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**PUBLIC HEARING**

before

**ASSEMBLY TRANSPORTATION AND COMMUNICATIONS COMMITTEE**

on

**First Bond Sale of  
New Jersey Transportation Trust Fund Authority**

Held:  
January 23, 1985  
Room 348  
State House Annex  
Trenton, New Jersey

**MEMBERS OF COMMITTEE PRESENT:**

Assemblyman Wayne R. Bryant, Chairman  
Assemblyman Thomas P. Foy  
Assemblyman John W. Markert

**ALSO PRESENT:**

Laurence A. Gurman  
Office of Legislative Services  
Aide, Assembly Transportation &  
Communications Committee

\* \* \* \* \*

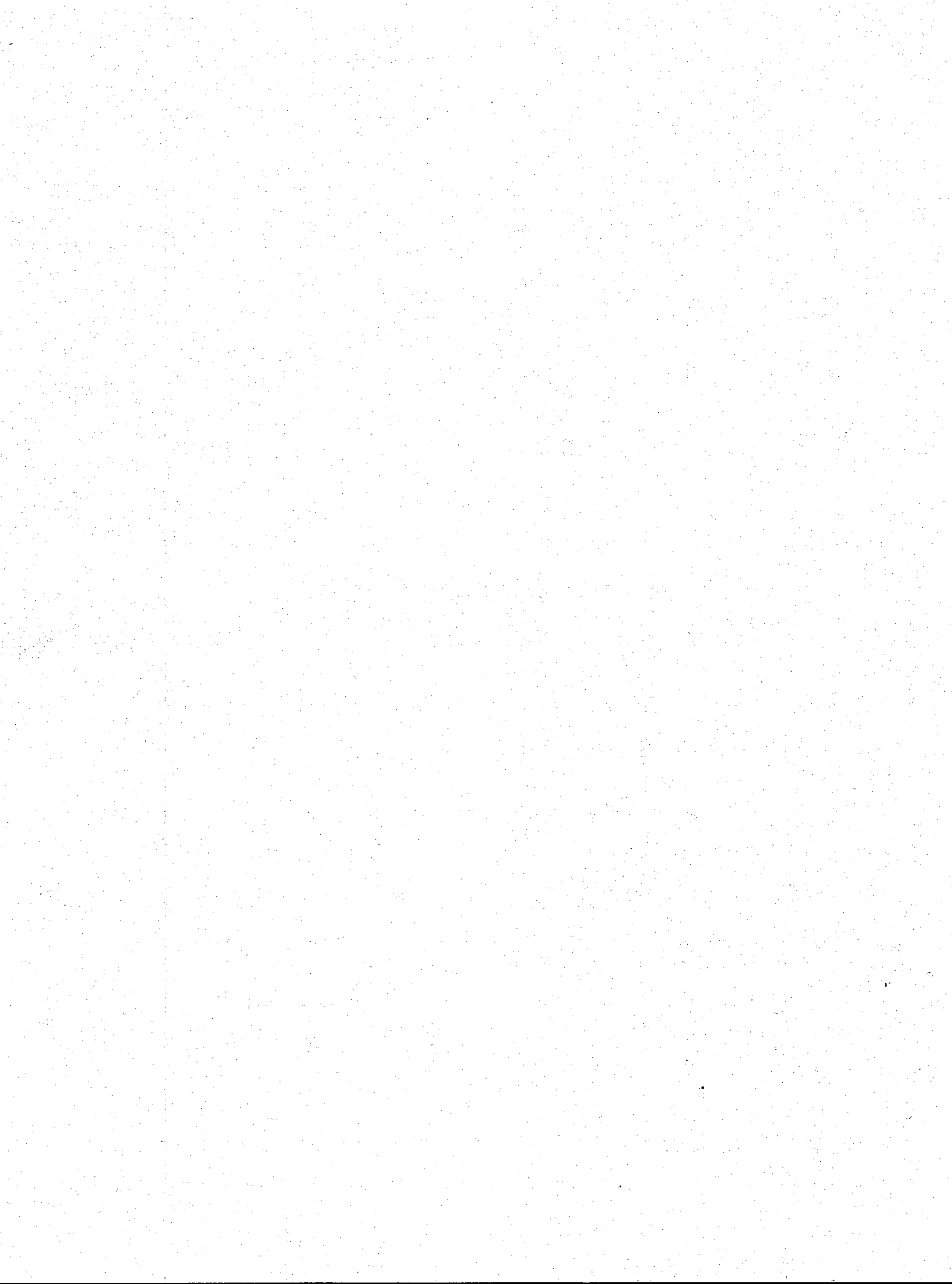


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**ASSEMBLYMAN WAYNE R. BRYANT (Chairman):** Good morning. This is a hearing of the Assembly Transportation and Communications Committee to deal with contracts of the New Jersey Transportation Trust Fund Authority. As you can see, we have three members present: Assemblyman Markert, Assemblyman Foy, and myself, the Chairman. We will be asking a series of questions regarding the Trust Fund. I would ask that if anyone would like to hold a conversation, please do so outside the room so we can hear the speakers and give them proper respect. Any questions during the public hearing should be directed through the chair, not to any other member.

We understand the bonds were sold yesterday, so that might give some clarity to the hearing. Our first speaker will be the State Treasurer, because I understand he has some business to attend to this morning -- not that the Commissioner of Transportation doesn't. I know he is also busy, but in deference, Commissioner Sheridan, we are going to ask the Treasurer to testify first. Commissioner Horn?

**COMMISSIONER MICHAEL M. HORN:** Thank you, Mr. Chairman.

**ASSEMBLYMAN BRYANT:** Would you like to make a statement first?

**COMMISSIONER HORN:** Yes, I think that is a good idea. Since this Committee has been so intimately involved in the program from its inception, you probably should be the first to know -- I think you are the first to know -- that we sold our first bond issue this week. It was in the form of a \$61,270,000 offering, maturing serially from 1985 through 1994; that is, we spread the bonds out from one year through 10 years.

I am delighted to announce that the result of that sale exceeded our best expectations in many, many ways, and it more than vindicated the financing approach which we have taken over the last several months.

First and most importantly, the net interest cost of the issue was 7.6%; that is, the average cost of the \$61 million offering was 7.6%. If you have been following GO bond issues and other Authority bond issues, that is absolutely super. It happens to be the lowest cost of money realized by any New Jersey borrowing entity in many, many years since rates started to skyrocket several years ago.

I am, in part, responsible for the fact that -- and I know this is close to all of your hearts -- the Authority's bonds were rated double A-plus by Standard and Moody's, which is as high as you can get below triple A. Triple A, of course, is an impossible rating for an Authority. The Authority's bonds were rated double A by Moody, so one of the agencies went double A-plus, and the other went double A.

Interestingly enough, on the same day, New Hampshire's double A-rated general obligation bonds were sold, and we beat their interest rate by about one-fifth of a percentage point on the average.

The good news is, we had a terrific public offering. It is going to be written up in one of the major Wall Street bond-issuing newspapers -- The Bond Buyer's Credit Markets. It is the deal of the week. I think the entire Legislature ought to be delighted that we not only did what we expected to do when the program was first proposed to you, but we also exceeded it in terms of rating and in terms of result.

ASSEMBLYMAN BRYANT: Can you tell me who the senior manager of the bond issue was?

COMMISSIONER HORN: The senior manager was Bear, Stearns & Company, which as you know, was involved in the genesis of the program.

ASSEMBLYMAN BRYANT: What did their activities entail?

COMMISSIONER HORN: Their activities entailed a good number of things. I'll list some of them. I'm sure I'll leave some out, but I'll list as many as I can.

I think the major activities they did were:

Number one, they structured the form of the transaction. When the Commissioner of Transportation and the Authority said they wanted to raise some money because we were making commitments to carry out the transportation program, there were lots of ways to do it.

You can issue 10-year bonds; you can issue serial bonds, as we did; or, you can issue a variety of structures. They help us to structure the amounts in the years they are issued. They also help us work out what will be pledged for the bonds. I think one of their most important functions is that they work with the rating agencies to obtain the ratings. They are in constant touch with the rating agencies. Then, as in this offering, they garner the interest of Wall

Street, and they discuss with us the selection of co-managers and other members of the syndicate -- I will get into that in a minute -- so that there is a market, which is particularly important when you have a new issue from a new authority. We don't have a track record. We were never guaranteed double A, but we always felt that double A was important.

They also work with the bond counsel. They structure the members of the syndicate, as we call it, and there are over 80 firms in the syndicate. They introduce the issue to Wall Street, and they negotiate the interest rate on our behalf. We were on the phone, I guess, three or four times a day during the past week reviewing what the market interest rate might be for this issue.

A lot of their work is still left to be done, that is, in fact, buying the bonds. The senior manager and the co-managers give us a check for the bonds. Assuming they are sold, they then distribute them through the underwriting syndicate. There is always a possibility, particularly if rates change, of the bonds not selling. Interest rates are made on the day we make the deal. If interest rates were to go up again, they would have a hard time selling those bonds at par, and they would end up owning the bonds. So, part of their compensation, of course, is for taking the risk of the bonds not selling in the market.

They also do what is called "run the books." They do the bookkeeping until the matter is turned over to a trustee.

You haven't asked the question, but you should know that in addition to Bear Stearns, there are five senior co-managers: Bevill, Bresler & Schulman; Drexel Burnham Lambert; Dillon, Read & Company; Ryan Beck & Company; and, Paine Webber, Inc. If you want more details about those firms, I would be happy to give them to you.

At my insistence, by the way -- and, this was not part of the original proposal by Bear Stearns -- about 10 days ago, I urged that an underwriting syndicate be formed. As you often see tombstone ads in the newspapers, they show the senior manager, the co-managers, and in most cases, there is an underwriting syndicate of anywhere from one to 100 firms, which is also involved in the distribution of the bonds. I

felt it was very important with respect to future issues of this Authority, that we involve as many firms as possible in the syndicate so that future issues by the Transportation Trust Fund Authority will have a track record with these other firms. They will have experience in dealing with them, and they will know about the Authority.

So, at my request -- although I didn't give them a number, I asked for a substantial number, and I would have been satisfied with 10 or 15 other firms -- 80 firms were included in the syndicate. When you see the tombstone ad, you'll see, in addition to Bear Stearns and the five co-managers, approximately 80 firms.

I might also add, and again, this was at my insistence -- I was delighted to do it -- that two minority investment banking firms, Daniels & Bell of New York, and Pryor, Govan, & Counts of Philadelphia, were included in the underwriting syndicate. This has never been done before in the State of New Jersey. We have broken new ground, and I am proud to have done that.

I have gone beyond your question, but I thought you should see the big picture.

ASSEMBLYMAN BRYANT: You also expressed that Bear Stearns was involved from the beginning. Were they hired as a consultant?

COMMISSIONER HORN: No, Bear Stearns was hired solely as the senior managing underwriter for this issue. It is not uncommon for investment bankers -- in fact, it is almost a continuing thing; they do it constantly -- to volunteer their services when new programs are being considered in order to help structure legislation, to help structure the composition of an authority, and to brainstorm how the authority or state government can issue the bonds.

Although Bear Stearns was, in fact, involved early on in the game -- I think you know that -- in addition, other underwriting firms were involved. Bear Stearns was not the only one involved. I know Merrill Lynch had heavy involvement when the program was first announced, and they prepared a good deal of written material, some of which I believe you have.

So, no, Bear Stearns was not hired as a consultant. They volunteered those services, along with other underwriting companies.

ASSEMBLYMAN BRYANT: Was this from the inception of the Trust Fund Authority?

COMMISSIONER HORN: No, what I was referring to-- By the way, we have hired a consultant. I'm glad you asked that question.

ASSEMBLYMAN BRYANT: I'm talking about prior to the Authority coming into existence when the legislation was being developed.

COMMISSIONER HORN: No investment banker was hired as the consultant; they volunteered their services to help get the program going.

ASSEMBLYMAN BRYANT: Okay. Can you give me an idea what the fee to Bear Stearns is from this sale?

COMMISSIONER HORN: The fee that is paid to a senior underwriter and a group of co-managers is comprised of four items. It is important that we distinguish between the four of them. Pardon me, it is a short question, but it requires a lengthy answer.

There are four items that are involved in compensation to underwriters, and they are as follows:

First of all, there is a selling commission. This is often referred to as a "take-down," and this is the single largest component of what we call the "spread," that is, the face value of the bonds versus what we actually receive. The take-down is paid as the commission for the underwriting syndicate's sales organizations for their efforts in selling the bonds. The take-down varies considerably with different bond issues depending upon the maturity of the bonds, the size of the issue, the type of the issue, the nature of the credit behind the bonds, and the stability of the credit market, all of which affect the acceptance of the bonds in the market. The take-down usually increases as maturity lengthens. Because our maturities were somewhat less here than you might normally see with GO bonds, we were able to negotiate a smaller take-down. That is one item.

Another thing is called "the net to underwriters." This is the compensation to the members of the underwriting syndicate, and again, we are talking about the entire syndicate, for the risk associated with the commitment of their capital to underwrite the bonds. This relates to what I said before about the fact that they buy

the bonds from us, regardless of whether or not they can sell them. Whether or not they can sell them very often depends on what happens in the marketplace once we get our money.

The third item is expenses. These are out-of-pocket disbursements made by the underwriters for expenses incurred during the financing. These include, for example, underwriters' counsel fees, interest expenses, and bond clearance costs. Other expenses are computer costs, travel, advertising of tombstones, and things like that. I might add that with respect to advertising, because of our confidence in the acceptance of these bonds on Wall Street, we have restricted Bear Stearns in the amount of advertising. We have limited them, I think, to two newspapers in order to keep that expense down.

Finally, there is a management fee. This is the area that you are most concerned about. The management fee is a payment to the managing underwriters in recognition of the expertise in finance and marketing skills employed in the development and implementation of the finance program, and the degree of commitment of time and effort. Market conditions have little effect on this. This is something we negotiate, but it generally gets smaller as the size of the issue increases. This is because it is done on a per-bond basis, or a per-thousand-dollar basis. In this particular case, the fee which we negotiated with Bear Stearns and the syndicate was \$3.50 per bond, which we find to be roughly about average as we compare it to other bond issues.

I guess I should also add that because of a transition going on in the Treasurer's office now, and because of our wanting to see that the expenses of this issue were kept within reason and would compare favorably to get the best deal for the taxpayers, the Department of the Treasury has hired, as is becoming more customary in the trade today, a financial advisor. We hired Goldman Beale Associates, and they have done a terrific job in helping us to negotiate with Bear Stearns on the four components of the fees. They have also given us advice on interest rates.

The interest rates in a negotiated sale are something which are-- It is negotiated, and that is one of the advantages of a negotiated sale.

So, we negotiated the fees with Bear Stearns. In fact, Dave Beale, of Goldman Beale, did a good bit of the negotiating himself. We found that the costs of issuance, including the underwriters' fees, were low for an agency issuing its bonds for the first time. The underwriters' discount, which is allocated among all 86 members of the underwriting group according to sales activities, was held to \$16.12 per bond. When we went before this Committee, we had estimated that it would be approximately \$17.50 per bond, so we have been able to cut that down to \$16.12.

ASSEMBLYMAN BRYANT: Is that an add-on to the other four you gave me?

COMMISSIONER HORN: No, that is one of the four. That would have been the second--

ASSEMBLYMAN BRYANT: (interrupting) Is that the net to the underwriters?

COMMISSIONER JOHN P. SHERIDAN: (speaking from audience) Mr. Chairman, if I may, I think the \$16.12 represents all four components added together.

COMMISSIONER HORN: Is that what it is?

COMMISSIONER SHERIDAN: Yes.

COMMISSIONER HORN: Okay.

ASSEMBLYMAN BRYANT: I don't want to become confused, so you are going to have to break this down. You have to understand that I don't understand any of this.

ASSEMBLYMAN MARKERT: Mr. Chairman, it might be advisable if we could have the Commissioner of Transportation at the witness table also. In that way, we won't have to try to get answers from the audience. If he knows some of the facts that we--

ASSEMBLYMAN BRYANT: (interrupting) Well, right now, this deals with the Treasurer's Department, and I want to speak to the Treasurer at this juncture.

COMMISSIONER HORN: I'll stand corrected on that; \$16.12 is the total of all four components. That is right; it is the cost of issuance.

ASSEMBLYMAN BRYANT: That is the cost of issuance?

COMMISSIONER HORN: Yes, \$16.12 per bond.

ASSEMBLYMAN BRYANT: Okay. What is the fee that is paid to Bear Stearns? You told me \$3.50 per bond. I don't know what that translates into. What is the total cost of the management fee, and who gets it?

COMMISSIONER HORN: Well, I guess if we came back in maybe two weeks, I could break it down per dollar per participant. But, since we are in the middle of it now, I can't give you the total.

The management fee doesn't only go to Bear Stearns; it goes to the other five, as well. They end up splitting it up in accordance with their own arrangements with each other. We don't get involved with that, so I can't give you--

ASSEMBLYMAN BRYANT: (interrupting) You are telling me that we have no knowledge of what--

COMMISSIONER HORN: (continuing) --that at this point. We negotiate the total and the numbers, such as \$3.50 per bond on the one item. We say, "We'll allow you "x"-- There are negotiations. They say, "These are what we think the expenses are." Then we say, "All right, this, this, and this we agree with. We want you to cut down on advertising."

ASSEMBLYMAN BRYANT: What does \$3.50 per bond equal?

COMMISSIONER HORN: I might have that; let me look. It is 63,000 times \$3.50, whatever that is. It is roughly \$220,000.

ASSEMBLYMAN FOY: Is there a management fee?

ASSEMBLYMAN BRYANT: What is the management fee? You told me that this is divided among five people, and we have no knowledge of that. Are the negotiations only done with the senior manager or with all of them?

COMMISSIONER HORN: We only deal with the senior manager.

ASSEMBLYMAN BRYANT: So, in negotiations, you don't deal with the co-managers.

COMMISSIONER HORN: We only deal with the senior manager until negotiations are completed.

ASSEMBLYMAN BRYANT: So, in essence, this fee is paid to Bear Stearns.

COMMISSIONER HORN: I beg your pardon?

ASSEMBLYMAN BRYANT: This fee is paid to Bear Stearns. Since you have no involvement with the other contractors, then Bear Stearns gets all of this. Now, what they divide up is something different.

COMMISSIONER HORN: Yes, but there are guidelines.

COMMISSIONER SHERIDAN: (speaking from audience) I can shed some light on that with information that the Treasurer may not be aware of.

ASSEMBLYMAN MARKERT: May I ask again, Mr. Chairman, if we could have the Commissioner give us that information by joining us at the table?

ASSEMBLYMAN BRYANT: Well, what I am trying to figure out is, who negotiates this? Does your office negotiate it?

COMMISSIONER HORN: The Authority negotiates it.

ASSEMBLYMAN BRYANT: Or, does the Commissioner of Transportation negotiate it?

COMMISSIONER HORN: We both do. We are both members of the Authority. We did, in fact, negotiate it, in most cases, together because we are full-time State employees. Although there are five members on the Authority-- Some of the members participated very intimately in these negotiations, and they were kept informed as to how the negotiations went. But, the people who actually negotiated were Commissioner Sheridan and myself. There were some meetings that perhaps I didn't attend, but the Commissioner was there.

Again, I think we can more clearly give you the answers you want if you would allow him to sit up here. Maybe he can help with answers that I don't have at my fingertips.

ASSEMBLYMAN BRYANT: Okay. Let me ask another question. Who controls it, the Treasurer's Department?

COMMISSIONER HORN: The Authority.

ASSEMBLYMAN BRYANT: Okay, so you have nothing to do with it under the legislation.

COMMISSIONER HORN: No, I'm on the Authority.

ASSEMBLYMAN BRYANT: Some of this goes through the Treasurer's office, if I recall how the Authority's transactions take place under the bill.

COMMISSIONER HORN: Yes. The money that gets appropriated by the Legislature goes through the Treasurer's office; that is right.

ASSEMBLYMAN BRYANT: Commissioner?

COMMISSIONER HORN: Commissioner Sheridan is the Chairman of the Authority, and it is necessary that he be intimately involved.

ASSEMBLYMAN BRYANT: Okay. We are going to backtrack a little bit. Now, we have selling commissions, and that is the take-down. We have the net to underwriters. There are expenses and out-of-pocket expenses to the underwriters for counsel fees, travel, computer time, etc. And, we have a management fee. That totals four. Are there only four fees?

COMMISSIONER SHERIDAN: There are only four elements of the total, what is described as, the "spread."

ASSEMBLYMAN BRYANT: Can we do it one element at a time? Selling commissions -- how much do they get?

COMMISSIONER SHERIDAN: Sure. As I recall-- In the negotiations, I should tell you that the direct negotiator for us on this whole spread over the past few days was David Beale. He, along with Bill Stringer from the Treasurer's office, did the minute-by-minute negotiations. I was kept apprised of that on a half-hourly basis or an hourly basis.

ASSEMBLYMAN BRYANT: That is Goldman Beale Associates?

COMMISSIONER SHERIDAN: Yes.

ASSEMBLYMAN BRYANT: When were they hired?

COMMISSIONER SHERIDAN: Last week.

ASSEMBLYMAN BRYANT: How much do they get paid?

COMMISSIONER SHERIDAN: Ten thousand dollars.

ASSEMBLYMAN BRYANT: Ten thousand dollars to negotiate?

COMMISSIONER SHERIDAN: Yes.

COMMISSIONER HORN: May I amplify on that, Mr. Chairman? They do more than just negotiate for and with us. They are also, I think, one of the key elements. They advise us and make their own independent surveys of the marketplace, so that when we negotiate along with them and the underwriters to set the interest rate, we have independent advice on the market. That is a very important component of what Goldman Beale does for us.

ASSEMBLYMAN BRYANT: Maybe you can explain that to me. That is one of the things you outlined as to why we hired a senior manager, which was to negotiate the interest rate. I assume if I am hiring him, he is supposed to be working in my interest. Now you are telling me that I have to hire someone to check up on him to make sure he is doing a good job?

COMMISSIONER HORN: We need someone to--

ASSEMBLYMAN BRYANT: (interrupting) Who does he work for? Does he work for Wall Street in selling the bonds, or does he work for us as the senior manager?

COMMISSIONER HORN: He works for us.

ASSEMBLYMAN BRYANT: Then why do I need someone else to find out if he is negotiating the best price?

COMMISSIONER SHERIDAN: If I may, my reasoning is that while they are working for us and making recommendations to us, there is, with any of these Wall Street firms, a direct financial interest that they have in how the bonds are priced. It has always been the case that it is either someone in the Treasurer's office with expertise, or one of these financial adviser firms like Goldman Beale. I know, for instance, that they performed this same role very recently for Camden County, and the same role for the Camden Municipal Utilities Authority. They recently helped to negotiate with whomever the senior managers were on those specific arrangements down there.

ASSEMBLYMAN BRYANT: So, there is a relationship between what the interest rate will be and what the senior underwriter makes.

COMMISSIONER SHERIDAN: I guess I would describe it as being a relatively inexpensive insurance policy to make sure that the Wall Street firms give us the very best arrangement possible for the taxpayers of New Jersey.

ASSEMBLYMAN BRYANT: Okay. Now, let's get back to the selling commission, the take-down.

COMMISSIONER SHERIDAN: The take-down was, I believe, \$8.00 per bond.

ASSEMBLYMAN BRYANT: Okay, and that is \$8.00 times 63 million?

COMMISSIONER SHERIDAN: No, it is \$1,000 per bond.

COMMISSIONER HORN: So, it is \$63,000-some-odd dollars.

COMMISSIONER SHERIDAN: Now, you have to understand--

ASSEMBLYMAN BRYANT: (interrupting) I would like to take a couple of minutes to get the figures so I know what we are talking about.

ASSEMBLYMAN FOY: While we are waiting for the figures, may I ask a couple of questions that don't require anyone to calculate?

ASSEMBLYMAN BRYANT: Sure.

ASSEMBLYMAN FOY: The first thing I want to ask about are the volunteers. In the formulation of the Authority -- in the conceptualization of what we proposed to do -- while it was in its embryonic stage, who were the volunteers? Were they the six who were involved as the senior underwriters?

COMMISSIONER HORN: No.

ASSEMBLYMAN FOY: Okay. Who were the volunteers? That is a good question for me to ask.

COMMISSIONER SHERIDAN: It is hard to say when the Trust Fund conceptually came into being.

ASSEMBLYMAN FOY: Well, Bear Stearns was a volunteer.

COMMISSIONER SHERIDAN: Yes, Bear Stearns was a volunteer. Dillon, Read was a volunteer, and Merrill Lynch, to some extent, was involved, at least in the meetings I attended. Originally, I would say that it kind of evolved out of the infrastructure bank efforts that were going on. These three firms were involved, I believe, even though I wasn't directly involved at that time, in helping to conceptualize the infrastructure bank and to work on an infrastructure bank concept. I was involved in some of those meetings when a transportation component of the infrastructure bank was being considered.

When the infrastructure bank ran into legislative difficulty, I was working with Bear Stearns and Dillon, Read. I asked them questions because I saw that they had some ideas which might be appropriate for transportation. That is how they became involved in our conceptualization of the Transportation Trust Fund.

ASSEMBLYMAN FOY: Okay. In the first group, the Treasurer mentioned Bevill, the Drexel Burnham firm, Ryan Beck, and Paine

Webber. Were any of them involved on a consulting basis with either the infrastructure or the ultimate evolution of the Trust Fund?

COMMISSIONER SHERIDAN: As far as I know, only Dillon, Read was involved.

ASSEMBLYMAN FOY: Dillon, Read and Bear Stearns. So, they are the only volunteers who are participating in the first issue that is being underwritten?

COMMISSIONER SHERIDAN: Yes.

ASSEMBLYMAN FOY: They are the only ones who are going to derive an economic benefit as a result of the literally hundreds of hours of time, I guess, they invested in consulting at one point for free.

COMMISSIONER SHERIDAN: Yes. They are the only ones who were involved early on who are still participants in the whole managing group. I believe Merrill Lynch is a participant in the syndicate.

ASSEMBLYMAN FOY: Okay. The Treasurer mentioned the expenses that these various firms -- either as the senior manager or the senior underwriter -- are involved in. You mentioned bond counsel. Do you know who the bond counsel was for these various firms? Can we get a list of them?

COMMISSIONER SHERIDAN: Yes. The underwriters' bond counsel consisted of McCarter & English, a New Jersey firm, and Finley, Kumble, a New York firm.

COMMISSIONER HORN: The bond counsel was Mudge Rose Guthrie Alexander & Ferdon.

ASSEMBLYMAN BRYANT: How were they selected?

COMMISSIONER SHERIDAN: That was the underwriters' decision.

COMMISSIONER HORN: We select bond counsel -- underwriters' counsel.

COMMISSIONER SHERIDAN: These are underwriters' counsel. They are selected--

COMMISSIONER HORN: (interrupting) Mudge, Rose was selected by the Authority.

ASSEMBLYMAN FOY: Okay. As an afterthought, one of the concerns I have is that we can't do a lot about employing New Jersey

investment houses and things like that because most of them are located in New York. One thing we can do is, we can be concerned about employing New Jersey bond counsel.

COMMISSIONER HORN: We can do both. Two of the six co-managers-- Bevill, Bresler, & Schulman is a New Jersey outfit. This was a conscious decision on my part in recommending that New Jersey be included. You'll notice that particularly Ryan Beck, which is the largest, is involved in an awful lot of Authority financing and agency financing.

To pick up on your question--

ASSEMBLYMAN FOY: (interrupting) We have a lot of good bond counsel firms in New Jersey, and one of the concerns I have is that we involve them as intimately as possible.

COMMISSIONER HORN: We do. Again, we have a whole range of financing. I broke new ground when I, as Treasurer, hired Kraft & Hughes to do our last bond issue. In a good number of Housing and Mortgage Financing Agency bond issues and others, we are bringing in Clapp & Eisenberg and all the qualified EDAs, as well.

ASSEMBLYMAN FOY: Does the Authority have its own consulting bond counsel?

COMMISSIONER HORN: For this deal we did; we had Mudge Rose. We are not committed to Mudge Rose in the future. We don't have a continuing bond counsel.

ASSEMBLYMAN FOY: That is what I am concerned about -- having someone advise you about everyone else.

COMMISSIONER HORN: Christine Steinberg from the Attorney General's office is our counsel.

ASSEMBLYMAN FOY: Okay. Do you have your own consulting financial advisor on retainer to the Transportation Trust Fund Authority -- someone on a day-to-day basis; someone like Beale, who you have on a continual basis, to provide ongoing service and advice?

COMMISSIONER SHERIDAN: We haven't made that decision yet.

ASSEMBLYMAN BRYANT: May I ask another question?

ASSEMBLYMAN FOY: Again, New Jersey first.

ASSEMBLYMAN BRYANT: Do any of them, Beale or Bear Stearns, get paid to be a consultant for the infrastructure?

COMMISSIONER SHERIDAN: No.

ASSEMBLYMAN BRYANT: Who legally advised Administration during the Trust Fund?

COMMISSIONER SHERIDAN: Mudge Rose Guthrie Alexander & Verdon and the Attorney General's office.

ASSEMBLYMAN FOY: It is through Dixon's old law firm.

ASSEMBLYMAN BRYANT: They are the main counsel?

COMMISSIONER SHERIDAN: They were chosen by the Authority to be bond counsel for this transaction.

ASSEMBLYMAN FOY: That is all I wanted to ask at this point.

ASSEMBLYMAN BRYANT: Therefore, we have all this voluntarism; at least that is my understanding -- all these people volunteering. Then, in some way, they seem to pop back up and get rewarded for their voluntarism.

With the selling commission, we have \$8.00. We just calculated that. It is \$504,000. What is the net to the underwriters?

COMMISSIONER SHERIDAN: One dollar.

ASSEMBLYMAN BRYANT: One dollar. That is \$63,000 then?

COMMISSIONER SHERIDAN: You understand, Mr. Chairman, that that means the dollar goes to those people in the syndicate -- all 86 firms, not Bear Stearns. It goes to the 86 firms on the basis of the number of bonds that they underwrite.

ASSEMBLYMAN BRYANT: That is right; I understand.

COMMISSIONER SHERIDAN: Okay. The same thing is true with the selling commission. The selling commission goes on--

ASSEMBLYMAN BRYANT: (interrupting) On the percentage of who sold--

COMMISSIONER SHERIDAN: (continuing) --the basis of how many bonds a particular firm sold. That is why the Treasurer told you before that it is not possible to tell you now how much any particular firm got because while orders were taken, those order sales weren't final. In fact, while we were very concerned that there were sufficient orders for the bonds, we were not concerned about who was buying them, except that it was reasonable for us to expect -- and we so advised Bear Stearns -- that if these people were involved in the

underwriters' syndicate, they would get a sufficient number of bonds for their orders.

ASSEMBLYMAN BRYANT: Okay. So far I have \$11.50. Someone gave me a figure of \$16.12 total.

COMMISSIONER SHERIDAN: No, you should have--

ASSEMBLYMAN BRYANT: (interrupting) I have \$8.00 for the selling commission, \$1.00 net for the underwriters, and \$3.50 for the management fee.

COMMISSIONER SHERIDAN: Right, and the balance represents expenses.

ASSEMBLYMAN BRYANT: The rest is expenses, so that is-- Do you know what the expenses are?

COMMISSIONER SHERIDAN: I don't know the exact amount. The number I recall is \$4.22, but whether or not that works out to exactly \$16.12, I don't know.

ASSEMBLYMAN BRYANT: And, all of this money is divided. What does the senior manager get?

COMMISSIONER SHERIDAN: This is the question you called me up here to answer, but I haven't as yet. The understanding with the senior manager was that 50% of the management fee would go to the senior manager, and the remaining five co-managers would receive 10% each for their efforts as part of the co-management group.

ASSEMBLYMAN BRYANT: Is that divided equally among the five?

COMMISSIONER SHERIDAN: They get 10% each.

ASSEMBLYMAN BRYANT: Does Bear Stearns also sell?

COMMISSIONER SHERIDAN: Sure. They have an opportunity--

ASSEMBLYMAN BRYANT: (interrupting) They are part of the selling commission?

COMMISSIONER SHERIDAN: Yes, they have an opportunity to sell bonds, and the expenses go to cover expenses of the co-management group.

ASSEMBLYMAN BRYANT: The expenses don't go to the underwriters or to the syndicate?

COMMISSIONER SHERIDAN: The expenses are, for the most part, as I understand them, expenses of the co-managers.

ASSEMBLYMAN BRYANT: Let me ask you a question about those expenses. Are they detailed to the Treasurer or to you? I mean, do we verify all expenses?

COMMISSIONER HORN: We will be signing-- This has been agreed to. We will be signing a contract with Bear Stearns if we get authorization from the full Authority. We had a telephonic meeting with the Authority yesterday, and this was all explained to them. There were questions asked and, as a matter of fact, one of the members of the Authority was involved in negotiations himself. We would be happy to supply a copy of the contract with all the numbers filled it after it is signed.

COMMISSIONER SHERIDAN: Regarding the expenses, the management fee, the take-down, and the net to the underwriters, those negotiations were handled by Dave Beale, with a lot of assistance and advice from Bruce Coe. You will recall that Bruce Coe is one of the public members appointed to the Board. He has a lot of experience in this field, and he was formerly with Wall Street. He was brought in by Governor Byrne to clean up the Housing Mortgage Finance Agency about five years ago when they were having great difficulty. He is very experienced in this field. Before that, he was Chairman of the Capital Needs and Budget Commission.

Yesterday at our meeting in the Executive Session, we were advised by Dave Beale that these fees were reasonable and sensible. He advised us -- and this was concurred by Mr. Coe -- that we were very well-served. He advised us that the Authority had been very well-served by its underwriters, and particularly, the senior manager on this financing.

We feel that we have received an excellent negotiation. I believe the fee we pay to Goldman, Beale is well-deserved. I think in those negotiations they have probably saved us much, much more than we paid them -- maybe even as much as \$100,000 or more in the negotiations.

Part of the advice they gave us was when we should to go to market. The scale on these bonds was reduced twice within a period of a day in terms of the interest rate, so we wound up with 4.75% interest

on what is called the "short end" -- the first-year serial bonds -- and a high of 8% on the long bonds, which were the 10-year bonds. As the Treasurer mentioned, as far as the net interest rate is concerned, that is just unbelievable compared to anything that has been done in New Jersey during the past five years.

Not only was the timing recommendation from the senior manager excellent, but the job they did in working out the orders -- adjusting the scale downward twice within a day to meet an excess demand for orders -- was a tremendous effort. We wound up with excellent financing.

As a matter of fact, the negotiations over those two days, because we were able to reduce the interest costs and compared to what we went to print with in the preliminary initial statement, which was issued in early January, the amount of bonds sold was reduced by \$1.915 million. So, we saved that amount. We wound up with the same net amount to the fund; we actually wound up reducing -- because of our timing in going to the market, and because of the interest scale we were able to negotiate -- \$2 million in just a month. If you compare that to what we presented to this Committee a year ago, we were talking about a true interest cost of 9.5%, and we are down somewhere in the seven's, so 2%--

ASSEMBLYMAN BRYANT: (interrupting) But, that has something to do with the marketplace also.

COMMISSIONER SHERIDAN: It has everything to do with the marketplace. I would tell you, Mr. Chairman, it also has to do with--

ASSEMBLYMAN BRYANT: (interrupting) I want to ask you a couple of questions.

COMMISSIONER SHERIDAN: (continuing) It also has to do with--

ASSEMBLYMAN BRYANT: (interrupting) Doesn't that have something to do with having 10-year bonds instead of 30-year general obligation bonds? Doesn't it also have something to do with having a Constitutional Amendment where you have guarantees?

COMMISSIONER SHERIDAN: Yes, that is what I was going to say. I was going to tell you that I think some of the things the

Legislature did at the end of the year helped very much to sure up this program. Not only was the Constitutional Amendment something that helped with the bonds, but in addition to that, I think the \$600 million limit on the amount of the bonds that could be issued -- the cap -- was very good. The other thing that was a very good signal to send to Wall Street, which was the result of the work of the Appropriations Committee, was that they placed more money into this fund than we originally talked about. That was a very, very good signal to send to the market. When you take that into account, plus how healthy the economy has been in New Jersey -- our low unemployment rate, what is perceived on Wall Street as a very well-managed State government, and a very sensible approach by both the Executive and Legislative branches of running the State government -- I think all of those things helped to play a major role.

This was one of the reasons we wound up getting the double A-plus and double A ratings. It was unheard of for any kind of bonds. Dave Beal described it to us as being in a class by itself. These bonds are rated higher than the general obligation bonds of the vast majority of states in the United States.

New Hampshire, which went to market yesterday, has a double A rating. They paid 20 basis points, which is a fifth of one percent. Over the life of a bond issue, that can be literally hundreds of thousands of dollars, if not millions, more than this Authority paid for similar bonds.

ASSEMBLYMAN BRYANT: If my figures are somewhat correct, we paid over a million dollars.

COMMISSIONER SHERIDAN: I think the total amount will be somewhat less. The total amount on the total bond sale for expenses, I think, is somewhere in the \$900,000 range.

COMMISSIONER HORN: It is \$987,000.

ASSEMBLYMAN FOY: Is that on a \$61 million issue?

COMMISSIONER HORN: Right. You have a comparison with that. I asked for a comparison myself.

ASSEMBLYMAN BRYANT: Let me ask a question because maybe we made some mistakes. I have a bottom-line figure of \$16.12. If you multiply that by 63,000, you get--

COMMISSIONER SHERIDAN: No, it is not 63,000. It is 61,000.

ASSEMBLYMAN BRYANT: Oh, 61,000. Okay.

COMMISSIONER HORN: That was my mistake. We originally went out at 63,000. I'm sorry.

ASSEMBLYMAN BRYANT: That changes it.

COMMISSIONER SHERIDAN: That is the \$2 million I was just talking to you about, Mr. Chairman.

ASSEMBLYMAN MARKERT: It is nice to be able to save a couple of million dollars. It doesn't happen too often in government.

ASSEMBLYMAN FOY: When they were first talking about take-downs, you know, I used to be a wrestler. It was always two points for a take-down. I was becoming a little nervous when I saw that we had take-down as part of the terminology. (laughter)

COMMISSIONER SHERIDAN: I should tell you that as far as the take-down is concerned, \$8.00 sounds high. But, for instance, when we are talking about \$16.12, there are some differences in the kinds of issues we are talking about.

Connecticut went to market two months ago with a transportation bank they have been promoting. Their total expenses weren't \$16.00; their total expenses were \$23.00. The Turnpike Authority was \$29.00. The Parkway was -- this is from memory -- something like \$26.00. But, we are in the \$16.00 range.

We told you when we came to Committee last year that we would be at \$17.50, but we beat that by \$1.50. I think you have to look long and hard to find \$16.12 for expenses in any kind of bond issue.

ASSEMBLYMAN BRYANT: I don't disagree that we received a good rate. I am not sure it is exactly because of whom we had. I'm not sure that other major bond companies couldn't have done the same thing based on how it was structured.

COMMISSIONER SHERIDAN: That may be possible, but bear in mind -- no pun intended -- that Bear Stearns helped very much to structure this financing. They conceptualized it; they helped us draft the legislation; they helped us think through how this would do in the market; they took us through the rating houses a year ago, at which time we first introduced them to the whole concept; and then, once the

bill was passed, they structured the financing with the help of bond counsel and the other co-managers in a way that would produce a great rate.

ASSEMBLYMAN BRYANT: Commissioner, since Mr. Foy and I are attorneys, doesn't that give an appearance of being a conflict? I mean, it might be more from the public view that those who do all of that work should be paid for it and not be included with the ones who actually reap the benefits from those kinds of sales. In our profession, we deal a lot with an appearance of a conflict, but not so much with whether or not it is an actual conflict.

COMMISSIONER SHERIDAN: Mr. Chairman, I consider myself a pretty hard-nosed negotiator, and I recommended Bear Stearns, not because they had done other work, but because they had done good work. They knew this financing inside out and upside down. There were other people, as has been mentioned, who were helpful in that process, but who we chose not to use. We chose not to use them to the extent that we used Bear Stearns. I recommended Bear Stearns because they had done the very best job, and they had done it well.

ASSEMBLYMAN BRYANT: The point I want to make is this: Assume we did it the other way. We hired Mr. Goldman, and we thought there might be an appearance of a conflict. You could hire Bear Stearns who knew it inside out to do the same job that Mr. Goldman did, if you had another investment banker, since Bear Stearns knew it inside out.

COMMISSIONER SHERIDAN: No, you see, I--

ASSEMBLYMAN BRYANT: (interrupting) They would still be on the same side.

COMMISSIONER SHERIDAN: We were talking about this just this morning, and I think it is an interesting point. One of the things that I think these financial advisors have carved out is an interesting niche. By financial advisors, I mean the Goldman Beales. Also, there are some other firms around that are now starting to do the same thing. It is an interesting niche they have carved out, and the reason is because they do not have the ties to other Wall Street firms that are always doing business with each other. So, they have a kind of

independence that one Wall Street firm cannot have, in my opinion, with another Wall Street firm -- not complete independence that gives them the right to be really hard-nosed, tough negotiators by knowing that they are not going to be in a situation the following week where the tables are turned and it is the other guy who is doing the negotiation.

ASSEMBLYMAN BRYANT: Did we get any quotes from any other bond counsel in handling this business?

COMMISSIONER SHERIDAN: From other bond houses?

ASSEMBLYMAN BRYANT: Other managing firms.

COMMISSIONER SHERIDAN: No.

ASSEMBLYMAN BRYANT: Investment bankers?

COMMISSIONER SHERIDAN: No.

ASSEMBLYMAN BRYANT: Does the Authority do that?

COMMISSIONER SHERIDAN: As I understand it, traditionally what happens is -- the Treasurer knows better than I do; maybe I should let him answer this question -- the manager is selected, and then the negotiations are done at a point in time when you are ready to go to market. As I understand it, it is not possible to negotiate all of these things in advance. There is so much tied to the market; there is so much tied to-- For instance, a large portion of the expenses are things that are largely unknown at the time you start to put the arrangement together.

ASSEMBLYMAN BRYANT: So, you are saying it is an impossibility for one to seek others to be a manager. You can only look at one firm to be a manager?

COMMISSIONER SHERIDAN: No, no, we could have looked at other firms. If you'll recall our negotiations at the end of the year, we proposed -- just like every other authority -- that this one be allowed to negotiate on every sale. From advice I have, I would tell you that that still is the best way to go. We wind up with much better financing.

We did negotiate a compromise though, and the compromise was that we would be allowed, as you will recall, to negotiate the first transaction. After that, we would have to bid it. The reason we wanted to do it on the first negotiation was because we had advice from

several firms that, particularly on a first transaction where no one knows the credit, where no one understands the legislation very well, and it hasn't been to market before, we would do much better on a negotiated basis.

You will recall that we shared with you--

ASSEMBLYMAN BRYANT: (interrupting) Commissioner, before you say I recall-- One of the things I do recall because I was in those negotiations is -- and, this is my understanding -- that we would look at a variety of firms to do whatever, even though it would be negotiated. That is the question I am asking.

COMMISSIONER HORN: Well, we have looked at a variety of firms. You ultimately end up with one solution. When you say "look at," in my mind, I went--

ASSEMBLYMAN BRYANT: (interrupting) Well, I'm hearing two different answers; one is that you didn't look at anyone else, and now you are telling me you did.

COMMISSIONER HORN: When I say "look at," we know from experience -- I know -- all the investment bankers, all the major ones. John and I discussed it, and John felt strongly that no one knew this program better than Bear Stearns. That is a good reason for selecting them. It helps you gain acceptance into the marketplace when there is someone there who knows the program inside out, which is what Bear Stearns did. So, it is not that we just automatically settled on Bear Stearns; we ultimately settled on Bear Stearns. It wasn't an automatic situation.

COMMISSIONER SHERIDAN: Can I just make a point? Mr. Chairman, I know in those negotiations that we shared with the Speaker and you a letter that Gary Stein received from Merrill Lynch, which clearly spelled out why a negotiated arrangement was better. Let me give you another copy. I have copies for the other members if they would like them. Mr. Foy and Mr. Markert?

ASSEMBLYMAN FOY: Thank you.

ASSEMBLYMAN MARKERT: Thank you.

COMMISSIONER SHERIDAN: I guess the thing you should understand is that I didn't select Bear Stearns; I recommended them.

We have a five-member Authority which has a representative who was appointed by the President of the Senate and a representative who was appointed by the Speaker of the Assembly, on recommendation from the Governor. We have an independent public member, and then we have the Treasurer and myself. We recommended Bear Stearns, and I'll tell you right now, I recommended them strongly. I did that because I was absolutely convinced in my own mind that their knowledge about this transaction was going to very well serve everyone on the Authority and the taxpayers of the State. That is why, after I discussed it with the Treasurer, we made that recommendation. But, the five members of the Authority made the selection.

ASSEMBLYMAN BRYANT: I understand that quite clearly.

COMMISSIONER SHERIDAN: There are also--

ASSEMBLYMAN BRYANT: (interrupting) I am asking if the Authority interviewed anyone else.

COMMISSIONER SHERIDAN: No, they did not.

ASSEMBLYMAN BRYANT: So, a recommendation became the act.

COMMISSIONER HORN: They interviewed Bear Stearns. Bear Stearns sat across the table from the entire Authority and was questioned quite closely by other members of the Authority, as well.

ASSEMBLYMAN FOY: And, Bear Stearns came with the Chairman of the Authority's recommendation.

COMMISSIONER SHERIDAN: Absolutely.

ASSEMBLYMAN FOY: Okay. Bear Stearns was the one who had volunteered hundreds of hours of time in advance. Is that correct?

COMMISSIONER HORN: Along with others, right.

ASSEMBLYMAN FOY: In reality, this was a reward to Bear Stearns for their efforts in advance in creating the Authority.

COMMISSIONER HORN: Not true.

ASSEMBLYMAN FOY: The way I see the equation is, Bear Stearns volunteered time, and Bear Stearns volunteered thousands of dollars in contributions to the Republican party. Time plus money equals: Bear Stearns gets paid a substantial amount of money by this Authority. Isn't that a fact? Aren't they the facts of what happened?

COMMISSIONER HORN: Why wasn't Merrill Lynch made the senior managing underwriter?

ASSEMBLYMAN FOY: I don't know.

COMMISSIONER HORN: Maybe they did the same thing.

ASSEMBLYMAN FOY: I don't know what their contributions were. I don't have their list.

COMMISSIONER HORN: I don't either.

ASSEMBLYMAN FOY: Well, I do.

ASSEMBLYMAN BRYANT: According to your own testimony, Bear Stearns--

COMMISSIONER SHERIDAN: (interrupting) Mr. Chairman, I really resent the implication that somehow campaign contributions had something to do with my recommendation. I never knew they made a contribution until I saw your article in the paper, and I never cared if they did or didn't.

ASSEMBLYMAN BRYANT: Well, Mr. Commissioner, I am not saying that you knew. There might be other people who--

COMMISSIONER SHERIDAN: I made the recommendation.

ASSEMBLYMAN BRYANT: But, you made the recommendation as part of the Administration.

COMMISSIONER SHERIDAN: I made the recommendation as Chairman of this Authority after I had worked with these people and saw how well they performed for a number of months.

ASSEMBLYMAN FOY: Well, why did Bear Stearns volunteer hundreds of hours of time -- free time -- using their expertise, their staff, and their people if they weren't honoring a time-old New Jersey tradition since the inception of the casinos and betting on the "come?" They weren't doing this out of the goodness of their heart.

COMMISSIONER SHERIDAN: No, and I didn't say they were. I would think that they did it on the assumption that if they performed very well, they would have an excellent shot at this, and if not this, then they would have an excellent shot at something else.

ASSEMBLYMAN FOY: And, their expectations were rewarded by receiving the contract. Isn't that correct?

COMMISSIONER SHERIDAN: Whatever their expectations were, I don't know, but I can tell you that my recommendation was based on the tremendous job they had done helping us during the legislation and their knowledge of this program inside out and upside down.

ASSEMBLYMAN FOY: And, you don't believe it had anything to do with the amount of their contribution?

COMMISSIONER SHERIDAN: We know it didn't.

COMMISSIONER HORN: I know it had nothing to do with the amount of their contribution. We made the decision. We don't know what the contributions were. We didn't check what the contributions were, nor do we care what the contributions were.

ASSEMBLYMAN FOY: Okay.

ASSEMBLYMAN BRYANT: Mr. Markert, do you have a question?

ASSEMBLYMAN MARKERT: Yes, thank you. Commissioner Sheridan, if Bear Stearns had fallen flat on its face, or had shown the incapability of being able to handle this bond issue the way they have -- and very successfully so -- would the recommendation still have been the same?

COMMISSIONER SHERIDAN: No, of course not.

ASSEMBLYMAN MARKERT: That is what I was hoping would be the answer, and I think I would stand corrected based on what I've heard. It is because of the excellent job they have been doing in the whole process from the inception. This has caused them to receive your recommendation. I think I heard you say that two or three times.

COMMISSIONER SHERIDAN: Yes. You should realize they have demonstrated expertise in the transportation field. The State of Connecticut also selected them as their senior manager for another very, very complicated finance deal -- and, I think probably for the very same reason. They are aggressive, they are sound-thinking from what I have seen, they work like heck on these programs, and they display a knowledge of this field and a knowledge of our problems in terms of financing. They are as good as anyone else I've seen.

ASSEMBLYMAN MARKERT: Mr. Chairman, I would like to address Assemblyman Foy, if I may.

ASSEMBLYMAN BRYANT: No, not right now. The public hearing is going to go this way.

ASSEMBLYMAN MARKERT: I did not know that we were restricted from speaking to one another, but I'll accept the ruling of the chair.

ASSEMBLYMAN BRYANT: There are couple of questions I have for the Treasurer. Do you have any rules on the sale of bonds by a bi-state authority?

COMMISSIONER HORN: Yes.

ASSEMBLYMAN BRYANT: What is that rule?

COMMISSIONER HORN: That rule is that both the Governor and myself must approve financing by State authorities.

ASSEMBLYMAN BRYANT: You must approve financing?

COMMISSIONER SHERIDAN: Did you say "by" State authorities?

ASSEMBLYMAN BRYANT: Bi-state authorities. In other words, New York-- I mean "bi."

COMMISSIONER HORN: Oh, "bi." Okay. The answer is no. I don't get involved with the Port Authority.

ASSEMBLYMAN BRYANT: What other authorities do you get involved with?

COMMISSIONER HORN: Well, the Turnpike and the Parkway -- those kinds of authorities.

ASSEMBLYMAN BRYANT: Does Bear Stearns have much interest in the senior managing of either of those?

COMMISSIONER HORN: I don't believe Bear Stearns was the senior manager -- I'll have to check it out -- in either one of those financings.

COMMISSIONER SHERIDAN: Mr. Chairman, that does raise a good point. When they were involved with us and the Toll Road Authorities Committee, they had been selected by the Atlantic City Expressway as one of three senior managers. We discussed with them the fact that work they were doing for us was through the Governor's Toll Road Authorities Committee, for which they were also a volunteer in conjunction with the same program. They withdrew as manager of that because of a conflict of interests.

COMMISSIONER HORN: Bear Stearns was not a senior underwriter in either the Turnpike or the Parkway.

ASSEMBLYMAN BRYANT: Were they involved in it in any way?

COMMISSIONER HORN: I don't think they were a co-manager either, but if you'll give me a minute, I'll see if I can get the answer for you.

Oh yes, they were involved as a co-manager of the Turnpike, but not the Parkway.

ASSEMBLYMAN BRYANT: You said you don't get involved with the bi-state authorities.

COMMISSIONER HORN: I don't believe so.

ASSEMBLYMAN BRYANT: Do you know if the Governor's office gets involved?

COMMISSIONER HORN: I don't know.

ASSEMBLYMAN BRYANT: Let me ask you something. When you say they were strongly recommended-- What I am trying to do is to clarify this whole concept of voluntarism. We are big on that in this State, you know, in talking about how the private sector volunteers. It seems to me that we are not having all this voluntarism. Voluntarism to me is when you do something for nothing, but it seems to me that we are stretching that definition. When you volunteer, something happens; it substantially happened in your benefit.

How were they first chosen to become involved? I mean, was it open to everyone to become involved in this voluntarism?

COMMISSIONER HORN: I think I can answer that in general. I can't answer that for this specific program. Whenever an authority has a financing, they step up. Sometimes the authorities ask them to step up. They will send out a letter to 10 different investment bankers telling them, "We are thinking of refunding our bonds. What ideas do you have?"

I think that is a good thing because they then get 10 free answers and different ideas on how to best structure refunding. Then they will say, "Hey, this one is a great idea. It has a variable rate. The market is good for variable rates right now. Maybe we ought to bring that investment banker in." I can't see anything wrong with that. You get free ideas. Nine of the 10 are going to be disappointed in most cases, but they are willing to take that risk.

As I said, in this case, Merrill Lynch was involved. They are neither a co-manager nor a senior manager. I don't know if they are disappointed or not, but it doesn't always come to fruition and payment for these investment bankers.

ASSEMBLYMAN BRYANT: I'm not just talking about the authorities. I'm talking about the creation of an authority when you are creating legislation which can have a tremendous benefit. That is a different ball game.

Your testimony is a little bit different from the Commissioner's. He is telling me that Bear Stearns was intimately involved from the infrastructure right on through the Trust Fund.

COMMISSIONER SHERIDAN: We have a reliable Treasurer who wasn't the Treasurer then.

ASSEMBLYMAN BRYANT: I understand he wasn't; therefore, he probably lacks the knowledge of what his office--

COMMISSIONER HORN: I had no knowledge of Bear Stearns' involvement.

ASSEMBLYMAN BRYANT: What I am asking is, was that open to everyone? Do they just call up and say, "I want to volunteer to help you think about a new concept"?

COMMISSIONER SHERIDAN: I don't know. I told you, my involvement came at a point where the three firms were already involved.

ASSEMBLYMAN BRYANT: That was in the infrastructure.

COMMISSIONER SHERIDAN: I wish I could give you the time frame and all of that, but my first involvement with the three firms was at some early meetings on the infrastructure bank.

COMMISSIONER HORN: I can answer that in general. I can't answer it for the Transportation Trust Fund. Generally, the answer is yes. They volunteer. They come and say, "Hey, we would like to do some--" As I said, I meet them at cocktail parties, or wherever, and they say, "Hey, we have some ideas for an environmental infrastructure bank." I say, "Fine, put them down on paper. I am delighted that you are volunteering your services." I don't know how many we are going to get out of that, but I think it is a good thing.

ASSEMBLYMAN BRYANT: You don't feel that when you work for hundred of hours, thousands of hours, or whatever it takes, on a program, that there is something wrong with that individual, or that company, winding up getting an appointment where there are no competitors bidding?

COMMISSIONER HORN: As long as there is no agreement in advance that that will happen-- In fact, history shows that that doesn't happen. It didn't happen in this case to everyone involved. I don't see anything wrong with it.

ASSEMBLYMAN BRYANT: Let me just clear up the discussion Mr. Foy had. Neither of you are aware of contributions made to Governor Kean's campaign by Bear Stearns?

COMMISSIONER SHERIDAN: I am aware only of what was issued in your release. That is all. And I would like to tell you this: I had no prior knowledge.

ASSEMBLYMAN BRYANT: To your knowledge, does the Governor's Counsel ever get involved?

COMMISSIONER HORN: I don't know. I have no knowledge of that.

ASSEMBLYMAN BRYANT: Do you review entities such as the Atlantic City Expressway Authority?

COMMISSIONER HORN: Yes, I have to give my approval for the Expressway Authority to issue bonds.

ASSEMBLYMAN BRYANT: Does your office get involved in who is chosen?

COMMISSIONER HORN: Only to ensure that they are qualified. I do not, however, become involved in the selection process. By the way, they come to the office for advice, as well as on how to structure, but they don't ask for my choice of senior managing underwriter. My role is to see that they are qualified to do the job.

ASSEMBLYMAN BRYANT: Are the names submitted to your office prior to selection?

COMMISSIONER HORN: Yes; they let our office know with whom they are dealing.

ASSEMBLYMAN BRYANT: Is that requested by your office?

COMMISSIONER HORN: It is part of our review. There is no reason for me to give my approval unless I know it is structured properly and is in the best interest of the State.

I want to know who the underwriter is and if they are qualified to do the job.

ASSEMBLYMAN BRYANT: After selection? Not prior to selection?

COMMISSIONER HORN: Right. Not prior to selection.

ASSEMBLYMAN BRYANT: In other words, you don't want to know the proposed people?

COMMISSIONER HORN: No.

ASSEMBLYMAN BRYANT: If I showed you some minutes from a meeting of the Expressway Authority which indicate they are supposed to send all proposals to the Treasurer's office, would that shock you?

COMMISSIONER HORN: It would not shock me. It would be consistent with what I said. Are you talking about the Atlantic City Expressway?

ASSEMBLYMAN BRYANT: Yes.

COMMISSIONER HORN: I have met with the attorney, Executive Director and Chairman of the Atlantic City Expressway, to make sure their financing is appropriate and consistent with what they have promised to contribute to the Transportation Trust Fund Authority.

In fact, when they came in initially with their proposals, we said, "We don't think those who have made proposals to you have handled properly the issue of your bond rating, and we would like you to go back, interview them again, and see which ones are helping you to improve your bond rating." There is nothing wrong with that.

ASSEMBLYMAN BRYANT: I am trying to clear this up. Are they supposed to come to you prior to any approval to discuss all of the people who want to do it, then go back, get more information, and come back to you again?

COMMISSIONER HORN: Yes, they can do that. In fact, we encourage that. We want to be involved as early as possible.

ASSEMBLYMAN BRYANT: That is essentially what the December meeting was. I will read from that: "The Executive Director reported that on Monday, December 17, he, the General Counsel, and the Comptroller met with the State Treasurer, Mr. Horn, and his assistant to discuss the proposed bond issue. At their suggestion--" -- I am talking about the Treasurer -- "--it was requested to provide additional information from these bankers, to be received from them by

December 28. After this information is received, the staff committee will again meet with the Treasurer and his assistant. The staff committee's recommendations will then be presented to the Authority's Commissioners for their approval to appoint a team of investment bankers."

In looking at the Authority's rules and regulations, it doesn't seem as though they are required in any way to take their recommendations to the Treasurer, prior to approval.

I want to know who makes the rules. Is it their committee, or is it the Treasurer's office?

COMMISSIONER HORN: The law says they must come to the Treasurer's office. I think the Legislature was wise in the legislation which set up these authorities. They usually say, "You cannot have financing unless the Treasurer signs it." Obviously, there is good reason for that. What is there is, in effect, mandated by the legislation. I must approve their financing. It is oversight. It ensures that authorities do the things they are supposed to do, and do not do some of the short-term things which could have adverse, long-term implications.

ASSEMBLYMAN BRYANT: Does the Governor's office have the same authority, by way of its counsel?

COMMISSIONER HORN: I am not 100% certain, but I believe the Governor, by way of the same statutory provision that requires the Treasurer to approve authority financing, must also.

COMMISSIONER SHERIDAN: And the Governor also has veto power over the minutes.

ASSEMBLYMAN BRYANT: I understand that.

COMMISSIONER SHERIDAN: That means he has to review every action of the Authority.

COMMISSIONER HORN: In this particular case, I asked the representative of the Governor's office to be involved, because if the Governor is going to give his approval for financing, his staff should advise him whether or not it is in the interest of the public to have this financing. That is not a mandatory financing, as I recall.

ASSEMBLYMAN BRYANT: I know it is not a mandatory financing. That brings me to another question. We have done a lot of financings. Can you tell me what authorities either have received, or are about to go after, financing in the last three years?

COMMISSIONER HORN: Yes. Some of these were mandated by the Transportation Trust Fund Law, because in order to pay their contributions into the State, they had to refund to have the bond resolutions which would authorize payments to the State. These payments, in turn, go to the Transportation Trust Fund Authority.

The Turnpike and Highway Authorities each had one; Housing and Mortgage Finance continuously have financings to raise money for their programs. The same applies to the Health Care Facilities Authority; they continuously have financings. I am trying to think if there were any others.

ASSEMBLYMAN BRYANT: Is the Atlantic City Expressway about to have one?

COMMISSIONER HORN: Yes. As I recall, that is a refunding. Oh, it is a refinancing, because they are adding a lane.

ASSEMBLYMAN BRYANT: Could we get the names and other pertinent information regarding the senior bankers or co-managers of those particular authorities?

COMMISSIONER HORN: We could pull that together.

ASSEMBLYMAN BRYANT: The Committee would appreciate having that kind of information.

COMMISSIONER HORN: For the year 1984?

ASSEMBLYMAN BRYANT: For 1983-84. It is my understanding that who the authorities appoint must be approved by your office prior to the appointment. Am I correct?

COMMISSIONER HORN: I am not sure we approve whom they appoint. We approve the financing; I remember signing the approval for the financing. I do not recall whether the names of the managers or co-managers are there; I just don't recall. It doesn't happen that often.

ASSEMBLYMAN BRYANT: Do they appoint the managers and co-managers prior to your signing? I am just asking what happens.

COMMISSIONER HORN: I am not sure there is a general rule. Sometimes they do; sometimes they do not. I can think of at least one case where the appointment of Smith Barney came before I had any personal involvement whatsoever in the terms of the financing. I would be delighted to supply the names of the 1983-84 senior managers and co-managers. I believe you will find amazing balance. Smith Barney was a senior on the Turnpike Authority; Goldman Sachs was a senior manager on the Housing Authority. That is the policy of the Treasurer's Office; it was also the policy of my predecessor and his predecessor. It helps to have enthusiastic Wall Street involvement with New Jersey paper. I think you will find that, perhaps, 15 different firms, in 1984 alone, were involved as either managers or co-managers.

ASSEMBLYMAN BRYANT: When I bring those authorities in, will I also find that we had the voluntarism of all those various individuals at different points in time?

COMMISSIONER HORN: I hope you do find some voluntarism. I think they--

ASSEMBLYMAN BRYANT: (interrupting) Do you really think there is voluntarism?

COMMISSIONER HORN: If you don't cast any bread upon the waters, you don't receive any yield; if you don't come up to bat, you don't hit a home run. It is no different than any other area. When a person in business wants to sell a product -- take, for example, IBM trying to sell a computer system -- if they won't come and visit you in your office, you won't buy it.

ASSEMBLYMAN BRYANT: Let me ask you a pointed question: Why did the State start bidding laws? Why do we have bidding laws? If, in fact, this voluntarism is so good for the State, then why don't we abolish bidding laws--

COMMISSIONER HORN: (interrupting) I can't tell you; I can, however, tell you this--

ASSEMBLYMAN BRYANT: (continuing) --and let everyone who wants to be a friend just volunteer, and then we would negotiate them all?

COMMISSIONER HORN: What you suggest may result in the saving of some money. We cannot put up a building cheaper than private industry can. It is cheaper for us to have a private developer put up a building, and us rent it, than it is for us to build it now. State bidding laws do not always result -- in fact, in most times, don't result -- in the lowest price to put up a building. Not only that, we have a problem with the DEP building.

ASSEMBLYMAN BRYANT: Have you found any reason for State bidding laws other than, perhaps, the lowest price?

COMMISSIONER HORN: There are good reasons for State bidding laws. One is to preclude any favoritism being shown.

ASSEMBLYMAN BRYANT: Or conflicts?

COMMISSIONER HORN: Conflicts can arise with or without State bidding laws. There is an up-side and a down-side to State bidding laws. We often end up with a contractor who got the contract because his was the lowest bid, but who does not have as good a product. There is a plus and a minus. I support State bidding laws; however, they are not all one way. We pay for those bidding laws.

ASSEMBLYMAN BRYANT: How? By lucrative contracts of nearly \$1 million that probably wouldn't work?

COMMISSIONER HORN: You call them lucrative contracts. I am, in fact, certain that Bear, Stearns and Company does not consider this a lucrative contract.

ASSEMBLYMAN BRYANT: I have told you they contributed \$10,000 and \$20,000 at various times and, yet, they do not consider this contract lucrative?

COMMISSIONER HORN: I don't know of any relationship between the awarding of these contracts and contributions. Furthermore, I resent the implication that there is such a relationship. I don't know if they contribute to Assembly and Senate campaign funds, or to Democrats and Republicans; I don't know if they contribute to victory funds--

ASSEMBLYMAN FOY: (interrupting) Let's address that issue for a moment. Now, Bear Stearns is in business. As you so aptly put it: If you don't cast some bread upon the waters, you will not have

any yield, as a result. Bear Stearns is an ecumenical firm. They gave the governor of Kentucky \$10,000 for her last campaign, because they do business in the state of Kentucky. Their activities in Kentucky were similar to those here, with regard to their volunteering, contributing, and obtaining a contract.

You must be sensitive to the fact that this raises implications in the public's mind. It is their obligation, in exercising a legislative oversight function -- at least, I feel it is, with respect to these matters -- to clear the air as much as possible. You have indicated that you neither know nor care about those contributions, and I absolutely believe you. I am not assaulting or questioning your integrity. I am not even concerned about the politics. I am concerned about its impact upon the process.

You cannot tell me that you did not know there was a Governor's Ball. Maybe you didn't, but you did, because you went to the Governor's Ball. Now, Bear Stearns bought \$30,000 worth of tickets to the Governor's Ball. I don't know whether you saw or sat next to anyone from Bear, Stearns and Company at the Governor's Ball, but it raises questions in the public's mind that must be aired. The air must be cleared. That is our job.

If, in your capacity as a State official, you say that it did not impact upon your decision, and that is your word, then it is good enough for me. If the Commissioner of the State Treasury gives me his word, it is good enough for me. But we had to get this out in the open. We, in the Legislature, had our bird dogs go over and take a look at the list to find out who is doing what in New Jersey, and we found -- after the fact -- that there were hundreds of hours of volunteer time which ultimately resulted in a contract. It may be for all of the right reasons, as you pointed out; however, it still raises questions in the public's mind. Political leaders live in a fishbowl, with the public constantly watching for an appearance of impropriety.

I am not saying there is anything wrong. From what I read, in the way of the numbers, I think they did a damn good job -- and I am willing to say that publicly. I am concerned, however, about implications that they're a major contributor to the Republican Party.

This is the party of the Administration, and it had the authority, with respect to this matter, to award the contract they, in fact, received.

COMMISSIONER SHERIDAN: I take one strong exception to that: This Authority was set up on a bipartisan basis, and the decision on this contract was made by the Authority -- three public members, the Treasurer and me. And every one of us unanimously supported this decision.

ASSEMBLYMAN BRYANT: I only have one problem with that, Commissioner: They compared it to nothing. You told me they did not interview anyone else, so they did not compare it to anything.

COMMISSIONER SHERIDAN: Mr. Chairman, that says they have no prior knowledge of other firms; they have no prior knowledge of how other firms do business; they have no understanding of bond issues; they have no understanding of how these things work. On that board, there is the president of a major bank who is intimately knowledgeable about bond financing; there is a man who came from Wall Street and who has done numerous transactions for the State of New Jersey as Executive Director of the Housing Mortgage Finance Agency--

ASSEMBLYMAN FOY: (interrupting) But you have former Republican congressional candidates.

COMMISSIONER SHERIDAN: But you have a former member of Brendan Byrne's Administration.

ASSEMBLYMAN FOY: Brendan Byrne was never my favorite son.  
(laughter)

ASSEMBLYMAN BRYANT: I believe he was a Democrat, though.

COMMISSIONER SHERIDAN: And you have a prominent lawyer who has a substantial lawyer in the business community and the government field, and they were able to assess--

ASSEMBLYMAN BRYANT: (interrupting) You misunderstand my theory. One's past experience never substitutes for one's current understanding, or for changes. You are telling me that if you go only on your past experiences and never look at what is happening currently, you can make an informed, intelligent decision. I am saying that you can make an informed, intelligent decision not only from the experiences of the past but also from events of the present. That, by

your own admission, was not done. One of the things we are looking into at this hearing is that, perhaps, in contracts such as this, we need to set some different standards, and get away from the notion -- for the public's sake -- of this voluntarism. Maybe we should just pay people to be involved with regard to helping us do some of these things.

ASSEMBLYMAN FOY: Mr. Chairman, if I may, I have a suggestion that may alleviate this problem. It is the same position taken by the State Economic Development Authority. They develop a list of pre-qualified people to serve as bond counsel and then, basically, rotate through the list, so everyone gets a fair turn. They try to give preference to New Jersey bond counsel.

I do not think you would get a quarrel from anyone -- and I am not at all hung up, by the way, on specifically putting these out to bid. I believe the Authority ought to have some discretion, where necessary, to do it on a different -- negotiating -- basis. There should be a pool of people. We must get away from even the potential of someone believing that some entity was the most-favored nation, in a sense, in this operation.

If a list of pre-qualified people is developed, from that list you could rotate on various issues, thus giving someone the lead in that capacity. Then you could negotiate with them and work the best deal, because the deal is going to be made in the marketplace and will depend on a variety of economic factors -- not just on the fact that you have Dave Beale looking over the shoulder, if you will, of Bear Stearns. There are a lot of factors involved. We need to institutionalize some safeguards as a result of this particular experience -- not because the result wasn't good, but because the road to that result raised serious questions in the public's mind.

ASSEMBLYMAN BRYANT: I agree in part with Assemblyman Foy. I am not suggesting that you all be competitive; I think, however, that we can establish safeguards, and we should be looking at these safeguards.

COMMISSIONER SHERIDAN: Mr. Chairman, I would take you up on that offer; I would urge you to reconsider the provision in the

legislation that requires competitive bidding, because I think it's going to cost the taxpayers a lot of money. We can do a lot better on future bond sales on a negotiated basis. If you want to do that--

ASSEMBLYMAN BRYANT: (interrupting) You are not going to take me up on that offer yet, because we have not made any changes. In order to go back to what we have now, I would not do that. I would go to competitive bidding, as is in the legislation. I am open for other suggestions that could be institutionalized throughout the State, because I have a big problem with regard to what I call the appearance of impropriety. Keep the public informed, and keep the public assured that when we deal with their tax dollars there is not even the appearance of impropriety. I believe that, around this table, we should be bright enough to come up with a way to give the public that type of assurance.

COMMISSIONER SHERIDAN: I will not even agree that there is any appearance of impropriety here; I don't believe there is. I think you have to look long and hard, and I would just suggest to you--

ASSEMBLYMAN BRYANT: (interrupting) Can you tell me when the Trust Fund passed -- when it was signed into law?

COMMISSIONER HORN: July something.

COMMISSIONER SHERIDAN: July 12.

ASSEMBLYMAN BRYANT: What gives an appearance of impropriety is that on April 30 you get a \$20,000 check.

COMMISSIONER SHERIDAN: I just told you, Mr. Chairman: I had no knowledge of that. Even if I did, I would not care about that; it would not change my decision; and I am sure it had absolutely nothing to do with how the Treasurer and Messrs. Semrod, De Cotiis, and Coe voted.

COMMISSIONER HORN: I would like to ask this, and I agree with Commissioner Sheridan: If, in fact, there were a way to set standards for this, the same standards should apply to the legislative branch, with regard to the taking of contributions -- particularly from PACs -- and then voting on bills. In fact, it should apply to accepting contributions either before or after those bills are voted on. That which applies to one branch of government should apply to the others.

ASSEMBLYMAN BRYANT: This is not just the executive branch; it is with regard to where we are letting bonds and issues out. Voting on a particular piece of legislation is different than awarding contracts.

COMMISSIONER HORN: It is no different than voting on a bill.

ASSEMBLYMAN BRYANT: Oh, but it is different.

COMMISSIONER HORN: Not in any way, shape, or form. You are providing an industry, organization, or a certain segment of the public with a way to get their legislation passed. If there is any impropriety, or the appearance of impropriety, the same principle holds true for contributions to legislators, the hiring of legislative aides--

ASSEMBLYMAN BRYANT: (interrupting) We already have that, Mr. Horn, if you look at our Ethics Committee.

COMMISSIONER SHERIDAN: We have an Ethics Committee, too, Mr. Chairman.

ASSEMBLYMAN BRYANT: But this is the actual awarding of financial contracts. That is something the Legislature does not do. It is one of the things government does through some entity. The Legislature might pass the bills. Whether it is competitive bidding or something else, our reasons for doing so are well-founded. When you disburse money, the public deserves to know there is no cause or connection between how and why you give the money and who receives it.

COMMISSIONER SHERIDAN: Is there any more an appearance of conflict between what might have happened here than the Legislature taking a \$1,000 contribution and then voting on a bill that has a direct benefit to the contributor?

ASSEMBLYMAN BRYANT: In terms of voting on a bill? Sure, there are differences. First, it must pass both Houses; second, it has to be signed by the Governor. We do not have a direct influence over what happens.

If you are saying it to please the authorities, that's one thing. If you want, we can get down to the nitty-gritty and find out who has the most votes on any authority. Are you telling me the Governor does not have the most votes on the Trust Authority? Are you telling me that is not true?

COMMISSIONER SHERIDAN: I am telling you this: When I vote on this Authority, I vote the way I believe is right. And I believe that would hold true for the other members of the Authority. I think they would resent very much any suggestion that they are compromised in this situation. I do not feel compromised. I had no knowledge of any contributions; and I could not, in fact, care less.

ASSEMBLYMAN BRYANT: Why, then, do I get the feeling that it was adamant that we set up some kind of standards with regard to how these different, lucrative contracts might go?

COMMISSIONER SHERIDAN: Put something in writing and let us look at it.

COMMISSIONER HORN: I am not adamant about anything, but I can tell you this: I am absolutely convinced that if there had been a competitive bid on this issue, we would have paid a higher interest rate. I am absolutely convinced of that.

ASSEMBLYMAN FOY: To avoid both the appearance and actuality of impropriety, maybe the real answer to this dilemma lies in the way we treat our public utilities and casinos here in New Jersey. Maybe we need legislation that would prohibit political contributions from investment houses that deal with our State, its authorities, and its agencies. That would make Bear Stearns very happy, because they would save \$30,000.

ASSEMBLYMAN MARKERT: Plus what they paid to the Democrats -- you forgot that. (laughter)

ASSEMBLYMAN FOY: Well, they didn't give the New Jersey Democrats any money. They gave Martha Collins money, and they gave the Connecticut Democrats money, as you mentioned. Everywhere they get work, they give money. They also gave money to the Mississippi Democratic Party. Maybe we need to have a prohibition regarding those type of contributions, because this is a huge fee in the public's mind. A million-dollar fee, even if it's not a lot in relationship to a \$61-million issue, is perceived, by the public, as a large amount of money.

COMMISSIONER SHERIDAN: Assemblyman Foy, there is no million-dollar fee in this case. I mean, we went over all of the numbers--

ASSEMBLYMAN FOY: (interrupting) I understand that. I am saying the public perceives it as a million-dollar fee.

COMMISSIONER SHERIDAN: No, they don't. Only because you have said it? There is no million-dollar fee.

ASSEMBLYMAN FOY: What is the total amount?

COMMISSIONER SHERIDAN: There are 86 firms involved in that number.

ASSEMBLYMAN BRYANT: You just brought up a good point.

ASSEMBLYMAN FOY: I'm telling you the public perceives it as a million-dollar commission and a \$61-million issue. That's the way the public perceives it.

COMMISSIONER SHERIDAN: The public also pays 6% -- 8% -- commission when it buys a house.

ASSEMBLYMAN BRYANT: Let me ask one other question, so I fully understand how this works. With regard to an underwriting management fee, whereby one receives a dollar when one sells bonds: Who controls who gets what and who sells what? That may be an improper question--

COMMISSIONER HORN: (interrupting) Who controls what? The co-managing group. The entire group of seven controls who gets what.

ASSEMBLYMAN BRYANT: Therefore, they can influence who sells the most?

COMMISSIONER HORN: Yes, they can.

ASSEMBLYMAN BRYANT: That is what I meant. I didn't know how it worked.

COMMISSIONER SHERIDAN: There is also the great expectation that anyone who underwrites will be involved and will have the ability to sell some bonds.

ASSEMBLYMAN BRYANT: Do you have any questions?

ASSEMBLYMAN MARKERT: No, I don't have any questions of the Commissioners.

ASSEMBLYMAN FOY: I want to thank the Commissioners. They did a fine job of explaining it to us. I hope we didn't get too testy in the political sense, but we have a job to do.

COMMISSIONER SHERIDAN: We know what year it is, Assemblyman Foy. (laughter)

ASSEMBLYMAN BRYANT: Thank you, Commissioner Sheridan. Thank you, Treasurer Horn.

COMMISSIONER HORN: You're welcome.

ASSEMBLYMAN BRYANT: Does anyone else want to make any comments or testify before this public hearing? (no comments) Seeing none, does any member of the Committee wish to make any further comment?

ASSEMBLYMAN MARKERT: At this point in time, I would like to congratulate the entire Authority, the members of all of the authorities and, specifically, the Commissioners who were here today, for being able to put us in the position where, once again, the State of New Jersey, through its excellent management, as they said, both in the executive and legislative Branches, has enabled us to save hundreds of thousands of dollars for the people of the State of New Jersey. It is a good feeling to know that New Jersey is accepted at the highest rate -- even above other states -- as far as GO bonds are concerned. And if that were to be brought out, this certainly was the hearing for it. I hope one of the main purposes of the hearing was to see just how we are doing with this bond. I would like to congratulate you for calling the hearing.

I hope it was not something to be used in a political year. I do not believe it was. If that were the case, then, of course, I would certainly retract my compliment to the Chairman for holding the hearing. I have read the press release, and I greatly disagree with the tenor -- the in-between lines -- I read, or felt I read, as far as accusations are concerned. If there are going to be investigations with reference to contributions, however, I think we should have to go back, not only for the past year or two but also for the past four to 10 years, to see what the pattern is -- if we are so inclined to think there is such a pattern of actions with the letting of bonds.

ASSEMBLYMAN BRYANT: Assemblyman Foy, do you have anything to say?

ASSEMBLYMAN FOY: I have not examined the records back a decade or so, but I am certain these types of contributions exist. It may be that we have come to another area in State government, similar

to public utilities and casinos, in which we are going to have to ban the practice of such contributions, to avoid the appearance of impropriety.

I am not suggesting any wrong was done. I am suggesting that, in the public's mind, this may be an area of State government so sensitive -- with regard to dealings -- it is important and necessary to consider whether or not it should be placed in the special, protected category with the casino industry and public utilities.

ASSEMBLYMAN MARKERT: I agree with Assemblyman Foy. Maybe that is where we should go, as we look to the future of the State of New Jersey.

ASSEMBLYMAN BRYANT: The main reason for calling this public hearing was to ascertain what was happening. I figured that many positive things would happen when we looked at how the legislation was developed, with regard to its restrictions, as well as the constitutional amendment. Moreover, I was somewhat worried, because being in those negotiations, I understood -- at least, my understanding was -- that there were going to be quotes. After learning there were no quotes taken, then it brought to mind just what you and Assemblyman Foy said: that, perhaps, in government, period, this is lucrative. It may not be from the standpoint of Wall Street investment firms; they might not consider it lucrative. In the eyes of a member of the general public, whose average income might be \$16,000 a year, however, when you talk about \$983,000 passing hands, there should be some restraints. This is the same small-business person who is competitively bidding and who has to show that she/he is competitive in the market.

Perhaps we should have some type of restraints, even though there might be a necessity for certain kinds of negotiation, as opposed to bidding, where the people don't have a decided advantage with regard to receiving a certain amount of State funds.

What has come from this hearing is good. Those of us in the Transportation Committee may be able to develop rules, regulations, or statutes that could curtail some of this in the future. We will reconvene at two o'clock. My thanks to all of you for attending.

(HEARING CONCLUDED)

