might be -- did Mr. Salema ever make suggestions to you, Mr. Watson?

MR. WATSON: No, he never did.

ASSEMBLYMAN KAMIN: Did he to you, Mr. Goldberg?

MR. GOLDBERG: I don't think Mr. Salema ever made any suggestions about underwriters at all. I don't recall him making any suggestions with regard to any professionals, although I must say that during this period of time we were probably getting suggestions from, you know, various people, including the possible participants themselves, for inclusion. So after a while who may have mentioned one name or not all sort of blurs in. But I have no recollection of Salema talking at all about the underwriting process.

ASSEMBLYMAN KAMIN: Or any professionals?

MR. GOLDBERG: I don't have any recollection of him talking about any professionals. I just don't have any recollection.

ASSEMBLYMAN KAMIN: Do you have any recollection about any other person in the administration, outside of Mr. Lurie, having made suggestions to the Commission for consideration of professional firms?

MR. GOLDBERG: I am sure that I had, you know, at least one conversation with Berman, where we probably went through the list of possible candidates for financial adviser. I don't remember having any discussion with Berman about underwriters at all. But I do think with regard to the financial adviser, when we had to replace Chase, I have, you know, a general recollection that I talked to Berman and I expressed my concern that we were confronted with this unexpected development. I would assume that in that conversation we went through, you know, the names of the group we had. But I do not have any recollection of, you know, the discussion beyond this; that Treasury indicated that they would try and be as helpful as they could in guiding us through and ending up with a financial adviser, to the extent that they could tell us anything.

I was constantly trying to make sure that if we were going to do something it made sense to them, because in the final analysis, under the law, two individuals must approve, in writing, what the Authority does with the underwriting. The law obligates both the Governor and the Treasurer to sign, you know, their approval. So we went to great lengths to make sure that the Treasurer was fully informed. I didn't go to great lengths to make sure the Governor was fully informed, pretty much on the premise that if the Treasurer was okay, presumably the Governor was going to be okay. I really had no discussions with the Governor at all, on the assumption that they were not necessary, or, if they were necessary, I would hear that. I never heard it.

But with Berman, I went through, from time to time, what was happening, and I tried to get from him whatever

thoughts he had. Because the one thing that I wanted to avoid, to the extent possible, was taking a course of action on the refinancing and find out, at some point, that the Treasurer was in disagreement and was not going to approve. Or, alternatively, if he was in disagreement, that I understood what the disagreement was, so that we could move to address it and eliminate whatever question he might have.

In fact, during the process, the Authority took the initiative in the decision-making process and Treasury, basically, fed back to us, you know, their concurrence with what we ended up doing.

ASSEMBLYMAN KAMIN: Mr. Watson indicated that the suggestion for financial advisers came through Mr. Lurie. You are indicating that communications came through Mr. Berman. Was there any contact-- You indicated there was no contact with Mr. Salema with reference to professionals, with either you or Mr. Watson.

MR. GOLDBERG: During the time we were focusing on financial adviser, I don't recall any conversation with Mr. Salema concerning the selection of the financial adviser.

ASSEMBLYMAN KAMIN: Other than those brought in the time frame, what contact did you have with Mr. Salema? When did he first contact you with suggestions?

MR. GOLDBERG: I am not sure that Mr. Salema ever contacted me with suggestions. As a matter of fact, Mr. Salema had minimal, if any, involvement in this process. The people who were actively involved in the process were basically: Mr. Lurie, who was, like, the key liaison person from Treasury to us; and to a much lesser extent, Mr. Berman, who I would talk to periodically, largely, you know, to share together the questions that we were dealing with; and then people like Carl Van Horn, who from a policy standpoint was involved on behalf of the administration on a whole host of issues, like I-95 and

the like; and of course, from time to time, Commissioner Downs and his people at DOT.

ASSEMBLYMAN KAMIN: So the only folks in the administration, up to this point in time today, who have spoken to you about professionals, suggested names for consideration to be used by the Turnpike Authority, have been Mr. Lurie and Treasurer Berman?

MR. GOLDBERG: Yes. It would have been out of Treasury, I mean, one way or another. They are the only two-- We had the bulk of the conversations with those two.

ASSEMBLYMAN KAMIN: Has there been any communication from Treasurer Crane?

MR. GOLDBERG: He had no involvement. I think he was in the Legislature at that time. He would not be involved, and was not involved.

ASSEMBLYMAN KAMIN: I am expanding the time frame up until now, since he replaced Treasurer Berman. Has there been communication from Treasurer Crane?

MR. GOLDBERG: About what?

ASSEMBLYMAN KAMIN: About professionals that may work, or continue to do work for the Turnpike Authority.

MR. GOLDBERG: No, there has been no communication on that at all.

ASSEMBLYMAN KAMIN: Thank you.

Back to you, Mr. Lance.

ASSEMBLYMAN LANCE: In any event, Lazard was chosen. Lazard had no prior experience in New Jersey?

MR. GOLDBERG: I don't think that is true, but I am not sure. Lazard, of all the firms we were talking about, was a firm that at least in terms of reputation was the one that I recognized to the greatest extent. Some of the firms we were talking about I never heard of. I knew nothing about them. Lazard was a firm that has, you know, an outstanding reputation -- or certainly has had an outstanding reputation in the

underwriting community. But more than that, I was aware of the fact that as one of their senior members there was Felix Roaden (phonetic spelling), and Roaden had probably the outstanding reputation for dealing with difficult municipal refinancing issues through his involvement with, I think, the Mack Corporation in New York City. He certainly had what, in my mind, was the kind of expertise that few, if any firms could match.

ASSEMBLYMAN LANCE: Did you speak with him?

MR. GOLDBERG: No, I never spoke with him, but the fact that the Lazard firm had within it the kind of expertise that Mr. Roaden represented was a factor that I found, at the very least, comforting. It gave me the belief that this was a firm that was capable of dealing with the kind of complexities that the Turnpike would have.

ASSEMBLYMAN LANCE: Even though evidently, based upon what we have discovered so far, there may have been a problem in Florida, although I am not sure of the time frame. You all were not aware of that?

MR. GOLDBERG: We were not aware of that problem at the time we made the decision and, quite frankly, I don't believe that whatever difficulties Lazard may have had in Florida were a matter of public disclosure at the time we acted. I have done, obviously, some reading over the last six months as these reviews have gone on that has indicated, you know, activities of different companies, not simply Lazard or others, in various states. I have seen reference to Florida. I don't know a great deal about it, but that was not a matter of an awareness on our part. I don't think it was public, but if somehow or other there had been some publicity on it in Florida, or wherever, it was not something that, at that point, we were aware of.

ASSEMBLYMAN LANCE: Fair enough.

I would like to move on to another area, Mr. Chairman, if I might. You were in this difficult situation because the original firm had withdrawn and you had to get a new firm. Did any negotiations or discussions concerning Lazard's fee take place when it was approved by the Board on May 30, 1991 -- as to what their fees would be?

MR. WATSON: When we gave the recommendation for Lazard, that confirmation, because we had selected Lazard, I think, on May 2 or 3, somewhere in that time frame--

ASSEMBLYMAN LANCE: Incidentally, Mr. Watson, have I been mispronouncing the name all these months? Do you not pronounce the "d" on the end of it?

MR. WATSON: Of Lazard?

ASSEMBLYMAN LANCE: Yes.

MR. WATSON: Yes. That's the way I say it.

ASSEMBLYMAN LANCE: With or without?

MR. WATSON: With.

ASSEMBLYMAN LANCE: With.

MR. WATSON: The selection had been made of the Lazard firm -- this was the second time around -- following the resolution I got from the Commissioners prior to the May meeting. At the May meeting, we recommended that Lazard be selected, and at that same meeting, as I recall, the resolution indicated that Lazard's fee should be a negotiated fee.

ASSEMBLYMAN LANCE: I have a document that you have provided us. It is a memorandum to you from the Director of Law. It is dated May 15, 1991. In pertinent part, it states: "The terms will remain for one year at a \$50,000 annual cap for the services to be performed, except the cap will not apply in the event of a major financial restructuring or any other extraordinary financial transaction." Of course, that is what happened.

MR. WATSON: Right.



ASSEMBLYMAN LANCE: The hourly rate schedule for Lazard Freres & Company is as follows: "Partners, \$250; senior vice presidents, \$200; vice presidents, \$150; and associates, \$125." Now that, I gather, would be for a major financial restructuring or other extraordinary event.

MR. WATSON: No, no. That would have been for financial advisory services. The point was, if we got into an extraordinary refinancing, that cap would not apply subsequently, as we indicated, with the exception of a major refinancing in the memo, because it was moving then towards appearing to be a refinancing. So we were only paying him when we hired him -- as of the effective date of May 30, but we interviewed him earlier than that-- It was for financial advisory services, with a cap of \$50,000.

ASSEMBLYMAN LANCE: So I have read this inaccurately. I had thought-- You are here to clear this up, and I am not accusing you of anything. I am just asking what the situation was. These hourly rates were toward the \$50,000 cap?

MR. WATSON: Exactly.

ASSEMBLYMAN LANCE: And not toward a major financial restructuring?

MR. WATSON: Exactly right.

MR. GOLDBERG: Let me just add, because I-- At the time that we were retaining Lazard for financial adviser and we were negotiating the hourly rate, my recollection is that Lazard was not comfortable with an hourly basis at all. They also said they never charged, or it was not their practice to charge for their services on an hourly basis, and once more, they didn't have hourly rates for their senior members, because the members didn't-- You know, they were not like a law firm. They just did not bill on an hourly basis.

We insisted that for a financial adviser, we had to strike some kind of an hourly rate. As I recall, they said, "Well, you know, for our senior people we would charge a rate

of \$500, \$600 an hour. We don't even know, but it would be a big number." We said, "Well, that would not be acceptable." If they were going to take the financial adviser's position, they would have to agree to hourly rates that would be more in line with what the Authority had approved in the past. We ended up with the rate structure we have, but in the process it was recognized by both the Authority and by Lazard that the understanding that was being approved for the financial adviser would not be applicable in the event that we undertook a major refinancing.

ASSEMBLYMAN LANCE: Let me stop you there, Mr. Goldberg. That being the case, was there anything in writing as to how compensation would occur for a major financial restructuring?

MR. GOLDBERG: Not at that time.

ASSEMBLYMAN LANCE: Is that because you were not at that point contemplating a major financial restructuring?

MR. GOLDBERG: No, because at that time, quite frankly, I don't think that we at the Authority were fixed in our minds what the basis for compensation would be. I had an awareness that we had paid \$4.1 million to Smith Barney, and I was determined that whatever we did with Lazard, it wasn't going to be of that order or magnitude. But we had not, at the Authority, actually decided exactly how the compensation level would be fixed.

It would be a negotiated figure. Lazard had indicated that it was not an uncommon practice in the trade to be compensated based on a dollar a bond.

ASSEMBLYMAN LANCE: What would that have been?

MR. GOLDBERG: That would have been at least \$2.5 million. I indicated that we were not willing, or prepared, at this early point, to agree to any such arrangement. We left it open, with the understanding that compensation would be negotiated at some point, whether it would be right then or

shortly thereafter, because we had conversations periodically about compensation.

ASSEMBLYMAN LANCE: Wouldn't it have been preferable to negotiate that earlier rather than later?

MR. GOLDBERG: Well, it depends on what your overriding objective was. I had made the determination that the one effective lever that I had for trying to make sure that Lazard expended the best possible effort, was to hold out both the prospect and the uncertainty as to what their compensation would be. If we had negotiated a fixed figure of any kind, it would have made it less effective in terms of trying to ensure that we were going to get the kind of determination and attention and commitment that I was hopeful we would get from Lazard.

ASSEMBLYMAN LANCE: So that was a deliberate decision on your part not to negotiate?

MR. GOLDBERG: It was my belief that the Authority could be better served by leaving open the amount of the ultimate compensation to a later point, because that, as I say, was going to be driven by the results. In my discussions with Lazard, we were telling Lazard what, in our minds, would be a successful refinancing. There were a variety of things, including: the substantial improvement on the financing costs; broadening the base of the underwriting community; ensuring the involvement of New Jersey-based firms; ensuring the involvement of firms owned by minorities and women; making sure that the securities were priced and sold at the best possible price; and so forth.

ASSEMBLYMAN LANCE: Couldn't that all have been -- I'm asking, I don't know this -- couldn't that all have been written in the contract; that you needed minority-based firms, that you needed women-owned firms, that you needed New Jersey firms? Could that not have been done up front?

MR. GOLDBERG: Sure. You could have put all of that into the contract, but at some point in that contract you either then put in a number or basis for mechanically calculating a number, or you don't.

What I'm saying is, in my mind, at that time, given the nature of what we were confronted with and trying to achieve, it would have been counterproductive for us to say, "And you are going to get paid 'X' dollars." I preferred to leave it that they would have to rely on the Authority being fair in negotiating a fee that properly reflected the value we received from their services. Ultimately, Lazard, you know, proceeded on that basis.

Lazard would have been very content to have worked out the number, provided the number was of the scale they wanted. So at some point we were going to have to deal with that. My view was, I could better decide on behalf of the Authority, and I could recommend, and staff could recommend to the other members of the Authority, what would be appropriate compensation when we could see what had occurred and how Lazard had carried out the assignment.

ASSEMBLYMAN LANCE: Was that a decision, Mr. Goldberg, that you made in your capacity as the Chair, or was it a decision that the Board in total made, or in consultation with Mr. Watson? How was--

MR. GOLDBERG: It was a decision that I made in my capacity as the Chair.

ASSEMBLYMAN LANCE: I have a document of August 27, 1991 that indicates an initial fee of \$425,000. I guess that was one of, perhaps, three different charges the company eventually made. There were three sales of bonds? Was that the way it worked?

MR. GOLDBERG: There were actually five.

ASSEMBLYMAN LANCE: Five?

MR. GOLDBERG: Yes.

ASSEMBLYMAN LANCE: Did they--

MR. GOLDBERG: These were, I think, approved on four separate occasions. I mean, the document is there, but my recollection is that they were approved on four separate occasions.

ASSEMBLYMAN LANCE: You were comfortable with the fees as they eventuated, totaling \$2.3 million or so?

MR. GOLDBERG: Yes. Where we ended up was a number that the Authority negotiated. I took an active role in that, staff had an involvement, and we ended up with an agreed upon compensation to Lazard which, in my opinion, was fair compensation considering the services they provided and the results we achieved.

I will tell you that I was comfortable at the end as we went through the process. Particularly at some of the early points I was not quite sure where we were going to end up. The process we followed had its advantages, and I explained to you what, to me, was the primary advantage. It had its disadvantages, too. I mean, from the standpoint of a public officer, it probably is easier, in a certain sense, to just predetermine these things and do it on that basis, and with a conventional refinancing I am sure that that would have been the approach that I would have preferred.

In this case, given the objectives that were important to us, the complexity of what we were dealing with, and the uncertainty as to how this thing was going to play out, this was the approach, in my judgment, that would give the Authority the best end result and end up with us paying not a disproportionate fee. Because if the financing had not been successful, Lazard would not have been paid a fee of this amount, and they understood that. Therefore, they did everything they could to make this a successful underwriting, and that is exactly what I intended.

ASSEMBLYMAN KAMIN: Excuse me, if I might. The \$50,000 initially was based on rates?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAMIN: The \$425,000 was not?

MR. GOLDBERG: No.

ASSEMBLYMAN KAMIN: And subsequent fees at--

MR. GOLDBERG: They were not based on any hourly rates. They were not based on hourly rates. They were based on--

ASSEMBLYMAN KAMIN: You were making the determinations in your capacity as Chair?

MR. GOLDBERG: Essentially, yes.

ASSEMBLYMAN KAMIN: Mr. Lance?

ASSEMBLYMAN LANCE: I respect your saying that there are certain advantages and certain disadvantages. In trying to understand it, we have the documents that the Turnpike Authority presented to us. There is a letter dated in November from Lazard indicating why it was entitled to compensation. That letter is after some of the bonding that occurred, not all of it. It is post some and pre others. And of course, from our perspective, we are trying to figure out exactly how the fees eventuated. This appears to be, at least in part, justification after the fact, and perhaps there are other documents that existed previous to that. Then again, perhaps it is just a matter of negotiations between you, Mr. Goldberg, and you, Mr. Watson, and Lazard.

I understand that there are pros to that approach, but perhaps there are drawbacks as well. Given the fact that we are trying now to reconstruct exactly how all of the fees eventuated, do you recommend to us legislatively that in the future we make it more strict; that we require authorities to have contracts for these types of situations?

MR. GOLDBERG: I don't have any recommendation. I found this financing to be what I will call sui generis. This was not a run-of-the-mill financing. I have some awareness of financial underwritings on behalf of clients. I have

occasionally represented clients and have done some with them. In the normal type of financing for a sewer authority or a school board or something, with a \$20 million, even a \$50 million borrowing, you can make some judgments as to how best to do it.

A refinancing of \$2.5 billion or \$2.9 billion does not easily fit into any mold. If the Legislature were to set guidelines, obviously public agencies would follow them, and the Authority would follow them. If there were strict rules as to how you do it, in my opinion, the likelihood in this case is that they would not have produced a result that would be financially more advantageous to the Authority. The things I did were guided by the judgment as to what was going to give us the most favorable approach. But I will tell you that, from the standpoint of accountability or record keeping, it is always easier for someone who wants to come in after the fact and examine what has been done to have the thing as close to a formula as possible. To the extent that that is of the highest policy, then the Legislature can mandate it. The only thing I can say is that when you get to a transaction this extraordinary, that kind of mandating is likely to produce a less effective financing if it is carried out well. In this case, I undertook responsibility beyond the normal. People could say, "Well, you should not have done it," and that is judgment for others.

In this case, it was my judgment that if I didn't do it, I was more likely to end up with what had happened back in '84-'87. I found that result totally unacceptable. So I did what I thought would be the most effective way of getting a better result. If I could have come up with a better way of handling it, I would have come up with it, but I didn't. And to this point I really can't recommend to the Committee a more effective way of doing it. I mean, the fact is, by holding out the carrot of payment to Lazard, I believe we got the maximum

favorable effort from Lazard. So I think that that approach was a very effective approach, but it does make the process more difficult and more complicated.

ASSEMBLYMAN KAMIN: Mr. Goldberg, doesn't the-- Excuse me, Assemblyman Lance. Doesn't the market, or Wall Street generally, on large projects, have financial advisers paid on an hourly rate?

MR. GOLDBERG: In many cases, they do, yes.

ASSEMBLYMAN KAMIN: Can you point to another comparative issue -- significant undertaking -- where there was a similar structure to what you decided was a responsible course to take?

MR. GOLDBERG: Well, I can point--

ASSEMBLYMAN KAMIN: For another issue someplace else.

MR. GOLDBERG: I can point to what the Authority did in '84-'87, where there was even less structure and paid even greater amounts. In our own agency, we have an example which, as far as I am concerned, had even less control and less effectiveness associated with it.

ASSEMBLYMAN KAMIN: Mr. Goldberg, you are the one who make the determination of whether this was a responsible approach to make or whether it would be irresponsible to make it.

MR. GOLDBERG: That is correct.

ASSEMBLYMAN KAMIN: You arbitrarily decided that this would be the way to pay Lazard.

MR. GOLDBERG: I made that decision. I didn't consider it arbitrary, but I made that decision.

ASSEMBLYMAN KAMIN: Mr. Lance?

ASSEMBLYMAN LANCE: My background is not with \$2.9 billion refinancing. It is more at the level of the local school board. I think you made the point that it may be sui generis. We are trying-- Assemblyman Smith quite rightly asks what purpose do these hearings serve? He stated earlier this

morning the question of whether we should prohibit contributions, and I think the Legislature may be moving in that direction. Now I am pursuing this to determine whether we should also move in the direction -- and this would rein in an administration of the political complexion of the one that was in office in 1984 -- whether we should rein in, in the future the discretion, for better or worse, that the Chair of the Turnpike Authority would have in the future in the area where you exercised your discretion.

You said, I believe, that you can't really answer whether we should or not because of the sui generis nature of the \$2.9 billion refinancing and the fact that there are pros and cons to doing it the way you did it. Is that an accurate summary of--

MR. GOLDBERG: Pretty much. Let me also say, there are recognized ways of paying the financial adviser. Hourly rates are not the only way. I mean, the other way, which is not uncommon, is to pay so much per bond, and a dollar a bond is a very common number. I have seen that number in transactions. I have heard that number in transactions. It produced a bigger compensation than, in my mind, I liked, and therefore, even though that would have been a formula approach that would have been fairly simple, would have taken out some of the subjectivity of what we did, it would have also produced a payment to Lazard that went beyond what I was hopeful we would end up paying.

ASSEMBLYMAN LANCE: To set the record straight, nobody in the Governor's Office and nobody in the Treasurer's Office was involved with you in determining the compensation? This is after the fact, after Lazard had been chosen. That was the decision that you made exclusively without any involvement from either Governor Florio's Office or the Treasurer's Office?

MR. GOLDBERG: That is correct, but I did have a conversation with Treasurer Berman, which I recall in

generalities. The gist of it was whether from the Treasury Department standpoint they felt they should negotiate this fee or set this fee, or whether that was my responsibility as Chairman. My recollection is that Mr. Berman said that as far as Treasury was concerned, it was up to the Turnpike to determine the fee, and that they were not dictating to us or telling us how to set the fee.

I had some conversations. I said, "Well, what do you think about a dollar a bond?" He said, "A dollar a bond might be a fair fee." I said, "Is that a fee that you feel we should pay?" He said, "It is up to you to negotiate the fee." And I said, "Thanks," with all that that word implies.

ASSEMBLYMAN LANCE: Yours is an unsalaried position. Is that right, Mr. Goldberg?

MR. GOLDBERG: Yes, it is.

ASSEMBLYMAN LANCE: So that was left to the discretion--

MR. GOLDBERG: It was left to the Authority, and within the Authority it was my judgment as the Chairman that the essential responsibility for working this out with Lazard was going to rest with me, after consultation with our staff and discussion as to what would be fair, given the amount of work that these people were doing for us, the activity they were engaging in, and the result we were getting.

I took that responsibility, and I don't want any misunderstanding as to who fixed the fee. I fixed the fee.

ASSEMBLYMAN LANCE: I have no further questions, but I have a comment: I think this has been enlightening as to how the fee structure was generated. I agree with Mr. Goldberg that there are pros and cons to the way fees were employed in this situation. Perhaps it is something that we, in the Legislature, should examine further. I recognize the difficulty of this procedure, but perhaps in the future we should look to legislation in this regard. I recognize, as is

true in most situations, that there are pros and cons, but I think we have an accurate rendition of what occurred here; that this was a decision made by the Chair of the Turnpike Authority relative to the payment that Lazard would eventually receive.

Thank you, Mr. Chairman.

ASSEMBLYMAN KAMIN: Mr. Lance, thank you.

Assemblyman Romano wanted to ask some questions. We will come back to him. Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Thank you very much.

As I have been sitting here these hours, I have to ask you the question -- the personal question: Chairman Goldberg, are you any relation to Chancellor Goldberg?

MR. GOLDBERG: No, but you are not the first one to ask that question. We are not related.

ASSEMBLYMAN KAVANAUGH: Well, I closed my eyes, and the two of you answer very similarly as far as--

MR. GOLDBERG: Well, way back, in a lineage that neither of us recall, perhaps we are related, but, no, we are not--

ASSEMBLYMAN LANCE: I think Chancellor Goldberg is better looking than--

MR. GOLDBERG: Well, he's younger.

MR. WATSON: For the record, I am not related to Assemblyman Watson either, but probably somewhere back in our past we crossed. Watson is a pretty common name, but I am not related to him, and he is better looking than I, I think.

ASSEMBLYMAN KAVANAUGH: Okay. Regarding the selection of the underwriters, back when we were preparing the '92 budget to authorize the Turnpike sale -- the purchase -- you began the process of selecting the underwriters regarding the restructuring of the debt. Now, in the report we received it stated that you, as Chairman, Mr. Watson, as the Executive Director, the Comptroller, and a Lazard representative made up

that interviewing committee, along with Bob Lurie. Is that correct, or were there other members involved?

MR. WATSON: On page 16 of my May 23 report, the members were: Lazard Freres partner, Richard Poirier; Jack Tamagni, who is also a member of Lazard; Chairman Goldberg; myself; and at that time our Comptroller was on leave and we had an Acting Comptroller, John Jacobsen. We were the official panel. Bob Lurie, representing Treasury, observed, but he did not participate in the interview process.

ASSEMBLYMAN KAVANAUGH: What role did the Turnpike Authority play, with Lazard, regarding the allocation process? Who had control? Was it Lazard, or was there--

MR. GOLDBERG: Do you mean allocation-- I mean, are we jumping into that?

ASSEMBLYMAN KAVANAUGH: As far as the underwriters -- excuse me -- the bond underwriters that we were talking about -- the selection of the underwriters having to do with the bond-- Who was responsible for the selection process?

MR. GOLDBERG: I am confused. Are you talking about the selection of who were going to be underwriters, or are you--

ASSEMBLYMAN KAVANAUGH: Yes.

MR. GOLDBERG: Okay. That has nothing to do with the allocation of bonds, I don't think.

ASSEMBLYMAN KAVANAUGH: No, I just misspoke.

MR. GOLDBERG: All right. We went through a process, which I think our statements outline. The process basically was to, first of all, solicit from the underwriting community at large expressions of interest. We contacted a number of firms which had already made it clear that they had an interest. I think we ran an ad in the "Bond Buyer," and we generally, you know, held out to the underwriting community the fact that there might be an underwriting. The financial adviser put together an RFP. Firms were advised that if they had an interest, they could respond to our request for

proposals. And, in fact, we got quite a number of responses. I think we got 49 initially, and I think ultimately there were even a few more after that.

In that approach, we asked underwriting firms to indicate whether they just wanted to participate in the underwriting, or whether they felt they had particular qualifications to be a senior underwriter, which in the underwriting community is a distinction of some note. I believe 11 firms, in responding, indicated that they wanted to be considered for senior underwriter.

Lazard was given the responsibility for handling this process. Lazard was also given the responsibility for determining how to follow up on this mass of responses we were receiving. Lazard prepared a set of questions that would be used in an interviewing process. The decision was made that we would interview all 11 firms that asked to be considered for a senior position. So we scheduled a set of interviews that occurred, I think, over two separate days. Lazard, in essence, structured the interview process as part of our charge to them.

Basically, having gone through a process to get a financial adviser to take us through the process, it was the view of the Authority, both staff and Chairman, that we were going to follow the advice and counseling of Lazard. That is exactly why we went through the process to get that kind of a firm.

ASSEMBLYMAN KAMIN: Who conducted the interviews?

MR. GOLDBERG: Well, I will come to that. I will come to it very quickly. The interviews were set up. They were structured so that each firm would be asked an identical set of questions, so you would have, in essence, a level playing field. Everybody was going to be asked the same things in the same order and by the same people.

The bulk of the questioning, as I recall, was done by Rick Poirier of Lazard. He handled the questioning and the

follow-up with them. Mr. Watson, also by prior agreement, had several questions that he asked of the firm. I don't remember the exact number -- two or three.

MR. WATSON: Yes, I asked about three. Yes.

MR. GOLDBERG: So with each of the 11 firms, we went through essentially the identical process. Poirier led the interviews and asked the questions that he was designed to ask. Mr. Watson asked the two or three questions that he was going to ask.

During the interview, any of the members who were sitting in could ask additional questions, and from time to time-- I don't have a clear recollection, but I'm sure with different underwriting firms, different people may have asked a question from time to time. But the bulk of the questioning was done by Poirier. During the interview process, each of us who was there took whatever notes or did whatever they felt was helpful to them in considering the process. For myself, I took very few notes. I was there listening, primarily to see what the answers were.

Following each of the interviews, we had a brief sort of discussion among the group as to what the impressions were. If I am not mistaken, I think that at the end of each day we had some further discussion about the overall impressions we had as to the different firms that had been interviewed. At the end of that process, over two days, Lazard took all the information they had, which included the RFP information -- each firm had given us a great deal of information -- the responses we had gotten through the interview process, the comments and reactions that each of the individual members had, and they were directed to come back and make recommendations as to how to do the underwriting.

This was in the context of a broader assignment to Lazard. The major assignment to Lazard, at least in my mind, was the assignment to come up with a plan of refinancing. They

were to come up with how the refinancing should be structured, and within that plan they were to come up with recommendations as to how the underwriting of that plan of financing should be done.

And that is what Lazard did. After the process went through, within a relatively short period of time of maybe two weeks, with, I am sure, some further informal conversations on the staff level, or whatever, Lazard came back and made a presentation to the Authority at a Committee meeting of our Law and Finance Committee, I believe. Lazard laid out both a detailed plan of finance, how it would be structured, and the assignment for underwriters.

I would also add that in structuring the plan of finance, this was quite complex. It was complex because there had already been a refinancing, as I mentioned, in '84-'87. This had significant legal aspects to it, because having already done a certain amount of refinancing, the Authority was constrained in terms of how it could proceed with a subsequent refinancing. Therefore, Lazard, in preparing whatever program it was going to prepare, was working in close consultation, not only with Authority staff, but with counsel, which included not only bond counsel, but special tax counsel, Mudge Rose. So that aspect of the financing was where most of, I think, the energy and attention had been directed, because at the outset, simplistically, I was assuming that if we were going to refinance, that we would refinance if not with a single issue, with maybe two issues, or whatever, you know, because of size.

When we went through it, it turned out, for reasons that I did not fully understand then and I don't think I fully understand now, that the law dictated the financing had to be split up into probably -- certainly -- into probably three pieces, and beyond that, the timing of the refinancing was controlled and there had to be a delay of at least 30 days

between certain sales in order to comply with the requirement of the tax laws.

So Lazard came back-- They came out with a structured approach which initially called for three sales of bonds of different types, the first being, in essence, I think, a refinancing of the '84, that which had to be treated separately than a refinancing of the \$2 billion debt. As it turned out, the refinancing, instead of being done in just three pieces, ended up being done in five pieces, again, for a variety of technical reasons.

But as part of this assignment, Lazard also came in with a very detailed recommendation, or set of recommendations for how underwriting assignments should be done. Now, my directions to Lazard, and staff's directions to Lazard were fairly general. Basically, what they were were: We did not want to replicate what we had in '84-'87. We did not want a single firm, in essence, controlling or running the entire refinancing. We also wanted the underwriting spread as broadly as possible, but in doing that, we wanted to make sure that there would be fair involvement and consideration for firms that were Jersey-based firms, and firms, as I said before, that were owned by women and minorities. Because traditionally those kinds of firms had always been excluded from underwritings like this one, which in the business are considered the cream of the underwriting business and an opportunity for smaller firms to make a legitimate profit. We felt very strongly that if we were going to have to undertake this kind of underwriting and if, in fact, people were going to make money out of it, that at least there ought to be fair involvement of those kinds of firms.

These were the assignments that were given to Lazard. Lazard came back and they, in my mind, had followed our directions and had achieved our objectives, because what they came back with, although we didn't tell them what to do about

senior assignments, or how to make the decision as to how to assign firms to a senior position, Lazard came back with a structure that involved all 11 firms that had asked to be considered for a senior position. So they had done, in our minds, the kind of thing that we had asked for.

They also, very specifically, allocated those senior positions, and those allocations are set forth in the documents you already have. Beyond that, they took the remainder of the applicants and they included every single firm that had responded to the RFP in the underwriting group. So it seemed, to me at least, that Lazard had brought back to us a set of proposals that responded to our objectives and responded to what Lazard had been told to do.

In terms of the three top firms, Lazard indicated that the three top positions had been assigned to the three top firms in terms of underwriting activity at that time. They were, I think-- At that point they were: First Boston, Merrill Lynch, Goldman Sachs. The information we were provided with, and we understood, was that those firms, in fact, had done the three largest amounts of underwritings during that recent time period. So we got from Lazard a set of proposals which, on their face, made a great deal of sense and were consistent with what the directions were.

Lazard's presentation, I am sure, was reviewed by staff. It was reviewed by, probably, counsel. It was reviewed, or made available to Treasury. My recollection is that no one had any either questions about the assignments, or suggested or recommended changes from what Lazard gave us. We got that presentation at a time where the I-95 legislation was still up in the air. It had not passed. It was in late June, but even though it was late June, the bill still had not been finally acted upon. So initially the expectations were that we would take this plan into our public meeting with the Commissioners and get it approved in our June meeting.

However, if we did that, we would have been actually proceeding on a plan of refinance before the critical event -- in my mind a critical event -- had occurred: the direction from the Governor and the Legislature to do the I-95 transaction. So the June meeting was postponed and was rescheduled for early July. The I-95 legislation passed that final week. It was signed, I believe, on June 30. Therefore, the recommendations we received from Lazard were presented to the Authority in a public meeting on July 2, 1991. It was a meeting at which all of the Commissioners had an opportunity to ask whatever questions about whatever happened, and we took action. The action we took was immediately available publicly to everyone. In that sense I mean that the document you have that is stated recommendations of Lazard for underwriting-- That document was a public record and publicly available. As a matter of fact, the press reports of that meeting, I am sure, recite at some length what was happening and what firms would be involved.

I will also say that while a lot of things we did were controversial, and there were criticisms, there was a lot of criticism about the I-95 transaction. For example, people expressed certain reservations -- or at least some people did. My recollection is that no one at that time, in any position public or private, ever questioned the rationality or the appropriateness of the underwriting assignments. I think, in my mind, that was because they seemed appropriate; they made sense; they were what Lazard described as the "best and the brightest from the underwriting community."

The assignment of Merrill Lynch, I was comfortable with, because of all of the major underwriting firms in New Jersey, I know of no firm that has made a stronger and more visible commitment to having a presence in New Jersey than the Merrill firms. So there was a rationality to Merrill having a major role in the underwriting. It was consistent with the

directive that Lazard had given, so the underwriting assignments, as I looked at them, made sense. On top of that, Lazard understood that if they really expected to get the kind of fee that I knew in their hearts they were hoping for, it was up to them to give us a plan that would work, and a group of underwriters that would do the job and bring it in on the basis that we expected.

ASSEMBLYMAN KAMIN: Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: What was my question? Was there any particular order when the firms were questioned when Lazard brought them in? How did you do that, by postmark, or alphabetically? Do you remember how that was when you did the underwriters?

MR. GOLDBERG: I have absolutely no recollection of how the order came about. Do you?

MR. WATSON: My recollection would have been alphabetically, but I could be wrong on that.

ASSEMBLYMAN KAVANAUGH: So it seems that what you are stating here is that Lazard made all the final recommendations.

MR. GOLDBERG: Lazard made the recommendations. The actual, you know, decision was made by the Authority, but it was based on--

ASSEMBLYMAN KAVANAUGH: At your July 2 meeting -- public meeting?

MR. GOLDBERG: Yes.

ASSEMBLYMAN KAVANAUGH: At the time, prior to Lazard coming with the various underwriters, were you aware of any contact between Lazard and anyone in the Florio administration regarding the selection of Merrill Lynch?

MR. GOLDBERG: No.

ASSEMBLYMAN KAVANAUGH: Were you aware of any direct relationship between Merrill Lynch and Lazard involving fee splitting?

MR. GOLDBERG: No.

ASSEMBLYMAN KAVANAUGH: You, in your statement, said it seemed appropriate that they would have these various underwriters, and that if they were seeking the fee they needed, they had to bring forth these individuals. Since that time, we are all aware of the Massachusetts problem of fee splitting between Lazard and Merrill Lynch. So it seems like it was kind of a comfortable deal. I am certainly sure that Lazard would look favorably at Merrill Lynch, presence in New Jersey or not.

How was Merrill Lynch chosen with the approval of the Authority as the lead underwriter in the C & D share? I think that was the \$1.6 million.

MR. GOLDBERG: They were chosen in the same fashion that every other underwriter was chosen. We got a comprehensive list of recommendations from Lazard, and that is what Lazard recommended.

ASSEMBLYMAN KAVANAUGH: Was there anyone -- either Mr. Watson or you, Mr. Chairman -- anyone in the administration who talked to the Authority to direct them to use Merrill Lynch during the process?

MR. GOLDBERG: No.

MR. WATSON: No.

ASSEMBLYMAN KAMIN: Excuse me, Mr. Kavanaugh, may I ask-- When you are referring to Lazard under this sequence of events, you are specifically referring to Rick Poirier as the person making the recommendations to you on behalf of the firm?

MR. GOLDBERG: Well, the bulk of the contact we had with the Lazard firm was with Rick Poirier, so very often Poirier and Lazard would be synonymous. I cannot tell you that the recommendations we got from Lazard were just Mr. Poirier's, however, because he had a team involvement there. In addition, we had the presence, from time to time, of one of the other partners, Jack Tamagni, who did take a certain active involvement. I viewed the recommendations we got as being the

recommendations of the firm, with Mr. Poirier, you know, having the lead role in formulating what the firm recommended.

ASSEMBLYMAN KAMIN: Mr. Poirier was the lead role in conducting the interviews, and then Mr. Poirier was the lead role in putting together the package to recommend to you?

MR. GOLDBERG: That is correct.

ASSEMBLYMAN KAMIN: That was your relationship with him as well, Mr. Watson?

MR. WATSON: Yes, that is correct.

ASSEMBLYMAN KAMIN: Thank you.

Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Your memory is very good, Mr. Chairman. I am just wondering now, when we had these lead underwriters and we had the other ones which -- the smaller underwriters-- They get together and they call them, what, a "selling group" or something?

MR. WATSON: A "selling group," yes.

ASSEMBLYMAN KAVANAUGH: When did it first come to you, as far as you becoming knowledgeable -- either of you -- that Armagon (phonetic spelling) was a part of one of the selling groups?

MR. WATSON: They're not.

MR. GOLDBERG: At no point in the entire refinancing activity did the companies that have been mentioned in the press -- Armagon and Consolidated Financial Management, or whatever its name is-- At no time did either of those companies participate in the underwriting, and at no time did anyone, whether it be from Lazard or from any other source, recommend that those firms be included in the financing. They never applied for inclusion; they were never considered for inclusion; they did not participate in the Turnpike refinancing; and, to my knowledge, they received no compensation that came out of the Turnpike refinancing program.

ASSEMBLYMAN KAVANAUGH: All right. Do you have a list available that you could give to the Committee of the selling

groups for each issue? Would you be able to identify those? Is that in the packet?

MR. WATSON: Yes, we provided that. It is in two documents. In my report of May 23, it's Exhibit "O." Then in either the October 7 or the October 8 document, we submitted the list again. So it is in two places.

ASSEMBLYMAN KAVANAUGH: Okay. Thank you, Mr. Watson.

ASSEMBLYMAN KAMIN: Are you at a convenient point to stop?

ASSEMBLYMAN KAVANAUGH: Yes, Dick.

ASSEMBLYMAN KAMIN: I am going to suggest that we take about a 10-minute recess.

ASSEMBLYMAN ROMANO: How about letting me speak first, because I might have to run out the door?

ASSEMBLYMAN KAMIN: Certainly, Mr. Romano.

ASSEMBLYMAN ROMANO: Mr. Goldberg left.

MR. WATSON: Well, he probably had a higher calling right now. (laughter)

ASSEMBLYMAN ROMANO: In keeping with the-- I apologize, first of all, but I have my own problems up north.

ASSEMBLYMAN KAMIN: I understand.

ASSEMBLYMAN ROMANO: I am retiring, and a lot of last minute things are coming up.

ASSEMBLYMAN KAMIN: You have to work out your pension.

ASSEMBLYMAN ROMANO: I will continue in the countenance that I always maintain, in your words, "loyal opposition," in mine, "contentious comedy." I am not going to be contentious here. I will just be "in comedy," if you will.

Just in my facilitator role here, I go back to Assemblyman Kavanaugh's comments about the history of the group known as the Public Resource Advisory Group. I believe, when Mr. Watson spoke, it wasn't the number of different issues one had with roads, but the total bonds -- the total amount of

money that each group was looked at. He was raising the point of how many highway or road jobs this company listed in their resume.

MR. WATSON: Well, in the information that Securities puts out, I think they list both money and number of issues.

ASSEMBLYMAN ROMANO: And for the most part, it was the number of issues -- the volume of the bonding?

ASSEMBLYMAN WATSON: Well, we looked at both of them, but the volume was important, too.

ASSEMBLYMAN ROMANO: You looked at both of them. Also, in that same comment, because, you know, a lot of times we speak-- No one speaks after you speak, and one might hear what you have said and take it as a summation that that was, in fact, what transpired. This is for my colleagues. I don't mean this for you, Mr. Watson.

When Assemblyman Kavanaugh referred to the voluminous issue of the RFP, I think we all have to understand that RFPs to these companies here-- This is boilerplate. I'm sure they have that on some word processor someplace where they just fill in the different terms. It isn't that someone is sitting down to write a doctoral dissertation.

In any event, those are the only comments I wanted to make, except for the fact that I do think we should recognize that even in the agenda for this meeting here, we talk about the issuance of debt by the State -- State agencies and authorities. If my recollection serves me correctly, I don't think there was a day imposed on what debt we were talking about -- or what date, I should say. So, you know, any reference that my colleagues might have had to prior, I think are in keeping, but I think we are all here together trying to come up with some sort of rationale so that we can best deal with this issue of proper protocol in the issuance of debt by State agencies.

You know, I rest with you 100 percent on this entire issue. I look forward to the time when we will sit down and come up with a bipartisan effort.

ASSEMBLYMAN KAMIN: Dr. Romano, you referred to the RFPs as boilerplate.

ASSEMBLYMAN ROMANO: Well, the--

ASSEMBLYMAN KAMIN: And yet the testimony we have heard today from the Authority is, in fact, that this was such a unique, special, sui generis deal; that it was somehow unique.

ASSEMBLYMAN ROMANO: Well, what I am saying is that the power graphs and the information requested by you, Mr. Chairman, are basic. You know, it isn't that they have to go back into the history books. It is a numbers situation. I think you will have to agree with me.

ASSEMBLYMAN KAMIN: Which is why, in fact, we were concerned about the high fees for something that is boilerplate.

Back to you, Mr. Kavanaugh.

ASSEMBLYMAN KAVANAUGH: Mr. Chairman, I--

ASSEMBLYMAN KAMIN: Oh, we are going to stop.

ASSEMBLYMAN ROMANO: We're going to stop. I appreciate your allowing me to break in.

ASSEMBLYMAN KAMIN: We will take a 10-minute break. I think everyone could use a chance to stretch. I appreciate the patience of the witnesses today. I don't think we have that much more to do when we come back, but I do think a break would be a help. We will start at 2:20.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN KAMIN: I think everyone is ready. We are in the middle of questioning, with Mr. Kavanaugh. I would like to--

Mr Kavanaugh, are you prepared to pick up where you left off?

ASSEMBLYMAN KAVANAUGH: Just some closing remarks here: I understand that the Port Authority issues a written report describing how and why the participants are chosen. Now, has the Turnpike Authority changed their policy in doing like the Port Authority?

MR. GOLDBERG: First of all, to my knowledge, the Authority never had such a policy. It certainly didn't have such a policy in connection with the '84-'87--

ASSEMBLYMAN KAVANAUGH: Which Authority?

MR. GOLDBERG: The Turnpike Authority.

ASSEMBLYMAN KAVANAUGH: No, no, I'm saying you do not have one.

MR. GOLDBERG: The Turnpike Authority has not had--

ASSEMBLYMAN KAVANAUGH: The Port Authority does, though. The Port Authority issues a written report describing why and how bond participants are chosen. Now, do you think, as far as the integrity of the process, that that would be something you would be agreeable to?

MR. GOLDBERG: I think that would be a useful thing. By hindsight in this situation, if we were doing it over, I think we probably would have done that. I don't think it would have changed any of the decisions, but for purposes of documenting the record, I think that would have been useful.

ASSEMBLYMAN KAVANAUGH: Just one last thing regarding Bob Lurie, who is a career person in Treasury whom we all have the greatest respect for. In a memo from him to Treasurer Berman on the subject, he stated that criteria for selection would be used, and that proposals should be graded by the Committee and firms selected in general accordance with the grades assigned. However, in the statement we have, or the report, you stated it was impossible to assign separate scores to each proposal. I am just wondering why the scoring system wasn't used.

MR. GOLDBERG: No, I don't think I said that, or at least I do not recall saying it. What I think I said was that I did not attempt to score them. Let me just say that Mr. Lurie, in particular, was fully cognizant of the process that we went through and how we did it. As we have indicated, he, in fact, sat in on the interview process and he was aware of the results of that process as recommended by Lazard. At no time, as part of that process, did Mr. Lurie recommend that we do what he had in his memo. If he had reiterated that recommendation at the time that we were doing it, it is quite conceivable that we would have done it. The fact is, the Authority believed that it went through a comprehensive process and that we had received the information that both we and the financial adviser needed to make the decisions. The Authority, at least in this case, was satisfied with the specific recommendations that we got from Lazard as being consistent with all of the information we had.

I don't take issue with the notion that as a matter of regular procedure you go through that process. I wouldn't overstress the value of it, because I think these processes are so subjective that we may create a false sense of security. In terms of how you are making these decisions, if one believes that by going through a rating system or a numbering system, you are, in fact, going to end up making the selection process simpler or easier, I don't think that is really true. I think the value of the process and the documentation is just that; that it does explain to those who look at the process after the fact more precisely what was done.

ASSEMBLYMAN KAVANAUGH: What it was--

MR. WATSON: I think on my report--

ASSEMBLYMAN KAVANAUGH: I gave you credit for this--

MR. WATSON: Yes, yes, you gave the Chairman credit for something--

ASSEMBLYMAN KAVANAUGH: I thought possibly in a quiet evening you assisted him, but I see that the Executive Director prepared--

MR. WATSON: Yes.

ASSEMBLYMAN KAVANAUGH: The words I used were just--

MR. WATSON: Yes, I think it is on pages 17 and 18, where we went through the process. It was my strong feeling in going through it that since we were dealing, you know, with the 11 top firms in the world as underwriters -- everyone had recognized them in the industry as the top firms-- In listening to the presentations they were making and the top managers that each of them was bringing in there, and after reading each of their proposals, it was just very difficult, for me anyway, to assign a separate and precise score. I would have had a great deal of difficulty saying that one firm got 98 and another firm should have 97.5. I could not make that distinction based on the interview process, the answers to the questions, the proposals. That was my point in making that. That does not mean you can't set something up and try to do it. At that time, in 1991, given the type of firms we were looking at, I simply could not make that numerical distinction.

ASSEMBLYMAN KAVANAUGH: I would think, though, that the financial adviser would be able to do that -- the process -- for the dollars that were received there. It is just something as far as trying to clarify.

That is all, Mr. Chairman.

ASSEMBLYMAN KAMIN: Thank you, Mr. Kavanaugh.

We will now go to-- Does Mr. Romano want to make any other comments at this point? (no response) We will go over to Mr. Gibson for his questions.

ASSEMBLYMAN GIBSON: Thank you, Mr. Chairman.

I have a few questions on the holdback pool allocations. But before I start those questions, something

came up earlier today that I need a little clearing up on. Maybe it will also clear up a question Assemblyman Kamin had.

When you gook over this four-mile stretch, did you put Turnpike employees on there to maintain it?

MR. GOLDBERG: Yes.

ASSEMBLYMAN GIBSON: Okay. So basically--

MR. GOLDBERG: And State Police.

MR. WATSON: Yes, we hired additional State Police.

ASSEMBLYMAN GIBSON: Now, the State Police you use are--

MR. WATSON: Our State Police.

ASSEMBLYMAN GIBSON: You don't have the same State Police as the rest of the State? Well, I don't want to get into that; that's--

MR. GOLDBERG: Well, we don't have the same State Police. We have a different troupe, and we pay for our State Police.

ASSEMBLYMAN GIBSON: You have your own maintenance people there. It basically becomes your road. You just don't charge tolls on it, and you are eligible for Federal aid on that four-mile stretch. You said that. Have you made any applications for Federal aid?

MR. GOLDBERG: Yes.

ASSEMBLYMAN GIBSON: And you have received it?

MR. WATSON: It is in process now. We required-- Our agreement was that we would get at least \$6 million a year for five years, as the Chairman said, from the Federal allocation. We have performed several million dollars' worth so far, and we are in the process of being-- You have to expend it first, and then you get reimbursed later. We are in the process of getting that money reimbursed now.

ASSEMBLYMAN GIBSON: That Federal aid comes through DOT or directly to you?

MR. WATSON: Through New Jersey DOT.

ASSEMBLYMAN GIBSON: Okay; all right. That clears it up for me. That clearly has become your road, just like you went out and bought a piece of real estate.

MR. GOLDBERG: Yes. If something happens there, we get sued.

ASSEMBLYMAN GIBSON: All right. There was \$219,000, plus or minus thousands of dollars of holdback pool money. Mr. Watson, can you explain to the Committee who initiated the idea of a holdback pool and who approved of its use?

MR. WATSON: Well, as I understand it -- and I am not an expert in that field; that is why we hired financial advisers and others -- it is common in the industry for financing like this to have a retention of some percentage. I think in our interviews with the firms, they indicated it was something like a 10 percent retention that was held back to be redistributed amongst the underwriting and selling groups in anticipation that some of them may not have gotten as many bonds to sell as they could have sold. In other words, they might have said, "We can sell 400," and they got 20.

That is my understanding about what that pool is. That was administered by the financial adviser.

ASSEMBLYMAN GIBSON: So the idea was not initiated by anybody currently. It is what has been done as a standard.

The other question was: Who approved of its use in this case?

MR. GOLDBERG: All right. Let me take your first question. In this case, as I recall it -- and I think we had some writings there; Mr. Watson might have to double check -- we had told Lazard, as a generality, that we did not want a situation where the seniors were holding all of the profits and benefits to themselves; that they were being fairly allocated. We also wanted to make sure that there was proper inclusion of the kind of firms that I mentioned several times -- women- and minority-owned firms. So that fund, as I understood it, was a

way of reserving funds so that to the extent there was a need to make sure that there had been full inclusion of the different kinds of firms, there would be an opportunity to do that.

Now, having said that, and as a generality, to my knowledge the Authority never directed Lazard to allocate any specific amount of funds to any specific underwriter. All the Authority did was give them the general directions that I have mentioned. To the extent that there was a holdback of funds and to the extent that there was any distribution from those funds, the actual, you know, distribution of those funds was done by Lazard. It was not done by the Authority or at the direction of the Authority, and certainly not at my direction. I never directed Lazard specifically with regard to allocating funds.

Mr. Watson, do you have anything to add?

MR. WATSON: No. That is my understanding, too. We never gave them, you know, any indication of what firm to give what money to, but to make sure it was allocated fairly.

ASSEMBLYMAN KAMIN: Excuse me. Mr. Gibson, if I may-- It was my understanding that there was, in fact, a letter from Merrill Lynch, as senior underwriter, to the Authority, requesting guidance on how to handle the holdout pool.

MR. GOLDBERG: I don't believe there was a letter from Lazard contemporaneous with the underwriting--

ASSEMBLYMAN KAMIN: No, from Merrill Lynch.

MR. GOLDBERG: From Merrill Lynch? I don't recall such a letter.

ASSEMBLYMAN KAMIN: Do you recall such a letter, Mr. Watson?

MR. WATSON: If it had come, it would have gone directly to the financial adviser. If it came to us, we would have sent it right to the financial adviser.

ASSEMBLYMAN KAMIN: Do you recall seeing the letter?

MR. WATSON: I don't recall that, but if there was one, it would have gone that route.

MR. GOLDBERG: The only thing I recall seeing after the fact -- and, you know, there has been a lot of paper and it is possible that something was missed-- The only thing I recall seeing after the fact was a document that was in the material submitted by Treasurer Crane to, I think, this Committee, which I understood was a document that came from Merrill Lynch. It had a list of underwriters in it with an indication as to an allocation of an amount of bonds to a group of underwriters.

That document, to my knowledge, the Authority did not receive or see at a time contemporaneous with the underwriting. I don't have any awareness of any specific allocation of bonds to underwriters. To the extent that that has occurred, or did occur, to my knowledge that would have been undertaken by the Lazard firm. If they did it, presumably they were doing it pursuant to the general directions we had given them.

ASSEMBLYMAN KAMIN: That letter was more, I understood, who were the participants in the syndicate. But the letter I was referring to was one where Merrill Lynch was responding to the holdback--

MR. GOLDBERG: If you got that letter, it might be helpful to refresh our recollection.

MR. WATSON: It might refresh our memory if we could see it.

ASSEMBLYMAN KAMIN: I don't have it. I was hoping that perhaps you did or had some knowledge of it.

MR. WATSON: No.

MR. GOLDBERG: I just don't remember that kind of a letter, so I don't even know where to look.

ASSEMBLYMAN KAMIN: All right. Clearly, on something of this significance Lazard would not be acting without some direction, in my view.

Mr. Gibson, please go ahead.

ASSEMBLYMAN GIBSON: Of the \$219,000, \$84,000, plus or minus, went to Butcher & Singer. As I understand it, this holdback was to go to the minorities. Is Butcher & Singer-- It is certainly not a New Jersey firm. Is it a minority firm?

MR. GOLDBERG: I don't know. I don't think it is, but I have to tell you that to my knowledge, no one at the Authority directed either the financial adviser or a senior underwriter to allocate any specific amount of bonds to any underwriter, including Butcher & Singer.

ASSEMBLYMAN GIBSON: So the allocation to Butcher & Singer would not have been by the Authority. It would have also been contrary to your general guidelines to set this out to minorities and New Jersey firms?

MR. GOLDBERG: Well, it certainly would not have followed from those guidelines what the basis would have been for giving an allocation to Butcher & Singer. I don't know. I have no way of knowing why that was done, assuming it was done.

ASSEMBLYMAN GIBSON: But it is your testimony that -- and you can say yes or no -- the \$84,000 that did go to Butcher & Singer was contrary to the general guidelines on where this holdback was to go?

MR. GOLDBERG: I wouldn't say it was contrary.

ASSEMBLYMAN GIBSON: Not to a specific firm, but to these minority and New Jersey firms.

MR. GOLDBERG: It may not have been contrary, but it was not pursuant to the guidelines. I mean, the guidelines were to make sure that there was fair inclusion of a certain kind of group of firms. In addition, there was a general guideline to make sure that there had been a fair distribution among the underwriters of bonds. That is a very general guideline. Why Butcher & Singer did or did not get allocated the amount of bonds they got, I don't know, and it was not at the direction of the Authority.

ASSEMBLYMAN GIBSON: All right.

ASSEMBLYMAN KAMIN: Who told Lazard, then?

MR. GOLDBERG: I don't know that anyone told Lazard. I mean, that may well have been a judgment made by Lazard for its own reasons, and I don't know the basis for such a judgment. I do not have that information.

ASSEMBLYMAN KAMIN: Go ahead, Mr. Gibson. I'm sorry.

ASSEMBLYMAN GIBSON: That's all right.

Both of your testimonies then are consistent with what was in The Courier-News. You were quoted as saying that you only provided general guidance, not the distribution. You have already said that today. So somebody had to decide the distribution on this holdback pool. What we would like to find out, if we can -- if you know -- is, who made that decision?

MR. GOLDBERG: Well, I don't know, but my assumption would be that to the extent that anyone was in communication with underwriters about the distribution of funds, it would have been Lazard. Lazard would be doing that, presumably, pursuant to the general direction that Lazard had from the Authority.

ASSEMBLYMAN GIBSON: Other than the fact that this particular firm was not a New Jersey firm and not a minority firm.

MR. GOLDBERG: Yes. This was not a New Jersey firm, as far as I know; it was not a minority firm. If, in fact, they got an additional allocation beyond what had initially been granted them, the Authority doesn't know why that occurred.

ASSEMBLYMAN GIBSON: Are either of you aware of-- First of all, did Joe Salema contact either of you with regard to any of this distribution of the holdback pool?

MR. GOLDBERG: No.

MR. WATSON: No.

ASSEMBLYMAN GIBSON: Are either of you aware of him or anyone else in the administration contacting Lazard with regard to this distribution?

MR. GOLDBERG: No.

MR. WATSON: No.

ASSEMBLYMAN GIBSON: Is it your view that Lazard was reporting to the Treasurer's Office?

MR. GOLDBERG: Lazard had, in essence, instructions to keep the Treasurer's Office fully informed as to what they were doing. You know, based on the conversations we would have from time to time, I certainly understood that Lazard was in fairly regular communication with people in the Treasury Department. Presumably, most of that would have been with Lurie, but it could have been with others, because they were doing a variety of things where it might have been logical, you know, to follow up with different people within the Department.

But Lazard was expected to keep Treasury aboard, because everything we did required Treasurer approval. So beyond that, if we were doing something that to the Treasury looked wrong, or looked like it wasn't the right way to do it or the best way to do it, I would have, you know, welcomed any comments or assistance that they would provide. And over the course of time, they did provide comments and assistance.

ASSEMBLYMAN KAMIN: Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Through the Chairman, what was your reaction regarding Butcher & Singer, a non-New Jersey firm, nonminority firm? When did you become aware of this allocation that they received or why they received it?

MR. GOLDBERG: Oh, some--

ASSEMBLYMAN KAVANAUGH: Let me just follow through. I think as the CEO of an organization where we are talking about millions of dollars being handled here, that it would show a lack of responsibility, an almost irresponsible action, on the part of the Authority to allow this to happen when you know there are certain guidelines, certain things that are very, very much in the forefront as far as the Legislature is concerned.

When did you become aware that this firm received this?

MR. GOLDBERG: Well, before you quickly conclude that there has been a lack of responsibility, you probably should have the answer to that question. The answer to that question is that the Authority, at least I at the Authority, had no information about any specific allocation to underwriters, including Butcher & Singer, until after the review of these matters occurred starting last April and May. I did not see any document or paper that suggested that Butcher & Singer received additional bonds until after, I think, Secretary -- or Treasurer Crane submitted documents to this Committee. I don't remember when that was done, but it was clearly within, I would guess, the last six months.

I will further tell you, although you did not ask--

ASSEMBLYMAN KAVANAUGH: Were you incensed, as the Chairman, when you saw this; that a nonminority and a non-New Jersey resident received an allocation? What was your reaction?

MR. GOLDBERG: My reaction was that it was something that, on its face, did not square with what we expected to have been done. I did ask counsel to follow up on that to the extent possible.

ASSEMBLYMAN KAVANAUGH: Was that verbally or in a memo?

MR. GOLDBERG: There is a writing on that somewhere, I think, sometime within the last three or four months. At this point, because of the fact that there are active, ongoing Federal investigations which are pursuing these things -- I presume in detail and in-depth-- At this point, it does not seem that the Authority, on its own, is going to get answers to these questions any quicker than these investigators will get them.

But the Authority has a concern about that kind of issue, and did express it. I believe there is-- If I am not mistaken, I think there was a memo -- possibly to Mr. Watson -- you know, expressing not only some concern, but requesting that

we do whatever we could do at that point to get more information. At this point, I do not have more information.

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman, was that memo-- That memo was from you, as Chairman, to Mr. Watson, as the Executive Director?

MR. GOLDBERG: That is correct.

ASSEMBLYMAN KAVANAUGH: Have you had a response, either verbally or in writing, from the Executive Director to you, as Chairman?

MR. GOLDBERG: We've talked about it, and at this point I have talked to counsel. While I do not want to go into detail, the Authority, at this point, is limited in terms of pursuing questions which in the ordinary course we would pursue because of the ongoing Federal investigations. We do not want to in any way interfere with, or impede, those investigations. That, based on discussions with counsel, you know, limits what we can do at the moment.

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman, would you characterize-- Would I be right in saying that you were dismayed when you found out about this?

MR. GOLDBERG: Look, I don't want to characterize it other than to say it was a surprise to me to learn that there had been an explicit allocation of bonds to a list of underwriters, and that on that list the allocation to Butcher & Singer in particular did not seem to make sense on its face. It was questionable enough in my mind for us to seek further information. We have attempted to do that, but as of this point, I don't have further information.

ASSEMBLYMAN KAVANAUGH: Were any of the requests directed to the Treasurer?

MR. GOLDBERG: I think we inquired of Treasury where they got that document. My understanding is that we were told by, because-- The document said it came from the Turnpike, and it did not.

MR. WATSON: We were told it came from Merrill Lynch.

ASSEMBLYMAN KAMIN: I'm sorry, Mr. Watson?

MR. WATSON: We were told it came from Merrill Lynch, as I recall, because I was incensed, too. My big interest was in making sure that minority firms, which very seldom have a chance at participating in events like this, participated. Most of my questions to the panel when we interviewed them were in that area. They all insisted, beyond any question, that they were going to perform equally in this area. When I saw it, I was just as incensed as the Chairman. I recall talking to Mr. Lurie about it and asking where it came from. My recollection is -- and I probably have a letter on this point -- that it came from Merrill Lynch themselves.

That is as far as we can go. The Chairman is correct. We have talked to counsel trying to get the answer. Counsel has talked to counsel. Apparently once these investigations start, staffs to staffs don't talk anymore. So we run into a blind wall at this point.

ASSEMBLYMAN KAMIN: If I may, Mr. Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Just to that point, Mr. Watson has clarified it. The Chairman wasn't dismayed; the Chairman was incensed.

ASSEMBLYMAN KAMIN: Thank you, Mr. Kavanaugh.

On that point -- and maybe it would help -- Butcher & Singer is part of the merger with Weekford Securities (phonetic spelling). Butcher & Singer was the largest Pennsylvania firm in the securities business in Pennsylvania -- home based in Pennsylvania. They are now affiliated with Weekford Securities, which happens to be the largest firm in Pennsylvania -- or, excuse me, in Virginia, headquartered out of Richmond. That is a huge distribution network. For a firm of that size, as a regional, significant firm, to be in the pool allocation does not make sense.

Did you inquire in writing for an explanation of this from Lazard, specifically to Rick Poirier?

MR. WATSON: No, I don't think I did in writing. I think since we were into the situation of the investigation, I talked to counsel to make contact with counsel.

ASSEMBLYMAN KAMIN: Your counsel?

MR. WATSON: Yes, our counsel to call their counsel; lawyers to talk to lawyers and figure out if we could get some answer to that.

ASSEMBLYMAN KAMIN: Did you get a response back from--

MR. WATSON: Not yet.

ASSEMBLYMAN KAMIN: So counsel has not been able to report back to you from either contacting Lazard or Merrill Lynch, or any of the senior underwriting firms that were involved in the deal?

MR. WATSON: I have not received anything.

ASSEMBLYMAN KAMIN: Okay. And you have not received any communication verbally either?

MR. WATSON: No.

ASSEMBLYMAN KAMIN: Okay.

Mr. Gibson?

ASSEMBLYMAN GIBSON: I am curious about how long ago you referred that to counsel?

MR. WATSON: It would have been in recent months, since the information came out in the Treasurer's documents.

ASSEMBLYMAN GIBSON: Three months?

MR. GOLDBERG: Within the last two or three months.

MR. WATSON: The last three or four months.

ASSEMBLYMAN GIBSON: What incentive would Lazard have for creating their own distribution pool, assuming they did?

MR. GOLDBERG: Well, I think we may be creating a misimpression. I want to be careful about that. There was nothing wrong with there being a holdback pool, from the Authority's point of view. It was consistent with our

instructions. I think that at some point we may have, in fact, written the underwriters indicating that, you know, that was something that could be done, or should be done.

So the fact that there was a holdback pool, in and of itself, did not mean to the Authority that anyone -- Lazard or anyone else -- was not, you know, proceeding in the best interest of the Authority. That is different from the question of what happens to the money that is in the holdback pool. On that issue, from the Authority's standpoint, the reason for that pool was to accomplish the objectives we have already stated. If it was utilized for other reasons, then the Authority would have to have, from the financial adviser or the underwriter, an explanation, you know, for those allocations. As we have already testified, we, with regard to Butcher & Singer in particular, have not gotten an explanation for why they would have gotten an allocation.

I can't tell you that there is no basis for that allocation or that it was improper or that it was wrong. I don't know that. All I know is that on its face, it did not square with what we were expecting to happen. At the very least, you know, we should have an explanation.

The other aspect of it is, we never got that information from Merrill Lynch at the time that the allocations were going on. So we were never in a position at a time when it would have been useful to understand, you know, what these decisions were or who was making them.

So we have taken action after the fact. When we finally, for the first time, saw that kind of specifics-- We had a lot of trouble with Merrill Lynch at the wrap-up of the underwriting. Mr. Watson can probably speak to that better than I. But all of the underwriters were directed to report after the completion of the underwriters-- The senior underwriters were directed to give us a breakout as to who got an allocation of bonds. We got those allocations fairly

promptly from the other senior writers, from First Boston, from Goldman Sachs, and whomever. With Merrill Lynch, we got some of that information. We did not get a complete report.

The absence of a complete report concerned the Authority sufficiently that, as I recall, Mr. Watson wrote Merrill Lynch, you know, telling them that they were supposed to give us a complete report. While I am not absolutely certain of this, my best recollection is that while we got a certain amount of information about how they distributed the bonds they were involved in, we never got a total, you know, explanation of that distribution. And we certainly did not get that kind of detail that was on the document that Merrill Lynch produced for the Treasurer's Office.

So the Authority, at that time, was concerned about it. It took some steps to get that information. We have gotten a certain amount of compliance. We did not get compliance from Merrill Lynch that was completely satisfying.

ASSEMBLYMAN KAMIN: Go ahead, Mr. Gibson.

ASSEMBLYMAN GIBSON: I am finished with that, but I have something else, unless somebody else--

ASSEMBLYMAN KAMIN: No, go ahead.

ASSEMBLYMAN GIBSON: Okay. On your comparison of financing costs, you indicated that you have done considerably better in the current offering than what was done in '84-'87. Let me take just one item that you have, in fact, done better in. I would question whether it is all because of additional talent or additional energy. There may be another explanation for it. If there isn't, then fine. But take the traffic consultant as an example. That went down from \$191,000 to \$13,000.

ASSEMBLYMAN KAMIN: This is page 10 of that report--

ASSEMBLYMAN GIBSON: Yes.

ASSEMBLYMAN KAMIN: --that we are referring to?

ASSEMBLYMAN GIBSON: Yes.

ASSEMBLYMAN KAMIN: Thank you, Mr. Gibson. Go ahead.

ASSEMBLYMAN GIBSON: I don't necessarily believe that is because the current Authority was so much more aggressive in holding the costs down. Would you please give us some insight on why you feel that the traffic consultant went down so much?

MR. GOLDBERG: I'm sure you're right that that kind of figure did not come down because we were more efficient. Mr. Watson may have a more complete answer than I. My guess would be that we had just gone through the toll increase and, as a result, the traffic revenue studies we had were very current. Therefore, it was not necessary for the traffic consultant to do much more than just update fairly current reports.

MR. WATSON: That is correct.

MR. GOLDBERG: That, I am sure, is the reason.

ASSEMBLYMAN GIBSON: Are there similar things to that throughout the--

MR. GOLDBERG: Well, there are differences. Each financing is different. We spent, in some cases, more, and there are reasons for that. For example, I don't think we spent more for counsel, and of course, attorneys' fees between '85 and '91 probably went up. But, for example, we spent \$277,000 for special tax counsel, which was not employed in the earlier one. We did that because, among other things, it was the judgment of the Authority, particularly of its Chairman, that even if I was overloitering the issue, that the complexity of this transaction was great enough in my mind that I wanted the security that came from having the best tax counsel I could get.

We used Mudge Rose; we used Bob Ferdon. We went through a process in selecting tax counsel, but that process satisfied me that we got, in Mr. Ferdon, if not the most qualified tax expert on this kind of issue in the country, certainly someone who is among the premier group. I considered that money well spent. Therefore, you know, the fact that that

kind of advice was not needed with an initial refinancing, in my mind, didn't mean that we should not have spent it. It was money that we should have spent.

But, look, the order of magnitude speaks for itself. I mean, you can walk around these numbers as long as you want, and you can console yourself with the notion that market conditions were different, and of course, they are different every single day. But the fact is, the Authority, in 1984-'87, spent \$67 million to do no more than what we did in '91-'92, and, on its face, these numbers would not satisfy me.

Now, I was not brought into the Turnpike to investigate this earlier financing, and I did not spend a lot of time doing that. But I spent enough time to look at these numbers to satisfy myself that if there was any way we could avoid spending this amount of money in a mandated refinancing, we were going to do everything possible to ensure that that happened.

ASSEMBLYMAN KAMIN: I just have to interrupt on this one, Mr. Goldberg, respectfully. The issues back in the '80s, in fact, were larger -- over 4.1 billion worth of bonds -- and it was an ongoing process in that there had to be the recalculations of the fixed interest rates. It was not just a one-shot deal. So I don't think you can say, in my view -- correct me if I am wrong here -- that somehow this was only a little bit different from the last time.

MR. GOLDBERG: In this day and age, if you could do that same deal the way it was done in '84, and you did it for that kind of money in this climate, you would spend a lot more time than I am spending explaining why you did it.

Now, if you think that is a good expenditure, you are entitled to your opinion. I'm telling you that, on its face, that amount of money is very hard to justify, particularly when you can compare it with the numbers we compiled. If you want to do it on the basis of calculations on market, fine. But I

don't believe that that financing cost represented the best that could be done, or anything close to it. In my mind, the best proof of it is what we did in '91-'92. You don't have to accept that. You can disagree with it.

ASSEMBLYMAN KAMIN: Well, the market conditions have changed, and it is not that deal that is under investigation.

Mr. Gibson, please go ahead.

ASSEMBLYMAN GIBSON: I'm finished, Mr. Chairman. Thank you, and thank you, gentlemen.

ASSEMBLYMAN KAMIN: If I may, just to finish up on a couple of points Mr. Gibson had, could you help me with the call notice? What is that -- on page 10 again of your -- the \$441,000?

MR. GOLDBERG: As part of the refinancing scheme, one of the things that the Authority had to determine was the amount of bonds that pursuant to our indenture we could call and redeem at par, as against that premium. In order to do that, among other things, we had to go through a call notice, and that is the cost involved in that. I will also tell you that there is a dispute among some of the owners of the bonds that were called that is in court. They are arguing that the Turnpike did not properly do what it could do, or it went beyond what it should have done and did not call, you know-- We should not have called certain bonds.

Since that is in litigation and in the hands of counsel, while I would be happy to explain in generalities, I don't think this is the appropriate forum to get into a lot of detail on what may affect pending litigation.

ASSEMBLYMAN KAMIN: In a rough sense, how much of the \$441,000 would have been actual cost of the publications versus technical advice?

MR. GOLDBERG: I don't think there is any advice in there. I think it is whatever was required as a matter of the indentures. It is like an out-of-pocket expense. I don't

think there is any lawyering or anything in there, but I have to say that I don't really know.

Can you answer that, Mr. Watson?

MR. WATSON: No. Most of it, as I recall, had to do with the selection of what bonds are called. There is an arbitrary process to do that, and it is a very complicated process. It came back as that being the cost for the process.

ASSEMBLYMAN KAMIN: Two more very brief questions: One, the other counsel you referred to was also involved in the other offerings. Who was the other counsel, as referred to on page 10 -- the name of the firm?

MR. GOLDBERG: The firm that served as bond counsel?

ASSEMBLYMAN KAMIN: On page 10, bond counsel--

MR. GOLDBERG: Page 10 of what?

ASSEMBLYMAN KAMIN: Of your report -- bond counsel, other counsel, special tax counsel -- on your comparison of finance costs?

MR. GOLDBERG: Oh, okay. Oh, all right.

MR. WATSON: Bond counsel was Morgan Lewis.

MR. GOLDBERG: Bond counsel was Morgan Lewis & Bockius. Another counsel would have been -- an Authority counsel -- Sills Cummis.

ASSEMBLYMAN KAMIN: Who made the determinations as to what firms were, in fact, filling these slots?

MR. GOLDBERG: Well, Sills Cummis had been retained by the Authority, in fact, before Mr. Watson and I arrived, so that was not a decision that was made as part of the refinancing. Morgan Lewis, or the selection of bond counsel and the selection of special tax counsel both went through an RFP process which was basically headed up by Mr. Cummis of the Sills Cummis firm, which, in turn, was brought back by way of recommendations to staff, the Chairman, and ultimately, the full Authority.

ASSEMBLYMAN KAMIN: So Sills Cummis, in the selection of these different firms, functioned in much the same way as Lazard did for the selection of the underwriting firms?

MR. GOLDBERG: Well, it was a much lesser assignment. It was an assignment to put together a list of qualified firms, to interview them, and to make recommendations as to which firm, or firms, should be considered for selection.

ASSEMBLYMAN KAMIN: My final question: Did anyone in the Governor's Office or the Treasurer's Office contact you with suggested names for the RFP?

MR. GOLDBERG: Oh, it's possible. I mean, that I do not recall, but--

ASSEMBLYMAN KAMIN: Mr. Watson?

MR. WATSON: Not that I recall.

ASSEMBLYMAN KAMIN: But it is possible in your case, Mr. Goldberg?

MR. GOLDBERG: It is possible. I don't remember, but it is quite possible that the names were, at one point or another, suggested. That does not mean that any-- I got recommendations for everything, from everybody. I mean, I had bushels of recommendations from almost everybody who lived and breathed, it seemed to me.

ASSEMBLYMAN KAMIN: The amount of \$2.9 billion does generate a great deal of interest.

MR. GOLDBERG: I was never such a popular figure with Wall Street as I was then, and I never will be again.

ASSEMBLYMAN KAMIN: Mr. Goldberg, Mr. Watson, I am very appreciative of your patience and of your testimony today. It has been enlightening.

That concludes today's proceedings. My thanks to the Office of Legislative Services, again, for their expert help, and to the Committee members and staff.

This meeting is adjourned.

(MEETING CONCLUDED)



APPENDIX





NEW JERSEY TURNPIKE AUTHORITY

P.O. Box 1121

New Brunswick, N.J. 08903

(201) 247-0900

DAVID J. GOLDBERG
CHAIRMAN

STATEMENT OF DAVID J. GOLDBERG, CHAIRMAN NEW JERSEY TURNPIKE AUTHORITY TO ASSEMBLY APPROPRIATIONS COMMITTEE DECEMBER 14, 1993

The New Jersey Turnpike Authority appreciates the opportunity to appear today before the Assembly Appropriations Committee to respond to any questions concerning the Authority's refinancing activities.

Within the last ten years, the New Jersey Turnpike Authority refinanced its entire bonded indebtedness on two occasions. The first occurred between 1984-1987. The most recent occurred in 1991-1992.

The 1984-87 refinancing took place primarily because the Authority in 1985 borrowed 2 billion dollars to finance a widening of the Turnpike in the north between interchanges 11 and 18, including both the eastern and western spurs. The widening also included dualization of the portion between interchanges 8A and 9.

At the time of its 2 billion dollar borrowing, the Authority's program was conceptual. The Widening Program had not been designed and essential state and federal permits had not been obtained.

1984-87 REFINANCING

In undertaking this refinancing, the Authority:

1. Did not retain or use an independent financial advisor until 1987 at which time the program was substantially completed.
2. Did not engage in any public solicitation of underwriters to carry out the program.
3. Assigned the responsibility to act as Authority financial advisor and lead underwriter to a single underwriter, Smith, Barney, Harris, Upham & Co., Inc. (Smith Barney).

NEW JERSEY TURNPIKE AUTHORITY

4. Left the structuring of the underwriting essentially to Smith Barney.
5. Did not undertake an effective cost control effort. As a result, the cost of the refinancing was approximately 67 million dollars. Underwriting costs alone exceeded 57 million dollars. Payments to Smith Barney for its services as Financial Advisor exceeded 4 million dollars. Printing costs were more than 2.5 million.

By contrast, the 1991-92 refinancing cost \$26 million; \$40 million less than the 1984-87. The Financial Advisor received \$2.275 million and underwriters \$20 million. Printing costs were less than \$600,000.00. (See attached chart).

1985-90 CONSTRUCTION PROGRAM

Significant problems arose because the Authority decided to borrow 2 billion dollars before its program had progressed beyond the conceptual stage. The 2 billion dollar borrowing was premised on the Widening Project being completed by the end of 1990. However, the Authority was able to place under construction between January 1986 and April 1990 less than 250 million dollars. In an effort to accelerate construction, the Authority spent approximately 70 million dollars to plan and design the widening of the Western spur before obtaining required State and federal approvals. Because the required permits were not issued, the Administration of Governor Kean in 1989 abandoned this project. The 70 million dollars expended on these plans have been of no value to the Authority.

1985-90 FINANCING DECISIONS

The borrowing of 2 billion dollars also substantially distorted the Authority's financial decisions. In 1985 as part of the 2 billion dollar borrowing, the Authority committed itself to increase tolls by 40% effective July 1, 1986 and by an additional 40% January 1, 1990 to pay for the increased costs of the Authority's debt. The 1985 borrowing predated more stringent tax limitations imposed in 1986. The Authority, therefore, for a five year period, was able legally to invest unexpended construction funds and to divert the arbitrage earnings from such investments to pay Turnpike expenses. Since the construction program did not proceed on schedule, most of the 2 billion dollar borrowing remained available for investment and produced substantial short-term earnings. The Authority decided in lieu of raising tolls on schedule to apply these investment earnings to the growing shortfall between toll revenues and Authority expenses.

New Jersey Turnpike Authority
Comparison of Financing Costs
1984 - 1987 Offerings

Service	1984 Offering	1985 Offering	1987 Offering	Total
Underwriting/Remarketing Fees	\$14,758,673	24,012,500	18,243,323	\$57,014,496
Management/Financial Advisor Fees	-	2,500,000	1,621,286	4,121,286
Advertising	247,572	-	118,788	366,360
Accounting	45,000	92,000	18,314	155,314
Verification Agent	35,000	-	-	35,000
Bond Counsel	384,236	531,674	159,427	1,075,337
Other Counsel	58,854	105,650	268,426	432,930
Special Tax Counsel	-	-	-	-
Call Notice	-	-	-	-
General Consultant	7,979	-	-	7,979
Traffic Consultant	29,806	161,590	-	191,396
Marketing	-	-	-	-
Printing	616,739	1,247,151	704,058	2,567,948
Rating Services	69,950	95,000	85,000	249,950
Trustee, Registrar, Paying Agent	594,475	25,000	25,000	644,475
Miscellaneous	34,985	-	-	34,985
	<u>\$16,883,269</u>	<u>29,770,565</u>	<u>21,243,622</u>	<u>\$66,897,456</u>

New Jersey Turnpike Authority
Comparison of Financing Costs
1991 - 1992 Offerings

Service	1991 A Offering	1991 B Offering	1991 C/D Offering	1992 A Offering	1992 B Offering	Total
Underwriting/Remarketing Fees	\$2,376,331	610,442	10,959,615	5,499,036	638,761	\$20,084,165
Management/Financial Advisor Fees	425,000	125,000	1,200,000	525,000	-	2,275,000
Advertising	-	-	-	-	213,166	213,166
Accounting	25,000	11,000	11,000	11,000	8,000	66,000
Verification Agent	5,000	5,000	4,500	-	-	14,500
Bond Counsel	380,875	22,336	264,320	63,039	112,761	843,331
Other Counsel	214,211	23,865	139,258	54,458	13,754	445,546
Special Tax Counsel	91,140	17,541	155,004	11,093	2,808	277,586
Call Notice	2,384	2,384	437,165	-	-	441,933
General Consultant	24,250	1,147	-	-	-	25,397
Traffic Consultant	8,824	-	4,330	-	-	13,154
Marketing	-	-	-	-	27,056	27,056
Printing	112,047	60,323	154,617	96,266	155,379	578,632
Rating Services	122,000	63,000	155,000	120,000	12,600	472,600
Trustee, Registrar, Paying Agent	32,601	15,813	240,883	14,911	13,991	318,199
Miscellaneous	-	-	-	-	4,764	4,764
	<u>\$3,819,663</u>	<u>957,851</u>	<u>13,725,692</u>	<u>6,394,803</u>	<u>1,203,040</u>	<u>\$26,101,049</u>

NEW JERSEY TURNPIKE AUTHORITY

Between 1986 and 1990, the gap between revenues and expenses increased to \$462 million. The shortfall was covered by arbitrage earnings. In 1990, however, under the tax laws, arbitrage earnings could no longer be used for this purpose. To close the revenue gap, it was necessary for the newly appointed Commissioners to adopt a disproportionately large toll increase. The toll increase was approved in January 1991 effective in March 1991.

1991 DECISION TO REFINANCE TURNPIKE INDEBTEDNESS

In February, 1991, Governor Florio's Administration proposed the sale to the Turnpike Authority of the portion of Interstate 95 from the northern terminus of the Turnpike to the George Washington Bridge. The Turnpike Authority, during a series of hearings before the New Jersey Senate and General Assembly, supported this proposal provided (1) legislation was enacted which directed the Turnpike Authority to purchase the section of I-95 for 400 million dollars and (2) the Turnpike indebtedness was fully refunded. The refunding of the Turnpike debt was considered desirable in order to remove restrictive provisions within the existing bond resolution and essential to eliminate any questions concerning the use of Turnpike funds for such a purpose.

The State supported the sale of I-95 to the Authority to obtain 400 million dollars to assist the funding of essential State services for the fiscal period starting July 1, 1991. It was clearly stated that if legislation directing the Authority to purchase I-95 was adopted, the Authority not only would have to refinance its existing debt, but also would have to complete such refinancing quickly to have funds to pay for the acquisition of I-95.

Although the legislation directing the Authority to purchase I-95 was not approved until June 30, 1991, the Administration and the Authority, in anticipation of its possible approval, started discussions concerning a possible refinancing in February and March 1991. Extensive discussions between the Administration and the Authority continued through June. These discussions concerned the details of the purchase agreement between the State and the Authority, the redrafting of the Authority's bond resolution particularly the extent to which excess Authority funds could or should be used for general State purposes and the manner in which this extremely large refunding would be carried out.

Because of these preparations, it was possible for the Authority to adopt its Plan of Finance on July 2, 1991. The Authority's prompt action was key to the ultimate success of the program.

NEW JERSEY TURNPIKE AUTHORITY

PREPARATIONS FOR REFINANCING

The Turnpike Authority considered itself responsible for carrying out the refinancing that would be mandated by legislative action. It did not believe, however, that it had sufficient expertise to undertake such a difficult assignment without the services of the well qualified professional consultants and the assistance of the Administration, particularly the Treasury Department.

At the outset, the Authority reviewed the manner in which the 1984-87 refinancing had been carried out. It was our judgment that the procedures used during that refinancing could not and should not be utilized.

The Authority concluded that it required the assistance of an independent financial advisor. It solicited RFP's from qualified firms including Kidder Peabody & Co., Inc. (Kidder Peabody), the firm that had been providing such services to the Authority since 1987. The Authority provided that the firm selected as Financial Advisor would not be permitted to participate in any future financing in order to avoid a possible conflict of interest. This condition resulted in the resignation of Kidder Peabody and its withdrawal from consideration. Details concerning the selection of Chase Securities and its resignation and replacement by Lazard Freres & Co. are set forth in prior Authority reports and are not repeated here.

Before retaining Bond Counsel and Special Tax Counsel, the Authority also solicited requests for proposals from qualified firms. Moreover, the Authority decided not to concentrate the responsibility for implementing its refinancing plan in the hands of a small, select group of underwriters. The newly designated Financial Advisor was directed to develop a proposed refinancing plan and to recommend how the refinancing should be implemented. The Authority directed the Financial Advisor to open the selection process to the entire financial community. The Authority also insisted that underwriting firms based in New Jersey and such firms that were owned by women or minorities be given a fair opportunity to be included in any proposed refinancing to the greatest extent possible consistent with a successful refinancing.

The Authority established objectives to be achieved by the Financial Advisor. One objective was to reduce underwriting costs from the 57 million dollars spent in 1984-87 to approximately 20 million dollars. Remaining costs were to be held to 6 million dollars. It was understood that the Authority would negotiate a fee substantially less than the 4.1 million dollars spent for management and financial advisory services in 1985-87. The actual amount paid for such services would reflect the success of the Financial Advisor in achieving Authority objectives.

NEW JERSEY TURNPIKE AUTHORITY

RFP's were solicited from the entire underwriting community. A total of 49 proposals were received. The eleven firms that requested to be assigned a role as senior manager were interviewed. Based upon the recommendations submitted to the Authority by its Financial Advisor all eleven firms received a senior underwriting assignment. The Authority approved without change the Financial Advisor's recommendations for the refinancing and the underwriters assignments at its public meeting on July 2, 1991. The Plan of Finance and the underwriter assignments were publicly set forth by the Authority and its Financial Advisor at that meeting. No expressed criticism or public disagreement with the Authority's actions concerning the proposed underwriting were received.

I will not burden Committee members at this point with further details of the refinancing program. There is submitted with this Statement for inclusion in the public record of the Committee proceedings the following documents which discuss in greater depth the Authority's program.

1. Report to Governor, Treasurer, and Chairman and Commissioners of the New Jersey Turnpike Authority on the 1991-92 Bond Refinancing by Donald L. Watson dated May 24, 1993.
2. Letter with attachments from Donald L. Watson to Honorable Rodney Frelinghuysen dated October 7, 1993.
3. Letter with attachments from Donald L. Watson to Honorable Rodney Frelinghuysen dated October 8, 1993.
4. Memorandum dated December 6, 1993 from Donald L. Watson to Chairman David J. Goldberg responding to Mr. William Cobbs' Testimony before the Assembly Appropriations Committee on September 14, 1993.

In conclusion, the Authority undertook a mandated refinancing, at a time not of its choosing and at the direction of the State's highest policy makers; the Governor and the Legislature. It is our belief that we handled this assignment responsibly and successfully.

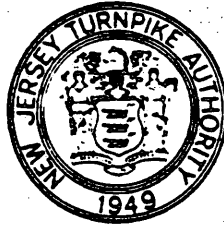
At the time that the Plan of Finance was adopted, the opinion of most knowledgeable observers was that the Authority would be fortunate if the refinancing did not increase debt service costs. In fact, the Authority reduced the debt service costs on its existing debt by more than 260 million dollars.

NEW JERSEY TURNPIKE AUTHORITY

When the refinancing was undertaken, in view of the downgrading of the State's credit rating, it was believed likely that the Authority's favorable bond rating would also be downgraded. The Authority was successful in maintaining its rating.

By comparison with the 1984-87 Refinancing, the Authority reduced issuance costs by 40 million dollars.

I would be pleased to answer any questions the Committee may have.



R E P O R T
TO
GOVERNOR JIM FLORIO
TREASURER SAMUEL F. CRANE
AND
CHAIRMAN AND MEMBERS OF
NEW JERSEY TURNPIKE AUTHORITY
ON THE
1991-92 BOND REFINANCING
BY
DONALD L. WATSON
EXECUTIVE DIRECTOR
NEW JERSEY TURNPIKE AUTHORITY

David J. Goldberg, Chairman
Frank E. Rodgers, Vice Chairman
Leonard Cohen, Treasurer
Clay Constantinou, Commissioner
Thomas M. Downs, Commissioner
Raymond M. Pocino, Commissioner

DATE: May 24, 1993

8X

INTRODUCTION

In 1991 the New Jersey Turnpike Authority carried out a complete refinancing of its outstanding debt with results that were widely considered to have been highly successful.

Recent weeks have seen this success obscured and the procedures adopted by the Authority for the refinancing called into some question, following disclosure of a federal investigation and subsequent media reports on its possible ramifications.

This report describing the reasons for the refinancing, the process for carrying it out, why the process was employed, and the results of the overall effort was prepared at the direction of the Chairman.

It should help resolve any issues which may have arisen with respect to the integrity of the Turnpike's operations and should demonstrate that the refinancing was carried out with careful regard for the public interest.

EXECUTIVE SUMMARY

Early in 1991, it became apparent that the New Jersey Turnpike Authority must consider accomplishing a massive \$2.9 billion debt re-financing, one of the most complex public finance transactions ever undertaken, and do it under extreme time constraints.

Mindful of the history of such efforts by the Authority, its leaders decided to implement what turned out to be the most rigorous selection criteria for professional firms and cost controls ever utilized by the Authority.

As a result, the re-financing achieved the following goals:

The re-financing provided flexibility for new projects which the Authority was required to undertake, and for a critical \$400 million purchase of part of Interstate Route 95 to help balance the State budget.

The Authority's fiscal approach to the refinancing was regarded so favorably that its "A" bond rating was maintained, thus permitting the bonds to be sold at lower interest rates, saving more than \$260 million over the life of the bonds.

The cost of the re-financing, at \$26 million, was less than one-half the cost of the previous ventures by the Authority in the 1980s.

The Authority avoided the necessity of considering a future toll increase for at least four years.

The achievement of these goals was not easy. It required a long and exhaustive process and decisions on a great many technical matters.

For the first time, the Authority determined to utilize a competitive process in every aspect of the entire bond issue, and began it with the selection of an experienced financial advisor with a national reputation to assist the Authority with its final determinations. Among the recommendations advanced by the financial advisor was identification of the prospective underwriters.

The underwriters were officially selected through a Resolution adopted by the Authority on July 2, 1991 approving the recommendations of the financial advisor. These recommendations included a list of firms which would be involved in actually selling the bonds. In view of recent media reports, it is important to note that the Authority at no time had before it, nor did it approve, the names of Armacon Securities or Consolidated Financial Management as part of that group.

The prime motivation of the Authority throughout the entire re-financing process was to obtain the best result for its bondholders, its toll payers and the State of New Jersey. The record demonstrates that goal was achieved.

I. Prelude to the Refinancing

In accordance with existing bond covenants, the 1989 Certification of the Comptroller evaluated the financial condition of the Authority and stated that an operating deficit would occur because of rising operating costs and debt service. This was partly due to an anticipated 1986 toll increase that was not implemented.

Later in 1989, the Authority proposed to raise tolls to cover this deficit. After Governor Jim Florio assumed office in January 1990, the New Jersey State Department of the Treasury conducted a preliminary review of the Authority's finances and the proposed toll increase in consultation with Authority staff, the New Jersey Department of Transportation and Treasury's special financial advisor, Dillon, Read & Co.

The Treasurer found the Authority's finances to be in need of substantial restructuring in light of current and projected deficits, and its proposed widening construction program to be "poorly defined and not supported by any coordinated planning or statewide transportation policy." (Exhibit A). The toll increase was postponed by the Treasurer until the Authority put its financial and capital programs in order.

Shortly thereafter, in April 1990, Governor Florio appointed David J. Goldberg as Chairman of the Authority to oversee actions of the Authority, and Donald L. Watson as Executive Director to manage its daily operations. Their first charge was to review and reevaluate the Authority's Widening Program and financial structure and to implement necessary reforms.

Concurrent with these actions, the Governor signed an Executive Order mandating that all State transportation agencies participate in the Transportation Executive Council. This Council was directed to integrate the individual plans of each agency for the benefit of the citizens of the State of New Jersey. As a result, the Authority developed a Business Plan (its first), which was adopted in December 1990.

Based on favorable reception of the Business Plan, a toll increase was approved for implementation in March 1991. This served to remedy part of the operating deficit. Additional efforts were made to reduce the annual growth in operating expenses, including a zero-based budget process, reduction in the number of operating departments and significant reduction in discretionary spending.

Finally, the Authority began to explore ways in which it could reduce the annual debt cost on the Authority's outstanding bonds--in short, a refinancing.

II. How the Refinancing Effort Was Started

Perhaps the most critical aspect at the beginning of the refinancing effort was the selection of a financial advisor. This came about as a direct result of the Authority's review of what it considered to be undesirable results of its forays into the bond market in the 1980s when it did not have such independent assistance. And without question, the most important aspect of the decision to obtain a top-notch financial advisor, made right

at the start, was the basic policy decision that this firm could not participate in the underwriting of the bonds.

No such independent advisor was in place in 1984 when the Authority moved to refinance its outstanding 1966 and 1977 bonds to achieve cost savings, allow for more flexible bond covenants, and provide funds to make statutorily mandated payments to the newly-created New Jersey Transportation Trust Fund.

In 1985, \$2,001,000,000 of new bonds were issued to (1) finance widening of the Turnpike from Interchange 8A in Jamesburg to Interchange 9 in East Brunswick and from Interchange 11 in Woodbridge to Interchange 18W in Ridgefield Park; (2) construct new interchanges and noise barriers, and (3) reconstruct existing interchanges. In 1987, the 1985 bonds were remarketed based on a change in market conditions. This remarketing was an automatic provision of the 1985 bond covenants known as the "drop-lock conversion", which converted the previous variable rate bonds to fixed rate bonds.

In each instance, the Authority chose its long-time underwriter, Smith Barney, Harris Upham & Co., Incorporated ("Smith Barney"), to structure the offering and to serve as lead underwriter. The Authority did not retain a financial advisor until 1987, too late to review how the issues had been structured, or to help negotiate the compensation of Smith Barney or the other underwriters to insure a fair price and terms.

Authority records indicate that as early as September 1983 and continuing through the first half of 1984, Smith Barney provided general financial advice to the Authority on the possible refinancing of its then outstanding debt. These services appear to have grown out of the firm's long-term relationship with the Authority, rather than through any specific Authority authorization. Smith Barney had been the Authority's informal investment advisor since at least 1955.

Consequently, when the Authority voted to adopt a financing plan in June of 1984, it naturally was the one submitted by Smith Barney. At that same meeting, the Authority appointed Smith Barney as Senior Managing Underwriter for the \$500 million bond issue called for in the financing plan, and as the Dealer-Manager for a proposed tender offer for the Authority's outstanding bonds. And on July 17, 1984, the Authority named seven co-managing underwriters for fifty percent (50%) of the issue. These actions, all taken without any formal competitive selection process, set the pattern for the Authority's later actions in 1985 and 1987. Smith Barney received a structuring fee, management fee and underwriting fee for the 1984 bond issue.

In 1985, Smith Barney developed another financing plan and the Authority once again designated them as lead underwriter for a \$2 billion bond issue.

Authority documents indicate that Smith Barney was discussing a possible bond issue with the Authority for months prior to any

formal action by the Authority appointing Smith Barney in an official capacity. By August 1985, Smith Barney had prepared a hypothetical financing schedule for an Authority bond issuance.

Although the arrangements structured by Smith Barney drew the attention of the State Treasurer, who expressed concern in October about Smith Barney's compensation package, and about the guarantee that they would be lead underwriter in remarketing of bonds, the Authority decided to proceed.

For the 1985 \$2 billion bond issuance, Smith Barney again received a structuring fee, a management fee and an underwriting fee, as well as a commitment to remarket the bonds, for additional compensation of \$14.8 million out of a total of \$24 million in underwriters' fees.

The Authority's overall process in marketing of its 1984 and 1985 bonds received much scrutiny by the Legislature, State Treasurer, bond community and media, and soon after they were issued the Treasurer wrote the Chairman advising that the Authority should retain an independent financial advisor.

The Treasurer's Office proceeded to prepare a draft scope of work, and a solicitation letter to four firms for the post of financial advisor to the Authority was ready by the summer of 1986. The letter noted that under existing industry rules, the financial advisor could not participate in underwriting any Authority bonds while still serving as financial advisor. Although interviews occurred in September 1986, Kidder, Peabody & Co., Incorporated ("Kidder Peabody") was not formally appointed by the Authority until January 20, 1987.

Even as Kidder, Peabody was being retained, Smith Barney continued to push forward as the "remarketing agent" for the 1985 bonds. By September 1986, it had prepared a financial analysis of the conversion from a variable to a fixed interest rate as contemplated by the 1985 bonds. By January 1987, it had completed a financing schedule calling for the conversion to take place on March 5, 1987. On January 30, 1987, ten days after the formal naming of a financial advisor, the Authority approved Smith Barney's proposal to implement the conversion. The Authority has no record of Kidder, Peabody having given input into the Smith Barney proposal.

As with its 1984 and 1985 issuances, the Authority did not select the underwriting group for the 1987 remarketing by any formal competitive process. The pattern of using Smith Barney as lead underwriter was repeated. Remaining underwriters were chosen without any open public solicitation of interest. In 1987, the Authority did have the services of its recently retained financial advisor, Kidder Peabody; however, that advisor could only counsel the Authority on implementation of the remarketing previously negotiated with Smith Barney.

Remarketing the 1985 bonds produced a management fee and "remarketing" underwriter fees for Smith Barney amounting to \$3.8 million out of a total cost of \$19.7 million.

The "closed" process of 1984-87 resulted in fees disproportionately higher than those of the more open and competitive 1991-1992 approach, even though the size, effort and complexity of the two efforts were comparable. (Chart I).

Comparison of Financing Costs

Service	1984 - 1987 Offerings	1991 - 1992 Offerings
Underwriting Fees	38,771,173	20,084,185
Remarketing Fees	18,243,323	0
Management/Financial Advisor Fees	4,121,286	2,275,000
Advertising	366,360	213,166
Accounting	155,314	66,000
Verification Agent	35,000	14,500
Bond Counsel	1,075,337	843,331
Other Counsel	432,930	445,546
Special Tax Counsel	0	277,586
Call Notice	0	441,933
General Consultant	7,979	25,397
Traffic Consultant	191,396	13,154
Marketing	0	27,056
Printing	2,567,948	578,632
Rating Services	249,950	472,600
Trustee, Registrar, Paying Agent	644,475	318,199
Miscellaneous	34,985	4,764
Total Cost	66,897,456	26,101,049

By March of 1991, the Authority was reviewing whether some form of new financing might be needed. On the 12th of that month, Kidder, Peabody & Co. told the Authority it wished to withdraw as financial advisor, in hopes of obtaining a future underwriting assignment. (Exhibit B).

Since passage of legislation requiring the \$400 million I-95 purchase would necessitate Turnpike action, there was a critical need to prepare for the possible refinancing without delay, meaning the Authority must act quickly to retain a new financial advisor. A competitive selection process was instituted immediately.

The Authority's Comptroller, with the input of the State Treasurer, prepared a Request for Proposal ("RFP") in early March. It was sent to twelve firms which had either expressed interest in the role in the past, had a national reputation for such services, or had the recommendation of the State Treasurer. The scope of services included, among other things, reviewing the Authority's financial structure and recommending cost saving measures, and advising on the implications of a broad-based refinancing program.

The RFP specifically precluded any firm appointed financial advisor from handling the underwriting of Turnpike bonds. (Exhibit C).

As anticipated, industry interest in the financial advisor's role was extremely limited.

Proposals were received in response to the RFP from only four firms. Because of the light response, those firms that did not

respond were asked why they did not wish to participate. Six firms were more interested in potential underwriting opportunities; the other two did not feel they had sufficient time to prepare a proposal.

The four firms were interviewed by the Chairman, the Executive Director, and the Comptroller on March 20th. They identified Chase Securities, Inc. as the first choice, based on its experience and credentials in transportation financing.

At the March 28, 1991 Commission Meeting, the Commissioners appointed Chase financial advisor. (Exhibit D). Chase began working immediately on an RFP for underwriting services in the event the Authority chose to refund its outstanding bonds and issue new bonds.

Less than a month after it had been selected as the Authority's financial advisor, Chase notified the Authority that as a result of a corporate reorganization, it had decided to withdraw from the business of providing municipal advisory services and to discontinue its services as the Authority's financial advisor. (Exhibit E). By now, time was of the essence, and so the Authority's Commissioners approved a special resolution at their April 30, 1991 meeting authorizing the Executive Director to select a new financial advisor to replace Chase, to be confirmed by the Commissioners at their May meeting.

Firms previously contacted were contacted again by the Authority's Comptroller, advised of recent developments, and given a new opportunity to submit proposals. Lazard Freres & Co., which had not made a proposal originally, submitted one on May 2, and the two other firms which had previously expressed interest in interviewing for the position, but did not do so for lack of time, also made presentations. The Executive Director, Comptroller and Executive Assistant reviewed Lazard's proposal, conducted interviews with all three of the new prospective financial advisors, reconsidered the firms previously interviewed, and unanimously selected Lazard, one of the nation's top financial advisory firms. (Exhibit F).

III. 1991-1992 Bond Issues

The new financial advisor confronted two immediate tasks which, of necessity, had to be performed within the short time remaining--preparation of a Plan of Finance and managing the underwriting RFP then in progress. In essence, the Plan of Finance was a policy document outlining the objectives of the refinancing, decisions on how many separate issues should be marketed, how they should be structured, and a number of other tax, financial and legal considerations involving the Authority's need for greater flexibility in utilizing the proceeds. In addition to the financial advisor and staff of the Authority, the offices of the Attorney General and Treasurer were involved in this process. (Exhibit G).

Managing the underwriting RFP, including recommendations as to the Senior Underwriters and Co-managers, was considered a

technical professional effort in which the financial advisor generally acted as the lead.

First drafts of the RFP for underwriting services had been prepared by Chase but were finalized by the Comptroller after Chase withdrew. The RFP was released to the market on May 2nd. (Exhibit H). This RFP indicated that the Authority had not yet decided whether to refinance, but wanted to be in a position to go to market as quickly and economically as possible.

The RFP was sent to approximately 54 firms that had expressed an interest. (See Exhibit I for list of firms). A legal advertisement was printed in the Bond Buyer, the municipal finance industry's primary source of daily information on Monday, May 6 (Exhibit J).

Lazard's first duty with regard to the RFP was to review the document that had been distributed on May 2 and to prepare additions to the RFP for distribution a week later. (Exhibit K).

Proposals to participate in various underwriting capacities were received from the 49 firms indicated in Exhibit L at Lazard's offices on May 20th.

The following eleven firms proposed to serve as senior managing underwriters (the underwriter who coordinates the sale and who represents the interests of all other underwriters to be allocated bonds in that particular offering, as well as its own interests):

- | | |
|---------------------------------|--------------------------------------|
| 1. PaineWebber Incorporated | 7. Goldman, Sachs & Co. |
| 2. Lehman Brothers | 8. Dean Witter Reynolds, Inc. |
| 3. Merrill Lynch & Co. | 9. Kidder, Peabody & Co., Inc. |
| 4. Dillon Read & Co., Inc. | 10. Smith Barney, Harris Upham & Co. |
| 5. Donaldson, Lufkin & Jenrette | 11. Bear Stearns & Co., Inc. |
| 6. The First Boston Corporation | |

All proposals were distributed for review to the Acting Comptroller, the Executive Assistant to the Executive Director, the State Treasurer and Lazard. Proposals from the prospective senior managing underwriters were circulated to these persons and to the Chairman, Executive Director, Comptroller, Director of Law, General Counsel, Bond Counsel and Special Tax Counsel.

Lazard was instructed by the Authority that the underwriter selection process was to be open to all firms interested in participating, so that all firms expressing an interest would be included in the financing in some role. Further, Lazard was charged with the responsibility of making certain the lead underwriter made a fair allocation of bonds and profits to other underwriters involved in actual sale of Turnpike bonds.

And, in view of the Authority's concern for New Jersey based businesses and for minority and women-owned firms, a policy directive was issued to Lazard that every opportunity be given to such firms to participate in the sale.

The eleven firms seeking to participate as senior managing underwriter were invited to oral interviews led by Lazard in early June. Each was limited to no more than four key representatives who would work on the transaction. Interviews were limited to one hour with each firm given the opportunity to make a brief opening and closing statement. The interviews actually took between 40 and 50 minutes. The remaining portion of each hour was used by the interviewers to discuss the interview among themselves and to

prepare personal evaluations of the prospective underwriters. In the interest of even-handed treatment, a standard series of sixteen questions was drafted by Lazard with input from the Acting Comptroller, and these questions were posed by the interviewing committee. (Exhibit M). To further assure fairness, only the prepared questions were used.

The designated interviewing committee consisted of:

Lazard Freres Partners Richard Poirier
and Jack Tamagni
(Mr. Tamagni attended some, but not all,
interviews)
Chairman David Goldberg
Executive Director Donald Watson
Acting Comptroller John Jacobsen

In addition, the State Treasurer's representative, Director of Finance Robert Lurie, was present at all the interviews, and the Authority Commissioner Clay Constantinou attended some.

Up to this point, the Authority had not decided to proceed with a refinancing. However, on June 30 legislation was adopted directing the Authority to purchase the I-95 Extension from the State for \$400 million. While legislation was before the Senate and General Assembly, Chairman Goldberg testified that the approval of this legislation would require the total and immediate refinancing of the Authority's then outstanding bonded indebtedness.

In anticipation of the passage of the legislation, Lazard prepared underwriter recommendations, based on the personal evaluations of the proposals, interviews, the discussions that had

occurred after each interview, and Lazard's first-hand expertise in the underwriting field. (Exhibit N). These recommendations were transmitted to the Authority via the chart shown as a part of Exhibit O.

These included a schedule showing senior managing, co-senior managing, co-managing and selling group underwriters for each series then proposed, based on the particular needs (i.e., institutional sales, retail sales, financial strength, and innovative expertise) of each offering. The senior and co-senior managers recommended by Lazard and approved at the July 2, 1991 Commissioners Meeting were:

	<u>Series 1991A/B</u>	<u>Series 1991C/D</u>	<u>Series 1991E *</u>
Senior Managing Underwriter	The First Boston Corporation	Merrill Lynch & Co.	Goldman, Sachs & Co.
Co-Senior	Bear, Stearns & Co., Inc.	Donaldson, Lufkin & Jenrette	Dillon, Read & Co., Inc.
	PaineWebber Incorporated	Kidder, Peabody & Co., Inc.	Lehman Brothers
		Smith Barney, Harris Upham & Co., Inc.	Dean Witter Reynolds, Inc.

When changes in the marketing strategy for certain issues were later shifted to maximize the capabilities of marketing to individual investors, First Boston was replaced by PaineWebber as the senior managing underwriter for the Series 1991B offering, and Goldman-Sachs was replaced by Lehman Brothers as senior manager for the Series 1992B issue. These changes were permitted under the Authority's RFP.

In the selection of particular professional firms from among a group of organizations generally regarded as leaders in their

* Note: Series 1991E became Series 1992A and B.

25 x

field to perform complex technical services, it is virtually impossible to assign separate and distinct precise "scores" to each of them. No such effort was made in this instance.

Lazard's final recommendations were based on the discussions at the interview sessions and Lazard's own professional expertise. It should be recognized that all these firms interviewed demonstrated a willingness to accept a refinancing controlled by the Authority through its independent financial advisor, an ability to service a broad spread of retail and institutional customers, the necessary expertise to carry off such a complicated series of transactions, a commitment to absorb any losses that might occur as a result of interest rate shifts between the date of signing of the contract of purchase and the date of closing, and the financial resources to carry through on the pledge to absorb pre-closing losses.

The Authority accepted all the underwriter recommendations submitted by Lazard, including the selection of Merrill Lynch to manage the largest and most complex component of the refinancing. Lazard's choice was based upon Merrill Lynch's track record, innovative financing expertise, broad marketing capabilities in both institutional and retail sales, and financial ability to absorb any losses had the 1991C and 1991D Series proved unprofitable, recognizing that the senior managing underwriter bore the lion's share of the risk associated with these offerings.

Unlike the experience of the 1980s, there was no public criticism whatsoever of these selections at the time they were announced.

Throughout the entire refinancing process, the Authority was vitally concerned to preserve its favorable "A" bond rating. In an effort to make certain the rating was safe, the Authority agreed to have the refinancing reviewed by three major bond rating organizations. After a searching series of interviews, the "A" rating was maintained. At no time was there any criticism of the underwriting arrangement.

Final assignment of all underwriters was tied to the Plan of Finance, simultaneously prepared by Lazard, which set out the broad contours of the anticipated refinancing plan.

This plan involved analysis of costs and benefits given current and projected market conditions. The Authority's policy objectives for the Plan of Finance were:

- Obtain a more flexible bond resolution so that Authority resources could be maximized for the benefit of the statewide transportation planning process,
- Provide funds for the Business Plan and delay future toll increases as long as possible,
- Maintain the Authority's strong "A" credit rating,
- Realize interest savings over the life of the bonds,
- Reduce issuance costs substantially below the level of the Authority's 1984-87 financings.

All these objectives were achieved by the 1991-1992 bond refinancing.

Lazard's Plan of Finance proposed four steps involving a series of bond offerings and other actions needed to refund outstanding bonds and create new debt. This would permit more innovative financing to fund the projects set forth in the Business Plan, new transportation projects not yet funded and, very importantly, acquisition of the I-95 Extension. After review and comment by the Chairman, Executive Director, Acting Comptroller, General Counsel, Bond Counsel and Special Tax Counsel, the Plan of Finance adopted at the July 2, 1991 Commission Meeting provided for:

1. Restructuring existing investments to free cash for use in refundings of 1984 and 1985 bonds;
2. Refunding the Series 1984 bonds with the proceeds from the sale of tax-exempt Series 1991A and 1991B bonds;
3. Refunding Series 1985 bonds with proceeds from the sale of Series 1991 C and 1991D tax-exempt bonds and with excess proceeds from the 1985 bonds arising from the abandonment of the Western Spur widening; and
4. Issuing Series 1991E bonds (later changed to Series 1992A and 1992B) to pay for the acquisition of the I-95 Extension and to fund new projects contained in the Business Plan.

(Exhibit O).

During the activities discussed above, there were several other professional services being retained to complete this refinancing, including special tax counsel, bond counsel, trustee, paying agent, verification agent, swap provider and financial printing services. All these services were procured using a competitive selection process similar to those previously described.

(Because of the obvious public interest in the process for selecting the underwriters for the 1991-1992 bond issue, a thorough discussion of the rationale for the process is described in Appendix II.)

IV. Conclusion

The results of the offering were considered highly successful by the Authority, the State Administration and the municipal bond market. Each issue was positively received by the markets and quickly sold out.

The re-financing provided flexibility for new projects which the Authority was required to undertake, and for a critical \$400 million purchase of part of Interstate Route 95 to help balance the State budget.

The Authority's fiscal approach to the refinancing was regarded so favorably that its "A" bond rating was maintained thus permitting the bonds to be sold at lower interest rates, saving more than \$260 million over the life of the bonds. (Exhibits P through T).

The cost of the re-financing, at \$26 million, was less than one-half the cost of the previous ventures by the Authority in the 1980s.

The Authority avoided the necessity of considering a future toll increase for at least four years.

Based on these results, the Authority believed then--and still does--that the 1991-1992 refinancing was a considerable success, and the process described in this report demonstrates throughout careful regard for the public interest.

APPENDIX I

The New Jersey Turnpike Authority is an agency of the State of New Jersey established within the New Jersey Department of Transportation and assigned the powers and responsibilities set forth in NJSA 27:23-1 et seq. Although described as an independent Authority, the provisions of this law mandate that the Authority carry out its responsibilities in close coordination with the Executive Branch of State Government. The Commissioner of the New Jersey Department of Transportation serves as a member of the Authority in an ex officio capacity. Although Authority members have specified terms of years, the Chairman is designated by the Governor and serves at his pleasure. All actions of the Authority set forth in its minutes are subject to review by the Governor. In addition, NJSA 27:23-3(F) requires the prior approval in writing of the Governor and State Treasurer or the Director of the Division of Budget and Accounting in the Department of the Treasury before the Authority may issue or refund bonds or other obligations.

On June 30, 1991, legislation was enacted which directed the New Jersey Turnpike Authority to acquire a 4.4-mile section of the limited access super highway known as Interstate 95 ("I-95" Extension), which extended from the then existing northern terminus of the Turnpike to the George Washington Bridge. This legislation provided that the State would sell this section of

I-95. The Authority, in turn, was obligated to pay to the State in consideration therefor the sum of \$400,000,000.

APPENDIX II

Rationale for Process Used to Select Underwriters

The RFP process is a standard technique used by public agencies for selecting financial, engineering and like professional services. In contrast to sealed bidding, where the lowest bidder automatically receives the award, the RFP process is particularly suited for selecting private firms to perform complex work or tasks calling for the exercise of discretion or professional judgment. The RFP process is premised on the judgment that the firm offering the lowest transaction costs may not ultimately provide the least expensive service in the long-term, considering the financial and legal consequences of poor judgment or lack of experience on the part of the professional. Governor Florio's recent promulgation of Executive Order 92 recognizes that sealed bidding may be the more appropriate underwriter selection process for conventional bond transactions but nevertheless provides for an RFP process on particularly complex debt offerings.

The selection of underwriters for the 1991-92 refinancing is a prime example of the sort of complex offering where the exercise of poor judgment or the lack of expertise could ultimately have proved costly to the Authority and its bondholders by reducing or

eliminating the savings that could be realized by refinancing. The Authority's desire to explore and benefit from innovative financing techniques such as interest rate swaps called for the selection of senior managing underwriters having significant experience in such endeavors. Just as important, the selection of a firm based purely on the lowest quoted interest rate and underwriters' discount for any of the bond offerings could have resulted in an award to a firm or firms having little experience or limited capacity to underwrite and market the Authority's bonds. Such a firm could have weakened the market's confidence in that and subsequent bond offerings. This could have had serious financial and legal consequences for the overall success of the Plan of Finance. Thus, the Authority considered it essential that firms of the highest caliber and reputation be selected to lead each of the five offerings, based on the their respective strengths and the particular needs of each offering (i.e., institutional versus retail marketing strength, ability to absorb losses in the event of unsuccessful sale, ability to structure innovative debt instruments).

The technical and legal requirements of the Authority's Plan of Finance were such that the alternative, sealed bidding or competitive sale of the bonds, was not a feasible method of accomplishing the Plan of Finance. The competitive bidding approach to the issuance of securities requires that all the significant terms of the securities (except interest rate) be

known in advance of the actual sale of securities. These terms must be fixed for publication in a "notice of sale" at least one or two weeks in advance of the receipt of sealed proposals. Underwriters then bid on the published terms and conditions by delivering a sealed quote for specific interest rates for each maturity. When the sealed bids are opened, the award is made to the underwriter offering to buy the bonds at the lowest interest rate. The issuer of the bonds is obligated either to accept the lowest bid or to reject all bids.

This method of selling bonds works where the securities are easy to understand and virtually all the terms of the bonds are known with a high level of certainty prior to advertising the sale of the bonds. The Authority's Plan of Finance involved determinations about the terms of the debt securities that could not be known until the interest rates for the bonds were being negotiated in the market. For example, the Authority needed the flexibility to adjust the maturities of the bonds and the principal amount of the bonds within any maturity in order to take advantage of the lowest possible rates available in the market at the time the bonds were being offered. Such adjustments might have been, and in fact were, material. These adjustments could not have been accomplished in a competitive sale, except with a very narrow range, once a notice of sale had been published identifying the specific maturities to be bid upon. With the guidance of the Authority's financial advisor and underwriters,

the Authority was able to structure the maturities in response to market conditions in each of its 1991-1992 financings in order to obtain the most favorable interest rates.

Similarly, the Authority took advantage of certain complicated financing techniques that likewise do not lend themselves to the competitive sale process. The selective use of municipal bond insurance is an example. The decision to use municipal bond insurance depends on whether insured bonds will offer an interest rate sufficiently lower than the rate on uninsured bonds such that the savings from the lower interest rates on the insured bonds will offset the cost of the premium paid for the bond insurance. A decision whether to use municipal bond insurance cannot be made until the interest rates on the bonds are known. In some instances, insurance will save money while in other instances it will not. This is a decision that could have been made by the Authority only at the time of negotiating the interest rates for the bonds.

As a further example, the Authority also took advantage of a municipal bond insurance policy for funding a debt service reserve fund on one of its issues. Normally, such reserves are funded with cash from the proceeds of the bonds; however, if market conditions are suitable, savings can be achieved by using a reserve fund insurance policy. The decision to use the reserve fund insurance policy was not made until the Authority negotiated the prices on the bonds. Under the competitive bidding approach, the Authority would have been required to select this feature in advance and hope the decision proved to be correct.

As yet another example, the Authority's Series 1991D bonds were issued as variable rate bonds where the interest rate on the bonds fluctuates weekly subject to a bondholders' right to tender the Bond to the Authority for full payment. Such transactions cannot be competitively bid because the initial interest rate is effective only for a short time. It is impossible to sell this type of securities on a weekly basis subject to competitive bidding. Once the securities are issued, it is critical that the Authority have a relationship with an underwriter having the skill and experience in the variable rate marketplace to continue to reset the interest rate on the bonds and to maintain a viable secondary market in the bonds. The competitive sale process provides no assurance that the Authority would be able to maintain such a secondary market or have firms capable of properly setting variable rates on a weekly basis.

The Authority also took advantage of an interest rate swap agreement in the context of the Series 1991D bonds. This agreement permitted the Authority to protect itself from rising interest rates by exchanging the variable rate paid on the Series 1991D bonds for a fixed rate that was lower than comparable fixed rates being offered for the Authority's bonds at that time. The decision to use this complicated financial structure was not made until the day the bonds were priced, when it could be ascertained that such a financing technique would result in savings to the Authority. The competitive sale, which requires that all

significant terms of the bonds be established and fixed well in advance of the sale, would have precluded the Authority from implementing this technique. The Authority did, however, evaluate proposals from and conduct interviews with five different providers of swap arrangements. The proposals involved considerations of cost, experience and security. AIG Financial Products was ultimately selected as the Authority's swap provider

Timing was also a key factor in the implementation of the Plan of Finance. Federal income tax laws dealing with the issuance of tax exempt bonds required that the Bond issues be separated by at least thirty-one days. The use of competitive bidding on interest rates requires at least two-weeks' lead time for the sale of bonds to an underwriter on a fixed date regardless of market conditions. If market conditions were unfavorable at the time the sealed bids were opened, the Authority would have been put in the position of either rejecting all the bids and starting over or accepting a bid that was not in its best interests.

By contrast, in a negotiated sale, the Authority is permitted to withdraw from pricing on a bad day and is free to undertake pricing as conditions improve. In this refinancing, the Authority withdrew the scheduled pricing of its Series 1991C bonds and entered the market the next day when market conditions were more favorable. Had the bonds been sold competitively, the Authority

would have been required to accept the below-market price for the bonds or to reject all bids on the scheduled date and republish a notice of sale for as many as two or three weeks later, all with no assurance that market conditions on that date would be suitable for the financing. Such a delay might have imperiled the Authority's ability to complete its Plan of Finance on Schedule, given the issue separation requirements and timing imposed by the Federal income tax laws. Use of a pure "competitive sale" of the Authority's bonds (i) offered the Authority no assurance that it would receive the best interest rates and greatest savings; (ii) would have precluded the Authority from using financing techniques that resulted in savings; and (iii) might have resulted in a failure to complete the Plan of Finance. Accordingly, the Authority used the RFP process for the selection of senior managing underwriters for the 1991-91 series of bond issues.



STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
STATE HOUSE
CN 002
TRENTON, NEW JERSEY 08626-0002

JIM FLORIO
GOVERNOR

DOUGLAS C. BERMAN
STATE TREASURER

February 23, 1990

Honorable James J. Florio
Governor
State House
Trenton, N.J. 08625

Dear Governor:

You recently requested that the Department of the Treasury review the necessity for the New Jersey Turnpike Authority to institute by April 1 one of several contemplated proposals for a toll increase.

In connection with that review the Department evaluated the following materials supplied by the Authority as justification for an increase in 1990 including:

- The Authority's 1987-1989 financial statements;
- The 1990 Proposed Operating Budget;
- The Toll Sensitivity and Revenue Projection Study prepared by Wilbur Smith Associates;
- The bond documents for the Authority's 1984 and 1985 Bond issues;
- The Authority's financial projections (and underlying assumptions) through 2001;
- The Authority's 1990 Capital Plan.

The Department has consulted with the Authority's staff, counsel, Bond Counsel, and investment banker. Also, the Department worked closely with staff from your office and the Department of Transportation in performing its review. Further, we retained Dillon, Read & Co. as a special financial advisor for conducting the project.

Based on our work we find that:

- There is no financial or legal need for a toll increase in 1990; funds are available to prudently meet all financial obligations;
- The capital program is poorly defined and not supported by any coordinated planning or statewide transportation policy;
- A toll increase of 40% - 70% will be required, and should be instituted by mid-1991.


but not before a full accounting of the operating and capital budgets can be made to the public:

- The actual amount of the toll increase will depend on the revised operating budget and the projected cost and timing of the ultimate capital program.

We recommend two steps that can be taken to obtain a cash surplus in 1990 to meet the covenants of the 1985 Bond issue and eliminate the need for a toll increase in 1990. First, the Authority's operating budget should be cut. The Authority has increased its operating budget by an average of almost 10% per year for several years, and the same was initially proposed for 1990. Our analysis shows that the budget could be cut to below a 7% growth rate, resulting in about \$4 million in savings. Second, the Authority should use all interest earnings to pay for interest expense on its bonds. This is a common practice in financing toll roads, as indicated by Dillon Read & Co. in the attached letter. There is approximately \$30 million of current year earnings and \$64 million prior years earnings available for that purpose. The Authority's projected 1990 deficit was based, in large part, upon its decision to use construction fund earnings as additional construction funds for its ill-defined capital program rather than as an offset to its current interest expense.

In summary, we believe that toll-payers' funds should not be spent until there is a comprehensive and integrated statewide transportation planning process which incorporates an appropriate Turnpike Authority construction program. Bondholders should also take comfort from these actions since better coordination will enhance public support for future Authority toll proposals.

Very truly yours,


Douglas C. Berman
State Treasurer

Dillon, Read & Co. Inc.

*535 Madison Avenue
New York, New York 10022
212-906-7000*

February 2, 1990

Honorable Douglas C. Berman
State Treasurer
Department of Treasury
State House, CN002
Trenton, New Jersey 08625

Dear Doug:

As part of our review of the financial status of the New Jersey Turnpike Authority (the "Authority"), you have asked us to comment on whether it is appropriate for an issuer, such as the Authority, to use interest earnings from a construction fund to offset debt service incurred during construction. We believe that such an approach is appropriate as it results in a financial matching of project costs to those users who will receive project benefits.

User fee financing programs such as toll roads frequently set rates based upon expenses for only those facilities which are in use. Charges for new facilities are postponed until completion. To accomplish this financially, issuers often establish capitalized interest accounts to fund debt service during construction or they use interest earnings from the construction fund to offset debt service. In the latter case, users are charged for debt service in proportion to the amount of construction funds which have been spent.

It has been the past practice of the Authority to utilize interest earnings to offset interest expense. The Authority's 1987 Remarketing Memorandum contemplated continuing this practice. Projections in that document indicated a gradual increase in the amount of debt service which would have to be paid from Net Revenues based on the proportion of construction projects estimated to be completed over time. As of today, the Widening Program has not progressed at its originally projected expenditure levels, leaving approximately 70% of the construction funds still unspent.

In summary, we believe that the practice of allowing interest earnings on unspent construction funds to offset the interest expense associated with such funds is consistent with the principle of only charging users for the cost of the money which has been spent on projects for their benefit.

Yours sincerely,

Mark D. Mayer

Mark D. Mayer
Senior Vice President

42X

Kidder, Peabody & Co.
Incorporated
10 HANOVER SQUARE
NEW YORK, N.Y. 10005

Laurie B. Lewis
SENIOR VICE PRESIDENT

(212) 810-2430
FAX: (212) 880-6759

March 12, 1991

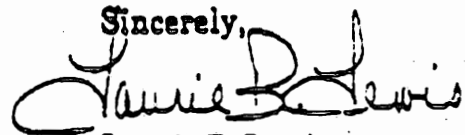
Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, New Jersey 08903

Dear Don:

As you know, Kidder, Peabody has been the Turnpike Authority's financial advisor since 1987, an assignment we have found both rewarding and challenging. However, we feel that our basic business focus on the origination and trading of tax-exempt debt precludes us from continuing our advisory role to you beyond April 15.

I certainly do hope that we can do business with the Authority in the future as one of your underwriters.

Sincerely,



Laurie B. Lewis
Senior Vice President

LBL:adg



EXHIBIT C

NEW JERSEY TURNPIKE AUTHORITY

P.O. Box 1121

New Brunswick, N.J. 08903

(201) 247-0900

March 7, 1991

Michael J. DelGiudice, Partner
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

RE: Financial Advisory Services

Dear Mr. DelGiudice:

The New Jersey Turnpike Authority (hereinafter "NJTA") wishes to engage the services of a competent financial advisor to provide advice to the Comptroller on financial matters of the NJTA. Such matters may include, but would not be limited to, the examination of the financial structure of the NJTA, and examination of the investment strategy, preparation of cash flow projections, and examination of any additional bonding proposals or refinancing proposals. A comprehensive Scope of Services is attached as Exhibit A.

The solicitation for these services is being conducted pursuant to the statutes and laws of the State of New Jersey, as found in N.J.S.A. 27:23-6.1 and the regulations and policies of the NJTA as they regard the procurement of professional services.

The NJTA will require the following information to be submitted in response to this solicitation:

1. Firm name, mailing address, street address, telephone number, and fax number.
2. A brief history of the firm's background including the date of establishment, senior partners/executives, and the anticipated partner/executive-in-charge of this account.
3. The credentials of all professional staff expected to be assigned to this account, emphasizing the staff's experience in providing financial services to firms/agencies similar in size and structure to the NJTA. Please provide detail as to the role each member of the team would have on this account.

44X

NEW JERSEY TURNPIKE AUTHORITY

RE: Financial Advisory Services
March 7, 1991
Page Two

4. List the transportation financings on which your firm has served as financial advisor or senior managing underwriter during the past two (2) years. Please include the amount, date, issuer, purpose, your firm's role, and the staff responsible for each financing.
5. Provide at least three examples of relevant, similar work done for other clients by the primary members of the team your firm is proposing for this account.
6. Explain to the NJTA the method/system used by your firm to obtain timely bond information.
7. Please provide your firm's rate schedule including hourly rates for partners/executives, associates and administrative services. The anticipated contract amount for these services is \$50,000.00 annually, however this amount will be prorated for 1991.
8. Identify the limits of liability for professional errors and omissions insurance that your firm currently holds.
9. References from public agencies, or other clients of a similar nature. This may include any letters of recommendation from any client wishing to provide same.
10. A statement of your firm's Policy on Equal Employment Opportunity/Affirmative Action. Additionally, your firm's acknowledgment to complete all forms required by the New Jersey Department of the Treasury, Office of Affirmative Action.
11. Please complete the Affidavit of Moral Integrity, attached as Exhibit B.
12. Each proposal submitted must be signed by an by an officer authorized to make binding commitments for your firm.

The NJTA reserves the right not to retain the services of a financial advisor at this time if circumstances deem it in the best interests of the NJTA. However, if such services are retained based on this solicitation, services will be required beginning May 1, 1991.

NEW JERSEY TURNPIKE AUTHORITY

RE: Financial Advisory Services
March 7, 1991
Page Three

The firm selected as the NJTA's financial advisor will be precluded from any underwriting activities the NJTA may require at a future date for any bond activity which may occur during the life of any agreement for the services listed in this solicitation.


The firm selected to provide these services will be expected to comply with the NJTA Code of Ethics, and any and all Federal and New Jersey State laws and regulations pertaining to the financial industry.

Please be advised that any firm which has any clients which would present any actual or potential conflicts of interest with the NJTA, may be disqualified from participation in this solicitation. Should your firm determine that it has a client which appears on its face to possibly present a conflict of interest, please list any and all such clients so that the NJTA may make a determination as to whether an actual or potential conflict exists.

Copies of the 1984 General Revenue Bond Resolution, the First Supplemental Revenue Bond Resolution, the Second Supplemental Revenue Bond Resolution, and NJTA 1989 Annual Report are attached for your information.

Should your firm wish to respond to this solicitation, please do so by supplying five copies of the requested information in writing to Catherine A. Schladebeck, Comptroller, New Jersey Turnpike Authority, P.O. Box 1121, New Brunswick, New Jersey, 08903, (908)-247-0900, no later than March 15, 1991. Should you wish to deliver your proposal, the street address is Rte. 18 South and Interchange 9. Please direct any any and all inquiries on this matter to the undersigned.

Very truly yours,


Catherine A. Schladebeck
Comptroller

enclosure

26X

SCOPE OF SERVICES

Financial Advisor

The Financial Advisor for the New Jersey Turnpike Authority (hereinafter "NJTA") would be expected to perform the following:

1. Review of NJTA's financial structure; make recommendations for greater efficiency and/or cost effectiveness.
2. Review, evaluate, comment and coordinate responses to financing proposals to NJTA from investment banking community.
3. Provide bond market information to NJTA on a timely basis.
4. Assist in updating the investment community (in particular the Rating Agencies) on the NJTA's financial plans and the status of its projects.
5. Attend NJTA board and staff meetings, as requested.
6. Perform computer cash-flow modeling to project the effects of various financial strategies.
7. Examine and evaluate arbitrage and reissuance questions.
8. If bond financing becomes necessary during the term of this agreement:
 - a. Advise on the financial structure that achieves the lowest cost of debt for the Authority,
 - b. Advise on the timing of the sale,
 - c. Advise on the structure of underwriting and/or selling groups,
 - d. Review and assist in developing specifications for obtaining the services of a competent underwriter, and in negotiating all underwriting and placement fees for the bonds,
 - e. Perform arbitrage calculations as necessary,
 - f. Attend all document meetings.
9. Work with NJTA staff. Investment Bankers. Bond Counsel. Special Tax Counsel and General Counsel in NJTA financial matters.
10. Be available to provide financial advice on an as needed basis.

NEW JERSEY TURNPIKE AUTHORITY

March 27, 1991

MEMORANDUM TO: Donald L. Watson
Executive Director

RE: Authorization to Retain the Firm of
Chase Securities, Inc. to Provide Financial
Advisory Services to the Authority

The New Jersey Turnpike Authority requires the services of a competent Financial Advisor to assist in the planning of financial investments on behalf of the Authority. Kidder, Peabody & Co. has served the Authority for several years in the capacity of Financial Advisor. This association will end at their request on April 15, 1991.

In anticipation of this separation, on March 7, 1991 the Authority solicited proposals for Financial Advisory Services from twelve firms; four of the firms responded. The four firms which submitted proposals are Chase Securities, Inc., Public Financial Management, Inc., Alex Brown & Sons and Ernst & Young. Each firm was interviewed by the Chairman, Executive Director and Comptroller.

During each interview, clarification was given to each firm regarding the reference in the Solicitation for Services indicating a \$50,000 annual cap for the services to be performed. Each proposer was advised that in the event of a major financial restructuring or other extraordinary financial transactions, the cap would not apply and the proposed rate schedule would govern.

Chase Securities, Inc. is recommended to be retained by the Authority for the provision of Financial Advisory Services. Their proposal outlined excellent experience and staff credentials. Chase's primary business is underwriting and trading U.S. treasury, federal agency, municipal, corporate and asset backed securities. This experience is in line with the current investment strategy of the Authority. The team Chase has assigned to the Authority account has significant experience in transportation infrastructure financing. The hourly rates proposed are as follows:

President and Vice President	\$150
Associates	\$ 75

Chase does not charge an hourly rate for administrative services provided in the course of a Financial Advisory Contract. However, out-of-pocket expenses will be reimbursed separately.

NEW JERSEY TURNPIKE AUTHORITY

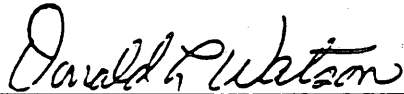
Therefore, authorization is requested to retain the firm of Chase Securities, Inc. to provide Financial Advisory Services to the Authority and to serve at the pleasure of the Authority with 30 days written notice for termination of services.

The Comptroller joins with the undersigned in recommending Chase Securities, Inc. to provide Financial Advisory Services to the Authority. Please charge this item to Account No. 10-890-4608.



Herbert I. Olarsch
Director of Law

CERTIFIED FOR CONSIDERATION:



Donald L. Watson
Executive Director



May 17, 1991

Chairman David Goldberg
New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, NJ 08816

Dear Chairman Goldberg:

As you know Chase Municipal Securities, Inc. has made a decision to close its operations on May 31, 1991. As a result, we understand that the Authority has hired Lazard Freres to serve as financial advisor. As indicated in a letter to you on April 25, 1991, it is Chase's intention to maintain sufficient staff resources in order to service transactions in progress.

However, in light of the fact that principal members of the Chase Team responsible for providing financial advisory services to the Authority are in the process of negotiating future employment with one or more firms that may be submitting proposals to serve as underwriter, we believe it would be in the Authority's best interest if we resigned. Therefore, with your approval, Chase Municipal Securities, Inc. will no longer serve as "interim financial advisor" effective Friday, May 17th.

We appreciate your patience and understanding on this difficult matter.

Sincerely,

A handwritten signature in cursive script that reads "Joseph M. Giglio".
Joseph M. Giglio
A handwritten signature in cursive script that reads "Kym S. Arnone".
Kym S. Arnone

cc: Donald Watson
Executive Director

RECEIVED
New Jersey Turnpike Authority

MAY 23 1991

A handwritten signature in cursive script, likely of the Chairman.
CHAIRMAN'S OFFICE

50X

NEW JERSEY TURNPIKE AUTHORITY

EXHIBIT F

May 15, 1991

MEMORANDUM TO: Donald L. Watson
Executive Director

RE: Confirmation Of Agreement With Lazard Freres & Co.
For Professional Financial Advisory Services

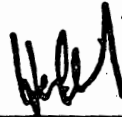
At the Commission Meeting of April 30, 1991, the Executive Director received authorization to select a new Professional Financial Advisor to be confirmed at the May 30, 1991 Commission Meeting. This action was necessary due to the sudden dissolution of the Authority's previous Financial Advisor, Chase Securities, Inc.

The Authority had initially solicited proposals from several firms from which Chase Securities, Inc. was selected at the March 28, 1991 Commission Meeting. In order to expedite the replacement of Chase Securities, Inc., the Authority received proposals from three of the firms originally invited plus three additional firms, and selected Lazard Freres & Co. This firm offers comprehensive Financial Advisory services with a well experienced professional financial staff.

The terms will remain for one year at a \$50,000.00 annual cap for the services to be performed except the cap will not apply in the event of a major financial restructuring or any other extraordinary financial transactions. The hourly rate schedule for Lazard Freres, & Co. is as follows: Partners - \$250.00; Senior Vice Presidents - \$200.00; Vice Presidents - \$150.00; and Associates - \$125.00.

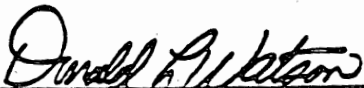
Therefore, it is requested that authorization be granted to enter into an Agreement with Lazard Freres, & Co. for Professional Financial Advisory Services in an amount not to exceed \$50,000.00 annually with the exception of a major financial restructuring.

The Comptroller concurs in this recommendation. Please charge this to Account No. 10-890-4608.



Herbert I. Olarsch
Director of Law

CERTIFIED FOR CONSIDERATION:



Donald L. Watson
Executive Director

FUNDS AVAILABLE
IN BUDGET


Comptroller

KK5, x



EXHIBIT G

STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC FINANCE
STATE HOUSE
CN 002
TRENTON, NEW JERSEY 08628-0002

JIM FLORIO
GOVERNOR

ROBERT F. LURIE
DEPUTY DIRECTOR

DOUGLAS C. BERMAN
STATE TREASURER

April 4, 1991

To: Douglas C. Berman
From: Robert F. Lurie *RFL*
Subject: Turnpike Underwriter Selection

The proposed Turnpike refunding may be the largest, and the most scrutinized, financial transaction in the State's history. Not only Wall Street, but also the Legislature, the press, and the public will be watching this deal for any appearance of conflicts of interest or other perceived wrongdoings. This memo suggests a process designed to avoid adverse perceptions. It also suggests an underwriting group structure to keep in mind when selecting firms.

Underwriter Selection Process

- **RFP:** There should be an extensive, detailed Request for Proposals for all management group positions. The RFP should be sent to any firm who wishes one. We may want to place an advertisement in the Bond Buyer to solicit proposals. Firms should be given at least two weeks to respond.
- **Oral Interviews:** Firms on a "short list" after review of the written proposals should be interviewed and asked follow-up questions regarding their proposals.
- **Review Committee:** There should be a committee formed to receive and review the proposals, and to make recommendations. The committee could be the Finance Committee of the Turnpike Authority, with assistance from Turnpike staff, our office, and perhaps someone from DOT staff.
- **Criteria for Selection:** The proposals should be graded by the committee according to a pre-established set of criteria, with a written review available to responding firms. Firms should be selected in general accordance with the grades assigned.

Douglas C. Berman
April 4, 1991
Page 2

• **Components of the RFP:**

- Capital (unusually important on this large an underwriting).
- Distribution strength, both institutional and retail.
- Banking experience in transportation.
- Expertise in designing a complex transportation credit.
- Expertise in advance refundings.
- Creative, and legal, ways to save money on the refunding.
- Fees.
- New Jersey presence - contribution to the State economy.
- Minority ownership and/or financing team members.

Structure of the Underwriting Syndicate

There should be at least five classifications, or tiers, of firms in the underwriting group. The rule of thumb is, the higher the tier, the more underwriting risk the firm should take, and the more bonds the firm should be allocated.

- 1) **Book-running Senior Manager:** manages the marketing and allocation process. This firm must have a very strong capital base, and a broad distribution network with a balance of institutional and retail capability. Compensation will be primarily in the form of "takedown", or sales commission, since this firm will receive the largest allocation of bonds for sale to its customers. Will also get a small management fee.
- 2) **"Senior Banker":** Traditionally the same firm as the Book-running Manager, but need not be. This firm is almost another financial adviser. Develops the financial plan. Manages the document drafting. Runs computer analysis for the refundings. Works with the Book-running Manager to structure debt amortization. This firm will get a relatively large management fee for their banking services. It will also get the second largest share of the bonds.
- 3) **Co-senior Managers:** Participate in the structuring and document drafting process. May attend some working group meetings. There should be a very small management fee; compensation will be mostly in "takedown". These firms will get more bonds than co-managers, discussed below. There should be no more than three Co-senior Managers. Each should be large firms with a strong capital base, but may be institutional or retail specialists, as long as other firms provide balance.
- 4) **Co-managers:** Assist in underwriting and selling bonds. No management fee. These firms will get a large allocation of bonds. These should be primarily good at marketing. New Jersey based firms and minority firms should probably go here due to

Douglas C. Berman
 April 4, 1991
 Page 3

their relatively weak capital base. There should be about six to eight co-managers on a deal this size, and there may be two tiers of co-managers based upon their participation in the underwriting risk.

- 5) Selling group members: Will assist in selling bonds, but will get only a small allocation. These firms will not participate in the underwriting risk. The number of selling group members is unlimited.

Rotating the Firms

- The financial plan may include three separate bond issues: the 1985 refunding (\$1.6 billion), the 1984 refunding (\$500 million), and the new money issue (\$450 million). This presents an opportunity to rotate firms in various positions in the management group.
- Co-senior managers and the Book-running senior manager could rotate.
- The "Senior Banker" firm should not be rotated; there must be a consistent, integrated financial plan for all three issues, which must be adjusted as interest rates and other variables change. One firm must manage that process.
- There could be more than eight firms rotating though the eight co-manager slots available on each deal.
- There should not be more than a total of three co-senior managers in total, since it would be extremely unwieldy to keep more firms involved in the deal structuring process. Thus, there should also not be a rotation from co-manager to co-senior manager.

Sample Underwriting Group Structure (names for illustration only):

	Merrill Lynch (Book-running Senior)		Goldman Sachs ("Senior Banker")
(Co-senior Managers)	Dillon Read	Pru Bache	Bear Stearns ←
(Co-Managers) (choose up to eight for each deal)	Dean Witter Morgan Stanley Ryan Beck	First Boston Paine Webber Printon Kane	DLJ Lehman Bros. First Fidelity Lazard Freres
(co-mgrs with less risk participation)	J.B. Hanauer	M.R. Beal	Grigsby Brandford
(Selling Group Members)		(unlimited number)	

c: Nate Scovronick

May 2, 1991

NEW JERSEY TURNPIKE AUTHORITY
REQUEST FOR PROPOSALS
FOR UNDERWRITING SERVICES

I. INTRODUCTION

The New Jersey Turnpike Authority (NJTA) invites proposals for professional underwriting services.

NJTA is interested in receiving detailed information concerning restructuring and/or refinancing alternatives for its outstanding debt including a potential refinancing of all of its indebtedness. Such indebtedness in the original principal amounts of \$501,825,000 New Jersey Turnpike Authority Turnpike Revenue Bonds, 1984 Series and \$2,000,000,000 New Jersey Turnpike Authority Turnpike Revenue Bonds, 1985 Series Bi-Modal Multi-Term Format (BMTF) 7.20% Mode A Bonds are herein referred to as the Series 1984 and Series 1985 Bonds, respectively. The NJTA currently has \$350 million in Series 1985 bond proceeds which have not been allocated as part of the revised "1985-90 Widening Program." Consistent with its overall financial analysis, the NJTA is assessing how these proceeds should best be used in connection with a potential restructuring and/or refinancing of the Series 1984 and Series 1985 Bonds. However, your proposal should consider the possibility of issuing new debt, in an approximate amount either separately or as part of a refunding, so that the NJTA can fund future anticipated State projects. It should be understood that as of the current date, the NJTA has made no final decision as to whether to restructure or refinance all or any portion of the Series 1984 and Series 1985 Bonds.

The solicitation for these services is being conducted pursuant to the statutes and laws of the State of New Jersey, as found in N.J.S.A. 27:23-6.1 and the regulations and policies of the NJTA as they regard the procurement of professional services.

The firms selected to provide these services, if any, will be expected to comply with the NJTA Code of Ethics, and any and all Federal and New Jersey State laws and regulations pertaining to the financial industry.

II. TIME SCHEDULE

In order to be considered, complete responses in the indicated quantity must be delivered in writing to the following parties at the addresses, and by the date and time specified below.

NJTA (15 copies)	Catherine A. Schladebeck Comptroller (908) 247-0900
Mailing Address:	New Jersey Turnpike Authority P. O. Box 1121 New Brunswick, NJ 08903
Federal Express Address:	New Jersey Turnpike Authority Route 18 Turnpike Interchange 9 East Brunswick, NJ 08816
Proposal Due Date:	May 20, 1991
Time:	3:00 p.m. Late responses will automatically be rejected.

III. INQUIRIES

Any questions regarding the Request for Proposal (RFP) must be directed in writing as follows:

	Catherine A. Schladebeck Comptroller
Mailing Address:	New Jersey Turnpike Authority P. O. Box 1121 New Brunswick, NJ 08903
Federal Express Address:	New Jersey Turnpike Authority Route 18 Turnpike Interchange 9 East Brunswick, NJ 08816

The Authority will allow facsimile transmissions (908-249-9635) but accepts no liability for errors in transmission whether clerical or mechanical.

Relevant tax law questions may be directed as follows:

Special Tax Counsel
Hudge Rose Guthrie Alexander
& Ferdon

Richard Nicholls
(212) 510-7616
or
Jeffrey Piemont
(213) 613-1112

56X

IV. PROPOSAL GUIDELINES

Proposers must comply with instructions and restrictions embodied in this RFP with regard to preparing and submitting proposal responses. Proposers are expressly prohibited from contacting any NJTA Commissioners or other officials once this RFP has been released for distribution, other than as specified herein. Failure to comply with proposal guidelines may result in disqualification of the respective proposer.

The following criteria, not necessarily exhaustive nor listed in order of significance, will be used to evaluate responses.

1. The proposer's detailed description of an appropriate plan of finance.
2. The ability of the proposer to identify comprehensive financing alternatives and the marketing and rating agency implications of each.
3. The ability of the proposer to execute the financing plan from a technical and marketing perspective.
4. The proposer's general approach to the requirements of the RFP.
5. The qualifications and relevant experience of personnel to be assigned with projects of similar scope, size and complexity.
6. The firm's relevant past experience in engagements of similar scope, size and complexity.
7. Proposed fees.

V. RESERVATIONS OF RIGHTS

The NJTA reserves the right to:

1. Reject any and all proposals with or without cause.
2. In its sole discretion, accept the proposal which it considers most favorable to the NJTA's interest.
3. Waive minor irregularities or defects in all procedures relative to this RFP.
4. Reject all proposals and seek new proposals when such procedure is reasonably in the interest of the NJTA.
5. Request and receive such additional information as the NJTA may reasonably require and to disqualify any proposer and reject any proposals for failure of the responsible party to promptly provide such additional information.

6. Conduct interviews with any or all proposers prior to selection.
7. Conduct pre-contract negotiations with any or all proposers prior to selection.
8. Review and approve any change in significant staff members, as well as the right to discharge the firm promptly based on such personnel changes.
9. Approve underwriters counsel.
10. Negotiate all fees.

VI. NJTA LIABILITY

The NJTA shall not be liable for:

1. Any costs incurred in the preparation of responses.
2. Any costs incurred by the proposer in connection with any interview or negotiation relating to this RFP.
3. Any costs whether or not included in the proposal unless such costs are agreed to in a subsequent letter of engagement or contract.
4. Any disclosure, whether by negligence or otherwise, of any material or information in any form submitted by any proposer in response to this RFP.

VII. BACKGROUND INFORMATION ON THE NJTA: REQUESTS FOR ADDITIONAL INFORMATION

The following enclosed information is intended to provide background information on the NJTA's outstanding indebtedness:

1. The Official Statement for the Series 1984 Bonds.
2. The Official Statement for the Series 1985 Bonds.
3. Special Report prepared by Ernst & Whinney regarding the Series 1984 Bonds.
4. Financial Report of the NJTA as of March 31, 1991.
5. NJTA "Business Plan for the 90's" December 1990.
6. Investment Schedule for Bond Proceeds as of March 31, 1991.
7. Projections of Toll Revenues, Operating Expenses and Maintenance Reserve Deposit for Calendar Year 1991.

Requests, if any, for additional information or materials must be submitted in writing to the NJTA in accordance with the process set forth herein under Section III. Inquiries. Such requests will be reviewed to determine if they are reasonable and relevant. However, we will not electronically transmit the return response.

VIII. CONFLICT OF INTEREST

Please be advised that any firm which has any clients or relationships which would present any actual or potential conflicts of interest with the NJTA, may be disqualified from participation in this solicitation. Should your firm determine that it has a client or relationship which appears on its face to possibly present a conflict of interest, please list any and all such clients or relationships so that the NJTA may make a determination as to whether an actual or potential conflict exists.

IX. REQUIRED PROPOSAL CONTENT

If you are interested in serving only as a co-manager in any potential NJTA financings, please provide the information requested in Questions 1-5 and Questions 13-18.

1. Transmittal letter not to exceed one page signed by an officer authorized to make binding commitments for your firm.
2. Executive Summary not to exceed two pages.
3. Specify the firm name, mailing address, federal express address if different from mailing address, telephone number, fax number and primary contact. Indicate whether your firm wishes to be considered for senior manager or as a co-manager.
4. Identify the four primary individuals for your firm who would be assigned to the NJTA and why their background is relevant. Please include information relating to applicable experience of these individuals. Detail the role each member would have on this account (Limit Three Pages).
5. Summarize the firm's experience, in chart form, as a scenario book-running manager of Turnpike revenue bonds or other surface transportation issues with a par amount in excess of \$100 million since January 1, 1985. Co-senior and co-manager experience for the above should be delineated in a separate chart. For each issue specified within the two above-referenced charts indicate the Par Amount, Sale Date, Issuer, Gross Spread by component and the primary staff person responsible for each financing.

6. If NJTA concludes that current borrowing documents unduly restrict and limit the NJTA, a total defeasance of the Series 1984 and Series 1985 Bonds may be necessary in order to provide enhanced flexibility to administer programs responsive to the needs of the State of New Jersey. The Governor, in his FY 1992 budget, has included a proposal for the NJTA to purchase from the State certain roads for \$400 million. In describing the range of financial options, in response to Question No. 6 proposers should assume as one option that a) the road purchase will occur; b) the issuance of bonds, if necessary, and the actual payment to the State of \$400 million, will not occur before the defeasance and/or retirement of all currently outstanding NJTA debt has occurred; and c) that the payment of \$400 million to the State will occur not later than June 30, 1992.

Please describe in detail the range of financing options available to accomplish the foregoing, including a scenario that is reflective of current market conditions. Provide a summary table describing the present value savings for each option or scenario. Present value savings should be computed by comparing the aggregate debt service currently paid to the aggregate debt service after all new bonds have been issued. Any change in investment cash flow should be taken into account.

Provide all debt service and savings schedules and assumptions used to support your recommendations in a clearly identified appendix. Quantify costs and specify other considerations which the NJTA should be aware of for each option.

- a) How would varying market conditions affect your proposed approach? Outline scenarios in which it is possible to achieve debt service savings given a complete defeasance and quantify the magnitude of expected savings.
- b) Assuming a variety of market conditions, discuss how the NJTA should approach the timing of the total refunding under consideration indicating any tax law and other legal constraints you feel are relevant.
- c) Assuming a variety of market conditions, discuss the ways in which the NJTA should apply the existing funds on hand to maximize the efficiency of a proposed total refunding.
7. Discuss your experience in senior managing advance refunding transactions which required complex "transferred proceeds" calculations. Include in your discussion techniques which you have used to mitigate and/or eliminate the negative consequences of "transferred proceeds" which would be applicable to the Series 1984 Bonds (Limit Two Pages).

8. The NJTA intends to explore several options regarding ways to expand its mission to better serve the people of New Jersey. Assume for the purpose of Question Nos. 9 through 11 that some or all of the following goals may be pursued:
- a) making available surplus funds and bond proceeds for projects that are expected to result in deficit operations;
 - b) permitting the use of bond proceeds for projects that may be authorized by future actions of the State Legislature;
 - c) permitting the use of modern toll management techniques; and
 - d) permitting a future expansion or reorganization of the NJTA by statute.

Given the NJTA's potential desire to construct a new set of legal documents in order to provide increased financing flexibility, please discuss how you would propose to structure the proposed refundings in terms of priority claim on revenues (Limit Two Pages).

9. Discuss your recommended rating agency approach if the NJTA were to undertake a total refunding and adopt a new resolution. Responses should address appropriate debt service reserve requirements, the net revenue requirement, additional bonds test and coverage requirements.
10. Discuss your marketing strategy as it relates to a total refunding. In addition, provide your assessment of the investment community's reaction to and acceptance of a total refunding of the Series 1984 and Series 1985 Bonds (Limit Two Pages).
11. Based on your recommended plan of finance in response to Question No. 6, identify your proposed Gross Spread by component, assuming market conditions as of the close of business on May 6, 1991. Indicate the management fee you would expect to receive as senior book-running manager only. It is expected that the proposed management fee will be a firm commitment and will not be subject to increase. Itemize the expense component. Expenses should also be expressed as a not to exceed amount.

12. In absence of a complete defeasance, assuming no new money needs, what restructuring and/or refinancing alternatives would be available to the NJTA to achieve debt service savings on the Series 1984 and Series 1985 Bonds. Provide all debt service and savings schedules and assumptions used to support these alternatives in a clearly identified appendix. How would varying market conditions impact your recommendation for alternatives?
13. Indicate your firm's most recently reported total capital, equity and capital and excess net capital. Provide your most recent Annual Report or audited financial statements, and comment on your firms profitability over the last five years.
14. Provide three client references where your firm served as senior manager for advance refunding and/or Turnpike revenue bonds or other surface transportation issues with a par amount greater than \$100 million since January 1, 1985.
15. Provide information on the nature and magnitude of any litigation or proceeding, during the past three years, whereby a court or any regulatory or administrative agency has ruled against the firm in any matter related to the activities of the firm. Similar information must be provided disclosing any currently pending litigation.
16. The successful Consultant agrees that it does not discriminate in the hiring or promotion of any minorities, as designated by the Equal Employment Opportunity Commission of the United States of America, or the department of Civil Rights of the state of New Jersey; and that it does not discriminate against any person or persons on the basis of race, creed, age, color, sex, national origin or handicap.

In addition the successful Consultant agrees to complete the appropriate forms as follows:

- a) Mandatory Language for Professional Service Agreements
- b) AA-302 form - State of New Jersey Affirmative Action Employee Information Report

However, if a firm maintains a current Letter of Federal Approval, or a current Certificate of Employee Information Report Approval as issued by the Department of the Treasury, State of New Jersey, it may be submitted in place of b) above.

17. Identify the limits of liability for the following insurance coverages - comprehensive general liability, workers' compensation, comprehensive automobile liability, professional liability, and valuable papers.
18. Please complete the Affidavit of Moral Integrity, attached hereto.

EXHIBIT I

Mailed 5/2/91

- ✓ David B. Thompson, Vice President, Public Finance
Janney Montgomery Scott Inc.
1601 Market Street
Philadelphia, PA 19103-2473
215-665-6000
- ✓ Mr. Steve Faber, Vice President
Butcher & Singer
2 Logan Square
18th and Arch Streets
Philadelphia, PA 19103
- ✓ Mr. Peter Shapiro
CitiCorp Securities Markets Inc.
55 Water Street, 43rd Floor
New York, NY 10041
212-291-7768
- ✓ Mr. Timothy L. Carden
Donaldson, Lufkin & Jenrette Securities Corporation
140 Broadway
New York, NY 10005
212-504-3000
- ✓ Mr. Derek Davis
Pryor, McClendon Counts & Company, Inc.
3 Penn Center
1515 Market Street, Suite 819
Philadelphia, PA 19102
- ✓ Mr. Theodore P. Swick
William E. Simon & Sons Municipal Securities, Inc.
55 Madison Avenue, Suite 310
Morristown, NJ 07960
201-984-9000 - 800-872-0850
FAX 201-984-3021
- ✓ Mr. Sam Trove
First American Municipals
156 William Street, 8th Floor
New York, NY 10038
- ✓ Mr. Francis J. Sweeney, Vice President
Morgan Stanley & Co., Inc.
1251 Avenue of the Americas
39th Floor
New York, NY 10020
212-703-4348 FAX 212-921-9638
- ✓ Mr. Ken DeRoberts
Printon Kane Group
51 JFK Parkway
Short Hills, NJ 07078

- ✓ Mr. Thomas H. Cochran, Sr. Vice President
Lehman Brothers Division
Shearson Lehman Borthers Inc.
American Express Tower World Financial Center
New York, NY 10285-2000
212-298-2710
FAX 212-619-7165
- ✓ Mr. Dennis Santo
E. A. Moos & Co.
350 Springfield Avenue
Summit, NJ 07901
- ✓ Mr. Michael Schaefer
Springsted Inc.
85 East 7th Place
Suite 100
St. Paul, MN 55101-2143
- ✓ Mr. Lawrence Bashe, Vice President, Public Finance
The First Boston Corporation
Park Avenue Plaza, 37th Floor
New York, NY 10055
- ✓ Mr. Timothy Sullivan
Gibraltar Securities Co.
10 James Street
Florham Park, NJ 07932
- ✓ Mr. Michael A. Baumrin, Managing Director
Merrill Lynch Capital Markets
World Financial Center
North Tower
New York, NY 10281-1309
212-449-0633 FAX - 212-449-7174
- ✓ Mr. Michael Maron
GE Capital
44-2 Old Ridgebury
Danbury, CT 06810
203-796-2320
- ✓ Mr. Martin Ted Hayden
BT Securities Corporation
130 Liberty Street, 31st Floor
New York, NY 10006
212-250-7624
- ✓ Mr. Tristan P. Renz, Sr. Vice President
Kirchner Moore - A Division of George K. Baum & Co.
7220 Texas Commerce Tower
600 Travis
Houston, TX 77002
713-222-0701

Mr. Robert Dailey
Kidder, Peabody & Co. Inc.
10 Hanover Square
New York, NY 10005
212-520-3438 FAX 212-558-6759

✓ Ms. Deborah Wetzler
Bowne
345 Hudson Street, 10th Floor
New York, NY 10014

Ms. Carol Belamy, Managing Director
Bear, Stearns & Co. Inc.
245 Park Avenue
New York, NY 10167
212-272-3199

✓ Mr. Harold E. Doley, Jr., Chairman
Doley Securities, Inc.
170 Broadway, Suite 610
New York, NY 10038
212-385-3641 FAX 212-608-3911

✓ Mr. Harry Tyson
Smith Barney, Harris Upham & Co.
333 West 34th Street
New York, NY 10001

✓ Ms. Roberta Connolly
Artemis Capital Group Inc.
635 Madison Avenue, 12th Floor
New York, NY 10022
212-593-2317

✓ Mr. Jack Kelly, Sr. Vice President
Prudential Securities Inc.
1 Liberty Plaza, 46th floor
New York, NY 10006

✓ Mr. Clarence Otis
Chemical Securities, Inc.
277 Park Avenue, 11th floor
New York, NY 10172

✓ Mr. Timothy C. McDonough, Vice President
A. G. Edwards & Son
136-150 Main Street, Building A
Princeton Forrestal Village
Princeton, NJ 08450
609-452-0033 800-688-3386 FAX 609-452-1142

✓ Mr. Mark Meyer
Dillon Reade & Co., Inc.
535 Madison Avenue
New York, NY 10022

65x

Ms. Joan Greene
Ryan, Beck and Co.
80 Main Street
West Orange, NJ 07052

/ Mr. Steve Wood
Paine Webber
1285 Avenue of the Americas, 10th floor
New York, NY 10019
212-713-4590

Ms. Beth Boldeschwieler
Marine Midland
140 Broadway, 10th floor
New York, NY 10015

/ Ms. Jan E. Rosenfeld, Vice President, Municipal Finance
Goldman, Sachs & Co.
85 Broad Street
New York, NY 10004
212-902-5654 FAX 212-902-0654

/ Ms. Amy M. Winchell, Vice President
Fiduciary Communications Company, Inc.
149 Franklin Street
New York, NY 10013
212-226-3444 FAX 212-925-1896

/ Mr. James W. Ritter, Managing Director
Lamberson Knight Securities, Inc.
636 Morris Avenue, Suite 1B
Short Hills, NJ 07078
201-376-1000 800-233-4427

5/3/91

Richard Helmbrecht
Reinoso & Co.
30 Broad Street, 32nd Floor
New York, NY 10004

Mr. John Donovan
Dean Witter Reynolds
Two World Trade Center, 59th Floor
New York, NY 10048
212-392-4023

Grigsby Brandford Powell
One World Trade Center
Suite 1535
New York, NY 10048

Mr. Steven Hunt, Vice President and Manager
Bank of New York
One Wall Street, 17th Floor
New York, NY 10286

Mr. Lee K. Barba, Managing Director
Bankers Trust
130 Liberty, 31st Floor
New York, NY 10006

Mr. Bernard B. Beal
President and CEO
M. R. Beal & Co.
489 Fifth Avenue
New York, NY 10017

Ms. Barbara Shattuck
Cain Brothers, Shattuck & Company
452 Fifth Avenue, 25th Floor
New York, NY 10018

Mr. William C. Schutt, President
Discount Corporation of New York Municipals
58 Pine Street
New York, NY 10005

Mr. Craig Douglas James, President
Douglas James Securities, Inc.
14 East Fourth Street, Suite 607
New York, NY 10012

Mr. Alexander S. Williams, Executive Vice President
First Fidelity Bank, NA, New Jersey
550 Broad Street
Newark, NJ 07102

67K

- ✓ Mr. Andrew M. Heath, III
First Interregional Equity Corporation
830 Morris Turnpike
Short Hills, NJ 07078

- / Mr. Michael Jacobson, Vice Chairman
J. B. Hanauer & Co.
59 Northfield Road
Livingston, NJ 07039

- ✓ Mr. John Twomey Booth, President
Jersey Capital Markets Group
Riverview Historical Plaza
45 Newark Street
Hoboken, NJ 07030

- / Mr. Richard Poirier, Senior Vice President
Lazard Freres & Co.
One Rockefeller Plaza
New York, NY 10020

- ✓ Mr. John K. McColloch, Managing Director
J. P. Morgan Securities
23 Wall Street
New York, NY 10260

- ✓ Mr. Arthur F. Powell, President
Powell Capital Markets, Inc.
40 Clinton Street, 2nd Floor
Suite 200
Newark, NJ 07102

- ✓ Mr. John C. Glidden, Jr. Manager
Prudential-Bache Capital Funding
Public Finance Department
100 Gold Street
New York, NY 10292

- ✓ Mr. Al Sturdivant
Sturdivant & Co., Inc.
130 North Broadway
Suite 1007
Camden, NJ 01801

- ✓ Mr. Robert F. O'Neill, Public Finance
Tucker Anthony & R. L. Day, Inc.
120 Broadway
New York, NY 10271

- / Mr. Wardell R. Lazard, Principal
WR Lazard
One Rockefeller Plaza
New York, NY 10020

68X

MAY 03 '91 11:19 BOND BUYE. .NYC

P.2/2

**REQUEST FOR PROPOSALS
UNDERWRITING SERVICES**

NEW JERSEY TURNPIKE AUTHORITY

To All Interested Parties:

If you are interested in receiving an RFP, contact the New Jersey Turnpike Authority at 908-247-0900, ext. 5100. Your proposal must be received by the Authority no later than May 20, 1991 to be considered for this possible underwriting.

24x2

Cost: 405.60
==

69x

May 8, 1991

NEW JERSEY TURNPIKE AUTHORITY
REQUEST FOR PROPOSALS FOR UNDERWRITING SERVICES
ADDENDUM NO. 1

This addendum is in addition to the RFP previously sent, dated May 2, 1991, to your office.

II. TIME SCHEDULE

Five copies of your firm's proposal must be submitted to the NJTA's Finance Advisor, Lazard Freres & Co., by the Proposal Due Date at the following address:

Gordon Bryant
Lazard Freres & Co.
One Rockefeller Plaza, Suite 2330
New York, NY 10020

III. INQUIRIES

All questions regarding the Request for Proposal must be received in written form by 5:00 p.m. May 13, 1991 (Fax, 212-632-6057) to the attention of Gordon Bryant) not Catherine Schladebeck at the NJTA. No response will be provided for questions judged to be irrelevant or unreasonable.

V. RESERVATIONS OF RIGHTS

Please note the following additional reservation of rights:

In order to assure a fair and equitable evaluation of the merits of each applicant underwriting firm, no joint proposals will be accepted. The NJTA reserves the right to choose combinations of managing underwriters as it determines to be appropriate.

IX. REQUIRED PROPOSAL CONTENT

The following additional questions are incorporated into the RFP:

19. Describe any innovative financing techniques developed and utilized by your firm which have successfully resulted in a financing in the last two years.
20. Describe any changes in the staffing of your municipal finance, underwriting, sales and trading departments over the last five years. Include the number of professionals staff separated by category; municipal finance, underwriting, sales and trading in 1986 and the number today.
21. Active and meaningful participation in the financing by minority and women-owned firms is important to the Authority. What means do you recommend to ensure attainment of this goal?
22. The Authority is interested in providing firms that participate in this transaction fair access and equitable treatment in bond allocations. Provide a description of a fair pricing methodology for the underwriting group and a bond allocation proposal. This should include an itemized breakdown of the way in which charges for a sale would be broken out and how bond allocations would be assigned, you serving as senior managing underwriter and your co-managers.

NEW JERSEY TURNPIKE AUTHORITY
RECEIPT OF PROPOSALS AT LAZARD FRERES & CO.

5/17/91		Muriel Siebert & Co.	
5/17/91		Howard Gary & Co.	
5/20/91		Raymond James	8:45
5/20/91		BT Securities	10:00
5/20/91	*	PaineWebber	10:25
5/20/91		Clayton Brown	10:30
5/20/91		E.A. Moos & Co.	10:30
5/20/91		JB Hanauer & Co.	10:30
5/20/91		Kirchner Moore & Co.	10:30
5/20/91		Butcher & Singer	10:30
5/20/91		AG Edwards & Sons	10:30
5/20/91		Reinoso & Co.	10:30
5/20/91		Apex Securities	10:30
5/20/91		Gibraltar Securities	10:30
5/20/91		Alex Brown & Sons	10:30
5/20/91		Morgan Stanley	10:30
5/20/91		Chemical Securities	10:30
5/20/91	+	Ryan Beck & Co.	10:30
5/20/91		Marine Midland	11:00
5/20/91		PHN Capital Funding	11:00
5/20/91		Tucker Anthony	11:00
5/20/91		Prudential Securities	11:00
5/20/91		The Chapman Co.	11:00
5/20/91		First American Municipals	11:00
5/20/91	*	Lehman Brothers	11:30
5/20/91	*	Merrill Lynch	12:30
5/20/91	*	Janney Montgomery	12:40
5/20/91	*	Dillon Read	12:55
5/20/91	*	Donaldson Lufkin	1:00
5/20/91	*	Citicorp	1:00
5/20/91	*	First Boston	1:10
5/20/91	*	Pryor McClendon	1:15
5/20/91	*	Artemis Capital Group	1:45
5/20/91	*	Goldman Sachs	1:45
5/20/91	*	Printon Kane Group	1:50
5/20/91	*	Dean Witter	1:50
5/20/91	*	Kidder Peabody	2:15
5/20/91	*	Smith Barney	2:20
5/20/91	*	William E. Simon & Sons	2:30
5/20/91	*	A.H. Williams & Co.	2:45
5/20/91	*	Sturdivant & Co., Inc.	2:45
5/20/91	*	Doley Securities	2:50
5/20/91	*	Bear Stearns	2:55
5/20/91	+	WR Lazard Laidlaw & Mead	3:20

* Senior Managing Underwriters
+ Co-Senior Managing Underwriters

71X

5/20/91
5/20/91
5/20/91
5/20/91

Grigsby Brandford Powell
M.R. Beal & Co.
Roosevelt and Cross
First Albany Corporation

5/21/91

Artemis Capital Group

Corrected
Copy to
Question 6

New Jersey Turnpike AuthorityBook-running Senior Managing Underwriter QuestionsOral Interviews - June 7 & 10, 1991

Interview Committee:	David Goldberg Donald Watson John Jacobsen Richard Poirier John Tamagni	Chairman, NJTA Executive Director, NJTA Acting Comptroller, NJTA Financial Advisor, Lazard Freres & Co. Financial Advisor, Lazard Freres & Co.
-----------------------------	--	---

1. On an A rated \$500 million Turnpike Authority fixed rate 30 year bond issue, who are the buyers? What percent is retail? What percent is institutional sales? On a AAA rated basis the same question? Outline your firm's definition of a retail investor versus an institutional investor. What do you consider your firm's greatest marketing strength?
2. Describe very briefly a marketing approach to maximize the placement of bonds to New Jersey purchasers.
3. How do you feel retentions should be determined? For example, what percentage of a term bond should be reserved for retail? Would you set up a special term bond for New Jersey retail?
4. What is the most effective sales communication method for institutional buyers? How would you differentiate your relationships with institutions from that of other firms. Who are the four top institutional purchasers for NJTA bonds? What investors can you attract that others can't? How would you achieve that success?
5. What is the lowest possible takedown if these bonds are sold on an institutional basis in today's market?
6. Hypothetical: You are bringing a thirty year \$800 million bond issue, we have a threshold interest rate level, you have orders for \$700 million of bonds, \$400 million is going away business, you can't cut price, the market sells off 5 basis points, a futures contract is 3/4 of a point too cheap to the cash market, what would you do?
7. How would you involve MBE/WBE firms and regional firms in the marketing of a New Jersey bond issue?
8. Very briefly, what direction do you forecast short and long term interest rates through 1991? What does your forward calendar look like over the next 90 to 120 days? What marketing concerns do you have in placing over \$2 billion of Turnpike Authority bonds over the next few months?

9. Given interest rate risk to the Authority, discuss hedging mechanisms. What specific structuring details (CABs, supersinker, etc.) will add value in today's market? What role do you see for floating rate debt?
10. Would you recommend that a portion of the refunding bonds be subordinate lien bonds? Why?
11. The NJTA will be actively involved in the allocation of bonds. Would you consider that a problem?
12. What percentage of the orders on a bond issue will you generate? How do you feel a participation level of a co-manager should be reflected in allocations? Generally, how would you handle the allocations?
13. From a marketing point of view, what is the most difficult financing you have completed that you felt was a success, and why was your firm able to excel?
14. What do you feel might be a weakness in your firm?
15. How do you coordinate several issues you have in the market at the same time? How many financings do you complete in a week? How do your salesman allocate time properly to pre-market?
16. Please discuss what you believe to be an appropriate role for the NJTA traffic engineer and a consulting engineer in marketing Turnpike Authority debt.

NEW JERSEY TURNPIKE AUTHORITY
 Series 1991 A - E
 Refunding and New Money
 Senior Managing Underwriters
 June 1991

FIN	Address	Principal	Representative	FIN	Capital (\$Millions)	Stability	Reference	Allegation	New Jersey DEPT.	New Jersey Experience	FIN	Outstanding Commitment
1	Merrill Lynch & Co., Inc. 200 Vesey Street New York, NY 10281-1200 (212) 440-6877	Merrill L. Emswamy Managing Dir.	Senior Manager: 9 Issues \$1.8 Billion	30.62	\$2000 Total \$2400 Equity \$2400 Net \$770 Excess	Profitable 4 of last 5 Years.	Ransom Christie-Fry President Government Develop- ment Bank for Puerto Rico	Conspicuous with Authority	480 Total Brokers and Operations Committee	Senior Manager: None Co-Senior & Co-Manager: Highway Authority \$25.7 Billion 1980	30.62	Recommended Senior Manager 6/7/91
2	William F. Wood Managing Dir.	Richard A. Baranski Managing Dir.	Co-Senior & Co-Manager: 48 Issues \$207 Billion		Staffing Decreases 25% to 1977.	Chadler James Chairman Texas Water Develop- ment Board				Highway Authority \$48 Billion 1988		
3	David J. Bryne Managing Dir.									Turkette Authority \$2 Billion 1985		

FIN	Address	Principal	Representative	FIN	Capital (\$Millions)	Stability	Reference	Allegation	New Jersey DEPT.	New Jersey Experience	FIN	Outstanding Commitment
4	Prudential Insurance 1285 Avenue of the Americas New York, NY 10019 (212) 715-3330	Math T. O'Brien Managing Dir.	Senior Manager: 11 Issues \$2.6 Billion	53.46 - 53.16	\$1000 Total \$800 Equity \$420 Net \$387 Excess	Profitable 4 of last 5 Years (except 1982).	Robert Merrill Chairman Chubb-Chicago Co. Expenditure Auth.	Conspicuous with Authority	150 Total Brokers and Operations Committee	Senior Manager: None Co-Manager: Turkette Authority \$1 Billion 1985	53.46 - 53.16	Not Recommended for Senior Manager 6/16/91
5	Charles Miller Vice President	William F. Wood Managing Dir.	Co-Manager: 23 Issues \$8.7 Billion		Staffing Decreases 197 to 222	Gregory C. Bart Chairman West Virginia Profit- ways Authority						
6	William F. Wood Managing Dir.						Thomas G. O'Brien Director State Dir. NY State Security Auth.					

25X

NEW JERSEY TURNPIKE AUTHORITY
Series 1991 A-2
Roadway and New Money
Subscriber Marketing Underwriters
June 1991

From	Deal/Book	Transaction	Financing	Capital	Stability	Reference	Allocation	New Jersey	New Jersey	Fee	Qual Interview
		Expenditures	Fin	(\$Millions)				Office	Expenditures	(\$ Per Deal/Book)	Commitment Recommended for
Baron, Sherman & Co., Inc. 540 Park Avenue New York, NY 10017 (212) 872-8272	Robert Fagan Sr. Managing Dir. Thomas Street Aspen, CO	Senior 17 Issues \$3.1 Billion		\$100 Total \$600 Equity \$75 Net \$174 Excess	Profitable last 5 Years	Edward C. Arrandale Dir. of Financing N.Y. Metropolitan Transportation Auth.	50% (7) Flows plus cooperation with Authority	Trenton, NJ	Senior: \$100 Million 1988 Co-Senior: None	\$2.52 - \$2.58	Not Recommended for Subscriber Marketing 6/7/91
	Lisa Cohen Assistant Dir.	Co-Senior: 10 Issues \$2.2 Billion		Stability 118 to 125	Francisco L. Borge State Insurance of Connecticut			Co-Manager: N.J. Turnpike \$2 Billion 1989			
	David Heston Sr. Managing Dir.	Co-Manager: 24 Issues \$14.5 Billion			Carol M. Perkins General Manager Salt River Project			Post Authority \$100 Million 1988			

From	Deal/Book	Transaction	Financing	Capital	Stability	Reference	Allocation	New Jersey	New Jersey	Fee	Qual Interview
		Expenditures	Fin	(\$Millions)				Office	Expenditures	(\$ Per Deal/Book)	Commitment Recommended for
Dean Wiener Capital Markets Two World Trade Center New York, NY 10033 (212) 380-4873	John M. D'Amico Executive V.P.	Senior: 6 Issues \$1.2 Billion		\$100 Total \$175 Excess	Profitable last 3 Years	Edward C. Arrandale Dir. of Financing N.Y. Metropolitan Transportation Auth.	Cooperation with Authority	14 Field Offices	Senior: \$100 Million 1990	\$3.71	Not Recommended for Subscriber Marketing 6/7/91
	Jorge A. Gurm Managing Dir.	Co-Senior: 7 Issues \$1.2 Billion		Stability 117 to 111	Richard L. Millings District Manager Illinois Tollway Authority			Co-Senior: \$100 Million 1989			
	Karla L. Wilson Senior V.P.	Co-Manager: 28 Issues \$1.5 Billion			John McGee Special Ass. for Strength Management State of Arizona Dept. of Transportation			Post Authority \$100 Million 1989 \$100 Million 1989 \$100 Million 1989 \$100 Million 1989 \$100 Million 1989			

NEW JERSEY TURNPIKE AUTHORITY
 Series 1991 A - E
 Refunding and New Money
 Senior Mortgage Underwriters
 June 1991

Firm	Executives	Transaction Amount	Project Type	Quality Rating	Subj. to Call	Reference	Alignment	New Jersey Office	New Jersey Experience	Fee (\$ Per \$1,000,000)	Outstanding Commitment
Ellen Reed & Co., Inc. 328 Middlesex Avenue New York, NY 10022 (212) 908-7244	MAJ D. Meyer Senior V.P. David E. George, Jr. Vice President Peter H. Dushoff Managing Director Steven F. Elliot Associate	Senior Manager: 18 Issues \$4.2 Billion Co-Manager: 25 Issues \$7.3 Billion	2942 Total \$222 Equity \$498 Excess	Probable last 5 Years Stalling Decreasing \$8 to 48	Edward C. Aronowitz Dir. of Finance N.Y. Metropolitan Transportation Auth. Fred Chaffin Dir. of Finance N.Y. Thruway Auth. Kernell J. Rubin Sec. of Transportation State of Delaware	Senior 35% Co-Senior 35% Co-Manager 20% Selling Group 10%	None	Senior Manager: Highway Authority \$277 Million 1989 \$348 Million 1989 Co-Manager: Turnpike Authority \$2 Billion 1985	\$7.85 - \$8.15	Recommended Senior or Co-Senior Manager 6/7/91	
Donaldson, Latta & Associates 148 Broadway New York, NY 10022 (212) 504-4613	James A. Chace Senior V.P. Timothy L. Cadden Vice President William K. Ruchbach Senior V.P. William P. Fish Senior V.P.	Senior Manager: 7 Issues \$1.1 Billion Co-Senior A 22 Issues \$4.2 Billion	5203 Total \$380 Equity \$815 Net \$178 Excess	Mid Income Growth Record High 1980-1983 Stalling Decreasing 97 to 85	G. Edward O'Connor Sec. Asst. to Gov. Commonwealth of Penna. Francisco L. Rojas Treasurer State of Connecticut Neil J. Kove Finance Dir. Pickens & Shoup Power Authority	Designate 50% of Firm Cooperation with Authority	None	Senior Manager: None Co-Senior A Co-Manager: Turnpike Authority \$17 Billion 1987 Highway Authority \$348 Million 1988	\$3.95	Recommended Senior or Co-Senior Manager 6/7/91	

NEW JERSEY TURNPIKE AUTHORITY
 Series 1991 A - E
 Refunding and New Money
 Sinking Payment Underwriters
 June 1991

Firm	Dealings	Transportation Experience	Phone No.	Capital Commitment	Stability	References	Allocation	New Jersey Div.	New Jersey Experience	Fee (\$/M. Turnpike)	Deal Interest/Commitment Dates
First Bank 55 East 62 Street New York, NY 10025 (212) 908-2000	Donald McGuire II, Managing Dir. Lawrence Burke, V.P. and Manager Thomas W. Brundage, Dir. and Manager James T. Scullion, Managing Dir.	Senior: \$1.1 Billion Co-Senior & Co-Manager: \$15.3 Billion		\$1000 Total \$720 Senior \$270 M/A \$200 Excess Net	Probability not discussed. Stalling Decrease 126 to 115.	Louis V. Pomeroy, Deputy Exec. Dir., Los Angeles County Transportation Commission Edward C. Arnsperger, Dir. of Finance, N.Y. Metropolitan Transportation Auth. Suzanne H. Sals, Asst. Dir. Finance & Administration, Arizona Dept. of Transportation	Development: no more than 50%/30% down, plus cooperation with Authority.	Operations Center - Paterson, NJ	Senior Manager: Port Authority \$100 million 1987 Travel Fund \$125 million 1988 Co-Senior & Co-Manager: Port Authority \$100 million - 1987 \$100 million - 1988 \$100 million - 1991	\$0.40	Recommended as Senior Manager 6/7/91
Goldman, Sachs & Co. 65 Broad Street New York, NY 10004 (212) 902-6441	Michael McCarthy, Partner Ann Kaplan, Partner Arthur Miller, Vice President Donald MacQuay, Vice President	Senior: 11 Issues \$1.87 Billion Co-Manager: 64 Issues		\$241.8 Total \$141.6 Senior \$208.5 Excess Net	Probable last 5 years.	Robert L. Tschene, Vice President, New York Power Auth. Edward G. Arnsperger, Dir. of Finance, N.Y. Metropolitan Transportation Auth. James Houbert, Financial Officer IPA	Cooperation with Authority special dividend offering 15-20% down bond redemption 10% reserved for special redemption 0-50% alpha distribution	None	\$8.17	Recommended as Senior Manager 6/7/91	

NEW JERSEY TURNPIKE AUTHORITY
Series 1991 A - E
Refunding and New Money
Senior Mortgage Bonds
June 1991

Firm	Marketing Executives	Trustees	Capital (Millions)	Stability	References	Assignments	New Jersey DE's	Fee (\$ Thousands)	Overall Industry Comments/Responsible
Kilmer, Peabody & Co. 208 Vesey Street New York, NY 10028 (212) 318-3000	Paul A. Slach Managing Dir. Loren B. Lane Senior VP Robert G. Knebler Vice President Richard E. Doherty, Jr. Assistant	Samuel J. Isaacs 1250-6 Madison Co-Manager: 21 Nassau 58.18 Billion	\$765.7 Total \$772 Equity \$ 8.8 Net \$ 1.3 Excess	Significant downgrading in 1987.	Louis P. Russo Dir. of Finance City of Tampa Ken Green V.P. of Finance Guthrie Medical Center Bob Kay V.P. of Finance Mercy Health System	Designations: no one firm with more than 20%; at least 4 firms named; 1/3 of all designated firms credited to group; cooperation with Authority.	Montclair, NJ (Protege)	\$8.8A plus Net \$250,000 management fee.	Overall Industry Comments/Responsible: Not Recommended 6/7/91

Firm	Marketing Executives	Trustees	Capital (Millions)	Stability	References	Assignments	New Jersey DE's	Fee (\$ Thousands)	Overall Industry Comments/Responsible
Latham & Walkers 208 Vesey Street New York, NY 10028 (212) 786-7501	Robert M. Brown, III Managing Dir. Thomas H. Cochran Senior V.P. Robert Charles Brown Senior V.P. Stanley Charnack 33 Nassau	10 Nassau 52.48 Billion Co-Senior: 1 Nassau 51.43 Billion Co-Manager: 33 Nassau 14.1 Billion	\$748 Total \$393 Equity \$199 Net \$100 Excess	2008 million Jan-Jr 1991. Increase 208 to 212.	Robert Brown Former State Treasurer State of Michigan Ray Puhel Commissioner Virginia Dept. of Transportation Mary Ann Dir. of Finance Jacksonville Electric Auth.	4 Issuances: 1) Co-Manager: 2) Co-Senior: 3) Co-Manager: 4) Subling Group: Institutions within divided 60% Inv. 2 Bonds, 30% Inv. to Inv. Inv. - 25% Inv. 3 Inv. 15.5% Inv. to Inv. Inv. - 10% Inv. 2 Inv. 5% Inv. to Inv. Investors can use designate within each trustee under 30%/70% Rule. Cooperation with Authority.	Road offices	\$1.67 (contingency included in 7.57); management fee includes inv. Co-Manager's management fee of \$6.50, which increases to \$7.00 for any amount over \$100 million. Investors 650000 under writer's option.	Accounting/Source of Co-Senior Manager 6/7/91

NEW JERSEY TURNPIKE AUTHORITY
 Series 1991A - E
 Refunding and New Money
 Senior Managing Underwriters
 June 1991

Lead	Residence	Transportation Experience	Phone No.	Capital \$ Mil/Bond	Stable	Reference	Availability	New Jersey Experience	Fee \$ Per Transaction	Deal Interest/Comments/Recommendation
Soble Services, Merle Upham & Co., Inc. 1365 Avenue of the Americas New York, NY 10105 (212) 688-0284	Henry A. Tyson Executive V.P.	Senior Manager 12 years \$1.8 Billion		2002 Total \$785 Equity \$271 Expense	Profitable last 2 Years	Gulf A. D'Amico President Southern California Public Power Auth.	Disqualifies 50%/2 Firm	Senior Manager Port Authority \$200 Million 1989	\$1.50	Not Recommended as Recommending Dealer 6/16/91
	Mark Chang Vice President	Co-Manager 52 years \$11.7 Billion			Stalling Decrease 23% to 21%	Charles K. Shan Finance Dir. Subic County Water Authority	Occupation with Authority	Travel Trust Fund \$200 Million 1988 Port Authority \$100 Million 1989		
	Richard M. Taylor Senior V.P.					Henry J. Helmer Chief P.M. Officer Grand River Dam Auth.		Turnpike Authority \$2 Billion 1985		
	William Gomboski Managing Dir.					Edward J. McCann Grand Duane Florida Dept. of Transportation		Co-Manager Port Authority \$100 Million 1987 \$100 Million 1987		
						Suzanne Selo Dir. Dir. for Finance Arkansas Dept. of Transportation				
						Alan B. Thompson Construction/Finance San Francisco Bay Area Rapid Transit Dist.				

NEW JERSEY TURNPIKE AUTHORITY

R E S O L U T I O N

WHEREAS, the New Jersey State Legislature (the "Legislature") has pursuant to Senate Bill No. 3549 (L.1991 c.183) (the "Act") authorized and directed the New Jersey Turnpike Authority (the "Authority") to purchase a portion of Interstate Route 95 between the northern terminus of the existing New Jersey Turnpike System and the approach to the George Washington Bridge (the "I-95 Segment") for a purchase price of \$400,000,000; and

WHEREAS, in furtherance of the directive of the Legislature to purchase the I-95 Segment as reflected in the Act and in order to permit the Authority to accomplish the purposes of the Act while giving due regard to the rights of the holders of the existing outstanding bonded indebtedness of the Authority, a Plan of Finance has been prepared and submitted to this meeting and is attached as Appendix A hereto (the "Plan of Finance"); and

WHEREAS, the Authority also believes it to be in its best interest to implement the Plan of Finance for the purpose of modifying its existing debt structure to provide greater flexibility to the Authority in order to serve the future transportation needs of the State.

NOW, THEREFORE, be it resolved by the Authority as follows:

1. The Authority hereby approves the Plan of Finance.
2. That the Executive Director, the staff and the agents and advisors of the Authority are hereby authorized and directed to take all necessary and desirable action to implement the Plan of Finance in substantially the manner described in this Resolution with such modifications, additions, supplements and deletions as the Executive Director and staff of the Authority may recommend.
3. The Authority hereby appoints the investment banking firms listed on Appendix B hereto as senior and co-senior managers, co-managers and selling group members for each respective portion of the Plan of Finance as more fully set forth on Appendix B hereto, subject, however, to the right of the Authority to make such adjustments and revisions to said appointments as the Authority determines to be in its best interest.

NEW JERSEY TURNPIKE AUTHORITY

4. The Executive Director and staff of the Authority are authorized and directed to take such further and additional action as may be necessary to carry out the intent of this Resolution including, but not limited to: (i) the distribution of one or more preliminary official statements in connection with the issuance and sale of bonds issued by the Authority pursuant to the Plan of Finance; (ii) select and retain financial printers for the printing and distribution of such preliminary official statements and any final official statements as well as the printing or engraving of bonds or the printing of other documents which will be necessary or incidental to the foregoing; (iii) to enter into agreements with one or more trustees, paying agents, fiscal agents, registrars, verification agents, or securities clearinghouse firms in connection with the issuance of any bonds.

I hereby certify the foregoing to be a true and correct copy of Resolution adopted at the regular meeting of the New Jersey Turnpike Authority on July 2, 1991.

Herbert I. Olarsch
Secretary

PAX

NEW JERSEY TURNPIKE AUTHORITY
PLAN OF FINANCE

The financing plan for refinancing the outstanding debt of the Authority and the purchase of the northern section of I-95 consists of the following transactions:

(1) Restructure Investments

- o Determine the total amount of available bond proceeds that will be available to redeem Series 1985 Bonds at par. Restructure the remaining investments to maximize the investment income from invested funds available after the refunding program.

(2) Refund Series 1984

- o Issue tax-exempt debt to refund the non-economic Series 1984 bonds.
- o Issue taxable debt to refund the remaining economic Series 1984 bonds.
- o The refunding will be structured to take maximum advantage of the provisions of the Internal Revenue Code governing such transactions.

(3) Refund Series 1985

- o Redeem a portion of the Series 1985 bonds at par with available bond proceeds. Using available bond proceeds to redeem 1985 bonds at par increases savings and reduces the size of the refunding issue.
- o Issue tax-exempt bonds to refund the remaining Series 1985 bonds.

(4) Concluding Bond Issue

- o Issue bonds to fund the purchase of the northern section of I-95 and to replace funds used in the refinancing program.

Tax law, market considerations and restrictions in the 1984 resolution require that the refinancing program involve multiple issues each separated by at least 31 days. In addition, the municipal bond interest rate market has been fluctuating. The Authority will modify the financing program outlined above in response to market conditions. As a result, the exact structure of the financing plan may be different at the completion of the program.

LAZARD FRERES & CO.
 *BOND UNDERWRITER RECOMMENDATIONS
 NEW JERSEY TURNPIKE AUTHORITY
 REFUNDINGS AND COMPLETION BOND FINANCING PROGRAM
 1991 SERIES A - E
 JULY 2, 1991

Series 1991 A & B
Refunding of 84 Series

Senior Manager The First Boston Corporation

Co-Senior Managers Bear, Stearns & Co. Inc.
 PaineWebber Incorporated

Co-Managers Alex. Brown & Sons, Inc.
 Dolev Securities, Inc.
 Grigsby Brandford Powell Inc.
 Janney Montgomery Scott Inc.
 Prudential Securities Incorporated
 Pryor, McClelland, Counts & Co., Inc.
 Tucker Anthony Incorporated
 WR Lazard, Laidlaw & Mead, Inc.

Selling Group Apex Securities, Inc.
 The Chapman Company
 Clayton Brown & Associates, Inc.
 First American Municipals, Inc.
 Kirchner Moore
 Muriel Siebert & Co., Inc.
 PHN Capital Funding Inc.
 Roosevelt & Cross Incorporated
 United Daniels Securities

Series 1991 C & D
Refunding of 85 Series

Senior Manager Merrill Lynch & Co.

Co-Senior Managers Donaldson, Lufkin & Jenrette Securities Corporation
 Kidder, Peabody & Co., Inc.
 Smith Barney, Harris Upham & Co., Inc.

Co-Managers M.R. Beal & Company
 BT Securities Corp.
 Butcher & Singer
 A.G. Edwards & Sons, Inc.
 Howard Gary & Company
 Marine Midland Capital Markets Corporation
 E.A. Moos & Co. L.P.
 Raymond James & Associates, Inc.
 Ryan, Bock & Co.
 William E. Simon & Sons Municipal Securities
 A.H. Williams & Co., Inc.

Selling Group Apex Securities, Inc.
 The Chapman Company
 Clayton Brown & Associates, Inc.
 First American Municipals, Inc.
 Kirchner Moore
 Muriel Siebert & Co., Inc.
 PHN Capital Funding Inc.
 Roosevelt & Cross Incorporated
 United Daniels Securities

Series 1991 E
Concluding Bond Issue

Senior Manager Goldman, Sachs & Co.

Co-Senior Managers Dillon, Read & Co. Inc.
 Lehman Brothers
 Dean Witter Reynolds Inc.

Co-Managers Artemis Capital Group, Inc.
 Chemical Securities, Inc.
 First Albany Corporation
 Gibraltar Securities Co.
 J.B. Hanauer & Co.
 Morgan Stanley & Co. Inc.
 Printon, Kane Group, Inc.
 Reinoso and Company Inc.
 Sturdivant & Co., Inc.

Selling Group Apex Securities, Inc.
 The Chapman Company
 Clayton Brown & Associates, Inc.
 First American Municipals, Inc.
 Kirchner Moore
 Muriel Siebert & Co., Inc.
 PHN Capital Funding Inc.
 Roosevelt & Cross Incorporated
 United Daniels Securities

*These recommendations may be subject to change at any time.

Standard & Poor's Corporation
Municipal Finance Department
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1752



EXHIBIT P

Hyman C. Grossman
Managing Director
Municipal Finance Department

September 3, 1991

Mr. John S. Tamagni
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

Re: *\$423,205,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series A
1991 (Refunding Bonds), due: January 1, 2014, dated: August 1, 1991*

Dear Mr. Tamagni:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the MEMORANDUM OF AGREEMENT on the reverse side hereof, have assigned a rating of 'A' to the obligations.

Please note that the information referred to in the third paragraph of the MEMORANDUM OF AGREEMENT includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Our bill will be sent in due course. If you have any questions, please contact us.

Very truly yours,

A handwritten signature in black ink, appearing to be 'H. Grossman', written over a horizontal line.

cjc

85X

MEMORANDUM OF AGREEMENT

RE: MUNICIPAL DEBT CONTRACT RATINGS

Standard & Pools Corporation (S&P) rates the creditworthiness of specific bonds or debt obligations for a fee upon written request from an issuer, or from an underwriter, financial consultant, institution or other purchaser, provided that the issuer has knowledge of the request.

The fee is based on the time and effort to determine the rating and accrues upon completion or termination of the rating process and is not contingent upon the sale of the bonds or debt obligations. The fee is not a payment to circulate, disseminate or publicize the rating. However, S&P has the right to disseminate the rating to its own customers and subscribers or through its own or other media. Expenses incurred, such as those for meetings outside S&P's offices or for field trips, are also payable to S&P.

The Applicant agrees to provide or otherwise furnish to S&P all pertinent information in a timely manner together with all subsequent material change in and additions to such information prior to, at the time of, and subsequent to the assignment of the rating. Failure to furnish information in a timely manner may result in no rating or withdrawal of the rating. S&P relies on the party submitting such information for its accuracy and completeness and substantiation thereof.

It is understood that the rating is an evaluation of the information submitted and does not involve an audit by S&P. S&P has the right to raise, lower, suspend or withdraw the rating at any time, in its sole discretion, depending on the information S&P then has, or the lack thereof, or other circumstances, including but not limited to, issuance of new bonds or debt obligations by the issuer, all without notice.

Neither party may assign this agreement without the consent of the other party.

CORPORATE AND MUNICIPAL DEBT RATING DEFINITIONS

Long-term debt

A Standard & Pools corporate or municipal debt rating is a current assessment of the credit worthiness of an obligor with respect to a specific obligation. This assessment may take into consideration factors such as guarantors, insurers, or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by S&P from other sources it considers reliable. S&P does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

1. Likelihood of default—capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
2. Nature of and provisions of the obligation;
3. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors rights.

AAA Debt rated 'AAA' has the highest rating assigned by Standard & Pools. Capacity to pay interest and repay principal is extremely strong.

AA Debt rated 'AA' has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.

A Debt rated 'A' has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.

BBB Debt rated 'BBB' is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

Speculative grade rating definitions

Debt rated 'BB', 'B', 'CCC', 'CC', and 'C' is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. 'BB' indicates the least degree of speculation and 'C' the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

BB Debt rated 'BB' has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

B Debt rated 'B' has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal.

The 'B' rating category is also used for debt subordinated to senior debt that is assigned an actual or implied 'BB' or 'BB-' rating.

CCC Debt rated 'CCC' has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions it is not likely to have the capacity to pay interest and repay principal.

The 'CCC' rating category is also used for debt subordinated to senior debt that is assigned an actual or implied 'B' or 'B-' rating.

CC The rating 'CC' is typically applied to debt subordinated to senior debt which is assigned an actual or implied 'CCC'—debt rating.

C The rating 'C' is typically applied to debt subordinated to senior debt which is assigned an actual or implied 'CCC'—debt rating.

CI The rating 'CI' is reserved for income bonds on which no interest is being paid.

D Debt rated 'D' is in payment default. The 'D' rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless S&P believes that such payments will be made during such grace period. The 'D' rating also will be used upon the filing of a bankruptcy petition if debt service payments are reorganized.

Plus (+) or Minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus to show relative standing within the major rating categories.

Provisional Ratings: The letter 'p' indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the debt being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise judgment with respect to such likelihood and risk.

L The letter 'L' indicates that the rating pertains to the principal amount of those bonds to the extent that the underlying deposit collateral is insured by the Federal Savings & Loan Insurance Corp. or the Federal Deposit Insurance Corp. and interest is adequately collateralized. In the case of certificates of deposit the letter 'L' indicates that the deposit, combined with other deposits being held in the same right and capacity will be honored for principal and accrued pre-default interest up to the federal insurance limit within 30 days after closing of the insured institution or, in the event that the deposit is assumed by a successor insured institution, upon maturity.

* Continuance of the rating is contingent upon S&P's receipt of an executed copy of the escrow agreement or closing documentation confirming escrow payments and cash flow.

§ Symbol is used exclusively on State of Michigan School Bonds. The bonds are qualified school bonds and are rated on par with the states general obligation rating.

Municipal Notes

A Standard & Pools note rating reflects the liquidity concerns and market access risks unique to notes. Notes due in 3 years or less will likely receive a note rating. Notes maturing beyond 3 years will most likely receive a long-term debt rating. The following criteria will be used in making that assessment:

—Amortization schedule (the larger the final maturity relative to other maturities the more likely it will be treated as a note).

—Source of payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note).

Note rating symbols are as follows:

SP-1 Very strong or strong capacity to pay principal and interest. Those issues determined to possess overwhelming safety characteristics will be given a plus (+) designation.

SP-2 Satisfactory capacity to pay principal and interest.

SP-3 Speculative capacity to pay principal and interest.

Dual Ratings

Standard & Pools assigns "dual" ratings to all debt issues that have as part of their structure a put option or demand feature.

The first rating addresses the likelihood of repayment of principal and interest due, and the second rating addresses only the demand feature. The long-term debt rating symbols are used for bonds to denote the long-term maturity and the commercial paper rating symbols for the put option (for example, 'AAA/A-1 +'). With short-term demand debt, the note rating symbol is used with the commercial paper rating (for example, 'SP-1 + A-1 -').

Moody's Investors Service

99 Church Street, New York, N.Y. 10007

August 16, 1991

Mr. Donald Watson
Executive Director
N.J. Turnpike Auth.
Administration Bldg.
New Brunswick, New Jersey 08903

N. J. T. P. A.
AUG 22 1991
CONFIRMATION OFFICE

Dear Mr. Watson:

We wish to inform you that our Rating Committee has assigned the rating of A to the \$423,000,000 New Jersey Turnpike Authority, Turnpike Revenue (1991 Resolution) (Non-Priority Bonds) to be sold through negotiation August 20, 1991.

We have also reviewed and confirmed the rating of A to the outstanding Turnpike Revenue Series 1985 Bi-Modal Multi-Term Format Mode A and to the outstanding Turnpike Revenue Subordinate Lien Bonds.

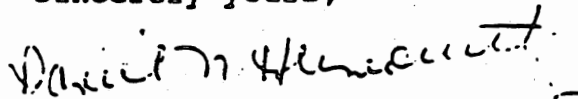
In order that we may maintain this rating over the period of the loan, we will require current financial and other updating information. We will appreciate your continued cooperation in the future.

We would appreciate receiving a copy of the final Official Statement when available.

Under separate cover you will be receiving a copy of our credit report on the above referenced bond sale.

Should you have any questions regarding the above, please do not hesitate to contact Michael Johnston at (212) 553-7810.

Sincerely yours,



Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

MJ:cn

cc: Mr. Richard Poirier
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

87X

RECEIVED
AUG 19 1991
EXECUTIVE DIRECTOR

Investors Service, Inc.
State Street Plaza
New York, NY 10004
908-0500

August 14, 1991

Mr. Donald L. Watson
Executive Director
New Jersey Turnpike Authority
New Brunswick, NJ 08903

Re: \$423 million Turnpike Revenue Bonds, Series 1991 A, (Refunding Bonds)

Dear Mr. Watson:


Fitch Investors Service, Inc. has assigned a rating of "A" to the above referenced bonds. The "A" rating is defined as "...Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings."

For Conditions Relating to the Rating, please refer to page 2 of this letter.

In order to keep our ratings current, we will expect to receive all material information on a continuing basis, including final closing documents for the current transaction.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time. A copy of the credit analysis published by Fitch Investors Service in connection with the above issue will be forwarded.

Sincerely,



Claire G. Cohen
Executive Managing Director
Governmental Finance

CONDITIONS RELATING TO THE RATING

Ratings assigned by Fitch Investors Service, Inc. are based on the documents and information provided to us by the issuer and its experts and agents and are subject to receipt of the final closing documents. Fitch does not verify the truth or accuracy of such information.

Ratings are not a recommendation to buy, sell or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature of taxability of payments made in respect of any security.

It is important that Fitch be provided with all information that may be material to the rating so that our ratings continue to accurately reflect the current condition of the issuer. Ratings may be changed, withdrawn, suspended or placed on Fitch*Alert in the event we do not receive adequate or timely information.

M. ody's Investors Service

EXHIBIT Q
99 Church Street, New York, N.Y. 10007

File

September 24, 1991

Mr. Donald Watson
Executive Director
N.J. Turnpike Authority
Administration Building
New Brunswick, New Jersey 08903

Dear Mr. Watson:

We wish to inform you that our Rating Committee has assigned the rating of A to the \$80,665,000 New Jersey Turnpike Authority, Turnpike Revenue Subordinate Lien Bonds to be sold through negotiation September 24, 1991.

We have also reviewed and confirmed the rating of A to the outstanding Turnpike Revenue Series 1985 Bi-Modal Multi-Term Format Mode A Bonds.

In order that we may maintain this rating over the period of the loan, we will require current financial and other updating information. We will appreciate your continued cooperation in the future.

We would appreciate receiving a copy of the final Official Statement when available.

Under separate cover you will be receiving a copy of our credit report on the above referenced bond sale.

Should you have any questions regarding the above, please do not hesitate to contact Marie Pisecki at (212) 553-7120.

Sincerely yours,

Daniel N. Heimowitz

Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

MSP:cn

cc: Mr. Jack Tamagni
Municipal Finance Dept.
Lazard Freres & Co.

90X

RECEIVED

SEP 26 1991

TO: MR. DONALD L. WATSON

Standard & Poor's Corporation
Municipal Finance Department
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1767



ml

Richard P. Larkin
Managing Director
Municipal Finance Department

September 30, 1991

Mr. John S. Tamagni
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

Re: *578,960,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1991-B (Refunding Bonds), due: January 1, 2001, dated: August 1, 1991*

Dear Mr. Tamagni:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the MEMORANDUM OF AGREEMENT on the reverse side hereof, have assigned a rating of 'A' to the obligations.

Please note that the information referred to in the third paragraph of the MEMORANDUM OF AGREEMENT includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Our bill will be sent in due course. If you have any questions, please contact us.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Richard P. Larkin'.

ed

91X

RECEIVED

OCT 07 1991

EXECUTIVE DIRECTOR

Investors Service, Inc.
100 Street Road
PO Box 10000
BOSTON

September 23, 1991

Mr. Donald L. Watson
Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Re: \$60,600,000 Turnpike Revenue Bonds, Series 1991 B (Refunding Bonds)

Dear Mr. Watson:

Fitch Investors Service, Inc. has assigned a rating of "A" to the above referenced bonds. The "A" rating is defined as "...Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings."

For Conditions Relating to the Rating, please refer to page 2 of this letter.

In order to keep our ratings current, we will expect to receive all material information on a continuing basis, including final closing documents for the current transaction.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time. A copy of the credit analysis published by Fitch Investors Service in connection with the above issue will be forwarded.

Sincerely,



Claire G. Cohen
Executive Managing Director
Governmental Finance

92X

RECEIVED

SEP 25 1991

EXECUTIVE DIRECTOR

CONDITIONS RELATING TO THE RATING

Ratings assigned by Fitch Investors Service, Inc. are based on the documents and information provided to us by the issuer and its experts and agents and are subject to receipt of the final closing documents. Fitch does not verify the truth or accuracy of such information.

Ratings are not a recommendation to buy, sell or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

It is important that Fitch be provided with all information that may be material to the rating so that our ratings continue to accurately reflect the current condition of the issuer. Ratings may be changed, withdrawn, suspended or placed on Fitch Alert in the event we do not receive adequate or timely information.

Moody's Investors Service

99 Church Street, New York, N.Y. 10007

November 20, 1991

Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
Administration Building
New Brunswick, New Jersey 08903

Dear Mr. Watson:

We wish to inform you that our Rating Committee has assigned the rating of **A** to the \$1,636,200,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds which sold through negotiation November 19, 1991.

In order that we may maintain the rating, we will require current updating information. We will appreciate your continued cooperation in the future.

Should you have any questions regarding the above, please do not hesitate to contact Marie S. Pisecki at (212) 553-7120.

Sincerely,

Daniel N. Heimowitz
Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

DNH:vlw

RECEIVED

NOV 22 1991

94X

Moody's Investors Service

99 Church Street, New York, N.Y. 10007

December 6, 1991

Municipal Bond Investors Assurance Corporation
113 King Street
Armonk, New York 10504

Dear MBIA Corp.:

Moody's Investors Service has assigned the rating of Aaa (MBIA Corp. Insured-Policy No. 10576) to the \$50,000,000 New Jersey Turnpike Revenue Bonds, Series 1991 C (Insured Maturity Due January 1, 2013), dated November 15, 1991, which sold through negotiation on November 22, 1991. The rating is based upon a policy provided by Municipal Bond Investors Assurance Corporation.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Michelle Beinhacker at (212) 553-7779.

Sincerely yours,



Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

DH:cr

Moody's Investors Service

69 Church Street, New York, N.Y. 10007

December 9, 1991

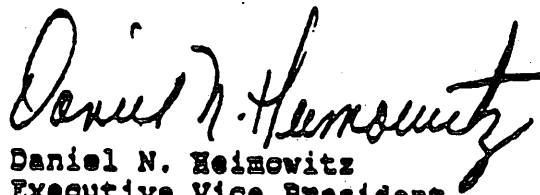
AMBAC Indemnity Corporation
One State Street Plaza
New York, New York 10004

Dear AMBAC:

Moody's Investors Service has assigned the rating of Aaa (AMBAC Insured-Policy No. 6440BE) to the \$169,725,000 New Jersey Turnpike Authority, New Jersey, Series 1991C Turnpike Revenue Bonds, dated November 15, 1991, consisting of \$73,640,000 in aggregate principal amount of Serial Bonds maturing on January 1, 2007 and \$96,085,000 in aggregate principal amount of Serial Bonds maturing on January 1, 2010, which sold through negotiation on November 21, 1991. The rating is based upon an insurance policy provided by AMBAC Indemnity Corporation.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Cynthia Shapiro at (212) 553-4869.

Sincerely yours,



Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

DH:cr

96X

Moody's Investors Service

99 Church Street, New York, N.Y. 10007

December 11, 1991

Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
Administration Building
New Brunswick, New Jersey 08903

Dear Mr. Watson:

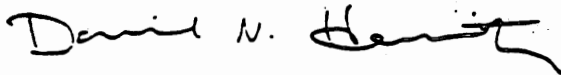
We wish to inform you that our Rating Committee has assigned the rating of Aaa/VMIG 1 to the New Jersey Turnpike Authority Turnpike Revenue Bonds Series 1991 D.

The long-term rating is based upon an insurance policy provided by the Financial Guaranty Insurance Company. The short-term rating is based upon the letter of credit provided by Societe Generale, and will be changed whenever the bank's rating is changed. Additionally, the short term rating expires December 4, 1992, upon conversion, or earlier termination of letter of credit.

In assigning our rating we relied on documents provided to us. In order to maintain the rating, we must be provided with a complete set of executed documents blacklined against drafts we used to rate the issue as soon as possible.

Under separate cover you will be receiving a copy of our credit report on the above referenced bond sale. Should you have any questions regarding the above, please do not hesitate to contact the analyst assigned to the transaction, Thomas C. Letteri, at (212) 553-4554.

Sincerely,



Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

TCL:cgj



Standard & Poor's Corporation
Bond Insurance Administration
5 Broadway
New York, New York 10004-1064
Telephone 212/208-1061
AX 212/208-8262

-December 6, 1991

Municipal Bond Investors Assurance Corporation
13 King Street
Armonk, New York 10504

Re: *\$50,000,000 New Jersey Turnpike Authority Turnpike Revenue Bonds, Series 1991C
dated November 15, 1991 due January 1, 2013 (Policy No. 10576)*

Ladies and Gentlemen:

In response to your request for a Standard & Poor's rating on the subject obligations, we have reviewed the information submitted and have assigned a rating of 'AAA'.

This rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing.

Rating adjustments may result from changes in the financial position of your company or from alterations in documents governing the issue. With respect to the latter, please notify us of any changes or amendments over the term of the issue.

When using this Standard & Poor's rating, include S&P's definition of the rating together with a statement that this may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. This rating is not a "market rating", because it is not a recommendation to buy, hold or sell the obligations.

Please remember that complete documentation relating to this issue must be submitted no later than 90 days after the date of this letter. If you have any questions, please contact us.

Very truly yours,



Standard & Poor's Corporation
Bond Insurance Administration
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1061
FAX 212/208-8262



December 9, 1991

Ms. Zeyba Rahman
Vice President
AMBAC Indemnity Corporation
One State Street Plaza - 17th Floor
New York, New York 10004

Re: *\$169,725,000 of \$1,247,850,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1991C, dated: November 15, 1991, \$73,640,000 (Serial) due: January 1, 2007, \$96,085,000 (Serial) due: January 1, 2010 (POLICY #6440BE/ACN 6212)*

Dear Ms. Rahman:

Pursuant to your request for a Standard & Poor's rating on the subject obligations, we have reviewed the information submitted and have assigned a rating of 'AAA'.

This reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing.

Rating adjustments may result from changes in the financial position of your company or from alterations in documents governing the issue. With respect to the latter, please notify us of any changes or amendments over the term of the issue.

When using this Standard & Poor's rating, include S&P's definition of the rating together with a statement that this may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. This rating is not a "market rating", because it is not a recommendation to buy, hold or sell the obligations.

Please remember that complete documentation relating to this issue must be submitted no later than 90 days after the date of this letter. If you have any questions, please contact us.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Vincent S. Argo'.

cf

99X

Standard & Poor's Corporation
Municipal Finance Department
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1767



Richard P. Larkin
Managing Director
Municipal Finance Department

December 11, 1991

Mr. John Tamagni
Lazard Freres, & Co.
One Rockefeller Plaza
New York, New York 10020

Re: *\$1,247,850,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1991-C, due: January 21, 2016, dated: November 15, 1991*

Dear Mr. Tamagni:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the MEMORANDUM OF AGREEMENT on the reverse side hereof, have assigned a rating of 'A' to the obligations.

Please note that the information referred to in the third paragraph of the MEMORANDUM OF AGREEMENT includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Our bill will be sent in due course. If you have any questions, please contact us.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'Richard P. Larkin', written over a light-colored background.

ed
cc: Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, New Jersey

100X

Standard & Poor's Corporation
Bond Insurance Administration
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1061
FAX 212/208-8262



December 11, 1991

Ms. Marilyn T. Mullaney
Manager of Operations
Financial Guaranty Insurance Company
175 Water Street, 15th Floor
New York, New York 10038

Re: *\$371,000,000 New Jersey Turnpike Authority, Turnpike Revenue Bonds Series
1991D, dated: December 12, 1991, due: January 1, 2018, —
(POLICY #91010513/DSRF 91010514)*

Dear Ms. Mullaney:

Pursuant to your request for a rating on the subject obligations, we have reviewed the information submitted and have assigned ratings of 'AAA/A-1+'.

The first rating addresses the likelihood of repayment of principal and interest as due based on the bond insurance policy your company is providing. The second rating reflects the likelihood of repayment based on the Letter of Credit issued by Societe Generale during the "put" period.

Rating adjustments may result from changes in the financial positions of your company or of the entity providing the liquidity facility, or from alterations in the documents governing the issue. With respect to the latter, please be certain to notify us of any changes or amendments over the term of the issue.

When using this Standard & Poor's rating, include S&P's definition of the rating together with a statement that this may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. This rating is not a "market rating", because it is not a recommendation to buy, hold or sell the obligations.

Please remember that complete documentation relating to this issue must be submitted no later than 90 days after the date of this letter. If you have any questions, please contact us.

101X

Very truly yours,

FITCH

ESTABLISHED 1913

ors Service, Inc.

1991

1991

1991

ember 11, 1991

Donald L. Watson
Executive Director
Jersey Turnpike Authority
Brunswick, NJ 08903

\$1.3 Billion Turnpike Revenue Bonds, Series 1991C
\$300 Million Turnpike Revenue Bonds, Series 1991D (Refunding
Bonds) (FGIC Insured)

Mr. Watson:

Fitch Investors Service, Inc. has assigned a rating of "A" to the \$1.3 Billion Turnpike Revenue Bonds, Series 1991C referenced above. A "AAA/F-1+" rating has been assigned to the \$300 Million Turnpike Revenue Bonds, Series 1991D (Refunding Bonds). The "A" rating is defined as "...Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings." The "F-1+" rating is defined as, "...Exceptionally strong credit quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment."

The "AAA" claims paying ability rating is defined as: "The ability to pay claims is extremely strong for insurance companies with this highest rating. Foreseeable business and economic risk factors could not have any material adverse impact on an insurer's ability to pay claims on this policy. Profitability, overall balance sheet strength, capitalization, and liquidity are all at very secure levels and are unlikely to be affected by adverse underwriting, investment, or cyclical events."

For Conditions Relating to the Rating, please refer to page 3 of this letter.

In order to keep our ratings current, we will expect to receive all material information on a continuing basis, including final closing documents for the current transaction.

102X

Mr. Donald L. Watson
December 11, 1991
Page 2

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time. A copy of the credit analysis published by Fitch Investors Service in connection with the above issue will be forwarded.

Sincerely,



Claire G. Cohen
Executive Managing Director
Governmental Finance

CONDITIONS RELATING TO THE RATING

ratings assigned by Fitch Investors Service, Inc. are based on the documents and information provided to us by the issuer and its agents and are subject to receipt of the final closing documents. Fitch does not verify the truth or accuracy of such information.

Ratings are not a recommendation to buy, sell or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature of taxability of payments made in respect of any security.

It is important that Fitch be provided with all information that may be material to the rating so that our ratings continue to accurately reflect the current condition of the issuer. Ratings may be changed, withdrawn, suspended or placed on Fitch Alert in the event we do not receive adequate or timely information.

Moody's Investors Service

99 Church Street, New York, N.Y. 10007

January 3, 1992

Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
Administration Building
New Brunswick, New Jersey 08903

Dear Mr. Watson:

We wish to inform you that our Rating Committee has assigned the rating of A to the \$775,000,000 New Jersey Turnpike Authority Turnpike Revenue Bonds to be sold through negotiation January 9, 1992.

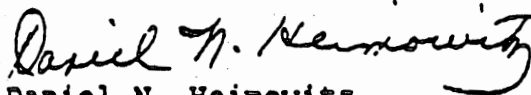
In order that we may maintain this rating over the period of the loan, we will require current financial and other updating information. We will appreciate your continued cooperation in the future.

We would appreciate receiving a copy of the final Official statement when available.

Under separate cover you will be receiving a copy of our credit report on the above referenced bond sale.

Should you have any questions regarding the above, please do not hesitate to contact Michael Johnston at (212) 553-7810.

Sincerely,



Daniel N. Heimowitz
Executive Vice President
Director
Public Finance Department

MJ:cgj

cc: Mr. John S. Tamagni
Lazard Freres & Company
One Rockefeller Plaza
New York, New York 10020

REVISED COPY

Standard & Poor's Corporation
Municipal Finance Department
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1767



Richard P. Larkin
Managing Director
Municipal Finance Department

January 14, 1992

Mr. John S. Tamagni
Lazard Freres & Co.
One Rockefeller Plaza
New York, New York 10020

Re: *\$741,110,000 New Jersey Turnpike Authority Revenue Bonds, Series 1992A, dated:
January 1, 1992*

Dear Mr. Tamagni:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the MEMORANDUM OF AGREEMENT on the reverse side hereof, have assigned a rating of 'A' to the obligations.

Please note that the information referred to in the third paragraph of the MEMORANDUM OF AGREEMENT includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Our bill will be sent in due course. If you have any questions, please contact us.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Richard P. Larkin'.

cjc

cc: Mr. Donald Watson
Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, New Jersey

106X

Investors Service, Inc.
12 Street Plaza
New York, NY 10004
212-850-0500

January 6, 1991

Mr. Donald L. Watson
Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Re: \$775,000,000 Turnpike Revenue Bonds, Series 1992A

Dear Mr. Watson:

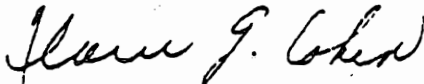
Fitch Investors Service, Inc. has assigned a rating of "A" to the above referenced bonds. The "A" rating is defined as "...Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings."

For Conditions Relating to the Rating, please refer to page 2 of this letter.

In order to keep our ratings current, we will expect to receive all material information on a continuing basis, including final closing documents for the current transaction.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time. A copy of the credit analysis published by Fitch Investors Service in connection with the above issue will be forwarded.

Sincerely,



Claire G. Cohen
Executive Vice President
Governmental Finance

CGC/bgc

107X

RECEIVED

JAN 09 1992

EXECUTIVE DIRECTOR

CONDITIONS RELATING TO THE RATING

Ratings assigned by Fitch Investors Service, Inc. are based on the documents and information provided to us by the issuer and its experts and agents and are subject to receipt of the final closing documents. Fitch does not verify the truth or accuracy of such information.

Ratings are not a recommendation to buy, sell or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

It is important that Fitch be provided with all information that may be material to the rating so that our ratings continue to accurately reflect the current condition of the issuer. Ratings may be changed, withdrawn, suspended or placed on Fitch Alert in the event we do not receive adequate or timely information.

SENT BY:MOODY'S INVESTORS SVC : 4-10-92 : 8:32AM : PUBLIC Finance Dept-RATING AGENCY DEPT : 8 1

Moody's Investors Service

20 Church Street, New York, N.Y. 10007

April 10, 1992

AMRAC Indemnity Corporation
One State Street Plaza
New York, New York 10004

Dear AMRAC:

Moody's Investors Service has assigned the rating of **AAA** (AMRAC Insured-Policy No. 68493E) to the \$30,016,972 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1992B (Garden State Savings Bonds) dated April 15, 1992, which sold through negotiation on March 29, 1992. The rating is based upon an insurance policy provided by AMRAC Indemnity Corporation.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Cynthia Shapiro at (212) 512-4869.

Sincerely yours,



Daniel N. Heinsowits
Executive Vice President
Director
Public Finance Department

DNH:CF

Standard & Poor's Corporation
Bond Insurance Administration
25 Broadway
New York, New York 10004-1064
Telephone 212/208-1061
FAX 212/208-8262



April 6, 1992

Ms. Susan Cansdale
Vice President of Operations
AMBAC Indemnity Corporation
One State Street Plaza - 17th Floor
New York, New York 10004

Re: *\$30,016,972 New Jersey Turnpike Authority, Turnpike Revenue Bonds, Series 1992B, (Garden State Savings Bonds), dated: April 15, 1992, due: January 1, 2000-2012 (POLICY #6849BE/ACN 6595)*

Dear Ms. Cansdale:

Pursuant to your request for a Standard & Poor's rating on the subject obligations, we have reviewed the information submitted and have assigned a rating of 'AAA'.

This reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing.

Rating adjustments may result from changes in the financial position of your company or from alterations in documents governing the issue. With respect to the latter, please notify us of any changes or amendments over the term of the issue.

When using this Standard & Poor's rating, include S&P's definition of the rating together with a statement that this may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information. This rating is not a "market rating", because it is not a recommendation to buy, hold or sell the obligations.

Please remember that complete documentation relating to this issue must be submitted no later than 90 days after the date of this letter. If you have any questions, please contact us.

Very truly yours,

Vincenzo S. Orzo/c4

/cf

110X



NEW JERSEY TURNPIKE AUTHORITY

P.O. BOX 1121

NEW BRUNSWICK, N.J. 08903

(908) 247-0900

FAX: (908) 247-3472

DAVID J. GOLDBERG, Chairman
FRANK E. RODGERS, Vice Chairman
THOMAS M. DOWNS, Commissioner
LEONARD COHEN, Commissioner
CLAY CONSTANTINO, Commissioner
RAYMOND M. POCINO, Commissioner

DONALD L. WATSON
Executive Director

October 8, 1993

The Honorable Rodney Frelinghuysen
Chairman, Assembly Appropriations Committee
Park Square Bldg., 10 Park Pl., Rm. 312
Morristown, New Jersey 07960

Dear Chairman Frelinghuysen:

Your staff verbally requested supplemental information to the documents that the Authority delivered to you on October 7, 1993.

Specifically, your staff requested information as to when the Commissioners authorized that an appropriate fee be negotiated with the Financial Advisor in the event of a major financial restructuring. Those documents are enclosed.

Sincerely yours,

Donald L. Watson
Executive Director

Enclosures

/// X

NEW JERSEY TURNPIKE AUTHORITY

May 15, 1991

MEMORANDUM TO: Donald L. Watson
Executive Director

RE: Confirmation Of Agreement With Lazard Freres & Co.
For Professional Financial Advisory Services

At the Commission Meeting of April 30, 1991, the Executive Director received authorization to select a new Professional Financial Advisor to be confirmed at the May 30, 1991 Commission Meeting. This action was necessary due to the sudden dissolution of the Authority's previous Financial Advisor, Chase Securities, Inc.

The Authority had initially solicited proposals from several firms from which Chase Securities, Inc. was selected at the March 28, 1991 Commission Meeting. In order to expedite the replacement of Chase Securities, Inc., the Authority received proposals from three of the firms originally invited plus three additional firms, and selected Lazard Freres & Co. This firm offers comprehensive Financial Advisory services with a well experienced professional financial staff.

The terms will remain for one year at a \$50,000.00 annual cap for the services to be performed except the cap will not apply in the event of a major financial restructuring or any other extraordinary financial transactions. The hourly rate schedule for Lazard Freres, & Co. is as follows: Partners - \$250.00; Senior Vice Presidents - \$200.00; Vice Presidents - \$150.00; and Associates - \$125.00.

Therefore, it is requested that authorization be granted to enter into an Agreement with Lazard Freres, & Co. for Professional Financial Advisory Services in an amount not to exceed \$50,000.00 annually with the exception of a major financial restructuring.

The Comptroller concurs in this recommendation. Please charge this to Account No. 10-890-4608.



Herbert I. Olarsch
Director of Law

CERTIFIED FOR CONSIDERATION:



Donald L. Watson
Executive Director

FUNDS AVAILABLE
IN BUDGET


Comptroller

KK

112X

Executive Director Watson requested confirmation of the selection of the firm of Lazard Freres & Co. as Financial Advisor. At the Commission Meeting of April 30, 1991, the Executive Director received authorization to select a new Financial Advisor due to the sudden dissolution of the Authority's previous Financial Advisor, Chase Securities Inc.

The Authority had initially solicited proposals from several firms among which Chase Securities was selected at the March 28, 1991 Commission Meeting. In order to expedite the replacement of Chase Securities, the Authority received proposals and interviewed three of the firms originally invited plus three additional interested firms.

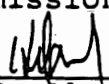
Out of that interview process, the firm of Lazard Freres & Co. was selected which offers comprehensive Financial Advisory services with a well experienced professional financial staff. The term for the services to be performed will remain for one year at a \$50,000 annual cap; the cap will not apply in the event of a major financial restructuring or any other extraordinary financial transactions. The hourly rates are: Partners - \$250; Senior Vice Presidents - \$200; Vice Presidents - \$150; and Associates - \$125.

Acting Comptroller Jacobsen certified that funds are available. Executive Director Watson certified the recommendation for confirmation.

On motion by Commissioner Constantinou, seconded by Commissioner Cohen, and carried, the Authority unanimously confirmed the recommendation; authorized entering into an Agreement with Lazard Freres & Co. for Professional Financial Advisory Services, in an amount not to exceed \$50,000 annually, with the exception of a major financial restructuring which is not covered by the Scope of Services and which will be negotiated separately.

000000

I hereby certify this to be a true and correct copy of the excerpt of the Minutes of the New Jersey Turnpike Authority's May 30, 1991 Commission Meeting.


Herbert T. [unclear]

113X



NEW JERSEY TURNPIKE AUTHORITY

P.O. BOX 1121

NEW BRUNSWICK, N.J. 08903

(908) 247-0900

FAX: (908) 247-3472

DAVID J. GOLDBERG, Chairman
FRANK E. RODGERS, Vice Chairman
THOMAS M. DOWNS, Commissioner
LEONARD COHEN, Commissioner
CLAY CONSTANTINOU, Commissioner
RAYMOND M. POCINO, Commissioner

DONALD L. WATSON
Executive Director

October 7, 1993

The Honorable Rodney Frelinghuysen
Chairman, Assembly Appropriations Committee
Park Square Bldg., 10 Park Pl., Rm. 312
Morristown, New Jersey 07960

Dear Chairman Frelinghuysen:

Your letter dated September 30, 1993 confirmed your request for information relative to the Authority's 1991-92 bond issue and advised that Chairman David J. Goldberg and I need not appear at a committee hearing previously scheduled for October 7th.

The requested information is attached. Previously, I sent to each member of the Committee a copy of my detailed "Report to Governor Jim Florio and Treasurer Samuel F. Crane on the 1991-92 Bond Refinancing," dated May 24, 1993

It is my understanding that you will contact us regarding any future hearing where our attendance is required.

Sincerely yours,

Donald L. Watson
Executive Director

Enclosures



NEW JERSEY GENERAL ASSEMBLY

RODNEY P. FRELINGHUYSEN
ASSEMBLYMAN 25TH DISTRICT
MORRIS COUNTY
10 PARK PLACE
PARK SQUARE BUILDING
MORRISTOWN, NJ 07960
201-993-1300
FAX 201-993-9566

CHAIRMAN
APPROPRIATIONS COMMITTEE
ASSEMBLY BUDGET OFFICER

September 30, 1993

David J. Goldberg, Chairman
Donald Watson, Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Dear Mr. Goldberg and Mr. Watson:

I am writing to confirm requests for information by staff to the Appropriations Committee and also to advise you in writing that your attendance at the committee hearing previously scheduled for October 7th will not be necessary. We will be in contact with you regarding any future hearing requiring your attendance.

In the meantime, the committee requests the following information be provided no later than October 7th:

An identification of the financing costs, by individual bond issue, shown on chart 1, page 10 of your May 24, 1993 report.

An identification as to who invested the proceeds of each bond issue and what process was used in making the investments.

A copy of each billing and all supporting documentation submitted by Lazard Freres for its financial advisory services for each of the bond issues.

An identification of each member of the selling group for each of the bond issues.

115X

Mr. Donald Watson
Page 2
September 30, 1993

In addition, the committee requests that any and all transmittals, documents, and personal schedule or diary entries that reference meetings or discussions between Chairman Goldberg and Joseph Salema, Governor Florio's former chief of staff, or Chairman Goldberg, Mr. Salema, and Clive Cummis, of Sills Cummis Zuckerman Radin Tischman Epstein & Gross, General Counsel to the Authority, be provided by October 7th as well. The time-frame of interest for these documents is between May 1, 1991, and the date of the first bond issuance on September 5, 1991.

Thank you for your cooperation in providing the requested information.

Sincerely,



Rodney Frelinghuysen, Chairman
Assembly Appropriations Committee

RPF:

RECEIVED
New Jersey Turnpike Authority

OCT 01 1993

CHAIRMAN'S OFFICE

116X

New Jersey Turnpike Authority
Comparison of Financing Costs
1984 - 1987 Offerings

Service	1984 Offering	1985 Offering	1987 Offering	Total
Underwriting/Remarketing Fees	\$14,758,673	24,012,500	18,243,323	\$57,014,496
Management/Financial Advisor Fees	-	2,500,000	1,621,286	4,121,286
Advertising	247,572	-	118,788	366,360
Accounting	45,000	92,000	18,314	155,314
Verification Agent	35,000	-	-	35,000
Bond Counsel	384,236	531,674	159,427	1,075,337
Other Counsel	58,854	105,650	268,426	432,930
Special Tax Counsel	-	-	-	-
Call Notice	-	-	-	-
General Consultant	7,979	-	-	7,979
Traffic Consultant	29,806	161,590	-	191,396
Marketing	-	-	-	-
Printing	616,739	1,247,151	704,058	2,567,948
Rating Services	69,950	95,000	85,000	249,950
Trustee, Registrar, Paying Agent	594,475	25,000	25,000	644,475
Miscellaneous	34,985	-	-	34,985
	<u>\$16,883,269</u>	<u>28,770,565</u>	<u>21,243,622</u>	<u>\$66,897,456</u>

New Jersey Turnpike Authority
Comparison of Financing Costs
1991 - 1992 Offerings

Service	1991 A Offering	1991 B Offering	1991 C/D Offering	1992 A Offering	1992 B Offering	Total
Underwriting/Remarketing Fees	\$2,376,331	610,442	10,959,615	5,499,036	638,761	\$20,084,185
Management/Financial Advisor Fees	425,000	125,000	1,200,000	525,000	-	2,275,000
Advertising	-	-	-	-	213,166	213,166
Accounting	25,000	11,000	11,000	11,000	8,000	66,000
Verification Agent	5,000	5,000	4,500	-	-	14,500
Bond Counsel	380,875	22,336	264,320	63,039	112,761	843,331
Other Counsel	214,211	23,865	139,258	54,458	13,754	445,546
Special Tax Counsel	91,140	17,541	155,004	11,093	2,808	277,586
Call Notice	2,384	2,384	437,165	-	-	441,933
General Consultant	24,250	1,147	-	-	-	25,397
Traffic Consultant	8,824	-	4,330	-	-	13,154
Marketing	-	-	-	-	27,056	27,056
Printing	112,047	60,323	154,617	96,266	155,379	578,632
Rating Services	122,000	63,000	155,000	120,000	12,600	472,600
Trustee, Registrar, Paying Agent	32,601	15,813	240,883	14,911	13,991	318,199
Miscellaneous	-	-	-	-	4,764	4,764
	<u>\$3,819,663</u>	<u>957,851</u>	<u>13,725,692</u>	<u>6,394,803</u>	<u>1,203,040</u>	<u>\$26,101,049</u>

NEW JERSEY TURNPIKE AUTHORITY

Open Market Purchases of Investments of Bond Proceeds

Investment Process:

The investment of the proceeds of each bond issue was managed by our financial advisor, Lazard Freres. Requests for quotations and bids were sent to various companies and the investments were awarded based on the offers received and, in the 1991C & D bond issue, specially tailored securities for escrow requirements were certified as to fair-market value by the provider and attested to by the financial advisor in accordance with applicable Federal Income Tax rules and regulations. The following is a listing of the awardee for each bond issue.

	<u>Type of Security</u>	<u>Awardee</u>
1991A	Treasury Securities	First Boston
1991B	Treasury Securities	First Boston
1991C&D	Treasury Investors Growth Receipt (TIGRs)	Merrill Lynch
1992A	Treasury Securities Treasury Securities Treasury Securities Repurchase Agreement backed by Treasury Securities	PaineWebber Goldman Sachs First Boston Morgan Stanley
1992B	Treasury Securities	Goldman Sachs



Global Swaps

Debt Markets Group

World Financial Center
North Tower
New York, New York 10281-1307
212 449 6177
FAX 212 449 8920
Telex 671 6341 MLB SCTR

December 11, 1991

New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, NJ 08816

Mudge Rose Guthrie Alexander & Ferdon
180 Maiden Lane
New York, NY 10038

Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, PA 19103

Ladies and Gentlemen:

In connection with the sale by the New Jersey Turnpike Authority (the "Authority") of its Turnpike Revenue Bonds, Series 1991 C (the "1991 C Bonds") and its Turnpike Revenue Bonds, Series 1991 D (the "1991 D Bonds"), we have entered into a contract to sell the Securities set forth in the confirmation issued with respect to the 1991 C Bonds and the 1991 D Bonds.

Merrill Lynch, Pierce, Fenner & Smith, Inc. ("MLPF&S") certifies that: (i) the prices for the securities sold the Authority were determined in arm's - length transactions; (ii) the prices were determined without any intention to reduce the yield on the securities; (iii) the prices of the securities sold to the Authority were no higher than the prices we could have obtained for any other customer under similar circumstances; (iv) there is an established market for the securities; (v) the prices of the securities sold to the Authority were market prices.

Sincerely,

Barry Finkelstein
Vice President
Merrill Lynch, Pierce, Fenner & Smith

LAZARD FRÈRES & CO.

ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

NEW YORK

TELEPHONE (212) 632-6000
FACSIMILE (212) 632-6060

EXHIBIT I

December 12, 1991

New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, New Jersey 08816

Mudge Rose Guthrie Alexsnder & Ferdon
180 Maiden Lane
New York, New York 10038

Morgan, Lewis & Bockius
2000 One Logan Square
Philadelphia, Pennsylvania 19103

Ladies and Gentlemen:

In connection with the sale by the New Jersey Turnpike Authority of its Revenue Bonds 1991 Series C and D, we acted as financial advisor to the Turnpike Authority. In our capacity as financial advisor, we assisted the Turnpike Authority in purchasing the securities set forth in Schedule III and IIIA of the Verification Report.

At the time of purchase by the Turnpike Authority of the securities mentioned above, we advised our client that, in our opinion, they were purchasing the securities at prices which were on the market.

LAZARD FRERES & CO.

By: 

John S. Tamagni

LAZARD FRÈRES & Co.

One ROOSEVELT PLAZA
New York, N.Y. 10030

TELEPHONE 212 602-6000
FACSIMILE 212 602-6000

NEW YORK

November 8, 1991

David J. Goldberg, Chairman
New Jersey Turnpike Authority
Route 18, Interchange 9
Post Office Box 1121
New Brunswick, New Jersey 08903

Re: Financial Advisory Compensation

Dear Chairman Goldberg:

We are writing to explain the basis for our proposed fees of \$2.0 million in connection with the New Jersey Turnpike Authority's Series A, B & C refinancing of the Authority's outstanding debt.

As you know, the Authority incurred fees of \$67 million in connection with the original issuance of the Series 1984 and Series 1985 bond issues. As financial advisor to the Authority for these financings, we will help realize a substantial reduction of the overall costs for the financing for the benefit of the State and its taxpayers, even though this program will be much larger than the 1984 and 1985 issues combined. We estimate that we will be able to hold costs to less than one half the level of the earlier offerings.

As you also know, Lazard Freres has broad experience in the service of public agencies of all kinds. We are especially proud of our record in public transportation financing. In many cases, our fees have been in excess of \$1.00 per bond. We understand the Authority wishes to pay us based upon the cost effectiveness of the bond issue, our expertise and the attention we devote to the matter. We welcome the opportunity to serve the Authority on this basis.

By contract, we have been financial advisor to the Authority since May, 1991. Our annual fee under the contract, which is based solely on the time we devote to Authority matters, cannot exceed \$50,000, and on a pro-rated basis, may be less in any year, and our services involve providing general advice to the Authority on how it can facilitate its financing needs and make them cost effective.

When Lazard Freres agreed to become the financial advisor to the Authority, you and the Authority's other members emphasized that, if the Authority decided to refinance, our duties were to be greatly expanded. One reason you wished us to take on additional responsibilities in connection with the refinancing was your belief that the cost of the Series 1984 and Series 1985 bond issues was excessive and that the current financing program was extremely complex. Among our primary responsibilities was to hold down costs of issuance and to refund the bond issues at a significant savings to the Authority, both of which are being accomplished.

Indeed, we have already completed the sale of a \$423 million Series A bond issue and a \$79 million Series B bond issue at a significant cost savings to the State. The cost of issuance to the Authority was \$4.5 million. By comparison, the cost of financing to the Authority was reduced by \$13 million on the Series 1984 refunding. The Authority also realized additional savings of approximately \$80 million in debt service by refunding this 1984 Turnpike Authority bond issue.

Lazard Freres was able to complete this transaction at a rate of interest significantly lower than that of other national State level Turnpike Authorities financings completed in 1991 and in a manner that reinforced the support of bond rating agencies on the financings. With our guidance, the Turnpike maintained its A rating with both Standard & Poor's and Moody's. In addition, for the first time the Authority applied to Fitch Investor Services, Inc., which also gave the Authority's issues an A rating.

A primary reason for the magnitude of the expenses of the 1984 and 1985 issues was that there was no financial advisor for the program and a single senior manager performed the services of the financial advisor and managing underwriter thereby policing their own activities. By utilizing Lazard Freres in the financial advisor role, the Authority will realize savings of approximately \$40,000,000 of reduced costs compared to the bond issues in 1984 and 1985, and it will realize these savings on transactions that are more complex and on a substantially larger issue than the 1984 and 1985 financings combined.

Our role as financial advisor to the Authority on the refunding and new money bond financing programs involves all financial services, including some of which are not typically provided by a financial advisor, to make this program a success. These services, all of which we render to you in addition to those under our existing contract, include:

1. Analyzing the financial feasibility of refunding the Series 1984 and Series 1985 issues and the purchase of I-95;
2. Together with bond counsel and the Authority's general counsel, preparing the general bond resolution and other related legal documents;
3. Developing a capital and debt management plan;
4. Structuring separate capital financing alternatives and developing a financial plan with four separate series plans;

5. Designing and managing presentations to bond insurers and credit rating agencies to maintain the Authority's high rating;
6. Supervising the debt issuance process and selecting underwriters, printers, trustees, verification agents and other who are an integral part of that process;
7. Act as Project manager of the debt finance team, which is one of the largest groups of finance professionals ever assembled. There are over 50 underwriting firms alone on this transaction not including other professionals;
8. Developing and structuring financial, engineering and legal reports to make them compatible with the issuance of securities;
9. Structured financing to liquidate over \$500 million in FNMA guaranteed investment contracts;
10. Developed interest rate swap financing program.
11. Preparing the offering prospectus;
12. Developing a marketing plan with meetings with numerous large institutional purchasers as well as retail sales firms;
13. Allotting the bonds on an equitable basis to all participating underwriters; and
14. Closing the bond issues, including the Series 1991 A & B issues, which have already closed.

In addition to all of the usual financial advisor functions listed above, you engaged us to serve two major roles: preparing a comprehensive analysis of the range of options for restructuring the Authority's \$2.5 billion debt, and providing many of the services typically undertaken by a senior managing underwriter. The comprehensive analysis of the Authority's restructuring options was necessary to determine whether debt restructuring was in the best interests of the Authority and the State. The senior manager services insured that the series of financings was fully coordinated and completed in a timely fashion. Four general partners, a senior vice president, several vice presidents and a number of other banking, computer and underwriting professionals at Lazard Freres have undertaken these additional responsibilities spending numerous person hours developing this program.

We believe that Lazard Freres is the only firm which can successfully and efficiently complete all of these tasks given both its expertise of assisting large public agencies with complex financial problems, which is unparalleled in the public financing area, its knowledge of the Authority and its financial role in the program which is common to each of the aforementioned transactions. It is important to maintain consistency and integration among transactions and so two transactions have a common financial expert. Lazard had responsibility for that coordinative effort.

Of course, Lazard Freres has extensive experience as a financial advisor to states, municipalities, public authorities and political subdivisions of all kinds. For example, we have undertaken, and successfully completed, the financings for the State of Texas, for the cities of Chicago and Washington, D.C. and for Pittsburgh International Airport to name a few. For each of these governmental clients, and for many others, Lazard Freres bankers have assisted in the legal development, marketing, structuring and timing strategy for the debt issuance, rating agency presentations and the retention and supervision of professionals to complete the underwriting and have provided additional advice after the issues were sold. In each case, the fees to our clients were more than \$2.00 per bond.

As already noted, we will not charge a fee based upon the number of bonds, and we are satisfied to bill you based upon the expertise we bring to this matter and the attention we devote to it. The \$2 million fee is completely in line with these criteria and is, in fact, comparable to, or lower than, what we have been paid for financial advisor engagements on financing on behalf of other public bodies.

In fact, the \$2.0 million total project management fee we propose on the Series A, B and C bonds is approximately one-half of the fee that the three different senior managers receive for each of the transactions. In contrast, we have done the bulk of the work necessary to make this financing program a success. We thus believe our fee is fair and reasonable and well earned, given the cost of issuance savings to the Authority of an estimated \$40 million and overall debt service savings and revenues estimated at more than \$100 million.

We are confident we will repeat in the upcoming issues the success we have had in refinancing the \$423 million Series A and \$79 million Series B issues. Recognizing that the Authority will evaluate the quality of our work, but in consideration of the fact that our fees must come out of individual bond issues as they are completed, we are proposing the following fee schedule:

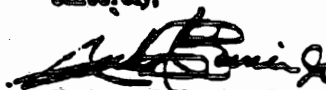
- Payment for the basic Financial Advisor services: \$50,000, pro-rated from May, 1991.
- Payment for Supplementary Financing Evaluation Services: \$250,000.
- Payment for transaction structuring and management services for the 1991 Series A - C bonds, estimated to be \$2.0 billion: \$1,750,000 plus out-of-pocket expenses.

The Series D issue of between \$700 and \$800 million will be sold in 1992. By then, we will have demonstrated to you our entitlement of a fee for work in connection with that issue. However, we would like you and the members of the Authority to observe the success of the entire issue before fixing our final compensation on the Series D issue.

Finally, with respect to the timing of the billings, we propose three payments in 1991. We have already billed \$425,000 and have received payment. For the September bond issue, we billed \$125,000 in October. For the Series C bond issue of approximately \$1.6 billion, we propose to bill the Authority an additional \$1,450,000 at the November 21st board meeting. We would also request at the November 21st board meeting that all bills received by us be approved by the board at that time.

It is our hope you find this flexible approach acceptable. We look forward to meeting with you to finalize it.

Sincerely,



Richard P. Poirier, Jr.
General Partner

NEW JERSEY TURNPIKE AUTHORITY


September 20, 1993

MEMORANDUM TO: Donald L. Watson
Executive Director

SUBJECT: Fees Paid to Lazard Freres & Co.

Following is the information you requested:

Series 1991 A	\$ 425,000
Series 1991 B	125,000
Series 1991 C & D	1,200,000
Series 1992 A	<u>525,000</u>
	<u>\$2,275,000</u>


Catherine A. Schladebeck
Comptroller

NEW JERSEY TURNPIKE AUTHORITY

Date: SEPTEMBER 26, 1991

CHECK REQUISITION

Check is requisitioned in favor of:

NAME: Lazard Freres & Co.

ADDRESS: One Rockefeller Plaza, New York, NY 10020

In the amount of:	Gross	\$425,000
	Disc.	0
	Net	<u>\$425,000</u>

DESCRIPTION OF CHARGE:

Turnpike Revenue Bonds, Series 1991 A
Fee for Financial Advisory Services as per
agreement

CHARGE TO 20-000-2790-0000

Requisitioned by:

Approved by:

Catherine A. Schladebeck
Catherine A. Schladebeck
Comptroller

Donald L. Watson
Donald L. Watson
Executive Director

Register No. 1091068

Department _____

Serv. Comp. or Mdse. Rec'd. _____

Approved for Payment _____

Ext. & Add. K / Budg. or Auth. a

Account No. 20-000-2790

V.C. / I.A.C. / B I.G.L. / I.AUD. 154

Check No. CU 4124

AUTHORIZED
MEETING OF
9/26/91

CA

1985-90 WIDENING
CONSTRUCTION FUND

LAZARD FRÈRES & CO.

**ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020**

August 27, 1991

New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, NJ 08903

Re: \$423,205,000
New Jersey Turnpike Authority
Turnpike Revenue Bonds, Series 1991 A
(Refunding Bonds)

As per Agreement -

Fee for Financial Advisory Services - \$425,000

Yours truly,

per pro. LAZARD FRÈRES & CO.

Lazard Frères & Co.

RECEIVED

SEP 04 1991

EXECUTIVE DIRECTOR

NEW JERSEY TURNPIKE AUTHORITY

September 17, 1991

MEMORANDUM TO: Donald L. Watson
Executive Director

SUBJECT: Authorization to Pay Invoice of the Firm of
Lazard Freres & Co. for Major Financial Restructuring

At the Commission Meeting of May 30, 1991, in response to the Authority's request for proposals, the firm of Lazard Freres & Co. was retained to provide the Authority with Financial Advisory Services. An annual compensation of \$50,000 was approved along with appropriate hourly rates for various professionals. Provision was provided, that in the event of a major financial restructuring or any other extraordinary financial transactions, the cap of \$50,000 a year would not apply. In the event of such a transaction, an appropriate fee would be negotiated by the New Jersey Turnpike Authority and Lazard Freres & Co. Since the original approval, the Authority has undertaken a major financing program and hence has negotiated a fee of \$425,000 for financial advisory services for the issuance of Turnpike Revenue Bond, Series 1991 A, in the amount of \$423,205,000.

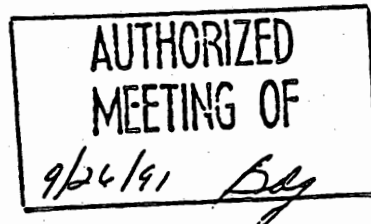
An extraordinary amount of time was required to structure this complicated financing program while managing a large underwriting group, therefore, authorization is requested to pay Lazard Freres & Co. the amount of \$425,000.


Catherine A. Schladebeck
Comptroller

/bdg

CERTIFIED FOR CONSIDERATION:


Donald L. Watson, Executive Director



NEW JERSEY TURNPIKE AUTHORITY

Date: November 21, 1991

CHECK REQUISITION

Check is requisitioned in favor of:

NAME: Lazard Freres & Co.

ADDRESS: One Rockefeller Plaza, New York, NY 10020

In the amount of:	Gross	\$125,000.00
	Disc.	0
	Net	\$125,000.00

DESCRIPTION OF CHARGE:

As per Agreement - Fee for Financial Advisory Services *13*

CHARGE TO

Requisitioned by:

Approved by:

C.A.
 Catherine A. Schladebeck
 Comptroller

Donald L. Watson
 Donald L. Watson
 Executive Director

Register No. 1110989

Department _____

Serv. Comp. or Mdse. Rec'd. _____

Approved for Payment _____

Ext. & Add. K 1 Budg. or Auth. _____

Account No. 20-000-2791

V.C. / I.A.C. / K I.G.L. / I.AUD. / 10

Check No. CU4284

AUTHORIZED
 MEETING OF
11/21/91

1985-90 WIDENING
 CONSTRUCTION FUND

LAZARD FRÈRES & CO.
ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

September 27, 1991

New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, NJ 08903

Re: \$79,340,000
New Jersey Turnpike Authority
Turnpike Revenue Bonds, Series 1991 B
(Refunding Bonds)

As per Agreement -

Fee for Financial Advisory Services - \$125,000

RECEIVED

09 27 1991

EXECUTIVE DIRECTOR

FORM 932

Yours truly,
per pro. LAZARD FRÈRES & CO.

Lazard Frères & Co.

NEW JERSEY TURNPIKE AUTHORITY

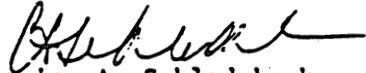
November 7, 1991

MEMORANDUM TO: Donald L. Watson
Executive Director

SUBJECT: Authorization to Pay Invoice of the Firm of
Lazard Freres & Co. for Major Financial Restructuring

At the Commission Meeting of May 30, 1991, in response to the Authority's request for proposals, the firm of Lazard Freres & Co. was retained to provide the Authority with Financial Advisory Services. An annual compensation of \$50,000 was approved along with appropriate hourly rates for various professionals. Provision was provided, that in the event of a major financial restructuring or any other extraordinary financial transactions, the cap of \$50,000 a year would not apply. In the event of such a transaction, an appropriate fee would be negotiated by the New Jersey Turnpike Authority and Lazard Freres & Co. Since the original approval, the Authority has undertaken a major financing program and hence has negotiated a fee of \$125,000 for financial advisory services for the issuance of Turnpike Revenue Bonds, Series 1991 B, in the amount of \$79,340,000.

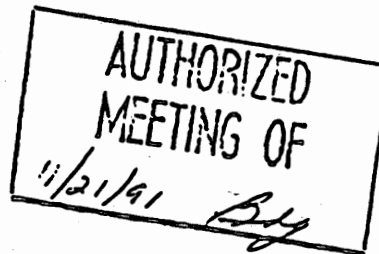
An extraordinary amount of time was required to structure this complicated financing program while managing a large underwriting group, therefore, authorization is requested to pay Lazard Freres & Co. the amount of \$125,000.


Catherine A. Schladebeck
Comptroller

/bdg

CERTIFIED FOR CONSIDERATION:


Donald L. Watson, Executive Director



JJ

132X

CHECK REQUISITION

Date: December 11, 1991

Check is requisitioned in favor of:

NAME: Lazard Freres & Co.

ADDRESS: One Rockefeller Plaza
New York, NY 10020

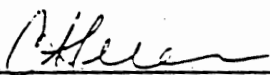
In the amount of: Gross \$1,200,000
Disc. -
Net \$1,200,000


DESCRIPTION OF CHARGE:

Financial Advisory services for
Turnpike Revenue Bonds, Series 1991 C and D

Requisitioned by:

Approved by:


Catherine A. Schladebeck
Comptroller


Donald L. Watson
Executive Director

Register No. 1120546

Department _____

Serv. Comp. or Mdse. Rec'd. _____

Approved for Payment _____

Ext. & Add. @ / Budg. or Auth. _____

Account No. 20-000-2791

V.C. / I.A.C. / I / G.L. / I.AUD. / Q

Check No. CU 4336

ch to Rev 12/11/91

1985-90 WIDENING
CONSTRUCTION FUND

AUTHORIZED
MEETING OF

11/21/91

LAZARD FRÈRES & CO.
ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

November 18, 1991

New Jersey Turnpike Authority
Route 18
Turnpike Interchange 9
East Brunswick, NJ 08903

Re: \$1,636,200,000
New Jersey Turnpike Authority
Turnpike Revenue Bonds
Series 1991 C

As per Agreement -

Fee for Financial Advisory Services - \$1,200,000

RECEIVED

NOV 19 1991

EXECUTIVE DIRECTOR

Yours truly,

per pro. LAZARD FRÈRES & CO.

Lazard Frères & Co.

NEW JERSEY TURNPIKE AUTHORITY

November 21, 1991

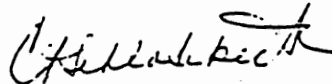
MEMORANDUM TO: Donald L. Watson
Executive Director

SUBJECT: Authorization to Pay Invoice of the Firm of
Lazard Freres & Co. for Major Financial Restructuring
Turnpike Revenue Bonds, Series 1991 C and Series 1991 D

At the Commission Meeting of May 30, 1991, in response to the Authority's request for proposals, the firm of Lazard Freres & Co. was retained to provide the Authority with Financial Advisory Services. An annual compensation of \$50,000 was approved along with appropriate hourly rates for various professionals. Provision was provided, that in the event of a major financial restructuring or any other extraordinary financial transactions, the cap of \$50,000 a year would not apply. In the event of such a transaction, an appropriate fee would be negotiated by the New Jersey Turnpike Authority and Lazard Freres & Co. Since the original approval, the Authority has undertaken a major financing program and hence has negotiated a fee of \$1,200,000 for financial advisory and management services for the issuance of Turnpike Revenue Bonds, Series 1991 C and Series D, in the amount of \$1,635,200,000.

An extraordinary amount of time was required to structure this complicated financing program, manage a large underwriting group and to perform additional services beyond advising the Authority.

Authorization is requested to pay Lazard Freres & Co. the amount of \$1,200,000 at the closing of the Series C and Series D Bonds.

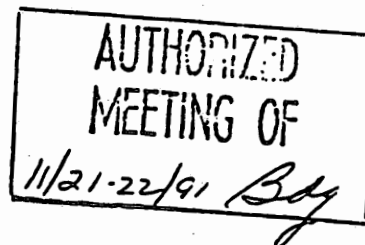


Catherine A. Schladebeck
Comptroller

/bdg

CERTIFIED FOR CONSIDERATION:


Donald L. Watson, Executive Director



J J-2
(ADDENDUM)

135X

CHECK REQUISITION

Date: January 16, 1992

Check is requisitioned in favor of:

NAME: Lazard Freres & Co.

ADDRESS: One Rockefeller Plaza
New York, NY 10020

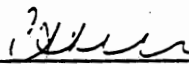
In the amount of: Gross \$525,000
Disc. -
Net \$525,000

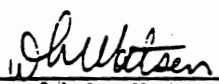
DESCRIPTION OF CHARGE:

Financial Advisory services for
Turnpike Revenue Bonds, Series 1992A

Requisitioned by:

Approved by:


Catherine A. Schladebeck
Comptroller


Donald L. Watson
Executive Director

Register No. 2010597

Department _____

Serv. Comp. or Mdse. Rec'd. _____

Approved for Payment _____

Ext. & Add. K 1 Budg. or Auth. _____

Account No. 92-000-2793

V.C. 1 A.C. 1 K IG.L. 1 AUD. 1 Pa

Check No. CF 2832

Check to Bev.
1/16/92

AUTHORIZED
MEETING OF
1/9/92

WIDENING
CONSTRUCTION FUND

LAZARD FRÈRES & CO.

ONE ROCKEFELLER PLAZA
NEW YORK, N. Y. 10020

January 9, 1992

New Jersey Turnpike Authority

Re: \$742,000,000
New Jersey Turnpike Authority
Turnpike Revenue Bonds, Series 1992A

As per Agreement -

Fee for Financial Advisory Services - \$525,000

RECEIVED
JAN 13 1992
TREASURER'S OFFICE

Yours truly,
per pro. LAZARD FRÈRES & CO.

Lazard Frères & Co.

NEW JERSEY TURNPIKE AUTHORITY

January 8, 1992

MEMORANDUM TO: Donald L. Watson
Executive Director

SUBJECT: Authorization to Pay Invoice of the Firm of
Lazard Freres & Co. for Major Financial Restructuring
Turnpike Revenue Bonds, Series 1992 A

At the Commission Meeting of May 30, 1991, in response to the Authority's request for proposals, the firm of Lazard Freres & Co. was retained to provide the Authority with Financial Advisory Services. An annual compensation of \$50,000 was approved along with appropriate hourly rates for various professionals. Provision was provided, that in the event of a major financial restructuring or any other extraordinary financial transactions, the cap of \$50,000 a year would not apply. In the event of such a transaction, an appropriate fee would be negotiated by the New Jersey Turnpike Authority and Lazard Freres & Co. Since the original approval, the Authority has undertaken a major financing program and hence has negotiated a fee of \$525,000 for financial advisory and management services for the issuance of Turnpike Revenue Bonds, Series 1992 A, in the amount of \$742,000,000.


An extraordinary amount of time was required to structure this complicated financing program, manage a large underwriting group and to perform additional services beyond advising the Authority.

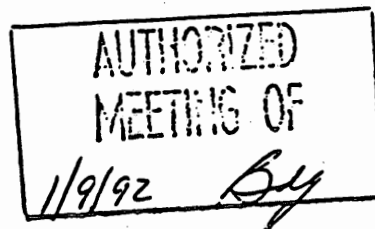
Authorization is requested to pay Lazard Freres & Co. the amount of \$525,000 at the closing of the Series 1992 A Bonds.


Catherine A. Schladebeck
Comptroller

/bdg

CERTIFIED FOR CONSIDERATION:


Donald L. Watson, Executive Director



R
138X

NEW JERSEY TURNPIKE AUTHORITY

Series 1991A

Selling Group

Apex Securities, Inc.
The Chapman Company
Clayton Brown & Associates, Inc.
Dean Witter Reynolds Inc.
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corp.
E. A. Moos & Co. Inc.
First American Municipals, Inc.
Gibraltar Securities Co.
Goldman Sachs & Co.
Halpert and Company, Inc.
J. B. Hanauer & Company
Kidder, Peabody & Co., Inc.
Kirchner Moore/George K. Baum & Co.
Lehman Brothers
Merrill Lynch & Co.
Mid-State Securities Corp.
Muriel Siebert & Co., Inc.
Printon, Kane Group, Inc.
Roosevelt & Cross, Inc.
Ryan, Beck & Co.
Smith Barney, Harris Upham & Co., Inc.
United Daniels Securities Inc.
William E. Simon & Sons Municipal Securities Inc.

NEW JERSEY TURNPIKE AUTHORITY

Series 1991B

Selling Group

Apex Securities, Inc.
The Chapman Company
Clayton Brown & Associates, Inc.
Dean Witter Reynolds Inc.
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corp.
E. A. Moos & Co. Inc.
FIA Capital Group, Inc.
First American Municipals, Inc.
The GMS Group Inc.
Gibraltar Securities Co.
Goldman Sachs & Co.
Halpert and Company, Inc.
J. B. Hanauer & Company
Kidder, Peabody & Co., Inc.
Kirchner Moore/George K. Baum & Co.
Lehman Brothers
Merrill Lynch & Co.
Mid-State Securities Corp.
Muriel Siebert & Co., Inc.
PHN Capital Funding Inc.
Printon, Kane Group, Inc.
R. Seelaus & Company, Inc.
Roosevelt & Cross, Inc.
Ryan, Beck & Co.
Smith Barney, Harris Upham & Co., Inc.
United Daniels Securities Inc.
Vantage Securities Inc.
William E. Simon & Sons Municipal Securities Inc.

NEW JERSEY TURNPIKE AUTHORITY

Series 1991 C & D

Selling Group

Apex Securities, Inc./Samuel A. Ramirez & Company
Bear, Stearns & Co., Inc.
The Chapman Company
Clayton Brown & Associates, Inc.
Dean Witter Reynolds Inc.
Dillon, Read & Co. Inc.
Ferris, Baker, Watts, Inc.
FIA Capital Group, Inc.
First American Municipals, Inc.
The First Boston Corporation
The GMS Group
Gibraltar Securities Co.
Golden Harris Capital Group
Goldman Sachs & Co.
Halpert and Company, Inc.
J. B. Hanauer & Company
Kirchner Moore/George K. Baum & Co.
Lehman Brothers
Mid-State Securities Corp.
Muriel Siebert & Co., Inc.
PaineWebber Inc.
Printon, Kane Group, Inc.
Roosevelt & Cross Inc.
R. Seelaus & Company, Inc.
United Daniels Securities, Inc.
Vantage Securities Inc.
W. H. Mell Associates, Inc.

NEW JERSEY TURNPIKE AUTHORITY

Series 1992A

Selling Group

A. G. Edwards & Sons, Inc.
A. H. Williams & Co. Inc.
Apex Securities, Inc.
Bear, Stearns & Co. Inc.
Carmona and Company
The Chapman Company
Clayton Brown & Associates, Inc.
Donaldson, Lufkin & Jenrette Securities Corp.
FIA Capital Group, Inc.
First American Municipals, Inc.
The First Boston Corporation
First Interregional Equity Corporation
Ferris, Baker, Watts, Inc.
Kidder, Peabody & Co., Inc.
The GMS Group
Golden Harris Capital Group
Halpert & Company, Inc.
Kirchner Moore/George K. Baum & Co.
Merrill Lynch & Co.
Mid-State Securities Corp.
Muriel Siebert & Co., Inc.
PHN Capital Funding Inc.
PaineWebber Inc.
Prudential Securities Inc.
R. Seelaus & Company, Inc.
Raymond James & Associates, Inc.
Roosevelt & Cross Inc.
Ryan, Beck & Co.
Smith Barney, Harris Upham & Co., Inc.
United Daniels Securities, Inc.
Vantage Securities Inc.
W. H. Mell & Associates, Inc.
William E. Simon & Sons Municipal Securities Inc.

Series 1992B

Selling Group

Golden Harris Capital Group, Inc.
Merrill Lynch & Co.

SILLS CUMMIS ZUCKERMAN RADIN TISCHMAN EPSTEIN & GROSS

ARTHUR J. SILLS (1917-1982)

A PROFESSIONAL CORPORATION

ONE RIVERFRONT PLAZA
NEWARK, NEW JERSEY 07102-5400
(201) 643-7000
FAX: (201) 643-6500

250 PARK AVENUE
NEW YORK, NY 10177-0040
(212) 643-7000
FAX: (212) 319-0578

17 GORDON'S ALLEY
ATLANTIC CITY, NJ 08401-7406
(609) 344-2800
FAX: (609) 344-7035

1133 CONNECTICUT AVE., N.W.
WASHINGTON, DC 20036
(202) 338-7000
FAX: (202) 457-6566

L. JEFFREY LEWIS
NOEL D. HUMPHREYS
PATRICIA M. KERINS
PETER B. FALLON
MARK J. BLUNDA
MARTIN J. MILITA, JR.
ALAN J. COHEN
JASON I. BITSKY
WAYNE B. HEICKLEN^o
CHERIE LEE MAXWELL
FRANK N. D'AMBRA
GLENN E. DAVIS
HARRY B. NORETSKY
STEVEN B. JACKMAN^o
STUART ROSEN^o
NATHAN E. ARNELL^o
JOANNE JORDAN DOWD
STEVEN R. ROWLAND
JOSHUA T. RABINOWITZ
LORI G. SINGER
ERIC D. MANN
STEPHEN B. MCNALLY
STUART M. BROWN
MARK E. DUCKSTEIN
BETH S. ROSE
SCOTT N. RUBIN
FREDERIC M. TUDOR
KENNETH L. MOSKOWITZ
M. JEAN CONNOLLY
BENNET SUSSER
JODI S. BRODSKY
ROBERT W. BURKE

SCOTT T. GRUBER
ANTHONY J. MONACO
ROY B. OSER
JAY A. SOLED
BRUCE SCHOENBERG
STEVEN S. KATZ
PHILIP A. BRAMSON
LINDA B. KATZ
RICHARD S. SCHKOLNICK
BRIAN K. VALENTINE
TED ZANGARI
N. LYNNE HUGHES
LESTER CHANIN
PAUL P. JOSEPHSON
ARSEN ZARTARIAN
DOUGLAS R. WEIDER
PATRICIA BROWN FUGEE
LORENZO L. LORENZOTTI^o
PAUL F. DODA
LORA L. FONG
JOSHUA D. GOODMAN
HELEN KLEINER
PATRICIA A. SCHATZ
RHONDA SOBRAL
ELISA T. SORRELL
BRYAN S. GREENBERG
JONATHAN A. ADELSBERG
ADAM J. KAISER
ALISSA PRICH
PAUL L. ROBINSON
ROBERT E. ROSENBERG
DAVID TREIBMAN

CLIVE S. CUMMIS
STEVEN S. RADIN
HERBERT L. ZUCKERMAN
MICHAEL B. TISCHMAN
MORTON S. BUNIS
STANLEY TANNENBAUM
BARRY M. EPSTEIN
STEVEN E. GROSS
THOMAS J. DEMSKI
JEFFREY H. NEWMAN
LAWRENCE S. HORN
CHARLES J. WALSH
JEFFREY J. GREENBAUM
BARRY L. SHAPIRO
SIMON LEVIN
STEPHEN J. MOSES
MORRIS YAMNER
THEODORE L. ABELES
WILLIAM S. GREENBERG
GERALD SPAN
JEFFREY BARTON CAHN
HARRY F. GOLDBERG^o
NOAH BRONKESH
ROBERT M. BECKER
LESTER ARON
STEVEN M. GOLDMAN
CECIL J. BANKS
KENNETH F. OETTLER
ALAN E. SHERMAN
ROBERT J. ALTER
IRA A. ROSENBERG
ROBERT CRANE
MARC S. KLEIN
PHILIP R. SELLINGER
RAYMOND S. PERSKO^o
JACK M. ZACKIN
NELSON C. JOHNSON
THOMAS S. NOVAK
JERRY GENBERG
STUART M. FEINBLATT
MARGARET F. BLACK
ROBERT M. AXELROD
ROBERT J. FETTWEIS
BRIAN S. COVEN
TRENT S. DICKEY
RICHARD J. SCHULMAN^o
BERNARD I. FLATEMAN
WILLIAM M. RUSSELL
JOHN T. CONNOR, JR. ^o
JOSEPH L. BUCKLEY
KATHLEEN GENGARO
DAVID J. RABINOWITZ
STANLEY U. NORTH, III
JAMES D. TOLL
JAMES M. HIRSCHHORN
ALLAN C. BELL
RONALD C. RAK
BLOSSOM A. PERETZ
MARK S. OLINSKY
RICHARD J. SA'INSKI^o
VICTOR H. BOYANJIAN
PHILIP R. WHITE

OF COUNSEL

DAVID BECK
VICTOR FUTTER^o
DENA L. WOLF
MICHAEL A. DE ANGELIS^o
GRIFFITH T. PARRY
MITCHEL E. OSTRER

^o ADMITTED IN NY ONLY
^o ADMITTED IN NY & JURISDICTION (S) OTHER THAN NJ
^o ADMITTED IN JURISDICTION (S) OTHER THAN NJ

WRITER'S DIRECT DIAL NUMBER:
201 643-5499

PLEASE REPLY TO NEWARK

October 1, 1993

Mr. David J. Goldberg, Chairman
Mr. Donald Watson, Executive Director
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Gentlemen:

I am in receipt of a letter dated September 30, 1993 from Rodney Frelinghuysen, Chairman of the Assembly Appropriations Committee. In the last paragraph of that letter he asks for "any and all transmittals, documents, and personal schedule or diary entries that reference meetings or discussions between Chairman Goldberg and Joseph Salema, Governor Florio's former chief of staff, or Chairman Goldberg, Mr. Salema, and Clive Cummis."

This is to advise you that I know of no transmittal document, personal schedule or diary entry that would reference a meeting or a discussion between myself and Joseph Salema concerning the Turnpike's bond issue for the period between May 1, 1991 and September 5, 1991, for the reason that I had no

Mr. David J. Goldberg, Chairman
October 1, 1993
Page 2

written or oral communication with Mr. Salema during that time
frame on that subject matter.

Very truly yours,



Clive S. Cummis

RECEIVED

OCT 04 1993

EXECUTIVE DIRECTOR



NEW JERSEY TURNPIKE AUTHORITY

P.O. Box 1121

New Brunswick, N.J. 08903

(201) 247-0900

DAVID J. GOLDBERG
CHAIRMAN

October 4, 1993

VIA FAX

Executive Director, Donald L. Watson
New Jersey Turnpike Authority
P.O. Box 1121
New Brunswick, NJ 08903

Dear Don:

This is a follow-up to our conversation concerning the letter dated September 30, 1993 from Rodney P. Frelinghuysen, Chairman of the Assembly Appropriations Committee. Chairman Frelinghuysen has requested "any and all transmittals, documents, and personal schedule or diary entries that reference meetings or discussions between Chairman Goldberg and Joseph Salema, Governor Florio's former chief of staff, or Chairman Goldberg, Mr. Salema and Clive Cummis of Sills, Cummis, Zuckerman, Radin, Tischman, Epstein & Gross, General Counsel to the Authority". The letter states that the time-frame of interest for these documents is between May 1, 1991 and September 5, 1991.

In specific response to this letter request, I have reviewed my personal diary and time sheets at my law firm. There are no entries during this time period which reference a meeting between me and Mr. Salema or a meeting with Mr. Salema and Mr. Cummis. I also do not have any documents that reference such a meeting.

You have undertaken to review the documents maintained by the Authority at the Chairman's office. To the best of my knowledge there are no such documents. Should you located any, please send them to Chairman Frelinghuysen with a copy for my files.

Sincerely,

David J. Goldberg

DJG/bg

RECEIVED

OCT 05 1993

EXECUTIVE DIRECTOR

145X

NEW JERSEY TURNPIKE AUTHORITY

October 5, 1993

MEMORANDUM TO: Donald L. Watson
Executive Director

RE: Assembly Appropriations Committee
1991-1992 Bonding

I have examined all Department files and all files in the Secretary's office of the Authority concerning any and all transmittals, documents, and personal schedule or diary entries that reference meetings or discussions between Chairman Goldberg and Joseph Salema, Governor Florio's former chief of staff, or Chairman Goldberg, Mr. Salema and Clive Cummis of Sills, Cummis, Zuckerman, Radin, Tischman, Epstein & Gross, General Counsel to the Authority. These documents cover the time-frame between May 1, 1991 and September 5, 1991.

In addition, I have examined all documents, personal diaries, memoranda and notes on file with the Turnpike Authority. I wish to advise that there are absolutely no documents, entries or references concerning any meetings between Chairman Goldberg, Joseph Salema and Clive Cummis or between any two of these gentlemen.



Herbert I. Olarsch
Director of Law/Secretary

HIO/cjh

RECEIVED

OCT 06 1993

EXECUTIVE DIRECTOR

146X

NEW JERSEY TURNPIKE AUTHORITY

December 6, 1993

TO: David J. Goldberg
Chairman

FROM: Donald L. Watson *Don Watson*
Executive Director

RE: Response to Testimony of William Cobbs of
Public Resource Advisory Group

At your request, I am responding to the testimony given by Mr. William Cobbs to the Assembly Appropriations Committee at their hearing on September 14, 1993.

Mr. Cobbs testified that his firm was only given 24 hours to respond to the Request For Proposal (RFP) for Financial Advisory services. In reality, Mr. Cobbs' firm, Public Resources Advisory Group (PRAG) received the RFP on March 7, 1991 and responded in writing on March 15, 1991, that they would not be submitting a proposal. Ultimately, the Authority selected Chase Securities Inc. to serve as Financial Advisor at the Commission Meeting on March 28, 1991. Several weeks later, when Chase indicated they would be withdrawing due to a corporate reorganization, we contacted each of the firms who received the original RFP and gave them another opportunity to submit proposals. This was appropriate since there were no changes to the RFP released on March 7, 1991. Mr. Cobbs' firm submitted a proposal on May 2, 1991 almost two months after receiving the RFP.

I might also point out a contradiction in Mr. Cobbs' testimony as to his firm's professional involvement in New Jersey. During PRAG's presentation to the Turnpike Authority interview panel, they made it clear they had worked in New Jersey previously. Yet, Mr. Cobbs testified to the Assembly Appropriations Committee, "We have never worked in New Jersey despite our rankings." Obviously, Mr. Cobbs had forgotten this fact.

Several times during the Assembly Appropriations Committee hearing, Mr. Cobbs and some Committee members pointed out that PRAG was ranked as the largest financial advisory firm by Securities Data for the previous 2-1/2 years. However, it

NEW JERSEY TURNPIKE AUTHORITY

David J. Goldberg

Dec. 6, 1993

Page 2

should be noted that when Turnpike Authority representatives were selecting a Financial Advisor in the Spring of 1991, PRAG was not ranked very high in the specialized area of transportation. In 1989, they were ranked No. 8 in the nation overall; but did not even make the top 10 for transportation advisors. In contrast, in 1989 Lazard Freres & Co. was ranked No. 4 in the nation overall and was ranked No. 5 in the field of transportation finance advisors. In 1990, which would have been the most recent information available to the selection committee, PRAG again did not make the top ten list for transportation financial advisors whereas Lazard Freres & Co. was ranked No. 3 in this category.

Another area that needs clarification is that of the actual scope of Financial Advisory services and the fees for such service. It is important to draw the distinction between the type of work involved for the Financial Advisor versus that required to manage the major financial restructuring decided upon by the Authority approximately six weeks after Lazard Freres & Co. had been selected as Financial Advisor. Mr. Cobbs seemed unable or unwilling to accomplish this distinction in his testimony.

The scope of services to be performed by the Authority's Financial Advisor included computer cash flow models to project the effects of financial strategies, reviewing the Authority's financial structure and recommending cost-saving measures, and advising on the implications of a broad-based refinancing program.

This scope of work had an annual cap on fees of \$50,000. This work as Financial Advisor is what PRAG was interviewed for on May 3, 1991, along with Lazard Freres & Co. and Lamont Financial Services. In fact, Lazard Freres & Co. was ultimately paid \$30,000 as the Authority's Financial Advisor in 1991 for such services. The \$50,000 was prorated because they were not approved by the Commission until May 30, 1991.

It was made very clear to all proposers for the financial advisory services that \$50,000 was the annual cap. However, each proposer was advised that in the event of a major financial restructuring or other extraordinary financial transaction, the \$50,000 annual cap would not apply.

Lazard Freres & Co. did generate \$2.275 million in fees by early 1992, but not for serving simply as a financial advisor, as Cobbs suggests. Those fees were received because Lazard Freres & Co. managed the refinancing of \$2.9 billion, one of the largest, most complex public finance transactions ever

NEW JERSEY TURNPIKE AUTHORITY

David J. Goldberg

Dec. 6, 1993

Page 3

undertaken; wherein they oversaw the work of 49 underwriters, maintained the Authority's "A" bond rating, saved \$260 million over the life of the bonds and held the financing cost to \$26 million, less than half the cost of the financing for the 1984-8 bonds. Those fees were negotiated by the Commission, as approved by Authority's action on May 30, 1991.

Mr. Cobbs also claimed during his testimony that his firm told Turnpike officials that PRAG would provide the services needed for \$200,000 to \$300,000. According to Mr. Cobbs, the offer was relayed to the Authority by telephone. There are several problems with these statements. The Authority's telephone records show that no such proposal was ever received. If the call had been made, the proposal would have been meaningless since the Authority only accepts proposals in writing. Further, Mr. Cobbs did not indicate what services PRAG would provide for that fee. If it was for the financial advisory service, with the \$50,000 annual cap, for which PRAG proposed, then that fee was too high. Finally, if the fee was floated in May 1991 for managing a refinancing plan that did not exist and that was not approved by the Commission until July 1991, it was meaningless. No one can consider such statements made two years after the fact credible.

