

PUBLIC HEARING

before

ASSEMBLY TRANSPORTATION AND COMMUNICATIONS COMMITTEE

on

THE FINANCIAL VIABILITY OF THE TOLL ROAD AUTHORITIES

Held:
March 13, 1984
Room 346
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman Wayne R. Bryant, Chairman
Assemblyman Paul Cuprowski, Vice Chairman
Assemblyman Thomas P. Foy
Assemblyman Edward K. Gill
Assemblyman John W. Markert

ALSO PRESENT:

Laurence A. Gurman, Research Associate
Office of Legislative Services
Aide, Assembly Transportation and
Communications Committee

New Jersey State Library

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ASSEMBLYMAN WAYNE R. BRYANT (Chairman): Good morning. I'm sorry we are a little late getting started. I think the weather held a lot of people up.

Ladies and gentlemen, my name is Assemblyman Wayne Bryant. I am Chairman of the Assembly Transportation and Communications Committee. I would like to welcome you here this morning. At this time I would like to introduce the other members of our Committee. On my left is the Vice Chairman, Assemblyman Paul Cuprowski, from Hudson County. To my right is Assemblyman Thomas Foy, from Burlington County and, to my far right, is Assemblyman Edward Gill, from Union County. I am not sure Assemblyman Markert is going to be present.

ASSEMBLYMAN GILL: He's on his way.

ASSEMBLYMAN BRYANT: Oh, he's on his way. Well, since we do have four members present, we will begin this hearing.

As you know, the issue concerning the use of surplus revenues from the operation of the various toll road authorities for State purposes has become timely and important, particularly given the introduction in both the General Assembly and the Senate of the "New Jersey Transportation Trust Fund Authority Act of 1984." I have called this public hearing so that the Committee can devote its attention to the consideration of the financial viability of the toll road authorities and the proper role of the authorities in funding vitally needed transportation projects in New Jersey.

The Committee is especially interested in receiving detailed information as to the financial condition of the New Jersey Turnpike Authority, the New Jersey Highway Authority, and the New Jersey Expressway Authority, including data as to any bonds that are outstanding, and information as to the extent of any existing surplus revenues or anticipated surplus funds that are expected to accumulate in the next few years. In addition, the Committee would like to know about the various authorities' construction plans, including specifics regarding projects recently authorized or proposed for authorization in the near future. Most importantly, we are interested in learning how the financial analyses have been determined.

If you have any written testimony and wish to be added to our witness list, please contact Larry Gurman, our Staff Aide, after the opening remarks are concluded. At this time, I think I should mention that Commissioner Bo Sullivan did contact my office. He had a vacation planned way before this hearing was scheduled, and I expressed my understanding about his inability to be here. However, I told him I did expect representatives who could present their interests to come to give us testimony, and that he would come before this Committee at some later time if, in fact, we found it necessary.

Secondly, in order to keep this hearing in a satisfactory time frame, I am going to ask that questions, when asked by members of this Committee, be limited to approximately one minute, and that responses be as concise as possible, and limited to three minutes. The reason for that is that we do not want to get into detailed dialogue, in terms of people's perceptions. We want to be able to ask as many questions as possible, because this hearing is exploratory in nature. If we find we need to get into more detail in any particular area, we can always extend the hearing to a future date. So, what I will be doing if the conversation seems to be getting too lengthy in terms of questions, will be signaling for a thirty-second wrap-up of those questions, in order that we may proceed to other questions. In terms of responses, I will also signal for a thirty-second wrap-up, in order that we may proceed.

At this time, we will call our first witness.

MR. GURMAN: Mr. George Zilocchi, New Jersey Highway Authority.

ASSEMBLYMAN BRYANT: We have just been joined by Assemblyman John Markert, from Bergen County. Mr. Zilocchi, if you will wait for just one second, we will let Assemblyman Markert get settled. Now, you may proceed.

G E O R G E Z I L O C C H I: Good morning, gentlemen. My name is George Zilocchi; I am the Acting Executive Director of the New Jersey Highway Authority. Chairwoman Stanley is tied up today at another meeting, and has asked me to represent her. Also, as you stated, Mr. Chairman, if in the future you should desire her to attend, she will be glad to.

ASSEMBLYMAN BRYANT: Do you have a statement to present before the Committee?

MR. ZILOCCHI: No, I am just here to attempt to answer any questions.

ASSEMBLYMAN BRYANT: Could you first explain to us what present surpluses the Authority has?

MR. ZILOCCHI: Mr. Chairman, first of all, in the connotation of a surplus, a surplus is something that is over and above the needs of an operation. From that standpoint -- that is why the Authority has always stated it really does not have a surplus. With excess net revenues -- after meeting operating expenses and debt service -- whatever is left over is put into our capital improvement projects, in order to meet our capital improvements and expenditures. So, from that standpoint, this body can understand why we take this position. We say, "We do not have a surplus in the sense that it is over and above the needs of our operation."

ASSEMBLYMAN BRYANT: Then maybe what you could outline for us would be the present capital improvements which have already been approved, a four-year plan as to the capital projects you are planning, and what your revenue projections are, whether, in fact, they contain a surplus, or no surplus, over the next five years.

MR. ZILOCCHI: The Commission authorized, back in October, a \$283 million capital improvement project, which is primarily broken down into four categories. One of them is \$23 million, which is categorized as safety improvements -- the replacement of timber guardrails with steel guardrails, the replacement of timber median barriers with concrete Jersey-type barriers, and improvements of sign constructions for acceleration and deceleration lanes. Six million dollars is for what is categorized as appearance, namely, landscaping, fixing up the toll booths, and toll plaza rehabilitations.

Another \$52 million is in the area of major rehabilitation projects, such as pavement restoration, resurfacing, erosion control and bridge repairs. Eighteen million dollars involves improvements to what we categorize as our microprocessor, which is the computerization of our complete toll recording facilities, improvements to our

maintenance buildings and service areas, and improvements of communications and commuter parking lots.

The real major portion of it, \$185 million, has to do with the widening projects we have. Seven million dollars of that is for the widening of interchanges, \$33 million is for the widening of toll plazas, and \$145 million is for mainline widening. This widening extends from Asbury Park to approximately Toms River. There is widening in Essex County, and there are also widening projects in Bergen County. There is also widening of what we call the Driscoll Bridge, which is the bridge which goes over the Raritan River.

ASSEMBLYMAN BRYANT: With the projects currently proposed, or those which have been approved by the Parkway Authority, how many dollars are we talking about -- those which have been approved, but have not been built -- right now to date?

MR. ZILOCCHI: Well, that has been approved, but as far as commitments are concerned, we have committed at this point, \$65 million of the \$283 million.

ASSEMBLYMAN BRYANT: How do you plan to fund it? Do you plan to go after bonds?

MR. ZILOCCHI: Yes.

ASSEMBLYMAN BRYANT: Do you anticipate a toll increase for that?

MR. ZILOCCHI: Sir, at this point we are not quite sure of that. We have looked at various financial scenarios which indicate the possibility, because of the capital improvement projects, of a toll increase. The Commissioners at the last Authority meeting in February, appointed a special financial consultant. This consultant has been directed to have a report available to the Commissioners at the next Authority meeting, which is scheduled for March 22. That will answer a lot of questions we have also.

ASSEMBLYMAN BRYANT: Okay. Now, we have \$65 million presently committed. What is the long-range plan for the next five years, and how much money are we talking about?

MR. ZILOCCHI: Well, the whole five years is the \$283 million.

ASSEMBLYMAN BRYANT: Is that in addition, or is that included?

MR. ZILOCCHI: No. The \$65 million is part of the \$283 million.

ASSEMBLYMAN BRYANT: So, we have \$220 million. How much do you presently have -- let's see, you have several accounts -- in your surplus and capital improvements?

MR. ZILOCCHI: Our capital improvement presently has \$25 million.

ASSEMBLYMAN BRYANT: Do you have any other accounts which are held for reserves?

MR. ZILOCCHI: Only debt service; nothing for major improvements.

ASSEMBLYMAN BRYANT: What is a debt service reserve?

MR. ZILOCCHI: The debt service reserve on the junior lien is \$5.1 million, which we are obligated to have because of the bond covenant. I believe on the third lien, it is \$3.4 million. Again, this is money that we are obligated to have in reserve because of the bond resolutions.

ASSEMBLYMAN BRYANT: How about in your current construction account?

MR. ZILOCCHI: That is what I'm talking about -- the \$25 million, sir.

ASSEMBLYMAN BRYANT: That is where the \$25 million is?

MR. ZILOCCHI: Right. It is between \$25 million and \$30 million actually. It is probably in the vicinity of \$28 million.

ASSEMBLYMAN BRYANT: What was the balance in your construction accounts at the beginning of 1983? I do not consider myself a financial wizard, so I think I better ask these questions.

MR. ZILOCCHI: On December 31, 1983, we had \$28,713,000.00 available for construction purposes. Because of expenditures since then, it is probably down to around \$25 million.

ASSEMBLYMAN BRYANT: Okay. I see, on Page 4, a balance at the beginning of the year of somewhere in the neighborhood of \$566 million under construction accounts. Where did that figure come from?

MR. ZILOCCHI: That, sir, represents an accumulative figure of money that has been put into the construction account over the years, and expended. The \$28 million, which I stated before that we started with January 1, 1984, is actually what is still left.

ASSEMBLYMAN BRYANT: So, out of that \$566 million, the rest has been spent?

MR. ZILOCCHI: That's right, sir.

ASSEMBLYMAN BRYANT: So, you're down to \$26 million.

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN BRYANT: Assemblyman Foy?

ASSEMBLYMAN FOY: Yes, I have questions regarding a couple of items. With respect to your current bonded indebtedness, at what rates are those bonds marketed? What are you paying on them now?

MR. ZILOCCHI: On the seniors, they vary anywhere between 2% and 3%, or 3-1/2%. On the second lien, I believe it is 4-1/4%, and on the third lien, it is approximately 6-1/2% or 6-7/8%.

ASSEMBLYMAN FOY: Okay. So, none of your outstanding bonded indebtedness is in excess of 7%?

MR. ZILOCCHI: No, sir.

ASSEMBLYMAN FOY: All right. Now, in the anticipated bond issue for the \$65 million that has been committed, will that be one bond issue, or do you plan to market various aspects?

MR. ZILOCCHI: We have looked at scenarios where they say one bond issue, and we have looked at scenarios which have said three different bond issues.

ASSEMBLYMAN FOY: All right. Is there going to be certain sequencing as to timing?

MR. ZILOCCHI: At this point, I am not too sure myself, sir.

ASSEMBLYMAN FOY: To your knowledge, what is the current market rate for such bonds? What is the interest rate?

MR. ZILOCCHI: We have been looking at between 8-1/2% and 10%.

ASSEMBLYMAN FOY: Eight and a half percent to ten percent. Do you know much about the Rand/Markert bill with respect to the stable funding?

MR. ZILOCCHI: No, sir.

ASSEMBLYMAN FOY: You don't know anything about that?

ASSEMBLYMAN BRYANT: Let me ask a question now. It is my understanding that there are negotiations going on between the Authority and the State with regard to having funds contributed to a trust fund, or a designated funding authority. How does the Authority plan to fund that?

MR. ZILOCCHI: In the negotiations going on with the State, the State has requested that we consider giving \$10.5 million to the Transportation Trust Fund. Again, this information has been passed on to a special financial consultant, so that he can give us the answers we are looking for at this point.

ASSEMBLYMAN BRYANT: Based on your committed projects of \$65 million, and you anticipate going to the bond market for that -- I guess my basic question is, how do you end up-- I understand all of this is supposed to come from surplus, the \$10.5 million?

MR. ZILOCCHI: Well, sir, I am not too sure myself yet. I have heard it is supposed to come as an operational expenditure, and I've heard it is supposed to come from surplus. At this point, I am not too sure what the answer to that is.

ASSEMBLYMAN BRYANT: Based on the up-to-date financial analysis on the Parkway Authority, if you had to have another \$10.5 million, would you need a toll increase?

MR. ZILOCCHI: Sir, just based on the \$10.5 million that the State would request, that and the loan would probably not create a toll increase. What you have to consider is the fact that you have the capital improvement projects you're looking at, the request of the State and, also, the fact that our expenses have been accelerating far faster than our revenues. In fact, we have looked at projections -- these are only projections, sir -- that if we were to do nothing, not have to give the State \$10 million, not go into our capital improvement projects, and continue to operate the way we have been operating, the expenses are growing so much faster than the revenues, we might have to look at a possible toll increase in the next four or five years.

ASSEMBLYMAN BRYANT: So, I am led to believe that the \$10.5 million per year will not have any affect on the toll increases?

MR. ZILOCCHI: In itself, no.

ASSEMBLYMAN BRYANT: When you say, "In itself, no," I do not understand. I'm saying, you are an ongoing Authority.

MR. ZILOCCHI: Yes.

ASSEMBLYMAN BRYANT: You have plans for capital improvements. This \$10.5 million is not anticipated in your capital improvement projects.

MR. ZILOCCHI: What I am saying, Mr. Chairman -- maybe if I can explain it -- is that we probably, at the rate we're going, will have to look at a toll increase whether we have to consider giving the \$10.5 million or not.

ASSEMBLYMAN BRYANT: Are you telling me, also, that the \$10.5 million will not affect the toll increase in any way?

MR. ZILOCCHI: We are waiting for the answer to that from our special financial consultant.

ASSEMBLYMAN FOY: I have a question. How much of your revenues are earmarked for the Garden State Art Center?

MR. ZILOCCHI: Are you talking about the improvement projects?

ASSEMBLYMAN FOY: Well, first, what is your annual budget for it? What are the operating expenses?

MR. ZILOCCHI: Actually, the Garden State Art Center, as far as operation is concerned, is budgeted at approximately \$4.7 million for revenue, and approximately \$4.5 million for expenses. It normally breaks down pretty evenly, although last year, I might add, the Garden State Art Center did show a \$300,000 net revenue.

ASSEMBLYMAN FOY: Excellent. Who made the decision regarding the \$3 million expenditure for new seats? Did the Board make that decision?

MR. ZILOCCHI: No, that was not for new seats, sir. The \$3 million was an appropriation to our capital improvement project for the possibility of looking into a reception facility at the Garden State Art Center.

ASSEMBLYMAN FOY: Well, is that for a feasibility study, or is that for construction?

MR. ZILOCCHI: That is for construction.

ASSEMBLYMAN FOY: It's for construction.

MR. ZILOCCHI: At this point, all the Commissioners have done is appoint an architect to review the plans and give us an idea what the actual cost will be. That \$3 million is just a very rough estimate.

ASSEMBLYMAN FOY: Is it a reserve?

MR. ZILOCCHI: No, it is just an appropriation of our capital improvement project. It is not a reserve.

ASSEMBLYMAN FOY: All right. Out of your \$25 million capital improvement projects, \$3 million has been set aside for-- Where is it coming from?

MR. ZILOCCHI: Twenty-five million dollars is actual funds we have available to spend in our capital improvement project. The \$3 million is part of the \$283 million which we have said we would like to incorporate as our next five-year plan.

ASSEMBLYMAN FOY: All right. But, in order to raise that \$3 million, if the decision is to go forward with the construction of the reception center, you are going to have to bond, aren't you?

MR. ZILOCCHI: It will be part of the overall bonding, yes.

ASSEMBLYMAN FOY: What is it for, the construction of the reception center? It is not for the new seats?

MR. ZILOCCHI: No, sir.

ASSEMBLYMAN FOY: Okay. Well, how are you paying for the new seats?

MR. ZILOCCHI: The new seats are being paid for out of our present capital improvements.

ASSEMBLYMAN FOY: What is the cost of the new seats?

MR. ZILOCCHI: I might add, sir, that most of the money for the new seats is being paid for out of a reserve. When we installed the Art Center sixteen years ago, and put in the new seats, we set up a reserve, a contribution annually, in order to provide for the replacement of these seats. I believe the cost of replacing these seats is in the vicinity of about \$140,000.

ASSEMBLYMAN FOY: A hundred and forty thousand, okay, that is what I want to know. It is not \$3 million for new seats?

MR. ZILOCCHI: No, sir.

ASSEMBLYMAN FOY: It's \$3 million for the whole package.

MR. ZILOCCHI: If we had to pay \$3 million for new seats, I think we would have a problem.

ASSEMBLYMAN FOY: I would be a little worried. What is the percentage of your reserve for the total bonded indebtedness? Is that the two figures you gave us before, \$5.1 million on the first set, and \$3.4 million on your second set of bonds?

MR. ZILOCCHI: Yes, sir. I am not exactly sure of those figures, but they are probably not too far off.

ASSEMBLYMAN FOY: So, you have an obligation according to your bond resolution of approximately \$8.5 million in reserves. Is that right?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN FOY: Okay. Have you discussed the defeasance issue with respect to your bond indebtedness if you have to refinance those bonds?

MR. ZILOCCHI: Yes, sir, we have.

ASSEMBLYMAN FOY: Do you anticipate that you are going to have to pay a higher rate of interest if you have to remarket the bonds?

MR. ZILOCCHI: There are two different ways and, again, this is another item we hope to get an answer on in the report we are waiting for. First of all, if we were to "defease" our bonds, which we would have to do in order to meet the State obligation, we could not do it under the present covenant of our bond issues. I saw one scenario which showed that there would be an additional cost of \$28 million to "defease" the bonds. I saw another scenario which showed that it wouldn't cost you any more money to "defease" the bonds, because of a technique which shows that in "defeasing" the bonds and coming up with a new issue, in the first ten or eleven years, your actual debt service on the refunding would be less than the original bonds, and that money, if properly invested, would earn enough money to meet the obligations down the road. Again, these scenarios were speculative, but this is something we are going to have an answer to.

ASSEMBLYMAN FOY: The consultant is going to advise you about that?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN FOY: Assuming the worst case scenario, for a moment, if you have to raise an additional \$28 million, and that cost is incurred as a result of defeasance, is that going to impact upon whether or not you are going to make a decision to increase tolls?

MR. ZILOCCHI: Sir, we have various options. We could look at increasing tolls. We could look at cutting our capital improvement projects, and decreasing the amount of bonding. So, there are various options on that.

ASSEMBLYMAN FOY: Okay, thank you.

ASSEMBLYMAN BRYANT: Let me ask a question about that. If you have to "defease" bonds, what are the projected costs in terms of a consultant, a bond counsel, etc.?

MR. ZILOCCHI: I have no idea.

ASSEMBLYMAN BRYANT: Have you ever done bond issues before at the Authority? Has the Authority ever done bond issues?

MR. ZILOCCHI: The Authority? Yes, the Authority "defeased" a bond issue back in 1978. I do not recall what the cost was, but we can get that information for you, sir.

ASSEMBLYMAN BRYANT: We would like to have that information. Let me ask you another question. You said you have a consultant to give you some picture as to how this can be done. In that deliberation, has it been requested that they tell you what impact the \$10.5 million might have on toll increases?

MR. ZILOCCHI: Absolutely.

ASSEMBLYMAN BRYANT: What is the length of the agreement?

MR. ZILOCCHI: The length of the proposed agreement, as submitted, is twenty-five years. It is my understanding -- and this is unofficial because our legal consultant is discussing it with the Governor's office -- that it could possibly be twenty years now. But, that is unofficial, sir.

ASSEMBLYMAN BRYANT: Is it a flat \$10.5 for twenty years or twenty-five years?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN BRYANT: Or, is it a minimum?

MR. ZILOCCHI: It is a flat \$10.5.

ASSEMBLYMAN BRYANT: Maximum?

MR. ZILOCCHI: It just reads that we will contribute \$10.5 million a year.

ASSEMBLYMAN BRYANT: Maximum?

MR. ZILOCCHI: It doesn't really put a ceiling on it.

ASSEMBLYMAN BRYANT: You either have one or the other. You either have a minimum of \$10.5 million, or you could have a maximum of \$10.5 million. You could have a flat fee of \$10.5 million. What you're saying is, it cannot exceed \$10.5 million.

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN BRYANT: And, that is part of what is being negotiated, not to exceed \$10.5 million per year for twenty to twenty-five years?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN BRYANT: Is the consultant also being asked about the future impact of the \$10.5 million, because -- let me see -- we have \$220 million in proposed projects over the next five years, so we are talking about at least another \$50 million to \$60 million above that, which would be obligated by this agreement. Is he looking to see what affect that will have on possible toll increases?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN FOY: Did you say the report is going to be available at your next meeting on March 22?

MR. ZILOCCHI: They have been directed to have the report available for the Commissioners at their next Authority meeting, which is scheduled for March 22.

ASSEMBLYMAN FOY: Will you make a copy of that report available to us?

MR. ZILOCCHI: I will pass that request on to the Commissioners, yes.

ASSEMBLYMAN FOY: Thank you.

ASSEMBLYMAN GILL: Mr. Chairman?

ASSEMBLYMAN BRYANT: Assemblyman Gill.

ASSEMBLYMAN GILL: To clear my thinking, I understand your methodology of contributing to your capital improvement fund is that whatever is left over above your operating expenses automatically goes into your capital improvements.

MR. ZILOCCHI: After debt service, sir.

ASSEMBLYMAN GILL: What has been your record of capital improvement contributions over the last five years?

MR. ZILOCCHI: If you will just bear with me, I do have that information.

ASSEMBLYMAN GILL: Sure.

MR. ZILOCCHI: (Witness searches for needed information among his papers.) In 1983, we contributed \$21.6 million to our capital improvement project. In 1982, it was \$16.4 million; in 1981, it was \$12.1 million; in 1980, it was \$9.8 million; and, in 1979, it was \$8.4 million.

ASSEMBLYMAN GILL: What are you projecting for the next two years?

MR. ZILOCCHI: We just projected for 1984 that it would be in the vicinity of \$18 million.

ASSEMBLYMAN GILL: Now, you talked about \$65 million in construction costs -- capital construction. Is that somewhat normal, or is that expected in view of the conditions, the balance between revenues and receipts versus operating costs? Is the \$65 million an ongoing cost that you consider somewhat stable?

MR. ZILOCCHI: No, sir.

ASSEMBLYMAN GILL: Is it high or low?

MR. ZILOCCHI: It's high. It is just that we have reached a point where we feel we have to address ourselves to these major capital improvement projects. It is higher than normal.

ASSEMBLYMAN GILL: Does your Authority normally conduct ongoing feasibility studies on either increasing tolls or reducing tolls, on a standard basis?

MR. ZILOCCHI: Sir, the Authority, to my understanding, has been looking at a possible increase in tolls since 1954, when it was created. They are constantly aware of that. Our bond covenant puts restrictions on us that our net revenue has to be 1.20% of the required debt service for the year. If we do not meet that, we have to face the possibility of a toll increase. So, we are constantly looking at that.

ASSEMBLYMAN GILL: To tap this out then, my last question might be-- I thought you said before, and I just want to make sure I heard right, that the Authority does not anticipate a toll increase for at least four or five years. Is that what you said?

MR. ZILOCCHI: Under the present scenarios we have seen and, again, everything is subject to this final report we expect to receive, we do not anticipate a toll increase over the next four or five years.

ASSEMBLYMAN MARKERT: Mr. Chairman?

ASSEMBLYMAN BRYANT: Assemblyman Markert.

ASSEMBLYMAN MARKERT: Thank you. I would like to just put together the two statements, one that I heard earlier, and one I just heard in answer to that question. First, to reiterate just the last answer you gave, George, you said that the Authority does not anticipate a toll increase for the next four or five years, approximately. I heard earlier -- I believe when you answered some questions the Chairman asked -- that the \$10.5 million request of the State of New Jersey to the Highway Authority, if it becomes a reality, would not be the determining factor as to whether or not there would be a toll increase. I gather, because of the size of the commitment versus the amount of money available for debt service, that that could be readjusted. Is that correct?

MR. ZILOCCHI: Sir, what I am saying is that if the Authority is looking at the possibility of a toll increase in the next four or five years, it has certainly not been created just by the Governor's request. There are many other reasons for it.

ASSEMBLYMAN MARKERT: That, basically, is the answer I was looking for, to see whether or not there was an inclusion.

MR. ZILOCCHI: We would be looking at a possible toll increase in the next four or five years, whether we had the Governor's request or not.

ASSEMBLYMAN GILL: You would do this as an ordinary thing.

MR. ZILOCCHI: Yes.

ASSEMBLYMAN MARKERT: Which is just normal. That was what I was just going to say. This is something you probably do every four or five years.

MR. ZILOCCHI: Well, we actually do it every year, but what compounds the problem now is that we have just embarked on what we feel are much needed major capital improvement projects. In fact, I might add that, unfortunately, our traffic projections are such that they tell us that at the end of the five-year period, after we have completed our capital improvement projects, we will just about be meeting the demands at that time.

ASSEMBLYMAN MARKERT: Through you, Mr. Chairman, then what you're saying is, there is an increase in traffic revenue?

MR. ZILOCCHI: Yes, there is an increase.

ASSEMBLYMAN MARKERT: Therefore, usage of the roadway, and a needed increase, possibly, in maintenance.

MR. ZILOCCHI: There is an increase in traffic revenue but, unfortunately, over the years, the increase in operating expenses has exceeded the increase in traffic revenue.

ASSEMBLYMAN MARKERT: Through you, Mr. Chairman--

ASSEMBLYMAN BRYANT: You may have one more question.

ASSEMBLYMAN MARKERT: Pardon me?

ASSEMBLYMAN BRYANT: You may continue with one more question at this juncture, because I do not want to lose the point.

ASSEMBLYMAN MARKERT: Oh, I see. Mr. Zilocchi, with reference to that, you also stated that the requirement under the bonding is that the revenues must be within a certain percentage.

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN MARKERT: How close have we gotten -- since you know there has been a reduction, or that there has not been an increase of tolls or traffic -- to that percentage point which would affect the toll increase?

MR. ZILOCCHI: We have gotten fairly close in the last few years, but still not to the point where we would have to effect a toll increase.

ASSEMBLYMAN MARKERT: I have taken my one question, Mr. Chairman, and if you would like to relieve me of my opportunity, go right ahead.

ASSEMBLYMAN BRYANT: I will let you come back later. I just want to stay on the point, because I am getting somewhat confused. Mr. Zilocchi, to Assemblyman Markert's questions, you basically said there would be a toll increase in the next four or five years, regardless.

MR. ZILOCCHI: I'm sorry, sir. I should have said that the Authority is looking at the possibility, the serious possibility--

ASSEMBLYMAN BRYANT: Okay. At one point you told us that you were having someone look into this, and that you didn't know the answers to certain questions. That is why I am getting confused. You seem to know the answers to some questions, but not to others, where some expert is going to provide them for you. I do not want to confuse things to the point where I am led to believe that the \$10.5 million per year, for twenty years, is not going to have an impact on one's decision to bring about a toll increase. Is that what you're trying to tell me?

MR. ZILOCCHI: I am trying to say, sir--

ASSEMBLYMAN BRYANT: (interrupting) Are you saying you don't know about that?

MR. ZILOCCHI: Pardon me?

ASSEMBLYMAN BRYANT: You don't know that?

MR. ZILOCCHI: I am trying to say that our special financial consultant is going to give us all the information we're looking for. In answer to Assemblyman Markert's question, I was just saying that the Authority, regardless of the State's request for \$10.5 million, would have been looking at a possible toll increase in the next four or five years.

ASSEMBLYMAN BRYANT: But, are you making that statement to say that \$10.5 million over twenty years would not have an impact?

MR. ZILOCCHI: I cannot make that statement, sir.

ASSEMBLYMAN BRYANT: Okay, that is what I wanted to clear up. So, it could have an impact?

MR. ZILOCCHI: Sir, that is what I am waiting to find out.

ASSEMBLYMAN BRYANT: Okay. Who is doing the financial analysis?

MR. ZILOCCHI: Government Finance Associates of Princeton.

ASSEMBLYMAN BRYANT: You keep telling me there is an increase in casino traffic -- I know there is down the Turnpike -- so that means the revenues must be going up. At the same time, you're telling me that your expenses-- In what areas are your expenses becoming so exceedingly high that your revenues are going down? In other words, revenues versus expenses. In essence, does the balance sheet show there is a decrease in revenues?

MR. ZILOCCHI: Actually, our toll revenue over the last nine years has increased on an average of 5.6%. Our expenses have been going up on an average of 9.8% over the last nine years. To clarify that further, in 1980, our expenses amounted to 49% of our revenue. In 1981, it went to 50.1%; in 1982, it went to 53.0%; and, in 1983, it went to 53.7%. Major factors, of course, are your salary accounts, meeting your obligations to labor contractual arrangements, and payments for State Police coverage on the Parkway. A State Police car used to cost us about \$3,500 years ago; now they cost \$10,000 to replace -- things of that nature.

ASSEMBLYMAN BRYANT: So, you are actually saying at this juncture, that your surplus, based on current conditions, is shrinking?

MR. ZILOCCHI: On current conditions, yes. This is exactly the point, sir, that I was trying to make. Regardless of anything else -- our capital improvement projects, or anything else, any other outside factor -- our excess net revenue is shrinking, so we have to look at means for either cutting down our capital improvements, which we do not like to do, sir, because it would just aggravate a bad traffic situation on the road, or possibly increasing our sources of revenue.

ASSEMBLYMAN BRYANT: Therefore, if I looked at your Authority, I could not see an upswing in terms of revenue generating versus expenses, to see built-in surpluses to tap, that would not cause some other effect in terms of increasing revenues?

MR. ZILOCCHI: Under our present toll structure, no, you couldn't.

ASSEMBLYMAN BRYANT: Assemblyman Cuprowski?

ASSEMBLYMAN CUPROWSKI: With reference to some of the figures you quoted a few minutes ago, is there any detailed breakdown of the revenues generated during the period of the gas shortage, as opposed to the revenues generated during other periods?

MR. ZILOCCHI: Sir, I don't know if I have the information here, but I certainly will supply it to you. During the gas shortages, yes, we did experience a decrease in our revenues.

ASSEMBLYMAN CUPROWSKI: Was it a substantial decrease in revenue, or was it minor?

MR. ZILOCCHI: Oddly enough, I don't have 1973 information with me. That was one of the worst years we had. I know it was on the fringes of what you might classify as substantial. We had another decrease in revenue back in 1979, which was minor. I recall from past experience that in 1973, when we were at the height of the oil embargoes at that time, we did experience a decrease in our toll revenues. I can't tell you how much, because I do not have that figure with me.

ASSEMBLYMAN CUPROWSKI: Okay. Can you also tell me about the auditing function of the Highway Authority? Who actually audits the Highway Authority?

MR. ZILOCCHI: Our independent auditing firm is Touche-Ross and Company. They come in once a year to examine our records, and they issue a certified report. As far as everyday administrative auditing, we have our own in-house auditing staff.

ASSEMBLYMAN CUPROWSKI: To your knowledge, has the State Auditor ever audited the Highway Authority?

MR. ZILOCCHI: To my knowledge, no.

ASSEMBLYMAN BRYANT: How close are you getting to meeting the requirement of 1.20%? How close, in the last couple of years?

MR. ZILOCCHI: In 1983, we came within \$4 million.

ASSEMBLYMAN BRYANT: Also, I see that your Chairperson, Ms. Stanley, in an article, basically said that Government Finance Associates, Inc. is looking into how they can meet the Governor's program for the \$10.5 million. That was in the Star-Ledger. Isn't it true that Bear-Stearns had already taken a look at this prior to that article?

MR. ZILOCCHI: Bear-Stearns has done--

ASSEMBLYMAN BRYANT: (interrupting) And, didn't they project a ten-cent toll increase to meet it?

MR. ZILOCCHI: Bear-Stearns, in arriving at their projections for the Governor's office, really looked over our projections, which incorporated the capital improvement projects. We had anticipated a possible ten-cent increase in 1989.

ASSEMBLYMAN BRYANT: Didn't Bear-Stearns' letter sometime in January project a ten-cent increase to meet the Governor's demand?

MR. ZILOCCHI: Not to my knowledge, sir.

ASSEMBLYMAN GILL: Mr. Chairman?

ASSEMBLYMAN BRYANT: Assemblyman Gill.

ASSEMBLYMAN GILL: Again, in the total picture, what was your total income for 1983? We won't go past there. And, what were your total operating expenses?

MR. ZILOCCHI: In 1983, our total revenue was \$93.7 million; our operating expenses were \$54 million.

ASSEMBLYMAN GILL: Thank you.

ASSEMBLYMAN BRYANT: Let me ask you another question about Bear-Stearns when they came to the Authority. In any of their scenarios, did they anticipate a toll increase?

MR. ZILOCCHI: Sir, I am not totally familiar with Bear-Stearns' scenarios, but, again--

ASSEMBLYMAN BRYANT: (interrupting) This information was not given to the Toll Authority?

MR. ZILOCCHI: It was given to the Toll Authority, yes. It was evaluated by our Financial Section. They did anticipate -- I believe, if my memory serves me right -- a toll increase, again, incorporating our capital improvement projects.

ASSEMBLYMAN BRYANT: Are you saying that the Bear-Stearns' report anticipated your current capital improvement projects, but was not, I guess the best way to put it is, concerned with funding the Governor's program and what effect it would have on tolls?

MR. ZILOCCHI: I would think they were concerned. Again, they took all the factors which I mentioned earlier into consideration

-- our operating expenses, our capital improvement projects, and the Governor's request. They looked at figures the same way we had, and when taking everything into consideration, decided there would be a potential for a toll increase.

ASSEMBLYMAN BRYANT: So, back in January, they anticipated that the impact of this program, along with other programs, would cause some increase in tolls?

MR. ZILOCCHI: That is a matter of interpretation, sir. I can't speak for Bear-Sterns, but they probably anticipated what we have been anticipating all along ourselves. Again, we would probably be looking at a toll increase regardless of the Governor's request.

ASSEMBLYMAN BRYANT: Let me ask this question, since as I said, I am not a financial wizard. If, in fact, you have declining revenues, and increased expenses, and you have a present program that could cause toll increases, and that is now going to be exasperated by having some additional funds come out of what I would call "house accounting," one would think that it has to have an impact on one's ability to raise revenues.

MR. ZILOCCHI: It probably has, sir, and that is what we are trying to find out.

ASSEMBLYMAN BRYANT: So, it would have an impact?

ASSEMBLYMAN GILL: May I ask a question at this point?

ASSEMBLYMAN BRYANT: Yes.

ASSEMBLYMAN GILL: We have not had testimony about declining revenues. As a matter of fact, he testified that revenues have increased 5.6% every year. It is possible the expenses might be higher, but I think what we are getting at is, what would the impact be in view of the 5.6% increase in revenues, if you had to add the \$10.5 million for the Governor?

ASSEMBLYMAN BRYANT: You would also have to put in the expense factor, if it is rising at the same level.

MR. ZILOCCHI: Again, these are answers we are trying to get ourselves from this report, sir.

ASSEMBLYMAN BRYANT: Are you saying it would have no impact, or that you don't know?

MR. ZILOCCHI: At this point -- what I was trying to distinguish before, is that in my opinion, you just cannot isolate the request of the State, and say that is the sole impact on a toll increase. There are various other factors.

ASSEMBLYMAN BRYANT: That was not my question; my question was, will it have an impact on toll increases?

MR. ZILOCCHI: That we are going to find out in about another week, sir.

ASSEMBLYMAN BRYANT: My question -- I guess maybe I am not being simplistic enough. Are you telling me it would have no impact, that there is a scenario where it would have no impact?

MR. ZILOCCHI: Presently, there is no scenario taking everything into consideration, which shows it has no impact -- everything into consideration.

ASSEMBLYMAN MARKERT: Mr. Chairman, if I might. With reference to the questioning of the Authority's representative, I think it is clear-- Although I have heard you ask the same question in many different ways in the last few moments, it is hard, without the report in front of the witness, and without the report in front of us, to determine whether or not there will be a needed toll increase, and whether or not that toll increase will be in place whether or not the committed \$10.5 million is in place. I think it is a difficult situation to try to extract an answer, which I happen to know -- or through your questioning I assume you are looking for, that answer being, "Definitely, if we go for \$10.5 million committed to the Highway Authority, we will see an increase in tolls." I don't think you are going to get that answer. I think we would all probably be at a great advantage, if we could have the opportunity of the report before us which is forthcoming, without trying to put ourselves into a guessing situation. Basically, that is why I stopped my questioning.

ASSEMBLYMAN BRYANT: Assemblyman Markert, in deference to you, I am not in a guessing situation. I am not saying it is going to be the sole impact on toll increases. What this hearing was called for-- I think we have to have increased expenditures and increased revenues, but the expenditures are exceeding the revenues.

The surplus is decreasing. The idea that this is going to be funded completely out of surplus, is probably not true.

ASSEMBLYMAN MARKERT: Unless it wants to be. We can certainly reduce capital construction and, therefore, have surplus to fund it, if we want to go that way. To say that it is not true, is also not true.

ASSEMBLYMAN BRYANT: What I'm saying is, the report is not going to tell you whether they are going to reduce capital construction. The report is going to tell you, based on what you are anticipating, whether, in fact, it is going to affect, or have any impact on toll increases. I am not saying that is true.

ASSEMBLYMAN MARKERT: That's true.

ASSEMBLYMAN BRYANT: Secondly, my point was that Bear-Sterns made a report on this on January 16 -- and it was given to the Authority -- which said that it would have an impact on it. I am trying to discern-- You keep telling me to wait for the report. I have seen one report.

ASSEMBLYMAN MARKERT: Well, I wish we could have Mr. Sterns address the situation, and give us his facts and figures. Maybe that would be easier.

ASSEMBLYMAN BRYANT: Well, what I'm saying is, he derived those facts and figures and gave them to the Highway Authority. Therefore, I think they are the proper individuals to ask questions of in terms of this report.

ASSEMBLYMAN MARKERT: Would it be possible for us to get that report, Mr. Chairman?

ASSEMBLYMAN BRYANT: Yes, if the Highway Authority has it with them.

MR. ZILOCCHI: I imagine that, yes, we do have that information.

ASSEMBLYMAN MARKERT: Maybe that report could be made available when the other report comes due on March 22. Then, we could have both reports to be able to see--

ASSEMBLYMAN BRYANT: I have a report here.

ASSEMBLYMAN MARKERT: Oh, you have one already?

ASSEMBLYMAN BRYANT: I have a letter -- not the actual report -- dealing with the essence of the report. I think that since the report is already in, it is a good subject for this hearing. We are not talking about something we are waiting for; we are talking about something already in existence.

ASSEMBLYMAN MARKERT: Do I have a copy of that, Mr. Chairman, or hasn't that been made available to the rest of the Committee members?

ASSEMBLYMAN BRYANT: Could we have a copy of the report?

ASSEMBLYMAN MARKERT: Could I have a copy of that letter also, Mr. Zilocchi?

ASSEMBLYMAN BRYANT: I will make the decision whether to pass out copies of the letter I have.

MR. ZILOCCHI: I know we have received extracts of Bear-Sterns' studies. As far as the complete report is concerned, I don't know if we have that. If we do have it--

ASSEMBLYMAN BRYANT: (interrupting) How about the extracts, if you have them?

MR. ZILOCCHI: Yes.

ASSEMBLYMAN BRYANT: Have your financial people gone over that particular report?

MR. ZILOCCHI: Yes, they have. They have gone over that, and they have gone over scenarios prepared by two financial consultants of our own, E. F. Hutton and Smith Barney. All this information has been given to the special financial consultant, in order for him to evaluate and consolidate it.

ASSEMBLYMAN GILL: Assemblyman Bryant, may I ask one more question?

ASSEMBLYMAN BRYANT: Surely.

ASSEMBLYMAN GILL: Just to recap, my thinking at least, as I understand your financial situation, whatever you have left over and above operating expenses then goes into capital improvement. This is a flexible amount. In other words, your capital improvements can be regulated by the amount of money put in there.

MR. ZILOCCHI: Assemblyman Gill, the way it works is, with our revenue, after reducing it by operating expenses and debt service obligations, whatever is left over is put into our capital improvement fund.

ASSEMBLYMAN GILL: Okay. The point I am getting at is, this is then an expandable or usable amount, which can be stretched or reduced, like any other business operation.

MR. ZILOCCHI: Yes, sir, it can.

ASSEMBLYMAN GILL: If you have an incurred cost, that incurred cost has to come from somewhere.

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN GILL: I guess what I'm saying is, to my mind, there has to be an impact upon the operations of the Parkway, if we are going to impose \$10 million. But, this is not an unusual situation, inasmuch as you then have an option, as far as the Parkway is concerned, to either reduce your operating costs and reduce your capital surplus, or stretch out your capital surplus, in a normal business way. Is that about right?

MR. ZILOCCHI: Yes, sir.

ASSEMBLYMAN GILL: Okay.

ASSEMBLYMAN MARKERT: Mr. Chairman, you referred to a letter there, and a report you have. Since you made statements with reference to that letter here at this hearing, I really feel that that letter should be available to all of us, if this is an open hearing, and since you have already addressed what is in that letter.

ASSEMBLYMAN BRYANT: You should direct your questions pertaining to the letter I have to the Parkway Authority, to see if they have knowledge of it.

ASSEMBLYMAN MARKERT: I thought you addressed information in it when you started to look at the chart.

ASSEMBLYMAN BRYANT: Oh, I asked him if he had knowledge of it, and knowledge of the information in it. The reason I asked for it was because, in your bill, Assemblyman Markert-- I see in Paragraphs 13 and 14, that the bill allows for the fixing of tolls to meet these obligations. Therefore, it brings into question whether, in fact, tolls are contemplated to make it work.

ASSEMBLYMAN MARKERT: Mr. Chairman, that is not in Paragraphs 13 and 14. That is in Section 8, Page 8, isn't it? That is where that reference comes in. Or, are you talking about Page 13?

ASSEMBLYMAN BRYANT: Section 14, Page 15.

ASSEMBLYMAN MARKERT: Oh, before I get into this, may I ask a question? I know it may be very stupid of me, but my bill has not been assigned to a committee. The fact that we are holding a hearing with certain references -- does that mean that the bill is going to be assigned to the Transportation and Communications Committee?

ASSEMBLYMAN BRYANT: I am not holding hearings on the bill at this juncture.

ASSEMBLYMAN MARKERT: No, I know you're not holding hearings on the bill, because the bill hasn't been assigned to a committee yet. But, since we are addressing funding, and other procedures that take place with the creation of an authority, which is the existence of the bill, does that mean that the bill will be forwarded to the Transportation Committee, or are we just going to get this information and give it to another committee that might be reviewing the bill once it becomes assigned?

ASSEMBLYMAN BRYANT: You are asking me a question, but I do not have jurisdiction to make a determination as to whether it comes to us or not.

ASSEMBLYMAN MARKERT: I thought you had some inside information from the Speaker, and that was why we were going ahead with some review of the bill, to kind of speed up the process a little, and not allow it to fall too far behind in the time frame.

With reference to the ability under the legislation to create an authority that can request a toll increase, the verbiage that has been put into the bill -- and I believe you will find it in Section 8, Page 8 -- is what we are talking about, or what I think you have addressed. The main reason for the language, as it currently exists in the bill -- which I feel does need some changing and, of course, once I know the bill has been assigned to a committee, I will send some suggested amendments to the bill to that committee-- I think what you are talking about is that area that gives the authority the right to

increase tolls. Well, that is not so. Before anything like this could happen, the request from the authority would have to go to the Highway Authority it was addressing those toll increases to. It would then, in turn, have to go to the Board of Commissioners, whose approval and decision would then follow through in a report to the Governor.

So, the Commission itself, or the new Highway Authority, could not increase tolls. It would take two other processes first to allow that to happen. The reason that is in there is because of the legal ramifications needed under the guarantee of bonds, so I understand. However, I am reviewing that with the bonding attorneys and, also, with--

ASSEMBLYMAN BRYANT: (interrupting) That is not the issue I raised. The issue I raised was, that within the bill it contemplates that tolls could be raised in order to fund it. Therefore, it raises the issue whether, in fact, it is out of surplus, or it is going to be out of newly-created revenues. If it is out of present revenues, then it appears to me that one could eliminate the possibility of toll raises in order to fund it.

ASSEMBLYMAN MARKERT: Or, it could be out of surplus, prior to the creation of a capital construction program in all of the authorities. Therefore, if it was done--

ASSEMBLYMAN BRYANT: It doesn't say that.

ASSEMBLYMAN MARKERT: No, I'm just saying it could be that way also. But, as soon as a committee receives the bill, of course, there will be other amendments that will be followed.

ASSEMBLYMAN BRYANT: Thank you, Mr. Zilocchi; we appreciate your coming. If we need any further information, we will ask you to come back. Thank you for your time.

(FIVE-MINUTE RECESS)

AFTER RECESS

ASSEMBLYMAN BRYANT: We will continue. Mr. Flanagan, do you have prepared testimony, or would you rather have us ask you questions?

WILLIAM FLANAGAN: Well, we don't have any prepared testimony, Mr. Chairman, but after listening to the Committee's inquiry of George Zilocchi of the Highway Authority, perhaps we can, at the outset, fill you in with some information. Then we would be glad to answer any questions that you or any member of the Committee may have.

The New Jersey Turnpike Authority last year had an increase of 8.2% in its traffic, and it had an increase of 7.7% in its toll revenue.

We do intend, at the request of the Governor, to refund our outstanding bonds to "defease" the present bond indenture, which would permit us to make the requested contribution to the State. We do not anticipate there will be any increase in cost for refunding those bonds.

We now have seven outstanding issues, which have an aggregate interest rate of 5.70%. Given present market conditions, we would probably refinance with a new issue at the going market rate. With our credit rating, we anticipate between 9% and 10%.

We also do not anticipate that there will be any expenses chargeable to the Authority. Expenses in bond issues historically total about 3% of the entire issue.

We also anticipate that the \$731 million in outstanding debt will be reduced somewhere in the neighborhood of slightly in excess of \$500 million or \$550 million.

We do not believe that the request of the State will result in a toll increase on the New Jersey Turnpike for these purposes. While the present proposed agreement mentions a twenty-five year term, we do not look for the twenty-five years to be an increasing burden, but rather, a diminishing burden.

Gentlemen, we are now ready for your questions.

ASSEMBLYMAN BRYANT: Let me start out by getting some of these numbers right. Right now your present bond indebtedness is \$700 million?

MR. FLANAGAN: It is \$731,492,000. Our annual debt service in interest payments is \$40,604,000. The Sinking Fund, as you know, is a fund which the Authority is required to set aside for the repurchase of outstanding bonds each year, so that our debt is diminished. Therefore, our interest requirements diminish at the same time. The Sinking Fund requirement is \$13,552,000, for a total annual debt service of \$54,156,000.

ASSEMBLYMAN BRYANT: If this \$730 million worth of bonds is approximately 5.07%--

MR. FLANAGAN: They are 5.70%

ASSEMBLYMAN BRYANT: Okay, 5.70%. What we would be doing then is, we would be paying off those bonds and buying new ones.

MR. FLANAGAN: That is correct.

ASSEMBLYMAN BRYANT: That might be at 9% or 10%.

MR. FLANAGAN: Possibly, depending upon market conditions.

ASSEMBLYMAN BRYANT: What is the length of those bonds?

MR. FLANAGAN: The length of those bonds would--

ASSEMBLYMAN BRYANT: (interrupting) or projected?

MR. FLANAGAN: Pardon?

ASSEMBLYMAN BRYANT: -- the projected length of those bonds.

MR. FLANAGAN: They are approximately thirty-year bonds.

ASSEMBLYMAN BRYANT: And, over thirty years, in terms of the--

MR. FLANAGAN: (interrupting) It may not be thirty years. It may be the length of the current debt.

ASSEMBLYMAN BRYANT: What is the length of the current debt?

MR. FLANAGAN: The current debt expires in the year 2014, I believe.

ASSEMBLYMAN BRYANT: Okay, even if they are in the current debt, is there a difference in terms of money that would be required to go from 5.7% to 9% or 10%?

MR. FLANAGAN: There is no difference.

ASSEMBLYMAN BRYANT: I'm not talking about money per year in terms of how you are paying additional interest. You are saying that there is no additional interest.

Assuming I re-forecast \$570 million at 5%, and now I'm going to 9% or 10%, is that going to cost me any more money?

MR. FLANAGAN: It would not cost any more money. I will agree that the arithmetic appears to defy logic. If you are going from a 5.70% aggregate to an area between 9% and 10%, you would certainly believe that on a debt of that magnitude, your costs would most certainly increase.

I'll attempt to explain it, as it is a difficult explanation. The Federal government -- the IRS -- determines all of the regulations in these cases. With the \$731 million at 5.70%, you would sell a brand new bond issue, as I said, for approximately between \$500 million and \$550 million to replace that \$731 million. Let's say it is 10%, just for the sake of illustration. The Federal government will permit you to invest in a portfolio of government securities, which are known as "slugs." That is the euphemistic name for them. They are securities of state and local governments, which the Treasury Department establishes for purposes of this kind. The Treasury Department will let you invest your money at the rate at which you borrowed it, so long as that rate does not exceed the Treasury Bill rate, which is really the costs of the government's borrowing. They will not permit you to exceed that.

The rate today is almost 12%. They will let you go up to within one-eighth of one percent, or 11-7/8%. However, they will not let you exceed your borrowing rate.

In other words, we would take the proceeds from the bond issue, and even though it is 10% that we would be paying the new bondholders, we would then invest the proceeds in a portfolio of government securities. This portfolio is worked out by a computer program to make certain that it comes out even. The government will not permit you to make money on a refunding transaction. They don't want you to be injured in a refunding transaction, but they will not permit a governmental agency or anyone else to make any money.

So, you invest the entire proceeds of your bond issue at 10%, a rate which is calculated to meet your semiannual interest payments and principal payments. Therefore, you do not require an additional interest cost. It is a "wash" as far as interest is concerned.

Let's assume it was a \$500 million issue, and there was a 3% cost for financing, printing, bond counsel, and all of the other costs associated with it. Let's assume it comes out to an even 3%. That would reduce the amount of money to \$485 million which would be available to the Authority to invest in its portfolio.

There was a tax court decision on March 2, 1983. As a result of that decision, the Treasury Department agreed to permit borrowers to do a cost analysis of the refunding. While you borrowed at 10%, and you're now saying, "But, we're short \$15 million in our total issue," the government will permit you to invest your money in their securities, as "slugs," at a slightly increased rate -- let's say 10-3/8%, or 10-1/4%, or 10-1/8% -- to make up that delta.

In the statement I made originally, I said that while there is a great difference in the interest costs, there is no additional cost to the Authority. Hopefully, I've explained that, but I'm not too--

ASSEMBLYMAN BRYANT: (interrupting) You have done very well.

MR. FLANAGAN: Thank you.

ASSEMBLYMAN BRYANT: Now, let me ask you another question. If that is a possibility, why don't we refinance now so that we could reduce tolls? In other words, assuming that you've got \$730 million, and you could refinance it in this fashion to \$500 million -- take the excess, invest it, take off what it costs for expenses -- it would seem that we're getting a net gain.

MR. FLANAGAN: A net gain?

ASSEMBLYMAN BRYANT: A net gain to reduce tolls.

MR. FLANAGAN: No, no, the government will not permit a net gain, nor any other type of gain. They will be certain that you have not been injured by a refunding. This is a service that is provided by the government -- by the Treasury Department -- for governmental agencies. Corporations cannot make use of it, but governmental agencies can.

ASSEMBLYMAN BRYANT: So far, you've explained it well, but now, take me from \$500 million to \$730 million. Where do we make up the difference of \$230 million?

MR. FLANAGAN: Since you are investing now at 10%, you really do not need as much money to invest in order to cover the lower costs of the 5.70%, even though there is a delta there between the \$500 million or \$550 million and the \$731 million.

ASSEMBLYMAN BRYANT: How does that work in terms of-- You said that they don't allow you to make money. In essence, if they allow you to do this, in some way, you are making money, because there is \$230 million missing.

MR. FLANAGAN: \$230 million are missing--

ASSEMBLYMAN BRYANT: That is right.

MR. FLANAGAN: (continuing) But, you have not really reduced your obligation, because you have sold these bonds at a 10% rate, rather than the current aggregate of 5.70%. So, you really have not reduced your obligation. Your obligation is even.

ASSEMBLYMAN MARKERT: It is a difference in investment that establishes that break, isn't it?

MR. FLANAGAN: Pardon?

ASSEMBLYMAN MARKERT: It is a difference in the investing figure -- the percentage -- that adjusts that overall amount.

MR. FLANAGAN: Exactly.

ASSEMBLYMAN BRYANT: And, now you have \$500 million available, so you are going to make enough money to make up the difference.

MR. FLANAGAN: That is true, because you have now invested the proceeds of \$500 million at 10%.

ASSEMBLYMAN BRYANT: That is going to produce \$230 million at 10%.

MR. FLANAGAN: So, your return is greater, and the return is sufficient to meet the obligations. Once these bonds have been retired, actually the bondholder comes into possession of a gilt-edged security. Right now, his bonds are backed by the revenues of the New Jersey Turnpike Authority -- not by the real estate, not by the buildings -- only by the tolls. They are revenue bonds.

Now, in a refunding, his investment is backed by the securities of the United States Government, so he is far better off.

That is why bondholders never object to a refunding. It is because their financial positions are enhanced.

ASSEMBLYMAN BRYANT: How much is contemplated in terms of being negotiating and providing for the new trust fund?

MR. FLANAGAN: It is \$12 million annually.

ASSEMBLYMAN BRYANT: It is \$12 million fixed?

MR. FLANAGAN: Yes, sir, fixed.

ASSEMBLYMAN BRYANT: How many years -- twenty-five?

MR. FLANAGAN: Twenty-five years. I might say that this is a proposal now. I have not been a party--

ASSEMBLYMAN BRYANT: (interrupting) I didn't say--

MR. FLANAGAN: (continuing) I haven't been a party to all of the negotiations between the Authority and-- They have been conducted by the chairman. I've sat in on several of them, but I haven't been a party to all of them. However, the proposed agreement, when I last saw it, does propose \$12 million annually for a period of twenty-five years.

ASSEMBLYMAN BRYANT: Okay. From my understanding, if I follow your train of thought, that \$12 million will not be made up in terms of--

MR. FLANAGAN: No.

ASSEMBLYMAN BRYANT: Okay. So, that is going to come out of current surplus, I imagine.

MR. FLANAGAN: That is right.

ASSEMBLYMAN BRYANT: What is the current surplus?

MR. FLANAGAN: The current surplus for 1983 -- and, we are just approaching our final audit-- Our auditors are Peat, Marwick & Mitchell, and they have been the auditors of the Authority since the Authority was first legislated -- more than thirty years ago. Our annual surplus for 1983 will be \$6.4 million.

ASSEMBLYMAN BRYANT: Okay, I'm still trying to get to the \$12 million.

MR. FLANAGAN: This is \$6.4 million for 1983 -- last year. The traffic and revenue figures for the first two months of the year seem to bear out that we will be in a position to provide a greater surplus by the end of 1984.

ASSEMBLYMAN BRYANT: What are those projections, based on the first couple of months?

MR. FLANAGAN: We anticipate that based on the first couple of months, we will be able to meet the \$12 million payment.

ASSEMBLYMAN FOY: Can I interject a question here? Bill has raised an important point. The projection for all of your surpluses is as a result of your revenue generation, due to the increased utilization of traffic. The same thing goes for the Parkway and the Expressway.

One of the concerns that I have, and I don't know how it is addressed in terms of dealing with Assemblyman Markert's bill, is that it is built on something that conceivably can be fragile in relationship to the global political picture. This may not sound like it normally impacts on New Jersey, but I'm worried about what happens when you hit a 1973, 1974, and a 1975 serious gas crisis -- ridership drops, utilization of those toll roads diminishes, and you are now in a situation where your revenues are down. If that is a part of the tripod that this funding package is built on, and that is down, gas tax revenues are down, and trucks aren't on the road paying fees, I'm afraid that we're susceptible here to impact by forces we can't control.

What was your situation during the gas crises? How dramatically were you impacted by loss of toll revenues as a result of people not driving?

MR. FLANAGAN: I don't recall the exact--

ASSEMBLYMAN FOY: I don't expect you to have the exact figures. I just need a general flavor.

MR. FLANAGAN: There was an impact, and the Turnpike Authority at that time-- We attempted to maintain a first-class facility. The Turnpike Authority, at that time, was able to, again, look at its capital budget program -- the amount we spend each year to refurbish and restore the Turnpike. During those years, we were able to cut back on the traffic -- that is, the capital budget program. We had to cut back, but the traffic was not there to justify the type of money we spend annually on capital projects.

ASSEMBLYMAN FOY: My concern is, if you're locked into a long-term commitment of revenues to the State for the stable-funding proposal, then if a situation like that occurs, you've got to make some determinations. You have to meet your \$12 million obligation, so you either have to cut back services, lay off people, or raise tolls. Somehow you have to make up for that.

MR. FLANAGAN: As you know, we don't lay off people. In our union agreement, all of our employees are assured--

ASSEMBLYMAN FOY: (interrupting) I should say, for the record, that I represent the New Jersey Turnpike employees. I am their attorney.

ASSEMBLYMAN MARKERT: You have firsthand information.

COMMITTEE AND AUDIENCE: (laughter)

ASSEMBLYMAN FOY: No one gets laid off. Joe is right about that.

MR. FLANAGAN: Surely, those things can happen. You tread on very dangerous ground when you answer very hypothetical questions. I realize the Committee has a desire to know "what if?" Yes, there would have to be some cutting back. There wouldn't be any noticeable reduction in service. There might be the delay of some capital programs from one year to another, but there would not be any noticeable reduction in service. Again, there would not be any reduction of force.

ASSEMBLYMAN FOY: How about potential toll increases?

MR. FLANAGAN: As I said in my opening statement, I don't believe that because of the duration of the agreement, you are going to severely impact the Authority. I believe that the impact lessens with each passing year.

ASSEMBLYMAN FOY: Sure, it is easier to give them \$12 million ten years down the line than it is to give them \$12 million today.

MR. FLANAGAN: Yes, surely, but not only that. The New Jersey Turnpike is really the only viable north/south corridor in New Jersey. Back in 1966, when the Turnpike widened from six lanes to twelve lanes, they only did so because Dwight Palmer, who was then the old State Highway Department Commissioner, notified the Federal

government that it was impossible to extend Interstate 95 through Middlesex County, Union County, Essex County, and Bergen County. That was because the growth of the area had developed so quickly that it was impossible to anticipate that Interstate 95, in the future, could be built in that corridor. That is why Interstate 95, in that part of the State, is now superimposed on the New Jersey Turnpike.

I would venture to say, and I think it is a safe statement to make, that you will not see another major highway built in that corridor during the lifetime of anyone in this room. As New Jersey's vitality grows, as commerce increases, as industry increases with new firms coming into the State, as the population increases, and as there is a rise in employment, the New Jersey Turnpike, in effect, is the only "game in town." I'm bullish about the Turnpike. I can see nothing but black ink for the Turnpike in the future, and if any of you gentlemen are looking to make an investment when the new bonds come out, I advise you to seriously consider buying them.

COMMITTEE: (laughter)

ASSEMBLYMAN GILL: Mr. Chairman, through you, I think your increase in tolls between 1982 and 1983 ran somewhere a little less than 5% -- about 4%.

MR. FLANAGAN: No, no, the increase in toll revenues between 1982 and 1983 ran 7.7%.

ASSEMBLYMAN GILL: What do you anticipate it will be for the next three or four years? How far do you go in your predictions?

MR. FLANAGAN: The Authority really does not carry those predictions from year to year, because to us, it really does not serve a useful purpose -- not that you foreclose from participating in that type of extrapolation. In 1984, we look to either match or exceed the figures of 1983.

ASSEMBLYMAN GILL: Barring any doomsday possibility.

MR. FLANAGAN: Barring any doomsday possibility, of course.

ASSEMBLYMAN GILL: Does the Turnpike operate on approximately the same basis as the Parkway -- that is, your revenue, less expenses? In your case, I think you showed \$17 million for 1983 and about the same amount for 1982. Is that what we are talking about here in the way of surplus?

MR. FLANAGAN: I don't know how they arrive at their surplus figure. I don't know that because I'm not familiar with their bond indenture. All bond indentures, while they appear to be relatively the same, have nuances in each of them. I can only testify to the New Jersey Turnpike's bond indenture.

The bond indenture says-- You can visualize a series of shelves with pails, and as the revenue comes in, it spills over from one pail into the next, then into the next, and then into the next. It finally spills into the bottom pail. Whatever overflows the bottom pail is surplus. The various pails are operating expenses, the Bond Interest Fund, and the Bond Interest Reserve Fund -- you must reserve a year's interest under this indenture for the bondholders -- the Sinking Fund, the Maintenance Fund, the Extraordinary Maintenance Fund, and then you get down to the bottom pail, which we call the Special Projects Reserve Fund. In our shop, we call it the "Rainy Day Fund." In that particular fund, the requirement in the bond indenture is that the pail is full when you meet a figure which matches 15% of the previous year's toll revenues.

Last year, the pail overflowed by \$6.4 million. You are probably quite familiar with the fact that there is a statute, and there has been a statute for the last twenty years in New Jersey. Unfortunately, the bottom pail never overflowed until last year. Last year was a great year. The economy was rebounding, everything was happening, and New Jersey was growing, so we did overflow the pail. But, there has been a statute since 1964 which requires our Authority -- it doesn't apply to the Parkway, so far as Joe Zilocchi has informed me-- Whatever overflows that pail is known as surplus, after the Turnpike Authority has met its financial obligations to its bondholders, and we are required to forward that to the Treasurer to be deposited in the General Treasury.

ASSEMBLYMAN BRYANT: Since that overflowed last year, is it coming into the General Treasury now?

MR. FLANAGAN: Absolutely. That \$6.4 million will flow into the General Treasury.

ASSEMBLYMAN BRYANT: Regardless of whatever trust fund you would set up?

MR. FLANAGAN: No. I don't know what is in the bill and what is in the agreement with regard to that, but it is impossible to have cake and pie at the same time. You must settle on one dessert.

There will not be a surplus payment, plus a \$12 million annual payment. There will be a \$12 million annual payment, which most probably will be made up of the surplus payment.

ASSEMBLYMAN BRYANT: My understanding is, assuming there was no bill, nor any discussion about a bill, we would get the \$6.4 million this year.

MR. FLANAGAN: Absolutely.

ASSEMBLYMAN BRYANT: Assemblyman Cuprowski?

ASSEMBLYMAN CUPROWSKI: Mr. Flanagan, first of all, let me commend the job that the Turnpike Authority did on the roads coming here this morning. I hope they are as good going back.

MR. FLANAGAN: They'll be better.

ASSEMBLYMAN CUPROWSKI: I understand that last year you had a \$6.4 million surplus, and the contribution to the State will be \$12 million, if this agreement goes through. You said there would be no reduction in service, and I understand that, but it could possibly mean less money for capital improvements or capital projects. Is that correct?

MR. FLANAGAN: It really should not. In answer to Tom's question, it would, if he is anticipating the possibility of the Iranians closing off the Straits of Hormuz or some other incidence such as that, which would result in a fuel shortage, as everyone experienced in the mid-1970s.

ASSEMBLYMAN CUPROWSKI: The reason why I am concerned about that is because if it does -- and of course, we can only talk hypothetically -- and if we're talking about \$6 million conceivably two years down the road, it could be \$10 million which may come out of the capital improvement projects.

MR. FLANAGAN: We don't anticipate it will.

ASSEMBLYMAN CUPROWSKI: I know you don't anticipate it, but the purpose of the Authority making a contribution to the State is for capital road improvements throughout the State, isn't it? The very

reason why we need the funding today is because of the lack of capital moneys that were invested in the road projects throughout the State over the years. I was just wondering, even though we may be talking \$6 million, conceivably it could be more. If we're cutting back capital improvements from the Authority -- whether it be the New Jersey Turnpike Authority, or the Highway Authority, or whatever-- and if there is an impact and a reduction at some point in time, I would assume we would have the same problem with those authorities. I'm just wondering if we're not robbing a small piece from Peter in order to pay Paul, because Paul didn't get any payment over the last several years, and he should have received it. Perhaps we're trying to catch up now and do the work that should have been done over the years. I'm just a little concerned about how that might affect the other roads.

MR. FLANAGAN: We do not anticipate that eventuality. You heard me refer to the Special Projects Reserve Fund, the so-called "Rainy Day Fund." Our capital budget each year -- that is, for repaving, painting of bridges, upgrading the facilities, etc. -- is supplemented by a payment from the Special Projects Reserve Fund. We do not anticipate that the situation you envision will hurt us at all in conducting our Capital Budget Maintenance Program. We don't believe that will happen.

ASSEMBLYMAN BRYANT: May I ask a question concerning expenses versus revenue? What percentage did you say your revenue has gone up over the last three years?

MR. FLANAGAN: Let's use round numbers; the revenue is up 7% or 8%.

ASSEMBLYMAN BRYANT: How about your expenditures?

MR. FLANAGAN: Well, the expenditures are going up at the same rate; however, it is not an equal comparison.

For instance, if our revenues, which total \$156 million annually, reach that with a 7% increase, our expenses surely are not \$156 million. You can't compare the percentage increase from one to the other.

ASSEMBLYMAN BRYANT: I understand that. I understand the base is going to be lower, so therefore, the percentages, even though they might be equal, result in different figures.

It brings me, though, to this Special Projects Reserve Fund. Assuming you could afford \$12 million this year, for twenty-five years, since the statute already requires you to give that back to the State, in essence, from the State's point of view, we might be minimizing what we could end up with as far as painting is concerned. That Special Projects Fund may overflow, say by year ten, assuming these great figures of yours keep occurring. That Fund might overflow by \$20 million in fifteen years. Why don't we tie in some percentage to that so you don't have that \$12 million? Assuming we entered into a \$12 million agreement for twenty-five years, and there was a \$15 million overflow, are you telling me we would get the extra \$3 million?

MR. FLANAGAN: You raise a new prospect. It could, of course, happen. That would have to be taken care of either in the legislation, or in the agreement. The Authority has the desire to be helpful to the State, and if we can be helpful. If the flat fee is \$12 million, and there is a provision that if after all of the financial obligations of the Authority have been met, whatever surplus would remain over and beyond the \$12 million-- As long as the Authority meets its requirements and its obligations to run a first-class business operation and a safe and efficient roadway, we're satisfied. If it means that the balance goes to the State, we have no objection.

ASSEMBLYMAN BRYANT: Under the proposed legislation, that wouldn't happen.

ASSEMBLYMAN MARKERT: You know, this is a great thought. The point you brought up is something I might even consider as an amendment. I would never be satisfied with the amount of moneys we have in the New Jersey Highway Authority, because I have never felt that we could maintain our road network the way I would like to see it year after year.

Maybe what we should do is address that initially, and maybe this is something which could be worked out within the agreement with the Turnpike. That is, initially it would be \$12 million, but after we take that \$12 million out of the bottom pail, if we find more surplus spilling over, rather than it coming into the General Revenue, maybe we could add that to the Highway Trust Fund. Maybe we could come up with

an agreement which would allow the Fund to grow, rather than have the money come into the General Revenue.

ASSEMBLYMAN BRYANT: You would have to amend your bill.

ASSEMBLYMAN MARKERT: It does have other amendments which I would be addressing. That is something, though, that we might even want to consider, because--

ASSEMBLYMAN BRYANT: (interrupting) Well, I'm not sure if--

ASSEMBLYMAN MARKERT: Either way, it is a dedication process which is not a dedication process. What we are doing is dedicating funds before they become General Revenue. Your basic principle of thought as to what the Authority wants to do as far as maintaining the service and the roads, which is what would make you happy-- I think this is the way most of the citizens of the State of New Jersey would like to feel about the network of roads in the State outside of the Authority's, because they are, as you well know, almost \$3.3 billion behind in maintenance programs right now. Of course, everybody from Bergen County to Cape May County will be benefactors to this particular project.

I know I speak for all of the legislators here in that we would like to be as comfortable as possible with the position you have. Maybe someday we will feel that way about our transportation needs in the State.

I really appreciate your explanation. It was something I couldn't figure out, and I didn't think I was going to be able to follow it. I'm happy that you were able to explain it to a novice such as myself.

MR. FLANAGAN: You are very unusual -- all of you are -- in that you grasped the explanation so rapidly. Most people do not.

ASSEMBLYMAN MARKERT: Well, I thank you for it. I wish you a very happy Saint Patrick's Day, believe me.

COMMITTEE AND AUDIENCE: (laughter)

ASSEMBLYMAN BRYANT: Let me ask you a few questions, because we would be remiss if we didn't speak about some other things in terms of general projects which have been approved -- the five-year plan and how that releases the surplus.

MR. FLANAGAN: The Turnpike, at its last commission meeting, awarded a contract to its general consultants to study the feasibility of widening the Turnpike at the northern end on its westerly extension. The westerly extension is the one that goes off to the west, through the Meadows, past the sports complex, etc. That study was just awarded, and I believe those minutes have probably just cleared the Governor's veto. So, that work is beginning, perhaps, as of yesterday. That is a two-year study.

Now, the fact that a study has been undertaken does not necessarily mean the project will be brought to fruition. It all depends upon, number one, whether the project is feasible from a financial point of view, and number two, whether the project is feasible from an engineering point of view. Right now, in a preliminary conference with the consultants and our own engineers, there are extreme physical limitations in getting another set of roadways beneath the Polaski Skyway. Right now, they do not anticipate it as something that is going to be easily done.

In addition to that, Essex County is building a refuse reclamation center right in the path of the proposed widening. It may not be possible to get passed that.

Next year will begin my twenty-third year with the Authority, and when we built the extension out in the Meadows, the construction problems were enormous. In looking out and getting down to firm bottom in the Meadows, firm bottom was sometimes between eighty and one hundred feet below the surface. That is extremely expensive.

As I said, the fact that this project is being studied does not mean it is going to be built. However, if they come back and say, "Yes, number one, it is financially feasible, and number two, from an engineering point of view, it is also feasible," that project -- and I speak now strictly from the top of my head, because there have been no figures developed whatsoever -- just for the sake of using a round number -- we're using \$500 million, if that project is feasible--

Here is what the Authority is faced with: The Authority has a legal obligation under the statutes of the State to provide the State with its surplus. There have been opinions over the years by citizens,

public officials, and editorial writers that authorities are attempting to perpetuate themselves by going into additional projects and incurring additional debt. A little research would indicate to those individuals that that is not at all possible with the New Jersey Turnpike Authority. Again, the statute, which is almost twenty years old, says, "When the Turnpike Authority satisfies its entire debt, it will continue to be operated as a toll road, with the revenues going to the General Treasury of the State."

Again, in this situation, we are faced with, "What happens if you have a capital project? How is the State going to get its money." We believe in fairness to ourselves, rather than be accused wrongfully, but nevertheless accused of attempting to deny the State its money under the present statute. We should separate our revenues, and say, "This is what the revenues would have been if we didn't widen, or if we didn't expand the Turnpike in that area, and here are the revenues as a result of that expansion." You can't borrow a half billion dollars without paying for it in some fashion.

So, there would have to be an increase to support that \$500 thousand.

I just want to add a footnote here on my part. I was interviewed by a reporter from the Asbury Park Press about a week ago. He asked me a question, and through a misunderstanding -- it was my fault, not his fault -- I thought I, as the interview was going on, was making a facetious remark, when he said, "Well, if you spend \$500 million, we are going to have to have a toll increase." I said, "Oh, absolutely not." Unfortunately, but fortunately for me and the Turnpike Authority, I will apologize to that young man's editor. It was my fault, not his fault. He misunderstood and wrote it as a comment from me -- that it would not require a toll increase. As I said, it was not his fault at all. I was to blame for that.

Surely, you can't borrow a half billion dollars without incurring some obligation and servicing that debt. So, we would service the debt, and if the expansion does occur, that debt would have to be supported by a toll increase. However, we would not mingle the overall revenues and attempt to get out of our present statutory requirement to provide the State with a surplus.

ASSEMBLYMAN BRYANT: Okay. That is a two-year program which says that any present projects which are on board and cause capital funding--

MR. FLANAGAN: Well, we appropriate over \$20 million each year out of revenues. As I said, it is supplemented occasionally by money in the so-called "Rainy Day Fund" to meet whatever the current requirements are.

ASSEMBLYMAN BRYANT: But, there are no projects that have been approved. What I am getting at is, are there any projects that are presently approved, but are not funded?

MR. FLANAGAN: No, we would go to funding for whatever sizeable job we were going to commence. The Whiting project study will not be completed for two years by the time you get the funding out -- possibly three years.

ASSEMBLYMAN BRYANT: I understand that. But, what I'm asking is, is it presently on the books of the Authority? Have they approved any projects which, right now, do not have current funding? That is all I'm asking.

MR. FLANAGAN: No, our budgeting doesn't follow that fashion. I don't know if the Parkway's does, but ours does not.

ASSEMBLYMAN BRYANT: Okay. You brought up an interesting point with regard to the authorities. That would be to devise some statutory language which would require the authorities to give us a certain amount of mandated surplus, and then have them do this new thing of arbitraging bonds. That might be a great idea. In that way, they would have a commitment to the other roadways. This is something we hadn't thought about.

ASSEMBLYMAN GILL: Mr. Chairman, this is a question which is entirely an aside from what we have been talking about. We have been talking dollars and cents. What percentage of the usage of the New Jersey Turnpike would you estimate is out-of-state traffic?

MR. FLANAGAN: That question has arisen in the past, and we have done a segregation of toll tickets by the toll collectors, based upon an observation of license plates. We haven't done one, I would say, in the last eight or nine years.

In the past, I believe the figure at that time was about 46% or 47% of the total traffic which was out-of-state traffic. That was the figure at that time. I would say now that the northern end of the Turnpike has developed into a very sizeable commuter facility. Even though the figure applied some eight years ago, it would be slightly or somewhat diminished by now.

ASSEMBLYMAN GILL: Isn't it fair, or somewhat reasonable, to assume that if 40% of the traffic on the New Jersey Turnpike is not New Jersey people, then certainly those people owe a certain something to the State of New Jersey for the use of the State, for contamination of the air, etc., etc., etc? Whatever we're talking about, this might be construed to be merely a repayment for that which is due to the State of New Jersey. Have you ever approached it from that standpoint?

COMMITTEE AND AUDIENCE: (laughter)

MR. FLANAGAN: I've never thought of it in that context.

ASSEMBLYMAN BRYANT: Does anyone have any other questions?
(no response)

I just want to thank Mr. Flanagan on behalf of the total Committee. You did a fine job. Your explanations sometimes were a little slow, because we're not financial wizards, but you were able to take some complicated financial things and break them down so that the average human being could understand them. I appreciate that. Thank you.

ASSEMBLYMAN FOY: It is nice of you to make Clyde Fear's job easy.

MR. FLANAGAN: He is in a far different position than we are. If I were in Clyde's position -- he'll tell you himself when he gets up here-- Clyde's operation was in a position because of the great influx of traffic and resulting revenue from the casino operations. They accelerated their debt payments, and they were about to pay out in a two-year period. That is a matter of public knowledge; I'm not telling you anything he wouldn't tell you. I would say if the New Jersey Turnpike was about to pay out in a two-year period, we would be giving the State \$50 million, not \$12 million.

ASSEMBLYMAN BRYANT: Thank you again.

MR. FLANAGAN: Thank you, gentlemen.

ASSEMBLYMAN BRYANT: We're going to take a five-minute break. We're going to go right through lunch because of the weather conditions. When we come back, our next speaker will be the Expressway Authority.

(FIVE-MINUTE RECESS)

AFTER RECESS

ASSEMBLYMAN BRYANT: We're going to resume now. Our next speaker will be Mr. Clyde Fear, the Executive Director of the New Jersey Expressway Authority. I probably know a little bit more about the Expressway Authority, only because it is located in my area.

C L Y D E F E A R: Thank you, Mr. Chairman, and Assemblymen. I learned about the scope of this meeting only yesterday. It was something that probably couldn't have been avoided on Florence's part, but it so happened that way.

I have prepared a statement, and perhaps if I go through this statement with you, you won't have so many questions to ask.

I will speak for the Expressway and the fact that late in 1983, we refunded and "defeased" our outstanding bonds in order to lift the restrictions in the bond resolution which required all excess funds to retire additional bonds over and above the normal requirements. In the same indenture, we were also restricted on capital improvements to the maximum of \$1 million. In doing this, we rewrote our bond resolution, and now we feel we are in fairly good operational shape.

During the refunding process, we entered into an agreement with the Department of Transportation, which guaranteed them \$2.5 million per year minimum. During the discussions, they said -- and it is part of the agreement -- they would look into our budget anticipation every year. If they think we can develop more, they probably will expect more. That is the agreement, but it cannot take effect until the legislation of our enabling act is changed. We do anticipate that happening. It is sitting in limbo. We have the signed agreement, and the minute the legislative act is changed, we will begin a twelve-month payment to them.

We have \$17,660,000 in outstanding revenue bonds today, and \$12,535,000 in special obligation bonds. Our annual interest and principle amount to \$1,907,842. Our anticipated toll revenues for 1984 are \$20,575,000, which should develop some \$3.75 million in excess funds over and above that \$2.5 million we have set aside for the State.

Traffic is still continuing to grow at a steady pace. We are the fastest-growing toll road in the entire United States. Last year we were 13.4% over the previous year's base increase, and the year before that, it was 17%. The base is increasing, and the traffic is holding up.

In 1977, prior to the casinos in Atlantic City, we had 9,826,000 vehicles travel the Expressway. In 1983, we had 30,286,000 vehicles, an increase of three times the 1977 figure. This increase in summer traffic has developed a need for a third lane eastbound, from where Route 73 joins the Expressway, to Pleasantville. This is a distance of about twenty-nine miles. The design is scheduled to take place in 1984, with the construction projected in 1985. The estimated cost of the third lane is \$36 million, and this would require another bond issue.

To amortize that issue, we would use the \$3.75 million that we show in excess for 1984, unless we have an increase in tolls. That is at the present rate, but, keep in mind, we would still be able to meet the \$2.5 million that we have promised. That is going to be set aside in our budget every year. Along with that, we can maintain our good maintenance. We are very proud of having the finest maintained road in the State.

Each year I submit a priority list of projects for the coming three years to five years. The increase in traffic calls for a constant updating of the Expressway, such as paving overlay, additional ingress and egress interchanges, additional guide rail, and of course, it does require extra maintenance when you have this extra traffic.

We have been discussing additional State Police personnel with Colonel Pagano, and a tourist information center with the Governor's Office.

The bottom line reads as such: "This Authority will produce an excess of approximately \$3.5 million to \$4 million over the Department of Transportation's commitment for 1984 and 1985 only." Years beyond that would require a possible increase if we have to go into the third-lane construction.

Gentlemen, that about covers our position at the present time.

ASSEMBLYMAN BRYANT: Your Authority has entered into an agreement, hasn't it?

MR. FEAR: We have entered into an agreement.

ASSEMBLYMAN BRYANT: Is there a duration in that agreement?

MR. FEAR: Yes, in December of 1984, if legislation isn't passed which will authorize us to do this, then that agreement will expire.

ASSEMBLYMAN BRYANT: When I say duration, I mean in terms of the length of the agreement, assuming that something happens with the legislation by December 31, 1984. Is the duration for one year, ten years, or twenty-five years?

MR. FEAR: The term of this agreement, as far as I know, is forever. There is no limitation on the extension of the agreement. If the legislation doesn't pass after a certain length of time, there will be no agreement.

ASSEMBLYMAN FOY: I have a question, Clyde. In Section 204 of the agreement, on Page 6-- This is of particular interest to me because my county is included in it. This section is entitled "Use of State Payments." It says, "The State, or such other authority or instrumentality established by law, including, by not limited to the DOT, shall use the State payments to pay or provide for the development of highway and transportation projects in the Counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Ocean, and Salem."

The intent of this provision is to provide for the utilization of the funds that you contribute in the South Jersey area, where your road runs through. The problem that I have is, it says the State shall do it, but what happens if they don't do it? Do you have

authority in this agreement to withhold your \$2.5 million annual payment if you see that Commissioner Sheridan or his successor decides that the money is going to go up to the Meadowlands?

MR. FEAR: That has been a problem in my mind also. I know what Governor Kean and the Department wanted to do when they tried to raise this \$25 million among the three Authorities. They can go out and get 90/10 money with it.

It would be quite hard to delegate this money, but the intent was, when we were negotiating -- and this took a lot of negotiation with the Department of Transportation to consummate this agreement -- that this money was to be spent on South Jersey feeder roads. There is a definite need for it down there.

ASSEMBLYMAN FOY: Well, I'm going to discuss with the sponsor the possibility of--

MR. FEAR: (interrupting) But, how you would legally contain that, I don't know.

ASSEMBLYMAN FOY: I don't think you, as an Authority, would have the authority to regulate the State's disposition of these funds by contract. You can't enact any kind of ordinance or resolution which would impose a limitation on the State, but we, as legislators, do have that authority. It will be my proposal to protect South Jersey's interests -- and I'm being parochial in this sense -- and to suggest to the sponsor of the legislation, an amendment that will, in fact, encumber your portion of the funds and dedicate them, in that sense, to South Jersey. Those revenues are being derived from residents of South Jersey and from Philadelphia.

My thought would be to provide the additional protection necessary in the enabling legislation, so that the statement which exists in here can be backed up--

ASSEMBLYMAN BRYANT: I also want to make sure, Mr. Foy, that as far as whatever legislation passes, we're not precluded from the other two Authorities.

ASSEMBLYMAN FOY: Oh, no.

MR. FEAR: I can speak for the Commissioners in telling you that we are in full cooperation with the Department and with the State on the development of whatever funds we can actually produce. We have to keep in the back of our minds, as I stated -- and, it has been developed very badly during the past two years -- that in the summer, traffic is just so bad that it requires an expansion of the roadway. We're not going to say we're going to go all the way with it, and do it eastbound and westbound, because at the present time, we don't need it westbound. So, we will do it in stages.

It is the intent of this Authority to provide as much and as many funds as it can in this project which you have before you.

ASSEMBLYMAN BRYANT: I don't mean to be redundant, but I need to break it down. What is your surplus presently?

MR. FEAR: This year, 1984, will develop \$3.75 million over and above the \$2.5 million I've set aside.

ASSEMBLYMAN BRYANT: So, really, you're talking about almost \$6 million.

MR. FEAR: We won't be paying out a full \$2.5 million this year. We begin to pay after that legislation is changed. It may not be until July, and if so, we would only be coming up with our portion, which will be \$1.25 million. It is going to be prorated on a twelve-month basis.

ASSEMBLYMAN BRYANT: It is my understanding, after reading this section, that regardless of when we pass legislation, you will come up with \$2.5 million. Maybe I am misinterpreting--

MR. FEAR: Divided into twelve monthly payments.

ASSEMBLYMAN BRYANT: Except for the year where it is initiated. It says, "The guaranteed State payments with respect to any fiscal year shall be the minimal sum of \$2.5, and in addition to the guaranteed minimum State payments set forth above, the Authority shall make payments to the State or such other Authority..."

MR. FEAR: Fiscal year, not calendar year.

ASSEMBLYMAN BRYANT: It says, "During the year of passage of the amendatory legislation required, the first State payment shall become due, and shall be based upon an annual guaranteed minimal State

payment of \$2.5 million, prorated for the remaining days of the calendar year." So, you will only pay that portion.

MR. FEAR: Yes.

ASSEMBLYMAN BRYANT: In other words, depending on when we pass this, it will determine how much money we will get.

MR. FEAR: Which would create more surplus in 1984.

ASSEMBLYMAN MARKERT: I would like to move that we release--

ASSEMBLYMAN BRYANT: That is not before the Committee at this juncture.

MR. FEAR: In 1985, I don't anticipate we will have any expenditures that would--

ASSEMBLYMAN BRYANT: (interrupting) In 1985, you said you would have approximately \$4 million over and above the \$2.5 million.

MR. FEAR: After that, if we proceed with the third lane, which is totally necessary, gentlemen, the amortization of the bonding -- and it is approximately \$36 million, as far as we can put together now -- would probably take about \$4 million per year.

ASSEMBLYMAN FOY: Regarding that \$36 million expenditure for the additional lane, have any of your consultants examined the potential impact of a high-speed line upon your road, if that is developed from Lindenwold to Atlantic City?

MR. FEAR: We haven't developed anything on the high-speed line, but I'll tell you what we have developed. It is on this anticipated railroad -- the Gamblers' Express. That will only affect us by 4%, so it is negligible. It doesn't really bother us one way or the other.

ASSEMBLYMAN GILL: Let me just ask you a question to clear my simplistic mind. It sounds like the Expressway is in very good shape financially. You're doing well, and you're projecting that you are going to do well. Do I gather that there is no projected increase in tolls, other than the possibility which might be incurred because of your adding a third lane?

MR. FEAR: That is correct.

ASSEMBLYMAN GILL: Okay.

MR. FEAR: We have never, believe it or not, had an increase since day one -- since we were fully opened.

ASSEMBLYMAN BRYANT: I guess I should follow-up on that . If we have a third lane, and we take from your surplus, does that have any impact upon toll increases?

MR. FEAR: If you couldn't meet your requirements, it would have an impact. We are still anticipating, with the continuation of casinos coming in -- there are two more getting ready to open -- that our traffic will continue on an incline, which will provide more tolls.

Now, we do have an area -- a lot of people don't see it, but it has been in the back of my mind for some time -- which is the charter buses that use the Expressway. To me, I don't think they are paying enough. They pay \$3.00, and during the week we are getting over 1,100 buses a day. On weekends, we get many more than that. That is a source of possible revenue.

ASSEMBLYMAN FOY: Everybody on the buses gets a roll of quarters.

COMMITTEE: (laughter)

MR. FEAR: That is another possibility.

ASSEMBLYMAN BRYANT: Are there any other questions? Assemblyman Cuprowski?

ASSEMBLYMAN CUPROWSKI: I agree. Three dollars in comparison to a car that goes through for a quarter-- When you talk about eastbound lanes, there may be some merit to it, but, it is kind of insulting to me to ask someone coming out of Atlantic City for a quarter, rather than to get fifty cents going into Atlantic City. I think you have a better chance that way.

ASSEMBLYMAN MARKERT: They might have the fifty cents then.

ASSEMBLYMAN CUPROWSKI: At least going in, they'll have the fifty cents. Is there anything being contemplated about an increase of the \$3.00 fee for the buses?

MR. FEAR: No, I said this is something I've had in the back of my mind. We haven't needed it to date; we've had sufficient money, especially since the restrictions were lifted when we refunded and "defeased" our bonds. I think Bill Flanagan gave you a very good explanation of that. It is very hard to explain to people how you can have a total washout. You're paying 9.5% percent here, and you're

selling 4.75% bonds. It can be done, we've just done it, and we're ending up making a couple of hundred thousand dollars on the washout.

ASSEMBLYMAN CUPROWSKI: How many buses per day did you say you have?

MR. FEAR: We have 1,100 on weekdays.

ASSEMBLYMAN BRYANT: Do you know what the projected costs were on the defeasances?

MR. FEAR: We had \$23 million in outstanding bonds, and in order to "defease" them, we had to get \$12 million in Special Obligation Bonds, which are the slugs that Bill was talking about. Then the additional \$17 million is in revenue bonds.

The old bonds will be "defeased" over the years, callable. We were in a position prior to that where every dollar of excess had to go, and we had to retire additional bonds in advance. Of course, we were buying these bonds on the market at a discount, because they were 4.75%, and we were paying off the Expressway way too soon. So, in order to do this -- to lift these restrictions -- we funded these. That gave us a chance to move in different directions, and it gave us a first-class highway.

At the present time, we are overlaying the entire highway, which is an expenditure of about \$12 million. This will be finished in 1985. This money has all been included in these projected surpluses. The entire road will be in A-1 shape as far as paving is concerned, but we are facing the widening of that eastbound lane which we need so badly.

ASSEMBLYMAN BRYANT: Assemblyman Markert?

ASSEMBLYMAN MARKERT: I have no questions, Mr. Chairman.

ASSEMBLYMAN GILL: I would just like to add one comment, Mr. Chairman.

ASSEMBLYMAN BRYANT: Since you just did it, can you tell me what the costs of attorneys' fees and consultants fees were?

MR. FEAR: On the refunding, sir?

ASSEMBLYMAN BRYANT: Yes.

MR. FEAR: I have to get it approved this week, but the bond counsel's fee was \$196 thousand.

ASSEMBLYMAN GILL: That much?

MR. FEAR: Yes. Let me tell you; this took over a three-year period. It was something that was started in 1980, and it was dragged out -- it was an on-again, off-again, thing -- and I'm telling you that we went through a volume of work like this (indicating a large amount of work). I don't think it was totally exorbitant.

As to the underwriter's fees, if I--

ASSEMBLYMAN BRYANT: Give us a guesstimate.

MR. FEAR: It is going to be very close. I think it is two point seven, if I can correctly remember. I know we argued a few times about it.

ASSEMBLYMAN BRYANT: Thank you, we really appreciate your coming here today.

MR. FEAR: Thank you.

ASSEMBLYMAN GILL: Mr. Chairman, I would just like to say that these hearings have been very productive and very helpful, at least to me. Also, I think they have shown that the three Authorities are very well-managed, some possibly better than others, but all very well-managed and well-financed.

I think there is some indication that at the moment, there seems to be no need, nor any projected need, for an increase in tolls, short of a third lane on the Expressway.

Finally, I would like to say that it indicates to me that the bill we have proposed will require a certain amount of fine-tuning and a certain number of amendments. I think the sooner we get to that, the better.

ASSEMBLYMAN BRYANT: Anyone else?

ASSEMBLYMAN FOY: Mr. Chairman, I would just like to acknowledge publicly the presence of the Business Manager for the New Jersey Turnpike Employees' Union, Mr. Frank Forst.

F R A N C I S A. F O R S T: I was just wondering if I was going to have the opportunity to speak today.

ASSEMBLYMAN BRYANT: Did you sign up to speak?

MR. FORST: No, I didn't, but I would like to.

ASSEMBLYMAN BRYANT: Oh, excuse me. Fine. Is there anyone else who would like to give testimony before this Committee? (no response)

Come forward, Mr. Forst.

MR. FORST: I apologize for my late arrival, but it was because of the weather. You fellows who came from way up north, I guess, had a harder time than I had.

My name is Francis A. Forst, and I am the Business Manager for the New Jersey Turnpike Employees' Union, which is Local 194 of the International Federation of Professional and Technical Engineers, AFL/CIO.

I know the spokesmen for the three toll road Authorities in the State were before you today. I assume from the comments of Assemblyman Gill and the good words of Executive Director, Clyde Fear, that everyone feels we've got a bonanza sitting over there, and all we have to do is tap those resources, and the State will solve its fiscal problems, and perhaps even its road problems.

I would like to start by saying that we are very much supportive of improving the roads and the infrastructure of the State of New Jersey. We believe, as everyone else does, that good roads mean good business, and we need roads, not only for transportation of people in automobiles, but also for the movement of goods, produce, and products in and out of the State.

However, the rather unusual approach to the budgets of these three authorities comes as kind of a surprise to us. In November of last year, we sent a letter to the Governor, to the legislators, and to the Commissioners and the Executive Director of the Turnpike Authority, pointing out that we have negotiated with the New Jersey Turnpike Authority since 1970. We have a copy of each of their financial statements. We have had them analyzed from year to year. All through the course of our negotiations, we have been assured that there is no such thing as a surplus, that all the funds that are needed and are brought into the Turnpike Authority are utilized for construction, expansion, and the various other needs of the Turnpike Authority.

I would point out that I negotiated the first two contracts with the Atlantic City Expressway. At that time they were so poor, they would bring out their books to prove to us that they couldn't even afford to give the employees wage increases at different times,

because the Expressway could not meet the 20% necessary for bonding. We sat with Clyde Fear when he was Chairman, in an attempt to negotiate. Those days were some pretty hard times for the Expressway, so we are very happy to see that they have come on good times as a result of the casino operations in Atlantic City.

We also negotiated the first two contracts with the Garden State Parkway, so we have had experience with their budgets and their operation also. I negotiated with the New Jersey Turnpike Authority in 1970, 1972, 1974, 1977, 1980, and 1983. One of the strange situations which has come out of this, is how the Authority told us how broke they were. I would point out that in 1977, when we had a terrible oil shortage, and a limitation of one dollar's worth of gas on the road, the Turnpike Authority told us they lost money that year. They had no control over it, but they went down from 1,250 employees to 1,000 employees. The increased work load on the remaining workers was very, very difficult. At that time, they came into negotiations and asked for concessions, in order to be able to balance their budget. We had job rates of pay for toll collectors, maintenance workers, equipment operators, craftsmen, office clerical personnel, and technical personnel, which started out with the rate at which they hired workers. Then, after six months they got a raise, and after a year they received the job rate, whatever the rate of pay was for that particular job.

In 1977, as a result of the fact that they could not afford to hire people, and could not afford these job rates, we agreed to change the contract so that people would wait four years to go to the job rate. I will give you a quick example. If the hiring rate was \$5.00, and the job rate was \$8.00, in the past they would go from \$5.00 to \$6.58. Then, when we put in the four-year scale, they went from \$5.00 to \$6.00 to \$7.00 and to \$8.00, so that the Turnpike could provide sufficient funds to maintain their operation.

Also, with things like sick leave, which all State workers get -- most of you are familiar with this, they get fifteen days sick leave a year -- we agreed that for new workers they would only get six sick leave days a year, six in the second year, and then twelve in the third year. They would not get fifteen sick leave days until the fourth year of the contract, because the Authority couldn't afford it.

Then, we had another situation that also involved the oil crisis that came about 1980, when again their revenues were not adequate, as they said, to meet their then present expenses and future needs. At that time they convinced us that, because of their lack of sufficient funds, we should "cap" our vacation days, and reduce our overtime day payments and some other areas of health benefits. Here, as late as 1983, in our negotiations we had a major/medical insurance policy, for example, where there was a \$75.00 deductible per family. The Turnpike said they couldn't afford to keep that program going the way it was because of the extreme cost, so we raised our major/medical deductions to \$150.00 per family. They pointed out to us that while they had the money in certain reserve accounts, those reserve accounts were needed for the widening of the road, the safety of the driving public, to put a medial strip up the center of the road, and to repair bridges which had been found to be weak and in need of repair.

So, we were quite surprised a couple of months later, to read in the paper that all of a sudden the Turnpike had a surplus, and projected a surplus over the next ten years, to the extent that as much as \$12 million or \$15 million could go to the State of New Jersey.

We would also like to point out, that all the toll booths from Interchange 9 south, in other words, down through the end of the State, are all old toll booths. They are all thirty years old. When they needed repairs, windshields and things like that, the Turnpike said their budget would not allow them to go out and buy the necessary spare parts and supplies, because motor vehicles and equipment were breaking down. The subject was always their very severe budget cuts. We had terrible conditions with heat and snow, so much so that at times we felt we shouldn't even have to work, because the heat would shut off at a whole interchange, and there was no way to keep warm, particularly around this last Christmas. Around the Christmas season, if you recall, we had snow, and it got down to seven degrees. We were freezing; there was no heat. We went out and bought individual heaters to try to get some heat in the place, because of the antiquated heating systems. So, it comes as quite a shock to us that everyone believes there is a surplus.

Then, we have other concerns, which deal with the new bankruptcy concept of the Federal government. If a business declares bankruptcy, it does not have to meet its commitments to its workers. If, in fact, the State of New Jersey starts to take \$12 million or \$15 million off the top of the New Jersey Turnpike Authority, what happens if they cannot meet their commitments to the workers? Are they going to be allowed to break their agreements with the workers because now they can no longer afford it? The revenues of the Turnpike Authority are not just geared to the amount of traffic which wants to go over it. The oil crises of the past can be the oil crisis of tomorrow morning, and that concerns us very greatly.

What we went through in the oil crisis of 1977 is very hard to describe to you people, but when people could only get a dollar's worth of gas, and they came on the road, the attitudes of the people were very touchy, to say the least. If they got stranded, they were even touchier, because they couldn't go anywhere. We had no control over that. The Iran/Iraq War, the problems in Lebanon, the problems with the Arabs and the Israelites, you know, they go on. These are not things that are ended, where we can say, "Now all our problems are over; therefore, we have no problem in tapping the Turnpike surplus revenues."

We are concerned, also, that the toll collectors will become tax collectors in effect. What is happening is, we take people who are collecting tolls for the maintenance of the Turnpike, the Parkway, and the Atlantic City Expressway, and now when we collect money, it is going to go for general State use, for roads, and so forth. We would remind you of the situation which occurred in Connecticut, where, in fact, the Connecticut Legislature was about to do away with tolls. They were going to do away with tolls in three years, declare the Connecticut Turnpike free of debt, and not collect tolls, until they found out that then the state would have to maintain the road, the state would have to provide the trooper force, the state would have to resurface, when the road had to be resurfaced, and the state would have to rebuild the bridges. All of a sudden, it wasn't such a good idea. The Turnpike, the Parkway, and the Atlantic City Expressway have been

generally successful Authorities in the State of New Jersey, because of good administration, good leadership, and good direction from groups of commissioners, Republican or Democrat -- or nonpartisan, if you will. They have done an outstanding job. The Turnpike and the Expressway have done very well for the State of New Jersey. We never had a north/south road in the State of New Jersey, until the Turnpike was built in 1952. We had roads like Route 109 that went through every little town and every little city -- Elizabeth, Newark -- you know, I don't have to tell you. The Turnpike is working well, but I think that if you start to eye the Turnpike as a source of revenue, then you may put it in an economic situation where it may not be able to recover.

There is an awful lot of arm-twisting going on in this situation, and I am very much aware of it. Just as the devil took the Lord up on top of the mountain, so has the Governor taken southern Assemblymen and Senators up on top of the mountain and showed them where they could build a road down around Berlin, maybe, and wouldn't that be nice? They have been after that road for years. Then, you could take other people and show them where they could maybe build a road from Whippany to Parsippany, and it wouldn't even cost them anything; the Turnpike would pay for it. We think that is very short-sighted. It is very foolish. There is no reason why the State, with all its revenues -- transportation revenues -- cannot maintain its roads and highways. Pennsylvania, you know, has dedicated funds. I just heard the Senator from Florida -- the Senate President from Florida -- say they have them too down there in Florida. That is why their roads and bridges work so well. They do have good roads in the State of Florida.

If we look to the Turnpike, the Parkway, and the Atlantic City Expressway as sources of revenues for road building, then we will be abandoning our own responsibility for the roads. I don't understand why a \$12 million surplus from the Turnpike is so attractive, when the State of New Jersey itself has a \$100 million surplus. Why must we go to the Turnpike to get the \$12 million, when the State of New Jersey itself has that much of a surplus? Why must we go to the Parkway, when the State of New Jersey has that much of a surplus?

I am going to close with this. As a union, we feel that perhaps if something like this were to happen, we would have been had. We feel we have been had since 1977, when, in fact, these people told us they couldn't afford certain things because they did not have the money. Now we find out that everybody else -- in the independent judgment of people -- says they do have the money. The fact is, we notified the Turnpike Authority yesterday at a labor/management meeting, that if they testified they had the money, then we would file an unfair labor practice action to recover all the give-backs we gave them since 1977, because they bargained in bad faith. If they testify they have the money, then they misrepresented themselves in negotiations.

We have a lot of needs on the Turnpike. I invite all of you to come out to look at them. You people from up in Bayonne, look at Interchange 14A. Go in and try the heat in 14A. It is right there; it is not too far to see. You will find out that it doesn't work properly. We have had robberies. With our safety situation at 14A, we had three robberies within two weeks. We don't talk about it much, because we don't want any recurrences there.

You people down in the south, look at Interchange 7. Go down Interchange 7; go there now. You can see trucks already backed up from Interchange 7, all the way up to about a mile up the Turnpike, backed out onto Route 206, and across the road, on a hill. They promised us for years that they were going to rebuild Interchange 7. The place is inadequate. What are the workers concerned about? The workers are concerned, because there isn't a person who comes through our toll booths who doesn't complain to the toll collectors. The first contact with the toll roads is the toll collector. Our toll collectors take a tremendous amount of abuse because of the lack of adequate facilities, and the lack of sufficient lanes. In fact, the lanes are closed down. Perhaps you go through the Newark Airport area, as I do frequently, and find out there are four lanes closed down, because they do not have enough money to pay enough people to man the lanes. The Turnpike, if it has the money, should be attending to the Turnpike. The Turnpike works fairly well. There is an old expression -- I don't know where it

came from -- "If it ain't broke, don't fix it," and if the Turnpike isn't broken, you better not try to fix it, because you might break it, or you might cause an economic situation which cannot be immediately remedied.

We know the political aspects of this -- we have read them in the paper anyway -- where Ms. Stanley said we might need a toll increase, and the Governor came down and said he would veto the minutes on a toll increase if she passed one. Well, that is not a responsible reaction either way. Ms. Stanley may or may not need the toll increase, but if she did need the toll increase to give money to the State of New Jersey, then why would anyone veto the minutes? I noted during your questioning of Clyde Fear, the question, "Can you do this without a toll increase?" and he said, "Well, we are going to need so many millions for the widening of the road." He also said, "We hope the increased volume of traffic will pay for it," but what if it doesn't? You know, it is simply, what if it doesn't? Then where are these toll roads?

We have the political situation of the Governor, or the State, trying to keep them from raising tolls. Every time they try to raise tolls, someone screams. On the other hand, we want to take their money from them so they cannot operate effectively. I think this thing requires an awful lot more consideration. I do not think the small changes in the bill, or the small modifications, are enough. I think the very question itself of tapping the toll roads for the general funding of the State of New Jersey is a mistake, whether it is done through an authority, or whether it is done through general revenues. When they are working so well, I think they should be left alone.

ASSEMBLYMAN BRYANT: Are there any questions from any members of the Committee? (no response) Mr. Forst, we want to thank you for your testimony. I think that is why we started here, to find out whether, in fact, there are sufficient moneys to fund an energetic project in terms of contributing to this overall trust fund. I think it came out clearly that some seem to be in better financial shape than others. Some seem to confuse surplus with surcharge. I think we will be discovering some of those things as we proceed, in terms of going

through this in a very detailed, a very cautious fashion, and in terms of making sure the decisions we make are the kinds of decisions that are not only right for New Jersey in the short run, but in the long run, and, at the same time, bringing about the kind of situation where we end up matching Federal dollars, and providing the kind of network needed within this State in terms of funds for transportation.

MR. FORST: Thank you very kindly, gentlemen.

ASSEMBLYMAN BRYANT: Thank you. This hearing is adjourned.

(HEARING CONCLUDED)

