
Committee Meeting

of

ASSEMBLY TRANSPORTATION COMMITTEE

ASSEMBLY RESOLUTION No. 106

*(Gives Assembly Transportation Committee powers conferred
under Ch. 13 of Title 52 of the Revised Statutes)*

“Overview of the current status of the E-ZPass system”

LOCATION: Committee Room 16
State House Annex
Trenton, New Jersey

DATE: March 18, 2002
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman John S. Wisniewski, Chairman
Assemblyman Reed Gusciora, Vice-Chair
Assemblyman Matt Ahearn
Assemblyman John J. Burzichelli
Assemblyman Anthony Impreveduto
Assemblywoman Linda Stender
Assemblyman Paul R. D’Amato



ALSO PRESENT:

Nancy M. Lipper
*Office of Legislative Services
Committee Aide*

John Fuller
*Assembly Majority
Committee Aide*

Jerry Traino
*Assembly Republican
Committee Aide*

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

TABLE OF CONTENTS

	<u>Page</u>
Seth Maiman Senior Manager Government Affairs WorldCom, Incorporated	6
Jack Walters Senior Vice-President Systems Engineering WorldCom, Incorporated	6
Denise A. Ciok Vice-President Transportation Port Jersey Logistics, and Vice-President New Jersey Motor Truck Association	79
Gail E. Toth Executive Director New Jersey Motor Truck Association	85
Matthew Wright President and Owner Apgar Bros. Motor Transportation	86
Lorelei N. Mottese Manager Government Relations Wakefern Food Corporation	92
Charles Amorosi Manager Transportation Wakefern Food Corporation	93
Raymond Neveil President Citizens Against Tolls	162

APPENDIX:

TABLE OF CONTENTS (continued)

	<u>Page</u>
Testimony submitted by Jack Walters	1x
Testimony, plus questions submitted by Denise A. Ciok	6x
Testimony submitted by Raymond Neveil	10x
lmb: 1-129 hw: 130-165	

ASSEMBLYMAN WISNIEWSKI (Chairman): Good morning. Can everyone please take their seats. Welcome to the Assembly Transportation Committee. I'm John Wisniewski, the Chairman of the Committee. I would like to have Nancy Lipper call the roll please.

MS. LIPPER (Committee Aide): Assemblyman D'Amato, substituting for Assemblyman Bodine.

ASSEMBLYMAN D'AMATO: Here.

MS. LIPPER: Assemblyman Ahearn, substituting for Assemblyman Johnson.

ASSEMBLYMAN AHEARN: Here.

MS. LIPPER: Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Here.

MS. LIPPER: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Here.

MS. LIPPER: Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Here.

MS. LIPPER: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Here.

Thank you.

A couple of housekeeping measures, just so that everybody is aware. The Assembly Transportation Committee meetings are broadcast on the Internet, which means that these long slender microphones broadcast that sound on the Internet, and they're very sensitive. For the people sitting in the first row, I would just like to let you know that oftentimes the comments made by people in the first row are picked up on the Internet. So, just so that you're

aware, go in the back row if you want to make some comments, otherwise it will be broadcast.

The Office of Legislative Services is also preparing a transcript, via voice recording -- that's these other microphones that are on the tables in front of us -- and I would just ask if anybody who is going to testify, please identify yourself by name and affiliation beforehand. It would make the transcription process a little easier, and we'll all be able to follow it when we read it a couple of days from now. We also have our friends from the media here, and they have their own microphones, and you can be guarded, accordingly, based on that.

The first order of business is one resolution that we have on our agenda. We're going to take that first. And then we have several individuals who have signed up to testify, including WorldCom, and we're going to start with that right after we conclude the legislative portion of the Committee meeting.

The first item is Assembly Resolution No. 106.

Nancy, would you read the statement please.

MS. LIPPER: This resolution directs the Assembly Transportation Committee to investigate the electronic toll collection system in New Jersey in order to identify possible legislation or other appropriate legislative action regarding the financial, operational, and other problems of the E-ZPass System. Under the resolution, the Assembly Transportation Committee is accorded the investigatory powers to Chapter 13 of Title 52 of the Revised Statutes, including the power to subpoena and compel witnesses. The Committee amendments proposed to the preamble set out additional reasons why it is

appropriate for the Committee to investigate E-ZPass. The Committee amendments proposed to the formal resolution language clarify the need for the Committee's investigation to aid the Legislature in reviewing the implementation of PL 1977, Chapter 59, and in consideration of possible legislation or other legislative action.

ASSEMBLYMAN WISNIEWSKI: Thank you.

This resolution, as Nancy began to read said, authorizes the investigation of E-ZPass. I want to make it clear that without this resolution, this Committee is authorized by the standing rules of the Legislature to investigate any matters that may result in legislation or a change in policy by the Legislature, so that, in and of itself, the resolution is not necessary for this Committee to conduct its investigation to E-ZPass. However, under the normal rules of the Legislature, while we may invite individuals and groups to appear before us and testify, the rules of the Legislature do not ordinarily give us the power to compel witnesses to appear before us. So that while we may invite someone or a group, if they choose not to come, under the ordinary rules of the Legislature, we can't make them come. The purpose of this resolution is to invest this Committee, for the specific purpose of investigating E-ZPass, with the authority to subpoena witnesses and to compel their testimony.

The Committee today is going to consider this resolution and, I hope, release the resolution with a favorable report to the Speaker for consideration for being posted on the floor of the Assembly. It's a tool that we do not use lightly. It's a tool that I, quite frankly, hope this Committee does not need to resort to. But in order that this Committee may fully examine E-Zpass, fully understand all of the factual implications that, quite frankly, in

the years that I've sat on this Committee I have not been able to get answers to, it's a tool that I think this Committee should have added to its disposal. It's a tool that this Committee may ultimately need to further clarify the issues and the questions that are out there. So with that, I will open to my colleagues on the Committee any discussion on AR-106.

ASSEMBLYMAN IMPREVEDUTO: Move the bill.

UNIDENTIFIED SPEAKER: Second.

ASSEMBLYMAN WISNIEWSKI: AR-106 is moved and seconded.

Mr. Impreveduto, would you instead move the amendments?

ASSEMBLYMAN IMPREVEDUTO: I move the amendments.

ASSEMBLYWOMAN STENDER: Second.

ASSEMBLYMAN WISNIEWSKI: Seconded by Assemblywoman Stender.

MS. LIPPER: On a motion to amend Assembly Resolution No. 106, Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Yes.

MS. LIPPER: Assemblyman Ahearn.

ASSEMBLYMAN AHEARN: Yes.

MS. LIPPER: Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Yes.

MS. LIPPER: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Yes.

MS. LIPPER: Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Yes.

MS. LIPPER: Vice-Chairman Gusciora.

ASSEMBLYMAN GUSCIORA: Yes.

MS. LIPPER: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Yes.

Now a motion on the bill.

ASSEMBLYMAN IMPREVEDUTO: Move the bill.

UNIDENTIFIED SPEAKER: Second.

ASSEMBLYMAN WISNIEWSKI: Moved and seconded.

MS. LIPPER: On a motion to release Assembly Resolution No. 106, Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Yes.

MS. LIPPER: Assemblyman Ahearn.

ASSEMBLYMAN AHEARN: Yes.

MS. LIPPER: Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Yes.

MS. LIPPER: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Yes.

MS. LIPPER: Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Yes.

MS. LIPPER: Vice-Chairman Gusciora.

ASSEMBLYMAN GUSCIORA: Yes.

MS. LIPPER: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Yes.

The resolution is released. Thank you.

The first individual that we have scheduled to testify is from WorldCom. We have Jack Walters and Seth Maiman. Would you please come forward and take a seat at the table.

In order to speak, you need to press the black button so the red light is illuminated. It's a little odd. Red means speak. (referring to PA microphone)

Good morning, Mr. Walters and Mr. Maiman. I understand that you have a brief statement to begin.

S E T H M A I M A N: Mr. Chairman, members of the Committee, my name is Seth Maiman. I'm Senior Manager for Government Affairs for WorldCom. With me today is Mr. Jack Walters. Mr. Walters is Senior Vice-President for Systems Engineering for WorldCom. Before Mr. Walters begins, I just want to say to the Committee that, as you are aware, the Chairman had invited us to testify at the last Committee hearing. I believe it was February 28. For a variety of reasons, we weren't able to testify at that time. I just want to assure the Committee that that was not done out of any disrespect to the Committee or to the legislative process.

Mr. Walters is here today. He is the person at the company who is responsible for the day-to-day operations for the completion of the E-ZPass project, and he stands ready to address the Committee and answer your questions.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Maiman.

Mr. Walters, good morning.

J A C K W A L T E R S: Thank you, and good morning.

Instead of just simply reading my written testimony, what I would like to do is just summarize and give you some flavor for WorldCom's involvement, our current role, the status of the project, and the issues remaining from our perspective. WorldCom is the prime contractor on the project. We assumed day-to-day operations on the contract from Adesta Communications on January 2, 2002.

We have four major objectives in the contract. One is to install the electronic tolls collection system in the lanes, install the fiber-optic network that interconnects the system, maintain the lanes in the electronic toll collection system for a period of two years after final acceptance, and operate the Violation Processing Center and the Customer Service Center.

This contract is enormous, complex, and is over 90 percent complete. It's the largest electronic tolls collection contract in the world to our knowledge. We had to work with multiple state agencies, integrating with many other E-ZPass systems. We've installed over 42,000 miles of fiber, and we have approximately 677 lanes out of 850, either in operation or ready to be put in operation on four major roadways. And we also have the Violation Processing Center and the Customer Service Center up and running.

New Jersey drivers are using E-ZPass. There are 1.8 million drivers using E-ZPass transponders today. As of February 2002, there were an average of 34 million E-ZPass transactions per month. In the first two months of this year, we've had an additional 100,000 drivers and patrons to the system. The number of transactions that we're currently running at is approximately 20 percent ahead of plan. We are working to address the Consortium's concerns by improving the operations of the system.

Anything that is complex requires some tuning. We've identified problematic equipment in lanes. At our cost, we've retuned equipment. We've installed new software. All these steps, since our involvement, have reduced the violations in the lanes by approximately 40 percent since September 2001.

I'd also like to address two issues that were raised at the last hearing. It was alleged that we had an incentive to install faulty equipment in order to gather more revenue. Nothing could be further from the truth. It is not in our interest to delay final acceptance. It is not in our interest to have that type of performance in the lanes. As noted, we have actively worked, and the record would show that we've actively worked, to improve the violation rate and reduce it.

We've engaged in a dialogue with the Consortium and the states on restructuring the pricing and restructuring the business from a point of view of the Customer Service Center and the Violation Processing Center, to become even more efficient in the operation. It was also alleged that we were incentivized not to fully lease the fiber-optic system and that we were competitors in that market, and that is not true. We have no active sales channel where we actively sell and market dark fiber or duct in this manner. We consider those strategic assets, and we only engage in that type of trading when there's an opportunity to build or route with another carrier or some other similar sort of strategic avenue.

To that end, the leasing of the duct and the fiber is still subcontracted to a third party who does actively market and sells those types of assets. We also have recommended to the Consortium, in order to make the fiber and duct in the system in the southern part of the state more valuable,

that they complete the Delaware River crossing, which is still not complete. It's a change order, and it would add value to the overall system.

The bottom line is WorldCom is here to complete the project and to achieve final acceptance. We're committed to completing the project and bringing it to final acceptance. We have a dedicated team of over 250 employees and contractors, throughout the state, that have worked on this project, some before -- obviously, many of them before we were involved in January, who have delivered a world-class toll collection system for the State.

Now, we took over day-to-day management on January 2. We were fully prepared, and our business plan shows that if we had cooperation and we had, on the other side, reasonable business decisions being made about the progress, we could have completed the construction and achieve final acceptance by Memorial Day this year. If we have a cooperative environment, I believe that we can complete this project and achieve the acceptance in four to six months from this date. We are prepared to do that.

Thank you, and I will try to respond to any of your questions.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Walters. I appreciate your summary of the written remarks. It's been very helpful.

Let me start the questioning by asking you, if you could, not only to enlighten me but the rest of the Committee about the chain of title, if you will, of this contractor, which now WorldCom has assumed day-to-day managerial responsibility for. In reviewing the contract documents that have been made available to this Committee, an entity called MFSNT was the original bidder on the contract and won that bid. That entity appears to have then been acquired by WorldCom, and then there was a subsequent change

after that. Mr. Walters, could you go back in history for us and just walk us through that chain of title?

MR. WALTERS: Yes. I've got a very long list of about 12 major events. Of course, we could go into a lot more detail than that, but let me see if I can go through the time line as best as I've been able to create. The other thing that I should mention is my personal involvement in this. It really only tracks back to about October, when WorldCom was going through the due diligence of whether or not we needed to acquire the assets, as Adesta was going through their bankruptcy.

ASSEMBLYMAN WISNIEWSKI: And the time line that you're going to present to us is based on, probably in part, on that due diligence.

MR. WALTERS: Based on that due diligence and based on what we believe, as close as we can, the time lines associated with those.

ASSEMBLYMAN WISNIEWSKI: I would just ask that if there is a point in the time line that you have doubts about, or that there is some degree of uncertainty, if you would point those out to the Committee. That may be an area of future inquiry for other persons, and we just want to know where those areas are.

MR. WALTERS: Okay. Well, I will tell you that anything up until October of last year is based on research to our best ability.

ASSEMBLYMAN WISNIEWSKI: Proceed.

MR. WALTERS: The first note in here is that the RFP for the contract came out in April of '96, and there was a best and final done in October of '96 on the contract. There was also protests at that point from the competitive bidder in October of '96.

ASSEMBLYMAN WISNIEWSKI: Was that Lockheed?

MR. WALTERS: Yes. My understanding is that they were quickly dismissed at that time -- their first round of protests.

ASSEMBLYMAN WISNIEWSKI: Mr. Walters, if you would just indulge the Committee. There are a lot of acronyms that are being thrown around--

MR. WALTERS: Okay.

ASSEMBLYMAN WISNIEWSKI: -- the best and final, RFP. Where you can, where you are aware of them, if you could just spell them out for us.

MR. WALTERS: Okay. Yes. Yes. RFP -- request for proposal. You'll have to excuse me, my background was in engineering, so I tend to use a lot of those sort of terms. Request for a proposal -- I believe that was a Consortium document that came out for bidders. The best and final offer would be the receipt of the best and final offer, the pricing, if you will, and schedule from the potential bidders. So that takes you up to October of '96.

December of '96, the merger of MFS and WorldCom occurred, and then in March of '97 the contract was awarded by the Consortium to MFSNT, which was the line of business within MFS that was in this line of business.

ASSEMBLYMAN WISNIEWSKI: What date was that again?

MR. WALTERS: MFSNT was the subsidiary of MFS.

ASSEMBLYMAN IMPREVEDUTO: What was the date of that?

MR. WALTERS: Excuse me, March '97.

ASSEMBLYMAN WISNIEWSKI: And at that time, Mr. Walters, was MFSNT owned by WorldCom?

MR. WALTERS: At that time, it was. Yes.

ASSEMBLYMAN WISNIEWSKI: Proceed.

MR. WALTERS: Now, in July of '97, all the protests were dismissed. I have read back through some of the history where there was actually a trial and a court case, and a judge had ruled that the bid was fair and was based on reliable data. March of '98, the Atlantic City Expressway becomes operational. I think that was a condition of the contract actually being signed, that that work had to be completed. It's been in operation. And then later in March of '98, the contract was actually signed and consummated.

Now, during this time frame, it was realized in WorldCom that this particular line of business and these particular types of systems were not core business to work on.

ASSEMBLYMAN WISNIEWSKI: You used the phrase, "at this time." Tell us what time?

MR. WALTERS: During the '96 or during the '97 to '98. In fact, I'm certain-- Well, I'm not certain, and I won't make an assumption, but I would think that during the due diligence, this line of business was looked at very closely during that time frame.

ASSEMBLYMAN WISNIEWSKI: During the due diligence, prior to the purchase?

MR. WALTERS: Purchase of MFS, yes.

UNIDENTIFIED SPEAKER: So it brings us back to '96.

MR. WALTERS: But this was--

ASSEMBLYMAN WISNIEWSKI: Back in '96?

MR. WALTERS: Back in '96.

ASSEMBLYMAN IMPREVEDUTO: Early '96?

MR. WALTERS: Yes. I'm certain that it was -- must have been one of the assets that were looked at as that purchase was-- So, we actively were looking to sell this business to someone who was -- to a company that was interested in it as a line of business and a core business. So, in July of '98, MFSNT and the assets of MFSNT were acquired by Able Communications.

ASSEMBLYMAN WISNIEWSKI: What was that date?

MR. WALTERS: July of '98.

ASSEMBLYWOMAN STENDER: So WorldCom sells it?

MR. WALTERS: Yes. WorldCom sells MFSNT and is acquired by Able Communications.

ASSEMBLYWOMAN STENDER: And the contract is already in place?

MR. WALTERS: The contract was signed in March of 1998.

ASSEMBLYWOMAN STENDER: So, yes?

MR. WALTERS: So, yes.

ASSEMBLYMAN WISNIEWSKI: Just to digress for a moment, at the time the-- From July '97, essentially, when the protest was dismissed, March of '98, the Atlantic City Expressway becomes operational, the same month the contract is signed. You had mentioned that during the due diligence, prior to the merger, there was thought that an electronic toll collection system was not part of WorldCom's core business.

MR. WALTERS: Mr. Chairman, that's an assumption on my part. That's not something that I know for a fact. Quite frankly, I was not involved in any of that decision process at the time. I do know that it is not core business. It is not something that-- We don't have an ETC sales and marketing channel. We are not actively out trying to sell or market in this area -- is still not a core business. We've acquired these assets for other reasons which I'll get into.

ASSEMBLYMAN WISNIEWSKI: I was leading up to a question--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --and I'm not trying to cut you off. But at the time the contract was about to be signed, is there any record in the due diligence that was recently done for the acquisition back of this business, that there was a discussion with the State that, hey, we, WorldCom, are about to jettison this electronic toll collection business? Was the State ever made aware of that internal corporate decision prior to the contract being signed?

MR. WALTERS: My assumption-- I'm going to assume something here, and I don't know for a fact as well, but I can't imagine that that contract could be assigned to Able Communications without the consent of the State or the Consortium. They would have had to consent to the contract being assigned. I think I'm accurate on that, but I could be wrong. I'm not an attorney, so--

ASSEMBLYMAN WISNIEWSKI: Sure.

MR. WALTERS: But I would think that the Consortium had the right, at that time, to contest it if they so chose to.

ASSEMBLYMAN WISNIEWSKI: Are you aware of any documents that would speak to that?

MR. WALTERS: I'm not personally aware of any documents to speak to that, but I would imagine there would have to be some assignment documents somewhere.

ASSEMBLYMAN WISNIEWSKI: Is there anybody in your organization who might have a better understanding of that -- somebody who is still with the operation who was there at the time?

MR. WALTERS: There could be. I'm sure that--

ASSEMBLYMAN WISNIEWSKI: I would make a request that if there is somebody in your organization that could speak more directly--

MR. WALTERS: Okay.

ASSEMBLYMAN WISNIEWSKI: At least identify them.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: It may be something as simple as them sending us a letter explaining that situation.

MR. WALTERS: Sure.

ASSEMBLYMAN WISNIEWSKI: But we would like to follow that up at some point in time.

MR. WALTERS: Absolutely.

ASSEMBLYMAN WISNIEWSKI: So, I'm sorry. I didn't mean to interrupt. Please continue.

MR. WALTERS: All right. Like I said, I don't believe that a transaction of that nature could have occurred without someone in the Consortium agreeing to assign the contract.

Okay. So that takes us to July of '98. Now, at that point, WorldCom is still-- We originated the original bonds. Obviously, MFSNT, there were construction bonds, in surety, that had to be bought.

ASSEMBLYMAN WISNIEWSKI: Just for the education of the Committee, those are bonds that, in the event that the work is not done, there's some protection that the work will get done.

MR. WALTERS: Yes. There's some protection -- insurance that we are going to perform against the contract. If we don't, we don't pay contractors. We don't deliver -- that there's a mechanism and insurance available to cover any expenses. In that acquisition by Able, we maintained a responsibility and a guaranteeship of a surety in that insurance. So that was, at that point, our only-- We had a financial interest only at that point. We were not involved in any of the day-to-day operations or management of the company.

ASSEMBLYMAN WISNIEWSKI: Were those bonds, bonds that were issued or guaranteed as a condition of the sale to Able in July of '98--

MR. WALTERS: No, those--

ASSEMBLYMAN WISNIEWSKI: --or did they preexist that sale?

MR. WALTERS: Those preexisted the sale.

ASSEMBLYMAN WISNIEWSKI: Okay.

ASSEMBLYWOMAN STENDER: Mr. Chairman?

ASSEMBLYMAN WISNIEWSKI: Yes.

ASSEMBLYWOMAN STENDER: I'm sorry.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman.

ASSEMBLYWOMAN STENDER: How much value did they put on-- I mean, on these-- If WorldCom backed the suretyship, how much value -- to what extent-- What was the-- How much were they guaranteeing at that point?

MR. WALTERS: This is going to be an approximate answer, but I believe somewhere around \$200 million, maybe \$220 million, the original bonds.

ASSEMBLYWOMAN STENDER: Okay. At that point, you don't know what -- how much work is? Okay.

MR. WALTERS: At that point, the only thing that hadn't actually been delivered was the Atlantic City Expressway. So they were probably pretty close to that number. They're still close to that number today.

ASSEMBLYWOMAN STENDER: To 200 and--

MR. WALTERS: About 190.

ASSEMBLYWOMAN STENDER: Okay, thank you.

ASSEMBLYMAN WISNIEWSKI: Continue, please.

MR. WALTERS: So, July of '98, MFSNT was acquired by Able. In July of '99, the VPC became operational. There's a lot of history in that year, of other things, but then in September of 2000, the fiber--

ASSEMBLYWOMAN STENDER: I'm sorry. Excuse me. What became operational? The ETC?

MR. WALTERS: The Violation Processing Center. I'm sorry.

ASSEMBLYWOMAN STENDER: Oh, it was VPC.

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: Okay, thank you.

MR. WALTERS: The fiber backbone was complete and the Turnpike became operational in September of 2000. In December of 2000, Bracknell acquires Able or Adesta and--

ASSEMBLYMAN WISNIEWSKI: Can I just stop you there?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Able or Adesta, those names are interchangeable in many people's minds. Would you clarify that?

MR. WALTERS: Well, I believe that Able Communications had other lines of business other than electronic toll collection systems, that it was a contractor on other fiber builds and other communications systems. So there were other lines of business that it had. I think the record would show that they began to have some financial problems and were going into bankruptcy. So Bracknell came in and bought some of their contracts, some of the other communications system contracts, as well as this electronic toll collections contract.

ASSEMBLYMAN WISNIEWSKI: Where does Adesta come in?

MR. WALTERS: I'm sorry. Adesta was the name of the corporation after MFSNT sold the business to Able. It became Adesta Transportation.

ASSEMBLYMAN IMPREVEDUTO: So Able is Adesta?

MR. WALTERS: Yes. Well, no. I think Adesta is a subsidiary of Able. Right.

ASSEMBLYMAN WISNIEWSKI: Assemblyman.

UNIDENTIFIED SPEAKER: MFS--

MR. WALTERS: And I'd be honest with you, I'm probably going to have to come back and lay that out for you in some way--

ASSEMBLYWOMAN STENDER: Please.

MR. WALTERS: --yes -- and show you what company was a subsidiary of which company and where the names come in.

ASSEMBLYMAN WISNIEWSKI: That would be helpful.

MR. WALTERS: Okay. I'd rather have an opportunity to do that in some kind of written fashion, just to make sure it's accurate.

ASSEMBLYMAN WISNIEWSKI: But what you're saying, in some fashion, Adesta and Able are affiliated companies?

ASSEMBLYMAN IMPREVEDUTO: There's less than an arm's length of dealing. (laughter)

MR. WALTERS: Yes. My understanding is Adesta Transportation was a subsidiary of Able, and Able had other lines of business besides electronic toll collections. And also, Adesta had other contracts besides the New Jersey contracts, the Regional Consortium contract, which they have fulfilled and were successful and complete.

ASSEMBLYMAN WISNIEWSKI: So, the contract went from MFS, owned by WorldCom, to Able, when WorldCom sold the electronic toll collection portion of MFS.

MR. WALTERS: That's right.

ASSEMBLYMAN WISNIEWSKI: And Adesta is a subsidiary or a child corporation of Able.

MR. WALTERS: Yes. Essentially, MFSNT, I believe the record will show, became Adesta at that point and was a subsidiary of Able Communications.

ASSEMBLYMAN WISNIEWSKI: And then in December of 2000, Bracknell acquired Able?

MR. WALTERS: Yes, and this contract as well.

ASSEMBLYMAN WISNIEWSKI: Okay. In so doing, they also acquired Adesta.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Okay.

ASSEMBLYWOMAN STENDER: Wait a minute. I'm sorry. They bought the company and the contract. I mean, I would think if they bought the company, they'd get the contract. You make it sound like it's two separate pieces.

MR. WALTERS: Well, you could always-- When a company is in bankruptcy -- and again, I'm not an attorney and don't know these sort of things -- but, I mean, you can choose to pick up certain assets or -- and liabilities. So with this particular contract-- There were other contracts that were also bought, as well, for other projects that are still ongoing. So it wasn't just the Regional Consortium contract that was acquired.

ASSEMBLYMAN WISNIEWSKI: Assemblyman.

ASSEMBLYMAN BURZICHELLI: Mr. Walters, is Able, Adesta -- they are in bankruptcy at the time that Bracknell steps in for the acquisition?

MR. WALTERS: I believe that is true, but again, I'd like to have an opportunity to check on that. I believe that they were in bankruptcy and trying to reform at the time.

ASSEMBLYMAN BURZICHELLI: It would be helpful for us to know that--

MR. WALTERS: Okay.

ASSEMBLYMAN BURZICHELLI: --because the rules of engagement for them obviously would be different--

MR. WALTERS: Right.

ASSEMBLYMAN BURZICHELLI: --if it was -- if they were a part of bankruptcy.

ASSEMBLYMAN WISNIEWSKI: I'm just looking to clarify the record at a-- The Internet is a wonderful thing. There is a Website on Adesta Communication. Adesta filed for Chapter 11 bankruptcy in September of 2001.

MR. WALTERS: We haven't got that--

ASSEMBLYMAN WISNIEWSKI: Haven't gotten that far yet.

MR. WALTERS: We haven't gotten that far in the--

ASSEMBLYMAN WISNIEWSKI: It says here that MFS became Adesta in February of 2000.

MR. WALTERS: Okay. That's why I said, I want the opportunity to go back and-- These name changes still escape me a little bit. So I do want the opportunity to go back and clarify all the name changes and where the parent organizations were, where the parent companies were. I think we can recreate that.

ASSEMBLYMAN WISNIEWSKI: So Bracknell acquires Able--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --in December of 2000.

Proceed.

MR. WALTERS: Just to go back to my notes on that point.

Okay. Let me correct that.

ASSEMBLYMAN WISNIEWSKI: Sure.

MR. WALTERS: Bracknell, in December of 2000, acquires -- what I have in my notes -- Adesta, not Able. So, I'm going to, again, we'll have to go back and clarify that. But my notes definitely say Adesta, not Able.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: Okay.

ASSEMBLYMAN WISNIEWSKI: We'd really like the clarification on that, only because it seems to be an odd situation where Bracknell is acquiring only part of Able, Adesta.

MR. WALTERS: Yes. Right.

ASSEMBLYMAN WISNIEWSKI: So we need to have that clarified.

MR. WALTERS: Okay. We'll certainly do that.

Let's see. In July of 2001, lane commissioning begins on the Garden State Parkway.

ASSEMBLYMAN WISNIEWSKI: What was that?

MR. WALTERS: July of 2001. I go from December 2000, where Bracknell assumes the contract. In July of 2001, we begin the commissioning of lanes in the Garden State Parkway. Then in September, October of 2001,

Adesta Communications, which is the parent company of Adesta Transportation, files for bankruptcy. We reach agreement on October 16 to acquire the assets of Adesta Transportation, which include this contract, from the Bankruptcy Court.

ASSEMBLYWOMAN STENDER: That happened when? I'm sorry.

MR. WALTERS: And then on January of 2002, we assume day-to-day operations of Adesta. It becomes WorldCom, an indirect subsidiary of WorldCom, WorldCom ETC.

ASSEMBLYMAN WISNIEWSKI: Now, you said that in September there was the bankruptcy filing.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: In October, an agreement was reached to acquire Adesta--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --from bankruptcy and to make it a subsidiary portion of WorldCom. There must have been some type of due diligence search inquiry done by WorldCom at that point in time, correct?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: At that time, did WorldCom understand the status of the E-ZPass system? When I talk about the status, a couple of things -- the fact that it was designed or touted to be a self-financing system and that it wasn't and that there were an inordinate number

of violations and that the Customer Service Center wasn't functioning as planned, did that information come out in the due diligence?

MR. WALTERS: No. Not-- I don't-- You're asking a question -- a yes and no question -- and quite frankly there's three questions or three pieces of information that you're going through here.

ASSEMBLYMAN WISNIEWSKI: Take them one at a time.

MR. WALTERS: Okay. The business case, which seems to be the \$300 million, we never assumed that as a liability. We, in fact, don't believe we have any responsibility in that area whatsoever.

ASSEMBLYMAN WISNIEWSKI: You've lost me. You never assumed what as a liability?

MR. WALTERS: We never looked at that business case as something that was achievable. It wasn't our role. It wasn't something that we were responsible for.

ASSEMBLYMAN WISNIEWSKI: When-- All right.

MR. WALTERS: All right. We're not responsible for the achievement of that business case. We're responsible for delivering -- and here again, in my opening statement, I said we were responsible for the commissioning and delivery and construction of the ETC system, the operations of the Violation Processing Center and the Customer Service Center to build on the fiber. The business performance that was laid out in that business plan was done by, as far as I'm aware, the last two revisions of that document, the last one being done in November, we had nothing to do with. We weren't asked about it. We had nothing to do with it, and it was not in any of the contracts or anything that we signed up to. So that's the first thing.

ASSEMBLYMAN WISNIEWSKI: So, just to follow up on that. So, you're drawing a distinction between installing the lanes, installing the fiber, creating the Customer Service Center, creating the Violation Processing Center, that in your mind and what you understand, being part of the contract and not being part of the performance required under the contract is the issue or the standard of having it be a revenue generating operation. You're drawing a distinction between the two.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: And that's based on the review that WorldCom did--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --or that's based on--

MR. WALTERS: It's based on--

ASSEMBLYMAN WISNIEWSKI: Well, because there's two possibilities here: one, that WorldCom, when it was originally involved at the time that the contract was let, that was their assumption back then, or was that something that was determined as a result of the due diligence prior to the acquisition of the bankrupt company?

MR. WALTERS: Ask that question again. I'm sorry. What was the first part?

ASSEMBLYMAN WISNIEWSKI: When did that determination get made, or when was that distinction drawn? Back when the contract was first let and, at that time, WorldCom was the parent of the contracting entity, or was that a distinction drawn during the due diligence phase prior to the acquisition of the bankrupt company?

MR. WALTERS: Unfortunately, I can't answer the first part of that question, because I don't know the answer.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: But I can definitely say that it was never considered to be that the financial performance and meeting of that business case, and the validity of that business case was never a consideration in our acquisition. Our sole consideration for the acquisition was the fact that we are guarantors of the surety. There were claims starting-- Adesta was not paying their suppliers and their contractors. There were claims being filed against the surety that we had financial responsibility for, and we had two choices. One, we could have allowed the State and the insurance company to come in and take over the operations and complete the contract with a third party, or we could put our own management in place. We have a rich history of engineering and competence on very complex systems in the communications world, although it's not a direct tie. We do have a lot of talent in the company that way to assume the management of the company, assume the contract, and complete the contract, because we felt we could do it in four to six months.

ASSEMBLYMAN WISNIEWSKI: So basically--

MR. WALTERS: That's why we bought the assets.

ASSEMBLYMAN WISNIEWSKI: It was a business decision. It was--

MR. WALTERS: Absolutely.

ASSEMBLYMAN WISNIEWSKI: It was cheaper and smarter to get back involved and finish the contract than to allow the surety to be acted upon.

MR. WALTERS: Absolutely. That was the best choice for our shareholders.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Yes. I just want to take you back a little bit in your time line. Twelve-'96, MFS and WorldCom, win the bid, I suspect. Is that--

MR. WALTERS: Yes. I would -- MFSNT wins the bid at that time.

ASSEMBLYMAN IMPREVEDUTO: Okay. And you won the bid in March of '97? The contract was awarded.

MR. WALTERS: The contract was awarded in March of '97, yes.

ASSEMBLYMAN IMPREVEDUTO: And then, about nine months later, you sold off to Able?

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: In July of the next year -- July of '98.

MR. WALTERS: July of '98, yes.

ASSEMBLYMAN IMPREVEDUTO: Okay. Now, was that transaction arm's length? I mean, was that a complete and total -- was Able completely and totally divorced from any part of WorldCom?

MR. WALTERS: As far as I know, they are. I don't believe there is any direct tie between Able Communications, other than Able having certain contracts and build contracts. But as far as I know, they were not indirectly or directly tied to WorldCom at all.

ASSEMBLYMAN IMPREVEDUTO: Okay. You answered the question I had. Thank you.

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: Have you concluded with the time line?

MR. WALTERS: Well, I was, but -- yes.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: I mean, it's very complex and long.

ASSEMBLYMAN WISNIEWSKI: As part of the-- Again, just dealing with the portion of this contract that you're familiar with, which runs from about October of last year until today, there was a due diligence phase. The one issue that I've gotten an answer from is that WorldCom never considered the self-financing part of the performance required under the contract. That was a goal, but not necessarily something that the contractor was supposed to perform to.

MR. WALTERS: That's true.

ASSEMBLYMAN WISNIEWSKI: Were there--

MR. WALTERS: We still don't believe that is.

ASSEMBLYMAN WISNIEWSKI: And I'll accept that.

MR. WALTERS: Okay.

ASSEMBLYMAN WISNIEWSKI: Were there any-- There were some underlying assumptions created. There were some facts that were part of the calculation that created this system that said you would get so many toll violations in order to pay for it.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Where did those proposals -- where did those studies, numbers come from?

MR. WALTERS: You're going back to 1995, '96. I really don't know. I have no direct knowledge of where any of that came from.

ASSEMBLYMAN WISNIEWSKI: When the executive director of the Turnpike Authority was here at our last meeting, it was her testimony that the notion of this being a self-financing proposition was entirely the contractors.

MR. WALTERS: Yes. My only recommendation to you would be to -- if you need the answer to that question--

ASSEMBLYMAN WISNIEWSKI: We do.

MR. WALTERS: I think we're going to have to have some of the folks that signed the contract that are no longer at WorldCom.

ASSEMBLYMAN WISNIEWSKI: Who are those folks?

MR. WALTERS: Well, I mean, we can look at the contract and see who originally signed it, and I'm certain that we can get you the names, and we can tell you who those are, to the best of our ability. But what was in their minds, where they got the information, whether or not that information came from MFS, whether it was some -- a collaboration with the Consortium and MFS? Quite frankly, I don't know.

ASSEMBLYMAN WISNIEWSKI: I mean, this -- and Assemblyman Impreveduto and Assemblywoman Stender, one second -- this is an important issue.

MR. WALTERS: I understand.

ASSEMBLYMAN WISNIEWSKI: Because the whole notion -- and I've sat on this Committee for a long time -- when the executive director of the Turnpike Authority came before this Committee -- I think it was in 1997 -- and talked about how this was going to be a self-financing operation, it was their position that there would be enough toll violators, there would be enough revenue generated from that to pay the infrastructure cost. And clearly, that is not the case. And what you're telling me today is that, at least from WorldCom's perspective, post October of 2001, that's never been part of the contract. That's never been part of the performance. So there's a big gap here that we have to get to.

MR. WALTERS: Yes. Right.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: I thought I had before, when I asked you about the arm's length transaction between -- if, in fact, Able was, or Adesta was any part of WorldCom. Is it usual course of business for WorldCom, in this case, after you sold off the project to Able, to maintain the performance bond?

MR. WALTERS: No. I wouldn't say that that was normal. This was an exception.

ASSEMBLYMAN IMPREVEDUTO: Why would that be then? Why would you maintain a \$200 million surety bond when you've sold that project to somebody else?

MR. WALTERS: I'll have to-- Yes, again, I would have to go back and get an answer on that. I don't know the answer to that question. I wasn't part of that particular transaction. Assumption would be that Able was -- at

the time, possibly didn't have the financial backing to fund the bond. That would be the only reason that I could foresee, sitting here. But, again, that is a guess on my part and probably something I shouldn't try to project to you as an answer. I think we probably need to go back and get an answer for that for you. There's probably other mitigating circumstances there.

ASSEMBLYMAN IMPREVEDUTO: Would the customer-- This is a question I'll just ask as rhetorically, certainly, because I don't think you can answer it.

MR. WALTERS: Right.

ASSEMBLYMAN IMPREVEDUTO: Would the customer care whether or not it was you that held the bond or Able that held the bond?

MR. WALTERS: No, but the surety company would. Right. I mean, they're the ones--

ASSEMBLYMAN IMPREVEDUTO: Yes. I think--

MR. WALTERS: The insurance company wants to make sure that they're dealing with someone who is financially sound and--

ASSEMBLYMAN IMPREVEDUTO: Was your surety company notified, do you know, that you were not doing the project?

MR. WALTERS: Absolutely. I had no doubt that every piece of that transaction-- We have very competent contract attorneys and very competent folks at WorldCom that look at this stuff, and I'm certain that everyone was notified that should have been notified, that any assignments that needed to be made with the State were made.

ASSEMBLYMAN IMPREVEDUTO: It just seems strange that you--

MR. WALTERS: We will get those facts on the table, but I don't believe there's anything in that -- there was nothing, no back room sort of dealing that I would think existed there.

ASSEMBLYMAN IMPREVEDUTO: Well, that's what raised my question about the relationship between you and Able. Why would you, WorldCom, keep that surety bond that guarantees the performance of the project when you're not doing the project, somebody else is? It just looks strange to me.

ASSEMBLYMAN WISNIEWSKI: It sounds like the surety company had its doubts about the financial ability of Adesta on a going-forward basis, otherwise they wouldn't have insisted that WorldCom hold it.

MR. WALTERS: Again, I don't know what the surety company might have been thinking at that time. All I can do is go back and get a written response on that and get you the facts as best we know.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender and then Assemblyman Gusciora.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

Okay. You're saying that WorldCom, when you came back in, in the fall, that you had really no interest in the overall plan as it was originally envisioned because you were just taking care the contract, at this point in time, to make it operate. Is that a correct way of saying it?

MR. WALTERS: Our interest was in-- What we were contracted to do was to-- Again, our responsibilities, and I'll go back to those from my--

ASSEMBLYWOMAN STENDER: The four ones that you listed earlier, right?

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: No, I saw them. You don't have to go back over them.

MR. WALTERS: Yes. But that did not include making that business case. Again, there was a November release by the Consortium of an updated business case that has this business planning. We were not consulted. We were not consulted at all on that. We weren't asked to make any contribution, any guarantee. We had nothing to do with that updated business case.

ASSEMBLYWOMAN STENDER: Okay. But going back now to your time line, you said that MFSNT and WorldCom merged in December '96, which is when the bidding process and the proposals were basically being done to begin with.

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: And that the contract was awarded to MFSNT while it was owned by WorldCom. Okay. When I look at one of the court cases that spoke to the fact that Lockheed felt that they hadn't been given a fair shake, if you will, in the process, in there it talks about how the Consortium actually was interested in determining the whole project, based on what the vendors would tell them they should do, because of their experience and innovation. So, at a time when this contract was actually being designed, WorldCom owned it. So they were part of the process when the proposal was even being put together. Is that correct? I mean, that's--

MR. WALTERS: It is true that, at the time the contract was awarded in March, that we had been the owners of MFSNT for three months.

ASSEMBLYWOMAN STENDER: Okay. Because in here, I mean, it makes it sound like the bidders, of which WorldCom was part-- One of the amazing pieces to me is that essentially, in my experience, a government entity puts out an RFP and they say, "This is what we want, and we want to know if you can do it". What happened in this case was that a RFP went out to say, "We want you to tell us what it is we want." So the Consortium went to their bidders and said, "We don't know what we want. You tell us what we should want," which meant that the bidders involved came back with a plan that said this is how you could do it. And WorldCom had to have been part of it, at that point in time, because they owned the company that was awarded the bid. So, isn't it disingenuous, at this point, to say we don't have any responsibility with that?

MR. WALTERS: I don't think so.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: Again, I don't know to what extent in the contract there is any responsibility on the part of MFSNT on the performance of that business plan. Quite frankly, I'm not a contract lawyer.

ASSEMBLYWOMAN STENDER: Right.

MR. WALTERS: I'm not someone who reads that type -- and I'm certain that that's something the attorneys will get into.

ASSEMBLYWOMAN STENDER: Right. I understand that if it's not your--

MR. WALTERS: But it's my belief that we did not sign up to that business plan, and we weren't asked about it. What we assumed was the completion which we are -- completion and final acceptance of the system. And that's what we want to work towards. We need cooperation. We need reasonable business decisions made to help us get there, and we can do it in four to six months, and we're committed to doing it in four to six months.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Gusciora.

ASSEMBLYMAN GUSCIORA: Thank you, Mr. Chair.

I think, Mr. Walters, where the frustration lies here is that we talk about all these alphabet companies -- MFS goes to Able, goes to Adesta, starts out at WorldCom, ends up at WorldCom. We're talking about a corporate shell game where the public loses out. The bottom line is that this was a \$300-plus million contract that was supposed to pay for itself. Obviously, it fell woefully short. You talked about the system was 90 percent installed. I don't know if you've driven on the Turnpike, but it's nowhere near -- it's probably 90 percent not installed. The fact remains not all lanes of the tolls are acceptable to E-ZPass. You can go from -- we've talked about going from West Virginia to New Hampshire where E-ZPass is installed. In other states, I know that you can go in every lane. In New Jersey, you can't. There is only a couple of designated lanes per toll plaza which has E-ZPass. But there's a frustration that no one is accepting responsibility for the failures of the system. You said that you only came here since October, but yet you disavow any responsibility for what happened before. But yet, we start off as WorldCom in the beginning. Who is responsible for the failures of the system?

MR. WALTERS: Yes. Let me make sure -- and that's why I didn't get the chance to answer part two and part three of the Chairman's question where we had to break it down. What I'm saying is we don't have responsibility for the business case. I'm not saying or disavowing that we don't have responsibility for the system to perform. We are actively working with the Consortium to improve performance. I'm not disavowing that. I apologize if you've misunderstood what I've said. We are actively working to improve the performance, working with the other subcontractors that are on this project, and there are other very important ones that have direct impact on the performance of the system and the Consortium to improve and to correct any issues and any problems. That's why we're here.

ASSEMBLYMAN GUSCIORA: What other states have you installed E-ZPass, from West Virginia to New Hampshire?

MR. WALTERS: California. I'm sorry, I'm not going to be able to give you that type of history. I know that there is a very long list of successful projects and successful installations. We have active projects in San Francisco, in Los Angeles, in the state of Virginia that are still active and part of WorldCom ETC today, that we're still performing on, and by the way, performing well.

ASSEMBLYMAN GUSCIORA: I'm also at a loss as to why the State of New Jersey didn't use a company that had similar experiences in the other states. If we're all going to be part of a consortium from West Virginia to New Hampshire and we pick a unique company who has no experience in those other areas, that's another thing that's the proof in the pudding of why you can go to every single lane in other states but you can't go to every single

lane in New Jersey. That's a disappointment. Who in WorldCom came up with the idea that toll violators would pay for the system?

MR. WALTERS: I'm not certain that anybody at WorldCom came up with that idea. I don't have any knowledge of who came up with that idea.

ASSEMBLYMAN GUSCIORA: Now, we had testimony by DMV a couple of weeks ago that said the contractor -- the Turnpike Authority, I'm sorry -- that the contractor came up with the concept that the violators would pay for the system.

MR. WALTERS: Again, I have no knowledge of that. You're going to have to ask the people that were part of the company at that time, wherever they may be, to find out what they were thinking.

ASSEMBLYMAN GUSCIORA: But yet, you started at-- WorldCom was the initiator of this project with MFS.

MR. WALTERS: MFSNT was the initiator of this project.

ASSEMBLYMAN GUSCIORA: Which is a subsidiary of WorldCom.

MR. WALTERS: For three months, post-- Again, read the time line. The WorldCom merger occurred in December of '96. This project was well under way years before WorldCom acquired MFSNT, and the contract was assigned three months after. So if you're claiming that within three months, something of this nature had been going on for two years, you're implying something that's not there.

ASSEMBLYMAN GUSCIORA: Now, when are all the tollbooths going to be E-ZPass ready?

MR. WALTERS: Well, when are we going to be allowed to complete the construction? We have been ready to do that since January, and we've been told not to proceed.

ASSEMBLYMAN GUSCIORA: Well, my understanding is you were supposed to have that done by the year 2000, January 2000. So what was the problem? The purpose of this hearing is to figure what went wrong and what we need to do. What went wrong? Why didn't you have the capacity to install E-ZPass in all the lanes?

MR. WALTERS: Again, my involvement has been since October, and you're asking questions of something that happened between a contractor and the State two years ago, three years ago.

ASSEMBLYMAN GUSCIORA: You acquired all these companies though. Am I correct?

MR. WALTERS: That's right. That's right.

ASSEMBLYMAN GUSCIORA: You kept the same personnel?

MR. WALTERS: We've got some engineers and folks that work in the lanes and relatively low-level folks. Any of the executives that were in on this contract have long left.

ASSEMBLYMAN GUSCIORA: Well, with all due respect, could you please identify people, and not even today, that we could talk to, to get to the root of this problem, because otherwise we're just wasting time then, if you're going to just disavow any responsibility or give us any answer.

MR. WALTERS: I'm not disavowing. Quite frankly, you're using a word that I'm not-- I'm not disavowing any responsibility. We are responsible for improving the performance and delivering the system.

ASSEMBLYMAN GUSCIORA: Okay. And that includes the Violation Center?

MR. WALTERS: That's right.

ASSEMBLYMAN GUSCIORA: All right. Is the Violation Center up and running?

MR. WALTERS: Yes.

ASSEMBLYMAN GUSCIORA: All right, then, if people -- if they have a question, they can be assured today that they can call up there and get a live body on the phone?

MR. WALTERS: At the Customer Service Center, yes.

ASSEMBLYMAN GUSCIORA: Yes.

ASSEMBLYMAN IMPREVEDUTO: Have you called it? Have you ever called it?

MR. WALTERS: No, I haven't.

ASSEMBLYMAN IMPREVEDUTO: Let me make a recommendation that you try to do that.

MR. WALTERS: Well, the statistics that I've got from the Customer Service -- our subcontractor is Chase -- is that there are one-minute response times on the call-in.

ASSEMBLYMAN IMPREVEDUTO: Hopefully, that's changed, because I know I had an incident--

MR. WALTERS: There's 160--

ASSEMBLYMAN IMPREVEDUTO: I had a number of incidents where I had received violations for who knows what, and I tried to get through,

and it's virtually impossible. In fact, I was on the phone, at one point, for about an hour.

MR. WALTERS: When? January and February, it was impossible?

ASSEMBLYMAN IMPREVEDUTO: What?

MR. WALTERS: In the last two months?

ASSEMBLYMAN IMPREVEDUTO: Yes. Oh, no. The last time, I'm going back now to -- this is what, we're in March -- probably December.

MR. WALTERS: Well, I can tell you, I've reviewed the operational statistics for the call-in statistics for January and February, and they were excellent. So, have you called in the last 60 days since January, since we took over?

ASSEMBLYMAN WISNIEWSKI: To be helpful--

ASSEMBLYMAN IMPREVEDUTO: Fortunately, I haven't had to, but let me advise that you try to call that number.

ASSEMBLYMAN WISNIEWSKI: It would be helpful--

MR. WALTERS: Certainly. Quite frankly, I would use the self-service Website.

ASSEMBLYMAN IMPREVEDUTO: Well, that's another problem. Let me explain that one to you.

MR. WALTERS: The self-service Website uses -- it takes over a quarter million--

ASSEMBLYMAN IMPREVEDUTO: Well, I just went to that site. I did. In fact, I went to that site before the last hearing, because I had to

change a credit card number. The only problem with the Website-- It was easy to certainly get on and to work with. The unfortunate part about it is after you enter your new credit card number and you're finished with your transactions, you don't know if it's taken or not. There's no feedback that says, you know, received, code number.

MR. WALTERS: That's good feedback. That's good feedback. We'll look at that.

ASSEMBLYMAN WISNIEWSKI: Well, in terms of the call center, it would be helpful -- you're talking about a minute wait time. I have not-- I get a lot of calls from constituents about this. I have not had anybody who said, "Oh, it was only a minute." -- very long wait times, very recently. If you have documentation, statistics that show what you're talking about, the Committee would find that helpful.

MR. WALTERS: We submit reports to the Consortium every month on performance. That's a SLA that we must meet, and we provide those reports every month.

ASSEMBLYMAN WISNIEWSKI: Send us a copy. Send us a copy.

ASSEMBLYMAN IMPREVEDUTO: Do we know what the phone number is?

ASSEMBLYMAN WISNIEWSKI: No, I don't think so.

ASSEMBLYMAN IMPREVEDUTO: Anybody know what the phone number is -- 1-800-E-ZPass?

MR. WALTERS: I'm sorry. I don't know the phone number of it.

UNIDENTIFIED SPEAKER: We'd like to call if we had that number.

ASSEMBLYMAN IMPREVEDUTO: I'm going to go do that right now. (laughter)

ASSEMBLYMAN WISNIEWSKI: I want to go back to--

MR. WALTERS: Well, let me-- Excuse me, can I just comment on that?

ASSEMBLYMAN WISNIEWSKI: Sure.

MR. WALTERS: The way that measurement is done, it's done through the work week. Someone is calling Monday morning, they may get a longer than one minute response time. Someone calls on a Friday morning, you're going to get no wait time. Okay, that is an average wait time, through the business day, through the week.

ASSEMBLYMAN WISNIEWSKI: Mr. Walters, I want to go back to the bifurcation, if you will, that you talked about, that the installation, the fiber, the Service Center, the Violation Center--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --was all part of the contract--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: --and that the business plan was not. I want to draw your attention -- and my aide opened up the binder next to you -- this is a document created by your predecessors, MFSNT. I'm just going to read-- The document is entitled "MFSNT BAFO Clarification Questions." How would the violation rates be monitored? Do these figures include DelDOT? And as it goes down the page, this is a document that was

prepared by MFS. “Our financial concerns with the terms requested by the Consortium is based on our view that the E-ZPass project, including potential revenues, is not likely to be self-financing. Our estimates for revenues from a fiber-optic telecommunications system helped narrow the financial gap, but do not change our fundamental conclusions.”

Now the relevant part is next. “As a result, we have developed two financing approaches. If the violation rate is as high as the Consortium estimates, and the MFS team receives the resulting administrative fees, we’ll be able to provide E-ZPass equipment and services at no cost to the Consortium and forward 8.5 million of administrative fees to the Consortium.” Then it goes on to offer an alternative scenario: “If the violation rate falls below the Consortium estimates, the MFS team faces increasing levels of financial risk and will be in a money losing position if the violation rate falls significantly below the Consortium forecast.”

Now, what that says is that we need to get better information, because clearly this appears to be documentation that says this was part of the contract. This was part of the plan, that assuming a certain level, there was going to be money back. Assuming a lower level, MFS was going to lose money. The reason I ask you that question is because in being the original owners of MFS, when the contract was let and then reacquiring them, certainly this liability has got to be a major business decision on the part of WorldCom. It’s simply, in my opinion, not a matter of WorldCom coming in and saying, “We want to stand behind the surety because it’s cheaper. We want to finish the contract because it’s cheaper than letting the surety be acted upon.” There

is still this outstanding liability issue here, and I was wondering if you could address that.

MR. WALTERS: Well, again, I haven't researched this contract down to every page and certainly don't have my attorney sitting here next to me to be able to make a comment.

ASSEMBLYMAN WISNIEWSKI: Mr. Maiman is an attorney.

MR. WALTERS: He's a lobbyist. He is not a contract attorney.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: All right. So I can't comment on that. Because, obviously, knowing why you're asking the question, I can't comment. I'm sure if we looked hard enough in this contract, we could find other references that support our view.

ASSEMBLYMAN WISNIEWSKI: Well, it just seems to me that this document speaks to a proposal being made by MFS saying that we're going to send back \$8.5 million in violation fees as a financial enhancement to this contract. So, I just point that out, because I think what we need, Mr. Walters, with all due respect, is we need to have a person who knows about the origins of this operation -- if it's a person, that you want to give us their name, if it's a person within your organization, because--

MR. WALTERS: The origins of the contract?

ASSEMBLYMAN WISNIEWSKI: Well, the origins of the deal, I mean, more specifically. We have-- First of all, we have two countervailing theories now out there. We've got the acting executive director of the Turnpike Authority saying, "Self-financing was the contractor's idea." When you read through the contract documents, the request for proposals, clearly,

there's an indication that the Authority was looking for what they called revenue enhancements, you know, bureaucratic speak for money. And we have this document in which the successful bidder is saying, "We've got a problem with the self-financing proposal." Under this scenario which we're offering, there would be 8.5 million going back to the Authority. And under this other scenario, which we hope doesn't happen, we lose money. So, clearly there was a recognition by MFS, a child of WorldCom, at some point in time, that there were dubious financial underpinnings, and we need to get to the bottom of that.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Because those problems with the financing are going to come back to haunt the toll roads, either in the form of reduced services or higher tolls, and that's something this Committee doesn't want to happen. So I want to have your commitment that you will get us somebody -- you will point us in the direction we need to go to, to get these answers.

MR. WALTERS: I already said I would.

ASSEMBLYMAN WISNIEWSKI: Thank you.

MR. WALTERS: I also would say that there has been at least \$8 million worth of administrative fees that have been processed and through the Violation Processing Center. You have -- it says 8.5 in the contract--

ASSEMBLYMAN WISNIEWSKI: Right.

MR. WALTERS: --not having but 30 seconds here to look at it. There has been \$8 million -- 8 million or the 8.5 has been forwarded.

ASSEMBLYMAN WISNIEWSKI: Actually, we had testimony last week, or last time we met, that it was closer to \$10 million collected through the violations system, but there was also testimony that it cost \$19 million to collect the \$10 million. Now, while it's under the auspices of the contract, I'm sure that's fine. But when the State takes over the operation and has to lay out \$19 million to collect \$10 million, you could see where the problem is going.

MR. WALTERS: Absolutely. That's why we've made recommendations, back in November and December, to the Consortium to change that business practice and to change the pricing there. We recognize that that's not a valid business process.

ASSEMBLYMAN WISNIEWSKI: And I just have one follow-up on that, and I know that Assemblyman Burzichelli has a question.

During the period of time when WorldCom had sold its interest in the electronic toll collection system, but stood behind the surety bonds up until the point in time when it reacquired it through the bankruptcy proceeding, there was always the possibility that those bonds would be called upon to complete the process. Correct?

MR. WALTERS: Say that again.

ASSEMBLYMAN WISNIEWSKI: During that period of time when you first saw the toll collection contract, to the point in time when you got it back, WorldCom was the ultimate guarantor of the surety bonds.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: And during that period of time, if, for whatever reason, this did not get completed, there was always the

potential that WorldCom would be on the hook to guarantee those bonds to fulfill the contract.

MR. WALTERS: Yes, but obviously, we were turning the contract over to who we thought were competent and someone that was going to complete it. We didn't believe that that was a concern.

ASSEMBLYMAN WISNIEWSKI: And I'm not questioning that. Here's the point. The question is this: During that period of time when you had this contingent liability, if you will, did WorldCom receive reports or do follow-up to see whether that contingent liability might become a real liability?

MR. WALTERS: To my knowledge, we had no day-to-day management in the company. We had some financial oversight, but -- to make sure that things were proceeding, but no day-to-day management or interaction.

ASSEMBLYMAN WISNIEWSKI: There was no-- For instance, the terms of the sale didn't require them to quarterly tell you about the progress of the contract?

MR. WALTERS: In October, you're talking about? Yes, we knew. It was in bankruptcy. They couldn't pay their bills.

ASSEMBLYMAN WISNIEWSKI: No. No. No. Before you got to October, in the point of time when you first let them go, was there any term or condition that said they had to periodically report back, just so that you knew whether you were going to have to jump in on that surety?

MR. WALTERS: Quite frankly, I have not seen any of those reports, so I'll have to go back and check on that one for you.

ASSEMBLYMAN WISNIEWSKI: Okay. Thank you.

Assemblyman Burzichelli and then Assembly D'Amato.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman.

A brief statement and maybe a question of Mr. Walters. Maybe I'll start with -- in a brief statement to the Chairman. I think it has become very clear that we've got to get a sense of the players and the structure of the deal. Because Mr. Walters has said almost to the point of -- I don't want to suggest walking away. Because I think you've been very forthright with us, Mr. Walters, but you say we were only involved -- we acquired MFS and the contract was awarded. There's only a couple months that passes. So very clearly, I would think that WorldCom is not going to buy and acquire MFS without doing its due diligence. So, we'd be very curious as to how deep WorldCom was into the process of the structure of the deal coming forward, because I'm certain WorldCom doesn't make a rash decision, get up in the morning and say, "We're going to acquire this company because it looks good, and in three months, we're going to do this." So we need that information on the front end of the genesis of the deal.

My question, Mr. Walters, if you're in the position to help us with an answer, is, with WorldCom ETC now involved in the completion of the project, is it expected to be a profitable reinvolvement in this New Jersey project, in this Consortium project?

MR. WALTERS: Yes. I really can't comment on that. Our profitability, our financial operations is not something that I'm empowered to comment on.

ASSEMBLYMAN BURZICHELLI: I'm just curious because, again, we've set up another corporate structure to handle the completion of

this project. Now I'm just curious if it is just something to protect your liability, or is this a point of profit? I mean, you're entitled to make a profit. And this Committee is trying to get its feet under it to understand the succession of events. It's going to be very curious to us as to whether this -- you're coming in at the back end, walking away from what you believe the deal liabilities, and now just handling the completion of the project.

MR. WALTERS: What we want is our cost covered. We want our cost covered, and we want to complete the project. That's why I'm here. That's why we've got 250 folks working today to complete the project. We would like our costs covered. That's what we're looking for. We're looking for completion of the project.

ASSEMBLYMAN BURZICHELLI: And, of course, no consideration of liability should someone become very clever and suggest that, early on in the project, maybe there's some residual liability that, obviously, would not fit into the formula based on how you've acquired the assets that remained.

MR. WALTERS: I don't understand that question. Could you expand on that a little bit?

ASSEMBLYMAN BURZICHELLI: Well, to try and be a little bit clearer, it's to your advantage to complete the project, obviously. It's to your advantage for your shareholders to complete the project with the least amount of liability you can possible have.

MR. WALTERS: Absolutely.

ASSEMBLYMAN BURZICHELLI: And if someone were to walk through these corporate veils at some point, successfully, and suggest that the

people of New Jersey have been shortchanged -- I'm not suggesting by you, but I'm talking now philosophically--

MR. WALTERS: Yes, right.

ASSEMBLYMAN BURZICHELLI: --in this long discussion we're having here, that maybe there's been a very, very calculated step taking here, that once one group realized that it's not our core business, and it's not our core business because it's not going to be profitable based on the deal that we've made, based on the deal that was structured by others, as we got in late, and took this over, we better move this around, and it's better for us. It's cheaper for us to stay owning the bonds but not to execute the deal. Because at some point, somebody may wake up and say, "Well, wait a second, that business model didn't work, and how it was presented to the State of New Jersey wasn't really practical. Maybe if that component of being self-revenue generating really wasn't true, then maybe someone else would have gotten this deal, and we would have been in a whole different arrangement here. So that's why it's so important for us to get a sense in the beginning part of the genesis of the deal.

As far as the back end is -- and I asked you and you're not in a position to say to what point this is a profitable venture for WorldCom ETC, that at the conclusion of the New Jersey installation, will WorldCom ETC continue on? Will WorldCom ETC do other projects, or is it just formed expressly to complete the E-ZPass Consortium project?

MR. WALTERS: No. We have three other contracts, but we have no sales channel, no marketing. We are not actively marketing -- out bidding

on additional projects. Once we complete this project, we hope to leave it in the hands of others that can take it forward.

ASSEMBLYMAN BURZICHELLI: The other three projects -- are they cleanup projects as well, or are they projects originated by another arm of WorldCom that's been given to ETC?

MR. WALTERS: Those were all part of Adesta Transportation.

ASSEMBLYMAN BURZICHELLI: Okay. So, as soon as they're done, WorldCom ETC will cease to exist?

MR. WALTERS: As it looks right now, we will sunset the organization, yes.

ASSEMBLYMAN BURZICHELLI: Okay. And as--

MR. WALTERS: --and have the maintenance and forward-looking -- the software and other aspects of the contract moved into the hands of working with the State on whoever they would like to see it moved into.

ASSEMBLYMAN BURZICHELLI: With regards, and just my last follow-up question, it's almost to a point of thinking out loud. If the liability of the business plan was attached to your relationship presently, I take it you would see this in a different light. I mean, very clearly, you're confident that you're going to be able to complete the installation. But, for example, if this was truly going to be self-financing, revenue generating, as the business plan originally said it was going here -- at least indicates that it was going to be, what would your position be? I mean, do you feel comfortable that you can complete the installation, but not the other part of the business deal?

MR. WALTERS: You're asking me to comment on the business deal, and I'm not going to do that. I really don't have an opinion on that business case.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Walters.

MR. WALTERS: All right.

ASSEMBLYMAN BURZICHELLI: Mr. Chairman, it's imperative that we get someone in front of us that can speak to the front end of this.

ASSEMBLYMAN WISNIEWSKI: We're getting some answers, but we're having a lot more questions raised.

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Sir, I realize that you come to this project late, that you weren't here at the conception stage. Do you believe that it was a mistake for us to rely, as a major component of the financing of this project, on collection of moneys of toll violators?

MR. WALTERS: Do I believe, personally?

ASSEMBLYMAN D'AMATO: Yes.

MR. WALTERS: I think that you need to take a hard look at that. Quite frankly, I think the drivers and citizens of New Jersey are basically honest people. Any state-run system such as this that is based on that type of premise, I think you have to question it. I think -- I mean, you're essentially funding a project on this, based on the dishonesty of the citizens. Me, personally, I think that that's something that probably should have been looked at very hard.

ASSEMBLYMAN D'AMATO: Because it assumes that there will, in fact, be X number of violators, and it further assumes that there will be a successful prosecution of those violators. Is that correct?

MR. WALTERS: Yes, in the business case.

ASSEMBLYMAN D'AMATO: Now, in the other states that your company is involved in, was there the same reliance upon the toll violator aspect?

MR. WALTERS: No. There's no other contract that I'm aware of and no contract that we have, where this type of financing has been proposed.

ASSEMBLYMAN D'AMATO: You mentioned certain predecessor corporations that were involved as project. Do they have a record retention program in effect? Do you know that?

MR. WALTERS: Don't know.

ASSEMBLYMAN D'AMATO: I think perhaps the members of this Committee would like to know that, only because there may be some written records out there.

MR. WALTERS: Certainly, we'll research that for you. We'll do the best we can to find out.

ASSEMBLYMAN D'AMATO: Because we should deal with an analysis of how this representation was made to the State officials as to what we can expect in potential prosecutions. Because it is my understanding -- and members of the Committee can correct me if I'm wrong -- that you haven't been supplied with anything in writing as to supporting this projected revenue from toll violators.

Is that correct, Mr. Chairman?

ASSEMBLYMAN WISNIEWSKI: I'm sorry. I had a sidebar.

ASSEMBLYMAN D'AMATO: I have been advised-- I just wanted to see if the representation was correct that this Committee has not been supplied with any written analysis by the predecessor corporations as to how they projected this revenue from the prosecution of the toll violators.

ASSEMBLYMAN WISNIEWSKI: That's correct. I mean, it's an interesting question, only from the standpoint that the Turnpike Authority is saying that it was the contractor, and the contractor apparently is saying, well, that was what they wanted. So, I'm not sure who came up with the projections. We need to find that out, because it would be an interesting read.

ASSEMBLYMAN D'AMATO: Okay.

One final question, sir. Who and why were you told to stop the project?

MR. WALTERS: In January?

ASSEMBLYMAN D'AMATO: Yes.

MR. WALTERS: Yes. We were prepared to continue to do lane commissioning, actually, right after Thanksgiving or even before Thanksgiving. We were trying to get construction started again on the Turnpike, but the Consortium stopped us.

ASSEMBLYMAN D'AMATO: Okay.

Thank you, Mr. Chairman.

ASSEMBLYMAN IMPREVEDUTO: Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Sure. One second, Assemblyman Impreveduto.

Just Assemblyman D'Amato and, I think, myself and all the other members have made requests for documents and for further information. I just want to continue that request to you, unless your consultants were Arthur Andersen. (laughter) I'm sure the documents still exist someplace, and we'll be able to access them, and you'll be able to make them available to us.

Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Yes. Thank you, Mr. Chairman.

Mr. Walters, I just want to-- I know you talked to this in your written statement, but I need to ask some questions about the-- It was alleged to us that the contractor gets paid for the -- every time you look at a license plate, it goes through, the red light comes on, whatever happens, and you get a picture of the plate, and the contractor gets paid when they look at this, even if it's a malfunction of the machinery.

MR. WALTERS: We have not been getting paid for that.

ASSEMBLYMAN IMPREVEDUTO: Well, whether or not you're getting paid for it--

MR. WALTERS: The contract says -- yes, I agree -- the contract says that we would get paid for that. I addressed that. But we, in fact, have not been getting paid, and we've been getting short paid on that part of the contract since I've been involved.

ASSEMBLYMAN IMPREVEDUTO: All right. My question is simple: Is the contract written so that you get paid whether the machine malfunctions or not?

MR. WALTERS: The way the contract is written today?

ASSEMBLYMAN IMPREVEDUTO: Yes.

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: So, you're getting paid, you will get paid via the contract-- According to the contract, you will get paid whether the machine malfunctions or it doesn't malfunction?

MR. WALTERS: And that is exactly why we have made a series of recommendations to change that. We've recognized that that is a perverse incentive in the contract. The facts are we are not getting paid for that.

ASSEMBLYMAN IMPREVEDUTO: Has the State--

MR. WALTERS: In fact, we are running that VPC, month to month, at a deficit at our nickel. Okay? So, in fact, we are not getting the money.

ASSEMBLYMAN IMPREVEDUTO: So you magnanimously--

MR. WALTERS: Please let me finish. We are not getting that. It may say so in the contract, but, in fact, we are not getting that revenue.

ASSEMBLYMAN IMPREVEDUTO: Are you not--

MR. WALTERS: We have made-- There's a series of meetings that I, personally, have been to. We have made recommendations to change the pricing. We have gotten no response.

ASSEMBLYMAN IMPREVEDUTO: Okay, now, my question: Although the contract says you're supposed to get paid whether it's a malfunctioning machine or not, you have magnanimously decided that you will not take payment, or the State of New Jersey has said, "We're not going to pay it?" Which is it?

MR. WALTERS: They're not paying.

ASSEMBLYMAN IMPREVEDUTO: So they finally wised up to the stupid statement and said, "We're not going to pay it."

MR. WALTERS: They signed the contract, right?

ASSEMBLYMAN IMPREVEDUTO: Someone did.

MR. WALTERS: Yes. Someone did. Someone's name is on the contract.

ASSEMBLYMAN IMPREVEDUTO: Someone did. That's the purpose of this hearing, but believe me--

MR. WALTERS: Right. Someone signed the contract. All I'm saying is, we recognize that that is an issue that is a disincentive in the contract, to perform, that is not in our interest. We are not doing that -- that that is not a business practice.

ASSEMBLYMAN IMPREVEDUTO: So you will not be seeking payment from New Jersey at all for that?

MR. WALTERS: And quite frankly, anyone making a claim of that nature about our integrity, in saying that we are doing that, is absolutely wrong.

ASSEMBLYMAN IMPREVEDUTO: So you will not be seeking payment from New Jersey for any of the malfunction violations or any of the malfunctioning machinery which caused a person to get a letter? Is that correct?

MR. WALTERS: If the malfunction-- Say that again.

ASSEMBLYMAN IMPREVEDUTO: The machine malfunctions, you read a license plate.

MR. WALTERS: Right.

ASSEMBLYMAN IMPREVEDUTO: Okay. You get paid by contract. Is that correct?

MR. WALTERS: That's right.

ASSEMBLYMAN IMPREVEDUTO: Okay. Now, so what I'm saying--

MR. WALTERS: We get paid up to a certain number of images read a month, a base fee, and then, anything above that base fee, there is a per image review charge.

ASSEMBLYMAN IMPREVEDUTO: Okay. So whether it's a malfunction or not, correct?

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: Now, so you will not seek payment then. You said you're not getting paid for that.

MR. WALTERS: We're getting paid the base amount. That's what we're getting paid. Not anything above that at the current time.

ASSEMBLYMAN IMPREVEDUTO: Okay. And you will not seek payment for anything over and above.

MR. WALTERS: We will sit down and negotiate. We've made several recommendations to the State on how-- I--

ASSEMBLYMAN IMPREVEDUTO: No, it's not my question. My question is, will you be--

MR. WALTERS: Well, I'm not going to negotiate it at the table here. I would like to negotiate that--

ASSEMBLYMAN WISNIEWSKI: Well, could you just -- excuse me.

ASSEMBLYMAN IMPREVEDUTO: So, what I'm saying, then, that even though you have malfunctioning machinery, you still want to get paid for that.

MR. WALTERS: Well, let's go down a little bit deeper on what's malfunctioning.

ASSEMBLYMAN IMPREVEDUTO: Well, let's just answer my question. Let's try that.

MR. WALTERS: Let's go down a little bit deeper. Well, it depends on why is it malfunctioning.

ASSEMBLYMAN WISNIEWSKI: Mr. Walters. Mr. Walters. There's a simple question, and you can either answer it with a yes or a no. Will WorldCom-- I mean, you've told us today that WorldCom is not getting paid pursuant to the contract for all that it should get paid pursuant to the contract.

MR. WALTERS: In the VPC-- And what we're saying is that we've made several recommendations on how to restructure the pricing so that our costs are covered and that we integrate the operations between -- that we integrate the operations in between the Customer Service Center and the VPC.

ASSEMBLYMAN WISNIEWSKI: Okay. And we know you've made that offer, and we know from your testimony that there is silence, apparently, in terms of responding to that.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: So the question is, however, this is an outstanding liability that WorldCom would consider owed to it as a

result of the payments not made for the transactions that have gone through the Violation Processing Center. Correct?

MR. WALTERS: That's right.

ASSEMBLYMAN WISNIEWSKI: Is WorldCom going to be seeking payment for those unpaid transactions for which it has not been paid?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: It will. Okay.

ASSEMBLYMAN IMPREVEDUTO: Whether it is a function of a malfunctioning machine or not?

MR. WALTERS: You see, you're asking a question where why is it malfunctioning. See, you need to go down to another level of detail.

ASSEMBLYMAN WISNIEWSKI: All right. Let's assume for a second--

MR. WALTERS: The malfunction, quite frankly--

ASSEMBLYMAN WISNIEWSKI: Let's assume for a second--

MR. WALTERS: --the malfunctions in the AVI equipment--

ASSEMBLYMAN WISNIEWSKI: Mr. Walters. Let's assume for a second that the reason-- Let's assume we can determine this, that we know which transactions are a result of a transponder or antenna otherwise functioning, not reading, a malfunction in the equipment itself. For those transactions for which you have not been paid, which are identifiable as a result of equipment malfunction, are you still going to seek payment for those?

MR. WALTERS: We are going to seek payment for our costs for running the Violation Processing Center.

ASSEMBLYMAN IMPREVEDUTO: So very basically, we're -- John, you're cutting me off again. (referring to PA microphone) Very basically, we're back to where we started. Even though in your statement you say, "No. No. No. That's not reality." The reality is if it's a malfunctioning machine and that we can show that it's a malfunctioning machine, we still have to pay you, and you want to get paid. Even though you're going to come with all these great ideas on how we can fix it sometime else, some other point in time, as it stands at this point in time, the contract reads if the machine is malfunctioning -- if it's not working properly and creates a violation, false violation, okay--

MR. WALTERS: Well, okay, let's go down this road.

ASSEMBLYMAN IMPREVEDUTO: You want to get paid?

MR. WALTERS: No. Let's go down this road

ASSEMBLYMAN IMPREVEDUTO: Finish my-- You asked me to wait for you before, please wait for me now.

ASSEMBLYMAN WISNIEWSKI: Answer his question, please.

MR. WALTERS: Let's go down this road. Okay. Okay.

ASSEMBLYMAN IMPREVEDUTO: So my question becomes -- and I think you've already answered it -- you want to get paid for those transactions that you reviewed, according to the contract, that were a function of a machine that was not working properly and that even can be shown it was a function of your equipment not working properly?

MR. WALTERS: Okay. There's two aspects to that question. Yes. The bottom line is we want to get reimbursed for our costs of operating

the Violation Processing Center, okay. That's the bottom line -- our costs for running the Violation Processing Center.

Let me just go down this path, because you're asking a question a certain way, and you need to have more information about what is causing malfunctions and what is causing additional violations to be sent and images to be sent to the Violation Processing Center. There are certain aspects of the contract where, and certain areas of performance in the system, where we don't have responsibility for. That responsibility remains part of the Consortium's, and that has -- in regards to the AVI equipment. The AVI equipment is the vehicle identification equipment. It's the tag in the car and it's the antenna that's in the lanes. In fact, we've been very intensely working with the Consortium and the manufacturer of that AVI equipment to determine why there are so many no-reads. Okay.

So, on one hand, there's an area of performance of the system where, in the contract, and I could probably find the place in the contract where it says this, where we have no -- and that is clearly causing almost half of the violations that are sent. There's 1.6 million violations sent a month to the Violation Processing Center, images. Over half of those are sent because of no-reads or no-read from the tag on the AVI equipment.

Now, as we've gone through this, we've had three independent studies done. Nowhere has there been any indication that any of our software has caused the problem, okay. So, then on the other side in the Violation Processing Center, we are held to a service level in the contract to have images read. So here we have a piece of the system that's malfunctioning, that's not performing, that we are working with trying to ascertain what's causing it that

is outside our area of responsibility, and at the same time held accountable for reviewing images in a certain fashion at the Violation Processing Center. So, if I stop reviewing the images, reducing my cost, I'm in violation of the contract.

ASSEMBLYMAN WISNIEWSKI: You say outside your area of responsibility?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: I thought the contract awarded to MFS, and ultimately now in the hands of WorldCom, called for the installation of the lanes, the fiber optics, so explain to me how--

MR. WALTERS: There's an area of the contract--

ASSEMBLYMAN WISNIEWSKI: Well, let me finish the question. Explain to me how part of the contract, which was to install this equipment, is not your area of responsibility?

MR. WALTERS: No. To install it, yes.

ASSEMBLYMAN WISNIEWSKI: Well, but--

MR. WALTERS: And it's installed properly. We've had--

ASSEMBLYMAN WISNIEWSKI: I think it goes without saying that the State assumed the equipment installed would work. I don't think the State said, "Well, install this equipment and whether it works or not we'll worry about it."

MR. WALTERS: Mr. Chairman, there is an area of the system where the State mandated the supplier of the AVI manufacture of that equipment -- mandated that to be used.

ASSEMBLYMAN WISNIEWSKI: AVI being what?

MR. WALTERS: AVI is the automatic vehicle identification equipment.

ASSEMBLYMAN WISNIEWSKI: What does that consist of?

MR. WALTERS: That is the Mark IV system. That is the tag that goes in the car.

ASSEMBLYMAN WISNIEWSKI: So the little white box in everybody's car--

MR. WALTERS: That's right.

ASSEMBLYMAN WISNIEWSKI: --the antenna that's somewhere in the toll plaza--

MR. WALTERS: Yes, that is the AVI equipment.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: That was specified by the State to be used. We are under no obligation whatsoever for its performance. We had to install it. We had to integrate it in with the software, which we have done, which independent studies have shown is done.

ASSEMBLYMAN IMPREVEDUTO: Is this a separate contract from the contract you were awarded?

MR. WALTERS: Yes, it is. We don't hold the contract with the AVI manufacturer. The State holds the contract with the AVI manufacturer.

ASSEMBLYMAN IMPREVEDUTO: So the State said, "Here's the equipment. You install it."

MR. WALTERS: Right. You install it.

ASSEMBLYMAN IMPREVEDUTO: Okay. Now, it's installed.

MR. WALTERS: We installed it to the manufacturer's specifications. We've had the manufacturer come out, look at the lanes. We have them in the lanes retuning, at our cost, to ensure that it is. We go and do very specific observational tests. There's been 26,000 observations done by this vendor and by an independent contractor, all right, that shows clearly there is some issue over half of the violations -- 45 percent of the violations are coming because there's no read.

ASSEMBLYMAN IMPREVEDUTO: So, what you're saying, I think, is that 45 percent of the violations have nothing to do with anything you've done.

MR. WALTERS: I'm just saying that as we investigate what's causing the high violation rate, it's pointing us in a direction -- in an area that's been specified by the State to be used.

ASSEMBLYMAN WISNIEWSKI: And that's the AVI component.

MR. WALTERS: Yes, sir.

ASSEMBLYMAN IMPREVEDUTO: Well, that's my--

ASSEMBLYMAN WISNIEWSKI: Tony, if I could just interject one second. Where else is that stuff installed? Is that the stuff that's on the New York Thoroughway and the Triborough--

MR. WALTERS: It's installed all over, yes.

ASSEMBLYMAN IMPREVEDUTO: But are they--

MR. WALTERS: It's throughout the system. It's used by a consortium group called IAG, which is the group that -- a set of industry analysts.

ASSEMBLYMAN IMPREVEDUTO: So wouldn't it make sense that you would want to use the same thing that's being used everywhere else?

MR. WALTERS: Absolutely. Absolutely. I totally agree.

ASSEMBLYMAN IMPREVEDUTO: Is it that's causing these kinds of violations in other states that your company is involved in?

MR. WALTERS: They-- I don't believe that this equipment is used elsewhere and California and other areas. I don't know about what--

ASSEMBLYMAN IMPREVEDUTO: But the equipment is used on the east coast.

MR. WALTERS: The equipment we use on the east coast, yes.

ASSEMBLYMAN IMPREVEDUTO: This is the equipment that we use on the east coast.

MR. WALTERS: Look, there's all kinds of things that could be happening with that equipment. I mean, there could be bad tags. I mean, the manufacturing-- You could come off of low batteries. You get a whole-- We've got 1.8 million tags out there, but what if there's 50,000 or 60,000 low battery tags out there?

ASSEMBLYMAN IMPREVEDUTO: But does it make sense that this is the only state they showed up in?

MR. WALTERS: There's no-- We tried to go and question this area and a lot of other roadways. Of course, they won't share a lot of this information. When you get down-- You can't make an apples-to-apples comparison. Most other roadways have barriers. This is one of the only roadways where you don't have barriers. So trying to make an apples-to-apples

comparison about what their violation rates are and what our violation rates are, you can't do that.

ASSEMBLYMAN IMPREVEDUTO: All right. Let's get back--

MR. WALTERS: So all we can do is go run very detailed RF tests, very detailed observations, which we have done--

ASSEMBLYMAN IMPREVEDUTO: Okay.

MR. WALTERS: --to see where the problems are. We are there. We are trying to resolve the problems. I don't know if these problems are just Mark IV problems or AVI problems, okay. We are there trying to resolve them. So, when you ask, do we want to be paid for our costs at running the Violation Processing Center, because this circles around to your question--

ASSEMBLYMAN IMPREVEDUTO: Okay.

MR. WALTERS: Okay.

ASSEMBLYMAN IMPREVEDUTO: Now, let's take away that 45 percent.

MR. WALTERS: No. Let's circle around the question. We are held accountable for reading images in the Violation Processing Center, and we must meet that contract.

ASSEMBLYMAN IMPREVEDUTO: Okay. Let's move out--

MR. WALTERS: There's an area where it's misperforming that we have no responsibility for, and we're trying to work through the issues. Our costs are high because we're trying to meet the violation and image read rate.

ASSEMBLYMAN IMPREVEDUTO: Okay. Let's move out that 45--

MR. WALTERS: So we expect to get paid. We expect to get our cost covered.

ASSEMBLYMAN IMPREVEDUTO: --percent for a second. Let's take the--

MR. WALTERS: Let's take the other. Okay.

ASSEMBLYMAN IMPREVEDUTO: And I'd like to see those numbers. I would like to see how you can show me where 45 percent of that is--

MR. WALTERS: That's what they-- I believe those reports-- That report was provided--

ASSEMBLYMAN IMPREVEDUTO: --and how that was arrived at.

MR. WALTERS: That report was given at the last--
Seth.

MR. MAIMAN: Yes. Mr. Chairman, there's a piece of paper I submitted with our testimony this morning that's sort of--

ASSEMBLYMAN IMPREVEDUTO: Could you put your mike on? (referring to PA microphone)

ASSEMBLYMAN WISNIEWSKI: Put your mike on, Seth.

MR. MAIMAN: Oh, I'm sorry. I've been off so long, I forgot to put it on.

There's a piece of -- there's a one-page that I had submitted with our testimony today, that's entitled "New Jersey E-ZPass Electronic Toll Collection System," violations processing information, monthly averages November 2001 to January 2002. I hope that the members have it.

ASSEMBLYMAN IMPREVEDUTO: We have that.

MR. MAIMAN: Okay. And that was trying to break down the various images reading and what's causing it.

ASSEMBLYMAN IMPREVEDUTO: Yes. Can we get how you arrived at that, how you arrived at these numbers?

MR. WALTERS: Well, this was a third party study paid for by the Consortium, by a third party called Rapid Tolls -- those reports, those three reports that have been developed. I will tell you, they're not conclusive. They're not 100 percent conclusive. There are still areas that we need to investigate.

ASSEMBLYMAN IMPREVEDUTO: Can we get--

MR. WALTERS: Right now the evidence shows that there are some no re-performance problems above, here in the State of New Jersey, above what else we're experiencing.

ASSEMBLYMAN IMPREVEDUTO: Can we get a copy of that study?

MR. WALTERS: I thought we had produced that.

ASSEMBLYMAN IMPREVEDUTO: This -- unless it's produced somewhere else-- What I have is we received, and that's this one-page--

MR. WALTERS: Certainly, you can get that from us or you can get it from the Consortium. It is actually a Consortium document, Sir.

ASSEMBLYMAN IMPREVEDUTO: Well, why don't-- Can we get that from the Consortium?

MR. WALTERS: It's not our document. It wasn't-- We didn't pay for the study.

ASSEMBLYMAN WISNIEWSKI: Describe the document that we're talking about?

MR. WALTERS: It's a Rapid Tolls lane performance study that was done on the New Jersey Turnpike and was done on the Garden State Parkway, and it was done on the Delaware project, as well.

ASSEMBLYMAN WISNIEWSKI: Actually, I think we have a copy of that.

MR. WALTERS: All indicate these results that I'm talking about. The other results -- the other violations are all patron behavior. Either there is no tag in the vehicle, which are true violators, or folks that don't have the tag properly mounted or waving it with their purse or waving it in the windshield. That's what makes up the violations.

ASSEMBLYMAN IMPREVEDUTO: So, basically, if I understand your testimony then, the equipment installed by WorldCom that you are responsible for--

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: --is working absolutely properly?

MR. WALTERS: To the best of our ability, I believe that is true. As I said, it is not 100 percent. We're not walking away from this. But to the best of our ability to ascertain, we believe that that is true. We believe that we have our side of this system performing well.

ASSEMBLYMAN IMPREVEDUTO: Mr. Chairman, I'd like to also find out if staff can find out for us what other states are using this brand of tag and what their problems are, if there are any with that brand of tag.

ASSEMBLYMAN WISNIEWSKI: I think it's an excellent question and something we're going to have staff look into.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender.

I just want to announce that at 12:00 noon, the Committee is going to take a 15-minute recess, give everybody an opportunity to take care of things, some members have certain things to go to. We are going to convene back here at 12:15. For those of you listening on the Internet, the Internet will continue to play dead air for those 15 minutes, but we promise you that we won't start before 12:15.

Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

Going back to the written testimony that you gave us on the four components of your contract, I just wanted a clarification on C: "maintain the ETC system for a period of two years after final acceptance by the Consortium." Is that different than the eight years that the original contract envisioned before the Consortium owned everything?

MR. WALTERS: Well, it was envisioned that the State would take over maintenance responsibility after two years. They would train their own employees to maintain the system.

ASSEMBLYWOMAN STENDER: I don't think I'm clear yet. Because as I read some of the information, it looks like the contract with MFS originally, to get this up and running, was for an eight-year period in which to implement the entire system.

MR. WALTERS: I think that was eight years to run the Customer Service Center and the Violation Processing Center. The actual roadway maintenance, I think, was stated as -- I believe this is true. I haven't read this in the contract myself, but there's a two-year maintenance, too, that we are responsible for that we would get paid for. And then, during that time frame, roadway crews from the State would be trained to maintain the equipment. We're open-- I mean, I'm certain that that two years could be extended if it was required.

ASSEMBLYWOMAN STENDER: I don't think I'm clear yet, because-- According to what I had read, it was that MFS-- In the event that MFS has not recouped its cost by the end of an eight-year period, the Consortium will then be obligated to pay MFS the difference between incoming costs but will have the least revenues out of which to do so, if that becomes necessary.

MR. WALTERS: This would be for the Customer Service Center and the Violation Processing Center, I assume?

ASSEMBLYWOMAN STENDER: It's all one contract.

MR. WALTERS: We're really talking about two different things. We've got the centers that need to operate and there's certain costs associated with them. Those operate over an eight-year contract, and the Customer Service Center is currently subcontracted to J. P. Morgan Chase. And then you have the actual roadway maintenance. This would be the cameras, any of the lane equipment that needed to be maintained, any software that needed to be maintained, and that extends for an additional two years after final acceptance. During that time frame, it was envisioned -- my understanding,

it was envisioned that the authorities would train their own crews and become self-sufficient at maintaining the roadways.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: If that's not -- that could be open for discussion, but that was my understanding of what was supposed to be happening.

ASSEMBLYWOMAN STENDER: Okay. I guess we'll get some more clarification as we go through the process. And the other thing was that you also talked about operating the Customer Service Center and the Violation Processing Center. It said, "that we have subcontracted the CSC to J. P. Morgan," which makes it sound like that's something new. Yet, in the original contract, it was always Chase Manhattan.

MR. WALTERS: Yes. It's been -- and I didn't mean to imply that that was something that we had done. It's been that way for many years since it's opened. I agree.

ASSEMBLYWOMAN STENDER: Okay. And that's what you're saying, is that after it's -- you think that after the whole project is accepted by the State, that you would, for two more years, continue to operate and be paid in sort of a transition. Am I saying that right?

MR. WALTERS: Actually, I think-- Let me see if I can go at this a little differently. There are really two parts of the--

ASSEMBLYWOMAN STENDER: Contract, right.

MR. WALTERS: The contract. The CSC and VPC, you're right, I believe that is an eight-year contract.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: All Right. And we would have responsibility for continuing to do that.

ASSEMBLYWOMAN STENDER: Until? What's the end point of not being--

MR. WALTERS: It was an eight-year contract, and I think it started in operation in '98 or '99, I think in the time line, somewhere in that neighborhood, so that would have to be a contract extension negotiated at that point. The two-year road maintenance was specifically -- that comment in my testimony was aimed at the actual roadway maintenance and not the Customer Service Center or the VPC.

ASSEMBLYWOMAN STENDER: Okay. So it's almost like you see that there's two contracts for two aspects.

MR. WALTERS: Well, there are-- Yes. I see it as two different parts, yes. And, in fact, I think the contract reflects it that way.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Ahearn.

ASSEMBLYMAN AHEARN: Yes, sir. Could you tell us who the major subcontractors are or were, in the past, and what their areas of expertise are or were?

MR. WALTERS: In which areas?

ASSEMBLYMAN AHEARN: You mentioned Chase was a subcontractor earlier?

MR. WALTERS: Yes. We have Chase. Well, they obviously run a very large customer service center and other financial transaction -- are very competent in this area and have developed a lot of the software and very competent contractors and known for this area. One of the major contractors,

I think, on the construction I think has been a company called Railroad -- it's a New Jersey company. We could give you a list of all the contractors.

ASSEMBLYMAN AHEARN: And what they were responsible for, that would be great, yes.

Thank you.

MR. WALTERS: I mean, I could certainly do that. Yes, what they're responsible for. We could give you a list of all of them.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Impreveduto, and then Assemblywoman Stender.

ASSEMBLYMAN IMPREVEDUTO: Yes. Just one final question I have, and it goes back to what we talked about earlier about the WorldCom and selling off to Able. Do you know if any of the executives at the time that you sold to Able, or soon thereafter, were former executives of WorldCom or employees of WorldCom?

MR. WALTERS: I don't know. I don't have any personal knowledge of that. We'd have to research that for you.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman. Going back to the Customer Service Center aspect of it, so J. P. Morgan has been doing this from the very beginning?

MR. WALTERS: Chase, yes.

ASSEMBLYWOMAN STENDER: Chase, okay. So all the frustrations that so many people have had have been with how they've been operating it all along.

MR. WALTERS: Yes, but, we're responsible. I'm not saying that we're not responsible.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: We're responsible for-- They're a subcontractor, and we're responsible for them.

ASSEMBLYWOMAN STENDER: So you're responsible for overseeing it?

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: Okay. We talked a little bit before about the issue of-- Today you're telling us that these problems with that Customer Service Center have been improved.

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: Again, there can always be improvement. You never finish in those areas. But in my review of their performance here, this year, it appears to me that they are answering the phones in a ready fashion. They have a self-service Website that patrons use -- transactions a month on the Website, and there is also a voice response unit where folks who don't have a computer can also use a voice-response unit to do automatic transactions. And they continue to improve both of those on a monthly basis.

ASSEMBLYWOMAN STENDER: I have a specific question on one of the problems, based on one of the letters that I've received from people who have had problems. Apparently, sometimes drivers go through lanes and they go to exit and yet there are only E-ZPass lanes, and they don't have the E-ZPass. Because they're backing up traffic, they're waved through by an

attendant, okay. You're going, but yet there's no ability apparently for the attendants to deal with that--

MR. WALTERS: Well, there are some--

ASSEMBLYWOMAN STENDER: --because then they're getting violation notices, having been waved through by an attendant.

MR. WALTERS: I believe there are some business rules that someone needs to be picked up a number of times as a violator before a violation notice would be sent. I don't know specifically what those rules are. I don't know if you want them to be public, quite frankly, what those business rules are. You may want to know, but being that this is being broadcast over the Internet, you may not want to have those types of questions answered here.

ASSEMBLYWOMAN STENDER: But what I really want to know is that you're really taking action here to address the difficulties that people continue to have with the system.

MR. WALTERS: Absolutely. We recognize that there are still issues. And again, we are not disavowing any responsibility for any of those issues, and we are here to work the problems, resolve the problems, and complete the construction of this project. That is what we want to do. We can do, if we get cooperation, we get realistic business decisions made, we can have this completed in four to six months.

ASSEMBLYWOMAN STENDER: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Mr. Chairman, it seems to me that a major premise why we're here, other than perhaps operational issues, is the initial financing scheme that was represented to our State officials.

Sir, in reviewing the initial contract that we have here between the New Jersey Turnpike Authority and MFS Network Technologies, Section 6.08 addresses in two short paragraphs the financing for the project and indicates that the contractor will make arrangements to appear before NJEDA for the bonding. A thought occurs to me. If we're looking for documents that would address the soundness of this proposal, that perhaps that contractor gave certain documents to NJEDA, and perhaps at one of our next hearings we could have a representative from that agency there with the documents, if they exist.

ASSEMBLYMAN WISNIEWSKI: I think that's an excellent suggestion.

ASSEMBLYMAN D'AMATO: Thank you.

ASSEMBLYMAN WISNIEWSKI: This is as good a moment as any to take a short break. The Committee will stand at recess for 15 minutes. We intend to be back here at 12:15.

Thank you.

RECESS

AFTER RECESS:

ASSEMBLYMAN WISNIEWSKI: Okay. That was 15 minutes on legislative time, in case anybody was keeping track, especially our listeners on the Internet.

We're going to divert our business slightly. Mr. Walters will continue testifying at 1:00, the representative from WorldCom.

We also have here today, and I want to have them testify, representatives from the New Jersey Motor Truck Association and their constituent members, to tell us about the difficulties they've had with the E-ZPass system and the business problems that it creates.

So, Gail, if you would come up with your group.

Red to testify. Push the button down so it's red. (referring to PA microphone)

DENISE A. CIOK: Okay. Good afternoon, my name is Denise Ciok. I'm Vice-President of Port Jersey Transportation. I'm also Vice-President of New Jersey Motor Truck Association, and I'm also Chairperson for a committee put together by the New Jersey Motor Truck Association and New Jersey Turnpike regarding E-ZPass.

The New Jersey Motor Truck Association was and is very supportive of having E-ZPass on the New Jersey Turnpike. Although E-ZPass creates easier travel on the highways that use it, it has been a difficult program to administer. Since the inception of the E-ZPass program, our members have experienced enormous difficulties in managing the administrative process. As a result, we formed a committee to address these extensive problems with the New Jersey Turnpike Authority. The committee had been meeting with the New Jersey Turnpike Authority regarding these issues since June of 2001.

Checking the invoices and researching violations has become an administrative nightmare for our industry and has cost our members thousands of dollars. Our industry has received numerous violations for misreads or no-reads when passing through some of the tollbooths in New Jersey. We have also experienced duplicate charges and tolls indicating that we entered on the eastern spur and exited on the western spur. In some cases, our members have had to employ additional staff just to review and address issues. When we have adjusted our invoice to the correct amount, we have lost our discount due to the system's inability to apply a credit for incorrect billings. Therefore, the invoice shows up as not paid in full, which causes the loss of the discount. In other cases, I am sure, due to the burdensome process, some have chosen to pay the invoice without review, and that also is a costly mistake.

Our company alone has received 286 violations, each received in a single envelope which cost the Turnpike \$97.24, in stamps alone, to mail out. It has been taking us up to a half hour to investigate each violation, at a cost of approximately \$4290. Currently, we return all violations and request the Turnpike to research and resolve. Even though we return the violations, a letter must be typed indicating the violation number and the issue. This also is a cost to our industry. All invoices that are received are verified for duplicate charges, one way moves, which causes a full rate to be charged, and any Class 1 charges on tractors, which means that you have been charged for your axle charges and probably for the car behind you. It is almost impossible to check every transaction. This process takes us approximately four hours per month at an approximate cost of \$60. In addition, copies of the invoice must be sent

with a letter indicating the issues and the deductions -- again, more time and more money spent.

We conducted a survey of our members on Thursday, March 14. While we only received 57 responses, due to the short notice and time frame allowed to reply, the data clearly shows that our members, large and small, are having a difficult time administering E-ZPass.

We surveyed our members and 57 responses: 51 of our members said that they review their E-ZPass statements; 6 said they do not review the statements at all. Manpower needed to review varied: 32 said 1 person; 11, 2 people; 6 needed more than 3; and 2 of our members said they needed 4 to 6 people to administrate this process.

The hours to review these weekly problems were varied: one to two hours for 25; three to four hours for 10 of our members. The cost to administer the review: 27 of our members said it cost them anywhere from \$25 to \$100 per week; 15 said anywhere from \$101 to \$200; and then we had some of our members say it cost them as much as \$600 to \$650 per week to administer.

The average number of violations received monthly varied also: 1 to 20 of the respondents said 30 violations; 21 to 40, 9; and so on. Monthly violations found to be invalid: 90 percent to 100 percent were invalid by 40 respondents. The average monthly charges by these members were -- 5 of them were under \$500 a month; 17 were anywhere from \$10,000 to \$40,000 per month in fees; \$5001 to \$9000 were 7.

I think some of the questions that we still had on the plate when the New Jersey Turnpike and the New Jersey Motor Truck Association was still

meeting were, how do we still correct the violations we are still receiving? We're still receiving misreads, lane failures. We still want rear cameras. Rear cameras are causing the issues, we want front cameras. We're still waiting to see when mixed mode and front cameras will be placed on all of the exits. We want discounts for volume users. We want to know why checks are not being applied to the accounts in a timely manner, causing loss of discount and low balance and no balance for our carriers. I've also been aware that prepaid customers are having the same difficulty responding to incorrect charges as postpaid accounts.

What can be done to correct E-ZPass issues? Well, first of all, we'd like you to supply our carriers with a simple device to test the life of the batteries in the transponders. The transponders should have user replaceable batteries, which means we should be able to replace them on our own. Front placed cameras should be installed in all toll areas, as soon as possible, to help reduce the amount of violations. Checks should be applied upon receipt to avoid any lost discounts to our industry. Carriers should have easy access to customer service for quick response on all issues. Current complaints have been extremely high on resolving issues through any of the customer service. Correct lane failures are still an issue. Failures have been occurring in the same lanes at the same toll plazas far too long. A perfect example is Exit 14A: Lane A has been nonfunctioning. Technical difficulties still need major improvements.

Overall, we love the E-ZPass, but it has been a nightmare to administrate on the New Jersey Turnpike. We don't have those same issues

on the other toll roads that we experience currently, and we need to have it corrected.

ASSEMBLYMAN WISNIEWSKI: Thank you for your testimony. The transponders that are in each of your member's trucks--

MS. CIOK: Yes.

ASSEMBLYMAN WISNIEWSKI: They are the same type of transponders that you find in a car or any other vehicle, correct?

MS. CIOK: Correct. Well, the transponders on the trucks are-- We currently have roof mounted. On your cars, they're usually in your windshield, but they are the same transponders that are used through all the other toll agencies, yes.

ASSEMBLYMAN WISNIEWSKI: And is the New Jersey system the only system where you're finding this exorbitant number of violation notices?

MS. CIOK: Yes, it is.

ASSEMBLYMAN WISNIEWSKI: And I want to open it up to the Committee for questioning in a second. Could you quantify for us, on an average basis, the cost to a member trucking company to deal with the notices and the violations? Is there an average cost per company that's being experienced?

MS. CIOK: Basically, when we did our quick review, it varies based on small to large. We tried to quantify in the questions that we asked to our membership, but I can give you a little insight. One particular carrier, who is very small, who has five trucks, received 56 violations in one month and chose to get off E-ZPass, and that was on the Turnpike alone. I have other

members here with us today who I'm sure will be able to testify that they receive numerous amount of violations on a daily basis, depending on how big or small you are.

ASSEMBLYMAN WISNIEWSKI: Any other members have questions?

Assemblyman Gusciora.

ASSEMBLYMAN GUSCIORA: Thank you, Mr. Chair.

Denise, do any of your members comment to their experience in other neighboring states? Do they have just as much difficulty in, say, Pennsylvania or New York, or has anyone mentioned anything about it?

MS. CIOK: No, we do not. We do not experience the same problems as we do on the Turnpike.

ASSEMBLYMAN GUSCIORA: So you know for a fact then that they don't have the same problems in other states?

MS. CIOK: Yes, I do.

ASSEMBLYMAN GUSCIORA: Okay. Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

On the issue of the batteries on the transponders, isn't it the same transponder -- is it the same transponder that they use in all of the east coast, if you go to E-ZPass from New Hampshire to North Carolina?

MS. CIOK: Yes, but what we're looking for is a way to test the battery. There could be a time -- because our transponders are probably almost seven years old at this time. And what we asked for was a way that we could check the battery on the transponders in case we had a faulty one to replace

it. The only way you can check a battery right now is to take your transponder to Secaucus and have it checked. What we were looking for was the tool to make sure that we could manage the transponders, also, and make sure that the batteries were properly used and that they could be replaced.

ASSEMBLYWOMAN STENDER: I know that we've had some of the readings fail -- a lot of the complaints have to do with low battery readings. Have you found that to be disproportionately high in New Jersey than other states?

GAIL E. TOTH: Well, we're running into a situation that the batteries are pretty much expiring. Because with the Turnpike, they're saying it's a six-to seven-year life span. Many of our transponders are reaching that deadline. The problem that we're having, as a trucking industry as opposed to an individual commuter in a car, we have fleets of trucks. Some of them, we have a thousand trucks, that they have to be fitted with transponders. The way the current system works now is, if your transponder goes bad, you go down to Secaucus and get it changed. In other words, we have to get 1000 trucks all off the road for one day to go down there and get them all redone, which is the point that we're looking for. And maybe if you have to just do it for the industrial side, the commercial side of the use, would be to have batteries that we can put in and out on that transponder so we don't have to take our whole fleet down for the day just to switch transponders. We're at the end of an age point right now.

ASSEMBLYWOMAN STENDER: I understand all of those pieces. So, does that mean then that the information that we've had about

these transponders being -- they're failing or there's low battery readings, is that as a result of the fact that the trucking industry is on the end of the cycle?

MATTHEW WRIGHT: Assemblywoman Stender, I can tell you from our experience that's not the case.

ASSEMBLYWOMAN STENDER: Okay.

MR. WRIGHT: I think ideally a transponder that is hardwired to the vehicle and operates off the vehicle power, electrical system, would make the most sense, so that we don't ever have to replace a transponder. In my fleet, our transponders are all relatively new -- two or three years. All of our equipment is equipped with a roof mount and permanently affixed transponders. They're not on the windshield and they're not on the license plate, okay. And what we've experienced is that we operate extensively between Virginia and Maine. We operate very extensively in New Jersey and New York, in the tri-state area. What we're experiencing is about 10 percent of our transactions on the Turnpike are resulting in a violations notice. Each of those violations notices involves a proper read of the transponder either on entry or exit, but not on the corollary event. In that instance, and we're using E-ZPass throughout the northeast, any toll authority that honors E-ZPass or has it functioning, we are using it for. We are encouraging our drivers to stay on the toll roads and use those toll facilities. We don't have a violations rate with any other toll authority, except the New Jersey Turnpike. What our violations are telling us is that the toll lanes are not properly reading the transponder sometimes. It seems somewhat random, and we will frequently have it read either on entry or not on exit, or read on exit but not on entry.

What that says to me is there is a technical hardware issue here that has not been addressed.

What is annoying to us is the fact that we spend scores of hours every month, because we refuse to accept some arbitrary average toll on these violations, which was proposed at one point to us. We want to properly pay our toll bill, but as good fiscal discipline from our standpoint and in my accounts payable department to pay bills properly. So, when we get a violations notice, we know the violation notice is not accurate because all of our trucks are equipped with E-ZPass and have transponders that are working on all the MTA bridges, the Port Authority bridges, the Delaware Turnpike, wherever, even the Mass Turnpike. What we'll do is then we'll research time, date, entry, exit, and will then have to send a letter back to the collection authority and say, "The truck entered here and it exited here and here's what we owe you and here's your check." But you can see why that's very annoying and frustrating for us. This system has tremendous productivity benefits. It has tremendous environmental benefits from the standpoint of traffic congestion and air pollution, and it has tremendous benefits from the standpoint of congestion in general, which is a quality of life issue, but it doesn't work right.

ASSEMBLYWOMAN STENDER: In New Jersey.

MR. WRIGHT: It doesn't work right in New Jersey, and that's why we're frustrated.

ASSEMBLYMAN WISNIEWSKI: Can I just interject with one minor housekeeping -- could you give us your name and your affiliation?

MR. WRIGHT: Yes, I'm sorry, Chairman Wisniewski.

My name is Matthew Wright. I'm the President and owner of Apgar Brothers Incorporated, which is a heavy-duty flatbed tractor trailer operation. We deliver building and construction materials throughout the northeast, but predominately in New York, New Jersey, and Connecticut.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Impreveduto, you have a question.

ASSEMBLYMAN IMPREVEDUTO: Can I go on? You shut me off again, John. (referring to PA microphone)

ASSEMBLYMAN WISNIEWSKI: I'm not touching it.

ASSEMBLYMAN IMPREVEDUTO: Hit your-- Okay. We're on. First, let me say good afternoon and how is Sam Cunninghame doing?

MR. WRIGHT: Good.

MS. CIOK: Good, thank you.

ASSEMBLYMAN IMPREVEDUTO: We heard earlier today, from WorldCom, that 50 percent of all the problems or roughly 50 percent of all the problems, in fact it's 49 percent, are because of the transponder -- the little thing we put in the windshield. You're telling me that the transponders that you got from New Jersey mounted in your windshields, wherever you mount them on the trucks, work well every place else except in New Jersey. So then I guess it's not the transponder.

MR. WRIGHT: That's correct. We have been-- That's correct. We have been experiencing-- We operate on the New York Thruway daily. We operate hundreds of transactions a week over the MTA and Port Authority facilities. We operate daily on the Mass Turnpike. We operate daily on the

Delaware Memorial Bridge. I'm not sure, I think the Delaware Turnpike now is E-ZPass. We're excited about the prospect of the Pennsylvania Turnpike being on E-ZPass very soon, because we operate there. On the New York State Thruway, I think we had maybe three or four violations in all of last year. We get violation notices from New Jersey by the bucket load.

ASSEMBLYMAN IMPREVEDUTO: What's disturbing me here is the contractor who says, now that we're responsible for building the system, I think, and they'll only be responsible, however, for their piece of it, which is the, I guess, the reading systems and the fiber optics and all that stuff, and it's the transponders that are causing the problem. I guess you're the witness that's telling me now that I've got my transponder and like everybody got theirs right here in New Jersey and it works great every place else except in New Jersey. The correlation that I'm beginning to see here is that, was this system set up so that there are more violations automatically, so that we can pay for this system like -- whoever it was that thought of this system that said that we're going to pay for it through violations. Are we creating--

Was the system designed to create violations that don't exist, in the hope that people in three months time -- I know, I have four of them, one for each of the cars, and my daughters are up and down the Turnpike and the Parkway like they have nothing else to do. (laughter) So, at the end of the three-month period, I've got this voluminous -- and I can imagine what yours look like in a trucking company -- and you try to go through all of them. But I don't know where the hell my kids are half the time, I mean, they're traveling all over the place. So I'm just paying it.

But there was one thing that I found that was interesting is they had me getting on -- I live in Secaucus, which is north -- they had me getting on the Atlantic City Expressway, but they had no tolls for me getting to it on the same day. I found it difficult to imagine that I could fly to Atlantic City with my car and then drive through the Expressway. But it would have cost me more money-- Actually it would have cost 4 cents more to protest -- still it wasn't worth it. (laughter)

MR. WRIGHT: Unfortunately, Assemblyman Impreveduto, we have a much higher toll to pay.

ASSEMBLYMAN IMPREVEDUTO: Yes.

MR. WRIGHT: And we're happy to pay our toll because it's an infrastructure that's very important to us. Quite honestly, the Turnpike Authority has been compassionate but really unable to fix the problem, which to me appears to be a hardware problem. The toll plazas, when we pass through the lanes, do not properly read those transponders, and the transponders are not broken. Because those same transponders will go-- I can go-- We do hundreds of transactions a day with MTA and with the Port Authority, and we have zero violations. We have zero violations, very nearly zero violations on the New York State Thruway, and we have no violations on the Mass Pike.

ASSEMBLYMAN IMPREVEDUTO: Only New York is not paying for their system with their violations, so they wouldn't need any violations.

MR. WRIGHT: Well, yes, but--

ASSEMBLYMAN IMPREVEDUTO: See, we're paying for our system through the violations. Now, if you were a good citizen, you would just want to pay more. (laughter)

MR. WRIGHT: Yes. I don't want to criticize anybody, but I don't understand the rationale behind trying to pay for what amounts to a public infrastructure on the basis of violations. We're not violators and don't want to be violators. We don't want to be accused of being violators, and frankly, I don't think that's a great way to pay for the system. I think it ought to be funded some other way.

ASSEMBLYMAN IMPREVEDUTO: Well, that's what this is looking into. But I just found it important to know from you that your stuff works everywhere else but here, and it's the same stuff I've got.

MR. WRIGHT: And quite honestly, if I could expand just for a moment. We supported-- I testified, in fact, on behalf of the Turnpike Authority in favor of the last toll increase, because it was going to be used partly to fund infrastructure and improvements like this, which will make that highway system better for us and more productive and less congestion and more environmentally friendly, etc., etc. So, you can see why we're frustrated with a constant stream of violation notices from one toll authority, when this seems to work pretty well everywhere else.

ASSEMBLYMAN IMPREVEDUTO: The system, when it works, it works great. It's just nice not having to sit in line waiting to pay a toll. I mean, when you can blow through it and just--

MR. WRIGHT: And the truck driver's day is already long enough.

ASSEMBLYMAN WISNIEWSKI: Gail, do you have additional individuals who wish to testify?

MS. TOTH: Yes, we do.

ASSEMBLYMAN WISNIEWSKI: Why don't we bring them up, if we can fit them up there and get extra chairs.

MS. TOTH: We have representatives from Wakefern. This is a very significant sized carrier in the State of New Jersey, bringing a lot of food for the ShopRite people, and they've had some real serious problems with E-Zpass.

LORELEI N. MOTTESE: Good morning, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: If you could identify yourself and your affiliation.

MS. MOTTESE: Lorelei Mottese, Manger of Government Relations for the Wakefern Food Corporation. Wakefern Food Corporation is based in Elizabeth, New Jersey. We are the largest retailer-owned cooperative in the entire world. We operate in seven northeastern states, with about 50,000 employees, 400 of which are professional drivers. We operate 24 hours a day, seven days a week, delivering perishable and non-perishable product to the ShopRite and Price Rite Supermarkets. We also operate approximately 400 tractor trailers and--

ASSEMBLYMAN WISNIEWSKI: Is your microphone on?
(referring to PA microphone)

MS. MOTTESE: The red light? It's on.

ASSEMBLYMAN IMPREVEDUTO: There you go. Now we got you.

MS. MOTTESE: Okay. We operate 400 tractors and approximately 2000 trailers. Our purpose is to come to you today, again, to say that the E-ZPass system certainly is a wonderful system, particularly when you're traveling over 27 million miles per year, as we do. However, we have encountered some difficulties, and we'd like to express those to you as one of the -- as the largest employer in the State of New Jersey.

With me is Mr. Charlie Amorosi, who is the Manager of Transportation for Wakefern Food Corporation, and he'd like to share with you some of the experiences we're having as they specifically relate to accounting.

CHARLES AMOROSI: Good afternoon, folks. What I would like to do is give you a visual aid. This is one day of reported violations, one day. (indicating paper) What we envisioned as a great productive system on the driving end, which is to get our drivers in the tractor and get them out to the customer, has become an accounting nightmare on the other end.

Someone asked, what is the cost? I can assure you we have two people, 40 hours a week, who do nothing but sift through this stuff and find that 90 percent of the time it's invalid. What we're trying to get across is that we are major users of the Turnpike, and we want to continue to be a major user. It is the right way to go. It's a productive way to get to your customer. What we're asking, as Denise has asked, is give us a device that will check the transponders to make sure that they are operating properly.

I would second what Matt Wright said. The problem we find is not the transponders, and the reason why I say that is we travel in four or five

other states. We use the same devices in New York, Delaware, and Mass. And if we get one a month, five a year, it's a lot.

Other things that we've asked for: their bills, one to an envelope; put a few more. Think of the postage. And finally, there is no order that they send their statement in. It's a random, ragtag order. We've asked to put the transponder numbers in an order so you can sift through this. All we're asking, folks, is that we get some response to what we're asking for. We believe in the system. We're going to continue to use it. It's the right thing to do. We spend \$110,000 a month on tolls on the Turnpike. We're not looking to avoid our fair share, but we certainly don't want to pay an average toll or an average violation when it really isn't true.

Thank you very much for listening.

MS. MOTTESE: And we wanted to add, Mr. Chairman, it's about \$2000 per month in errors on the bills once they're checked.

ASSEMBLYMAN WISNIEWSKI: Two thousand dollars in erroneous charges?

MS. MOTTESE: Correct.

MR. AMOROSI: Yes.

ASSEMBLYMAN IMPREVEDUTO: And we can pay this off if this keeps up. (laughter)

MR. AMOROSI: We can't afford it from an accounting standpoint, sir.

ASSEMBLYMAN WISNIEWSKI: Those are charges you don't have.

MS. MOTTESE: That's correct. Our charges are approximately \$110,000 per month, and when we finally go through and rectify it, they should be \$108,000.

ASSEMBLYMAN WISNIEWSKI: Do you know if, and this is just to all three of you, there are companies out there that don't have the resources to go through and check all this and wind up paying these tolls, because it's cheaper for them to pay the tolls than to hire somebody?

MS. CIOK: Absolutely. When we surveyed some of our members, they point blank said they do not research because they don't have the tools to do that. As a matter of fact, earlier I had said we had one small carrier who had five trucks who received 59 violations in one month and said, "I don't have the manpower to sit down and monitor with 59 violations. I'm off E-ZPass." And by being off E-ZPass, he loses discounts, he loses that productivity riding down the Turnpike. I mean, that's a big business decision for him.

ASSEMBLYMAN WISNIEWSKI: I have a follow-up question to that. Could you supply us with the names of those companies. We would be interested in exploring that further, those companies that just make it a business decision to pay the fine and move on.

MS. CIOK: Sure. We will ask them that.

ASSEMBLYMAN IMPREVEDUTO: Or quit. Or just quit.

ASSEMBLYMAN WISNIEWSKI: Or quit the E-ZPass system. What are the discounts that your industry gets by using the E-ZPass system on the Turnpike? It's a percentage -- I mean, I know it varies, I guess, from time of use, but is there an average percentage?

MS. CIOK: There is and I don't know it off the top of my head. There is an average. It's based on peak and off-peak times. Do you recall the percentages, Charlie. I don't have it off the top of my head--

MR. AMOROSI: No.

MS. CIOK: --but there's a percentage based on peak and off-peak times. And there is also a percentage based on whether you're a post-paid or pre-paid account.

ASSEMBLYMAN WISNIEWSKI: So there are companies out there that have made a business decision that it is cheaper to forego the discounts than to deal with E-ZPass?

MS. CIOK: Yes.

ASSEMBLYMAN WISNIEWSKI: Which is the wrong direction from a policy standpoint?

MS. CIOK: Absolutely. Right.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender. I'm sorry.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

I don't know whether you can answer this question or not, or whether we know what the information is, but we heard before from WorldCom that the problem was the Mark IV equipment that we had, that the contract required the State of New Jersey to use. I believe that it's Mark IV that actually makes the transponders. Do we know that? Does anybody know that? Yes.

ASSEMBLYMAN IMPREVEDUTO: Mark IV was the kind of transponder they were using. I'm not sure of the name of the company was that -- we buy them from.

ASSEMBLYMAN WISNIEWSKI: The company is Mark IV, Incorporated.

ASSEMBLYMAN IMPREVEDUTO: Oh, is it? Okay.

ASSEMBLYWOMAN STENDER: Yes. Mark IV is the company, and they make the transponders that WorldCom is blaming, but your industry does not have problems with transponders any place else except in New Jersey?

MS. CIOK: Right. Our original transponders came from MTA. They did not come from New Jersey.

ASSEMBLYMAN IMPREVEDUTO: Came from who?

MS. CIOK: MTA, through New York. Originally, you traveled with script in New York. And to receive your current discount, they more or less said, if you don't apply for your transponders into an automated system, you will lose your discount. Therefore, you run under transponders, which we purchased from the MTA six years ago.

ASSEMBLYWOMAN STENDER: That's Massachusetts?

MS. CIOK: No, that's New York.

ASSEMBLYWOMAN STENDER: MTA. Oh, okay.

ASSEMBLYMAN IMPREVEDUTO: You're using what kind of transponders right now?

MS. CIOK: Currently, right now I'm using New Jersey. But when I started on the program, I was using New York.

ASSEMBLYMAN IMPREVEDUTO: All right. But the New Jersey transponders that you're using outside of New Jersey--

MS. CIOK: Yes.

ASSEMBLYMAN IMPREVEDUTO: --did they create a problem?

MS. CIOK: You use one transponder regardless.

MR. AMOROSI: Yes. It's fixed to the truck. It's mounted on the roof of the truck.

ASSEMBLYMAN IMPREVEDUTO: Yes, I know. But when you go through the other place -- I think we heard earlier, when I asked the question -- that New Jersey transponder is not a problem any place else but in New Jersey?

MS. CIOK: Correct.

MR. AMOROSI: Correct. It works fine in every other agency that we deal with.

ASSEMBLYWOMAN STENDER: My add-on to that is, what else of the equipment that is in the process is part of this Mark IV grouping? It's the transponder, it's an antenna?

MS. CIOK: No, we don't use an antenna. There's just a transponder.

ASSEMBLYWOMAN STENDER: You just have the transponder.

MS. CIOK: The reading equipment would be on the--

ASSEMBLYMAN IMPREVEDUTO: Toll plaza.

MS. CIOK: --provider's side, which would be how they read it on point of entry and exit.

ASSEMBLYWOMAN STENDER: Do we know what the amount of equipment is?

ASSEMBLYMAN WISNIEWSKI: That's a great question to ask Mr. Walters when he resumes his testimony.

ASSEMBLYWOMAN STENDER: All right. And then the other question -- I don't know whether you'd know the answer to this either -- is do you know who-- In the other states, when you're dealing with these violations, do you know who it is that's running that in the other states?

MS. CIOK: I haven't had a violation in the other states?
(laughter)

MR. AMOROSI: And we get so few. (laughter)

ASSEMBLYWOMAN STENDER: Thank you.

I think that's another question for Mr. Walters.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Gusciora.

ASSEMBLYMAN GUSCIORA: Can you speak -- you cut me off again. (referring to PA microphone) Can you speak as to your experience with the Violation Processing Center? I would imagine if you said that it cost you about \$2000 a month in bogus violations, wouldn't someone, at some point, after a couple of months, decide to work with you guys and figure out what's going wrong?

MS. CIOK: Okay. That's why we developed a committee between the New Jersey Turnpike Authority and New Jersey Motor Truck Association, because we received numerous complaints from our membership stating that they were having issues on the Turnpike, receiving violations, not understanding how to read their bills, one-way entries, one-way exits, full-boat

payment. We did build a relationship with the Turnpike Authority. We got a group together, small group, on both sides, and we started to meet. We did a punch list, and basically, wore down that punch list on various items. We're at the point where we had made some headway, but the bottom line was we were not able to come out to the industry and say, the trucking industry -- when you receive this violation, here is how we want you to go, because we were still critiquing all that information with the heads of the Turnpike. So, we did make a lot of headway.

Since then, the administration has changed, so we now-- We'll start with new people and show where we're at. But we did solicit them, and they did come forward, and they did listen to us, and they did try to fix some of those issues. One of the biggest issues was why are you taking the rear plate, when a lot of times that rear plate doesn't belong to the tractor who's hauling it.

MR. AMOROSI: If I may add, the process was painstakingly slow, the progress that we made. In the meantime, we had continued to lose our discount, having to sift through all these violations. So there was some headway made, but I think the process needs to be speeded up.

ASSEMBLYMAN GUSCIORA: But again, with the personnel of the Violation Processing Center, do they understand that Wakefern is calling them every month -- \$2000 a month in bogus charges?

MR. AMOROSI: Yes, sir, they do. But again, everything was deferred to this group that would speak for them. That's what made the process so long.

ASSEMBLYMAN WISNIEWSKI: John, did you have something?

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman. Charlie, would you-- You sat through the beginning part of today's session?

MR. AMOROSI: Unfortunately, sir, I did not.

ASSEMBLYMAN BURZICHELLI: Oh, okay. What I was going to say to you is this discussion is being held on a number of levels; one, the business arrangements that lead us to this point, and the other thing is the level of consumer dissatisfaction that is occurring, such as with the Trucker's Association. Could you share a couple of those printed violation reports to the Committee? I'd be curious to see -- just to see how the language is and what they're saying to you in those envelopes?

MR. AMOROSI: Sure. Would you like to see one?

ASSEMBLYMAN BURZICHELLI: Just a point of curiosity, so we can circulate them among ourselves.

ASSEMBLYMAN WISNIEWSKI: That's one day's worth of notices?

MR. AMOROSI: Yes. This is one violation, one day. This is what it looks like and the envelope to pay it. (indicating letter and envelope)

ASSEMBLYMAN WISNIEWSKI: If I could just, while you're looking at that, you raised a question of the placement of the cameras. Now, the set up, as I understand it, is a shot is taken of the rear plate of the camera -- of the vehicle passing through the toll plaza.

MS. CIOK: Correct.

ASSEMBLYMAN WISNIEWSKI: And you talked about changing that. Explain why? What's the relevance of that?

MS. CIOK: Well, on the intermodal side of the business, some of our carriers have come forth and do not handle or own any of their trailers. They strictly work off the piers or off of Conrail or piggyback systems. What they do is they hook up to a container or a trailer that does not belong to them, pick it up, and deliver it to a customer. They don't own that piece of equipment. That piece of equipment is owned by a containership or what have you. If they receive a violation, that violation is sent to the owner of the container. That owner pays that violation and then sends the bill to the carrier. Now the carrier, at that point, has no place to dispute because if he doesn't reimburse that steamship line for that violation, the next time he goes back to pick up a container the steamship line is going to say, "You owe me X amount of dollars. I shut you out." Now, we did bring that to the New Jersey Turnpike Authority, and they did honor us and say if those issues happen to send them the violation and they would pay those, reimburse us. But again, it's a paperwork process. To research that document and follow that container from who had it and who was the driver that had it and was it something that really belonged to you is very cumbersome. In those cases of those drivers who don't own the equipment and they get a violation, that's exactly what happens. It goes to the owner.

ASSEMBLYMAN WISNIEWSKI: It sounds like an administrative nightmare. I guess the easy way to fix it is to make sure that the system works so that there are no erroneous violation notices. But until that happens, what is, in your opinion, the best way for the E-ZPass system to deal with, for instance, a stack of violation notices like that or all the other problems that have been going on?

MS. CIOK: I would send every violation and erroneous problem right back to the New Jersey Turnpike Authority and ask them if they can tell me exactly what I owe them. I'd be happy to pay it. Until that time, I won't pay it.

MR. AMOROSI: I think, sir, the accounting issue should be on their end, not on our end. What they're forcing us to do now is become the accountants and sift through these things. We agree, don't send them out.

ASSEMBLYMAN WISNIEWSKI: You've become part of the Violation Processing Center.

MS. CIOK: Right.

ASSEMBLYMAN WISNIEWSKI: Unwillingly.

MS. CIOK: We want to pay our fair share to drive along the highways. There's no doubt about it. We don't want to research the problems that the Turnpike has created. We want to work with them to resolve them, but we don't want to do the research. We've been doing the research for months. If they can tell us where we got on and where we got off, we'd be happy to pay that.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

This information that we have heard today, where the transponders are working effectively in other jurisdictions but, obviously, are malfunctioning in New Jersey, was this information conveyed to the Authority?

MS. CIOK: Yes, it was. And don't misconstrue, the transponders do work on certain exit and entry points on the Turnpike. It's not everywhere

where you're having a failure. There are only certain times that you can get on the Turnpike and get off the Turnpike and have positively good readings, but there are times where it will only read your exit and not your point of entry, and therefore, you are charged the length of the Turnpike. So, it's not that it's failing all of the time, which leads us to believe it's not the transponder that's failing, it's the lane that's failing.

MR. AMOROSI: We agree, sir. We think that the failure is the reading equipment. It's faulty in certain areas, and it needs to be fixed.

ASSEMBLYMAN D'AMATO: But what I need to know is, this information that the two of you just stated, this was conveyed to the Authority, correct?

MS. CIOK: Back to the New Jersey Turnpike Authority, through our committee.

ASSEMBLYMAN D'AMATO: Do you know if anybody, whether it was the Authority or any organization, conveyed or relayed this information to WorldCom or any of the predecessor corporations?

MS. CIOK: That I don't know. Present at the meeting was New Jersey Turnpike and people from Chase.

ASSEMBLYMAN D'AMATO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Any other questions from the Committee?

I'd just note that the violation notice that we're circulating here I found very interesting, because, as you said, has a photo of the rear license plate of the trailer, but it's a tractor trailer, and the plaza is the Garden State

Parkway, which I didn't think tractor trailers were allowed on the Garden State Parkway.

MS. CIOK: Yes, past 105.

MR. AMOROSI: Past Exit 105, sir.

ASSEMBLYMAN WISNIEWSKI: But this is in Woodbridge.

MS. CIOK: Oh.

MR. AMOROSI: Well, what does that tell you? (laughter)

ASSEMBLYMAN WISNIEWSKI: Thank you.

MR. AMOROSI: Since we can't get on there, we know it's a bogus violation.

ASSEMBLYMAN WISNIEWSKI: Any other questions from members of the Committee?

Assemblyman Gusciora, Vice Chairman.

ASSEMBLYMAN GUSCIORA: Denise, can you tell us who makes up the committee in the Trucking Association that's working with the Turnpike Authority?

MS. CIOK: Yes, Charlie Amorosi was on the committee with me, Matt Wright, who you heard from earlier today; and a gentleman by the name of Willie Grotto (phonetic spelling) and myself was on that committee; and Gail Toth from the New Jersey Motor Truck Association.

ASSEMBLYMAN WISNIEWSKI: Yes. Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

Real quick, the bogus tolls or the bogus--

ASSEMBLYMAN WISNIEWSKI: Notices.

ASSEMBLYMAN IMPREVEDUTO: --notices -- thank you. I couldn't think of the word -- on the container trucks, takes the back plate. How many container trucks travel the Turnpike?

MS. CIOK: Oh, thousands. I couldn't even begin to imagine. I mean, we're the largest--

ASSEMBLYMAN IMPREVEDUTO: Wouldn't you say there's more container trucks traveling than regular street -- than regular tractor trailers?

MS. CIOK: No. I don't think so, regular trailers.

ASSEMBLYMAN IMPREVEDUTO: But there are a lot of them?

MS. CIOK: Oh, sure.

ASSEMBLYMAN IMPREVEDUTO: On a daily basis there are lots?

MS. CIOK: That seaport is full.

MR. AMOROSI: Yes. Sure.

ASSEMBLYMAN IMPREVEDUTO: I would just be curious to know the rate of violations on the container trucks. Is there a way to know that?

MS. CIOK: I guess there's a way we can try to put a notice out, a poll, to our membership that strictly deals with that to find out.

ASSEMBLYMAN IMPREVEDUTO: Because if the Turnpike is going to pick up the tab for those, that's a lot of money going out somewhere else that shouldn't have gone out in the first place.

MS. CIOK: Yes.

ASSEMBLYMAN IMPREVEDUTO: So, I mean, somebody is paying for it somewhere, and eventually, it's going to be the consumer.

MS. CIOK: I mean, basically our committee consisted of a for-hire carrier, a private carrier, and a gentleman who just does container work.

ASSEMBLYMAN IMPREVEDUTO: Because what happens, if the Turnpike picks up the tab, the contractor gets it as a malfunction because the system didn't work, so we're paying twice.

MS. CIOK: Again, we, as an industry, have always said we want to pay our fair share. We just don't want to be burdened with having to do the research on a statement that's a month old and reevaluate every bill that comes in. It should be an easy process. It's a wonderful technology, E-ZPass, to be able to expedite traffic through our highways, but this has been an administrative nightmare for us.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Is there somebody from the Turnpike that's on that committee?

MS. CIOK: Several people from the Turnpike were on that committee, yes.

ASSEMBLYMAN WISNIEWSKI: Currently?

MS. CIOK: Well, currently, we're kind of up in limbo. Our last meeting didn't happen, but I still have communications with those same people, yes.

ASSEMBLYMAN WISNIEWSKI: Who are they?

MS. CIOK: It was Ed Gross, a young lady by the name of Barbara Demetski--

MR. AMOROSI: Donna Manuelli.

MS. CIOK: Donna Manuelli. I can't remember the other gentleman's name.

ASSEMBLYMAN IMPREVEDUTO: Was that Mr. Gross, the--

MS. CIOK: Yes, the executive director.

MR. AMOROSI: Yes.

MS. CIOK: They also had two people on from -- Vicky Gretskey was from the Chase Group, representing the customer service end.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

On the issue of Violation Center and the Customer Service Center, earlier WorldCom told us that they have been working to streamline the process and that they have made it a lot better in the last couple of months. Have you any comment on that?

MR. AMOROSI: I can't attest to that. I haven't seen that.

ASSEMBLYWOMAN STENDER: So, it hasn't appeared to -- hasn't felt like it's gotten any better in recent months?

MR. AMOROSI: No, ma'am.

ASSEMBLYMAN WISNIEWSKI: Any other questions from the members of the Committee? (no response)

I'd like to thank you all for coming today. Your testimony has been helpful to the Committee. I appreciate it. If there's any additional information, will you supply it to us? And if you have a written copy of the opening statement that you made, it would be helpful for us to have.

MS. CIOK: No problem.

ASSEMBLYMAN WISNIEWSKI: Thank you.

MS. CIOK: Thank you.

MS. MOTTESE: Thank you, Mr. Chairman.

MR. AMOROSI: Thank you.

ASSEMBLYMAN WISNIEWSKI: Mr. Walters, Mr. Maiman.

I hope you were able to find the cafeteria.

MR. WALTERS: Yes, we did.

MR. MAIMAN: The cuisine was excellent, as always.

ASSEMBLYMAN WISNIEWSKI: I'd like to thank you for being back. We have a lot of follow-up questions, some questions that were prompted by the testimony that you just caught the tail end of. But let me just start off, there were a couple of things that I wanted to ask, but obviously we got sidetracked on a couple of issues.

We talked about WorldCom's business now having several other electronic toll collection operations that are in the process of either being fulfilled or worked on, but no active plans to solicit more. What are those other toll collection systems that WorldCom is involved with currently?

MR. WALTERS: There's a project in Virginia, outside of Richmond, where there's a maintenance contract.

ASSEMBLYMAN WISNIEWSKI: Maintenance.

MR. WALTERS: We delivered a system, and we now are maintaining a system for the Richmond Toll Authority, I believe. What I'll have to do is, I'll come back to you and give you the formal names of these organizations and how you contact them if you wish to do so.

ASSEMBLYMAN WISNIEWSKI: Sure. But if you could just give us a general description right now.

MR. WALTERS: There's a toll -- one of the toll bridges across the bay into San Francisco, where we have a VPC and an operating system there, and they're apparently very pleased with the delivery that we've made. There's a tollway just north of Los Angeles, a private tollway, where we've delivered a system several years ago. So those are the four active -- well, plus the Regional Consortium -- those are the three other contracts that we currently have active, other than the Regional Consortium contract. But again, we're not in -- we don't have sales folks or marketing plans to market the system and sell and take other contracts.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Yes. Mr. Walters, I just want to go back, just to clarify one thing and then to ask a question. All morning long we talked about the business plan and all that kind of stuff, and your answer was, "Look, we were only here for three months." Was it from October to December or October to January of '96?

MR. WALTERS: December to March.

ASSEMBLYMAN IMPREVEDUTO: Whatever it was, December to March, okay, that you were there, when did you begin looking -- do you know when WorldCom began looking at the purchase of MFS?

MR. WALTERS: MFSNT? No, I don't personally know.

ASSEMBLYMAN IMPREVEDUTO: Was it--

MR. WALTERS: I was not -- you have to understand -- I was at a different company at that point in time. I actually was--

ASSEMBLYMAN IMPREVEDUTO: It wasn't Able, was it? I'm only kidding.

MR. WALTERS: No, it wasn't.

ASSEMBLYMAN IMPREVEDUTO: I was only teasing, I'm sorry.

ASSEMBLYMAN WISNIEWSKI: Excuse me, Mr. Walters.

I'm not sure you are both talking about the same issue. I think what Assemblyman Impreveduto is talking about is in the fall of 2001, when Adesta went bankrupt.

MR. WALTERS: Oh, I'm sorry.

ASSEMBLYMAN IMPREVEDUTO: No. No. No.

MR. WALTERS: No, he was talking about '96.

ASSEMBLYMAN IMPREVEDUTO: Original.

ASSEMBLYMAN WISNIEWSKI: Oh, '96. Oh.

ASSEMBLYMAN IMPREVEDUTO: Yes. The first proposal went out in April, right, of '96?

MR. WALTERS: Yes. Yes.

ASSEMBLYMAN IMPREVEDUTO: And then final and best offer was in October of '96 and then MFS and WorldCom hooked up in March, right?

MR. WALTERS: Yes. Right.

ASSEMBLYMAN IMPREVEDUTO: So, it's between -- December is when they got the okay to do the project.

MR. WALTERS: No, it was March '97 when the contract was awarded of '97. I believe it was December of '96 when the MFS-WorldCom merger was approved.

ASSEMBLYMAN IMPREVEDUTO: Okay. So the approval was in December--

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: --of '96? So 12/96 you get the approval to merge?

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: Okay. And that sometime before that is when MFS on it's own--

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: --did the bidding -- the initial bidding for this project?

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: When WorldCom buys a company or merges with a company, do they look into the background of the company? Would they look to see what contracts they had out there, available, what they're doing? Would that seem like prudent business sense?

MR. WALTERS: Absolutely.

ASSEMBLYMAN IMPREVEDUTO: So wouldn't it seem that WorldCom would have looked at the contracts that MFS was bidding on?

MR. WALTERS: I would imagine so. Again, I can't specifically say whether or not-- Understand that MFSNT was a very small piece of MFS. It was a very small subsidiary of MFS. The whole reason of that merger was

that MFS had a very substantial metropolitan fiber, network and local, which was very core to our business at that time. So it's likely that there was very little effort placed in what would, at that time, be considered a line of business that was not core, and a lot more time and focus placed on the other assets of MFS. MFS was a huge company at the time. Uni-net (phonetic spelling), which was a very large Internet company was also part of that acquisition. This was a smaller piece. I'm not saying that it didn't look at, but the main event, if you will, was happening elsewhere in that acquisition.

ASSEMBLYMAN IMPREVEDUTO: So that \$200 million contract was smaller than most of the other things that MFS was doing.

MR. WALTERS: Well, at that time, they didn't have a contract, you remember.

ASSEMBLYMAN IMPREVEDUTO: But they were bidding for one.

MR. WALTERS: Well, the contract wasn't awarded until March, so I'm certain that by the time it got signed, I'm certain that it was looked at, absolutely, by senior executives, before it was signed. It might not necessarily have been looked at in a great deal of detail prior to the acquisition. It was an open business.

ASSEMBLYMAN IMPREVEDUTO: I just wondered, because WorldCom keeps saying, like, it wasn't our business plan, it was theirs. But I have to believe that long before you merged or purchased MFS, someone looked at that business plan, that contract, that they were going to do in New Jersey and said, "Yes, it's good. It's bad. It's crummy. It's not good. We

don't think it's a good idea." Some lawyer, somewhere, in doing his due diligence, had to see that somewhere.

MR. WALTERS: Assemblyman, I don't have any personal knowledge whether that was done or not, so I really can't say one way or another. But obviously, we can research who may have been available and knew about that transaction.

ASSEMBLYMAN IMPREVEDUTO: But I just want to be clear, it's not just three months that we're talking about, because you kept saying this morning, "in that three months, it's only three months." It wasn't really just three months. You looked at purchasing this company long before that three months. I mean, the due diligence went on long before, I'm sure.

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: So somebody was looking at that long before the three months.

MR. WALTERS: Right.

ASSEMBLYMAN IMPREVEDUTO: And my last question. We talked earlier this morning about being paid for malfunctioning, and you certainly pointed out to us that sometimes it's the malfunction of equipment that doesn't belong to you, and certainly--

MR. WALTERS: I'm saying it's uncertain at this time where the malfunctions are.

ASSEMBLYMAN IMPREVEDUTO: And that was where it brought me -- we talked about the fact that the transponder, you said to me, was that the State ordered you to purchase that from some other company somewhere else.

MR. WALTERS: That's right. The State has the contract.

ASSEMBLYMAN IMPREVEDUTO: And certainly, if the malfunction was because of the transponder and you had to review it, you should be paid for that and maybe you should. But we're hearing later that people using the transponder, the very same transponder they are using in New Jersey -- when I spoke to the Motor Truck people, they said they are using that transponder, the very same one, all over the tri-state region. It doesn't happen in New York, and it doesn't happen in Connecticut, in Massachusetts. It only malfunctions in New Jersey. So, is it the transponder, or is it part of the equipment that you're responsible for? That's my question.

MR. WALTERS: Yes. We've heard those same comments. All I can say is that when we've tried to get data from the other roadways to really -- to go down the path and investigate just a little bit, no one really will share that information.

ASSEMBLYMAN IMPREVEDUTO: Well, what we have though--

MR. WALTERS: Well, let me finish.

ASSEMBLYMAN IMPREVEDUTO: Yes.

MR. WALTERS: I heard part of the testimony. I don't know what revision level their transponders are, whether it's compatible with the AVI -- the antennas that were purchased by the Consortium to be installed on the roadways here in New Jersey. There are literally hundreds of reasons why we can have these problems. These could be small little tuning issues that we're working through. That's exactly why we were working with the Consortium, with Rapid Tolls, with Mark IV to determine -- no one denies, and no one is trying to eliminate the facts that we have higher no-read rates between the

transponders that are running through E-ZPass on these roadways and our AVI equipment. The issue is why.

ASSEMBLYMAN IMPREVEDUTO: And that's why--

MR. WALTERS: And that's the question that we all are working very hard to answer. We will figure it out, and we will find out.

ASSEMBLYMAN IMPREVEDUTO: Just so that you're clear, the statement that was made to us that originally they had MTI or MTF, Massachusetts.

ASSEMBLYWOMAN STENDER: MTA, New York.

ASSEMBLYMAN IMPREVEDUTO: MTA in New York, MTA transponders, and they have all since been changed to the very same New Jersey transponders that we all use. Since that's happened, they are still getting no false or no violations coming from other states using that New Jersey transponder, and the only place they're getting violations is in New Jersey.

MR. WALTERS: Well, you have to look at the roadways. I mean, those roadways have barriers. What's the speed by which they go through the barriers?

ASSEMBLYMAN IMPREVEDUTO: Well, that's it. If it's--

MR. WALTERS: Those are the things that we have to look at specifically.

ASSEMBLYMAN IMPREVEDUTO: Well, who's responsible for maintaining or for wiring the barrier? Wasn't that WorldCom?

MR. WALTERS: There aren't any barriers on these -- our system.

ASSEMBLYMAN IMPREVEDUTO: No, in New Jersey.

MR. WALTERS: There aren't any.

ASSEMBLYMAN IMPREVEDUTO: Well, when you go into a tollbooth in New Jersey--

MR. WALTERS: A barrier is something that comes down and stops you from going if you don't pass the toll. So, I mean, you would think that if the thing doesn't go up, you're not going to drive your truck through the barrier. I mean, I can very easily understand why there isn't a violation rate in other roadways, because their application is a little different. I think-- It's not-- You just can't fly at the high level and reach simple answers here. You have to dig into the details.

ASSEMBLYMAN IMPREVEDUTO: That's all I have.

ASSEMBLYMAN WISNIEWSKI: I don't think anybody is trying to--

MR. WALTERS: One line, sort of, little pieces of information--

ASSEMBLYMAN WISNIEWSKI: I don't think anybody is trying to fly at a high level. There's a lot of information to the--

ASSEMBLYMAN IMPREVEDUTO: Do most other places have barriers?

MR. WALTERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: Well, then, what's -- doesn't that defeat the purpose of E-ZPass?

MR. WALTERS: You'd have to ask the other--

ASSEMBLYMAN IMPREVEDUTO: I mean, if you've got to stop -- I might as well pay the toll if I have to wait for the thing to go up.

MR. WALTERS: Assemblyman, you'd have to ask the other roadways why they have them. I don't know.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Burzichelli.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman.

Mr. Walters, thank you for rejoining us and your patience, as we try to understand, work through, and achieve the goal of this Committee, which is to make sure that New Jersey does not find itself in this position again.

If you can help clarify for me and maybe in a position -- you originally read off the list of chronological events that occurred and were helpful with that. I've made notes, and now, as I'm hearing this afternoon, I think my notes are confused. Are you in a position to supply us with that, so we're all working from the same paper? Because now, I'm suddenly confused. In December of '96, I originally have WorldCom purchasing MFS, or did WorldCom purchase MFSNT?

MR. WALTERS: MFS.

ASSEMBLYMAN BURZICHELLI: Okay.

MR. WALTERS: MFSNT, at the time, was a subsidiary of MFS.

ASSEMBLYMAN BURZICHELLI: Okay. Okay.

MR. WALTERS: MFS was a much larger organization, a much larger company.

ASSEMBLYMAN BURZICHELLI: Can we get that list from you?

MR. WALTERS: These notes are handwritten.

ASSEMBLYMAN BURZICHELLI: Okay.

MR. WALTERS: I'm sure -- I'm certain that we can put them in a form to supply to you.

ASSEMBLYMAN BURZICHELLI: It would just be helpful.

MR. WALTERS: Yes.

ASSEMBLYMAN BURZICHELLI: So that way we're always working from the same set, because--

MR. WALTERS: Yes, sir, we certainly can do that.

ASSEMBLYMAN BURZICHELLI: --that clarification is important.

MR. WALTERS: We can do that.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.
Assemblyman Ahearn.

ASSEMBLYMAN AHEARN: Yes, sir.

Is there, I guess, an accepted error rate or anticipated error rate in the contract here?

MR. WALTERS: Yes. The Mark IV, I believe -- I don't think this is spelled out in the contract, but I believe the AVI equipment has an error rate of 99.982-something -- kind of in that area. There is no--

ASSEMBLYMAN AHEARN: That's just the AVI transponder itself?

MR. WALTERS: That's just the AVI -- yes, yes.

ASSEMBLYMAN AHEARN: Okay. Now, within the rest of the system from the AVI back, is there an error range within that, whether it's processing or--

MR. WALTERS: Yes. All-- First of all, you don't want to lose any transactions, so there's zero tolerance for any lost transactions or any lost revenues.

ASSEMBLYMAN AHEARN: Is that specified in the contract? It's a zero fault tolerance?

ASSEMBLYMAN WISNIEWSKI: Could I just ask you to put your microphone on? (referring to PA microphone)

MR. WALTERS: I'm certain that it is. I'm certain that it is, yes.

ASSEMBLYMAN AHEARN: Okay. Because I--

MR. WALTERS: This would be lost revenue. I mean, this is a financial transaction billing system, so we have to ensure that we have data integrity, redundant--

ASSEMBLYMAN AHEARN: Lost revenue assumes that you're not trying to collect money from people you shouldn't be, because they had gotten a false citation.

MR. WALTERS: Right. I'm talking about the 98 percent or 97 percent of the time when it does work and works well, and you're collecting the right revenue.

ASSEMBLYMAN AHEARN: Okay. I'm talking purely within the realm of technology here. There are very few technologies are 100 percent.

MR. WALTERS: We are currently experiencing--

ASSEMBLYMAN AHEARN: And I'm concerned if we entered into a contract anticipating that this technology would be 100 percent foolproof.

MR. WALTERS: It's not specified in the contract, to my knowledge, what the violation rate should be or what an acceptable violation rate should be.

ASSEMBLYMAN AHEARN: Okay. Within the realm of the rates that we're hitting, do we have any numbers as to how many of those are within this 99.98 percent--

MR. WALTERS: Yes.

ASSEMBLYMAN AHEARN: --expected AVI failure rate, and how many are outside of that?

MR. WALTERS: Yes. Well, right now, we believe that because 45 percent, in the three studies we've done -- 45 percent are no-reads from the tags. From the reader at this time, I would say that that is outside the specification for the performance of the AVI equipment. And again, I want to make sure that I emphasize this, we don't know why, all right. I'm not saying that this is-- That's the area that we need to research the most and understand.

ASSEMBLYMAN AHEARN: Were there any radio frequency management studies done, given the various communications systems that are up and down the highway -- State Police. That's all been looked into?

MR. WALTERS: Yes. In fact, there's a study that was scheduled to be done, a more in-depth study that was scheduled to be done by Mark IV, beginning next week in the Turnpike. We're reviewing a test plan right now to make sure where they were going to do much more RF-type testing. In fact, we have some of our engineers from our technology labs from WorldCom -- we have some of our engineers that are also going to participate in that.

ASSEMBLYMAN AHEARN: That will be going on?

MR. WALTERS: It is my understanding that that is scheduled to occur next week. We're making arrangements to review the test plans. This is something that's actively being worked.

ASSEMBLYMAN AHEARN: Okay. Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

I just want to go back for a second, Mr. Walters. Explain the AVI? You use the term AVI.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: What are the component parts? Now, the first question I have for that is, is all of the AVI Mark IV?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Okay. So all of the parts that constitute the AVI were specified by the State as coming from Mark IV, the contractor with whom the State made a deal with for whatever reason, qualifications, whatever, and said to WorldCom or said to MFS, "When you're installing the electronic toll collection, you must use the Mark IV AVI system."

MR. WALTERS: Yes, sir.

ASSEMBLYMAN WISNIEWSKI: What is part of that -- what are the component parts?

MR. WALTERS: The component parts are the tag that goes in the car or the truck or the vehicle.

ASSEMBLYMAN WISNIEWSKI: The transponder?

MR. WALTERS: Yes. And also the antenna and reader that sits -- it's the flat white antenna that sits in every lane and that comprises the AVI equipment.

ASSEMBLYMAN WISNIEWSKI: Now, we've also heard, I think at the last Committee hearing, about a light curtain that exists.

MR. WALTERS: Yes. That's the AVC system, so you can identify how many axles, how tall the vehicle is, those sort of things.

ASSEMBLYMAN WISNIEWSKI: Is that part of the AVI?

MR. WALTERS: No, it's not.

ASSEMBLYMAN WISNIEWSKI: Okay. So, really, when we're talking about the AVI, we're talking about the transmitter and antenna?

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: The transmitter on the car, the antenna at the toll lane?

MR. WALTERS: Yes, sir.

ASSEMBLYMAN WISNIEWSKI: Now, you mentioned other toll roads that you're working on, the Richmond Toll Authority, the San Francisco Bay area, and an area north of Los Angeles. In each of those systems, is the Mark IV equipment used?

MR. WALTERS: I'm not certain.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: We don't have problems in that area, and I, quite frankly, have not dug into the details as much as I've researched these details.

ASSEMBLYMAN WISNIEWSKI: Okay. One of the issues that was raised, and I know Assemblyman Impreveduto touched upon it, was the testimony by the Motor Truck Association that says they use the transponder they get through the New Jersey E-ZPass program. They have it mounted on their truck. The only place they get the stacks of notices that they get is in New Jersey, that they don't have the violation rate that they experience here elsewhere. You pointed out the issue of the gate that, perhaps-- I assume what you were saying is, perhaps, because there is a gate that does not let you proceed, the reason why the violations are lower is that it gets-- How does it happen? Did they work it out there at the lane, or do they let the truck go through and then send them a bill later?

MR. WALTERS: I'm not certain how those other roadways work, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Okay. So you just know that the gate, for some reason, prevents errant violations?

MR. WALTERS: Well, obviously, when you have to slow down to the point where you have a gate, that could give this equipment a little bit more opportunity to work.

ASSEMBLYMAN WISNIEWSKI: Oh, okay. All right. So you're saying that it might be a technological issue with the speed of the truck passing through?

MR. WALTERS: It certainly could be. Again, this is all just guess work on my part at this point. If we need to focus in on the exact issue that's occurring and research the issue that's occurring, that we know is occurring on the roadways here in New Jersey, and that's what we're trying to stick to is how

do we make the New Jersey application in a way that that has been installed, the way it's been envisioned, from a business point of view, work the best we can get it to work.

ASSEMBLYMAN WISNIEWSKI: Let's assume for a moment that, after studies are done, WorldCom makes a determination that there is a particular problem with the AVI system -- transponders, whatever. There's a problem. That's a system manufactured by Mark IV. Is there a provision in the contract, or is there some clause that allows you to go back to Mark IV and say, "Come back in, reinstall this, and fix it?"

MR. WALTERS: We don't have the contract with Mark IV, so I don't know what provisions are in the Mark IV contract.

ASSEMBLYMAN WISNIEWSKI: All right. Maybe I didn't word it. You have a contract with the State?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: And your contract with the State is to put this system into place -- a part of it was using Mark IV technology.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: They said, "Here, use these transponders. Use this equipment."

MR. WALTERS: That's right.

ASSEMBLYMAN WISNIEWSKI: Now, you're responsible for making this system work?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: So, at some point in time you're going to say to the Turnpike Authority, "It's working, except, hypothetically--

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: --that we have a problem with Mark IV." What do you do?

MR. WALTERS: Well, we're going to work until we find out what the problems are, and we're going to correct them.

ASSEMBLYMAN WISNIEWSKI: Let's assume you identify that the Mark IV system that's installed is not working.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Whether it's not reading, whatever, do you go to the State and say rebid it? Do you go to the State and say, you take care of Mark IV? Is there a provision in the contract, since you're the general contractor in a sense, that allows you directly to go to Mark IV and say, "Hey, give us new equipment?"

MR. WALTERS: No.

ASSEMBLYMAN WISNIEWSKI: What's the course of action that you would take?

MR. WALTERS: This is one of the things that I found, when I first started questioning in this area back in October. Our engineers have been pretty much removed from interaction -- our design engineers have been pretty removed from interaction with Mark IV from a point of view of any of the proprietary nature working. Because there is a proprietary protocol and a proprietary intellectual property in their tags and in their reader, we are

prevented from really dialoguing with them and digging into. I would like the opportunity to do that, quite frankly, Mr. Chairman. I would like the opportunity to go down that path with them a little bit, and I would like the opportunity to see some of this equipment undergo an independent study in a lab somewhere, but it's really not my role to do that.

ASSEMBLYMAN WISNIEWSKI: Are you saying that Mark IV has said to WorldCom, "We won't talk to you."

MR. WALTERS: Oh, they're cooperating with us. We're able to test. But for us to dig down into the engineering of their system--

ASSEMBLYMAN WISNIEWSKI: No. No. That's not what I'm asking. I'm not asking you to dig down. Let's assume that today we know it's X that's malfunctioning in the Mark IV system.

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: What do you, as the prime contractor, do to fix that? Is there a provision that allows you to go to Mark IV and direct them to reinstall, to send you new equipment, do they pay you a damage clause, do they pay the-- What is the remedy once you know?

MR. WALTERS: The remedy, if there is a performance issue in the AVI equipment, as far as my understanding, that would be up to the Consortium to sort out with Mark IV, and we would do whatever we needed to do with the Consortium to either install or make any corrections or changes that needed to be made.

ASSEMBLYMAN WISNIEWSKI: So, the contract says to WorldCom or to whoever has the contract at the moment, "Install this

equipment, hope it works.” And if it doesn’t, the Consortium-- You don’t have any direct role to fix the problem?

MR. WALTERS: No. We have integration responsibility, and we have an overall system, an end-to-end system responsibility. I want to make sure you’re clear. I am not disavowing our responsibility here. We are not walking away from this problem.

ASSEMBLYMAN WISNIEWSKI: I’m not trying to suggest that.

MR. WALTERS: We are actively trying to sort it out. This is the most significant part of this whole system. And if we could figure out what is wrong, we will fix a lot of issues. It will go a long way to fixing the business plan.

ASSEMBLYMAN WISNIEWSKI: But that’s what I’m trying to understand. Once you figure out what is wrong--

MR. WALTERS: We are going to help remedy it.

ASSEMBLYMAN WISNIEWSKI: Okay. Does that mean that you, WorldCom, is going to undertake a-- If it’s the AVI system, that you, WorldCom, is going to undertake a replacement of those parts, or is that something, as you said, that’s up to the Consortium to decide?

MR. WALTERS: I think if there was a major retrofit or something else that needs to be done, if we find that we’ve-- Although we’ve installed and have confirmed that we’ve installed and commissioned the antennas to the AVI supplier’s spec, and they’ve come out to the lanes and said, “Yes, you’ve installed this properly,” and where we haven’t-- We’ve installed 677 lanes, and where we haven’t -- in some cases we haven’t -- we’ve gone back and corrected that. We’ve had all of that looked at, revisited. If they come back and now

say, well, that wasn't the real spec and it really needs to be installed there, then I think that's an issue that we're going to have to work with the Consortium and figure out. That's going to be a lot of added cost to go back and repoint, reinstall the antennas, move them, that sort of stuff. I wouldn't expect that we would be liable. We install it to the spec, if that's true, if that ends up being a remedy. I think this is the root of your question. I don't think that we're going to do that at our cost. No. I don't think that we would accept that.

ASSEMBLYMAN WISNIEWSKI: So you would go back to the Consortium and say, "We've identified the problem. Now we need to identify how we fix it."

MR. WALTERS: Yes. Understand the Consortium is in the lead with Mark IV to resolve the problem. The Consortium leads the meetings with Mark IV to resolve the problem today. The meetings that we've been having over the last couple of weeks and months, the Consortium and their -- and their consultants are leading the dialogue with Mark IV.

ASSEMBLYMAN WISNIEWSKI: Moving away from the AVI system, that provides the input for the system?

MR. WALTERS: That provides the reads.

ASSEMBLYMAN WISNIEWSKI: It gets the reads and it goes into a computer?

MR. WALTERS: A lane controller, yes, which we developed and developed for roadways, yes.

ASSEMBLYMAN WISNIEWSKI: So, one area of possible concern for malfunction is the AVI system? Another area potentially is, after

the inputs are taken from the AVI system, with computer processing and the software?

MR. WALTERS: Yes. But in the three studies that have been done, if you look at them, there has not been one case where our software has generated a false violation -- 26,000 observations done under very heavy scrutiny with cameras and a lot of equipment, not one case of a false image being sent to the violation processing center and our software. And when we send images to the violation processing center, in these studies that were done -- again, maybe not 100 percent and not 100 percent conclusive, but in the studies that have been done, the only time we send these violations is when we get the no-read or in some very small cases, obscure cases, where you have folks walking in between antennas, trying to get between lanes, where there's no other way to get there, so they step on treadles and get the system out of sequence. But that very quickly corrects itself. So, you have a very small error right there, quite acceptable, well within the bounds of performance.

But once you remove those and once these studies were done, there hasn't been any indication there is a software problem in our system.

ASSEMBLYMAN WISNIEWSKI: Who does the verification of that?

MR. WALTERS: That was done by Rapid Toll, the third party that the Consortium hired to do that. There's also been all kinds of financial audits that the roadways have gone through. There's a lot of money in these transactions, and, obviously, they have legacy accounting systems that are in all the roadways.

That's another thing that's not well understood. Each one of these roadways has different accounting systems. And our job was -- and very old accounting systems. And some of the accounting systems go back to the 1970s. And they're still using those accounting systems today in order to account for the revenue, and we're -- we have been -- part of our contract is actually to reverse engineer, literally reverse engineer, interfaces into these systems. And that's literally reverse engineer interfaces into these systems, because there's no documentation. There's no design documentation that's been provided, and that's a very rigorous process.

But we've gone through those audits. One of the last audits on the Garden State Parkway, for a couple of days, we had five errors out of 2.3 million transactions. Over an early period in January, we had five errors. That was the reason, by the way, that the Garden State Parkway prevented us from moving forward with lane commissioning at the Garden State Parkway. We had five errors out of 2.3 million transactions. That is not a reasonable business decision in my book. We have been delayed. It cost us extra money. It cost the State extra money. And somebody made a bad decision, in my opinion.

But we've gone back--

ASSEMBLYMAN WISNIEWSKI: Mr. Walters.

MR. WALTERS: We've gone back--

ASSEMBLYMAN WISNIEWSKI: To go back to those audits--

MR. WALTERS: We've gone back. We've found the reason for those five errors and have corrected it. We still can't -- we still can't do construction.

ASSEMBLYMAN WISNIEWSKI: To go back to those audits, so what you're saying is the third-party vendor that was contracted, that did this audit of the system, shows that the inputs that are coming into the system are all no-reads, the vehicle goes through--

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: It's not a case of the software misinterpreting the inputs?

MR. WALTERS: That's right. If you review it with -- and I'm sure you'll call them as witness -- I believe what their report says, and I don't have the quote, but in no case was there, you know, did our software fail to either send revenue generating transactions onto the host and cause a loss of revenue or did we send false violations to the violation processing center.

Now, again, the Consortium says it's not conclusive. You know, nothing is conclusive until we find what the root cause is, and I've been around systems like this, very complex systems, before. You know, it's not over until it's over, until you understand what's broke, and you fix it.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Ahearn.

ASSEMBLYMAN AHEARN: Yes, I realize you're not with Mark IV, but just if you can answer, do you know if the transponder is a digital or an analog radio RF transmission?

MR. WALTERS: You know, I'm not certain. Again, we don't have any information on their specs, but I believe it's a digital system. I'd find it hard to believe it wasn't. But it's possible it could be anything. I don't--

ASSEMBLYMAN AHEARN: That's my guess, too. I was curious if you knew for sure.

MR. WALTERS: Yes.

ASSEMBLYMAN AHEARN: Thank you.

MR. WALTERS: Again, we have not had any real detailed engineering sessions with them.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

On a different issue, you talked recently about wanting to complete the contract, and you thought that if you had cooperation, you could do it in three to six months.

MR. WALTERS: Four to six months.

ASSEMBLYWOMAN STENDER: Four to six, okay. The original contract was for how much money? Do you -- I mean, can you speak to the money issue in terms of the contract amount, and as you step in now, and how much money--

MR. WALTERS: Yes. I think -- please don't hold me to these numbers, because I reserve the right to come back and give you, in writing, the numbers. The ETC portion was -- the original contract, I believe, was for \$163 million, and the fiber-build was for \$60 million. And the fiber-build was completed, and the State has recouped that cost and money on top of that.

We believe that there's -- the cost to complete is about \$40 million left to complete the project. And we think that there's only about \$25 million left on the bonds to pay for it. It's kind of where we think we are at that point. Again, I reserve the right to come back and give that to you in a more formal way. But those are the numbers that -- because we think that there's a little bit

more exposure on the cost to complete than there's actually money there left to complete.

ASSEMBLYWOMAN STENDER: So, you're saying that the original contract, the two pieces, was \$223 million?

MR. WALTERS: Something in that neighborhood, yes.

ASSEMBLYWOMAN STENDER: And out of that, how much has been paid? So, you're saying, essentially, that 160 -- or 180, rather?

MR. WALTERS: I think all but about \$25 million has been paid.

ASSEMBLYWOMAN STENDER: Has been paid.

MR. WALTERS: And there's some retainings -- there's \$14 million worth of retainings that's been held back, as well, I believe.

ASSEMBLYWOMAN STENDER: So, the amount left, the 40 million you think is needed to complete is what you would get paid at the end of completion?

MR. WALTERS: Well, I don't know what we're going to get paid. I think I understand what it's going to cost.

ASSEMBLYWOMAN STENDER: I mean, that's what you would expect -- hope to get paid.

MR. WALTERS: Yes. You know, we're -- again, we're going to finish. If we have a cooperative environment, we're going to finish building this system.

ASSEMBLYWOMAN STENDER: And then the other -- a different subject. You had said earlier that you felt that the customer service center had been making improvements and things were getting a lot better. I don't think you were here for it, but when we heard from the trucking industry

earlier, they have not found that to be true. In fact, they don't see any particular difference in the last couple of months.

But apparently -- I mean, let's talk about it. Chase is the vender that's been running it from the very beginning.

MR. WALTERS: Yes, ma'am.

ASSEMBLYWOMAN STENDER: So, do you know if, in the other -- I mean, do they have, much like Mark IV was directed, apparently, in the contract to provide the hardware, apparently from the very beginning, Chase was supposed to do the service center. Do you have any information as to why they would have been picked as -- when we've seemed to have nothing but aggravation and grief with them running it?

MR. WALTERS: No, I don't know why they may have been chosen, initially, at all. Quite frankly, I think -- this is what I've seen -- I think they do a fairly good job. I think the problems -- there were some severe problems when the New Jersey Turnpike first came up with these Mark IVs, they literally were getting thousands of calls because of those malfunctions that no customer service center in any industry could have handled.

Since that time, since those problems have been resolved, we -- in the September-October time frame, the level of those problems has come down. They appear, again, in the January and February reviews that I've done. Since we've had ownership for the last two months, their call stats, their answering stats, their work times appear to be in line with industry standards.

Now, I'm certain there are other levels that we're going to have to get into. But I think that they're doing a fairly good job. I wouldn't -- you know, I necessarily wouldn't say they've been doing a bad job.

ASSEMBLYWOMAN STENDER: I really am sorry that you weren't here earlier, because I think you need to speak to Wakefern, look at their stack of violations from one day, versus what they say to be one -- a month, in other areas, or on a year-wide basis.

MR. WALTERS: But, ma'am, that's not the Customer Service Center. That's the Violation Processing Center.

ASSEMBLYWOMAN STENDER: Okay.

ASSEMBLYMAN WISNIEWSKI: Which you also run.

MR. WALTERS: Which we are also responsible for. But that is not Chase. I wanted to--

ASSEMBLYWOMAN STENDER: Okay.

ASSEMBLYMAN WISNIEWSKI: Assemblyman D'Amato.

ASSEMBLYMAN D'AMATO: Thank you, Mr. Chairman.

Mr. Walters, you're aware that when the E-ZPass system initially went operational that the posted speed limit at which an operator of a motor vehicle could go through a toll was five miles per hour?

MR. WALTERS: Yes, I was thinking 15 miles an hour, but that sounds about right.

ASSEMBLYMAN D'AMATO: I believe it was five. Wasn't it initially?

ASSEMBLYMAN GUSCIORA: Initially, it's five.

ASSEMBLYMAN D'AMATO: And then, was that a year-and-a-half ago, it went up to 15 miles per hour? Is that right?

MR. WALTERS: I understand it's 15 miles an hour now. That's my understanding.

ASSEMBLYMAN D'AMATO: Well, we do know it was five and then went to fifteen. My question is, do you know whether this system has a limit at which a vehicle -- there's a limit within which the system will be able to detect who the owner is of a particular vehicle?

MR. WALTERS: Yes, I'm certain that there's a limit there. I'm not familiar with that part. I mean, that goes right to the heart of the Mark IV performance, and that's an area where we're not empowered to ask those questions. That's a Consortium question.

ASSEMBLYMAN D'AMATO: Have you seen anything in writing, whether it's an engineering text or otherwise, to suggest that the speed limit should be returned to five miles per hour?

MR. WALTERS: Certainly that is a good observation and something that we ought to look at.

ASSEMBLYMAN D'AMATO: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Burzichelli, and then Assemblyman Ahearn.

ASSEMBLYMAN BURZICHELLI: Thank you, Mr. Chairman.

Mr. Walters, you mentioned on the other highways, where your system is in place and where things are going very well, who is the manufacturer of the AVIs in those, do you know?

MR. WALTERS: Again, you ask that question, I'm not certain. Again, I have not done the research on those systems. They haven't been a problem, and we've been spending all our time on this roadway.

ASSEMBLYMAN BURZICHELLI: Are there many other concerns out there that manufacture these systems? Do you have any sense of that?

MR. WALTERS: No. Quite frankly, what we hear back on the Mark IV system is that it works. We've heard exactly the same thing that you've been hearing here.

ASSEMBLYMAN BURZICHELLI: Okay.

MR. WALTERS: And that it's -- you know, it generally serves the purpose. There is usually a 1 to 2 percent error rate on most of these roadways that they have. I mean, if we could get -- quite frankly, I think if we could get -- the current rate is about 4 to 4.5 percent, the latest -- you know, I look at reports weekly, by lane, on both the roadways, and we're approaching about a 4 percent rate. With the current business rules the way they are, and if we make tuning and we work on these problems, I think we can get it. Probably the best we're going to get it is 3 percent unless we change business rules.

ASSEMBLYMAN BURZICHELLI: Being as knowledgeable in this field, have any of the other manufacturers you have available to you, their proprietary technology?

MR. WALTERS: I want to make sure you understand something. I'm not an expert in this field. What I've learned about this is what I've learned since October, okay. I understand systems engineering and can dig in that side of it, but I'm not an expert in this area.

ASSEMBLYMAN BURZICHELLI: Do you have any knowledge, does WorldCom have any interest in AVI manufacturing concerns?

MR. WALTERS: Say that again. I'm sorry.

ASSEMBLYMAN BURZICHELLI: Does WorldCom have any financial interest in any other AVI manufacturers? Do you have any knowledge of that?

MR. WALTERS: Not to my knowledge, no. Not to my knowledge, we have none, no.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Ahearn and then Assemblyman Gusciora.

ASSEMBLYMAN AHEARN: Yes, when the speed limit rules were changed up to 15, was there an increase in off-hits in the system?

MR. WALTERS: I'd have to go back and research that.

ASSEMBLYMAN AHEARN: If you could do that, that would be very helpful to pin that down.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Gusciora.

ASSEMBLYMAN GUSCIORA: Thank you, Mr. Chairman.

You alluded to if there is a cooperative environment. Who is not being cooperative?

MR. WALTERS: Well, I'll take you back to the observation I made earlier. We were -- had crews ready to go on the Garden State Parkway to finish the commissioning of the lanes and the construction on the lanes, and were told not to proceed, because over a three-day period, out of 2.3 million transactions, there were five errors. That, to me, is an unreasonable business decision and not a cooperative atmosphere.

ASSEMBLYMAN GUSCIORA: And who stated that?

MR. WALTERS: That's \$1.75, at 35 cents -- I think that math is right, maybe not.

ASSEMBLYMAN GUSCIORA: Who stated--

MR. WALTERS: That's \$1.75, and literally, it's costing us thousands -- tens of thousands of dollars a day to delay. And that's on our nickel.

ASSEMBLYMAN GUSCIORA: Who stated that, to stop after five--

MR. WALTERS: The Consortium.

ASSEMBLYMAN GUSCIORA: Who in the Consortium?

MR. WALTERS: The Garden State Parkway -- the Director of the Garden State Parkway, who has his engineers attend the technical meetings.

ASSEMBLYMAN GUSCIORA: Could you give us a name?

MR. WALTERS: I'm certain we could. I can't here, at the table.

ASSEMBLYMAN GUSCIORA: Now, before you -- I don't know if you heard the testimony from Wakefern, but they get about \$2,000 in bogus violations per month. Do you have an explanation for that?

MR. WALTERS: No. I would like to work more closely with them on that. It's the first I was hearing of it. I really would like to do some more research and work with them to work on it. I have no way of countering what they said. I'm certain what they say is true. I'd have to do more research on it.

ASSEMBLYMAN GUSCIORA: And what also concerned me was the testimony from the trucker's association. There were truckers that have decided just to turn in their E-ZPass because of the frustration with getting the bogus billings. And the testimony also said that was unique to this State, and that they had no other comparable problem in any other state.

MR. WALTERS: You know, again, I go back to the engineering on the roadways, the barriers, the speed at which they go through, the manufacturing dates on the AVI equipment, the software, the firmware that's running. I mean, there is just -- saying that everybody uses Mark IV, and it's the same, it's kind of like saying everybody's Microsoft is the same. It's, you know, you really have to dig down into this and look at the application to know what the differences are, and there are differences. Even though they seem subtle, but they can be important when you're trying to get another percent of performance out of the system.

I mean, we're down to the hard stuff at this point. We're down to the tuning. We're down to the fine stuff.

ASSEMBLYMAN GUSCIORA: But it's your testimony that you only had four bogus violations on the entire Parkway?

MR. WALTERS: No. No, my -- I said, on that three-day period, there was an audit -- a financial audit done, and these are the transactions that are the good -- these are the normal transactions that occur. There was 2.3 million transactions, which means valid reads and valid rights. These are not violations. And there were five error transactions out of 2.3 million -- \$1.75, at 35 cents -- I don't know if that's right. It sounds right. And that was the reason why we were prevented from moving forward with this construction project. On the Garden State Parkway, we have not moved forward in six weeks now -- no, more than that, more like 10 weeks since January 2nd, and every week it's costing us tens of thousands of dollars of delay.

ASSEMBLYMAN GUSCIORA: Out of this 2.3 million--

MR. WALTERS: And that's not reasonable to me. That is not a reasonable business decision.

ASSEMBLYMAN GUSCIORA: Out of these 2.3 million transactions, you just said there were only five erroneous violations given out?

MR. WALTERS: No, no.

ASSEMBLYMAN GUSCIORA: Does that include the amount of violations that were given out that were in error?

MR. WALTERS: No, sir. I'm not talking about violations. I'm not talking about violations. I'm talking about someone that normally goes through when the system works. The reason -- they were concerned about losing revenue. There are a high number of transactions -- 97 percent that work just fine, right. We had 2.3 million. These are not violations. These are good transactions, where the patron goes through the toll and we properly account and properly debit their account for the toll. There were five -- out of 2.3, in a three-day period, five error transactions, and we were told we could not proceed until we resolved those issues.

Now we've resolved them, now there's something else that's preventing us from going forward.

ASSEMBLYMAN GUSCIORA: Well, I don't know how you don't account for the \$2,000 in erroneous transactions with Wakefern alone. I think that is cause for pause. And that's totally unacceptable.

MR. WALTERS: I would like to dig -- again, we can only go by -- it's the first time I'm hearing that report, and no one -- we've not been asked to investigate that at all, to my knowledge, and I haven't, so I can't comment on that.

I can only comment on, you know, when we go to the regional meetings, when we go to make these decisions to proceed or not to proceed, and the technical program meetings, you know, we're working through status as it's presented to us.

ASSEMBLYMAN GUSCIORA: Now, on the--

MR. WALTERS: And I will work through any issue -- any issue that we have, we will not shrink from. We will work through any issue that we have until we get this working to everyone's satisfaction.

ASSEMBLYMAN GUSCIORA: I would ask you to work harder with Wakefern, because I don't think anyone is listening to them.

MR. WALTERS: I would like to. If we have a contact, we will.

ASSEMBLYMAN GUSCIORA: You stated that in 2001, you collected about \$9 million in violations and fines, but yet an account card that over \$20 million was spent in collection. Who pays for that 20 million. Is that WorldCom who eats that, or is that the taxpayers?

MR. WALTERS: Well, the roadway. I don't know where they get -- I assume they get the revenue from the patrons. I don't know if that's -- how you would--

ASSEMBLYMAN GUSCIORA: So you send the roadway a bill for \$20 million to collect \$9 million worth of fines?

MR. WALTERS: We send -- on a monthly basis, we invoice them based on the number of violations we processed, yes.

ASSEMBLYMAN GUSCIORA: Now, there was a fund set up originally?

MR. WALTERS: You know, I think we've been through this ground before. I agree that that is perverse incentive, that we've -- on several times here today, I've mentioned that we believe we have to change that model. That model doesn't work. It doesn't make sense. You know, any reasonable businessman would look at that and say, there's no way that that can continue. We've made recommendations on how to correct that. We're waiting to get that negotiated and fix that.

ASSEMBLYMAN GUSCIORA: What other recommendations that you made?

MR. WALTERS: We need to combine the customer service center and the VPC. We've looked at different pricing plans to get closer to our costs. You know, there are several other things that we've made recommendations on with them.

ASSEMBLYMAN GUSCIORA: And was that in writing?

MR. WALTERS: Yes, it was.

ASSEMBLYMAN GUSCIORA: Could we get a copy of that?

MR. WALTERS: I'm certain you could.

ASSEMBLYMAN GUSCIORA: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Just a follow-up. You used the phrase before, different pricing plans. You used that earlier in your testimony this morning. What do you mean by different pricing plans?

MR. WALTERS: That means that -- you know, the way the current contract, there's a very big margin for the contractor in this particular area. And we're not interested in -- we're not interested in that margin. We're interested in getting our costs, getting the system to perform the way it should,

and getting this turned over to an operating firm that's going to continue to operate it for years and years and years.

So we're looking at redoing the pricing so that it's something that, when you look at it, and committees such as yours will look at this as a business, can see that there's a reasonable business decision being made here and that the State's being well looked after. I mean, I agree--

ASSEMBLYMAN WISNIEWSKI: Maybe we could break it down a little more simplistically. The price of what? What are we pricing?

MR. WALTERS: The \$1.32 above the -- the \$1.32 per image above the base rate that is paid, by the contract, for every violation image that's read above the base limit.

ASSEMBLYMAN WISNIEWSKI: So you're saying that that should be lower?

MR. WALTERS: Yes. Yes, I am.

ASSEMBLYMAN WISNIEWSKI: You'd like to get -- you're saying that WorldCom would like to get paid less for each--

MR. WALTERS: I'm saying that we realize that that is not the way the system should operate, and we are willing to give, in that area, so that we can gain the cooperation to finish the system, yes.

ASSEMBLYMAN WISNIEWSKI: It's okay to say you're willing to get less.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: We appreciate that.

MR. WALTERS: Yes, we are. But we are -- we do want our costs recovered.

ASSEMBLYMAN WISNIEWSKI: Now, what do you mean by that?

MR. WALTERS: What it costs us -- the employees that we have there, the building, the rent, the power, the phones, what it costs us to run the center.

ASSEMBLYMAN WISNIEWSKI: Is that less than the \$1.30-something per image?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Okay. Just so I understand, we're talking about the same thing.

MR. WALTERS: Yes, it is.

ASSEMBLYMAN WISNIEWSKI: Someone had suggested to me, when you talk about changing the pricing plan, that you were, in fact, talking about raising the violation fee from 25 to a higher amount, so more revenue is collected. That's not what you're talking about?

MR. WALTERS: No.

ASSEMBLYMAN WISNIEWSKI: Okay. I just wanted to make sure we're clear on that.

MR. WALTERS: No.

ASSEMBLYMAN WISNIEWSKI: You're not talking about changing the penalty or the fee?

MR. WALTERS: We have -- no. But we have made -- we have made some suggestions on how other roadways -- we know how other roadways work, where additional revenue can -- reasonable revenue and reasonable expectations.

ASSEMBLYMAN WISNIEWSKI: What kind of additional revenue from what sources?

MR. WALTERS: I think some roadways charge you a monthly fee, just to have an account. Some roadways charge you to get the first tags. You pay for the tag.

ASSEMBLYMAN WISNIEWSKI: What does the tag cost you?

MR. WALTERS: I don't know. Since I don't have the contract and don't have a commercial relationship with Mark IV, I have no idea what those cost.

ASSEMBLYMAN WISNIEWSKI: When the E-ZPass Consortium receives an application for somebody to join, and that application results in them getting a transponder, doesn't the processing center send out that transponder?

MR. WALTERS: The customer service center does, yes. But we receive -- we receive them, and, in fact--

ASSEMBLYMAN WISNIEWSKI: Who do you receive them from?

MR. WALTERS: From the manufacturer.

ASSEMBLYMAN WISNIEWSKI: Directly? You send them an order, and they send them back to you?

MR. WALTERS: Yes. I believe -- no, the Consortium orders them, and they come in and we receive them for the Consortium.

ASSEMBLYMAN WISNIEWSKI: We'd like to have that clarified as to who's ordering them and who's paying for them.

MR. WALTERS: Okay. The Consortium is ordering them. I believe we are paying the invoice, and it's passed through to the Consortium. And, quite frankly, I don't know what the rates are.

ASSEMBLYMAN WISNIEWSKI: And that invoice is passed through as part of that monthly invoice that you send to the Consortium?

MR. WALTERS: That would be part of the monthly customer service for new tags, yes.

ASSEMBLYMAN WISNIEWSKI: And when the Executive Director of the Turnpike Authority was here, at our last meeting, she had suggested that the payment to WorldCom is based on -- there's a fixed amount that's paid pursuant to the contract, and then there's an amount that's paid for violations above a certain floor. Is that correct?

MR. WALTERS: Yes, we're talking about two other -- two pieces of the contract. One area is customer service.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: And now you're talking about the violation processing center. And what you just said about the violation processing center is true. We're paid up to a base amount to review images. I think it's in the neighborhood of 700,000 or 800,000 images a month, and then anything that goes above that, we're paid -- by contract, we're supposed to be paid \$1.32. And that's the area where we say we ought to negotiate that, because that is not what we recommend going forward.

ASSEMBLYMAN WISNIEWSKI: The images per month that you review are a lot more than 700,000 to 800,000?

MR. WALTERS: 1.6 million.

ASSEMBLYMAN WISNIEWSKI: So it's considerably more.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: The 700,000 to 800,000, that's part of the contract?

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Is that number--

MR. WALTERS: It's fixed in the contract.

ASSEMBLYMAN WISNIEWSKI: I understand it's fixed, but did that come from the experience elsewhere?

MR. WALTERS: It was written into the contract. I don't know where it came from. It's right out of the contract.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: I will tell you, it doesn't cover our costs.

ASSEMBLYMAN WISNIEWSKI: The fixed amount?

MR. WALTERS: The base amount does not cover our costs to run that center the way we're being asked to run it. Remember, we were also held accountable for the number of images we view, how frequently we get them out, some of the other performance characteristics that we can get penalized for if we don't review the images. So it's -- it's almost like you're in a Catch-22.

ASSEMBLYMAN WISNIEWSKI: The base amount--

MR. WALTERS: That's what we want to change.

ASSEMBLYMAN WISNIEWSKI: The base amount does not cover your costs?

MR. WALTERS: No, it does not.

ASSEMBLYMAN WISNIEWSKI: The \$1.30-something per image exceeds your costs?

MR. WALTERS: Yes. If we were to get the full contract amount, it would exceed our costs, yes.

ASSEMBLYMAN WISNIEWSKI: So, you're looking at something above the base amount, but less than \$1.32 per image?

MR. WALTERS: Yes. We're looking for our costs to be covered. That's really what we're looking for.

ASSEMBLYMAN WISNIEWSKI: I'm just trying to understand it, because on one hand you're saying that the base amount of the contract doesn't cover your costs.

MR. WALTERS: No, it doesn't, at the violation processing center.

ASSEMBLYMAN WISNIEWSKI: Well -- but the \$1.32 is part of the violation processing center.

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: But the \$1.32 that you collect exceeds your cost?

MR. WALTERS: For the images above the--

ASSEMBLYWOMAN STENDER: The 700,000.

MR. WALTERS: --above the base amount. You see, we review a number of images up to a base amount. I don't remember off the top of my head what the number is. It's right below a million. So that is covered by the base, fixed price. Anything above that, the contract states that we get the \$1.32, in the contract, all right. And what I'm saying is, if you take those two sources of revenue -- the base amount and the additional fee for every image

reviewed above the base amount -- yes, indeed, those two revenues are above our costs. And that's why we're willing to change the pricing and change the business -- change the operation of how -- we could lower our costs, get a better operating system, lower your costs.

ASSEMBLYMAN WISNIEWSKI: You talked about the financial plan, and when we first started talking about it, you said that in WorldCom's view, there was a distinction between the installation and operation of the E-ZPass system and the financial underpinnings that created the pay-as-you-go financing. You made that distinction, that WorldCom was not part of that.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Part of the installation, but not part of the financing.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Is a similar distinction drawn with regard to the fiber-optic leases?

MR. WALTERS: Yes. I mean, that's all part of that base contract.

ASSEMBLYMAN WISNIEWSKI: So, you're saying that it's WorldCom's view of the contract that certainly the installation of the fiber is part of it.

MR. WALTERS: That's complete.

ASSEMBLYMAN WISNIEWSKI: But in terms of the leasing out of the fiber?

MR. WALTERS: Oh, no. We're still under contract to sell -- to market that fiber. And we still have someone doing that.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. WALTERS: We have -- in fact, we have some active leads now. We got an update from our marketing group that is the third party that is actually marketing that area, and we're talking to leads right now to lease more of the fiber, more of the duct.

ASSEMBLYMAN WISNIEWSKI: But you're saying that the performance of those leases is not part of your contract?

MR. WALTERS: No. How can you predict what the market is going to be for an asset like that five years in advance? I mean, there's no way. I mean, certainly the value of that duct and fiber today is much less than it was three years ago.

ASSEMBLYMAN WISNIEWSKI: Well, I presume that's why--

MR. WALTERS: I mean, the market -- the market has gone down. You've got companies like Global Crossing--

ASSEMBLYMAN WISNIEWSKI: I would presume that's why the State would contract with an expert like WorldCom, who would be able to give them advice as to where the market would be.

MR. WALTERS: Yes. And we have -- we're obligated to have quarterly meetings with the Consortium and give them a status update on that. We have not had one this quarter yet.

ASSEMBLYMAN WISNIEWSKI: Were there any predictions that the fiber market was going to go through the floor? As I understand it, what was envisioned as revenue was 200 million, roughly, and what has been realized, through 80 percent leasing of the capacity, has been about 100 million in revenue. Was there ever a warning issued to the Consortium saying,

“You know, what you envisioned is not going to happen, because the whole market has changed”?

MR. WALTERS: All I can tell you is what I personally experienced, since I’ve been in these meetings since October. And I’ve been on the record, with the Consortium, saying that the market was depressed, the market had changed, the market had moved, and the value of those assets at the current time is not at the same level that it was four or five years ago, no. And what was done before, in ’97 or ’96, Mr. Chairman, I don’t -- I can’t say what was said. I didn’t make those statements. I don’t know what was done there.

ASSEMBLYMAN WISNIEWSKI: I just want to follow up on one last issue that you raised, talking about other ways to raise revenue. You talked about a monthly fee for the account holders, perhaps charging for, at least, the initial transponder. There are a couple of other issues that have come up, and I just wanted to address them with you.

I’ve read, within the metropolitan area -- I think in New York they’re experimenting, potentially, with using E-ZPass to pay for consumer purchases at fast-food restaurants.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: Does that result in revenue coming into the system?

MR. WALTERS: My understanding, there was other revenue in the business plan that was, you know, smart card sort of revenue, where parking lots and things of that nature -- drive through restaurants and things

of that nature, fast food -- could be paid in this manner. But I really have not done any research or looked at that at all, so I really couldn't comment.

But that, certainly -- I think there's been talk of that, but I don't know what action is under way in any of that area to do anything. I don't believe that we are under any obligation to research or search out those opportunities or produce any of those opportunities.

ASSEMBLYMAN WISNIEWSKI: Well, that's what I wanted to ask you next. As part of your negotiations with the State, you said that you believe that the rate you are collecting for the violation processing center, on a per piece basis, is above your cost. So there's going to be a whole host of issues that you discuss, presumably.

MR. WALTERS: Right.

ASSEMBLYMAN WISNIEWSKI: And, obviously, one that will come to pass is the revenue side of the picture for the State.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: And per month fees, and transponder fees, and potentially third party uses will all figure into that discussion. Is that something that WorldCom is actively going to suggest to the State, or is WorldCom going to have a passive role in that, and just await suggestions back?

MR. WALTERS: Actually, the revenue that the State is generating is really -- I mean, they set the toll rates. If they want these E-ZPass tags to be used in other types of financial transactions, I would think that it would be incumbent on the State to search those commercial opportunities out. I don't think we have any plans. I don't have anything actively working, right now,

to go out and search -- that I'm aware of -- search out these opportunities. And I have to say it's an area that I have not researched on this project. I've been more focused on the roadway performance issues than any of the other issues.

ASSEMBLYMAN WISNIEWSKI: That's good, because one of the issues that's been of concern that's been raised to me is that the contract allows WorldCom, for instance, to sell the database of names of users to third parties who are interested in acquiring that database. There's been a lot of talk in this state over the last several years about personal privacy. People object to having their names foisted off on third parties for marketing purposes, where the owner of that list profits.

Are there any plans, on WorldCom's part as a revenue enhancement, to sell that list or make it available to third parties?

MR. WALTERS: No. I wanted to state again, and just make sure that I clearly communicate that we do not see this E-ZPass as a line of business, or toll tags, or this ETC. We are not actively selling or marketing this system in an ETC scenario or any other scenario.

We don't see this as a line of business that we are going to retain in any form in the company, other than contractually, whatever we need to do to maintain this contract. We're not taking on new business. We're not looking at additional revenue streams here.

ASSEMBLYMAN WISNIEWSKI: That's not my question, though.

MR. WALTERS: This is about -- well, I mean, the answer to your question is, no, we are not planning to use -- we are not planning to sell the database. We are not planning to try to generate revenue off of it in any way.

ASSEMBLYMAN WISNIEWSKI: Okay. I just wanted to make sure that was clear, because, obviously, in your negotiations -- in WorldCom's negotiations, whatever they may be, with the Consortium, in terms of restructuring the deal, obviously a source of revenue that could potentially offset other items is a valuable database.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: And I think there are a lot of legislators who are concerned about what would happen with that information. And I think you're saying that that's not part of the plans of WorldCom, to sell that database. Is that a commitment you can make?

MR. WALTERS: You know, as I stand here today, that is a commitment from me. We have no plans to seek other revenue against that, right now. Obviously, we probably have the right in the contract, and I probably should talk to my attorneys and others before I make that--

ASSEMBLYMAN WISNIEWSKI: Well, that's why I raise it. You do have the right in the contract.

MR. WALTERS: We do have the right? Quite frankly, until you mentioned it, I didn't know that.

ASSEMBLYMAN WISNIEWSKI: Well, my hope is--

MR. WALTERS: That's how much we're -- we are focused on solving the problems and getting this contract complete. We are not trying to find some other way to make money here, all right, at the expense--

ASSEMBLYMAN WISNIEWSKI: My hope is that that will be a commitment from WorldCom not to sell that.

MR. WALTERS: We are not -- take it as a commitment, okay. Take it as a commitment. We are not looking for other opportunities here to seek revenue. We want to complete the contract. We want to get the system up and operating. We want a cooperative environment. We want realistic business decisions being made and reasonable business decisions being made about completing it. And that's what we're after.

ASSEMBLYMAN WISNIEWSKI: And just one follow-up that was just handed to me. You heard of this consortium or this committee that the Motor Truck Association--

MR. WALTERS: I just heard of it.

ASSEMBLYMAN WISNIEWSKI: You should, I would suggest, speak with them about being part of that committee to help them work through whatever difficulties they have.

MR. WALTERS: Well, it sounded like Chase was at the -- our subcontractor was at the meeting. So, you know, in a direct way, we were there, but we'll get more involved, directly, to see what we can do about it.

ASSEMBLYMAN WISNIEWSKI: I appreciate it.

Any other members of the Committee? Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you.

To follow up on the contract amounts for the project, you had said that it was 223 million you thought was the contract amount?

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: I'm just looking at one of the clips that we have that reports -- or as reported in the paper -- that the

Consortium signed a \$488 million contract with MFS. That's considerably different.

MR. WALTERS: I did mention to you that I needed to go back and review those numbers.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: And quite honestly, that could be the operating -- there are operating charges. Your specific question was about the construction and the construction bond. And I answered that question.

ASSEMBLYWOMAN STENDER: Okay.

MR. WALTERS: I think the 488 must include the operating costs at the CFC and the operating costs at the VPC that I didn't mention.

ASSEMBLYWOMAN STENDER: Oh, okay.

MR. WALTERS: That's probably the difference.

ASSEMBLYWOMAN STENDER: All right. Because I thought that there was only one contract for all of these pieces. I mean, I understand that it would be divided into a couple of subsections, but I guess what I'm looking for, really, is the total contract picture.

MR. WALTERS: We can break that out for you. I thought your question, when you mentioned it, was directed at the construction -- the ETC construction and the fiber construction.

ASSEMBLYWOMAN STENDER: Okay. Yes, if you could just give us clear indication on the amount of the contract and how much has been paid and how much is still outstanding from your point of view.

MR. WALTERS: Yes.

ASSEMBLYWOMAN STENDER: Thank you.

ASSEMBLYMAN WISNIEWSKI: Any other members of the Committee? (no response)

Mr. Walters, I want to thank you for coming here on behalf of WorldCom today. I just want to let you know that we're not finished with our inquiries as to WorldCom in particular but as to E-ZPass in general.

There have been a lot of questions asked of you today in which your response was that you would get us information, or that you would put us in touch or give us the name of those people who have that information. And I would hope that, through Mr. Maiman and through your attorneys, that you would be able to supply that to this Committee so that we can share that information. Once we have that, we, in fact, would like to have WorldCom come back if we have follow-up questions.

In particular, I think one area of inquiry that has left many of the Committee members wanting, and I'm sure there's someone in your organization who has more information, is about the interaction between WorldCom, MJS, and the State, back when the contract was initially being let. I think it's very important for us to understand that relationship and, in particular, what WorldCom understood about the obligations that were going to be undertaken when they acquired this company and what the State knew. Because one of the questions that's always raised is the State was dealing with entity A, in this entire prequalification process, back in '96-'97, and then there was a new company, and then there was another new company. And I think it's important for us to understand what was expected by all the parties, to have a more clear understanding. And that can only come from somebody

within your organization. I'm sure that there's somebody who has that historical perspective, and we would ask that they be available.

We also want to continue the questioning about the current operation of the system. But some of that is going to have to wait until we get some of the information that we've asked for today.

MR. WALTERS: Fine.

ASSEMBLYMAN WISNIEWSKI: So the invitation to testify before the Committee is still there. We'd like you to come back. We're going to meet again on Thursday. I'm not sure if your schedule permits on Thursday, but you might even have somebody who might be able to provide us with that information from the early perspective, about the early negotiations, who could provide us with that information on Thursday.

MR. WALTERS: Unfortunately, I have a previous commitment on Thursday, so I hope that I could personally come back at a later time. I wasn't planning -- it was a personal commitment that I can't break. And we'll look into whether or not it's appropriate -- whether we have someone that is currently still employed at WorldCom. Quite frankly, I think that the types of information that you're asking for and the types of questions that you're asking of a historical nature, I believe you're going to have to ask others that -- the other executives that are no longer at WorldCom, but who were responsible for the companies in question at the time, to come talk to you, because I think it's really only those individuals that could speak to some of the details that you're asking.

And we're going to try to get you a list of names as best we can.

ASSEMBLYMAN WISNIEWSKI: Clearly, if there's somebody within your control at WorldCom, we'd love to have them come on Thursday. If not, if there are names of individuals and their whereabouts, to the extent that that can be provided, we'd like that.

MR. WALTERS: Yes.

ASSEMBLYMAN WISNIEWSKI: I know there's an individual from MFS who signed the contract, William Thompson, (phonetic) I'm not sure he's still with -- that was his name, William Thompson -- whether he's still with WorldCom or not

MR. WALTERS: I don't believe he is.

ASSEMBLYMAN WISNIEWSKI: But, you know, there are a number of individuals who would be very helpful in helping us understand this. And I know that, through your representatives, we'd be able to work that out. And potentially, maybe you could find somebody who could come on Thursday, but we'll stay in touch.

MR. WALTERS: Yes. We -- you know, we want to cooperate. Again, I've said this at least a half-dozen time, we want to resolve the problems.

ASSEMBLYMAN WISNIEWSKI: Thank you.

MR. WALTERS: All right.

ASSEMBLYMAN WISNIEWSKI: We have one last person to testify today, Raymond Neveil, Citizens Against Tolls.

Mr. Neveil, thank you for coming today. I know you have a written statement that has been distributed to the Committee members. If you'd be so kind as to not read it but paraphrase for us, that would be helpful. And, you know, the topic today is E-ZPass and the problems. I understand the

position of your organization, but we're not here to specifically address that particular issue today.

RAYMOND NEVEIL: Well, thank you for the opportunity to present our views. And as the Chairman mentioned, my name is Ray Neveil, and I'm President of Citizens Against Tolls.

My personal background is I spent 40 years as a manager with the Bell System, which included the administration of large computer systems, so I'm quite familiar with E-ZPass and some of the workings.

As you know, motorists have to stop and slow down and pay a toll and start up 1.6 million times a day. So, obviously, that's a problem.

I hate to not read this, but on the other hand, there's some facts I'd like to just mention. And they're not guess work, or they're not ambiguous. They're all in the Parkway's annual report, by the way.

In addition, one of the tests of a good system is what do the users think of it. Well, we have a world-class Web site, EndTolls.com, and that provides a place for users to put comments. I have a printout here of the 1000 of the 21,000 responses that we have gotten, by the way. And it's really hard-pressed to find any praises for E-ZPass or toll collecting. Most of them are detailed complaints and problems that they have had with the system.

So, obviously, E-ZPass is not a good working system, in spite of some of the comments that have been made today.

And E-ZPass, better known as E-ZHeadache, from some of the comments, again, that have been made today, has been under development since 1992, by the way -- not since 1996, and has been in trouble ever since. And it's seemingly effortless and labor free, but it's quite the contrary. There's

hundreds of people working at the administration center in Seacaucus in the customer information center, the violations bureau, and billing and collecting. And as I point out, it costs \$680,000 just for every bill mailing -- for every 1 million bill mailings. These are all hidden, overhead expenses that would not be necessary without tolls.

Of course, as also was mentioned by the previous commentator, there's 240 technicians required in the field to maintain all this E-ZPass equipment: the surveillance equipment, the cameras, the floodlighting, the wiring. All of that is hidden, overhead expense. And, of course, E-ZPass has been such a success that the providing company is bankrupt, and the executive director has resigned, and not one payment has yet been made on the E-ZPass debt that has been incurred, and the interest costs continue to accrue. And all these things and all these expenses are areas that should be addressed.

Of course, this past Wednesday, I had occasion to go through the Raritan Toll at 8:30 a.m. If you want a thrill, just try this sometime. Six lanes were fighting to get back to the one -- the proper 20 toll lanes, and then recondensing back to six lanes. Traffic was at a standstill, including E-ZPass. The E-ZPass was no benefit whatsoever, because no traffic was moving. And the process took 10 minutes of road rage being converted to toll rage.

What's the answer? Well, Citizens Against Tolls has a plan to extract us from the entire mess, a plan to eliminate tolls, a plan to operate the Parkway just as it operates today, and without tolls, and a plan to address the massive debt.

Incidentally, we've talked today about the E-ZPass debt. In addition, the Parkway has a debt of \$640 million. So there's another area that has to be addressed.

And in hearings last week on emission testing, Assemblyman Wisniewski stated that motorists are paying for a grandiose inspection system they never needed. The same could be said for E-ZPass. E-ZPass and toll collecting are a needless, expensive, make-work operation that really should be eliminated. And we have written to Governor McGreevey asking to meet with him to explain our plan over the next few weeks, and we have meetings scheduled with several legislators, by the way, over the next few weeks.

So we feel that the time is now to start taking steps to get rid of this mess and all of this expensive overhead and get rid of tolls on the Parkway completely.

And I'll be glad to answer any questions that anybody may have.

And these comments, as I say -- this 1000 of 21,000 are available for anybody if they'd like to look at them.

By the way, our Web site, to show the interest in this area, has received over 41,000 hits now. It's a world-class Web site, and people from all over the country are accessing it.

ASSEMBLYMAN WISNIEWSKI: Thank you very much.

Do any members of the Committee have any questions? (no response)

Mr. Neveil, thank you for being here. Again, I know you're a regular attendee of the Committee meetings. I look forward to seeing you again.

Until next Thursday, the Assembly Transportation Committee stands in recess.

(MEETING CONCLUDED)