

PUBLIC HEARING

before

SENATE INDEPENDENT AUTHORITIES COMMITTEE

The increase in Garden State Parkway Tolls
proposed by the New Jersey State Highway Authority

December 9, 1987
Room 424
State House Annex
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Carmen A. Orechio, Chairman
Senator Walter Rand
Senator Richard Van Wagner
Senator S. Thomas Gagliano
Senator James R. Hurley
Senator Henry P. McNamara

ALSO PRESENT:

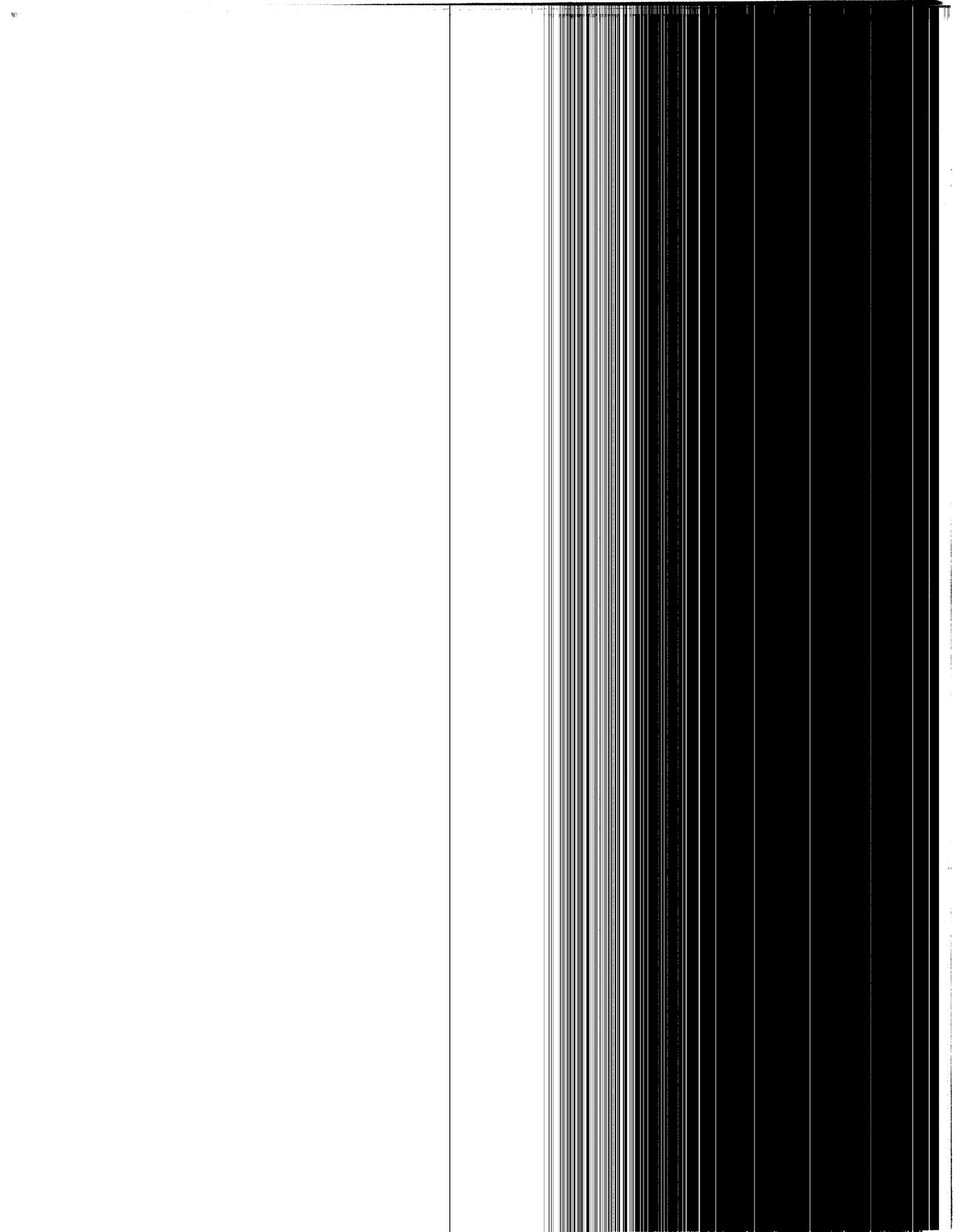
Senator Laurence S. Weiss
District 19

Spiros J. Caramalis
Office of Legislative Services
Aide, Senate Independent Authorities Committee

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New Jersey State Legislature

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November 24, 1987

NOTICE OF A PUBLIC HEARING

Senator Carmen A. Orechio, Chairman of the Senate Independent Authorities Committee, announces that the committee will hold a public hearing on the increase in Garden State Parkway tolls proposed by the New Jersey State Highway Authority.

The public hearing will be on December 9, 1987, beginning at 10 a.m., in Room 424 of the State House Annex, Trenton.

Any person wishing further information on, or intending to testify at the hearing should contact the committee aide, Spiros J. Caramalis, at (609) 984-7381.

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SENATOR CARMEN A. ORECHIO (Chairman): Good morning members of the Committee, and ladies and gentlemen. Today the public hearing of the Senate Independent Authorities Committee is on the toll increase proposed by the New Jersey Highway Authority for the Garden State Parkway. To this end we have with us the Chairman of the New Jersey Highway Authority, Judith H. Stanley; the Authority's Executive Director, George Zilocchi; as well as their staff and consultants. On behalf of the Committee I extend a hearty welcome to you.

Before we establish the procedures the Committee will follow today in taking of testimony and querying Highway officials, I'd like to state for the record that in preparation for the hearing today that we had sought from the Highway Authority information relative to the proposed increase -- the Authority's capital improvement program, as well as the financing of their program. Of course, we have received the briefing book that has been disseminated among members of the press. As a result, I guess this is a repeat of our communications that we've had in a prior hearing.

We were going to have four separate interdependent areas of inquiry, that we proposed to pursue with the Authority today. And they are as follows:

- The process and procedure of the adoption of the toll increase proposal;

- The second segment will be the details of the toll proposal, and the nature and extent of the shortfall the toll hike is intended to remedy;

- Third is the Authority's capital improvement program and related construction and maintenance work, and the costs in financing such work;

- Then finally the Authority revenues and expenditures, past, present, and projected.

And maybe three and four can be combined into a single presentation in order to move the hearings along today.

In spite of the overlap of some of the segments, the Committee will take up each area separately. I'll make a short statement before each segment, and then we'll give you the opportunity to present your case, which will be followed by questions from members of our Committee. After the Authority has completed its testimony in all the segments, other interested parties, legislative members, as well as members of the public, will have an opportunity to present testimony, or comment on the Authority's testimony.

So we'll start with the first segment, process and procedure. And what I'd like to have covered is the chronology of events that brought about the future revenue shortfall, necessitating the requirement for you to suggest that we need a toll increase, and also we want to know about the in-house studies and consultant reports that were prepared on this issue: When they were prepared? What were their principal recommendations? What was the Commission's response to each of the reports in light of the existing circumstances? What was the sequence of the events in the procedures followed by the Authority in approving the toll increase proposals? When was the ramp barrier toll proposal first raised by the Governor's office, the Department of Transportation? When was it first submitted for the Governor's written approval, pursuant to N.J.S.A. 27:12b-4; and if given, what was the nature of the approval?

And of course if the Chairman, or the Executive Director, wish to make any remarks before taking up the first segment, of course you're free to do so. Any written statements submitted by the Authority, we will make available and circulate. And certainly if you have made some statements before we can certainly make them part of the hearing transcript.

At this point I'll ask whichever person would want to speak first to address us at this time. Madam Chairman, or Mr. Zilocchi, whatever?

J U D I T H H. S T A N L E Y: Good morning, gentlemen. I wish I were home shopping and pretending I was Santa Claus, but it's my duty to be here.

Let me state at the outset that our primary purpose here today, as volunteer, unpaid, Parkway Commissioners, is to support a toll increase, and to explain our essential roadway safety program.

Our function is to keep the Garden State Parkway the safest, best maintained, and not incidentally, the most beautiful toll road in the United States.

Every Parkway user, and especially every legislator, is invited to tell us how we can avoid what is essentially a 10 cent toll increase. If parts of our original 1984 \$570 million capital improvement program -- which has now reached \$644 million -- can be eliminated or scaled back, we invite such suggestions.

Safety is the top priority of this capital improvement program. And a one coin operation -- with a discounted token -- is the best way to go and keep the traffic moving quickly and safely through our toll booths. We need to maintain a one-coin system.

As citizens charged with the responsibility of maintaining the nation's finest roadway, and of planning for the future, we have concluded that basic, unavoidable improvements are essential. These improvements are designed to save lives, prevent delays, and save local roads from unmanageable and dangerous congestion.

Let those who would criticize us for the Parkway's first toll increase in 33 years, come forward with their alternative plan. Let them be specific. Without this 10 cent increase, the spending on improvements stops. Without such a toll increase, we can no longer guarantee the safety of the Parkway. It is that simple.

Short-term financing allowed us to continue our ongoing projects and save the public from any toll increase in 1987. Bonding and the bondholders service the motorist. Indeed, you would have no Parkway without bonds.

The New Jersey Highway Authority receives no tax money to operate the Garden State Parkway. It never has. The Parkway is operated with user fees. Only motorists who use the Parkway pay for its construction and maintenance. It is a fair principle which places the burden on those who receive the benefits.

The Parkway is a State asset; but an asset which is not supported by one New Jersey tax dollar. New Jersey taxpayers benefit enormously, on the other hand, from the Parkway -- whether they use it or not. Each year, for example, the Authority contributes \$10 million to the State Transportation Trust Fund -- a total of \$34 million thus far -- to help with the upkeep of local and State roads. In addition, New Jersey has as a whole benefited from the economic growth and jobs that the Parkway has made possible.

Today there is new concern about over development and uncontrolled growth in New Jersey, concerns that the Highway Authority shares. It is not this Authority's intention or desire to just widen the Parkway. The Authority does not write local zoning ordinances, but it must plan for anticipated regional growth.

Because of its extensive network of entrances and exits -- more than 300 -- and the absence of alternative routes, the Parkway is as much a local road in many areas as it is a State roadway. It is a road used not just to get to work, but to go shopping and reach recreational areas. It is a road in which many State residents take justifiable pride.

In short, it is a vital State resource, but one which must be continually maintained and upgraded. Someone must pay for it.

Since 1984, when the Authority first publicly projected the need for a toll increase in 1987 or '88, we have annually reviewed the Authority's financial position. The proposal we are making is the result of our staff's and consultants' latest review.

I want you to hear their explanations, just as we, the Commissioners have heard them. All of us are eager to answer your questions.

The failure to put a toll increase in place will have a dramatic impact on the Parkway, the most dramatic would be the cancellation of all new capital improvement programs, projects that are desperately needed to keep traffic moving safely and smoothly.

Let those who oppose the toll increase, tell the people of New Jersey how they would maintain safety, avoid congestion, and prevent local roadway gridlock.

Now, I will introduce you to George Zilocchi, our Executive Director, who will proceed with his testimony.

SENATOR ORECHIO: Mr. Zilocchi?

G E O R G E P. Z I L O C C H I: Senator Orechio, and members of the Senate Independent Authorities Committee-- Since its beginnings, the New Jersey Highway Authority has annually reviewed its financial position, and has been able -- even through the inflationary 1970s -- to meet its fiscal responsibilities solely through toll revenues without raising its basic toll structure.

Since it first opened in 1954, the Garden State Parkway has never raised its basic 25 cent car toll. During that period inflation has reduced the value of a quarter to 6 cents and drastically increased operating costs.

Why, after 33 years, is the Parkway toll increase now necessary?

First, under the bond covenants which the Parkway has with its bondholders, it must fix, charge, and collect tolls

for the use of the Parkway system to at least equal the net revenue requirement for the year.

Second, two nationally known ratings services -- Standard & Poor's, and Moody's -- have made it clear that a toll increase should be authorized over the next several months or the Authority's bond ratings would be jeopardized. Further, lowering the ratings would also adversely affect State debt. Currently, New Jersey Highway Authority's bond ratings is the highest among toll roads in the nation.

Third, several sections of the Parkway already operate at or over their traffic capacity.

The Authority has conducted a comprehensive survey of land use trends along the Parkway corridor, about two miles along either side of the roadway. The study concludes that 120,000 additional daily trips will be generated by developments now being built or planned in the near future. Presently, one million trips take place daily on the Parkway. Without capital improvements by 1990, in just three years virtually all of the Parkway between Milepost 30 and Milepost 156 -- a 126 mile stretch -- will be operating at or above capacity. In simplest terms the Parkway cannot continue to handle growth, without significantly deteriorating travel conditions. And while no one likes a toll increase, it is also true that no one likes congestion that will worsen if the funds are not available to make needed improvements.

The combination of a toll increase with a discounted token will allow the Authority to generate revenue sufficient to handle these problems with the minimum possible impact on our regular Garden State Parkway users. Discounted tokens are important not only to keep costs down for motorists, but to keep the cost of toll collection down for the Highway Authority. Just as important, discounted tokens will keep traffic moving and prevent backups at toll booths. Jerry Nielsten of Vollmer Associates -- the Authority's traffic

consultant -- will say more on this inducement to riders to use only one coin.

The plan we've laid out is a conservative one, designed to meet the present, pressing needs of the Garden State Parkway. It does not look out to the year 2000, 2005, or 2010. It looks to what we need now. It is designed not only to help Parkway users, but to take traffic pressure off local roads, pressure brought upon us by local growth. The Parkway would also like to continue to work even more closely with New Jersey Transit to encourage mass transit so that we can relieve our ever growing traffic congestion. We realize that the Garden State Parkway doesn't exist in isolation from the transportation needs or the economic growth taking place in nearby communities.

The plan the Authority is presenting is based on five considerations:

- 1) The need to continue our capital improvement program;
- 2) The need to maintain and upgrade the Parkway in order to keep traffic moving quickly and safely;
- 3) To meet the Authority's financial obligations;
- 4) The desire to minimize the financial impact on regular Parkway users; and
- 5) The need to avoid unnecessary traffic delays at toll plazas.

Perhaps in concluding, let me try to phrase it all in a different way. Although you all will hear today reports about fiscal requirements, projections, bond ratings, bond covenants, and I'm sure questions on the planning process that came about, and even questions on the so-called "secrecy" and everything -- questions that I've heard throughout the past few weeks, eventually what it will come down to, and the principal question that will eventually have to be answered, is this: The Garden State Parkway since it opened in 1954 has been the

spine of economic development, not only along its corridor but throughout a major part of the State of New Jersey. That growth brought on by the Parkway -- especially but not exclusively, the Monmouth, Ocean, Atlantic, and Cape May counties -- has had a major impact on our economic growth and development, the creation of business and business opportunities, and jobs; not to mention the benefits that it has had to the tourists and recreational activities at our shores and Atlantic City.

In order to meet the added demands and keep pace with that growth, we must be able to generate additional funds for safety and expansion projects. Without these projects there will be a deterioration in safety standards, in infrastructure, in maintenance quality, and in traffic flow. Can the Parkway get along without these improvements? In my opinion, gentlemen, definitely not.

Some improvements must be made simply to keep pace with the deterioration of a facility that is now almost 35 years old. Roadway surfaces and bridge surfaces have only a limited life expectancy. As both the New York Thruway, and the Connecticut Turnpike discovered in the last three years, constant vigilance, inspection, and expensive maintenance, is the price that must be paid to avoid the tragedy of bridge collapse.

In addition, without expansion of the Parkway's capacity, motorists will experience continuing and worsening traffic congestion. Such slowdowns will not only cause inconvenience and delay, they will detrimentally affect the ability of New Jersey to continue well planned economic growth, particularly along the Parkway corridor. Thank you.

SENATOR ORECHIO: Thank you, Mr. Zilocchi. Your position is Executive Director of the Authority?

MR. ZILOCCHI: Yes, sir.

SENATOR ORECHIO: What are your functions in that capacity, as Executive Director of the Authority? Do you run the Authority on a day-to-day operation?

MR. ZILOCCHI: Yes, sir.

SENATOR ORECHIO: What about your background? Can you tell us something about your background--

MR. ZILOCCHI: Yes.

SENATOR ORECHIO: --how long you are with the Authority? Were you a political appointment?

MR. ZILOCCHI: Senator, I was appointed. I was employed by the New Jersey Highway Authority in 1967 as an Assistant Chief Accountant. My background is finance and accounting. I'm a certified public accountant, a graduate of St. John's University. And throughout the years I've had the good fortune of progressing up the ladder of the Garden State Parkway. I became Chief Accountant in 1974, Assistant Controller in 1976. I was made Assistant to the Executive Director in 1982. In 1983 I was appointed as Deputy Executive Director, and in 1984 I was formally appointed Executive Director.

SENATOR ORECHIO: Then you're a C.P.A., Mr. Zilocchi?

MR. ZILOCCHI: I'm a certified public accountant in the State of New Jersey.

SENATOR ORECHIO: Can you tell me when-- As you've pointed out before, and as we've read, and I guess the world knows the scenario with respect to the minutes and closed meetings, etc. My interest -- and I don't know about the other Senators -- but my interest, is really to get to the nub of the problem, the need for the increase, and the degree that the increase is being proposed. That's pretty much my area of interest. I think we know about the meetings. I think we also know it's orchestrated from time to time. Governors are elected and re-elected, for example for granting homestead rebates. Legislatively we do things in deferment to election

outcomes, for example, before we propose spending. I mean this has been historically what the legislators have been up to. But I would like to know just one simple question. At what date was there a consensus, or at least -- since you have an accounting background, and you're probably one of the first ones on staff who came up with the discovery that your revenues projected a shortfall and there was a need to go for a toll hike-- My question to you is when was this visited upon you, and when did you determine that that was the step you had to take?

MR. ZILOCCHI: Senator, actually, If I may go back to 1967, when I made my first financial reports for the Garden State Parkway. The first few months I questioned in my own mind how the growth rate of revenue was being far outpaced by the growth of operations and expenses and all, and how long that would happen? Fortunately the added volume kept things going.

In 1984, when we went out for a bond issue -- a bond issue that had two purposes: number one was to defease the current outstanding bonds in order to remove restrictive covenants that existed in those bond issues that would have prevented us from being part of the Transportation Trust Fund; and also adding some new capital money for capital improvement programs. The projections that were made then indicated that come 1987, the Garden State Parkway could possibly experience a shortfall, and a requirement for additional revenues.

In 1986, the Highway Authority went out for another bond issue, which was to defease principally the '84 bond issue, to take advantage of lower interest rates. And, in fact, over the course of the bond issue, that action saved about \$17 million in debt service cost. The projections, again, indicated that come '87 there was a possibility of a shortfall -- not a major one, but a shortfall -- but from there on it would continue, and the possibility would become even greater.

Based on that, in '86 we looked to our projections, we looked to our past experience, to see if we would have to face this issue in 1987. We had put together reports of various possibilities and all, and we found that as we got progressively into '86, that 1987 -- as we prepared the budget at the end of '86 for 1987 -- we found that we could survive 1987 without a toll increase. And '87 being almost at a close, I think that is history.

Sometime though in early '87, we felt that the days when the Parkway was fortunate of having to avoid the unpopular move of a toll increase, would be limited. Whether it was '88, '89, it was coming, although we were always hopeful that it could be avoided. We began the planning process in 1987, to be ready to see what has to be done if we had to face the toll increase.

First of all let me say, Senator, that I myself and the members of my staff were approaching a problem that was completely foreign to us. There was apprehension and concern because we really never had to face this problem.

We began the planning process in '87. I know there's been some reservations and doubts about that. Why does it take so long to do a planning process? You know, I remember -- if I might add -- talking one day to my counterpart on the Turnpike, and he said to me, "If you're going to have need a toll increase someday, well what's the big deal? What's all to be planned? Just do it," as far as operational is concerned. The difference is that, unlike the Turnpike, we have a different collection system. It's an open toll road. It's not a closed toll road. It's not just a matter of changing our tickets and the prices on our tickets, and then implementing it. It gets a little more complex. And I'd just like to go over some of the points that we had to study, and these, believe me, are just a brief summary.

We had to consider various toll schedules, various plans. Yes, we even looked at one-way tolls. We looked at staggering every other toll barrier. We looked at every possible conceivable plan that we could come up with.

When we were planning on the possible use of a token, we had to look at various things. Of course, what price that token would have. What kind of roll size would it be packed in? How would the package be done, and by whom? The number of tokens that would be required if we had a plan for a discount program. How will they be sold, because naturally it would be to our advantage, and the motoring public's advantage, to make this token as easily available as possible. How will they be accepted? How will they be stored and where; accountability factors concerning this discount token.

We also had to look at our toll lanes and equipment. What would be the required toll lane configuration? Will automatic and manual lanes be grouped or staggered? How many more vaults would be needed? Vaults, gentlemen, is what-- When you go in through the automatic and you throw in the quarter, it goes into what is called a "vault." Storage space for empty and new vaults, because we anticipated -- if we had a multi coin operation -- those vaults would be full a lot quicker. Usage of gates in order to prevent toll violations, both at barriers and ramps. Capacity of our toll plazas and ramps, would they be able to handle the added volume, the delay in time that could be caused by a toll increase; and of course, by just growth. Necessary change to our automatic machines, which account for 70% presently of our toll revenue. What changes will we have to make to them to read a token -- a different type of token, a different type of coin?

The financing and accounting, of course, was very extensive. Are banks prepared for this new system? Because presently the banks -- through armored car service -- pick up all the toll collections and process it all for us. How many

additional pickups would be required by armored trucks? How much would all this cost? What kind of changes we would have to do to our audit system that we presently have in place, in order to meet changes in our toll collection system? How many more collectors we might need if we had to expand our toll plazas? What kind of signage would be required? How would they be fabricated? How would they be installed?

Constantly throughout this process we were looking to upgrade and update our financial projections, based on experiences that we were constantly confronted with.

Of course, the big thing, the capital improvement program. Where were we? What have we done? Where were we, and where were we going? Our capital improvement program was put together in 1984, which is sort of like a master plan, a wish list. Now you're looking at it in '87. What has to be done, and what hasn't been incorporated in the capital improvement program that has come about now that should be done? Where are we going to set up priorities? Of course all this comes about with how much would it cost? What kind of cash flow we would need--

SENATOR ORECHIO: Mr. Zilocchi, let me just interrupt you. I basically wanted just a brief response. What you're doing now is you're disturbing the chronological sequence that we've established.

MR. ZILOCCHI: I'm sorry.

SENATOR ORECHIO: I have just two short, very brief questions, and they'll only require a brief answer. I have trouble in reconciling what you've said, when I have before me a clip from the Asbury Park Press on May 1, 1987, which reported the hearing that we had in late April. And I asked a question about whether or not there would be any increase in tolls anticipated for '87, and you said, "No." And it didn't happen in '87. However, you did add that you didn't see any toll increase in the foreseeable future. So my question to you

is, what time frame do you project as the foreseeable future, number one? Number two, you still needed \$50 million of the \$80 million that you received on September 21, 1987, that to me was in anticipation of a shortfall for '87. So, if you can respond to those questions, and then I'll defer to Senator Van Wagner who will continue with the chronological sequence we established.

MR. ZILOCCHI: Sure. Of course in May, Senator, although we were doing all this planning, we were still -- like I indicated -- hopeful that we could continue our past history and trend of not having a toll increase. Also at that point in May, we were not definitely sure-- Even if we needed a toll increase in '88, to what magnitude it would have to be. There were many unknowns still at that point, and as far as I was concerned at that point it was still my hope that this could be avoided.

SENATOR ORECHIO: All right, Senator Van Wagner, I'll defer to you at this time to continue with the chronological sequence.

SENATOR VAN WAGNER: I would just ask, is your microphone on?

MR. ZILOCCHI: I don't know.

SENATOR VAN WAGNER: Would you press that button?

MR. ZILOCCHI: Oh it wasn't. I'm sorry.

SENATOR VAN WAGNER: You're on now.

MR. ZILOCCHI: Do I have to repeat my whole statement again? (laughter)

SENATOR VAN WAGNER: No. That's quite all right. Who takes the minutes of your exempt meetings?

MR. ZILOCCHI: Our general attorney, sir, Mr. Fox.

SENATOR VAN WAGNER: That's Fox and Fox, Esquire?

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: What person in particular would that be? Would that be Arthur Grossman, Esq., and/or Martin Fox, Esq.?

MR. ZILOCCHI: As far as I know, it could be either one, sir.

SENATOR VAN WAGNER: Is he here, or is there a representative of the firm here?

MR. ZILOCCHI: Mr. Fox is here, sir.

SENATOR ORECHIO: Would Mr. Fox please stand up?

SENATOR VAN WAGNER: Would you come forward please, sir? Let me just parenthetically state for the record -- since we are on the record I believe -- that the questioning that we will go through, as outlined by the Chairman basically in sections, deal with chronology obviously because of the fact that this issue has become unfortunately more than an issue of the needs of the toll road for its expansion purposes, and those potential increases in tolls; and has in fact, unfortunately again, become an issue of communication, if you will. Namely, what should the Legislature have known, and when should they have known it? And at times we will make reference to the record of the meeting of April 22, 1987, sir, in which certain -- well you don't have to pull that out now. I'll ask you as we go along. But I wanted you to be prepared--

M A R T I N S. F O X, E S Q.: Thank you.

SENATOR VAN WAGNER: --so that you would know what we would be referencing as we move along.

Are the minutes, Mr. Fox-- Mr. Fox?

MR. FOX: I am Martin Fox, yes.

SENATOR VAN WAGNER: Mr. Martin Fox. Are these minutes taken contemporaneously through the meeting, during the course of an exempt meeting?

MR. FOX: Notes are taken during the meeting. The minutes are dictated in our office, usually the day of the meeting, sometimes the day after.

SENATOR VAN WAGNER: So it would be fair to say then that the notes are contemporaneous, and the minutes are then typed at a later date from the notes?

MR. FOX: But a very short later date, Senator.

SENATOR VAN WAGNER: When I say later date--

MR. FOX: Almost contemporaneously.

SENATOR VAN WAGNER: Almost contemporaneously.

MR. FOX: Usually the day of the meeting. The meetings are held early in the morning, and in the afternoon the minutes are usually dictated.

SENATOR VAN WAGNER: So the minutes are typed?

MR. FOX: The minutes are typed. Yes, sir.

SENATOR VAN WAGNER: Is a copy forwarded to the New Jersey Highway Authority?

MR. FOX: Two copies of the minutes are distributed. One is retained in our office. One is forwarded to Mr. Zilocchi, and a second is forwarded to the Independent Authorities Unit in the Governor's office.

SENATOR VAN WAGNER: And that happens simultaneously in most cases?

MR. FOX: They are mailed usually within a day or two of the meetings.

SENATOR VAN WAGNER: Members of the Governor's Independent Authorities Unit are present at all exempt meetings anyway. Is that correct?

MR. FOX: Always one member, and on two occasions I believe two members. And incidentally, Senator, I should clarify by saying that that's been going on for about a year and a half, and of course before the Independent Authorities Unit was formed, minutes were not sent to them. It's been since they have been participating in our meetings and requested our minutes, that we've sent them to them.

SENATOR VAN WAGNER: Well, I would note that a member of this unit did attend each exempt meeting since about August of 1986, at any rate.

MR. FOX: I believe that at all relevant times to this inquiry there were members present.

SENATOR VAN WAGNER: And then I take it copies are sent to each Commissioner?

MR. FOX: No, sir.

SENATOR VAN WAGNER: No, they are not. Sir, do the minutes of the exempt meetings accurately reflect the discussion which has taken place during the course of that meeting?

MR. FOX: I certainly believe so, Senator.

SENATOR VAN WAGNER: Okay. And you were present during these meetings?

MR. FOX: I believe I have been present at almost every one of these meetings since I've represented the Authority.

SENATOR VAN WAGNER: Okay. I have to ask you this question, and I would ask that you think carefully about the answer. Do you take notes contemporaneously with the discussion that takes place?

MR. FOX: Senator, generally I am not the scrivener of the minutes. Arthur Grossman is the scrivener. We are both present at the meeting. So that the notes for the minutes are taken by him. I take full responsibility for the minutes, but the actual dictating of the minutes is done by him. However, I do take notes during the course of the portion of the meetings from which the public is excluded.

SENATOR VAN WAGNER: To your knowledge, are your minutes reviewed by the Authority as a whole?

MR. FOX: No, sir.

SENATOR VAN WAGNER: They are not. So you would have no idea if a change were made, would you review that change?

MR. FOX: I'm sorry. I don't understand.

SENATOR VAN WAGNER: In other words, if there was a change in your recollection, or your contemporaneous notes of that meeting, that required formal action to change those minutes by the Authority? To your knowledge has that ever happened?

MR. FOX: No, sir, it hasn't, because the practice has not been to distribute the minutes which we take to the members of the Authority.

SENATOR VAN WAGNER: I see. Okay. Do you have copies of the minutes for the exempt meetings held from 1983 through August of 1986?

MR. FOX: I have them. You mean with me?

SENATOR VAN WAGNER: I think your answer is yes. Right?

MR. FOX: I believe so. Are you suggesting that I get them out?

SENATOR VAN WAGNER: Yes I-- Actually, sir, in order to aid our review of the adoption of the CIP, as well as justifications for the bond issues sold to date, through the Chairman I have been requested to ask that you provide the minutes of those meetings to the Committee as soon as possible.

MR. FOX: What's a CIP?

SENATOR VAN WAGNER: Capital improvement program.

MR. FOX: Oh, okay. (laughter)

SENATOR VAN WAGNER: Let me say, Mr. Fox, from the inception of this announcement the Legislature, and the legislators who are involved in these Committees, have had a voluminous amount of reading material. We've learned how to distill the jargon that we sometimes use, so in some cases when we refer to the capital improvement program we'll call it the CIP because it's easier to say.

MR. FOX: Senator, you've just made a request. You've asked, if I heard you correctly, you want the minutes from--

SENATOR VAN WAGNER: '83.

MR. FOX: From January of '83--

SENATOR VAN WAGNER: Yes.

MR. FOX: To date?

SENATOR VAN WAGNER: Through August '86.

MR. FOX: All right.

SENATOR VAN WAGNER: We have August '86 to date.

MR. FOX: You have August '86?

SENATOR VAN WAGNER: Yes, sir. We do.

MR. FOX: Okay. So you want January of '83--

SENATOR VAN WAGNER: Yes.

MR. FOX: --through July of '86?

SENATOR VAN WAGNER: Right.

MR. FOX: All right. Those are available.

SENATOR VAN WAGNER: That's a Committee request.

MR. FOX: That's perfectly agreeable. They're available at the Authority, and the Authority will forward them to you. And if you'd like I can explain in a moment what it is you will receive. They will be the minutes with certain deletions. I tell you at the outset that none of the deletions will refer to the subject of this inquiry. There are certain personnel matters, certain contract matters, and certain legal matters, which under the statute are never to be disclosed. And what we have done is we have blocked those out of the minutes--

SENATOR VAN WAGNER: And we have no reason to see those.

MR. FOX: --and they're available, and Mr. Zilocchi's staff will see that you get them, and you can ask--

SENATOR VAN WAGNER: Right. We understand that completely.

MR. FOX: Okay. Fine.

SENATOR VAN WAGNER: I'd like to refer to the minutes of the closed meeting dated August 26, 1986. I'll give you a chance to get those.

MR. FOX: It's easy. It was right on top.

SENATOR VAN WAGNER: Mine too.

MR. FOX: But you knew. (laughter)

SENATOR VAN WAGNER: During the course of the discussion concerning the takeover of the Department of Transportation mileage, I'll refer to a quotation in those minutes. The highlighted portion that I'm reading I think is in the first page of those minutes. It says, "There was also a discussion with respect to plans for a proposed toll increase. The Authority's proposal has been submitted to representatives of the Governor, who are currently reviewing the proposal." You have that?

MR. FOX: Would you give me what paragraph on the first page, please? Oh, I see it. Okay. Yes, I have it.

SENATOR VAN WAGNER: What we would like to have -- this could be Mr. Zilocchi or yourself, sir, interchangeably. Could you forward a copy of this proposal to the Committee, the proposal that was -- whatever the Governor was reviewing, or representatives of the Governor were reviewing?

MR. FOX: I can't, Senator, because as I've explained to you, we were the scriveners. This is a minute of what was said at the meeting. I don't--

SENATOR VAN WAGNER: Mr. Zilocchi, is it possible for you to do that?

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: The minutes further state that the matter involved contract negotiations, and hence were not reported at the public meeting? That's correct. Is that what you were talking about? Excuse me. (Senator Van Wagner confers with aide)

The October 30, 1986 minutes state-- If you have those?

MR. FOX: Give me just a second. Yes, I have them. I have them, sir.

SENATOR VAN WAGNER: You have them?

MR. FOX: Yes, sir.

SENATOR VAN WAGNER: Okay. The minutes that we have state that Mr. Zilocchi had contact the Governor's office -- and anytime you know that this is free area for you to respond -- had contacted the Governor's office and the Department of Transportation concerning the proposed toll increase. Attached to the minutes are reports from Government Finance Associates -- which is your financial consultant -- and Vollmer Associates, your traffic and toll schedule consultants. Also included is a memorandum that Caren Raphel, Assistant to the Treasurer, and Andrew Chapman, also in the Treasurer's office. The memo is dated October 15, 1986, and details nine different scenarios of toll increases and the budgetary effects of each.

MR. FOX: I believe that's correct, Senator.

SENATOR VAN WAGNER: Right. The memo makes two assumptions. First, the assumption is that no significant alterations of financial obligations for a capital improvement program is sought. Second, there are non-financial reasons for a ramp increase to precede a barrier increase. Do these non-financial reasons include a desire-- Or I should ask, did these, Mr. Zilocchi, non-financial reasons include a desire to hold off major increases until after the election?

MR. ZILOCCHI: No, sir.

SENATOR VAN WAGNER: They did not.

MR. ZILOCCHI: No, sir.

SENATOR VAN WAGNER: Can you tell us what they were?

MR. ZILOCCHI: In 1986-- I don't know what the non-financial really indicated, but I can tell you that in 1986 -- like I indicated earlier -- we were concerned about two things, the possibility of '87 being a shortfall, and also we were concerned that our capital improvement program -- the CIP -- was running out of money, and weren't sure how long we could keep going at the pace we felt it was necessary to handle safety and expansion programs on the Parkway. We were concerned about those two, and we were studying the matter to see if indeed we would have a serious problem in '87.

SENATOR VAN WAGNER: So, is it safe to assume then, that in the varying scenarios that were discussed it revolved around alternative possibilities of potential financing schemes relative to the debt and the capital improvement program?

MR. ZILOCCHI: Senator, that was basically what it was, and predominantly I would say it had to do with the CIP, because we felt that the revenue shortfall, if indeed it would occur in '87, would not have been that drastic. But we were concerned about the fact that we couldn't continue our capital improvement program possibly in '87.

SENATOR VAN WAGNER: The reason these questions are posed in the manner in which they are posed is that you are aware that concurrent with your discussions -- which apparently the Governor's Authorities Unit was aware of -- we were being asked here in the Legislature to consider tax increases for the purpose of maintaining our own non-toll highway development program, and local road program. So it's important for us here on the Committee to understand the juxtaposition of these two issues.

Attached to the -- and I guess Mr. Fox has the records -- attached is a September 26, 1986, letter from Vollmer Associates to the Director. It presents two additional analyses of alternative toll schedules, which supplements a letter of July 23, 1986. Could we get a copy of this July 23 letter for the Committee?

MR. ZILOCCHI: That was from?

SENATOR VAN WAGNER: Vollmer Associates. It's a letter of July 23. I assume it's Vollmer Associates.

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: I guess attached-- There's a Table A -- I guess -- attached, that presents the effects of raising tolls either to 50 cents cash, or a 35 cent token -- as you've outlined -- or to 50 cent cash at each mainline barrier, for the years 1986 through 1991. Is that a correct analysis of that table?

MR. FOX: Is that attached to the September 26 letter?

SENATOR VAN WAGNER: Yes, I believe it is. I think it's in your packet. It's in our packets anyway.

MR. FOX: Table A?

SENATOR GAGLIANO: What date? I'm sorry, Mr. Chairman.

SENATOR VAN WAGNER: This would be--

SENATOR GAGLIANO: September 26--

SENATOR VAN WAGNER: --a letter stated-- I think you have that.

SENATOR GAGLIANO: --'86, okay. Thank you.

SENATOR VAN WAGNER: September 26, 1986. You have that?

SENATOR GAGLIANO: I have the minutes of September 25, 1986.

SENATOR VAN WAGNER: In your October minutes, Senator.

SENATOR GAGLIANO: Oh, it's in the October minutes? Okay.

SENATOR VAN WAGNER: It's a backup to the October minutes.

SENATOR GAGLIANO: Got it.

MR. FOX: We found it, Senator.

SENATOR VAN WAGNER: My review of that, in summarizing, would in fact present the effect that the table presents the effects of raising the tolls either 50 cents cash/35 cent token, or just to simply 50 cents cash at each mainline barrier for '86 to '91. Is that what that represents?

MR. ZILOCCHI: Senator, I'm not too sure because there were so many scenarios that were being looked at.

SENATOR VAN WAGNER: It's actually at the end of it, I think, Mr. Zilocchi.

MR. FOX: Has it got a page number on the upper right--

SENATOR VAN WAGNER: Yes, I'll give it to you for the October 26 section. Table A, it says at the end -- Table A, page two of two -- "Garden State Parkway estimated mainline

barrier gross toll revenues, existing" and "Two, alternative toll schedules,"

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: That's what that analysis is. If I could, Mr. Zilocchi, who suggested these amounts? How did they come about?

MR. ZILOCCHI: Pardon me, sir. I'm sorry.

SENATOR VAN WAGNER: I'm sorry. The amounts that are reflected in Table A, page two of two-- Who suggested that approach?

MR. ZILOCCHI: These are all reports that were prepared by our traffic consultants.

SENATOR VAN WAGNER: And they are identical to the proposal presented by the Authority some 14 months later?

MR. ZILOCCHI: Yes. It is identical, but there were so many. That was not the only one that we had. We looked at various different options, but eventually as we got deeper into the planning process in 1987 we found that to be, what we considered in our opinion, the best approach.

SENATOR VAN WAGNER: Would you forward a copy of your letter requesting a toll analysis by Vollmer to the Committee?

MR. ZILOCCHI: My letter requesting a toll analysis?

SENATOR VAN WAGNER: That resulted in them preparing a table.

MR. ZILOCCHI: I will forward you the documentation that started it. Yes.

SENATOR VAN WAGNER: Thank you.

SENATOR ORECHIO: Senator Gagliano, did you have a couple of questions?

SENATOR GAGLIANO: Yes, since the attorney is here, I would appreciate if you would give us a little background on your involvement with the Authority, with respect to the Open Public Meetings Act -- which is otherwise known as the Sunshine Law. Excuse me. Apparently this is not working. (referring

to microphone) Did you or your firm give an opinion to the Authority with respect to whether or not the toll increases could be considered in private session, out of the hearing of the public?

MR. FOX: I'd have to ask, Senator, that you refer that to specific items in the minutes. Certainly there has been no written opinion on the subject.

SENATOR GAGLIANO: Were you ever asked to render a written opinion with respect to whether or not the Authority could discuss the proposed toll increases in private session, out of the hearing of the public?

MR. FOX: No, sir.

SENATOR GAGLIANO: Were you asked for an opinion?

MR. FOX: You mean--

SENATOR GAGLIANO: On whether or not they could consider--

MR. FOX: I said no, sir. We did not render a written opinion, nor were we asked for it.

SENATOR GAGLIANO: Were you asked for an opinion orally?

MR. FOX: Only from time to time during the course of discussion in the meetings from which the public was excluded.

SENATOR GAGLIANO: And what was your response?

MR. FOX: It depended on the circumstances of what was being discussed at the time, because there was--

SENATOR GAGLIANO: Can you take a minute and give us a capsule summary of all opinions when the question was raised? I am somewhat familiar with the Open Public Meetings Act, and I find it difficult to justify as much information as we've seen in the private sessions, not having been made public.

MR. FOX: Now, Senator, I'll be happy to discuss it with you, but I prefer to discuss it with you other than within the context of the question you just asked; because in the question you just asked, you are requesting me to discuss with

you advice that I gave to my client, which I cannot do under the lawyer/client privilege. Now, I'll be happy to give you my opinions as to the various matters which were discussed, but in the context of discussing them specifically as to what I told my client, and what the discussions were with my client, certainly I think you would understand that's not something I'm free to do. But the subject is not one that I'm trying to eliminate from discussion.

SENATOR GAGLIANO: Well, let's put it another way, then, Mr. Fox. Would you give me your opinion--

MR. FOX: Yes, sir.

SENATOR GAGLIANO: Give this Committee your opinion on whether or not, the basic question of whether or not the Garden State Parkway would be charging additional tolls, is exempt from the terms of the Open Public Meetings Act, and therefore could be considered in private?

MR. FOX: I believe a discussion on the subject of tolls, free of any other subject, would most likely not be exempt under the Open Public Meetings Act. I believe, however, that in almost every instance where tolls were discussed -- in the minutes you have before you -- they were discussed in conjunction with matters which were exempt.

Now that requires an understanding of the fact that tolls are almost always on our mind. They are on our mind constantly at the time of bond issues. I don't know whether you've ever had the pleasure of sitting around tables and negotiating bond covenants, and negotiating underwriting agreements. Tolls are constantly on the table. They have been in our public statements in '84 and in '86. When we deal with a bonding issue, which is a contract matter -- as a matter of fact, it's a whole panoply of contract matters -- tolls come into the discussion, and contract matters are exempt under the Open Public Meeting Act. When we dealt with the takeover of the State sections, among the discussions which had to be held

were discussions of the impact of the financing of the taking over of the State sections on the toll structure. When the question of the \$10 million a year payment to the State came up, there were discussions of the impact of that on the tolls of the Parkway. In that sense, I believe when it's discussed in conjunction with contract matters, they are exempt under the Act.

SENATOR GAGLIANO: All right. Could you refer to the section that would indicate that contract discussions -- I'm not talking about collective bargaining discussions, or personnel discussions -- just generally contract discussions would be exempt.

MR. FOX: Yes, sir. It's-- I have in front of me, New Jersey Statutes Annotated 10:4-12b.(7).

SENATOR GAGLIANO: b.(7)?

MR. FOX: b.(7).

SENATOR GAGLIANO: "Any pending or anticipated litigation or contract negotiation other than in subsection b.(4) herein in which the public body is, or may become a party."

MR. FOX: Yes, sir.

SENATOR GAGLIANO: You read that to indicate that these are anticipated contract negotiations--

MR. FOX: Yes, sir.

SENATOR GAGLIANO: --in which the public body may become a party?

MR. FOX: Yes, sir. I believe that the contract with the State of New Jersey for the taking over of the State section was a contract in which the State may become a party. I believe that every bonding situation involved many contracts in which the State may become a party. As a matter of fact, when the \$10 million payments to the State were made, a formal contract was negotiated at great length with the State of New Jersey on those payments, and discussions of that were

contracts as to which the State may become a party; and as I read the statute, subject to discussion in meetings to which the public was excluded.

SENATOR GAGLIANO: At one point did you have any discussions that were purely dealing with the increase in tolls? Are you saying you had none?

MR. FOX: No. I didn't. I believe, Senator, that there was one instance where an argument may be made where the subject was only tolls, and that was at the meeting in October of 1987. That was the main reason why we took the procedures prescribed in this Act for correcting what we believed might have been a deficiency, and acted de novo, because at that one meeting-- First there was a question raised, and we didn't go off on the issue of the Open Public Meeting Act. We wanted to discuss the issue of the need for the tolls. We felt that just because the question had been raised was enough reason to do it over again, and besides we were not satisfied in our own minds that we had acted fully properly. So we decided to take the opportunity to use the procedures outlined in the statute to have a completely de novo hearing on the subject, and we did.

SENATOR GAGLIANO: What you're saying though is, as far as you're concerned as counsel to the Authority, at no other time in all the discussions with respect to a possible toll increase was this involved in solely that issue and not tied to any other issue; so therefore, the public should be excluded from the discussion with respect to the toll increase?

MR. FOX: Senator, subject to my dislike of saying never -- because I recognize the possibility that I may be wrong -- I believe the only instance where this happened was the one to which I referred.

SENATOR GAGLIANO: Let me ask a question. Was this done in such a way that each time the toll increase was discussed there would be the opportunity to bring in other matters dealing with contract negotiations so that you could

continue to exclude the public? I have to ask you this because I think the question is on the mind of a lot of people.

MR. FOX: All right. I'm not fighting answering it.

SENATOR GAGLIANO: Right.

MR. FOX: I just would like to qualify it by saying that I'm prepared to give you my opinion, remembering that my role essentially here is one of scrivener as far as these minutes are concerned. There is nothing that gave me, as a witness to these actions, any indication that that was the case. Obviously this was a subject which was constantly under consideration by the staff, and discussed by the staff with the Commissioners, and it naturally injected itself from time to time in the discussions of the exempt meeting.

SENATOR GAGLIANO: See, that's the concern. It was apparently constantly on the minds of the staff and the Authority members themselves, and yet no public statements were made -- except I guess there were a couple, a couple of years ago that someday there might have to be some toll increases, but none of the detail that I've seen just perusing the private session minutes that I've seen just this morning for the first time, nothing like that to the public. I want to go to another, if I may-- Mr. Chairman, just another-- Go ahead. Did you have a response?

MR. FOX: Well I would just like to say, Senator, that I don't think there's anything more public than the official statement dealing with bonds. And in the official statement of 1984, on the third page, under the heading of "Additional Revenue Requirements:" "Based on current projections of revenue and expenses, net revenues are not anticipated to provide monies sufficient to meet the toll covenants under the resolution beginning in 1987," and it goes on.

SENATOR GAGLIANO: That's a red herring, isn't it?

MR. FOX: No, sir.

SENATOR GAGLIANO: Sometimes called a red herring.

MR. ZILOCCHI: The red herring is when it's being prepared.

MR. FOX: The first edition is the red herring.

SENATOR GAGLIANO: Oh, okay.

MR. FOX: The final one is a statement upon which the public buys \$275 million worth of bonds. And believe me, from everything you hear, when you go to talk to the rating agencies about these bonds, what they want to know about is, what's going to happen if the revenues fall down? This subject is on everybody's tongue, and on everybody's mind throughout the State.

SENATOR GAGLIANO: Let's go just one step further, because I am interested in to what extent the public would be involved in this. Did the Authority hold any public hearings on the issue of a proposed toll increase at any time in the last, say, two years?

MR. FOX: If you will allow me to answer that with more than just one word-- The one word answer is no. There are four scheduled in January.

SENATOR GAGLIANO: May I ask the second part of that question? You held no public meetings, say, in the last two years, and your answer is negative to that.

MR. FOX: Because we had no obligation to. There was no reason to.

SENATOR GAGLIANO: It's usual procedure, I think, for a public body to hold a public hearing before it takes an action. It is my understanding that the Authority has now acted twice with respect to the increase of tolls. The first time you did it, you said "Well it may have been a problem, so we did it again." Now, you're saying to the public -- and I think we represent the public to a certain extent, certainly -- you're now saying to the public, "We've adopted the resolution. We fully intend to proceed with a toll increase. And now, next year, in 1988 we want to hear from the public about this." Is this what you're saying?

MR. FOX: No, sir. That's not what I'm saying.

MR. ZILOCCHI: Can I please, Senator?

SENATOR GAGLIANO: Fine. I want to hear what you have to say, because that's the way I sense it comes across to the public.

MR. ZILOCCHI: I know, Senator. No. Could I please-- Of course, I'm not a lawyer. I'll leave the legal matters but-- What the Commissioners did on November 19, and again on November 30, was not adopt a toll increase. It began the process of saying to the public -- after evaluation and consideration of all the facts and details, and a recommendation of the staff -- we are saying to the public that we are taking under consideration in order to meet our revenue shortfalls and the continuation of our capital improvement program, this proposal. Now, what happens to this proposal? This proposal has to go through a public hearing. We are going to have four, because we cover the State from one end to the other. After the public hearings, all the testimony will be evaluated and considered -- not only by the Commissioners but by the Governor himself -- and after that will a decision be made on whether the Authority will go ahead with a toll increase, and if so, in what shape or form? This is just a proposal that was made, to listen to the public's input into the matter.

SENATOR GAGLIANO: So what you're saying, George, is that--

MR. ZILOCCHI: It's no different than--

SENATOR GAGLIANO: --that this is notice to the public, some say--

MR. ZILOCCHI: It's like in the introduction of an ordinance, sir.

SENATOR GAGLIANO: Okay. This is notice to the public that the Authority intends--

MR. ZILOCCHI: That's right.

SENATOR GAGLIANO: --to do certain things; that is, raise tolls to 50 cents--

MR. ZILOCCHI: That's right.

SENATOR GAGLIANO: --thirty five cents, discounted?

MR. ZILOCCHI: The Commissioners in fact have to take public action, again, to adopt a toll increase. It has not adopted the toll increase. It has made the proposal, and I think your words are a lot better, "the notice to the public" that this is what they are considering to do.

SENATOR GAGLIANO: What you're saying then -- so that we are telling the public this -- that at this point come next April, unless the Authority acts again formally, there will be no toll increase?

MR. ZILOCCHI: Absolutely right.

MR. FOX: Absolutely. And Senator, there are two statutes which mandate this. It's mandated by 27:12b-4, which says we can pass no resolution without the Governor and Treasurer's prior approval; and 27:12b-14.1, which says that the Authority, whenever it desires to increase any existing toll, has to have public hearings. So therefore, first the Authority has to create a desire. The Authority creates a desire, it goes to the executive branch for prior approval, and then it starts the hearing process. That is all that has happened to date. We have come to the starting line. We are at the starting line of the toll process, after our internal dealing with it over the years.

SENATOR ORECHIO: Senator Van Wagner, you many now continue.

SENATOR VAN WAGNER: Counselor, I'm glad you said that, because one of the concerns that the Committee has had is that in fact you have followed your process, obviously. The question is when was the desire created, and when was the prior approval provided? I think that's a matter of some concern to this Committee, and I know some of the other members are going to be focusing on that.

So, if I might, I'd like to go along with the chronology, as were before. I'm not an attorney either. I didn't like Director Zilocchi stealing my line. That's my usual line in the Judiciary Committee--

MR. ZILOCCHI: I'll remember that in the future.

SENATOR VAN WAGNER: --is to indicate I'm not an attorney.

MR. FOX: Senator, it's tried on me ten times a day.
(laughter)

SENATOR VAN WAGNER: But having spent four years on the Judiciary Committee listening to attorneys, I've kind of gotten an on the job degree, you might say.

MR. ZILOCCHI: I might say, that in respect to all the attorneys, I do not say that proudly, that I am not an attorney.

MR. FOX: That's the nicest thing you've ever said.

SENATOR VAN WAGNER: No, I have great respect.
(laughter) No, I tried to be one once.

I'd like to turn to the minutes of the closed session held December 18, 1986, if I might, counselor, or the Director can at any point -- or the Chairman, you know, whoever. I don't know, Senator Gagliano, maybe some of this may bring to light some of the questions you were raising also.

At page 3, the minutes note that the Chairman further reported that the Governor's office at this point appears to be opposed to a barrier toll increase, but would be in favor of a ramp toll increase in 1987. There was a discussion among the Commissioners regarding the need for a toll increase. It was agreed that the takeover of the State-owned sections would be considered in conjunction with the Authority's position on the need for an appropriate toll increase. Did the agreement to take over the DOT mileage require a toll increase of some amount? Was that part of the analysis?

MR. ZILOCCHI: Senator, first of all, when they would say that they'd be in favor of a ramp toll increase in 1987, it's understood always if needed. Unfortunately that's not reflected here, but if needed. It was the concern of what impact the takeover of State-owned sections would have back then on what we were looking at -- the projections at the time. Of course it was a concern, because if we were looking at projections that indicated that possibility, and add the added burden of State-owned sections, it was something that we had to evaluate.

SENATOR VAN WAGNER: So in other words, it would be fair to say that at each stage there was some type of study triggered to try to evaluate the effect of each segment of the Authority's plan on the necessity of increasing tolls?

MR. ZILOCCHI: Senator, and I say this with all due respect, whenever we consider spending any money we have to relate that to what it does to our revenue picture.

SENATOR VAN WAGNER: That's the point I was trying to get at.

MR. ZILOCCHI: Yes.

SENATOR VAN WAGNER: In other words, regardless of what your discussion might revolve around -- whether it be the takeover of the sections operated by the DOT, or whether it be an improvement at an exit ramp -- that would involve the discussion of the impact on existing toll revenues.

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: Am I correct?

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: Okay. Was a study conducted to review the impact at that point of the takeover?

MR. ZILOCCHI: At that point no, Senator. As we got into '87, when the takeover got to be more and more of a possibility -- because the takeover of the State-owned section involved extensive legal negotiations. I don't even understand

it all myself, the real estate, the right of ways, and all that. As things started falling into place at a certain point in '87, then there was serious consideration to see what it would do. It was found at that point that, although it would add an added financial burden to us, that added financial burden alone would not cause the toll increase. It would be more a composite of many things entering the picture.

SENATOR VAN WAGNER: So, let me see if I can boil that down. In other words, going back through the chronology into the spring of '86, as each of the projects came under discussion -- whether it be the capital improvement project, whether it be the takeover of sections operated by the Department of Transportation -- regardless of what might be discussed relative to the roadway improvements or changes, that in each instance as part of that discussion there would be an analysis, either formally or informally--

MR. ZILOCCHI: See if you could afford it.

SENATOR VAN WAGNER: --of what the impact might be on tolls? Am I correct in saying that?

MR. ZILOCCHI: Yes. It's standard. Everything like that of major proportion you want to see what the impact will be.

SENATOR VAN WAGNER: I want to refer now to the closing meeting minutes of January 22, 1987. In the opinion of the Committee, this is a seminal meeting which has focused some concern by the Committee. As you know, and I think the Chairman referred to this earlier in his statement-- The discussion of the Arts Center Reception facility -- and you know, I'm not going to read your quotes; they've been obviously well documented over the past several weeks -- seem to link the discussions that were taking place: proposed toll increases, ramp and barrier, short-term financing, etc. And as the Chairman stated, and as many of the Committee members I know will state as time goes on, there was at that time no

indication to this Committee that there may in fact be prospective toll increases as a possibility. Can you address why that particular notion or discussion--

MR. ZILOCCHI: Senator, first of all, if I understand the question correctly-- Are you talking about the discussion of the reception center, or just generally about the indication of a possible toll increase?

SENATOR VAN WAGNER: Okay.

MR. ZILOCCHI: I just want to make sure I answer the question properly, sir.

SENATOR VAN WAGNER: Yes. Let me read them to you, and maybe this will give you an idea of what the Committee has in front of it.

MR. ZILOCCHI: Yes.

SENATOR VAN WAGNER: "The Chairman reported that the Commissioners Levey, Robinson, and Sambol, and Executive Director Zilocchi, recently met with the Governor to review the Authority's proposal for a ramp toll increase and a barrier toll increase. After reviewing the relevant facts and figures, the Governor approved of the Authority's proposal for the ramp toll increase, which may be implemented immediately. The Governor also approved of the Authority's proposal for a barrier toll increase, provided that the Authority not proceed or implement that increase until the end of 1987."

MR. ZILOCCHI: My comment on that is the same that I commented on just Monday before the Assembly Independent Authorities Committee. It's a question of interpretation, and I was at that meeting, which was not a special meeting. There are, on an annual basis maybe, meetings with the Governor -- which is our obligation to brief him and update him on the affairs of the Authority -- and the point was raised, of what I indicated earlier, about the sort of red flags possibilities we were seeing. Again, not being certain, but seeing these possibilities. In bringing them to the attention of the

Governor, the Governor indicated to us to try to delay this as much as possible in the interest of the motoring public, but saying to us, if you have to, begin the planning process now so that if you have to face the situation anytime in '87 or '88, you will be ready for it.

SENATOR VAN WAGNER: The meeting that was held with the Governor -- and this drives to the issue that I think Senator Gagliano was raising before -- was it advertised, the meeting with the Governor?

MR. ZILOCCHI: No, sir.

SENATOR VAN WAGNER: Were all the Commissioners invited to attend?

MR. ZILOCCHI: Not to my knowledge, Senator. It was just the officers.

SENATOR VAN WAGNER: What constitutes a quorum of the Authority?

MR. FOX: A quorum is four.

SENATOR VAN WAGNER: Four?

MR. FOX: Yes.

SENATOR VAN WAGNER: Counselor, was the meeting with the Governor with the Commissioners of the Authority, discussed in light of the question raised by Senator Gagliano, that some legal questions concerning the Open Public Meetings Act might be raised?

MR. FOX: I think I know what you mean. There was no discussion of the meeting before it took place. I wasn't there, and I don't know what happened there. It was not a meeting to which all Commissioners were invited or--

SENATOR VAN WAGNER: They weren't all invited?

MR. FOX: They were not all invited. It was only the officers and--

SENATOR VAN WAGNER: Would that constitute a quorum?

MR. FOX: Well, at a meeting, four would constitute a quorum. Since this whole issue has arisen, I've considered it. I don't consider that to have been a meeting.

SENATOR VAN WAGNER: Well you realize that since this whole issue has become a matter of public issue, we have to raise these questions.

MR. FOX: I understand. I certainly don't object to the question being raised, but it would seem to me that since not all were invited, and there was no purpose to take action, it was more in the nature of a courtesy visit to the Governor by the officers of the Highway Authority -- of which we happen to have four.

SENATOR VAN WAGNER: Were minutes taken?

MR. FOX: Well, I was not there. I doubt it.

SENATOR VAN WAGNER: No.

MR. ZILOCCHI: I was there, sir. No minutes were taken.

SENATOR VAN WAGNER: Okay. The minutes in the January 22 meeting reflect that the Governor reviewed the relevant facts and figures. What were these? Were these the tables, Mr. Zilocchi?

MR. ZILOCCHI: I don't really recall, Senator.

SENATOR VAN WAGNER: I'm trying to understand a process.

MR. ZILOCCHI: I know, Senator. I really don't recall. I just recall the discussions. I don't recall if we submitted any report or anything to the Governor. I really don't recall that. I just recall the essence of the discussion, and the advice we received.

SENATOR VAN WAGNER: Well, in your understanding, what would it be that the Governor would review, I mean, given the answer that the process starts after your review takes place? I understand that. I think it's unique. If I'm correct, counselor, I think the procedures that are attributed to the Parkway under the Administrative Procedures Act are somewhat unique.

MR. FOX: We are the only toll authority--

SENATOR VAN WAGNER: I think you're the only toll authority--

MR. FOX: --that publishes its tolls as a rule.

SENATOR VAN WAGNER: Yes. You by rule publish your intention--

MR. FOX: Right.

SENATOR VAN WAGNER: --as to tolls, before you actually adopt-- Actually you don't adopt, the Governor approves or disapproves.

MR. FOX: No, that's statutory.

SENATOR VAN WAGNER: That's statutory, right.

MR. FOX: It's two tracks. The statute says we can't pass a resolution until we have written approval from the Governor. At the same time we have to go through amending the rules under the Administrative Procedures Act. We're constantly faced with the chicken and the egg problem, because you can't talk about it until you do it, and you can't do it unless you talk about it.

SENATOR VAN WAGNER: I've got to tell you, counselor, we're faced with the same chicken and egg problem you are, believe me, as a Committee responsible for conducting these hearings for the Senate.

MR. FOX: I'm sure.

SENATOR VAN WAGNER: And the points that you're making, which I understand are exactly the concerns that are being expressed by many--

MR. FOX: They're reasonable concerns.

SENATOR VAN WAGNER: --in that at some point prior approval was given, and that at that point the Governor's Independent Authorities Unit was made aware of them, and had to review that before you could move ahead and even announce your intention.

MR. FOX: Right.

SENATOR VAN WAGNER: It would appear that -- which has created some concern on the Committee -- based on our analysis of the minutes that that took place some time ago, and that process began some time ago. However, that I suppose is a matter of interpretation too, as has been said.

When these relevant facts are submitted and reviewed by the Governor's office, does he give approval in writing, or does he kind of just nod? What happens? How do you know you got the signal? I mean, I'm sure that the Commissioners aren't standing there saying, "I can't wait to run out here and announce the toll increase. I know everybody is going to love me for it." You know, it's like everybody in the Legislature can't wait to vote for taxes.

MR. ZILOCCHI: Senator, I can tell you for a fact that you become the most unpopular person in the State of New Jersey when you announce it. (laughter)

SENATOR VAN WAGNER: At what point do you know that you got the nod to go out and take the flack? Does he write to you and say, "Go ahead."

MR. FOX: Senator, the answer is yes, and it's because the Senate has passed a bill telling us how to do it. I'll read it to you. It's 27:12b-4, and it says, "No resolution or other action of the Authority providing for the issuance of bonds--" I'll skip the unnecessary words "--revising or adjusting tolls for the use of any highway projects, shall be adopted or otherwise made effective by the Authority, without the prior approval in writing of the Governor, and at least one of the following: State Treasurer, and Comptroller of the Treasury." Ergo, we are unable to pass a resolution unless we have in hand a writing signed by the Chief Executive and one of the other two people mentioned in the statute.

SENATOR VAN WAGNER: After the January 22 meeting of 1987, did the Governor give his written approval?

MR. FOX: On November 19, slightly before the--

MR. ZILOCCHI: The answer to his question is, "no."

SENATOR VAN WAGNER: He did not?

MS. STANLEY: No.

SENATOR VAN WAGNER: He did not?

MS. STANLEY: Not after January.

MR. FOX: It was after. It was in November.

SENATOR VAN WAGNER: I know. That's somewhat after.

MR. FOX: Oh, I'm sorry.

MR. ZILOCCHI: He said January.

MR. FOX: Oh, I'm sorry.

MR. ZILOCCHI: He'll get to November.

MR. FOX: No. I'm sorry.

SENATOR VAN WAGNER: In other words, following the January 22 meeting--

MR. FOX: Immediately following that--

SENATOR VAN WAGNER: --no written approval from the Governor was given to the Authority to proceed with the public hearing, so you did not, obviously. You could not.

MR. FOX: We could not. It was, "proceed with a resolution." We could not pass a resolution.

SENATOR VAN WAGNER: Okay. That's the point I was trying to get at.

MR. FOX: Yes. I'm sorry I--

SENATOR VAN WAGNER: I don't mean to dwell on this meeting of January 22, 1987, -but obviously it's become a serious bone of contention in a great many areas, certainly in the media. How long was the meeting with the Governor on January 22?

MR. ZILOCCHI: I'll have to answer that question.

SENATOR VAN WAGNER: Yes.

MR. ZILOCCHI: I think three quarters of an hour to an hour at the most.

SENATOR VAN WAGNER: So, relatively short?

MR. ZILOCCHI: Yes.

SENATOR VAN WAGNER: Was it here in Trenton?

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: And you say at that point the Governor gave no indication of approval. He didn't nod his head, or--

MR. ZILOCCHI: The Governor, sir, did not approve a toll increase at that meeting. He advised us to do everything possible to avoid it, but to begin the planning process so that we'd be ready to present our facts if the time arrived.

SENATOR VAN WAGNER: Okay. I'm going to quote from the minutes now. The minutes state that: "The Governor approved of the Authority's proposal for a barrier toll increase, provided that the Authority not proceed with, or implement that increase until the end of 1987." Is that correct?

MR. FOX: You read correctly, yes, sir.

SENATOR VAN WAGNER: You said that?

MR. FOX: You have read correctly from the minutes.

SENATOR VAN WAGNER: Right. Am I correct that that was also your response that that approval did not take place until November 19?

MR. FOX: It depends on the sense in which you use the word approval. If I were writing these minutes today, the word would probably be something other than approval; because it gives the implication of statutory approval, which it clearly wasn't, because the Governor has no right to-- The Governor can't approve toll increases. We have to approve toll increases. He gives something the statute calls "prior approval." What this certainly should imply -- and implied to me when written -- was that the Governor said it was okay to go ahead; that what we heard from the report was that a meeting was held with the Governor, and he said "Okay, go on." Not that -- put the tolls, charge the tolls. He can't do that, and we can't do it. We have to go through the whole hearing process and the whole administrative procedure process.

SENATOR VAN WAGNER: But, can you understand how difficult it is sometimes -- from just this questioning that I'm going through, which has been pretty well researched -- that when I get a question, or any member of this panel gets a question, and it's very simply put, usually from a member of the public, "When do I start paying 50 cents? Do I? Has it been approved?"

MR. ZILOCCHI: Senator, it's concerned me that -- just last night I found out from some of our toll collectors -- that some people indeed have already begun paying 50 cents, which we'll have to take care of.

SENATOR VAN WAGNER: Well I'm sure that there have been even more bizarre responses than that. Okay. I'm going to yield, Mr. Chairman, at your request.

SENATOR ORECHIO: Yes, Senator Van Wagner. I know Senator Rand has to leave, and I know Senator McNamara has some questions. So at this time I'd like Senator Rand to continue.

SENATOR RAND: Thank you very much, Mr. Chairman. I must tell you that this discussion, or this furor, couldn't come at a worse time as far as I'm concerned, Mr. Zilocchi. We are in the midst of trying to approve a Transportation Trust Fund, and I can tell you that this situation does it no good. It's difficult enough to try to get a consensus, without adding another ingredient to the pie. I'm just going to ask you very few questions, just to satisfy my own mind.

I see by the minutes that nobody from the Department of Transportation, as far as I can see, is ever present. Is that correct?

MR. ZILOCCHI: At the exempt minutes, no. No one is ever present, sir.

SENATOR RAND: And yet I see in the August 28, September 25, October 30, November 20, references made to Commissioner Gluck; her desire that these two sections remain free. And yet you stated that it was his understanding that he

had no objection to a modification of such a prohibition based upon the present plans, and we go into a lot of other things. I'm going to ask you a question right to the point. If the Commissioner of Transportation evidently knew about the program-- And by the way, I must tell you this, that if she wasn't present, or if he weren't present there, they couldn't very well report back to the Legislature. But it seems to me that there was a knowledge transmitted to the Department of Transportation on this, overall -- whether a prior approval, later approval, no approval, but did the Department of Transportation know about your plans?

MR. ZILOCCHI: The plans of a toll increase, Senator?

SENATOR RAND: Yes. And I must tell you, Mr. Zilocchi, that it appears to me -- and I'm going to debate you if you say, "no" -- that evidently they knew about it, because the minutes indicate right here -- and that's the first I've seen of the minutes. I'm not being critical of you, I'm just trying to find out where the DOT--

MR. ZILOCCHI: Senator, I don't recall--

SENATOR RAND: You see, I've got some bills--

MR. ZILOCCHI: I know your bills, Senator.

SENATOR RAND: --that puts the DOT Commissioner on there. Maybe she shouldn't -- or he shouldn't -- belong on there. I don't know.

MR. ZILOCCHI: Senator--

SENATOR RAND: But what I'm trying to do is get a thread, very frankly, because I'm going to ask you a final question. If they did know, if the information was imparted to us -- and we asked that many times. We asked you, and we asked the Commissioner, and we had no knowledge of that. There was always a refusal or a denial that tolls would be increased. If the Department knew about that, that's one thing. And evidently -- I'm only going by your minutes -- and I will ask you the final question when you answer me that. Did they know about it?

MR. ZILOCCHI: Senator, I don't recall ever sitting down with the Department of Transportation to discuss the details of the toll increase. Whether they knew about it or not, I'm not too sure.

SENATOR RAND: Let me refer you to August 28 of your copy of the minutes. Let me refer you to October 30 of your own copy of the minutes. These aren't mine. But I think it's important, because I'm going to ask you a final question. Do you want to say yes or no? If you don't know, I'll take that also. Somebody ought to know.

MR. ZILOCCHI: Senator, again, I never sat down with the representatives of the Department of Transportation to specifically discuss a toll increase and the planning process, and things of that nature. Whether they knew or not, I can't say.

SENATOR RAND: Well is there anybody that I could ask, because it is in the minutes here?

MR. ZILOCCHI: What's in the minutes, Senator?

MR. FOX: Which minutes are you referring to, Senator?

SENATOR RAND: August 28, the third paragraph--

MR. FOX: August-- I'm sorry. August--

SENATOR RAND: --which refers to Commissioner Gluck, and her objection that she wanted two sections to remain free, and yet Mr. Zilocchi stated--

MR. FOX: Oh, that's a different issue, Senator.

MR. ZILOCCHI: Okay, Senator. I'm sorry. I misunderstood the question. In the negotiations of the takeover of the State-owned sections, there was always the issue of whether we tolled those sections. It was discussed, yes.

SENATOR RAND: The southern State sections? We're talking about southern State sections. Is that issue called the southern State sections?

MR. ZILOCCHI: I would imagine it's the Cape May section, sir.

SENATOR RAND: That's correct.

MR. ZILOCCHI: Right.

SENATOR RAND: Well that isn't State sections.

MR. FOX: Yes it is.

MR. ZILOCCHI: Yes it is, sir.

SENATOR RAND: Oh, okay.

MR. ZILOCCHI: That is a State section.

SENATOR RAND: All right.

SENATOR GAGLIANO: It's the only one with all the red lights on it.

SENATOR RAND: Oh, okay. That's what you were referring to?

MR. ZILOCCHI: That's right, Senator.

SENATOR RAND: All right, then let me go to October 30, in the second paragraph where "Zilocchi reported that his staff has provided information to the Governor's office and the DOT, with respect to the proposed toll increase." October 30, 1986.

MR. ZILOCCHI: Sir, I don't recall providing DOT with the specifics of the toll increase.

SENATOR RAND: Then what I read here in the four copies of the report -- that you have no knowledge of the DOT receiving this information?

MR. ZILOCCHI: No, sir. I have no knowledge. Whether they received it from another source or not, I have no knowledge of ever sitting down or giving DOT specific information on toll increases.

SENATOR RAND: Well, could I ask the gentleman who takes care of the minutes, why it is in here -- in the October 30, which says, "Zilocchi reported that his staff has provided information to the Governor's office and the DOT with respect to the proposed toll increase"? It's right here.

MR. FOX: Senator, the only reason anything is in the minutes is because that's what the scrivener of the minutes heard at the meeting. That's what the scrivener's recollection is of what happened at the meeting.

SENATOR RAND: It's very difficult for me -- I have to tell you -- to understand something which is written into the minutes that gives me the situation that somebody in that Department of Transportation knew about these toll increases, and it was provided by somebody -- whether it's staff -- in the Highway Authority. Which leads me to the question that again it appears to me as an observer that the Department certainly didn't want this to come out, because at that time the presentation of the new Transportation Trust Fund -- and that bothers me, I must tell you. That situation disturbs me. But I've got to assume what's in my mind, and what I read, and that's all.

SENATOR HURLEY: Senator McNamara, the Chairman isn't here, but he wants you to go on.

SENATOR McNAMARA: Okay. I guess really it boils down to public perception and credibility. And I think it's not only, as Senator Gagliano and Senator Van Wagner have referred to, the Open Public Meeting Act and having things in closed session. But when I read the minutes of January 22, 1987, and the discussion of that report from Chairman Stanley as to the discussion with the Governor, I don't see anything in those minutes that were transcribed that would prevent that from being an open session; because the next subject that is discussed, and in fact as advice of counsel -- according to page two -- that portion of the matter which involved the approval of the reception building was transferred to the public agenda as items 7G and 7H. I just wonder if counsel would just review page one of January 22 minutes, and maybe make clear to me, or the Committee, what would have kept that first two paragraphs of a report from the Chairman to the

meeting of the Authority, in closed session, when in fact there's nothing there talking about contract negotiations?

MR. FOX: The bonding is a contract negotiation, Senator, and this was a discussion of financing. That is the basis of it. You'll notice that I didn't review it, because I know it probably as well as I know the first page of the Bible. It was kept exempt under the contract section which I discussed with the Senator before. Rightly or wrongly, that was the basis of it.

SENATOR McNAMARA: You know, when you were talking I got to believe that when you were discussing what you were going to be discussing with the parties involved, that may have been contract negotiations, but this seems to me to be a report on a discussion of what had been concluded by the Authority as the best way to go, which would include the bonding etc., as a fait accompli. This seems to be a report back, that after reviewing the relevant facts and figures, the approval was given for the toll increase, which may be implemented immediately as far as ramp tolls, and the approval also of a barrier increase. I don't see why this statement would then be included with contract negotiations, because that has to be a fait accompli.

MR. FOX: I'll try it one more time. From our perspective, the key thing was in order to satisfy the Authority's financial needs during the year 1987, it was decided that the Authority should obtain temporary financing through bank anticipation notes.

SENATOR McNAMARA: Excuse me, but where are you reading from?

MR. FOX: The last few lines on the first page of the January minutes. That this was a discussion that had to do with how we financed ourselves, and all of these things were relevant to the issue of financing, because the people who do the financing have to hear about tolls and the possibility of

toll increases. Clearly this was a preliminary to the discussion--

SENATOR McNAMARA: Well then, when you did the short-term financing, were there commitments made that there would be a toll increase? Because obviously, I would think if you were out selling bonds short-term -- with the knowledge that they were short-term to be then refinanced long-term as matter of a more major project in order to get the rate that you received -- it would lead me to believe that some sort of a commitment must have been made to those lending the funds that there would be an increase.

MR. FOX: I believe Senator that Chester Johnson, who did the dealing with the financial houses, and who is able to answer those questions -- I certainly could not answer them from direct information -- I believe Mr. Johnson is fully prepared to answer anything having to do with the discussions of financing and its relationship to toll increases.

CHESTER JOHNSON: (from audience) Would you like for me to--

SENATOR McNAMARA: One other point before that-- As I recall back in May when we discussed about the new center, the center was represented at that time at a \$4.3 million figure. Is that correct?

MR. ZILOCCHI: That was the construction contract, yes.

SENATOR McNAMARA: And what is the--

MR. ZILOCCHI: That was not the total cost, sir. In fact, in the information I did supply to the Committee the total estimated cost was in the vicinity of \$6.4 million or \$6.5 million. The actual major construction contract from the building was \$4.3 million.

SENATOR McNAMARA: What does that building work out, per square foot, for the building itself, George? Because I tell you, I know you disputed my figures of \$400 a square foot, but when you're talking now that it's a \$6 million project that's including other items rather than the building--

MR. ZILOCCHI: Yes, Senator. I'm just saying that for clarification.

SENATOR McNAMARA: What then is the actual per square foot cost of that building?

MR. ZILOCCHI: Is Jim here? (consults with aide in audience) Four hundred? Four hundred dollars.

SENATOR McNAMARA: Then you know what, I really think that it was inappropriate for you to claim that my estimate -- which was ball park -- off the top of my head, of \$422 a square foot-- I guess I wasn't so far off the bat. Because your response was that I was not looking into the fact that there was landscaping and all those other items. They weren't included. And I have to tell you, maybe there's a hard look that we've got to take on how we're spending that money. That's not directly on point as to what we were just discussing, but-- You know, I was left, George, at that meeting with the impression that the number that I had figured was high. And you talk about credibility, that's where it's all at.

MR. FOX: Excuse me, Senator. Would you please repeat what you just told me?

MR. JOHNSON: Yes, the basic cost of the building itself is about \$300 a square foot. If you add the landscaping and things like that, and charge it to the square footage, you can come up to \$400.

SENATOR McNAMARA: Wait a minute. Where's the \$6 million?

MR. JOHNSON: If you charge the \$6 million to the square footage in the building, you come out with \$400.

SENATOR McNAMARA: As soon as we recess for lunch I want that total square footage, so I can do a little math while we're in recess.

MR. JOHNSON: Fourteen thousand.

SENATOR McNAMARA: Fourteen thousand?

MR. JOHNSON: That is correct.

SENATOR McNAMARA: Do you want to break for lunch, and then get--

SENATOR ORECHIO: No. We're going to break at one o'clock for lunch. Senator Weiss, did you indicate that you wanted to speak?

SENATOR McNAMARA: Excuse me, Carmen. He is going to respond to that.

SENATOR ORECHIO: Oh, okay. I'm sorry, fine.

SENATOR VAN WAGNER: Would you repeat that specific part of the question, the last part, because the gentleman got up and spoke and I didn't hear what that--

SENATOR McNAMARA: You mean from ten minutes ago?

SENATOR VAN WAGNER: Are you specifically on the Arts Center?

SENATOR McNAMARA: No no. I'm specifically on-- I interrupted, Rich, on the Arts Center, but I'm going back to the issuance of the notes.

SENATOR VAN WAGNER: Oh, okay.

SENATOR McNAMARA: That's the question that I wanted--

SENATOR VAN WAGNER: And who is this gentleman?

MR. JOHNSON: My name is Chester Johnson.

MR. ZILOCCHI: Can I please, Senator, just give the credentials of Mr. Johnson?

SENATOR ORECHIO: Mr. Zilocchi, if you will?

MR. ZILOCCHI: Mr. Johnson is from Government Finance Associates. In fact, he is Government Finance Associates. He's been a financial consultant since 1983 or '84. His clients range from the government of the Virgin Islands, to the State of Alaska; Boston, Massachusetts; Buffalo, New York; Virginia Beach, Virginia; Portland, Oregon; Detroit, Michigan. His New Jersey clients include -- in addition to the Parkway -- the Wastewater Treatment Trust, Casino Reinvestment Development Authority, Local Finance Board, Princeton University; and also

serves as financial advisors to a large number of local jurisdictions throughout the State.

SENATOR ORECHIO: Mr. Johnson?

MR. JOHNSON: Yes, Chairman, and Senators-- The questions -- as I recall, Senator McNamara -- was whether there was a commitment on the part of the Parkway to raise tolls as a result of the short-term borrowing; and whether the lenders required the Parkway to make that commitment. The short answer to that is, "absolutely not." There is nothing in the legal documents that require the Authority to raise tolls. I think it's important to bear in mind, however -- not however -- to bear in mind that the Parkway is, and remains, one of the State's premiere credits, and it was not a difficult process in terms of securing borrowed funds on a short-term basis, based upon the fact that the Parkway is the highest rated toll road in the country by Standard & Poor's, and one of the highest by Moody's Investor Service. The legal commitments made by the actual Authority was a pledge of the very last dollar in the Authority's flow of funds, if for any reason the initial sources of payment were inadequate -- that is, the issuance of long-term bonds. That was the primary source of repayment.

SENATOR McNAMARA: Well, I have here a copy of the minutes of April 23, 1987, page 3. I believe you're quoted as, "Johnson reported that he had contact with both rating agencies, and neither had a concern about short-term financing with long-term financing to follow in approximately one year." My question was a little broader than just a commitment of funds, was there a commitment at that time that the refinancing would take place, which would in effect then guarantee the toll increase?

MR. JOHNSON: If I may respond to that. It brings in-- You mind if I go into a little bit-- I mean your question is broad, and if you don't mind I will respond in a broader context?

SENATOR ORECHIO: You may respond, Mr. Johnson.

MR. JOHNSON: If you recall, the Authority is required under the Executive Order 147 to keep the Governor's office and the Treasurer's office completely informed as to the financing plans, and the ultimate financing program, that the Authority would implement. As the minutes in January indicate, and as further documentation -- and I can give you some further documentation along those lines -- there was an understanding that the Authority could secure financing based upon revenues that would be generated by a ramp increase; that being in the amount of at the time \$10 million to \$11 million a year.

The reason that a decision was made not to go with long-term financing was multifarious. I can go into that, but essentially the short-term financing -- the amount of short-term financing, the \$80 million in commitment and the \$50 million which was drawn down, was based upon the amount of bonds that could be sold secured solely by the revenues of a ramp increase. We were prohibited from selling any short-term debt, or obviously any long-term debt, that would be based upon any general barrier toll increase.

SENATOR McNAMARA: May I interrupt for one point?

MR. JOHNSON: Sure.

SENATOR McNAMARA: On the point of what you're talking about, then what you're saying is that in fact you had approval of -- that there could be implemented a ramp increase.

MR. JOHNSON: Well, I'll probably get my knuckles slapped by the lawyer, but I think approval might be too strong a word.

SENATOR McNAMARA: All right. Let me rephrase it. You might have then felt assured that there would not have been a veto of the minutes, that would have approved a ramp increase.

MR. JOHNSON: Yes, as a--

SENATOR McNAMARA: Which means, in my understanding of the English language, that's approval.

MR. JOHNSON: Okay. Maybe I should read a few excerpts from a letter that we received--

SENATOR McNAMARA: I want you to answer that you agree--

MR. JOHNSON: Yes--

SENATOR McNAMARA: --that what I stated is a correct scenario.

MR. JOHNSON: I think there was an understanding that if the Authority went out and secured short-term financing, that we would have the capability of funding that long-term through the issuance of debt based upon revenues from the ramp toll increase, and in fact I think there's -- at least the State Treasurer is really on record as stating that fact, and if you would like, I'll read about four or five sentences from a letter that was sent to the Chairman by the State Treasurer in March which really sets forth that position.

SENATOR McNAMARA: Well it seems to clear up the discussion of the minutes of January 22, 1987, which clearly states that there's an approval for a ramp toll increase immediately. That was my question, and I felt that there was no way you could have sold short-term bonds without having that ace in your hand, whether you played it or not.

MR. JOHNSON: Okay, but we never-- That was not part of the--

MR. ZILOCCHI: Exactly, Senator.

MR. JOHNSON: If I may beg an indulgence-- Just to give further background on this, I would like to -- if I may -- to clarify this particular issue if I may read a few excerpts from a letter that the Chairman received from the State Treasurer, related to this issue. May I?

SENATOR ORECHIO: Sure.

MR. JOHNSON: It is a letter dated March 17. "As State Treasurer, I cannot approve any financing which jeopardized the premium grade ratings which the Authority

enjoys. These ratings have contributed significantly to the Authority's favorable standing with investors, have lowered borrowing costs to the Authority, and reflects on the financial prudence of the State overall. Given that a ramp toll increase has been approved in concept, I suggest that the Authority consider deferring a portion of its capital improvement program, and undertaking a borrowing in 1987 which can be comfortably serviced by the additional revenues generated by a ramp toll increase." I think those are the relative sentences from the--

SENATOR ORECHIO: Yes. I think that's significant. Senator Weiss, did you want to speak at this time? I think Senator Rand is probably tired of hearing from me directly.

SENATOR WEISS: Thank you. Thank you very much, Senator Orechio. I just have a question on the minutes for a moment. I don't know under what parliamentary procedure you follow. Is it Roberts Rules, or is some local house rule, or is it something else?

MR. ZILOCCHI: We have by-laws, Senator.

SENATOR WEISS: Oh, okay. Then in essence you put your own rules together?

MR. ZILOCCHI: Yes.

SENATOR WEISS: The reason for the question is this, and normally when I attend a meeting, as a matter of fact at all meetings -- I understand that the Chairman or the Chairperson will call the meeting to order, and then they call for a reading of the minutes of the previous meeting, and they approve those minutes. I don't find that in this set of minutes. I don't know why it's not there. The things that led me to it is Mr. Zilocchi's -- I pronounced your name right? --

MR. ZILOCCHI: Yes, sir.

SENATOR WEISS: --was his denial of some things that were in the minutes that really quote him. And if in fact these minutes were approved at that particular meeting -- and

he was there because it shows that he attended all these meetings. I haven't found his name not on the list--

MR. ZILOCCHI: It's my job to be there.

SENATOR WEISS: Why wouldn't he deny having said what he said?

MR. ZILOCCHI: They were never approved, sir.

SENATOR WEISS: They were what?

MR. ZILOCCHI: They were never approved.

SENATOR WEISS: They were never approved?

MR. ZILOCCHI: No, sir.

SENATOR WEISS: Well, then they had no value.

MR. FOX: May I respond to you on that, Senator?

SENATOR WEISS: Or is someone taking issue with someone? You may, sir.

MR. FOX: I have become interested in the subject of, what are minutes, because of the attention on these minutes, which has been somewhat large. I have checked the bases.

First, I tried to find out what minutes means. What does it mean to take minutes? I went to "Black's Law Dictionary."

SENATOR GAGLIANO: Now he knows.

MR. FOX: It comes from minutio -- Latin -- in civil law, a lessening; diminution or reduction. It says, "Minutes in business law, a memoranda or notes of a transaction or proceeding." I looked up minutes in the case law of New Jersey, and I found nothing on the subject of what it was that minutes should be. So I went to the legislative history of the statute which we have, because the statute says: "We shall take minutes." In the Assembly introductory statement to the bill, there is a reference. It says: "Section 9 requires public bodies to keep comprehensible minutes on the essentials of all meetings. Minutes are not intended to be verbatim, or even to include every comment made. The requirement that minutes be comprehensible, is intended to include printing or

hand-writing clear to the average citizen, and is intended to exclude shorthand."

Then I found the publication by the Attorney General of the Division of Law of the State of New Jersey, entitled, "The Open Public Meetings Act." Section 5 refers to minutes. The last sentence in section 5 says: "Minutes should be made promptly available to the public, and need not be formally approved by the public body before distribution to the public." So, I think that under the law, which the Legislature has given us, we have kept minutes. I hope you find them comprehensible. There is no requirement that they need to be approved, in accordance with the interpretation of the Attorney General, so I believe we have fulfilled our statutory obligation in keeping the kinds of minutes that the Legislature has required us to do.

SENATOR WEISS: You know, someone would think, Mr. Fox, that your answer and my question were rehearsed at some meeting prior to this.

MR. FOX: Weren't they?

SENATOR WEISS: Now, I have never met you before, but you were well-prepared with the answer. Okay? And I don't argue with your answer.

Let me also indicate to you that those minutes constitute also something called the "record." They are a record of that meeting. There is also something else I think we ought to add to that, and it is called "custom," which is very important. In order to establish both the record -- rather, in this instance, the record, we have to have some written document, so that doesn't get changed around, and we say, "Hey, wait a minute. That is not the way it went." If it were properly passed on at the following meeting, those who are involved would have the opportunity then to either add to it, detract from it, or change it, depending on what the situation is.

I find myself in somewhat of a dilemma here. I am assuming -- and that is all I can do, since I wasn't at the meeting -- that what I have in front of me represents what really went on at those meetings. Yet, you are (indiscernible) by someone who is quoted here. So, we need either a new way of taking minutes or perhaps a new rule. I am not really sure. I am a little-- I don't like to use the word "disturbed," because that has a connotation of being disturbed.

MR. FOX: Senator, you're correct. I will add one more thing that may give you some of the flavor for it. I happen to have been around and faced up to this question when the Sunshine Law was passed. At that time, I said to the then Commissioners -- I don't believe any of the present Commissioners were then Commissioners -- "How do you want this to be done? We have to keep minutes, and we have to have them available to the public under the rule." The then Commissioners said, "You keep notes of the meeting." I said, "Should I give them to you? Should we approve them?" They said, "If you send out seven copies of these minutes" -- I think we had seven Commissioners then, or it might only have been five -- "that means there are going to be seven copies floating around, including a substantial amount of stuff which is quite private, largely in the area of personnel." And they said, "You keep the minutes, because it fulfills the statutory obligation. When the public asks for them, they will be made available, with whatever deletions may be required."

Now, historically, that is the way we got to this method. Now that we have been through this process, we are going to reexamine it, because a dozen years have passed, the Act has matured, we are learning under the statute, as improved, and your suggestion is going to be given very careful consideration. We will find a way to approve our minutes at future meetings.

SENATOR VAN WANGER: Mr. Fox, you missed part of your calling. I want you to know that.

MR. FOX: What was that?

SENATOR ORECHIO: Senator Weiss, are you finished?

SENATOR WEISS: No, Mr. Chairman. May I continue on?

SENATOR ORECHIO: Of course.

SENATOR WEISS: My time is being usurped by Mr. Fox.

MR. FOX: I'm sorry.

SENATOR ORECHIO: Okay. Well, you wanted an explanation, and I guess he was--

SENATOR WEISS: That's all right.

SENATOR VAN WAGNER: That's what I meant.

MR. FOX: Oh.

SENATOR ORECHIO: Continue, Senator Weiss.

SENATOR WEISS: Mr. Fox, I think the people on this Committee will probably look into the matter of minute keeping within the different departments, such as the Garden State Parkway, and even the Turnpike, and so on. I don't think you folks are going to get away scot-free with that. You may, in fact, have to change a method that may have been good for 12 years, but is no longer viable.

MR. ZILOCCHI: Sir, if I may. As Mr. Fox indicated, we are reexamining it. We are looking to change it, and we would welcome any suggestions.

SENATOR WEISS: Okay. The thing that surprises me also in this thing, is that it wasn't picked up under the Sunshine Law regulations or requirements somewhere along the line. But, even more so, I can't understand how the Governor could approve minutes that weren't approved.

MR. FOX: No, the Governor does not conceive that he--

SENATOR WEISS: Well, he signs off on your minutes. Otherwise--

MR. ZILOCCHI: Only on the public minutes, sir. He does not sign off on the--

SENATOR WEISS: He doesn't sign off on them?

MR. FOX: As we understand it, the Governor's office does not feel that the signing off applies to the meetings you have in front of you.

SENATOR WEISS: Well, is there further oversight on these minutes by anyone?

MR. FOX: No.

SENATOR WEISS: You just do what you want to do?

MR. FOX: No, but that would--

SENATOR WEISS: We can't do what we want to do. Why should you be able to do what you want to do?

MR. FOX: They are sent to the Governor's office. The Governor's Authorities Unit has these minutes within a day or two after each meeting.

SENATOR WEISS: We'll work on the minutes. One more, Mr. Chairman, if you will indulge me for just one second.

SENATOR ORECHIO: Senator Weiss, of course.

SENATOR WEISS: I read the minutes of April 23, 1987. I have them right here. They have to do with the Mobil Oil Company. I want to tell you, I used to be in that business, but I am no longer in it. I am detached from it entirely. It is at arm's length. As a matter of fact, way at arm's length. But it appears to me when reading these minutes that the Garden State Parkway, or the New Jersey Highway Authority, is really high-handed. If you read down the minutes, it says: "During the negotiations, it was agreed that this payment--" Maybe I am a little bit ahead of myself. "Grossman reported that negotiations with Mobil Oil with respect to the proposed contract with Mobil Oil for the operation of the service stations on the Parkway--" "Grossman stated that there were four issues yet to be resolved between the parties. The first issue relates to the question of payment for the initial \$5 million due in 1987." I don't know what that means.

"During the negotiations, it was agreed that this payment would be made by Mobil to the Garden State Arts Center Foundation."

MR. ZILOCCHI: It never happened, sir.

SENATOR WEISS: Oh, wait a minute. You asked for it. Sure, it never happened. They were probably smart enough not to pay it.

MR. ZILOCCHI: It was considered-- I'm sorry, Senator. I won't interrupt until you finish your question.

SENATOR WEISS: All right. "However, now Mobil has now expressed their reluctance to do so." They didn't want it. "Because of its relationship with its Foundation, it cannot make a contribution to the Arts Center Foundation and, in addition, it must be sure that the payment is deemed to be rent. Commissioners Miele and Buckwald also raised a possible question with regard to the payment to the Foundation, and it was agreed that the matter should be reviewed further." So apparently it didn't end.

MR. ZILOCCHI: Senator, you know, in negotiations--

SENATOR WEISS: But, even so, just to ask for something like this--

MR. ZILOCCHI: Senator, in negotiations, a lot of things are thrown on the table. That was a concept that was just thrown out, but all of us saw that there was no logical wisdom in that, and it never happened.

SENATOR WEISS: Well, I don't know. If you read this thing further, Mr. Zilocchi-- As Senator Rand said, I could debate with you on it. I don't think it is right.

MR. ZILOCCHI: Well, we don't think so either. Obviously, that is why we didn't do it.

SENATOR WEISS: I'll let it go at that, Mr. Chairman.

SENATOR ORECHIO: Mr. Fox, I want to ask a question. We made quite a bit of reference today in this dialogue and a focus on minutes. What I find very, very strange, and I am just curious-- Why isn't Mr. Grossman here, the man who prepared the minutes? He was asked to be here, but he is not here today.

MR. FOX: I'm sorry, sir.

MR. ZILOCCHI: Senator Orechio, yesterday when I received a call from Mr. Caramalis, was the first indication that there was a request for Mr. Fox and Mr. Grossman to be here. In my conversation with Mr. Caramalis, I said that on this short notice, it would be very difficult, and that the best I could probably do was to have one person here. He sort of acknowledged that that was okay -- at least that was my impression.

SENATOR ORECHIO: Okay. Well, I was disappointed. I thought he would be here today.

MR. FOX: Senator, I take full responsibility for these minutes. I hope I haven't given the first hint of passing on any responsibility for anything here because Mr. Grossman isn't present.

SENATOR ORECHIO: I only think, though, that it would be more appropriate for us, for example, to question-- With the questions on minutes, it would be more appropriate for us to question the preparer, rather than someone who was there and who will take the responsibility for what was written.

MR. FOX: Well, sir, I am the senior partner, and I believe that--

MR. ZILOCCHI: Senator, if I had that impression yesterday, I would have done everything possible to have Mr. Grossman here. I apologize. That was not the impression I got yesterday.

SENATOR ORECHIO: I will accept that. Senator Gagliano, did you want to ask a question?

SENATOR GAGLIANO: Mr. Fox, I am going to refer to the Open Public Meetings Act 10:4-13, Exclusion of the Public.

MR. FOX: I'm sorry -- 10:4--

SENATOR GAGLIANO: Page 372.

MR. FOX: Yes, sir, I have it.

SENATOR GAGLIANO: In each case, prior to the members of the Authority going into what I think you called "an exempt session," or "exempt meeting," was a resolution adopted by the Authority, and is that resolution a part of the formal minutes of the Authority, which indicated the reason that you were going into private session? I call it private session; I think you call it exempt session -- exclusion of the public.

MR. FOX: The statute says: "Exclusion of the public."

SENATOR GAGLIANO: Right.

MR. FOX: The answer will take a couple of minutes. At the end of each of our meetings -- of each of our public meetings -- we pass a resolution, which says that at nine o'clock on the meeting day next month, there will be a meeting from which the public may be excluded, at which time the only subjects which will be discussed will be subjects which are exempt under the statute.

Now, that started again shortly after the Act was passed. At some point about five or six years ago, several of the newspapers came to us, and said, "You don't do it exactly the way the statute says, because the statute says you should say -- if I understand it correctly -- two legal matters, one contract matter, a couple of public safety matters, and a couple of personnel matters will be considered." We said the reason we had originally adopted this procedure was that we were able to schedule our exempt meetings at nine o'clock in the morning and our public meetings at 10:30 or 11 or whatever it was, and we didn't have to have 20 or 30 people hanging around determining how long our exempt meeting, or our excluded meeting would last.

I believe that implied in your question there is a criticism, and that the criticism is correct; that we have not adhered strictly to the statute. Yesterday afternoon, we drafted a new resolution, and we are going, in the future, to call our meetings to order at 9 or 9:30 -- whenever it will be

-- adjourn into our exempt meeting, with a resolution which adheres strictly to the statute. It is pretty tough to do. I worked on it for an hour or two yesterday afternoon, and I am not certain as to how it should be done exactly. But, we are going to hold exactly to the rules. We believe we have substantially complied in the past.

SENATOR GAGLIANO: So your answer is--

MR. FOX: Long, as I said it would be.

SENATOR GAGLIANO: --you have not always complied.

MR. FOX: If you choose to interpret it that way. I would prefer not to debate it with you, but I think we substantially complied.

SENATOR GAGLIANO: Thank you. Thank you, Mr. Chairman.

SENATOR ORECHIO: Senator Hurley?

SENATOR HURLEY: Mr. Fox, when are the exempt minutes -- the minutes of the exempt meeting -- made public?

MR. FOX: There has been no request for the-- They are always available to the public. They have been available, in accordance with the statute, since they have been kept. The first request for exempt minutes by any member of the public occurred in conjunction with the matter we are considering today. The request was received on a Friday. It took us over the weekend to put them in shape as to deletions -- as to what matters might still have to be deleted. Then on Monday, I believe, or Tuesday morning, they were delivered to the people who had requested them. They are now available. Those minutes are at the moment available instantaneously.

SENATOR ORECHIO: Senator Hurley?

SENATOR HURLEY: One other question, Mr. Chairman. At the exempt meeting--

MR. FOX: I've got you doing it now.

SENATOR HURLEY: Yeah. I have to look every time. After the exempt meeting, did you take action on items discussed at the exempt meeting at the public meeting?

MR. FOX: At the beginning of each public meeting, the Chairman would say that an exempt meeting, or a meeting at which the public had been excluded, had been held, and certain matters were considered. She would then turn to me, and I would go down the list of the items which had been considered at the exempt meeting. There were generally three categories in which they came: One, items which were referred to the main agenda for full discussion and full consideration; two, items which were just reports, on which there was not much more to say. The Executive Director reported on revenues on the Parkway. And three, matters which were not yet ready for disclosure because of specific sections under the Act. Such a preliminary statement was made at each meeting, immediately following the exempt meeting and reflected in the minutes of our open meeting.

SENATOR HURLEY: I don't have any other questions on this section.

SENATOR ORECHIO: Senator McNamara?

SENATOR McNAMARA: I am just curious as to-- You mentioned that these are made up almost immediately after a meeting; they are typed up. When are they available to the public? I mean, that question when, and that they are available is very interesting. Let's say you had the meeting last Friday, and the minutes are typed on Monday. Are they available Wednesday? No one approves them? It is strictly a matter where the scrivener gives these to his secretary, the secretary types them, and then as they are typed, they are immediately available to any member of the public.

MR. FOX: Senator, they are-- As I described earlier, copies are sent to two places: The Governor's Authorities Unit and Mr. Zilocchi. Copies of the minutes in raw form-- Now, remember, the minutes, in complete form, are available in those three places with no deletions. If a request is made for them, they have to be examined, to see what deletions must be made in

order to conform with the statute. It takes, depending on how much is asked for-- If one set of minutes is asked for, it would take us a matter of minutes to check what has to be deleted, if anything. In the minutes before you, I believe from the period of August '86 to November '87, there was one deletion, but it took us a number of hours to review them. But, they are available on request, subject to the time it takes to make the deletions.

SENATOR HURLEY: Okay. But, there is no-- In other words, once the meeting is transcribed on paper, it is basically accepted that it is basically what was said at that meeting, because obviously then the Chairman or whomever else receives copies of them, does not call and say, "Hey, wait a minute. I think such and such made a mistake. I want you to review that particular thing with the person who scribed them, and change it, because that is not as it was stated."

MR. FOX: I can only take you back to the Attorney General's booklet on the subject, which says that is the way it is to be done. It says: "Minutes should be made promptly available to the public, and need not be formally approved by the public body before distribution to the public."

SENATOR HURLEY: No, I'm asking as a matter of custom. I am not talking about the law. I understand the law, because I have served on local government and county government, and I know the Public-Meetings Act.

MR. FOX: Our custom is to do it in this manner. Whether our custom will continue in that fashion is problematical, but the way it has been done in the past--

SENATOR HURLEY: I think not, from what you said earlier.

MR. FOX: I suspect you are right, sir.

SENATOR ORECHIO: Thank you. We will now continue with Senator Van Wagner, who has some questions of Mr. Johnson. Senator Van Wagner?

SENATOR VAN WAGNER: Counselor, I have to tell you, in this case, your minutes are of greater moment than most minutes are, particularly since this Committee found out about those minutes only this week.

MR. FOX: Senator, I noticed that these minutes were released on the same day that the files of the United Nations on war criminals were released. And, as I have observed the press of New Jersey, far more attention has been given to our minutes than to the minutes of war criminals during World War II.

UNIDENTIFIED MEMBER OF COMMITTEE: I hope that isn't an accurate analogy.

SENATOR ORECHIO: Senator Van Wagner, do you want to continue, please?

SENATOR VAN WAGNER: I didn't say that, Counselor. I did not draw that analogy.

MR. FOX: No, sir, it was my personal analogy. But I meant it by way of agreement.

SENATOR VAN WAGNER: I think it is obvious to you why we, as a Committee, given our initial public hearing in April of 1987, have to focus on this at this point.

MR. FOX: We haven't knocked it--

SENATOR VAN WAGNER: Right. It is unfortunate that we even have to ask these questions.

I would like to direct my questions to Mr. Johnson. I am going to be referring to the February minutes, Mr. Johnson, and the March minutes.

The February minutes of the Authority indicate that the Authority would require new capital in 1987, and it has been clearly documented by Mr. Zilocchi and others, that this was part of an ongoing discussion. But the part that I think troubles me, and I think the part that troubles the Committee, which has been very openly reported in the news media, most recently this Monday, is, that was pending the anticipated toll

increase in 1988. You indicated to Senator McNamara that you recommended short-term financing, and I quote from the minutes: "Because this method would not likely involve a rating requirement and, more importantly, would not involve any significant discussion on the issue of a potential toll increase." Is that correct?

MR. JOHNSON: Yes.

SENATOR VAN WAGNER: Now, you also indicated that apparently the underwriter -- the previous underwriter -- suggested that there be a consideration of long-term financing. Can you shed any light on why that recommendation might have been made, in light of the fact that your own feelings, as financial adviser, were somewhat different?

MR. JOHNSON: Dillon Read had served as the senior underwriter on the previous bond issues by the Parkway. Obviously, I cannot comment in any-- I mean, I don't want to make representations--

SENATOR VAN WAGNER: No, I think a generic answer would be--

MR. JOHNSON: --for them, but I will give you my general discussions on that.

SENATOR VAN WAGNER: Yeah.

MR. JOHNSON: What had happened was, in 1984, we were told by the writing agencies not to come back with any new capital money borrowing, until increased tolls were in effect -- in effect based upon financial operations and based upon the projections. By 1986-- I hope you don't mind my giving you a little background on this.

SENATOR VAN WAGNER: No, no.

MR. JOHNSON: By 1986, the actual results, together with the savings that had been provided to the Authority through the refunding, allowed us to go to the rating agencies and say to them, "Our financial operations have been somewhat better than they were in 1984, and there is enough room, based

upon your normal calculations, for us to include some additional new capital in our bonding." That amounted to roughly \$75 million for the 1986 issue.

Dillon Read had really not seen the financial operations at the time they made this comment as to the possibility of long-term financing. I think they felt, or did indicate that if the financial operations had continued to be positive over a period of time since the issuance of the bonds in March and April of 1986, that it is possible we could have squeezed out a smaller long-term -- or a small long-term bond issue, as we had in 1986.

It was my feeling, and remains my feeling, that it would have been extremely dangerous to have done that, in light of the statements by both agencies that they wanted to see the toll increase -- or a toll increase -- in effect, if the financial operations, as projected in the official statements, came to actuality. It was my recommendation that we put into place all the planning, all the basic communication with the rating agencies, etc., etc., and essentially keep this whole toll rate increase out of the context of a political problem. I am laying it right out.

SENATOR VAN WAGNER: You sure are.

MR. JOHNSON: And I recommended short-term financing on that basis. I would like to just put one parenthesis around that: Standard & Poors, which rates the Parkway the best toll road in the country, whether rightly or wrongly, has stated that one of the reasons the rating is as high as it is, is because the Authority has been seen to be somewhat immune, or isolated from political considerations. Based upon those discussions, it certainly would have been foolish for me to recommend anything else that could have turned the possible toll increase into a political football.

SENATOR VAN WAGNER: Mr. Johnson, I want to tell you that that was probably one of the most candid answers I have

ever received on any Committee I have ever sat on in this Legislature. I think if I may paraphrase what you said, it was your view that the long-term financing scheme would provide too much visibility of a potential toll increase.

MR. JOHNSON: And the results of that, during an election period, and what uncertainties that could create in the rating agencies' minds, could affect the rating that is applied to the Parkway.

SENATOR VAN WAGNER: Mr. Chairman, I would be happy to stop my questioning at this point.

SENATOR ORECHIO: We are going to recess for lunch. We will return at 1:45.

(RECESS)

AFTER RECESS:

SENATOR ORECHIO: Members, please return to your seats. Ms. Stanley, will you please corral your troops?

MS. STANLEY: I didn't know I was a horse farmer. They have been called a lot of things, but not that. Who do you want at the table, the same group?

SENATOR ORECHIO: Yeah, I imagine so. Yes. They can come forward as needed. Has Mr. Johnson left us, or is he returning.

MR. ZILOCCHI: No, he's still here.

SENATOR ORECHIO: Mr. Johnson? Did I just see him come in?

MR. JOHNSON: Yes, I'll be right there.

SENATOR ORECHIO: Oh, okay. Senator Van Wagner, you may want to resume where you left off earlier, continuing with the first segment of our presentation. Senator Van Wagner?

SENATOR VAN WAGNER: Mr. Johnson, in the March session, there was apparently a rather hotly disputed reference

concerning the Governor's approval of the toll increase, based on the timing of the announcement. Under the head of "Financing," the minutes state: "Chester Johnson was present during the course of the discussion of this item. Johnson reported that, in accordance with Executive Order 147, the Authority submitted its plan for refinancing through the State Treasurer. Mr. Johnson further stated that the Authority had received the reconfirmation from the Governor for approval for the barrier toll increase, provided that such toll increase was not made public until after the first week in November, 1987."

Now, you indicated in your remarks, rather candidly, that it was your feeling that -- really relative to my question about the Dillon Read proposal -- a discussion of that would bring about political involvement, etc., and that would severely hamper the efforts of the Authority to discuss, or to present, I guess, its concerns about the financing of the short-term and long-term debt obligations. Is that a pretty fair statement?

MR. JOHNSON: Well, in particular to the rating agencies, I really felt that, in light of the comments, especially by Standard & Poors Corporation-- They were very strong about it. They felt that the Authority's rating reflected what they felt had been somewhat the Authority's isolation from being politicized. I felt that if there was substantial attention paid to a toll increase in a political season, and the Authority became a political football, that the ratings would be significantly jeopardized. I just want to underscore to everybody again, that the Parkway has been a premier credit of the State. It is the highest rated toll road in the country. It would not serve us well, as advisers to the Authority, and certainly the Authority, if we saw that rating dropped.

SENATOR VAN WAGNER: See, just so you can understand clearly what I am getting at-- What I am getting at is not the

Authority per se, okay? I agree with you, and I think everyone up here agrees, that the Authority runs an excellent road, and has been very careful in protecting its financial base. But, you can understand that as legislators here today, the issue has become a political football, in a sense, but even more than a political football, it has raised issues of concern to the Legislature which are much more deeply founded than just this specific Authority. Okay?

MR. JOHNSON: I understand.

SENATOR VAN WAGNER: I want you to understand ours is an institutional issue that we have before us. I am not really sure we can resolve it today.

MR. JOHNSON: Senator, if you don't mind-- If I could just comment very briefly on that. It is not going to be-- The relevance of my testimony on institutional matters would be very limited. Salesmen sell, plumbers plumb, politicians politic, and financial advisers advise on financial issues. I am going to cooperate in every way I possibly can.

SENATOR VAN WAGNER: You have been very cooperative.

MR. JOHNSON: Excuse me?

SENATOR VAN WAGNER: You have been very cooperative.

MR. JOHNSON: I just want to make sure that my background -- my expertise -- for the Authority is not one of institutional relationships, but really one of debt management and capital financing.

SENATOR VAN WAGNER: Your expertise in debt management is important to the relevancy of how we decide to take responsibility for those institutions.

Let me say this: Obviously, under Rule 147, the requirement the Governor's office has, and the Treasurer's office has, for them to approve your recommendation, inherent in that approval, based on your review of short- and long-term financing schemes, that approval did, in fact, give approval for at least a ramp toll increase. Do you see?

MR. JOHNSON: Well, the financial structure that produced the short-term borrowing was based on our understanding that we could proceed assuming revenues generated by a ramp toll increase, but not a barrier increase.

SENATOR VAN WAGNER: Right. That is exactly the point I am making.

MR. JOHNSON: In the letter from the State Treasurer that sets forth the guidelines of how we were to proceed as a result of the meetings I had with the State Treasurer's office and the Authority-- It really sets forth the understanding that at least the ramp toll increase was approved in general, and for us to proceed on it for financing.

SENATOR VAN WAGNER: Did you receive in writing, or did the Authority receive in writing, a reconfirmation of the approval from the Governor or his staff?

MR. JOHNSON: We have the letter from the State Treasurer. I can read it to you. It is the March 17 letter. It states, in the fourth paragraph: "Given that a toll ramp increase has been approved in concept, I suggest the Authority consider deferring a portion of its capital improvements program in undertaking a borrowing in 1987 which can be comfortably serviced by the additional revenues generated by a ramp toll increase."

SENATOR VAN WAGNER: So the answer to my question is yes, in effect?

MR. JOHNSON: Yes.

SENATOR VAN WAGNER: But, at this point, I take it that the entire proposal, as Mr. Zilocchi pointed out, was part of an ongoing discussion which takes place as a matter of course over time, and which by rule is reported in the minutes -- am I correct, Counselor? -- taken and then transcribed; that that entire proposal-- Was that approved at that time, or just the acknowledgement that this draw down on short-term notes would require the barrier toll increase?

MR. JOHNSON: Well, actually, a final decision relative to the precise structure had not been fully determined. We had, as late as 1986, as you referred to-- In the minutes, there was reference to short-term borrowing. In fact, later on-- I am sorry you don't have the benefit of the letter. You can have it. But, later on in the letter, the State Treasurer said: "The question as to whether any borrowing should be long-term or short-term so as to best retain the ratings, is a matter for the Authority, in consultation with its financing team, to decide."

So, I may be giving a precious answer to it, but all I'm saying is, the final decision regarding short-term financing was just being resolved. It had not been finally determined at that point.

SENATOR VAN WAGNER: I don't know who should answer this. This refers to multi-coin operation -- anticipated multi-coin operation. Do we have a multi-coin operation specialist?

MS. STANLEY: Yes.

MR. ZILOCCHI: Yes. Jerry Nielsten, our Traffic Consultant, would be the person to answer those questions. If I may, Senator Van Wagner and Senator Orechio, I could give some credentials on Jerry and his position.

Jerry Nielsten is the Traffic Consultant to the Garden State Parkway. He also serves as Traffic Consultant to the New York Thruway, the New York State Bridge Authority, the New Jersey Expressway Authority, the Delaware River Joint Toll Bridge Commission, the Maryland Transportation Authority, the Kansas Turnpike Authority, and the Orange County Expressway Authority. He is also working in 10 additional states doing traffic and earning studies. He is also responsible for traffic and earning reports that have produced approximately \$2 billion in bond sales over the past 10 years.

G E R A L D N I E L S T E N: Good afternoon. I am Jerry Nielsten from Vollmer Associates.

SENATOR VAN WAGNER: According to the minutes of the August meeting, Mr. Nielsten, there was a focus on a token sales program. You know, this has been a matter of public discussion, and it really focuses, to a large extent, on what this increase is about. On one hand, it is represented that, you know, for those individuals who buy tokens, it is a 10 cent increase; for those individuals who don't, it is a 25 cent increase. So, you have a sense of what my focus is.

It was-- I quote from the minutes: "It was reported that the Authority will shortly undertake a program to eliminate the use of tokens in manual lanes." I can understand what the concern of the Authority was, without going into it. "This will be required when a discount token will be utilized in the future, and efforts should be made now to educate the public." You also reported: "The public should be encouraged to acquire and keep tokens" -- this is you, I guess -- "even after an announcement of any toll increase, since this would lessen the impact at the time of the implementation of such toll increase." Is that pretty much what you said?

MR. NIELSTEN: I believe that is correct. I might add that at that meeting -- and I told the Commissioners at the time, as I remember-- I, in fact, was not an actor in that particular role, but was a reporter. As part of the Authority's normal staff operations, they review all of the possible things in front of them, and they have a number of subcommittees that analyze the way they operate and how they function. Their various operation committees had worked on tokens and how they currently function and how they might function in the future, and put together a series of ideas to present to the Commissioners. Mr. Zilocchi asked me to attend and make that presentation, primarily on behalf of the staff, as I remember.

SENATOR VAN WAGNER: Was it decided to purchase these new tokens at this meeting?

MR. NIELSTEN: Not while I was there.

SENATOR VAN WAGNER: Mr. Zilocchi, was any decision made to do that at this point?

MR. ZILOCCHI: No, but the question also came up on Monday.

SENATOR VAN WAGNER: I am referring back and forth to the public--

MR. ZILOCCHI: I know that, Senator, but there was no decision to purchase tokens, as it relates to any possible toll increase. Subsequent to that -- very shortly after that -- the decision was made to purchase tokens -- I believe 10 million tokens. We presently have a token program.

SENATOR VAN WAGNER: In other words, that August meeting revolved around tokens per se, but not consistent with the toll increase?

MR. ZILOCCHI: That's right.

SENATOR VAN WAGNER: The minutes note: "The staff prepared specifications for automatic coin machines to be purchased or leased by the Authority for 10 years." Was that again consistent--

MR. ZILOCCHI: Our present contract, Senator, with the automatic coin machines expires December 31.

SENATOR VAN WAGNER: So, in other words, the context of that question, as I read it in the public record, was somewhat different than it appeared in the minutes. Is that fair to say?

MR. ZILOCCHI: Yes.

SENATOR VAN WAGNER: I am trying to make a correlation between the two.

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: I am going to pass, Mr. Chairman.

SENATOR ORECHIO: Okay. I think at this point what we will do, is continue on with the second segment, which takes up the toll proposal -- the details of the proposal, including the

mechanics, which we just touched upon, the tokens, and the nature and extent of the anticipated shortfall the revenue increases are intended to cure; the amount of revenue anticipated from each element of the toll package, including the five new ramps and the two new barriers, and when they will be on-line; and the revenue projections for the barrier and ramp increases. In the case of the barrier toll increases, I would like to have separate estimates for the 35 cent and 50 cent tolls and the percentage of users of each, and what were some of the equitable treatments of motorists -- "considerations that figured in the Authority's toll proposals." Lastly, using the latest revenue and expense projections, will the proposed revenue package before us today permit completion of the five-year capital improvement program, and any other now unanticipated projects, without requiring another round of toll increases prior to 1991, or is the 35 cent token only phase one of a two-step increase that will be necessary before the five-year capital improvement program is completed?

In this segment, I would like us to confine ourselves to the CIP financing. Then we can hold off the details of the construction program until we reach the next segment. Let's see, maybe I can get a reaction to some of that.

MR. ZILOCCHI: Senator, if I understand it correctly, in this segment you want to focus-on the financing for the CIP.

SENATOR ORECHIO: Right.

MR. ZILOCCHI: Okay. I would like, with your permission, Senator, to ask Chester Johnson, as our financial adviser, to make a presentation.

SENATOR ORECHIO: You may defer to him.

MR. ZILOCCHI: Thank you.

MR. JOHNSON: Chairman Orechio and members of the Committee: The areas I would like to touch upon are really threefold related to this segment of your inquiry -- the

Authority's capital program, belatedly the ability of the Authority to meet its existing bond contract with investors, and the repayment by the Authority of the short-terms notes in July.

To start with the capital program, it really begins with the operations of the Parkway and the Parkway's need to provide safe and secure transportation. Bonds, because of the tax-exempt interest rate and the fact that future users should also be paying for access to the toll road, are the best approach for funding the Authority's capital improvement program, and an understood and accepted one.

The Authority, in this respect, authorized \$570 million of capital improvements in March of 1986 for unmet critical purposes related to safety and other requirements. Jim Conlon, Chief Engineer, is here to talk about that, at some point. In '84, as has been stated before, the Authority sold about \$276 million in bonds, and in '86, when interest rates declined, an additional \$340 million was sold to refinance existing debt and grab new money for the capital program.

Each time, the same bond contract was entered into with investors, but it is a normal process to have a bond contract. Bond contracts set forth the obligations of the borrower to make payment; the method of the borrower for computing budgets; the accounting, bookkeeping, and other matters; what happens in default; the appointment of a trustee to look after the interests of the bondholders; and also sets forth limitations in current and future obligations and future debt.

There are two major provisions in the bond contract which relate to a need for a toll increase. First, under Section 7:11 of the bond contract, the Authority must meet a toll covenant every year, which means that it looks at its overall revenues and expenditures, and makes a determination whether it can meet the provisions of the bond contract. There

is a chart on page 25 of your briefing book -- the green briefing book -- that indicates that without a toll increase, the Authority could not meet this test, because net revenues in 1988 cover debt service barely one time, and we have a test that is substantially above that level.

So, based upon the toll covenant, the Authority needs to increase its revenues to satisfy that bond contract. Even more importantly, or at least as importantly, without a toll increase, in 1989, the Authority cannot even meet its debt service one time. There is about a \$5 million deficit in terms of even meeting -- of even covering principal and interest payments. The Authority would then go into default.

Secondly, in order to sell additional debt, there is another section of the bond resolution, or contract, Section 204, which sets forth the provisions for issuing -- or tests for issuing additional bonds. I can go into that in terms of technical explanation, but basically it goes without saying that if the Authority cannot meet its total covenant, it certainly can't pay for new debt service. And, if the Authority wants to continue its capital improvement program, and then to sell bonds for that purpose, a toll increase is absolutely mandatory.

I might add that the toll increase would be substantially higher than the proposed one, if the Authority were to pay for capital improvements only out of revenues generated by the system. So, to emphasize, the Authority can't meet either the toll covenant or the additional bonds test unless a toll increase is implemented at a sufficient level, and early enough so the Authority may satisfy its bond contract obligations.

I would like to comment on the rating agencies for a moment. We have touched on that briefly, and I won't go through the fact regarding the high ratings the Authority enjoys. I will say that over the last several years, each time

the Authority sold, three factors concerned the bond agencies: First, the Authority envisioned additional capital requirements that would have to be bonded; two, the net revenues of the Authority were expected to decline over time; and three, the Authority had not imposed a base toll increase since 1954. This goes to my earlier recommendation to the Authority regarding the problem of how a political problem could develop. That is, the rating agencies really questioned the political will in the State, to implement an increase after so long a time at only a quarter. I might add that the agencies, in particular S&P, as I said, stated the high rating was a result of their perception that the Authority had been insulated from political -- from being politicized.

Why are high ratings important? First of all, obviously it affects the cost of the borrowing. For example, on a \$100 million issue, if we were to drop from AA to an A rating, that could increase interest costs over the life of that bond issue between \$3.5 million and \$7 million, or, based upon \$350 million issues, which the Authority expects to sell over a five-year period, we are talking about that difference ranging from about \$12.5 million to \$25 million, depending on a drop in rating. Obviously, a high rating reflects favorably on the State. The Treasurer made reference to that in her letter in March. Without a toll increase, the Authority is looking at a reduced rating and higher interest costs, and the effects on the State would be negative.

Now, just for a moment, I will refer to the short-term borrowing. We mentioned that the Authority completed the short-term borrowing of \$50 million in September. The short-term debt, however, was structured as subordinated indebtedness. That was, it didn't have to meet those tests I have referred to. We expected the long-term bonds, which would be subject to those tests, would be used, in part, to pay off the short-term notes, after the toll increases had been put

into effect. The notes come due in July of '88, and without the issuance of bonds to repay them, we really don't see an apparent alternative source of money.

The short-term financing was financially responsible. It allowed the Authority to plan properly and to continue its capital improvement program.

In summary, it is prudent and financially important for the Authority to continue its capital improvement program, and to do so, it should sell long-term debt. To sell long-term debt, it must raise revenues to pay for the increased debt service and to satisfy its existing bond contracts with bondholders. And third, the Authority has notes coming due in July, and the Authority should sell long-term debt to repay the notes. For these reasons, we have recommended to the Authority the proposed toll increase.

Now, before closing, I would just like to refer to our contribution -- participation -- to the numbers presented on page 26 of the briefing book. As has been indicated, Vollmer Associates produced the revenue estimates. The Authority produced the expenses, and we looked at the financial capital program -- the financing program -- and the size and the result of debt service. We assumed, in our analysis, a bond issue in June of '88 in the amount of about \$230 million, and a second bond issue in June of '91 in the amount of \$120 million-- Both issues were assumed structured at-current market rates.

In order to determine the maximum amount of bonds which the Authority could issue, we assumed that the Authority must allow for an amount of money to be available after the payment of operating expenses, debt service, State payments, and the maintenance reserve requirement, which is an emergency maintenance program. We discussed the desired level of coverages with both Moody's and Standard & Poor's. Moody's indicated that a level of approximately 4% operating revenues as surplus would be adequate. Standard & Poor's stated that

for us to maintain the AA level, we should, on an actual basis, have debt service coverage of about 1-1/2%, which is the money remaining after the payment of operating expenses, divided by the debt service. That is a higher level than what we have in our bond contract, but those assumptions -- the Moody's 4% surplus and the one and a half times of debt service into net revenues-- These factors were taken into consideration in that debt service column on page 26.

In addition, the Authority would also be able to transfer those operating surpluses into capital construction, and we have assumed that to be about \$90 million over the period of 1988-1992, a practice which the Authority has followed. That produces about \$410 million over a five-year period for the Authority's capital improvement program, which we think, based upon the needs of the Authority, is a conservative construction program, based upon a well-designed and financially responsible revenue package.

MR. ZILOCCHI: I might add, Senators, that later on when you hear the requests and requirements that we see for the capital improvement program-- That figure of what we have for capital improvement programs we would like to address, far exceeds the \$410 million that Mr. Johnson stated we could fund through excess revenue and bonding. So, the package we have in place, as I stated in my opening remarks, does not really meet all the needs we see. We are trying to do the best we can to keep this rate as minimum as possible.

SENATOR ORECHIO: Senator Hurley, did you have a question?

SENATOR HURLEY: Mr. Johnson, are you telling us that the assumption of this debt, or the sale of the debt, on the long-term basis, necessitates the toll increase?

MR. JOHNSON: Two things: For us to be able to pay our debt -- current debt -- we would have to have a toll increase. In order for us to continue to implement even a

conservative capital improvement program for the Authority, we would have to have a toll increase. •

SENATOR HURLEY: Did you not, sir -- Mr. Chairman, through you -- take on short-term debt without the toll increase?

MR. JOHNSON: Yes, we did.

SENATOR HURLEY: And you testified here today that you could substantiate that -- the repayment of that, the carrying of that.

MR. JOHNSON: Again, the rating of the Authority is the highest toll road in the country. It has an excellent history financially. We did not have trouble securing interest from lenders, even though we did not have in place, formally, approval for a toll ramp increase. I mean, we had indications of that, but obviously the formal procedures had not been put into place. But, two factors allowed us to borrow: One, the history of the financial integrity of the Parkway; and two, a recognition that the procedure was in place, by virtue of information you have already received, for us to at least have the revenues from a toll ramp increase to secure any long-term debt we sold.

SENATOR HURLEY: Mr. Johnson, the contribution of the Parkway to the Transportation Trust Fund over the last several years-- What impact did that have on this financial picture of the Authority and whether or not it needed a toll increase?

MR. JOHNSON: Well, obviously, \$10 million is a big slug of money. It is additional operating expense for the Authority, but I think that if you-- On page 25 of the briefing book, it will show that even in the absence of the \$10 million payment to the State, the Authority runs about \$1,733,000 deficit, even after the payment of \$10 million to the Transportation Trust Fund. But, yes, it does aggravate the financial responsibilities, but it is not the driving force for the toll increase.

SENATOR HURLEY: Were you involved with the Authority when the agreement was reached to contribute to the Transportation Trust Fund?

MR. JOHNSON: We were under contract, reviewing a number of debt proposals. We did not participate in the drafting of the contract, nor in the negotiations with the State over that matter. Actually, our participation with the Parkway occurred roughly around the same time that the agreement, I think, was signed.

SENATOR HURLEY: But the fact that the \$10 million contribution each year impacted on this-- Was that made known by you to the Authority, that this would, at some point in time, help to push them in the direction of a toll increase? In other words, did the Parkway, or did you, as a financial consultant, talk about a toll increase, when you were asked--

MR. JOHNSON: We did a--

MS. STANLEY: I made the front page by saying that.

SENATOR HURLEY: Pardon?

MS. STANLEY: I made the front page by saying that.

SENATOR HURLEY: You did? Unfortunately, Ms. Stanley, that didn't appear in the Cape May papers.

MR. JOHNSON: That was an item, obviously, of major importance, and our financing in 1984, which occurred in conjunction with the establishment of the contract -- the contractual payment by the Authority to the Transportation Trust, because the Authority was essentially prohibited from making that payment under bond contract arrangements made with previous investors. So we had to refinance all of the outstanding debt of the Authority, in order for that to be paid.

MR. ZILOCCHI: Senator Hurley, if I may--

SENATOR HURLEY: Yes?

MR. ZILOCCHI: Mr. Johnson was referring to the projections with the present toll structure on page 25. In 1988, it would show that if the \$10 million obligation was not

there, we would still have a small shortfall, which possibly could be overcome. But, subsequent to that, the \$10 million-- The shortfall would be there, regardless of the \$10 million obligation.

SENATOR HURLEY: I understand that. The other question I have about this is, in recent months -- July 1, to be exact -- the Parkway took responsibility for several sections of highway that were previously under the control of the DOT -- or the jurisdiction of the DOT -- and were maintained by it. What impact did the takeover of those sections have on the-- What financial impact did it have on the Authority, vis-a-vis this request for a toll increase?

MR. JOHNSON: That covers, I think, primarily the operating expenses of the Authority. That material--

MR. ZILOCCHI: Again, Senator, the financial impact for 1988-- To put it very plainly, if we didn't have the State-owned section in '88, we probably could survive. But from there on, again-- To take each item individually would not really tell the story. It is the composite of everything that is causing this financial projection to--

SENATOR HURLEY: You're driving it the same way I am driving it, that if you -- and you just said it -- had not taken over those sections, and if a number of other things had happened, you probably wouldn't be raising tolls. But, I guess that begs the question, did you, at the time you negotiated with DOT, make it known that the takeover of any of these sections, or all of these sections, would necessitate a toll increase?

MR. ZILOCCHI: No, because, again, that issue, of itself, was not the reason that was concerning us.

SENATOR HURLEY: Well, then, that moves me, logically, to the next question: • In the section of the State that I represent, there are two new toll plazas proposed. So, if it did not impact on it, then why are you building two new toll plazas in the southern part of the State?

MR. ZILOCCHI: Senator, I would give you the answer, but I will let the professional here, who came up with the whole scheme, answer that question.

MR. NIELSTEN: Okay. The question is, why were two new toll barriers proposed on the Parkway? In reviewing the--

SENATOR HURLEY: In the southern part of the State. Would you finish the sentence?

MR. NIELSTEN: In the southern part of the State.

MR. ZILOCCHI: At approximately Milepost 40 and approximately Milepost 6. Correct?

SENATOR HURLEY: That's right.

MR. NIELSTEN: In reviewing the current toll schedule -- a barrier and ramp system -- we looked at ways of making sure, at this time, since we are proposing to change it, that it is as fair and equitable as a barrier ramp system can be. There are a number of portions on the toll road that, in fact, are anomalies of the system, in that with most of the system, every trip on the Parkway pays a toll of some portion. There are a number of up trips allowed in the system that are, in fact, on the Highway Authority system, that do not pay a toll. For example, from Milepost 4 to Milepost 13 -- Interchange 4 to 13 -- a number of trips south of Interchange 13, on the Authority-owned, not the State-owned sections, and a number of trips -- a given number of trips -- in Atlantic City, for example, Interchanges 36, 37, 38 to Interchange 52-- There are a number of trips that are available that do not pay tolls.

Secondly, the spacing of the barriers -- and there are different spacings in the northern and southern parts of the road -- show that there are locations where -- the fact that they don't pay tolls -- they have very large spacings. For example, the space between the Great Egg Toll Plaza at Milepost 29 and New Gretna at 54, is the greatest spacing on the Parkway. So, the combination of the spacing of the toll barriers -- which we are trying to readjust -- plus to

eliminate, or I should say more appropriately, to allow all users of the Parkway to pay a fair portion of the travel, led us to two new toll barriers.

Similarly, the three additional ramp toll plazas suggested have a similar function. Interchange 74 to and from the north-- You can enter the Parkway on 74 at Exit 80, and pay nothing on the Authority section. There is a proposal for a new access to provide Interchange 116. Since there are tolls at 117 and 114, clearly 116 has a need for a review on tolls.

SENATOR HURLEY: Was the role of your company to increase revenue?

MR. NIELSTEN: That is correct. Well, let me say that it is to provide a toll schedule that met the revenue requirements of the Authority.

SENATOR HURLEY: Okay. So, your efforts were directly related to the revenue that was needed, or was projected?

MR. NIELSTEN: That is correct. I might add, it gets a little confusing with Vollmer Associates specifically, because of the fact that we have two roles for the Authority. In this regard, they get a little mixed. One role is a traffic consultant, under the bond sales -- under the trust agreement for the bond sales, where we specifically have to review revenue needs and toll schedules that will meet future revenue requirements. And, even though we report directly to the Authority, in fact, our charge is to uphold the rights of the bondholder. We would entertain this role in many authorities throughout the country. We are an independent review. In event, what we are telling the bondholder is, "In our opinion, this toll rate will provide sufficient revenues so that your bonds can be upheld."

We also service--

SENATOR GAGLIANO: You're sort of the judge and jury.

MR. NIELSTEN: I don't know about judge and jury, but we are an independent review, in any case. We also service

traffic engineers. In the sense that George has on his staff traffic engineers, we also assist in reviewing traffic needs and revenue sources and changes in toll needs. The presentation of the toll rate structure -- how it ought to function-- We assist on that, as well. So there are two areas of responsibility we maintain to the Authority.

SENATOR HURLEY: Well, in Cape May County, we understood that when you took over the State-owned portion, we would have a new toll plaza, you know, at some point in time. There is no question about that; no secret about it. I guess what has really hit the people of Cape May, is the doubling of the toll, on top of the new toll plaza, because, you see, what has happened is, you leave Cape May City and you go to Atlantic City, and it used to be a 50 cent ride. It is no longer going to be-- It is not going to be a \$1 ride; it is going to be a \$3 ride; \$1.50 up and \$1.50 back.

MS. STANLEY: Buy the tokens.

SENATOR HURLEY: Pardon?

MS. STANLEY: Buy the tokens.

SENATOR HURLEY: I'm glad you said that, because it leads me to a question: Why didn't you simply increase the toll 10 cents, instead of getting into the complications of a token? Anybody can answer it, but obviously the answer is going to be you didn't generate enough revenue. But, if you are now trying to market these tokens--

MR. ZILOCCHI: Senator, we would be glad to answer that question.

SENATOR HURLEY: Thank you.

MR. ZILOCCHI: It really comes from two points: Number one, the operational; and number two, the funding of it. On the funding of it, we would not be able to generate what Mr. Johnson said before, where the proposal we have in place-- The estimates are that it would generate -- or give us the ability to infuse into the capital improvement program, \$410 million for a program that really far exceeds that.

Under a 35 cent toll, we would be able only to put into our capital improvement program approximately \$221 million. Later on, when the presentation is made of our capital improvement program, I think you will appreciate that point more.

The second point of the 35 cents, I will let Jerry answer, which gets into the two-coin operation and the problems we have with our toll collection system under that operation.

MR. NIELSTEN: Very briefly, it may not be obvious to most people, but the Parkway operates as efficiently as possible today. The quarter is a wonderful coin for transaction on the Parkway system. It is very efficient, in that it allows people to come to a toll booth, and the quarter goes into the booth. It is a heavy coin. It goes down quickly, and a quarter provides the fastest green light of any system you can think of.

Changing the system to anything else is a problem, because in a multiple-coin operation, two things happen that are problematic. One, it takes a slightly longer time for each transaction in the automatic lanes and the manual lanes, to process. And two, fewer people have exact change for a multiple-coin operation in general. In this case, the reason the Parkway works well, especially in the area of the greatest traffic, is that most people have exact change. Today, about 70% of all of the revenue from the Authority comes from the automatic toll lanes at the barrier. All the revenue from the barrier toll plazas come from the automatic toll lanes.

In studies we have done, at the northernmost barriers particularly, during peak hours, we found that, in fact, 80% to 90% of the patrons have the exact change; that is, a third to a half of those patrons, even in the attended booths, have exact change as well. So, you have a very large base of people who have a very efficient operation. Changing that operation to a strict multiple coin causes problems. It is not purely

analytical. I can show you mathematically how to derive the difference in transaction time, and what it means to passing the toll plaza. But, in fact, we have seen a number of instances in the northeast, where they have gone from a quarter to a multiple-coin transaction, and we have seen the resulting delays at the toll plazas.

The combination of the two elements, that is, slightly more time per transaction, plus fewer people having exact coins, means a great deal more delay for many people. And the unfortunate fact of the matter is, the Parkway does not own so much right of way that it can simply expand the toll booths where it likes to provide enough toll lanes to make the multiple coin work. It does not have that right of way; therefore, we have to design a system that will attempt, again, to maximize the number of transactions that we carry today.

The 35 cent token, with the 50 cent cash toll, is our answer to that problem. It provides revenue, in fact, greater than 35 cents, which is needed for the financial requirements, and it provides minimum delays to all users of the Parkway.

SENATOR HURLEY: I read -- and this will be my last question, Mr. Chairman -- that the tokens will be sold, for example, at a minimum \$14 sale. Is that true?

MR. ZILOCCHI: Our proposal, Senator Hurley, is to have 40 tokens sold in a roll at \$14. I have heard repeatedly -- even Monday from the Assembly, and from other quarters -- that we should look at making the rolls have alternate -- maybe reducing the required amount that anyone would have to purchase in tokens at a given time. Although that would give us some operational problems, I have instructed the staff to look into that and come up with alternative suggestions.

SENATOR HURLEY: I would urge you to do that because--

MR. ZILOCCHI: Yes. That seems to be common--

SENATOR HURLEY: --of the large number of senior citizens we have.

MR. ZILOCCHI: Exactly; exactly.

SENATOR HURLEY: They might find the \$10 to go to the casinos because they are going to get the \$10 back in quarters, but they won't find the \$14 to buy the tokens.

Thank you, Mr. Chairman.

SENATOR ORECHIO: I have a question: According to the booklet, the toll collectors-- Unless a person has a token and goes in the exact change lane, he cannot present that to a collector for the discount. Is that right?

MR. NIELSTEN: That is the proposal.

SENATOR ORECHIO: Okay. What I want to know is, basically, is there a correlation between those who presently pay the exact change and your projection of those who would buy the tokens for the discount, as well as using the exact change lane? Can you correlate those two in your projections?

MR. NIELSTEN: Well, I said roughly that somewhere between 80% and 90% of all the users during peak hours have the exact change, not just the automatic lanes. A substantial portion of the manual lanes, as well, have exact change usage, often because they are trapped there by the nature of where the lane is from the entry ramp, or because they like the personal contact, which is part of the reason people go to the manual lanes. Sometimes they want receipts.

Obviously, that kind of number gives you an outside limit on what you possibly could reach in token penetration. We also reviewed other facilities that have tokens, to get a feeling for what the likely ability to market tokens to a large portion of the population would be. On the outside, the best you can do -- from the facilities that have discount tokens for local travelers -- is about 90%. You can't do much better than that. You can't get everybody, which is what we would like to do, of course -- get everybody on a single-coin transaction. The worst you can do, which is those people who are not regular travelers who travel a number of roads, is in the 5% to 10% range -- the non-frequent users.

We hope to be able to market the token -- and we know the Parkway contains many regular users -- to a significant portion of the regular users, and to even a small proportion of those who do not travel so regularly.

SENATOR ORECHIO: What do you project is the fallout from those who would be prohibited from using tokens in the manual lanes? It seems to me that one of the reasons for the exact change, is to keep the traffic flow moving. You don't have a prohibition against that now. I mean, anybody immediately can handle the quarters or change dollars. Isn't that also one of the-- With the interest in safety and so forth, isn't that interest being served by having the manual collector accept tokens?

MR. NIELSTEN: The average transaction in the manual lane is about eight seconds. The average in the automatic lane is four seconds. Obviously, we need to encourage, by all means possible, as many people into the automatic lanes as possible. This is one additional way to do that.

SENATOR ORECHIO: Okay. Another question: As I understand it, the projection, at least the figures you are using for anticipated revenue, is predicated on 50% of the users buying tokens.

MR. NIELSTEN: Actually, it's closer to 70%, on the average, of token penetration. That is what we are hoping.

SENATOR ORECHIO: Seventy? I think it is accurate that there should be, I guess, a scientific survey made, because that is going to be very important -- 35 cents versus 50 cents -- and if that projection isn't accurate, you are going to have another shortfall, aren't you?

MR. NIELSTEN: Well, again, I might add that we chose the 70% token penetration because that is a conservative approach to the revenues. I am putting a revenue hat on it for a second. Obviously, if we do not achieve that token penetration-- In fact, the revenues are slightly higher than that.

SENATOR ORECHIO: I think I remember reading the projection being anywhere from 50% to 70% for those who--

MR. NIELSTEN: What will happen is going to be a function of how well the Authority can market its tokens, and how responsive the community is to getting them. If a good job of marketing is done, if they are readily available at main locations, and if people realize they are a good deal and they do help them, they will penetrate well. Obviously, during the course of time after a toll rate goes in, there may have to be many refinements and adjustments as to how they are marketed and how they are gotten into public hands, to make them work the best. You are not going to know that up-front.

MR. ZILOCCHI: Senator, an indication -- and this is not really scientific, I know-- Within one week after we announced the proposal of the toll increase -- and we have a direct line in Woodbridge for people to call to give us their comments and all -- we received approximately 300 calls. Of the 300 calls, approximately 60% were not really complaints, but were seeking information on what they had to do to go out and buy the tokens right now. So, that is encouraging.

As Jerry stated, from past experience in other facilities and all, we do expect a very good penetration on that token.

SENATOR ORECHIO: Senator McNamara?

SENATOR McNAMARA: What is your present sale of tokens at the moment? You know, what does that represent of your revenue? You talk about 70% in the exact change lane; 90% in the northern end. But what actually do you sell in tokens today?

MR. ZILOCCHI: Senator, it is about 4% right now because it is not a discount. There is no incentive for an individual to buy that token, in fact, putting the money up-front in advance and just getting the same rate as if they go by and throw the quarter in.

SENATOR McNAMARA: But, is your estimate 70%, as Senator Orechio asked, or is it 50%, who will be using tokens?

MR. NIELSTEN: Seventy percent is the basis upon which the revenues shown in Table 26 are forecast -- approximately 70%.

SENATOR McNAMARA: Okay.

SENATOR HURLEY: Is that revenue or people who are going to buy the tokens?

MR. NIELSTEN: Revenue.

SENATOR HURLEY: Revenue -- percent of the dollar.

SENATOR McNAMARA: What revenue is projected from the moneys received for the tokens that are going to be sitting in somebody's glove box? Has that also been anticipated?

MR. NIELSTEN: That is not built into the revenue forecast.

SENATOR McNAMARA: Well, it should be.

SENATOR GAGLIANO: That's how American Express makes millions.

SENATOR McNAMARA: Absolutely. That is not built into the revenue forecast?

MR. NIELSTEN: Not in the toll revenue forecast.

SENATOR McNAMARA: Well, that troubles me, because I want to tell you: I happen to be a token user myself, only for convenience, and I most probably buy them in \$40 or \$50 lots, and \$40 worth of them sit in my desk drawer until I use up one roll at a time.

SENATOR ORECHIO: Because you're not a typical user, I guess.

SENATOR McNAMARA: I am only one of the 4%. Secondly, I looked at your Chart 25. What is it that would cause your expenses to jump? Unless I am misreading the chart, it looks to me like 25%--

MR. ZILOCCHI: No, you are not misreading it, sir.

SENATOR McNAMARA: --from '87 to '88. I mean, the revenue projection you are projecting is very, very conservative, based on--

SENATOR ORECHIO: Senator McNamara, could you hold onto that question until we get to the third phase, because we are going to cover that?

SENATOR McNAMARA: Okay, sorry.

SENATOR GAGLIANO: May I--

SENATOR ORECHIO: Senator Gagliano?

SENATOR GAGLIANO: I have a couple of questions. I hope I am not in the wrong phase, but--

SENATOR ORECHIO: If you are, I'll let you know.

SENATOR GAGLIANO: Thank you, Mr. Chairman. With respect to the toll increase -- whoever would like to confirm this-- The Asbury Park Press of yesterday said that if you paid the 50 cent toll and you drove to Milepost 4 from Hillsdale, today you would pay \$2.75. According to yesterday's Press, if you did the same thing and the toll increase was in effect and you were paying the 50 cents, the tolls would be \$6.50. I think it is outrageous that you would consider that kind of an increase.

Now you are going to say, "But we've got a 35 cent token, and that's \$4.55, if you go the full route." Now, I think you know as well as I, that there are many, many people who use that Parkway everyday to get to work. You, in effect, are doubling their costs.

Now, I have a suggestion. First of all, I can't believe that you should go with a grand total of \$563 million in projects, when you are already saying that you can't do it. I mean, I think you used the term, George, "wish list." I am not sure whether that is your wish list, but it seems to me that these projects should be substantially scaled down. I am just going to refer to a few of them. I have been on the Transportation Committee for 10 years now, and we watch

projects. We watch them carefully, and we know what is being built and what it cost.

You've got bridge rehabilitation, a continuing program, of \$56 million, under Safety, Rehabilitation, Extraordinary Maintenance. That is an awfully big number. I don't know how long it will take to do, and I don't know how much of it is absolutely necessary from a safety standpoint, but that is a big number.

You've got mainline, Interchanges 88 to 91, \$42 million; Interchange 120, \$49 million. Let me finish. Atlantic County improvements and barrier, \$56 million; commuter parking lot -- excuse me, that's not-- Rehabilitation of five maintenance yards, \$22 million. The grand total there is \$563 million, on pages 17 and 18 of your booklet.

I would suggest, and I can't believe that that many people are very happy about this, because that is certainly not the message I have gotten. I would suggest that you limit the toll increase to 35 cents. I would suggest that you do give a discount, and for \$10, you give \$10.50 worth of tokens. In other words, you will give a 50 cent discount. It just seems to me that that is within the realm of fairness, because 30 tokens at 35 cents apiece is \$10.50. You will give some incentive there of 50 cents for people to buy a roll of \$10 worth of tokens.

I would suggest -- and I haven't seen this publicly -- that you find outlets for these tokens. We buy tokens, also, in my law office. There are times when we give an associate \$50 or \$100, and they have to go to two or three different locations to buy \$40 or \$50 or \$60 worth of tokens. So, you haven't pushed them. You are going to push them, I'm sure, but you haven't to date. I would suggest that there be token outlets, either at banks or with the Lottery or with supermarkets or convenience stores, or wherever you can arrange to sell them.

The last thing I am suggesting is, you have to scale down the construction program, because we all have wish lists. The Department of Transportation has billions of dollars of things they would like to do, but we would have to tax the people to death to be able to do them.

I know I am interrupting with respect to the program here, but I don't know how much longer I can stay and, frankly, this doubling of the rate, I feel, is something that does not go down easily. I think you are making a big mistake to continue to push it. I mean, you have already had enough -- I would say enough criticism, and I think you can market tokens at 35 cents. You can give a discount at 35 cents. You are selling rolls of tokens now for \$10. You scale down the programs. They don't have to be as ambitious as they have been -- or as you have indicated they were going to be. I think you could get this thing back on track.

MR. ZILOCCHI: Senator, the last thing you mentioned about the marketing of tokens, I wholeheartedly agree with. We are exploring banks and the other areas you mentioned. On the others, I have to respectfully disagree with you. First of all, as to the toll rate per mile on the Garden State Parkway, it is presently-- In its present toll structure, it is 1.6 cents per mile, using your example from Hillsdale down to Cape May, which is the lowest in the toll road industry right now.

With the toll increase,-- as proposed, at 50 cents, it becomes approximately 3.2 cents per mile, which is average right now with the toll road industry throughout the nation. With the discounted token of 35 cents, that average rate per mile becomes 2.2 cents. Presently, the New Jersey Turnpike's toll rate -- its present toll rate -- is 2.3 cents. What I am saying is, with the discounted token, we would still be one mil per mile below what our sister agency is.

As to the capital improvement programs, if I used the "wish list" term, I apologize, because I was thinking more in

terms of that we cannot do everything we want to do, or we think should be done. As indicated, the capital improvement list we have indicated in the book here, totals \$644 million. We have, in essence, scaled it down. Chester Johnson just testified that with the proposal we have requested here, we would only be able to generate \$410 million. Now, of that \$410 million-- Maybe I am getting a little ahead, because Mr. Conlon, our Chief Engineer, is here to give a full presentation on that capital improvement program. But, of that \$410 million, \$176 million is projects that we consider essential from a safety point of view.

SENATOR GAGLIANO: How much? I'm sorry.

MR. ZILOCCHI: One hundred and seventy-six million, which we consider essential from a safety point of view, as I stated in my opening remarks concerning bridge rehabilitation and pavement restoration. We had 430 bridges on the Garden State Parkway. I think it is more now. I still don't know how many we picked up from the State-owned section, quite frankly, but before that we had 430 bridges.

Through time, deterioration has-- We have been rehabilitating. I think we have rehabilitated, in the last few years, approximately 121 bridges. We have to keep that program ongoing. Pavement restoration due to wear and tear of age and usage: That must be kept ongoing, in order to maintain the road the way it is functioning today.

You will find-- I don't like to call this a capital improvement program; I like to call it basically a "Safety and Expansion Program." You will find that of the expansion programs, many of those programs are at the request -- not ours -- but at the request of county and local municipalities, especially in Ocean County, where the biggest portion of it is. They have come to us and asked us to do this. We have been working with DOT. Some of our projects are in conjunction with the requests of the State DOT.

Sure, we can scale this down. What I stated in my opening statement is the basic question, which eventually we are all going to have to address. We, in fulfilling our responsibilities as an operating New Jersey Highway Authority, have made this proposal based on this capital improvement program. If you reduce our proposal for a toll increase up to the point where we still meet our bond covenants, then, of course, something has to be-- It has to be at a cost, and something has to be given up here.

I can tell you that if we give up the expansion programs, it is going to cause problems. It is going to cause congestion. There is no question about it. And it is something that everyone is going to have to acknowledge and recognize. But, as it relates to our safety programs, I can tell you, Senator, I cannot say it strongly enough, that I plead that we be allowed to continue that safety program, because it really concerns me if we cannot go ahead with that.

SENATOR GAGLIANO: Well, it seems to me, and I am certainly not an expert, George-- It seems to me that your safety program could continue to be ongoing and that your financial experts and your engineering experts would concur with that, at 35 cents, even 50 cents, discounted, as I said, on \$10.50. As a matter of fact, I would appreciate it if you would ask your people to look at that. I don't know whether you have. I have not heard any testimony along those lines. But, to me, it is so logical and makes so much sense, because it can't be that far off, and you will not be doubling your tolls.

MR. JOHNSON: Senator, if I may interject here for a moment, the Authority asked both Vollmer and ourselves to look at the effect of an across-the-board 35 cent increase. Jerry can comment as to the revenue effect, but based upon the revenue effect, what was produced, as George as indicated, was a number of a little over \$220 million, that would go into the capital improvement program over the five-year period.

Now, there are three points I would like to make on this. As I said earlier, salesmen sell and financial advisers advise.

SENATOR GAGLIANO: And Senators criticize.

MR. JOHNSON: That is your role, no question, and a constructive one, too, I might add.

We have several problems from a financing point of view. The other side of the question of a toll increase is whether this really does produce enough money for the Authority to maintain the system in such a way that it doesn't fall into disrepair, because one of the credit features, as I am sure you are aware, of looking at other toll roads and other transportation systems throughout the country, is, are those systems being maintained at an adequate level? At some point, the adequacy of that level affects the finances and the economic attractiveness of the system. And I will tell you that one of the questions that we have already been asked to respond to, to the rating agencies in maintaining our rating, is at this level, even at this level, which I think would be recognized as a reasonably conservative level in terms of a toll increase, is, will you be able to do the adequate capital maintenance to keep the system in the way it has been maintained in the past?

Secondly, the \$570 million capital improvement program, which was implemented some time ago-- Even that program could not be funded with a 35 cent across-the-board.

SENATOR GAGLIANO: We understand that.

MR. JOHNSON: We would only be funding somewhere in the range of about a little over \$500 million, as opposed to the \$570 million. I will tell you, based upon the 35 cents and the kind of coverage of debt service that we have in revenues, we could not suggest to the Authority that it would be certain that they could maintain their rating at this level. I realize there are a number of public policy issues and the maintenance

of a rating is only one of them, but it plays into the overall range of, how does the rating affect the State, is there going to be a deterioration of the rating on the State if you have problems with the Authority, etc., etc.? As a financial adviser, an expert in this area, at 35 cents, I question seriously whether we would be able to maintain the current AA rating.

SENATOR GAGLIANO: Mr. Chairman, if I may, so that we can keep this in perspective, the Legislature within the next probably two to three months, will be wrestling with whether or not an increase in the gasoline tax for all of New Jersey is appropriate. There is a proposal that the gasoline tax would be at another five cents. From all I understand, that will bring in approximately \$200 million a year, and will be able to fund a tremendous amount of projects.

What I am trying to do here is put this in perspective. You have one road, truly a very busy road. You are talking about substantially increasing your revenue base, and you're saying it will only do 200 and some -- I think you said \$220--some million worth of projects.

MR. JOHNSON: Only at 35 cents. The proposed would be over \$400 million.

SENATOR GAGLIANO: We have to wrestle with the issue of whether or not we can raise another \$200 million from the people of this State and do projects through the Department of Transportation for the entire State, for seven and a half million people, in a Department that has 5000 employees, and which has a tremendous responsibility across the State. That is why it is so difficult for me to comprehend why you would even consider doubling the tolls. I find it so difficult to comprehend. A reasonable increase, I can understand. Five hundred and seventy-six million dollars worth of projects, I think, is just beyond the realm of comprehension, and I think you are going to have to go back to the drawing board and start

over in your thinking. I don't think we can accept it; personally, I can't.

SENATOR ORECHIO: Mr. Neilsten, your response?

MR. NIELSTEN: I would say that the 35 cent toll provides certain financial projections, which we have talked to Chester about.

SENATOR GAGLIANO: And the Parkway continues to grow, right, in revenues?

MR. NIELSTEN: The Parkway continues to grow. But as surely as if I dropped this cup, it falls to the ground. I promise you, with a 35 cent toll, you will substantially delay the traffic and travel pattern of every patron of the Garden State Parkway. There is no doubt in my mind about it. When Senator McNamara comes down and uses his token, he will gain 10 to 15 minutes additional delay at each toll plaza. There simply isn't the room to do the capital expansion of the toll plazas to make the 35 cent multiple coin work. You would need hundreds of millions of dollars to do that.

SENATOR GAGLIANO: I didn't say that; I said, market a 35 cent token with a small discount -- a 50 cent discount.

MR. NIELSTEN: In my opinion, that is simply not enough of a discount. I will give you an example. The Triborough Bridge, when it first went from a quarter to 50 cents in 1972, had a 10% discount on their token. They got about 8% penetration in the market. They were also allowed in the manual lanes at that time. It just isn't enough of an impact to do any good. It is what it is.

SENATOR GAGLIANO: I just hope that this isn't a self-fulfilling prophecy; that you haven't all gotten together and agreed that, "This is the way we are going to do it, and we have closed our minds to any change."

MR. ZILOCCHI: No, Senator, we have not closed our minds, but naturally this is the result of a long study, and we are trying to make--

SENATOR GAGLIANO: A long, private study.

MR. ZILOCCHI: A long study, Senator.

SENATOR ORECHIO: Senator McNamara, do you have a question?

SENATOR McNAMARA: Yes. Your reference to the cost of 1.6 cents to travel the Parkway--

MR. ZILOCCHI: From one end to the other, Senator.

SENATOR McNAMARA: I know from one end to the other. I am a little concerned, since I represent District 40, because the way I look at it-- In fact, I gave you a 1.8 cent cost, including the new mileage that you picked up from the DOT. Maybe my figures are inaccurate.

MR. ZILOCCHI: That is exactly right.

SENATOR McNAMARA: Well, if that is exactly right, then I hope the rest of my figures are-- Maybe it will add a little credence to the rest of the numbers. But, if you took the two most northern sections of tolls, you're talking about a 3.5 cent cost per mile now, and with your new plan, seven cents per mile. And the four most northern only brings it down to 3.2, which means it is 6.4 cents per mile. You know, I didn't do an analogy between the Turnpike, to be very honest with you.

MR. ZILOCCHI: Senator, I agree, but I was just relating to the way Senator Gagliano had made the statement.

SENATOR McNAMARA: Well, but maybe you have to look at your toll increase in a different manner also, because I am beginning to think it is a little unconscionable to be charging people seven cents per mile for a toll road in the State of New Jersey.

SENATOR GAGLIANO: In your own car.

SENATOR McNAMARA: Yeah, in your own car. Maybe your plan had better look at certain areas not being charged this double increase, because, you know, I don't see your justification. You know, originally, I could comprehend the additional tolls up north, because the acquisition was more

expensive. But that has been bought and paid for. If you are going to follow the theory that the northern section had to pay more initially because it cost more, and you are doing a lot more expansion in other areas, I don't see how you can justify doubling that cost in that area.

MR. NIELSTEN: Senator, it is clearly true that the spacing of the toll barriers was set in the early '50s, so that the revenue provided by each section matched the initial construction costs. But there is a difference today in maintenance and operation costs, and maybe Jim Conlon can speak to that. The fact of the matter is, in the northern sections, primarily because the traffic is so heavy so many times a day, everything the Authority does on the Parkway is extremely expensive compared to the rest. There is still a very large differential, and it is worth noting.

SENATOR McNAMARA: What is the operational cost in relation to this capital improvement program that you are going into? You can't tell me that your maintenance costs -- that you can make a direct correlation to the type of investment you are talking about in your capital improvement program; that you can make those coequals.

MR. NIELSTEN: No, I don't intend to.

MR. ZILOCCHI: I don't understand, Senator.

SENATOR McNAMARA: Well, I assume your response is that your maintenance cost is much higher in the northern section; therefore, it justifies doubling the toll. I have a problem when I look at your operating budget jumping 25% -- roughly, just looking at this page -- from '87 to '88. That is something to be discussed later. But, look at the cost per mile. There is something wrong when you are talking about that this toll road is going to cost the people in the northern part of this State seven cents per mile. I mean, I don't know what road in the country costs that.

SENATOR GAGLIANO: Is that true?

SENATOR McNAMARA: Well, I don't know if it is true or not, Tom, but I calculated it in the same way that I calculated the 1.8 cents, which is two-tenths of a cent higher than what George said it was.

SENATOR GAGLIANO: In other words, 1.8 cents--

SENATOR McNAMARA: And he said that was accurate.

SENATOR GAGLIANO: One point eight cents if you go from High Point to Cape May?

SENATOR McNAMARA: Right.

SENATOR GAGLIANO: But, if you took a segment--

SENATOR McNAMARA: The last two segments of the toll road, with the new increase, would come out to 7.14.

SENATOR GAGLIANO: Is that on the token, or on the straight 50 cents?

SENATOR McNAMARA: That's on the 50 cents. I just think that is absolutely outrageous.

SENATOR GAGLIANO: It is.

SENATOR McNAMARA: If you extended it to the four last toll sections, you're still talking 6.4 cents per mile. You know, let's face it, that is a densely populated area, and there is a lot of usage, but there are a lot of people who use that road as a necessity to get to and from work. And to charge them 6.4 cents per mile, I just can't buy it. I really can't, and especially that your investment-- You are going contrary to the original theory-when you started the Parkway, that you were going to collect from the area the moneys that it cost to do that expansion. Now you're saying-- You know, the rules seem to have shifted. I have a real problem, coming from the northern end of the State and, quite frankly, if I were from the southern end of the State I would have a problem, because there has to be a coequal distribution of cost. I mean, it's a partnership.

MR. ZILOCCHI: In fact, the people from the southern part of the State, Senator, had a problem all along when all

the improvements and the major costs were in the northern section, and they were paying for it down south.

SENATOR McNAMARA: Well, that is contrary to what you just said.

MR. ZILOCCHI: No, it's not.

SENATOR McNAMARA: You told me that it was originally designed for those funds to come out of the north. That was why there was a heavy increase of toll plazas up on the northern end.

MR. ZILOCCHI: I was saying that the majority of the improvements -- whether they be expansion, safety, pavement restoration -- to date, have been in the northern section of the road.

SENATOR McNAMARA: Well, where is the majority of your income?

MR. ZILOCCHI: Fine. I accept that. But to use your argument, up to now, the people in the south were paying for that also.

SENATOR McNAMARA: They were paying a share, but if the majority of the income came from the northern end--

MR. ZILOCCHI: Absolutely. Now it has shifted.

SENATOR McNAMARA: --then maybe the majority of the expense came from the northern end.

MR. ZILOCCHI: It is shifting more and more down to the central and southern end of the State. Not that the northern end is still not providing a sizable amount of income, but it is not as it used to be, when the majority was in the northern part of the State.

SENATOR McNAMARA: Well, through the Chair, I would like to see an analysis as to what the income is to those four last toll booths on the most northern end of the Parkway, vis-a-vis your middle end, to get some idea. I don't think you can make the correlation you are making. I really don't.

MR. ZILOCCHI: Over what period, Senator?

SENATOR McNAMARA: The last-- '84, '85, '86 or '85, '86, and '87 to date. Those numbers, when you are talking seven cents per mile-- You know, I don't think I can count the road as the best bargain in the U.S.

MR. ZILOCCHI: Well, Senator, as I stated-- I think to someone before, maybe not here at the meeting-- I think if you look at the Turnpike's rates, you will find that presently, from our area-- I am basically from your area; I am a little south of it. I am not in District 40; I am in District 38-- When I travel from my home to my office on the Turnpike, presently it costs me \$1.30. On the Parkway, to travel from my home to my office-- It doesn't cost me, but if it did I would be paying 50 cents for the same trip.

SENATOR GAGLIANO: We never endorsed the Turnpike tolls.

MR. ZILOCCHI: No. Well, I am just saying, it seems that he is indicating that we are-- I am just trying to give a correlation there.

SENATOR GAGLIANO: George, neither the Legislature nor this Committee ever adopted a resolution endorsing what the Turnpike did -- not my knowledge.

SENATOR ORECHIO: Of course, I guess it is also obvious that you can't realign these barriers. I mean, it would be prohibitive to try to have them aligned in such a way that it is going to be equitable to every user of the Parkway. Any other questions? (negative response)

Let's go to the tables. Senator McNamara had a question which I was going to amplify. Senator McNamara, we're going to go to the tables now and touch upon the subject matter that you discussed before.

SENATOR McNAMARA: Senator, if you were going to bring it up, I'll be perfectly satisfied to--

SENATOR ORECHIO: Well, I was going to just ask for an explanation for the variance and figures that were presented

by Vollmer Associates -- those numbers that appear in your briefing report and the tables I am referring to are 25 and 26, and the comparison with the numbers that are used as projected and as prepared by Vollmer that appeared in the October minutes. There's quite a discrepancy with revenues as well as the projections for expenditures. When you look at both simultaneously, I just wonder who can give us some answers to that? For example, from your own schedule, the revenues, starting from '86 -- \$124 million in the course of the minutes of the September meeting that appeared in the October minutes. The number projected there is \$122.7 million. So we say that's pretty much in sync.

We go to '87, we then have \$131.5 million in the briefing manual and in the minutes it's \$129.5 million for 1988. Are you following me?

MR. JOHNSON: Just a second. I'm sorry.

SENATOR VAN WAGNER: Referring to your attachment three, October '86 minutes and your briefing manual, page 25.

SENATOR ORECHIO: So, for '86 and '87-- We're talking about revenues at this moment -- '86, '87, and '88 were relatively in sync. However, in projected '89 we have a discrepancy of \$5 million. That's \$142 million in your briefing manual, and \$147 million in the minutes. Then the variance gets larger as we go to '90, '91 -- \$147 million, \$156 million, and then of course a \$14 million discrepancy in 1991. I wonder if that can be explained by somebody?

MR. NIELSTEN: I think I can. You're referring to my September 26, 1986 letter to George Zilocchi.

SENATOR ORECHIO: Yes.

MR. NIELSTEN: Okay. If you'll note that in 1986, we were doing a number of "what ifs?" scenarios as to what possible future revenues might be derived. In the first page of that, there is a note that says the projection of future revenues are based solely on recent historical trends which

are, "more optimistic than our July projections," the next sentence, "For a number of reasons we are of the opinion that these growth rates may not be obtainable through the forecast period." Now the reason that I note this is what we are doing are some very simple straightforward "what if?" games. And these revenue forecasts are the result of that. In fact, in the briefing book, what we have done during the course 1987 is to spend substantially more time investigating future traffic and revenue trends. So, rather than a rather cursory projection of revenues and how they might change with time, we've done a more detailed analysis. And frankly, as I've noted, we're more conservative in the forecast of revenues in the '87 booklet.

SENATOR ORECHIO: Does that explanation also apply to the expense side as well for those same years?

MR. NIELSTEN: Well, we didn't do the expense side, so I'll defer it to Frank Palombo.

SENATOR ORECHIO: Well, let's talk about the expense side, because I think we have pretty much the same situation.

SENATOR VAN WAGNER: Excuse me, Mr. Chairman.

SENATOR ORECHIO: Yes, Senator Van Wagner.

SENATOR VAN WAGNER: Mr. Nielsten, you said that you didn't do the expense side?

MR. NIELSTEN: As you note in the briefing book, we prepared a physical document that shows all revenues, all expenses, and debt services. And in fact, that's a series of pieces. We prepare revenues from tolls and revenues from concessions. We receive from the Authority staff income from the Garden State Arts Center, income from investment, and other revenues. We also received from the Authority staff operating expenses, State payment, reserve requirements, and from their financial advisors, schedule of debt service payments. We usually package the whole sheet together. But our whole responsibility is primarily in toll and concession revenues.

SENATOR ORECHIO: The question basically that I have regarding the expense side is that the September '86 estimate which excludes debt service and the Trust Fund contribution for the years '88 to '91 are \$64 million less than what you presented. How do you reconcile that discrepancy? It's pretty vast.

MS. STANLEY: Senator, I'd like to, with your permission, call the Director of Finance, Frank Palombo.

SENATOR ORECHIO: You may, sure.

F R A N K M. P A L O M B O: Yes. Chairman Orechio and members of the Committee, my name is Frank Palombo. I'm the Director of Finance of the New Jersey Highway Authority.

SENATOR ORECHIO: Would you speak into the mike?

MR. PALOMBO: Yes. I've been an employee of the New Jersey Highway Authority for almost 25 years. I was originally employed as the Assistant Controller of the Authority in 1963. I was appointed the Controller in 1974 and earlier this year I became the Director of Finance. My background educationally, is that I'm a graduate of Seton Hall with a major in accounting and I am a certified public accountant.

In looking at the projections that were made in September of 1986, I am sure at that time we were not aware of a number of things that took place in 1987, which dramatically affected the projections that we are now making for operating expenses in 1988; notably, the ownership of the State-owned sections in July of 1987. It's in here. I'm sorry.

SENATOR VAN WAGNER: Excuse me, sir. I don't want you to get yourself into a bind, but you were discussing that in '86.

MR. ZILOCCHI: He just noted that, Senator.

MR. PALOMBO: I just noted that, right. I did see that. Then the other thing that occurred is that we just recently agreed to increase our State Police complement on the Parkway from 154 to 200. Commencing in December of 1987, there

will be 10 troopers assigned to the Parkway, there will be another 19 troopers assigned in May of '88, and the balance of the 44 by the beginning of 1989. There are a number of other things--

SENATOR ORECHIO: That's still a small insignificant number as compared to the \$64 million variance, because you're talking about a couple of million dollars for the troopers in (indiscernible).

MR. PALOMBO: Well, the \$64 million that I have presumed that you have come up with -- and I didn't check these figures out -- are for the five-year period.

SENATOR ORECHIO: Three years.

MR. PALOMBO: Pardon?

SENATOR ORECHIO: It's three years, isn't it: 1988 through '91? Okay, four years. Senator Van Wagner do you have a question before we continue?

SENATOR VAN WAGNER: I wonder if I can get him to start backwards. If you take a look at your exhibit on page 25, the Chairman is talking about '91. Let's start there. You have \$138,000,414 projected. In your September exhibit, attachment three, you have \$118 million. That's a \$20 million difference. I think that's what the Chairman is referring to. That's one case in point in one year. It comes from chairing the Appropriations Committee for eight years.

MR. PALOMBO: Okay. I do know that if we were to-- I'm not hedging the answer you are seeking, but if you were to look at the last ten years of operating expenses that we have incurred, they average some 10.4%. I think under normal circumstances, we could expect that this type of increase in operating expenses would continue.

And I go back to the point that I made that if we did not have the State-owned section operating cost be concerned with starting in 1987, and the additional cost relating to the increase in State Police services, and insurance increases, and

other costs that relate to the union of the functions of the Parkway, I would be able to show that this 10.4% increase that we have incurred in the last 10 years will continue in future years. I don't have with me the make-up of the \$188 million right now. But, I have to assume that if I wanted to make individual calculations, it would probably show that we are reflecting in these projections in 1986, an increase of about the 10% to 11% per year. It's only because we have incurred these other costs that we did not anticipate at the time the 1986 figures were put together, that we are now looking at a much higher overall ongoing cost for operating expenses.

I think in relation to the total operation of the road, we have made a number of improvements within the maintenance operation which require that we add to our complement. We are in the process of acquiring new equipment for the automatic coin collection system. We have equipment that's as old as the Parkway, and in this regard, we're going to incur some additional \$775,000 a year in expenses. I can point to the number of lanes that we have added, and we will need to be able to continue the toll collection to be able to move traffic--

SENATOR ORECHIO: Of course that's capital that you're speaking about now. Why don't we continue on with some other questions? I realize that we really had you unaware of that particular question and you didn't had the answer handy.

At the last meeting you have on Monday you had a detailed comparison made by Assemblyman Doyle regarding the historical economic performance and your current estimates, and of course since then, no doubt, you have reflected upon the analysis. I was wondering how can you justify the discrepancy between the Authority's projected annual revenues and its historical performance? That's quite a gap there.

MR. NIELSTEN: On the revenue side? I'm sorry.

SENATOR ORECHIO: On the revenue side.

SENATOR VAN WAGNER: If I might, Mr. Nielsten-- Just to parenthetically add to that question, Mr. Palombo outlined an assumption over a period of time on the expense side. I guess, another question I'd like for you to answer along with the Chairman's, is based on Mr. Doyle's projections. Why was not the same assumption made on the revenue side?

MR. NIELSTEN: Let me discuss revenue projections for a minute. Mr. Doyle made a presentation on Monday showing that if you take the past five years and project it, you can derive substantially greater revenue than we show in our projections. That's simply a mathematical truism. I have to agree with what he performed mathematically, but not the sense of it for a number of reasons. One: he took five years where we had truly extraordinary growth. But growth in and of itself doesn't create new growth. New land use does -- new office buildings, new residential areas, new casinos, new hotels. That creates new trip making patterns.

Our forecast is based on historical trends and traffic, background conditions, changes in the land use patterns, the ability for the Parkway to accommodate new growth, which is a very important element. There are many areas in Essex County where I live, where it's very difficult in peak hours to move effectively at rush hour and very difficult to accommodate any growth at all. If in fact you took those five good years of growth, like Mr. Doyle said, and applied them to 1987, you'd project revenues for this year, exceeding \$110 million on tolls. Well, through November -- the first 11 months of data in -- we might exceed \$108 million. You can play games with numbers, but the end of the line is if you use optimistic forecasts, you're going to be wrong; most of the time. We prefer to err on the conservative side. We hope that our figures are conservative, that they provide prudent planning bases, and most importantly recognizing the fact that

if you are optimistic than we say, it doesn't change the bottom line.

SENATOR VAN WAGNER: Let me take you along that path. Okay? For the past five years, the Authority's average increase in annual operation expenses has just been under 10%. In fact, "The Official Statement" -- all right, I'm quoting from your official statement -- "For the 1986 bond issue estimates a 9.8% increase for '85 to 1991." That's page B4. "In 1988 that increase is expected to jump to over 25%." That's in your green book. Further increases beyond the historical average are also included. And I think the question that the Chairman is posing and the Committee has been made aware of is why this enormous increase in operating expenses from your official statement?

MR. PALOMBO: Well, I think, Senator, at the time the '86 list was prepared again there were a number of things that we were not aware of at that time that would have a big impact on the operating expenses in future years. Essentially, I'm talking about the increase in State Police complement and the takeover of the State-owned section. Neither one of these were in the '86 "Official Statement" considerations at that time. There are things that occurred that are included in 1988 operating expenses which would reoccur, except on an overall percentage of about 10%.

But included in the 1988 figures are such things as increase in health benefits of about three and half million dollars, which is over and above the norm that we would expect that we would have to incur for that type of expense. There are credits that we generate within the operating expenses as it relates to the administrative costs on capital improvements which reflect a decrease of \$2.1 million. This is a big item that we have in the 1988 proposed budget which would be over and above what we normally would expect operating expenses to include. Again, there are some additional positions that we

need, to take care of the increase in the traffic on the Parkway because of changes that we are invoking in the movement of traffic, such as branch lanes which will require new collectors and the equipment necessary to operate these new lanes.

All of these things add up to some \$12 million and if I were to take those \$12 million away from what we project as being the operating expenses for 1988, we would then reduce the overall increase from '87 to '88 to some 11.3%, which would take us into the area where we have said for the last ten years, the average increase has been 10.4%. So, what I'm saying is there are things that are in the 1988 operating expense budget which are extraordinary and have an impact on '88, but when you take those away, the increase is back to what historically we have experienced.

SENATOR VAN WAGNER: Has the Authority formally requested Vollmer Associates as the traffic consultants to conduct a study and make a recommendation of the schedule of tolls pursuant to the toll covenant contained in the 1986 bond statement?

MR. NIELSTEN: Yes.

SENATOR VAN WAGNER: They have?

MR. NIELSTEN: Yes they have.

SENATOR VAN WAGNER: The minutes of the closed meetings and the correspondence between the bond rating agencies. I think we asked this. I think you already took care of that.

I've got to say this, Mr. Palombo, respectfully. I think you can understand why if one reviews the data that we have in front of us and the wide differential between the numbers that are reported in each year, and certainly as a composite over the five-year schedule, why some of the questions would be raised? And I have to tell you respectfully sir, it's difficult for me personally to understand how in

March of '86 or April of '86 when this was issued, and then coming forward, I guess, September '86 to October '86 when this projection was done that in November '87, we've advanced so dramatically and we have such a differential within a one-year or a little over a one-year period?

MR. ZILOCCHI: Senator, I think the question is very reasonable and is certainly understandable. I think what Mr. Palombo is referring to, and without having both analyses in front of me, myself, I just did some quick computations, and I came up with \$8 million of the \$12 million or \$13 million that Senator Orechio asked just on three items -- the \$2 million being the additional State Police. In '88 that will really incorporate--

SENATOR VAN WAGNER: I estimated them at \$2 million to \$3 million.

MR. ZILOCCHI: It's in that general category -- about two and a half million dollars. There is about \$3 million to three and a half million dollars which Mr. Palombo indicated concerning the additional equipment and staffing of the branch lanes that we are putting in up and down the road which we did not have any knowledge of it there. And of course there is the three and a half million dollars, I believe, which he referred to about the medical insurance problem that we ran into, which you can go into more detail if you care to. I think that amounts pretty close to about \$9 million of the \$12 million right there. I'm sure if I had the figures in front of me I would give you the complete answer.

SENATOR ORECHIO: Senator Van Wagner, let me interrupt you for one minute. What's the genesis of the demand or requirement to have five more troopers? Is it crime, is it safety?

MR. ZILOCCHI: Senator, this came about at the Chairman's request when we experienced that terrible bus accident back in early September. As a result of that, we did a study. We found that because of the added volume and the

safety factor primarily, that we require these additional troopers. Because of the police work the way it is and the way it's been going, less and less troopers are actually out there on the roadway doing the police work because of the required paperwork, court appearances, etc., and so forth.

Because of the added volume, we found that in proportion there were less troopers out there on the roadway actually patrolling than we had when we had less volume. Basically, that was the general criteria in coming up with the recommended 44 additional troopers. We are receiving 10 new troopers in one week -- December 19; 19, I believe are coming in May of 1988; and the remaining 15 will be coming in the spring of '89.

SENATOR ORECHIO: The allocation of those troopers, will that be for the entire length or a concentration in a region?

MR. ZILOCCHI: There will be a few troopers added in each of the barracks, and then we are also increasing what we call our task force, which is a mobile unit which can be shifted from one end of the roadway to the other. So, we're actually addressing both issues, because when State Police, Senator Orechio-- And you're probably aware of it. I'm sure most of the Senators are, if not all of them. But it's not common knowledge. We pay everything relating to State Police costs -- vehicles, uniforms, equipment, pension, benefits; we pay from dollar one.

SENATOR ORECHIO: The whole thing.

MR. ZILOCCHI: From dollar one. And of course we don't get anything on the fines that are issued.

SENATOR ORECHIO: What's that number right now -- with respect to the troopers required to patrol the Parkway?

MR. ZILOCCHI: We have 156 troopers right now -- total.

SENATOR ORECHIO: And what does that cost? What's that in dollars?

MR. ZILOCCHI: That cost-- In 1987 it cost eight and a half million dollars. With the additional troopers we estimate that it will cost eleven and a half million dollars in 1988.

SENATOR ORECHIO: So, 10% of the strength of the State Police is on the Parkway?

MR. ZILOCCHI: Pardon me, sir?

SENATOR ORECHIO: Ten percent of the authorized strength of the State Police patrol the Parkway? You got about 2500 troopers?

MR. ZILOCCHI: I don't know how many troopers there are throughout the State. I have no knowledge.

SENATOR ORECHIO: But I mean the number with the increase of 50 more would bring you over 200.

MR. ZILOCCHI: That's right.

SENATOR ORECHIO: Gentlemen, unless you have any more questions on tolls, we'll then go to the CIP.

SENATOR GAGLIANO: We have lots of questions, but there's no sense in asking them over and over again.

SENATOR ORECHIO: Okay. The final segment which we basically should combine with capital improvement and revenue expenditure segments, and we've covered some of that out of order-- Do you fellows have a question on CIP that you want to approach at this time?

MR. ZILOCCHI: Senator Orechio, we are ready to have Mr. Conlon, our Chief Engineer make a presentation on that.

SENATOR ORECHIO: Okay, why don't we get a presentation by him first? That's fine. Somebody can leave to make room for this substitute. Mr. Fox?

MR. FOX: Senator, there's one thing that came up earlier which Senator Rand was questioning on DOT, and it's been bothering us since. It referred to the minutes of October 30, of '86 and it says, "Zilocchi reported that staff had

provided information to the Governor's office, the DOT--" And you may recall that Senator Rand became very concerned that Commissioner Gluck knew about the tolls.

SENATOR VAN WAGNER: I think the word would be irate.

MR. FOX: Yes. Frank Palombo pointed out to us what it was. In this instance, DOT was used as an abbreviation for the Department of Treasury and it fits completely, because it was an obligation to tell the Department of Treasury about the financial, in order to get their prior approval.

SENATOR GAGLIANO: We'll settle down Senator Rand and convey that answer to him.

SENATOR ORECHIO: I think you might want to leave it at that. Because we have minutes that refer to the Treasury as the Treasury.

MR. FOX: I'm sure. But that was (indiscernible) consistently.

SENATOR ORECHIO: Thank you.

MR. FOX: Thank you.

SENATOR ORECHIO: Mr. Conalton?

J A M E S W. C O N L O N: Jim Conlon. C-O-N-L-O-N.

SENATOR ORECHIO: Oh, Conlon, okay.

MR. CONLON: All the monies that remain from our annual operating revenues after deducting operating expenses, paying debt service, paying \$10 million to the State Transportation Trust Fund, and meeting certain reserve fund requirements are deposited in the Parkway Construction Fund. In addition, proceeds from the bond sales are deposited in the Parkway Construction Fund. This money is used to finance the Parkway's capital improvement program.

In March 1986 the Commissioners of the New Jersey Highway Authority adopted a \$570 million, five-year capital improvement program for which only \$241 million has been bonded. Approximately \$200 million has been expended and another \$90 million has been obligated to contracts already

awarded. I will highlight just a few of the many projects already completed or under way.

In the last five years we have rehabilitated 121 bridges at a cost of \$50 million or \$400,000 per bridge. We have replaced two-thirds of the timber guard rail with weathering steel beam guide rail and concrete median barriers in order to conform to current design standards. We have widened 30 miles of the Parkway by the addition of one lane in each direction. These widenings took place in northern Ocean County, Monmouth County, in the Raritan area, in Essex County, and in Bergen County.

We have added an additional 12 miles of third lane of the mainline roadway in each direction by converting the shoulder to the travel lane between the Lakewood/Brick Interchange and Double Trouble/Dover Road in the Toms River area. We have spent over \$60 million resurfacing the Parkway by placing over 400,000 tons of asphalt to resurface nearly 500 lane miles of roadway.

We have added 150 new commuter parking spaces at our Cheesequake service area to raise the number of free parking spaces available in Sayreville to 415. We increased the number of free commuter lot spaces available in Montvale from 77 to 177. We constructed a new free commuter parking lot at Interchange 165 in Paramus which provides 90 spaces. To encourage car pooling and to encourage our patrons to use New Jersey Transit buses and other buses, we operate 20 free commuter lots, providing in excess of 2600 spaces daily.

In the early 1970s, the Parkway's fatality rate was about 1.5 fatalities per 100 million miles of vehicle travel. Due, we think in large part to continuing improvement in the geometry of the roadway resulting from our capital improvement program, the fatality rate has gradually decreased until it now is about 0.8 fatalities per 100 million miles of vehicle travel. In concrete terms, in 1986, if our fatality rate was

still at the level it was in the early 1970s, instead of 35 fatalities we would have had 70. Even more impressive, I think, is the fact that if we had the same fatality rate as the U.S. Interstate Highway System had in 1985, we would have had 61 fatalities. If we had the rate that existed on all U.S. highways in 1985, we would have had 150 fatalities.

Much critical safety rehabilitation and extraordinary maintenance work remains to be done in order to keep the Parkway as safe as possible and to maintain our already excellent accident experience. Among the future capital improvement work necessary to maintain that record is the resurfacing and drainage improvements in the southernmost 17 miles of the Parkway. This portion of the Parkway has never been resurfaced since it was built in 1954-55. It is presently in such poor condition that we can no longer keep the road in safe condition just by patching potholes. A continuing resurfacing program for about \$10 million is necessary each year.

Repairing the settled pavement area through the Cheesequake and Matawan swamps, where the pavement is settled seven feet from its original level: This area is in danger of being flooded by high tide from the nearby Raritan Bay and presently rides like a roller coaster.

A continuing bridge rehabilitation program of about \$12 million a year: Over 300 bridges still need some repair. Quite frankly, if some of these repairs are not made, it may be necessary to close certain bridges.

The installation of a lane control traffic signal system in the Union/Essex area -- I feel this is essential to warn motorists of accidents and also to protect those who must work in the roadway in this area: our maintenance men, State Police, and tow truck operators. These essential safety projects have a total estimated cost of \$176 million.

Among the expansion projects which will improve capacity of the the Parkway or improve traffic flow on local roads at Parkway interchanges which I consider essential to the continued safe and efficient flow of traffic are a number of projects with a total estimated value of \$331 million. These include:

The construction of new ramps to and from the south at Interchange 17 and a new ramp at Interchange 25, all at the request of Cape May County and local officials.

Improvements at Interchange 30, 36, 40, and 44 requested by Atlantic County officials; the latter two in conjunction with a planned Atlantic County beltway west of the Parkway.

The construction of new ramps to and from the north at Interchange 69 at the request of Ocean County and with the support of the New Jersey Department of Environmental Protection to facilitate access to a proposed resource recovery plant.

The construction of ramps to and from the south at Interchange 74, in cooperation with Ocean County.

Improvements to the intersection of Route 36 and Hope Road at our Interchange 105 in Monmouth County. This will reduce congestion on Hope Road and improve access to the Parkway when the Route 18 Freeway construction is completed.

And construction of a service road on each side of the Parkway from Interchange 88 to 91 in order to provide access to Cedar Bridge Avenue and State Route 88 where there is no present access, and to provide full access at Interchange 88 with State Route 70 and at Interchange 90 with Chambers Bridge Road in Ocean County.

To accommodate State and county plans to widen these roads east and west of the Parkway, we must construct new bridges to carry the local road system over and under the Parkway. If we do not agree to do this, the present bridges

will not accommodate the four lane divided highway the county and State are planning to construct at each of these crossings.

We plan to widen the Parkway by the addition of one new lane on the mainline roadway in each direction between Interchange 83 and 91, where we presently operate a temporary third lane in the old shoulder area. We plan to improve access to and from the local road systems at Interchange 114 with Red Hill Road, at Interchange 116 with Crawfords Corner Road, at Interchange 120 with Laurence Harbor Road, and Interchange 127 with State Route 440 which leads directly to Interstate 287 to the north and to the Outerbridge Crossing and Staten Island to the east.

We plan to complete Interchange 142 to provide for the missing movements to Interstate 78. This will remove much Parkway and Interstate 78 traffic from the local streets in Irvington. We also plan to widen most of our toll plazas to accommodate increasing traffic.

In an effort to continue to encourage the use of mass transit and reduce traffic on the Parkway, we intend to continue to build commuter parking lots where there is a reasonable demand for them, particularly where we can connect with mass transit, such as New Jersey Transit bus lines. For example, we intend to double the size of the Allwood Road parking lot in Passaic County increasing the number of free spaces available from 235 to 460.

We also plan on expanding our service areas which are heavily congested and necessary for public convenience. The completion of the remaining projects on the present capital improvement program which can be completed by 1992 is estimated to cost \$563 million.

Not included in the present capital improvement program, but essential to improving existing traffic congestion on the Parkway are: At-grade Intersection improvement between Interchanges 8 and 12, and eventual elimination of the traffic

signals by the construction of the grade separation bridges in Cape May County; widening by the addition of one lane in each direction between Interchange 80 and 83 in the Toms River area; the addition of a fifth lane in each direction on an interim basis between Interchange 129 and 140 in Middlesex and Union Counties, and expansion of the maintenance yard in Clark. These projects already under study or design, will cost at least \$81 million to construct.

Let me analyze briefly what the result would be if we are unable to finance major portions of the capital improvement program. First, with regard to the safety related projects which total \$176 million -- these projects were essential to the safety of the Parkway's patrons. It isn't reasonable to continue to operate bridges without making repairs to ensure that the bridges are not a danger to the traveling public. It grates me to see bridge inspection reports sitting in my files that say that bridges need repairs and we're not going to repair them.

With regard to the projects totaling \$331 million which I have listed as essential to improve the capacity of the Parkway and to improve traffic flow on local roads, I have been advised by our financial experts as you heard this afternoon, that we can only finance under the proposed toll increase \$410 million in capital improvement in the next five years.

If we first do the essential safety work, then we can only do \$234 million in expansion projects and projects designed to assist the counties and municipalities adjacent to the Parkway. Add to the \$81 million in the former State-owned sections in Cape May, Toms River, and Union/Middlesex and we have \$412 million of vital needs and only \$234 million will be made available under the current program.

We will, therefore, be forced to choose which of these programs will be funded and which will not. Will we elect not to add an additional lane in each direction in the Toms River

area? I hope not, because this is one of the highest traffic growth areas on the Parkway and is the area which our studies indicate will have the greatest traffic demand in proportion to present capacity within a few years. Will we choose not to improve the Union/Middlesex section of the Parkway? I hope not because this is one of the most heavily traveled sections of the Parkway and one of the most frequently congested.

I have attached to my statement volume capacity charts prepared by our traffic consultant showing traffic demand which he estimates will occur on the Parkway in 1990 and 1995. 1990 is just around the corner and 1995 is close enough that you better start designing now if you're going to handle things in 1995. The 1990 projections are shown in Figures V-1 thru V-4 and the 1995 traffic is shown in Figure V-5.

If I may refer to those charts, (stands by the chart - is not using a microphone) the traffic in 1990 is projected to be greater than in the 1986 base year used in this study by increases of 20% in the northern section and the Parkway and by 50% in the southern areas. Here in Cape May and Atlantic County-- The red line indicates the capacity of the roadway. The heavy dark area is the demand -- the traffic demand. Where that is only a little bit above capacity, you probably will have that happen; where it's way above the capacity, as you see on some charts, it becomes a theoretical-- (inaudible) You can't put 200% of capacity on the roadway, but there is a demand for it. If people aren't able to get on the roadway, then they look for another way around or become-- (inaudible)

In Toms River, in 1990 the traffic demand will be twice the capacity of the roadway, that's why on Friday nights, for example, almost all winter long, the Toms River area becomes terribly congested. From north of Toms River you lack capacity in 1990 and it gets worse when you go between interchange 90 and 100. Interchange 100 (inaudible) Routes 33 and 66. You get further north, up toward the Raritan toll Plaza and you get a huge lack of capacity.

SENATOR ORECHIO: Mr. Conlon, the last chart, you mentioned about peak traffic Friday nights in the winter in Toms River. In the winter, did you mean summer, or do you mean winter?

MR. CONLON: I mean all year round. So, Jerry can explain better than I can. Part of the Parkway wasn't designed that way, but it turned out to be commuter road, particularly up in Essex County, for example. In the southern part of the Parkway, it's more of a local use road down in Cape May and Atlantic County. In the middle here, in Monmouth and Ocean County there's a tremendous development of commuter traffic. It used to be that our problems were really on the weekend. If you took care of the summer weekend, you took care of the commuter traffic. What's beginning to develop now is that you have to take care of the commuter traffic, because it's every bit as bad as the summer traffic. That's what's rapidly developing in Monmouth and Ocean County which is our greatest growth area in the eastern half of half of the State.

And finally, looking up in the Essex County area where, quite frankly, you won't see too much in the way of future expansion in the capital improvement program, because we don't know how to widen through Essex County where we would have to take walls down. There just isn't room for it. We already (inaudible) up there. That road started out as three lanes and it's now four. But there's not much room to grow. And you see this large lack of capacity.

And finally this chart is designed 1995 all on one chart, but everything -- all these (inaudible) areas above this red line is above capacity. The red line represents capacity. And you see that you have a lack of capacity all the way from about mile 30, you get a little relief here between 50 and 70, but from 30 to 50 you lack capacity. And all the way from 70 to all the way up to 160, the Bergen Toll Plaza-- By 1995 you are well over capacity; then people are choosing other ways to go because they can't get on the Parkway.

SENATOR ORECHIO: Mr. Conlon, we're going to actually adjourn at four and come back and finish up. I know some Senators weren't here today and wanted to be heard at a future meeting. And we also have some information, I think, that we require since the CIP program is the heart of this whole project. I think out of fairness, we should conclude that.

But, I have two questions for you. What is your schedule for the rehabilitation of bridges, as well as with respect to the segments of the road that are heavily traveled with replacement or improvement of the surfacing? Do you have a schedule every two or three years?

MR. CONLON: Yeah. We expect to spend--

SENATOR ORECHIO: And the bridges would be longer, probably?

MR. CONLON: We expect to spend \$12 million a year on bridge repairs for the next five years, and we expect to spend \$10 million a year on resurfacing.

SENATOR ORECHIO: And my question though on bridges, is for example, how many years have to elapse before you do the improvement or rehabilitation? Is there a schedule?

MR. CONLON: No.

SENATOR ORECHIO: I realize that you do so much a year, but I'm talking about a bridge for to require rehabilitation. What's the period/time frame?

MR. CONLON: The bridges are inspected once every two years -- aboveground and underwater. With some bridges, you are real lucky; in 30 years there have been virtually no repairs, and other bridges are in serious danger of collapsing. Those have been repaired. The 121 bridges that we've repaired are the ones that were in the most serious trouble. We still have 300 bridges that need some repair work, some of them need very serious repair work, and others, just a little bit.

We believe that if we spend \$12 million a year for the next five years, we'll have all of our bridges in decent shape to last another 10 or 15 years. But when I was a young engineer and we built these bridges, we thought they would last 100 years. But they didn't.

SENATOR ORECHIO: How long have you been with the Parkway, Mr. Conlon?

MR. CONLON: I've only been there five years, but I was a resident engineer on the Parkway in 1953. I built some of the bridges I'm now repairing.

SENATOR ORECHIO: Senator Van Wagner, you can wrap up here if you would. I think you want to make a statement or ask a question.

SENATOR VAN WAGNER: I don't know whether this is a wrap-up or what it is, but--

SENATOR ORECHIO: Well, we were suppose to quit at four, so it's not a wrap-up, it's a conclusion of today's activities at least, anyway.

SENATOR VAN WAGNER: I appreciate it, Mr. Chairman. I have to make a statement. I hope you understand the spirit in which I make this statement. And I think I make it Mr. Chairman, on behalf of the Committee as much as I make on--

SENATOR ORECHIO: It depends on what you say.

SENATOR VAN WAGNER: --as much as I make on my own behalf. Obviously, this whole process and the unfolding of this has become a rather celebrated issue since the second week of November, 1987. But, I have to say this, and I really feel that-- And I hope you take it in the right spirit.

On April 30, 1987, the Authority came before this Committee and in a forthright fashion apologized to the Committee, and I quote from the Asbury Park Press, if I might, "apologized to the Committee for poor communications." Since that time and since this announced toll increase we've been

able to review the minutes of meetings that were held over the past year, at least. And it comes -- at least to me after seeing these for the first time early this morning, and looking at the record of the meetings that we had in April -- that we had requested information continually during that meeting about any studies that you might have on the increase in tolls on the Garden State Parkway. We were told that there were no such studies. The Chairman, as a matter of fact, according to the record that's been given to me -- this is correct, Mr. Chairman -- wrote or issued a reminder on June 8, 1987, saying in effect, "Are any toll increases expected over the next five years? If so, please provide any reports and/or studies on this subject." And the answer that we got is that the '86 bond prospectus indicated problems, but no toll increase was necessary in 1987.

What I'm saying is I suspect that all of this discussion and everything that has come about comes about primarily as a result of the fact not that the Garden State Parkway Authority does not operate an excellent road -- I don't think there's a member here that does not acknowledge that; not that the Authority members are unpaid, committed, dedicated members of the public who are attempting to operate a toll road in a fashion that would make everyone in New Jersey happy and proud -- but under the scenario that took place, it appears to me -- and I think the members of the Committee in their questioning certainly made that point -- that in fact, we did not receive accurate information on the fact that there was, in fact, toll increases being discussed prior to April 1, 1987; and that in fact, in January, 1987 the Governor had in and of his actions, at least approved the proposal that would in effect, at least increase barrier toll ramps for which I don't expect there's any turning back of the clock at this point if--

MR. JOHNSON: I think you are referring to a ramp toll increase.

SENATOR VAN WAGNER: Ramp toll increases. I'm sorry, I said barrier toll ramp. Ramp toll increases. I'm sorry. And I don't know what the answer is. You know, it's an institutional issue, obviously, and it's a question, I think that has to be put forth as to you and us, or we and you, will continue to take criticism from the public over these kinds of issues. There's no question that you've documented your need -- the expansion of the toll road. I understand totally what Mr. Conlon has said. We've had discussions. You've been very candid about the change in the nature of the road.

But do you see, I mean, can you understand what my concern is in terms of dealing with this kind of an issue? I'm asking you rhetorically, do you see, Director?

MR. ZILOCCHI: Yes, sir.

SENATOR VAN WAGNER: It's very difficult for us. I mean, obviously, no one on the Authority takes pleasure in talking about toll increases any more than any member of this Committee takes pleasure in talking about tax increases. I was surprised to hear Senator Gagliano talk about it today. No one likes to talk about it. Senator Rand doesn't like to talk about it. But we're faced with a very serious dilemma here in terms of how we deal with this whole situation at this point institutionally.

I mean, I realize that, and I take heed of Mr. Johnson's concern and the rating agencies' concerns about not discussing matters that could become politically sensitive prior to having to have to do those things. But then, if I might say Mr. Johnson, what happens is that if you don't do that up-front, after the fact they become politically sensitive and put otherwise reasonable people in a position where they have to be unreasonable, or appear to be unreasonable.

So, I have to say, Mr. Chairman if I might, that the issue goes beyond really the facts of the Garden State Parkway, I believe. It goes beyond that. We in the Legislature serve

the public, and the public expects us to provide some oversight to the actions of every authority in this State. This hearing is not going to resolve the institutional question. I realize that. But, we've got to come together and come up with a way of communicating more directly with the public -- the paying public, the people who have to pay the bill -- which is all of us and in a manner in which we earn, if you will, or at least reassure them that their trust and confidence is well placed in us as well as the authorities which we represent. And that they expect, to operate their road. And I just wanted to make that point clear so that you are aware of what my own consternation was over this proceeding and what I think is certainly on the minds of many members of the Committee.

Again, we don't have any questions about the conduct and the operation of the roadway. I don't think anybody does. But the issues that have been raised here and the chronology of issues that have occurred have created a great deal of concern among the public. I think that over the course of time in January as you conduct your public hearings, that we were all going to, unfortunately, find that out. Thank you Mr. Chairman.

SENATOR ORECHIO: Just to supplement what Senator Van Wagner just summarized with respect to his view of this whole issue of the toll increase and the impact on the public and what their perception of the agency is as well as the Legislature in general: I think basically the public and I guess some legislators perceive the maneuverings and the deliberations on behalf of the Authority and the way the increase was planned somewhat in a clandestine manner.

I recognize Mr. Johnson's concern about the bond -- the credit rating of the State, as well as the issue being one that if aired before the election, the impact on whether or not there be merit to the proposal of the law because it may be concluded by some that if a particular party or if there's a political impact, that maybe this, indirectly, would reflect on

the proposal that you are making and certainly then the matter wouldn't be really evaluated in its true light and would be given the merit -- the consideration -- that it should.

But I basically think that when you have a responsibility under the law to carry out a program and complete projects in the interest of the public, I think dealing in an atmosphere of candor with us and the public in general, I think in the final analysis in the long run, is probably beneficial to the overall effectiveness of the Authority as well as the credibility of the Authority with respect to the voters and the citizens of the State who, as Senator Van Wagner said, are the ultimate users who have to pay.

I also recognize myself, no citizen if asked if they want to pay more on taxes, want to pay more in tolls to use the highway or Turnpike or whichever authority that we're talking about, is going to concluded yes, of course. Nobody wants to pay more. However, I think you, no doubt, and you've explained somewhat the detail of why the need-- I understand the safety, I understand the improvements that are necessary for the rehabilitation of bridges, and why the program. But I guess the question really that, no doubt, will probably be answered better when we get through the capital improvement program next meeting, as to the extent and the dimension of the program which, you know is on its face, is \$507 million and probably will be maybe closer to \$800 million by the time we're through here.

So, I think in a sense I'm echoing Senator Van Wagner's concerns as well as some of the other members of the Committee who-- Unfortunately, the whole issue here has been obscured by the Open Public Meeting Act and whether the Governor knew, and whether or not you met in accordance of the law. Really the nub of the issue is whether or not we need the toll increase, and secondly to what degree?

So unless Senator McNamara has anything to add, or Senator Rand, as a matter of fact, as an explanation, to you in response to a question that was asked earlier about Commissioner Gluck being present at a meeting, I think Mr. Fox had an answer for it before, and maybe Mr. Fox, if you would reiterate that answer for Senator Rand's benefit so that he could go home somewhat peaceful and happy tonight to back the candidate?

MR. FOX: I thank you for the opportunity. Apparently Senator Rand, there was a reference to Mr. Zilocchi's staff having talked to the DOT and who else was it?

MR. JOHNSON: It was the Governor's office.

SENATOR RAND: And also Hazel Gluck. I don't have my minutes before me--

MR. JOHNSON: It's October 30, '86.

SENATOR RAND: --but it mentions Hazel Gluck in there.

MR. FOX: As far as those minutes, I don't think there's mention to Commissioner Gluck.

MR. JOHNSON: (speaks away from mike) The references were--

SENATOR RAND: Cape May to the southern end there is referenced to Commissioner Gluck.

MR. FOX: What this one was that Zilocchi reported that the staff had provided information to the Governor's office on the DOT. We kept looking at it, because it just didn't make sense. I'm sure what the record of the DOT (inaudible) the Department of Treasury. The Treasury was just a bad usage of "DOT," but because we have to report to the both the Governor and to the Treasurer, in that case that's-- (inaudible)

SENATOR RAND: I understand that. And I thank you. Mr. Chairman I thank you very much for the clarification. Now let me add to that. Wouldn't it be prudent to have involved the Department of Transportation in this overall planning process? And wouldn't it have been prudent to discuss the

rebuilding program with the Department of the Transportation? And wouldn't it have been prudent to certainly interweave and intertwine the total transportation system in this State, rather than, very frankly, the New Jersey Highway Authority going off one way, the Turnpike going off one way, the Expressway going off another way? And we'll have a bill tomorrow that will take care of that.

MR. ZILOCCHI: I know you shouldn't have started this. I've heard-- Senator--

SENATOR RAND: It appears to me-- You know, we're fighting over there for a Transportation Trust Fund that we can't seem to get the hang of it. And I just came from two and a half hours of meetings. It would seem to me that we are so fragmented in this State that it's really pathetic. If we're frustrated in our efforts, here are some of the examples. I was surprised when I read the DOT -- thinking of the Department of Treasury -- because my constant cry is that we don't get involved, that we're not involved in there, that we're not consulted on the planning, but we're only consulted on those specifics that apply to us but nothing else. Well, evidently all the authorities of this State are islands unto themselves. I disagree with that.

And Mr. Zilocchi, let me say this to you. You opened up today -- and I've got to tell you that -- that what you provided-- And again I'm not here to debate, very frankly. I came to listen more today than anything else rather than be critical, and to ask some questions. That's really my spot. You were kind enough to give me a briefing on this. I'm trying to fathom if you need the money to do what you have to do. I understand very definitely the upkeep of the road and the engineering report. But you are there for the largess of New Jersey, not for the largess of the Highway Authority. They don't give to New Jersey; New Jersey gives to them. And if you take all the credit that you have done -- economics stimulus

and so forth and so on-- You're there just because the Legislature created you. So, your answer will, even though the law doesn't allow that right now, and maybe that's one of the things that we ought to amend, that when we created you, we only allowed the Governor to have oversight rather than the Legislature-- You're there because the State of New Jersey at that time thought that an authority was much better than weaving it into the fabric of their own Department of Transportation. That was how many years ago -- 37 years ago, if I recall?

MR. ZILOCCHI: Thirty-five, sir.

SENATOR RAND: Thirty-five years ago, which is not really meant as a criticism, but I do think that the Department of Transportation ought to be involved in your planning. We are a small state, and your road certainly has some impact on our roads, and visa versa. If you are jammed up, you are jammed up because our auxiliary roads are bringing them into your highway. And if you are jammed up, you're right, they are going to find auxiliary roads on our highway system and we're going to be impacted by that.

So, there ought to be a mutual interest of certainly letting one hand know what the other hand is doing. By the way, those thoughts are not because you raised the tolls. I didn't come up with these ideas because of what happened in the last two or three weeks. These are thoughts that I've developed over serving some eight years in the Legislature and having something to do with transportation. Unless we begin to converge our efforts in the total solution of the overall problems, this is what we're going to have. Two billion dollars spent here with some questions, \$570 million, and I see it's up to \$844 million, spent here.

And of course, I do question the inflationary factor. Our bond is to the lowest amount that we've had in I don't know how many years. Six percent or so? Your bond people would

know that. And I think that all your building people grab a hold of inflation as a factor which is really negligible these days. But be that as it may, if it isn't negligible, it's only because we're giving out so much work that there aren't enough contractors to do the work, so they're upping the amount. I want to tell you that. And that disturbs me.

But it seems to me that there would be more of an effort to really intertwine the various arms of this State rather than go by it by yourself. And if I have any criticism to make, it's that the Authority doesn't stand -- and I'm not being just critical of the Highway Authority, Mrs. Stanley; I don't want you to take any umbrage -- that it's just the Highway Authority, because I will say the same thing to the Turnpike, and I'll say the same thing to the Expressway Authority. They're all part of a little state, a small state whose demographics are really impacted by a tremendous amount of traffic, a tremendous amount of people, a big commuter state, a byway state, and unless we put our act together totally, you know, we're not going to get anywhere.

I wanted to bring up one other subject. I know you took over-- How many miles was it that you took over?

MR. ZILOCCHI: Twenty miles.

SENATOR RAND: Twenty miles. You are not precluded if the Federal legislation goes through -- and I don't know if it will go through -- from putting on tolls on those roads? If the Federal legislation goes through, which says that you can take old roads, recapture them and then make them toll roads, you will then have -- and I want this panel to know -- you will then have the ability to put toll roads on those roads that you have taken over.

MR. ZILOCCHI: That presently is being tried in seven states on a trial basis. You're absolutely right.

SENATOR RAND: And I supported that, by the way. So, I'm not against you, because on the National Congress of State

Legislators, we supported that -- that those states have a right to take over those roads that have been built with Federal money. But you do have the potential of getting more, if the Federal laws allow that. Is that correct?

MR. ZILOCCHI: So, does DOT. DOT, in essence, could go into the toll road business, if that Federal law allows it to, goes through, Senator.

SENATOR RAND: Only if the Legislature lets them. We don't have that privilege with you. But maybe we'll recapture that.

MR. ZILOCCHI: Yeah, Senator, I was going to say that, but the attorney just advises me that with the Union/Middlesex section we also have a Case Amendment which is a Federal law that states that in that section we could never put up a toll unless we build parallel roads that are toll free.

SENATOR RAND: But if that legislation goes through in Washington, that will--

MR. ZILOCCHI: Senator, if I may, and I think I testified before your Committee this summer, I believe transportation is everyone's business. I firmly believe in that. Our bridge rehabilitation program, if you want to know the truth, came about in working with DOT because of Federal funding that they were looking for, which required all bridges throughout the whole state to be inspected and rehabilitated if necessary, and DOT approached us. And maybe we should have known this on our own. DOT approached us and said, "You have to help us, because your bridges, although you don't receive the Federal funding, your bridges are part of the New Jersey State system." That came about in communication with DOT.

A lot of our projects are in communication with DOT. The 440 Interchange -- and I could mention a few -- but we are in communication with DOT constantly. Even with the improvements that we are planning on the formal so-called State-owned sections, we are working with DOT looking at what

plans that they have, what their expertise was, what their involvement was, and how we could pick it up from there? So, we do have it. In fact, DOT is presently reviewing in detail our capital improvement program and we're awaiting their recommendations and their judgment on it, too.

SENATOR RAND: I was just hoping they might have done that six or eight months ago. But again, I thank you Mr. Zilocchi, and again, my remarks are not directed as criticism.

MR. ZILOCCHI: I know, sir.

SENATOR RAND: That's not the purpose here. I'm sitting here to really learn as much as I can.

SENATOR ORECHIO: Senator Rand, I don't know whether or not all of your remarks are going to be accepted with glee, especially from the Essex and Union legislators. When you talk about tolls that might be available to be implemented on the Federal roads.

SENATOR RAND: No, no. I only wanted you to know that that's a potential--

SENATOR ORECHIO: We're aware of that.

SENATOR RAND: Oh, okay. That's all. I don't want anybody to think that there are free roads, and nothing can happen; it's sacrosanct. Maybe this legislation ought to make it that way.

MR. ZILOCCHI: But Senator, although you referred to it and rightfully so to the State-owned sections, that Federal legislation refers to every State road throughout the whole State.

SENATOR ORECHIO: Thank you. What I want to do is thank you for coming. We'll expect you back. Secondly, we do have some questions that we may want answered if you would be cooperative with the staff. We'd like a copy of Mr. Conlon's statement, if you will. And those in the public who didn't get an opportunity to speak, at our next meeting, you'll have the first opportunity to speak after the Committee and members of

the Senate have concluded their remarks and the Authority has made its presentation. Thank you very much for coming. The meeting is adjourned.

(HEARING CONCLUDED)

APPENDIX

New Jersey Highway Authority

Briefing Book
for the
GARDEN STATE PARKWAY



Office of the Commissioners New Jersey Highway Authority

EXECUTIVE OFFICES • WOODBRIDGE, NEW JERSEY, 07095 • (201) 442-8600

Garden State Parkway
Garden State Arts Center

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Executive Director

CHAIRMAN'S MESSAGE

November 13, 1987

On November 19, 1987, the New Jersey Highway Authority Commissioners must propose an increase in the basic 25 cent toll structure and the use of a discounted car token on the Garden State Parkway, effective in April 1988. This increase and discounted token will be first-time events in the roadway's 33-year history.

Since its beginnings, the Authority has annually reviewed its financial position and has been able -- even through the inflationary 1970s -- to meet its fiscal responsibilities solely through toll revenues (and the sales of bonds) without raising its basic toll structure.

Now, however, the time has come when such an increase simply can no longer be deferred. A vital and necessary \$570 million capital improvement program is underway -- with additional capital funding still required. Net revenues under the present toll structure show a projected decline. But perhaps even more important, the Authority's obligations to its bondholders must be met. And the Authority's standing with the bond rating agencies cannot be allowed to falter if it is to raise new monies to fund the needed improvements.

The Garden State Parkway must, regrettably, join its sister toll facilities across the nation in raising its rates.

This Briefing Book has been prepared by New Jersey Highway Authority consultants and staff to give the interested reader both the broader picture and the details of what has prompted this move. Any further questions will, of course, be answered by appropriate staff personnel.


Judith H. Stanley
Chairman

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HISTORY

1. How old is the Garden State Parkway? How was it originally financed?

General Parkway and freeway legislation was first enacted in New Jersey in 1945. In 1946, the State began construction on what was then called the 'Route 4 Parkway' in Clark Township, Union County, paid for by New Jersey taxpayers' funds.

In 1950, the first section of this Parkway opened between Cranford and Woodbridge. During the next three years, the Parkway route was extended north into Union County and short sections were completed in Ocean and Cape May Counties. A four-mile piece from Cranford to Route 22, Union, which opened to traffic in July 1953, constituted the last Parkway section to be constructed by the State and with State (and in two of these sections, Federal) funds. These sections of the Parkway, totaling approximately 19 miles, were owned and maintained by the New Jersey Department of Transportation (NJDOT) until July 1, 1987 when they were officially turned over to New Jersey Highway Authority ownership for the sum of \$1.

By 1952 it became apparent that the goal of a major roadway running north and south along the State's eastern coastline would be years away due mainly to lack of funds. Accordingly, Governor Alfred E. Driscoll in his January 1952 Annual Message to the Legislature declared the need for an "Authority to finish the Garden State Parkway (as it was by then called) promptly as a revenue-financed facility."

On April 2 and 4 that same year, the State Legislature passed bills creating the New Jersey Highway Authority to acquire, construct, maintain, repair and operate "highway projects." It specifically authorized one -- "The Garden State Parkway" -- but also spelled out that the Authority is empowered to undertake additional highway projects "at such other locations as shall be established by law." Thus, the reason the Highway Authority is not called -- as might otherwise be expected -- "The Garden State Parkway Authority."

The Legislature authorized the Authority to complete construction of the Garden State Parkway from Paramus to Cape May as a self-supporting toll road and provided for a State guarantee of \$285 million of voter-approved Authority bonds to be repaid over a 35-year period. Another \$20 million in bonds were sold in 1954 and an additional \$25 million in bonds in 1956, the latter in order to finance a feeder road to the New York State Thruway. Thus, the 173-mile Parkway was originally constructed at a total cost of \$330 million, not including the sections which were built by the state government.

While the Parkway's official opening celebration was held on October 23, 1954, it did not start full operation until July 1, 1955 when the Parkway -- then a 163-mile project -- truly began. (The additional 9.5-mile feeder to the New York State Thruway opened on July 3, 1957.)

2. What kinds of subsequent financing has the Parkway undergone?

In 1962, \$40.0 million in bonds were issued, mainly to finance improvements in the Parkway's Essex County section. *

In 1971, the Parkway issued \$80.0 million in bonds for improvements that included the two-lane inner roadway in each direction from the Asbury Park to the Raritan Plaza.

In 1978, the Parkway issued \$82.6 million in bonds to refinance the 1971 bond issue and eliminate some of the restrictive covenants contained in the 1971 Bond Resolution.

In 1984, the Parkway issued \$275.5 million in bonds in order to repay certain outstanding debt and to finance capital improvements. This bonding also eliminated restrictive covenants affecting the Authority's future ability to borrow and assisted the State of New Jersey in implementing the State Transportation Trust Fund by permitting the Authority to donate \$10 million per year to the Trust Fund for 20 years.

In 1986, the Authority issued \$340.0 million in bonds in order to repay \$195.3 million in 1984 bonds, save \$17.6 million in interest costs, fund \$74.4 million in capital improvements, and provide for other needs.

In 1987, the Parkway arranged for a short-term loan commitment of \$80.0 million to cover on-going construction costs; as of November 1987, \$50.0 million had been drawn against the total amount. This borrowing has allowed the Parkway to continue its capital improvement program.

3. How has the Parkway historically improved New Jersey's transportation system?

When the Parkway was originally designed, travel time from Paterson to Atlantic City was estimated at 3.9 hours over then existing routes. With the Parkway's opening, the same trip could be made on the Parkway, at a 50 MPH speed limit, in 2.5 hours.

In its early years, the Parkway's role as a commuter road was overshadowed by its role as a recreational road to the State's seashore areas. In 1956, for example, monthly traffic in July was nearly three times as great as in February; although Parkway traffic still reaches its highest volume in the summer months (1.6 times as large as earlier in the year), the traffic difference between winter and summer has narrowed.

From its early years the Parkway has had a substantial impact on the economic development of adjacent areas, many of which had previously been cut off from easy transportation access. Resort business along the Jersey shore, for example, which had been undergoing a decline, quickly bounced back in mid-50's.

4. Does the Authority participate in improving roadways other than the Garden State Parkway? Does it help counties and municipalities in any special way?

Yes. The 173-mile Parkway runs through ten New Jersey counties and directly affects 51 local municipalities along its corridor.

The New Jersey Highway Authority coordinates with other agencies responsible for traffic, transit and transportation matters by cooperation with the New Jersey Department of Transportation (NJDOT) and with county and local governments.

Recent examples of coordination with the NJDOT include:

- * the reconstruction of Interchange 100 in order to widen the Parkway in the vicinity of State Routes 33 and 66 near Asbury Park which has given the NJDOT the opportunity to improve those routes' intersection;

- * improvements at Interchange 105 which includes the intersection of State Route 36 with Hope Road in Eatontown and Tinton Falls, a project involving particularly close cooperation because of the proximity of Route 18 whose 'missing link' is presently being constructed in this area; and

- * the development of plans for a new ramp at Union to carry northbound traffic to westbound Interstate 78 and southbound traffic to eastbound Interstate 78, greatly benefiting municipalities in the area by removing Parkway and Interstate traffic from local roads.

Examples of recent efforts to assist local and county governments, many at their request, include:

- * construction of a new Interchange 171 at Glen Road and modification of the existing Interchange 172 with Grand Avenue in Bergen County;
- * improvements to Interchange 109, Newman Springs Road in Monmouth County, including a new southbound entrance ramp to reduce local congestion;
- * installation of a temporary traffic light on Lacey Road at Interchange 74 in Ocean County;
- * the construction of new bridges to carry the Parkway over State Route 88 and all county roads between Interchanges 88 and 91 to accommodate Ocean County's plans to widen these roads;
- * improvements at Interchange 36 with Tilton Road in Atlantic County; and
- * improvement of the intersections between Mileposts 7-11 in Cape May County to reduce the present high congestion at the traffic lights in the summer (these grade crossings will be completely eliminated in the future).

More than 30 projects which will benefit the Parkway's adjacent counties and municipalities are either under study, in the engineering design stage or already under construction by the Highway Authority as of November 1987.

5. What has been the Parkway's traffic and revenue history?

Parkway traffic and toll revenue have increased every year of its history with the exception of 1974 and 1979, in both cases due to the gasoline shortage. The number of vehicles using the Parkway has increased nearly eightfold from 42 million in 1955 to 317.8 million in 1986 while the Authority's toll revenue has increased from \$9.3 million in 1955 to \$102.8 million in 1986, an increase of more than tenfold. The growth of operating expenses, however, has outpaced revenue increases. The jump in operating expenses from \$2.6 million in 1955 to \$70.5 million in 1986 is a 27-fold increase. The Authority has been hard-hit in recent years by increases in energy and insurance costs, construction and maintenance costs, State Police services and Authority personnel wages and salaries and the costs of all other materials/services which have risen substantially since the Parkway first opened for business in 1954.

As a result of the Authority's various capital improvement programs, the most ambitious being its present five-year plan, the Parkway presently ranges in size from four lanes in its southernmost section to ten lanes between Mileposts 102 and 123. North of this point there are a minimum of 12 lanes, continuing across the Driscoll Bridge to Interchange 127, followed by ten lanes to Interchange 129 and generally eight lanes north to Interchange 145. Thereafter, there are generally six lanes to Milepost 167, at which point the road drops back to four lanes until its terminus at Milepost 172.4.

Since the Parkway was designed to provide a park-like appearance wherever possible, a wide median area separates north and southbound traffic over 135 miles of the Parkway's 173-mile length.

TOLL PLAZAS

1. Why are new mainline barriers necessary?

Two new toll plazas will be built in addition to the existing 11 toll plazas. One will be located in Cape May County, most likely near Mileposts 4-6, and the other will be located in Atlantic County, most likely near Milepost 40.

These new toll plazas will spread the burden of toll revenue more evenly to all users of the Garden State Parkway. It will provide new revenue to maintain sections of the Parkway which previously relied on other toll sections to support them.

The proportion of toll revenue collected by toll barriers varies widely -- from less than 3% at the Cape May barrier to over 17% at the Union barrier and about 19% at the Raritan barrier.

2. When will they be built?

Construction on the new barriers will most likely begin in 1989 and be completed by 1991.

Vollmer Associates has projected that the new Cape May Milepost 4-6 Toll Barrier will produce \$1.1 million in revenue in 1991 and \$1.1 million in 1992 using the current toll schedule. They project that the new Atlantic County Toll Barrier will produce \$3.3 million in revenue in 1991 and \$3.5 million in 1992 using the current toll schedule.

3. Why weren't there toll plazas in these locations before?

Traffic in these areas has historically been relatively light compared to other sections of the Parkway and the capital improvement and maintenance requirements were not as demanding. However, the picture has changed; 20,000 vehicles presently use the Cape May section daily and 35,000 vehicles presently use the Atlantic County section daily.

4. New ramp toll plazas are also being planned. Where will they be located?

One will be located at Interchange 116 near the Garden State Arts Center. (Patrons visiting the Arts Center from the Parkway will not pay this interchange toll.) Another will be located at an expanded Interchange 74, affecting traffic entering and exiting from the north. A third will be located at Interchange 120. Construction on Interchanges 116 and 120 will begin in 1988. They will be completed in 1991. Interchange 74 will be completed by 1989.

These three new ramp toll plazas will be in addition to the existing 19 ramp toll areas now operated by the Authority.

TOLL INCREASE

1. Why is a toll increase necessary?

Since it first opened in 1954, the Garden State Parkway has not raised its basic 25 cent toll for cars at toll barriers. During that period, inflation has reduced the value of a quarter to 6.1 cents. The Authority has used increased traffic to generate increased toll revenue to pay for higher operating costs and capital improvements. However, the time of reckoning has at last arrived: the Garden State Parkway simply can no longer meet its bond obligations and continue its quality operation and improvement program without a toll rate increase.

There are several extenuating factors which make a toll increase necessary as well:

BOND COVENANTS: Under the bond covenants which the Garden State Parkway has with its bond holders, the Parkway must fix, charge and collect tolls for the use of the Parkway System as necessary to at least equal the Net Revenue Requirement for the year -- whichever is the greater of:

(1) the sum of Aggregate Debt Service on the Series 1986 Bonds, the remaining Outstanding Series 1984 Bonds and any other parity Bonds issues under the Resolution, amounts required to be deposited in the Junior Indebtedness Fund, Maintenance Reserve Fund and State Payment Fund or

(2) 1.20 times the Aggregate Debt Service on the Series 1986 Bonds, the remaining Outstanding Series 1984 Bonds and any other parity Bonds outstanding under the Resolution for such year.

Toll revenue for the Garden State Parkway has increased from \$16.0 million in 1958 to \$102.8 million in 1986. Revenue projections prepared by Vollmer Associates, the Authority's traffic consultants, show that in 1988, toll revenue will increase to \$113.6 million and total New Jersey Highway Authority revenue will hit \$137.5 million. However, total expenses, including reserve requirements, state payment and debt service, will hit \$149.2 million for a revenue shortfall of \$11.7 million. Without a toll increase, that revenue shortfall for the years 1988 through 1992 would total \$115.3 million.

As traffic has increased, the personnel necessary to collect tolls, patrol the roadway, maintain the roadway and service areas has also increased. For example, in 1952-54, the Authority paid \$10-12 per ton for asphalt pavement; today, it pays \$35-40 per ton. The Authority now pays \$300-400 a cubic yard for structural concrete -- compared to \$50-60 per cubic yard in 1952-54. In 1954, the Authority paid 18 cents per pound for structural steel; today, the Authority pays \$1.00 per pound. The cost of reinforcing steel has gone from 16.5 cents in 1954 to 70 cents today. In addition, as the roadway grows older, the bridges, buildings, and road surfaces require an increasing maintenance effort.

BOND RATINGS: Two nationally-known ratings services -- Standard & Poors and Moody's -- have made it clear that a toll increase should be authorized over the next several months or the Authority's AA-/A1 bond ratings will be jeopardized. Further, lowering the rating would also adversely affect State debt. The New Jersey Highway Authority's bond rating is the highest among toll roads in the nation.

CONGESTION: Several sections of the Parkway already operate at or over their traffic capacity. For example, although the section between the Asbury Park Toll Plaza and the Raritan Toll Plaza is generally below capacity, there are occasional problems at the Driscoll Bridge. The Parkway between the Toms River and Asbury Park Toll Plazas has traffic near or at or over the established capacity. There is congestion often on the section

between Milepost 80 and 83 in Ocean County, and growing traffic in Cape May and Atlantic Counties will eventually lead to congestion in these areas as well.

The Authority will continue to develop comprehensive plans to deal with these problems and related safety factors. The Authority currently is in the midst of an unprecedented five-year, \$570 million capital improvement program. The proposed toll increase will simply allow the Authority to keep pace with and obtain funds for these planned improvements.

BONDS: The Authority's short-term \$80.0 million loan commitment, of which \$50.0 million has been drawn down in 1987, matures in July 1988. In order to repay those notes, a new bond issue must be in place by June 1988. In order for those bonds to be sold and to be repaid, a toll increase will have to be in effect, for reasons stated above.

Without new bonds to both repay the short-term financing and provide for capital improvements, the Authority's safety, widening and repair programs would come to a halt.

ECONOMIC DEVELOPMENT: The Authority has conducted a comprehensive survey of land use trends along the Parkway corridor, ranging from 1.5-2.0 miles along either side of the roadway. The study, conducted by Vollmer Associates, concluded that 120,000 additional daily trips -- presently about 1 million trips take place daily -- will be generated by development now being built or planned. The development includes:

- * 61,400 dwelling units of residential housing
- * 20.5 million square feet of office space
- * 6 million square of retail space
- * 1.2 million square feet of industrial space
- * 1.2 million square feet of warehouse space
- * 16,500 hotel rooms
- * 400,000 square feet of hospital development, plus nursing homes
- * 800 recreation units

According to the traffic study which Vollmer Associates completed, based on this survey, growth and traffic demand on the Parkway south of the Raritan River will increase by 25 to 50% by 1990. In the northern section of the highway, growth will range between 10 and 20% over the 1986-1990 time period.

Without capital improvements, by 1990 virtually all of the Parkway between Mileposts 30 and 156 -- a 126 mile stretch -- will be operating at or above capacity. The worst conditions will be between Interchanges 80-82 just south of the Toms River Toll Plaza, where traffic demands would be at 216% of capacity. By 1995, traffic demand in that section would be at 245% of capacity. By the year 2000, that section's demands would be at 284% of capacity, and virtually the entire Parkway would be at or above capacity.

2. What portion of tolls are currently collected through exact change lanes?

Nearly 70% of toll revenues are currently collected in exact change lanes. An even higher percentage of toll revenue is collected in exact change lanes during commuter rush hours.

3. How much will revenues for the Parkway rise in future years without an increase?

A reasonable and conservative estimate for toll revenue, according to Vollmer Associates, would be 4% per year. The Authority currently averages a 5.3% increase in 1987 revenue over 1986 figures.

4. Are tolls for trucks going up? How much?

There will be a revised schedule for truck tolls based on the number of axles; truck tolls will be based on 50 cents per axle -- e.g., \$1.50 for a three-axle vehicle; \$2.00 for a four-axle vehicle; \$2.50 for a five-axle vehicle and \$3.00 for a six-axle vehicle. All two-axle trucks (weighing less than 3.5 tons) will pay 50 cents. A two-axle, six-tire truck will pay \$1.00.

It is reasonable that trucks should pay in accordance with their size. The larger and heavier the truck, the more real damage the vehicle inflicts on the roadway. When the Parkway opened, trucks were smaller and not a major Parkway user. Now, with the development of South Jersey -- assisted by the Parkway-- truck traffic is growing.

Although the new system will insure that trucks pay their fair share of Parkway tolls, trucks have never been a large source of Parkway revenue. Currently, passenger cars produce over 97% of Parkway revenue -- compared to only 63.8% of revenue on the New Jersey Turnpike.

Campers will be charged tolls at rates similar to a passenger car. They will be charged at the passenger car rate of \$.25 per axle up to a maximum of \$1.25.

Truck traffic is prohibited north of Interchange 105, Eatontown. (Prior to 1980, truck traffic had been prohibited north of Interchange 98 near Lakewood but the limit was extended to allow trucks to connect with Route 18 and Interstate 95 at Interchange 105.)

5. Are tolls for buses going up?

Yes. Bus tolls will go up to \$3.00 with discounted tokens costing \$1.00 available to regularly scheduled commuter buses and tokens costing \$2.00 available for all other buses. As now is the case, buses will pay the same rates at ramps as at mainline toll plazas. The commuter bus discount helps encourage use of mass transit by keeping down the costs of bus travel. The cost per passenger for commuter buses will be approximately 2 cents for each barrier the bus passes through.

The Parkway continues to have a strong commitment to promoting commuter bus use. It provides more than 2600 free commuter parking spaces at 15 different locations, mostly in the central-northern areas of the Parkway. The north overflow lot at the Garden State Arts Center in Holmdel is, for example, used for commuter parking in cooperation with New Jersey Transit. The size of the Allwood Road parking lot in Passaic County will be doubled at the request of New Jersey Transit.

School buses will continue to pay rates equivalent to passenger cars.

6. How long has this increase been under consideration? Why now?

In the April 1986 official bond statement, it was stated: "Based on current projections of revenues and expenses, Net Revenues are not anticipated to provide moneys sufficient to meet the Toll Covenant under the Resolution beginning in 1987, and additional revenues will be required from then through 1991, the end of the period covered by the projections....No determination has been made by the Authority at this time as to the source of additional revenues." The 1986 official bond statement also included a report by Vollmer Associates which analyzed the impact on revenue of various toll increases .

As a result, the mechanics of a toll increase have been the subject of intensive study in order to determine how much money is needed to be raised, and how tolls could be raised without slowing traffic and with the minimum possible impact on regular Parkway users.

Traffic and revenue studies prepared by Vollmer Associates for the 1986 official statement showed that the Authority faced revenue and capacity problems in the future. Subsequent traffic and revenue studies prepared by Vollmer Associates this summer and fall have detailed the severity of the revenue shortfall faced by the Parkway. In addition, the Authority has relied on the advice of its financial advisors, Government Finance Associates, Inc.

The Authority has postponed a toll increase as long as it was financially possible to do so. The need for a toll increase has recently become imminently necessary. The Authority no longer has any options.

7. When will the toll increase go into effect?

It is anticipated that the toll increase will become effective on April 2, 1988.

8. What will happen on the former State-owned sections of the Parkway? Will there be tolls there too?

The so-called State sections include a 13-mile stretch in Union-Middlesex Counties between U.S. Rt. 22 and U.S. Rt. 9; a two-mile section in Toms River where Rt. 9 and the Garden State Parkway occupy the same roadway; and a four-mile section in Cape May County.

On July 1, 1987, the Authority took over responsibility for operating and maintaining the previously State-owned sections of the Parkway. Previously, they were maintained by the New Jersey Department of Transportation which constructed them. Under current Federal statute, the Authority may not collect tolls on the Union-Middlesex section which was constructed with Federal funds without repaying those costs and building a parallel toll-free roadway.

9. What happened to the old bond money?

Proceeds from previous financing have been used for capital improvements. The Authority's \$570 million, five-year capital improvement program is on-going. The improvements fall into five broad categories: (1) safety; (2) widening or expansion of facilities which increase traffic capacity (3) rehabilitation and extraordinary maintenance; (4) improvements to appearance; and (5) service improvements not affecting capacity of the roadway. However, the \$570 million authorized in 1986 provides for only a portion of the Garden State Parkway's capital improvement needs.

10. Why did the Authority decide to seek short-term financing?

The Authority approved in September 1987 an \$80 million short-term financing program until a longer-range capital improvement program could be adopted and financed. The maturity date of these notes is July 15, 1988. A new long-range financing plan must be in operation before July 1988 in order to repay these loans.

11. What's wrong with a lower bond rating?

A reduction from a AA to an A bond rating on \$100 million of 30-year bonds would result in an increase in interest costs of \$4.0-7.0 million on future bonds, depending on the interest rates in effect. It could also affect the bond rating of the State.

12. How does the Parkway compare to the New Jersey Turnpike in cost of tolls? To other toll roads?

The average cost per mile to drive on the Garden State Parkway is 1.6 cents. The average for many other toll roads is 3 cents per mile. So, even if the cost per mile were doubled, it would still be comparable with other toll roads.

The cost of a full-length trip on the New Jersey Turnpike has increased from \$1.75 in 1954 to \$2.70 today, an increase of 54%. The Turnpike last year proposed a 40% increase in tolls, which it later postponed until possibly 1989. The toll increase was to cover a \$2 billion widening project in the northern sections of the Turnpike -- considered necessary because traffic volume on the Turnpike has been increasing 7.0%-8.5% in recent years. The Turnpike sold bonds for the project in November 1986. (The proposed increase would raise Turnpike car tolls for the entire length of the Turnpike to about \$3.80. It would be the third time that Turnpike tolls have been increased since the road was opened in 1951. They were first raised in 1975 by 20% for cars and in 1980 by another 20% for cars.)

The toll cost at the Egg Harbor Toll Plaza on the Atlantic City Expressway went from \$.75 in 1964 to \$1.00 today. The Pleasantville Toll Plaza toll went from \$.15 in 1964 to \$.25 today.

The cost of passage on the Throgs Neck Bridge, Whitestone Bridge and Triboro Bridge went from \$.25 in 1954 to \$2.00 today -- an increase of 700%.

The cost of a Hudson River crossing on the bridge and tunnels operated by the Port Authority of New York and New Jersey has gone from \$1.00 in 1954 to \$3.00, an increase of 200%.*

The cost of the Tappan Zee bridge, a Hudson River crossing operated by the New York State Thruway Authority has gone from \$1.00 in 1954 to \$1.50 today.*

The tolls on the New York State Thruway section between Suffern and Albany went from \$1.50 in 1954 to \$2.85 today, an increase of 90%. The tolls on the Thruway from Suffern to Buffalo went from \$4.90 to \$9.40, an increase of 92%.

The tolls on the Pennsylvania Turnpike between Philadelphia and Pittsburgh went from \$3.25 in 1954 to \$9.30 today -- an increase of 186%.

The tolls on the Delaware Turnpike went from \$.25 in 1963 to \$1.00 today, an increase of 300%.

* Rates adjusted to present one-way toll collection.

13. How does the cost per mile on the Parkway compare with the New Jersey Turnpike and other toll roads?

The current cost per mile for a passenger car on the Garden State Parkway is 1.6 cents per mile. That compares with a present 2.3 cents per mile for the New Jersey

Turnpike and 2.3 cents per mile on the Atlantic City Expressway.

After the proposed toll increase, the cost per mile based on the use of discounted tokens on the Garden State Parkway would rise to 2.2 cents per mile. For those not using tokens, the cost would be 3.2 cents per mile -- which is still close to the national average for toll roads.

For example, the Pennsylvania Turnpike costs 3.0 cents per mile. The Massachusetts Turnpike costs 2.9 cents per mile. The John F. Kennedy Memorial Highway in Maryland costs 2.4 cents per mile. The J.F.K Memorial Highway in Delaware costs 8.9 cents per mile. The Tri-State Tollway in Illinois costs 3.1 cents per mile and the Northwest Tollway in Illinois costs 2.6 cents per mile. The New York State Thruway costs 2.4 cents per mile on its main line.

14. Won't the original cost of the Parkway be paid off in 1988?

The original Parkway Bonds were scheduled to be paid off in 1988. Funds were set aside in 1984 to retire all of the original Parkway bonds as of January 1985. Other bonds are still outstanding.

15. Won't a toll increase decrease traffic?

A toll increase may deter some drivers from using the Garden State Parkway and slow the rate of traffic growth, but it will not decrease overall traffic given projected volume increases.

A 1986 survey by the Roper Organization of 1035 licensed drivers found that "in four cases in which toll roads compete with free highways or local roads, 88% of licensed drivers say that, in at least one of the four cases, they'd opt for the toll road....Whether the distance be short or long, whether it be a question of voting to authorize a toll road or actually using such a thoroughfare, the results are essentially the same: most licensed drivers prefer to pay for convenience than to endure difficult -- even if free -- roads."

16. Will the toll increase subsidize losses at the Arts Center?

No, the Arts Center does not operate at a deficit.

17. Who authorizes the toll increase?

The toll increase is mandated by the bond covenants in order to generate sufficient funds to meet the Authority's Net Operating Revenue and Debt service requirements. The increase must be voted by the Commissioners of the New Jersey Highway Authority with the approval of the Governor, and either the State Treasurer or Comptroller. The increase must then be submitted to the Office of Administrative Law for publication and comment.

18. How can the public register its opinions?

There will be two public hearings on the toll increase in December 1987 at which time the public will have an opportunity to comment. The hearings will be held in different geographic locations to afford maximum public opportunity to participate. The Authority will respond to the public's comments in a report to the Office of Administrative

Law. The final stage of the approval process is publication of the toll increase by the Office of Administrative Law.

19. Why not charge more to travel in peak commuter hours?

It cannot be done because of the large percentage of tolls collected in exact change lanes. The goal of the toll increase is to raise sufficient revenue to meet operating costs and debt service requirements -- as well as to fund capital improvement needs. It would be impractical to charge two different rates -- especially since it would defeat the purpose of the discount tokens to speed traffic.

According to Vollmer Associates, the Authority's traffic consultants, "While differential prices are used for airline tickets, resort hotels, movie theaters, the Golden Gate Bridge in San Francisco (double tolls on Fridays and Saturdays), and elsewhere, they would be difficult to implement and operate on the Parkway and would be considered inequitable by the motorists with the higher tolls."

20. When was the last time that tolls were increased on the Garden State Parkway?

The original passenger vehicle tolls of 25 cents at the toll barriers have never been increased on the Garden State Parkway. They have been 25 cents since the first toll was collected on January 15, 1954. Tolls for passenger vehicles at ramp areas have always ranged from 10 cents to 25 cents and have occasionally been increased slightly in certain cases.

21. How has traffic on the Parkway increased?

The first sections of the Garden State Parkway were opened in 1954. In its first full year of operation in 1955, 42 million vehicles used the highway. In 1986, 318 million vehicles traveled the highway, a figure seven and a half times over 1955. The number of vehicle miles increased from 0.8 billion in 1955 to 4.7 billion in 1986 -- an increase of five and a half times over 1955.

22. Why can't tolls on the Garden State Parkway be eliminated -- as they were recently on the Connecticut Turnpike? Would eliminating toll plazas increase safety on the Parkway?

The Garden State Parkway is not an Interstate road and receives no Federal or State funds for construction or maintenance. The Connecticut Turnpike is an Interstate and is eligible for Federal assistance.

The Garden State Parkway was built originally with \$330 million in bonds (not including funding for the State sections). The last of original bonds were retired in 1985. The Parkway was designed to incorporate as many safety features as were then known. That is one reason that the north and southbound lanes are separated by a wide median. Its toll plazas are similarly designed with motorist safety in mind. Furthermore, the Garden State Parkway does not have the truck safety problem that the Connecticut Turnpike had. In fact, the Parkway's original designers considered barriers as additional periodic safety alerts.

In the last few years, Connecticut accelerated its repayment of its \$459 million in bonds that were floated in the 1950s to finance the Turnpike's construction. [The move to remove tolls was accelerated by an accident in 1983 when a tractor-trailer truck rammed

into cars at the Stratford toll barrier, killing several people.] The last toll was eliminated in October 1986 -- part of a program of eliminating all tolls on Connecticut roads.

The Connecticut Turnpike is now eligible for so-called 4-R funds (from gasoline taxes) from the Federal government for rehabilitation and restoration of the highway. The Turnpike will receive only about \$9 million in Federal assistance under this program compared to the \$55 million a year that tolls brought in. Furthermore, the elimination of tolls on the Connecticut Turnpike brought a quick increase in traffic and congestion on the Turnpike at rates ranging from 12 to 23% -- with truck traffic increasing by 40% or more.

In other words, elimination of tolls has resulted in a paradox of sorts for the Connecticut Turnpike -- increased traffic (especially by out-of-state truckers) and decreased maintenance funds.

Finally, it should be noted that the Federal Department of Transportation has recently submitted legislation to Congress that would permit all states to use toll financing in conjunction with Federal-aid highway funds. The bill would permit construction of non-Interstate new toll highways and reconstruction of existing toll highways with 35% Federal participation. Furthermore, non-toll highways could be converted to toll facilities under the proposal, when reconstruction will expand capacity and change the character of the highways to fully controlled access highways.

23. What effect has the State Transportation Trust Fund had on the need for a toll increase?

By the end of 1987, the New Jersey Highway Authority will have transferred \$34.8 million to the State Transportation Trust Fund. However, even without the impact of the Authority's annual \$10 million transfer to State highway improvement, a toll increase would be inevitable because of increases in operating costs, debt service and essential capital improvements to the Parkway which could not be met within the current toll structure.

24. Will there be money for an increase in the State Transportation Trust Fund as a result of the toll increase?

Any increase to the Fund would decrease the amount of money available for Parkway capital improvements and could eventually bring Parkway net revenues below the requirements of the bond rating agencies. The additional toll revenue generated by the toll increase by itself will provide only a fraction of the funds needed for the capital improvements planned in the current five-year plan. Most of the required funds for improvements will come from bond sale proceeds.

For example, a \$10 million increase to the Fund would effectively wipe out 2.5 cents of the toll increase.

25. Why can't the Garden State Parkway switch to a ticket system like the New Jersey Turnpike?

Unlike the Turnpike which has only 28 interchanges, the Garden State Parkway has 89 interchanges (with 305 exits and entrances).

In the 48 mile section of the Garden State Parkway north of the Raritan River, there is an interchange about every 1.2 miles. It should also be noted that the Garden State

Parkway is longer (173 miles) than the Turnpike (118 miles). Of those Parkway interchanges, only 19 have ramp toll plazas. According to Vollmer Associates, the Authority's traffic consultant, "It would be prohibitively expensive, and in many locations physically impossible, for the Authority to convert its road into a closed, ticket system for toll plazas would be required at all entrance and exit ramps, and these plazas would have to be manned."

In some areas, the Parkway is the most convenient available roadway for commuters, recreational and occasional use. A ticket system would be impractical. The New York State Thruway, for example, uses a ticket system in areas where interchanges are relatively far apart and uses main line barrier toll plazas in more densely populated areas such as Rockland and Westchester Counties to permit the frequent spacing of toll-free interchange ramps.

The New Jersey Turnpike does not serve the same kind of local traffic that the Garden State Parkway does. (The average Parkway ride is 15 miles in length.) A larger proportion of the commuters the Turnpike serves ends up in New York City or Philadelphia.

26. How can a motorist obtain more information about the toll increase?

The Authority has set up a special hot-line number (800-332-TOLL) in order to field motorists' questions about the toll increase and new tokens.

The Authority will also be conducting a public information campaign through a variety of media including newspaper advertisements and brochures to be handed out by toll collectors.

In addition, public hearings will be held on the toll increase at which time the public will receive information and be provided with an opportunity to comment.

27. Will tolls ever be eliminated on the Garden State Parkway?

One of the virtues of toll facilities is that only the user pays to use them. When tolls are eliminated, tax money must support these facilities, and every taxpayer -- user or not -- now shares the burden.

Given the financing structure of the Garden State Parkway and its independent financial status, it is unlikely that tolls can be eliminated. The Parkway does not benefit from any source of tax support -- Federal, State or local. Money for maintenance of and capital improvements to the Parkway must come from either tolls or bonds. Toll revenue alone cannot support the needed improvements to the Parkway. On the other hand, toll revenue must be high enough to support repayment of bond interest and principal on schedule and meet other obligations under the bond covenants. Without toll revenue, the Parkway infrastructure would quickly deteriorate and capital improvements would be impossible. The Parkway, of which New Jersey residents are justly proud, would become unsafe and unsightly.

Furthermore, sufficient toll revenue must be generated by the Parkway to pay for maintenance and improvements on the 11% of the Parkway's length which was formerly State-owned and operated.

28. Why will expenses on the Parkway rise so rapidly in 1988?

Projected increases in the Authority's operating budget are due to the following main factors:

* An increase of 44 troopers in the number of State Police personnel assigned to patrol the Parkway is a result of increased traffic volume, construction work, and an overall effort to increase the level of safety to the motoring public. This will cost an additional \$2 million in 1988.

* The increased cost of medical insurance for all eligible employees will result in nearly doubling the Authority's medical budget. The 1988 increase is approximately \$3 million.

* The projected cost of staffing and equipping additional branch and plaza lanes now under construction will cost approximately \$2.8 million in 1988.

* The toll rate increase will lead to staffing and equipment costs for additional barriers, ramps and lanes. The increased costs for 1988 total \$600,000.

* The takeover of the previously State-owned sections of the Garden State Parkway means additional costs in manpower, materials, maintenance contracts and equipment costs. The 1988 increase for this item is \$1 million.

29. Did the Authority examine other toll alternatives to a 50 cent toll and a 35 cent token?

Yes, the Authority and its traffic consultant, Vollmer Associates, examined more than a dozen toll and token configurations, including removing tolls in one direction and charging a higher toll in the other direction. None of these alternatives proved workable.

30. Do the service area generate income?

Yes. In addition to assisting Parkway users, the service stations and restaurants operated by licensees are an important source of revenue for the Authority. Concession revenue has increased from \$768,000 in 1958 to \$ 6.0 million in 1986. In recent years, the trend has been for a steadily rising proportion of that income to come from restaurants rather than service stations. In 1986, 58% of concession revenue came from restaurants.

TOKENS

1. Why are tokens necessary ?

Discounted tokens are being planned because they will provide faster and cheaper trips for regular users. It is the policy of the New Jersey Highway Authority to facilitate automobile traffic which is safe, as fast as possible under allowable speed limits, and as inexpensive as possible for regular users.

Non-discounted tokens have been used on the Garden State Parkway since 1981 -- primarily by salespersons who wish to reduce the number of business receipts they collect (since they receive only one receipt per package of 40 tokens) and by individuals who value the convenience of being able to purchase tokens at the attended lanes rather than get quarters at a bank.

Currently, almost 70% of the toll revenue collected on the Garden State Parkway is through the exact change lanes. Single-coin operation -- with a quarter or token -- significantly speeds traffic through toll areas.

Presently, only 4% of toll revenue is collected with token sales. The Authority's goal is to encourage token sales with discounted tokens and eventually to collect at least 50% of its toll revenue in this manner.

2. Will there be a change in the present token?

Yes. The Authority is in the process of developing a new token design.

The newly designed tokens will be available for purchase at the current price of 25 cents (40 for \$10.00), most probably starting in January 1988. The old tokens, which have been in use since 1981, will be valid through March 1988.

3. What are the motorist's real benefits in using the new token?

In addition to saving time, as described more fully below, the motorist will also save 15 cents on each trip through a barrier toll plaza.

When the toll rate increase becomes effective, the Authority wants to avoid a situation where two or more coins (totaling 50 cents) are necessary to pass through an automatic toll lane. Three coins would increase the average length of an exact change lane transaction. (Currently, the average attended toll transaction lasts 8 seconds during peak commuter hours; the exact change lane transaction lasts 4 seconds.)

4. Tokens are presently allowed in both attended and exact change toll lanes. Will this policy continue?

No. The Authority wants to maximize use of tokens in exact change lanes in order to speed traffic. If tokens were acceptable in attended lanes, motorists would have less incentive to use faster exact change lanes.

5. Then, what will happen to a motorist who tries to give a token to a toll collector?

Temporarily, the token will be accepted for passage through an attended lane. The

motorist will be advised of the proper use of a token in the future. After a certain cut-off date, tokens will not be accepted in attended lanes.

6. Parkway toll plaza rates will increase to 50 cents with a discounted token costing 35 cents. Parkway ramp toll rates will increase to a uniform 25 cents. Why not a discounted token at the ramps as well?

Discounted ramp tokens would not be practical or provide a major financial incentive for use. Two different tokens for the same Parkway was not deemed to be a reasonable alternative.

7. Where can patrons purchase the new tokens?

Tokens can be purchased at attended lanes, at Parkway headquarters in Woodbridge, and at other additional locations to be determined. There are preliminary plans to sell tokens at Parkway service areas, too, and the Authority is developing other plans to market tokens at locations convenient to regular patrons.

8. Why not buy vending machines to distribute tokens?

The Authority is actively investigating the use of vending machines.

9. Will there be signs on the Parkway to notify motorists of the new token policies?

The Authority has launched a comprehensive series of steps to insure that motorists are advised of all changes in token policy through signs, hand-outs at the toll plazas, advertising and other means.

10. Can the new tokens, as well as the present tokens, be used prior to the toll rate increase?

Yes. The Authority will continue to sell its present token -- which will be replaced by the new token (mostly likely in January 1988) -- in packages of 40 tokens for \$10.00 prior to the April 2, 1988 toll rate increase. However, prior to that date, some restrictions on the quantity of each purchase may be imposed. The real financial incentive to use tokens will come on April 2 when the barrier toll price increases to 50 cents for drivers who do not have tokens, and to only 35 cents for those who do have them..

11. Will the token package be the same as before the rate increase?

Yes. After April 2, 1988, discounted tokens will still be sold in rolls of 40 at the new rate of \$14.00 per roll.

12. Have any of the new tokens been ordered?

Yes. The Authority has placed an initial order with Roger Williams Mint for the newly designed tokens. Delivery is expected in January 1988.

CAPITAL IMPROVEMENTS

1. What is the status of the \$570 million capital improvement program that the Authority approved in March 1986?

Those projects are currently underway although all the money for those projects has not yet been raised. Approximately \$200 million of work has already been completed. And, there are open commitments on contracts awarded but not yet expended of \$91 million (as of October 31, 1987). However, because of substantial rising costs and the inclusion of additional and unexpected projects, the remaining projects, when complete, will cost \$563 million. They include:

	<u>Estimated Cost (in millions)</u>
<u>Safety, Rehabilitation, Extraordinary Maintenance:</u>	
* Drainage/resurfacing: MP 0 to 17	\$13
* Pavement resurfacing, continuing program	47
* Roadway settlement repairs: Cheesequake and Matawan	14
* Rehabilitation, Great Egg Harbor Bridges	2
* Bridge rehabilitation, continuing program	56
* Lane control system, traffic signals/signs (Union-Essex)	12
* Clean-up contaminated soil at service areas	4
* Bridge deck ice sensor	4
* Toll booth rehabilitation, interior and exterior	<u>24</u>
Total	176
 <u>Necessary Expansion Projects</u>	
* Mainline, Interchanges 88 to 91	42
* Mainline, Interchanges 83 to 88, design only	3
* Mainline, Inner roadway, MP 117-126, design only	1
* Improvement of Interchange 74	16
* Service roads for interchanges Interchanges 88 to 91, design only	19
* Interchange 105 (Rt. 36/Hope Road intersection)	8
* Interchange 114	13
* Interchange 116	7
* Interchange 120	49
* Interchange 127 (State Rt. 440/I-287) -	9
* Complete Interchange 142 (I-78)	41
* Expand Toms River Toll Plaza toll lanes	10
* Expand Barnegat & New Gretna Toll Plazas toll lanes	5
* Atlantic County improvements and barrier	56
* Cape May County improvements and barrier	24
* Expand Essex Toll Plaza toll lanes	17
* Expand Toll Plaza toll lanes	<u>11</u>
Total	331
 <u>Service Improvements Not Affecting Capacity</u>	
* Atlantic City service area improvements	14
* Vaux Hall Service Area improvements	8
* Central warehouse and print shop improvement	3
* Commuter parking lot expansion	5
* Rehabilitation of 5 maintenance yards	<u>22</u>
Total	52

Improvement of Appearance

* Landscaping service areas, toll plazas and interchanges	4
Total	4
<u>Grand Total</u>	<u>\$563</u>

All of the safety and rehabilitation projects listed above should be completed by the end of 1992. In the expansion projects, however, the three projects listed as "design only" show only the amount estimated to be spent through 1992. If these three projects are carried to completion, the total for expansion projects alone would be \$523 million.

In addition, \$81 million in capital improvement projects is planned for the Cape May, Toms River and Union/Middlesex sections which were not included in the March 1986 capital improvement program. These projects should be completed by 1992:

	<u>Estimated Cost</u> <u>(in millions)</u>
* At-grade intersection improvements between Interchanges 8 and 12	\$1
* Grade separation improvements between Interchanges 8 and 12	14
* Resurfacing between Interchanges 80 and 83	4
* Short-term improvements between Interchanges 129 and 140	34
* Expansion of maintenance yard in Union/Middlesex	9
* Long-term improvements, Toms River	<u>19</u>
Total	81

2. Why will capital improvements take so long?

Approximately three years of engineering, environmental studies and preparation precede actual construction.

3. What will happen to development without these improvements?

Without these projects, there will be a deterioration in safety standards, in infrastructure, in maintenance quality, in traffic flow and in the aesthetic appearance of the Parkway.

4. Can the Parkway get along without improvements?

No. Some improvements must be made simply to keep pace with deterioration of a facility that is now almost 35 years old. Roadway surfaces and bridge surfaces have only a limited life expectancy. As both the New York Thruway and Connecticut Turnpike discovered in the last three years, constant vigilance, inspections and expensive maintenance is the price that must be paid to avert the tragedy of a bridge collapse.

In addition, without expansion of the Parkway's capacity, motorists will experience continuing and worsening traffic congestion. Such slowdowns will not only cause inconvenience and delay, they will detrimentally affect the ability of New Jersey to continue economic expansion, particularly along the Parkway corridor.

5. How are small business, minority and women-owned businesses affected by the capital improvement program?

A fixed percentage of the work to be done will be allocated, where possible, to these enterprises.

6. How much bonding is the Authority projecting for future years?

Government Finance Associates, Inc., the New Jersey Highway Authority's financial advisors, has proposed a bond issue for June 1988 of \$232.9 million and a second bond issue for June 1991 of \$121.5 million. The 1988 bond issue would have annual debt service of approximately \$23 million and the 1991 bond issue annual debt service of approximately \$12 million.

This bonding is based on projections of revenues and expenses and the need for a level of net operating revenue of 4% as the excess above required operating revenues. The Authority expects that debt service coverage of 1.5 would maintain the Authority's bond rating. That ratio is well above the 1.2 ratio required by the Authority's bond covenant.

In addition to proceeds from the bond issue, with the toll increase the Authority would be able to utilize \$90.7 million in net operating revenue toward construction costs during the 1988-1992 period.

As a result of these operating revenues and bond revenues, the Authority should have, with its toll increase, approximately \$410 million available for new construction purposes over the next five years -- based on current market conditions.

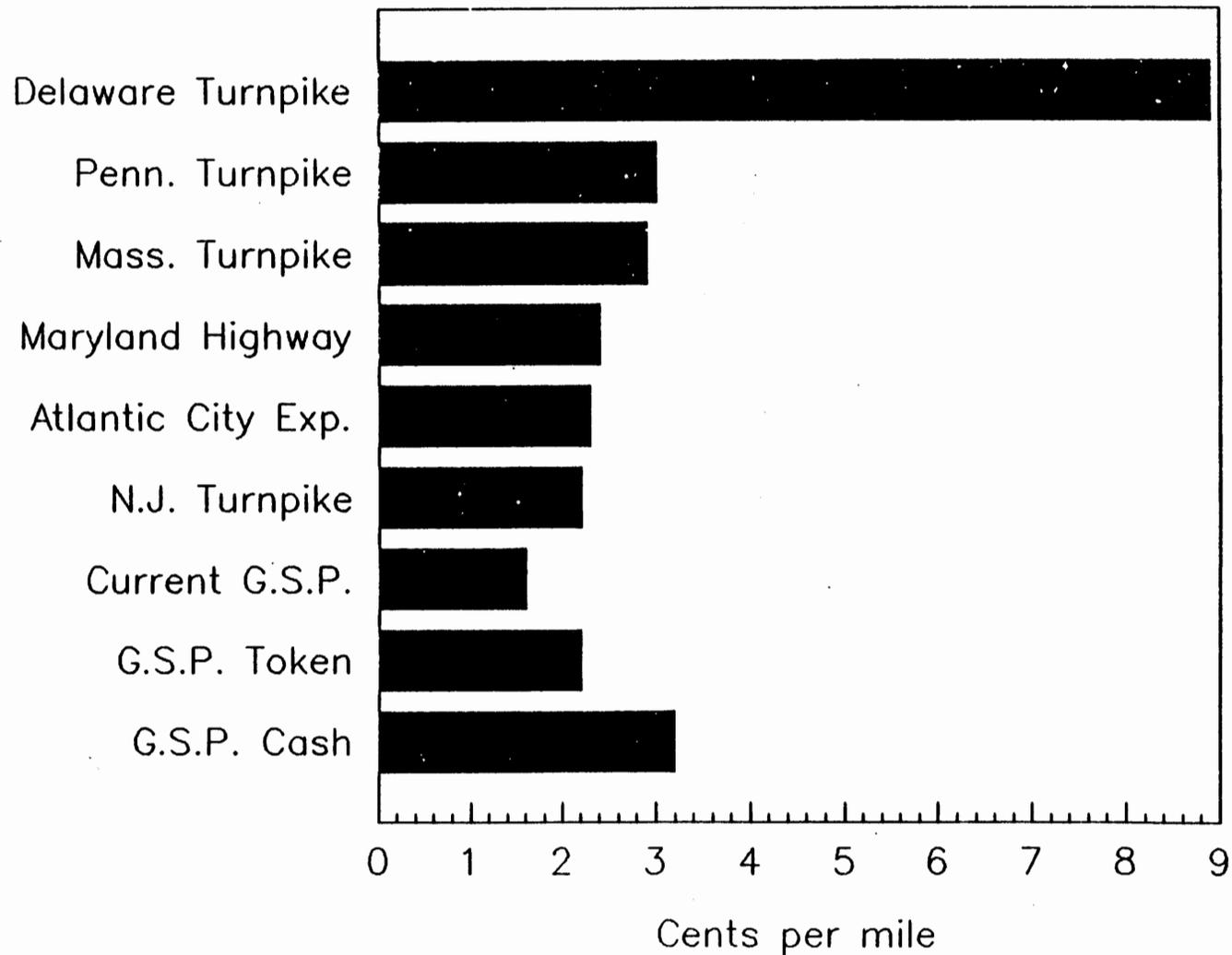
**GARDEN STATE PARKWAY
TOLL SCHEDULE
EFFECTIVE 2 APRIL 1988**

	<u>Barriers & Certain Toll Ramps (A)</u>	<u>All Other Toll Ramps</u>
Cars	\$.50 (B)	\$.25
Cars with 1-Axle Trailers, 2-Axle, 6-Tire Campers, or 3-Axle Campers	.75	.40
Cars with 2-Axle Trailers or 4-Axle Campers	1.00	.50
Cars with 3-Axle Trailers	1.25	.65
 Omnibuses	 3.00 (C)	 3.00(C)
 Heavy Trucks (D)		
2-Axle, 4-Tire Trucks, 3½ tons or more	.50	.25
2-Axle, 6-Tire Trucks	1.00	.50
3-Axle Trucks	1.50	.75
4-Axle Trucks	2.00	1.00
5-Axle Trucks	2.50	1.25
6-Axle Trucks	3.00	1.50
 Reduced Rate Tolls		
Passenger Cars	.35 (B)	None
Regularly Scheduled Buses (C)	1.00 (C)	1.00 (C)
All Other Buses (C)	2.00 (C)	2.00 (C)

- (A) Toll ramps with barrier toll rates: 159 Saddle Brook; 151 Watchung Avenue; 142 Union Ramp; 105 Eatontown; 30 Somers Point.
- (B) 35-cent car tokens available for use by cars in exact change lanes.
- (C) \$1.00 bus tokens available for use by regularly scheduled buses; \$2.00 bus tokens available for use by all other buses.
- (D) Heavy trucks prohibited north of Interchange 105 in Monmouth County.

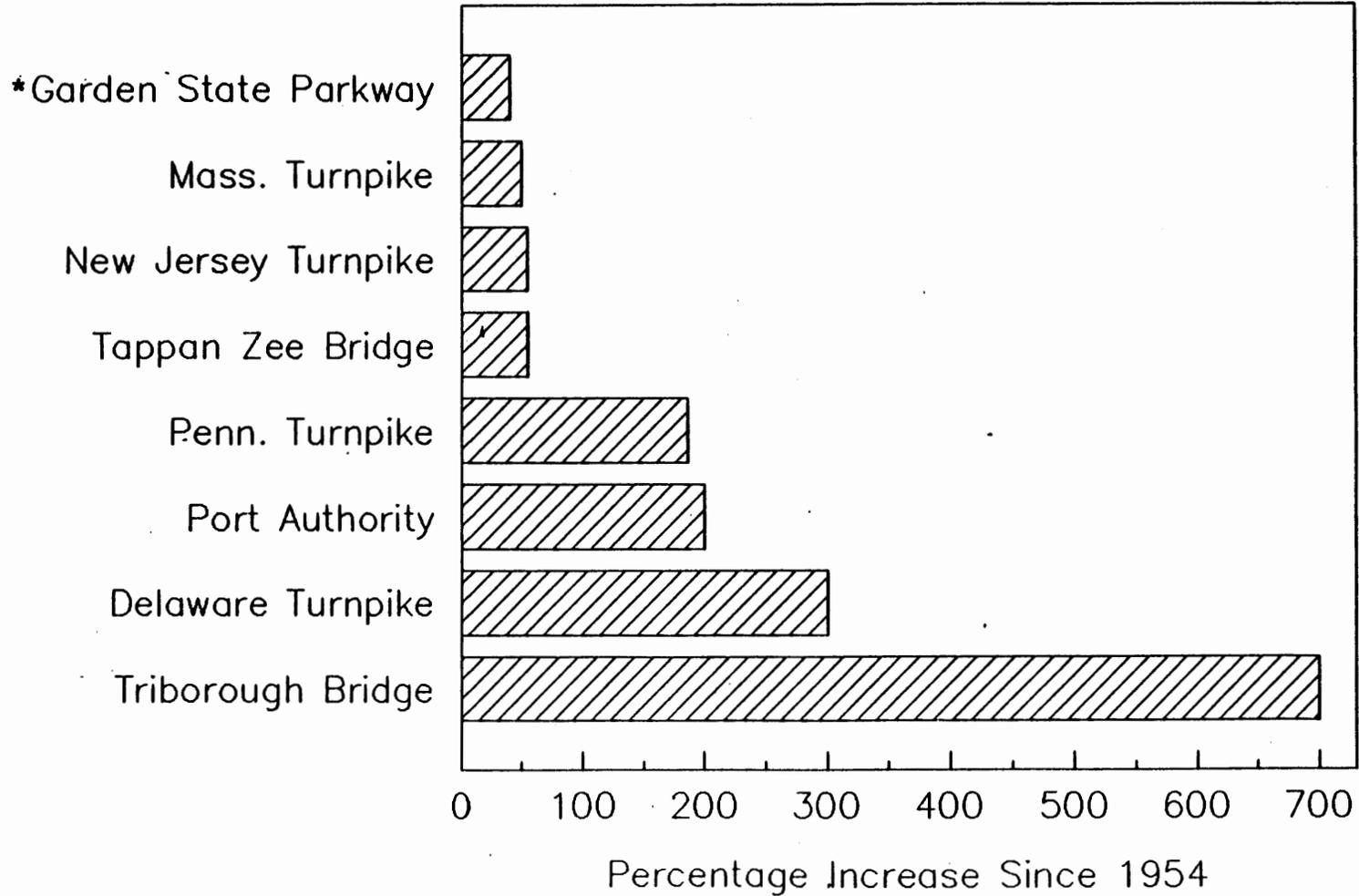
COMPARATIVE HIGHWAY TOLLS

(Garden State Parkway and other area toll roads)



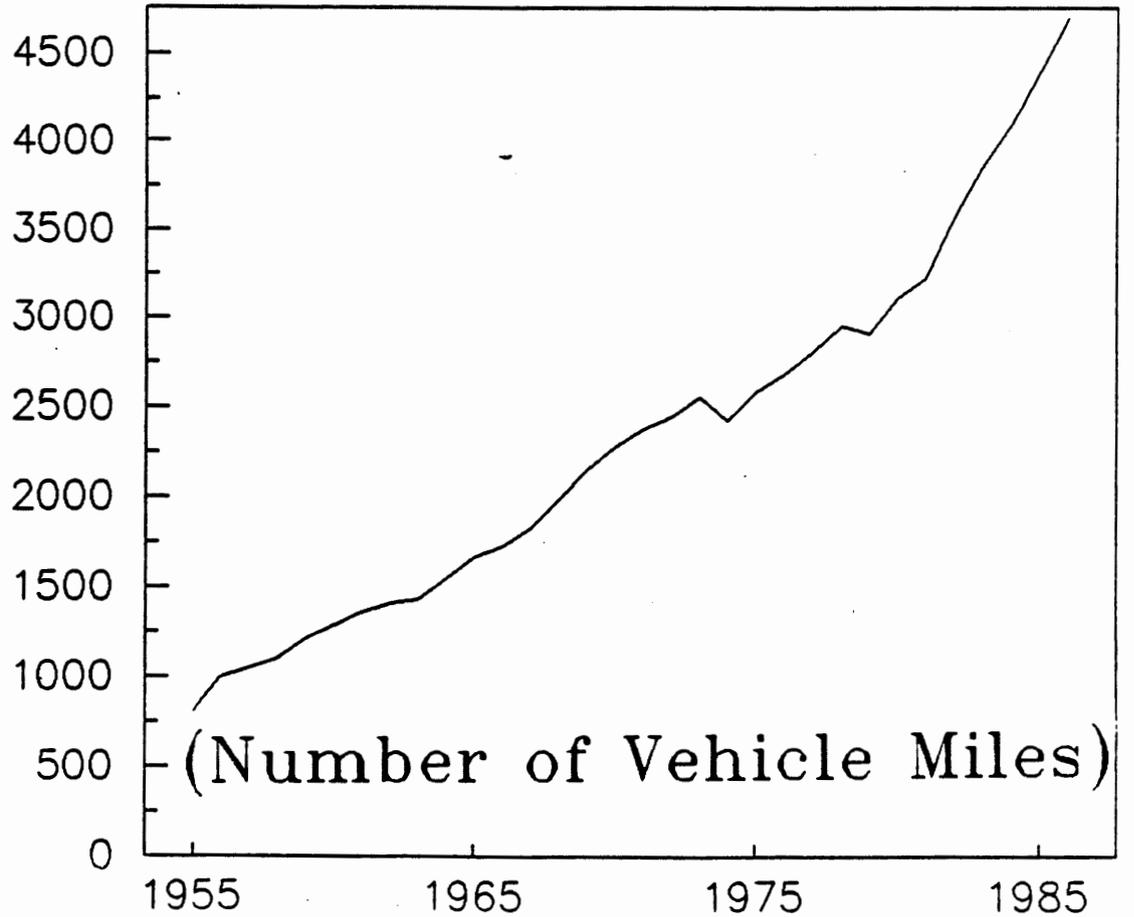
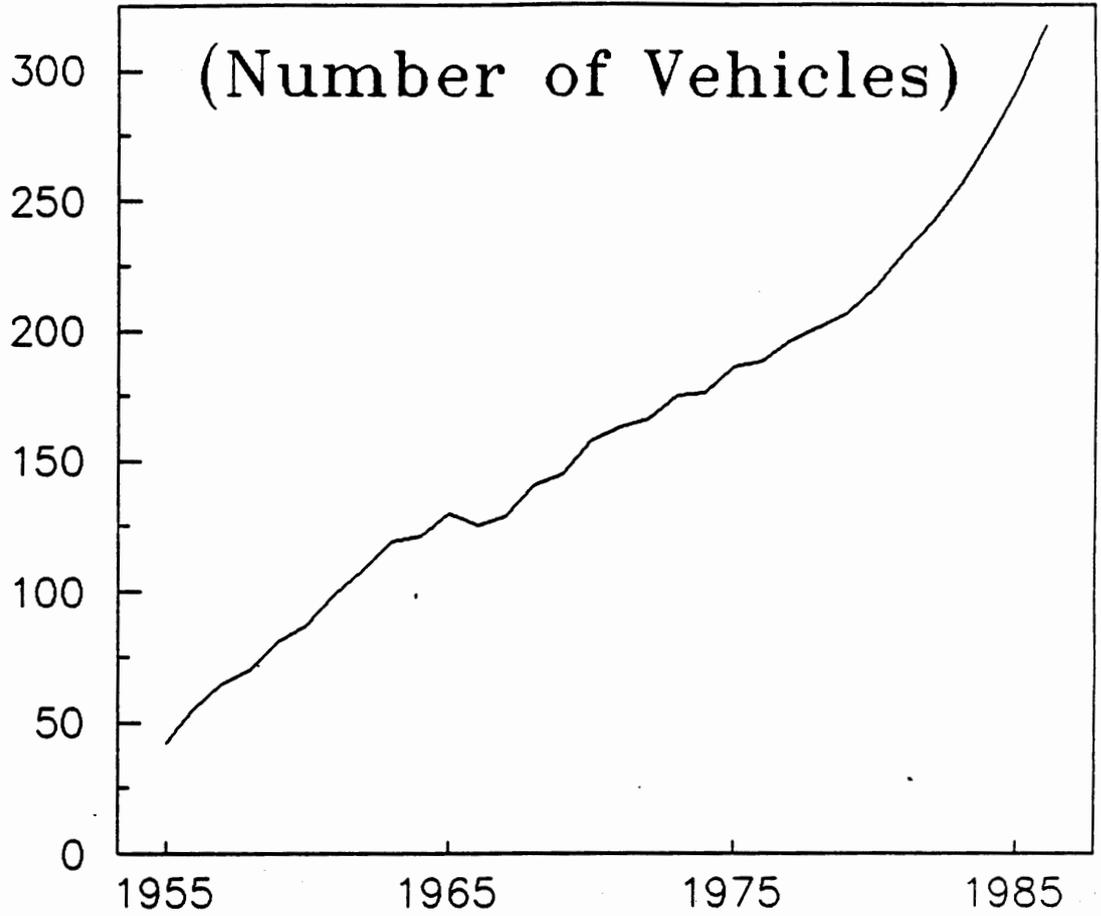
22
28x

TOLL INCREASE COMPARISONS - 1987 VS. 1954 (Based on 35 cent discounted token*)



29x
23

Millions



**New Jersey Highway Authority
Projected Operating Results (A)
Present Tolls**

Thousands of Dollars

	1985 <u>Actual</u>	1986 <u>Actual</u>	1987	1988	1989	1990	1991	1992
REVENUES								
Toll Revenues								
Barriers	\$ 78,570	\$ 83,968	\$ 87,920	\$ 92,080	\$ 93,960	\$ 97,380	\$ 104,160	\$ 108,470
Ramps	16,554	18,002	19,410	20,570	23,390	24,570	26,150	27,360
Central Office	764	779	860	900	940	980	1,020	1,060
Subtotal	<u>95,905 (B)</u>	<u>102,757 (B)</u>	<u>108,190</u>	<u>113,550</u>	<u>118,290</u>	<u>122,930</u>	<u>131,330</u>	<u>136,890</u>
Concession Revenues								
Restaurants	<u>3,140</u>	<u>3,511</u>	<u>3,780</u>	<u>4,030</u>	<u>4,290</u>	<u>4,550</u>	<u>4,830</u>	<u>5,120</u>
Service Stations	<u>2,476</u>	<u>2,519</u>	<u>2,940</u>	<u>3,110</u>	<u>3,240</u>	<u>3,380</u>	<u>3,520</u>	<u>3,660</u>
Subtotal	<u>5,616</u>	<u>6,030</u>	<u>6,720</u>	<u>7,140</u>	<u>7,530</u>	<u>7,930</u>	<u>8,350</u>	<u>8,780</u>
Garden State								
Arts Center (C)	5,842	7,499	9,050	9,200	9,300	9,400	9,500	9,600
Income on								
Investments (C)	7,819	7,431	6,600	6,600	6,600	6,600	6,600	6,600
Other (C)	<u>526</u>	<u>615</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>
Total Revenues	<u>115,708</u>	<u>124,332</u>	<u>131,510</u>	<u>137,440</u>	<u>142,670</u>	<u>147,810</u>	<u>156,730</u>	<u>162,820</u>
EXPENSES								
Operating Expenses (C)	63,633	70,528	81,300	102,706	113,493	124,383	138,414	151,470
Debt Service (C)	28,769	26,376	33,961	33,967	33,963	33,960	33,966	33,960
State Payment (C)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Reserve Requirement (C)	--	--	--	2,500	2,500	2,500	2,500	2,500
Total Expenses	<u>102,402</u>	<u>106,904</u>	<u>125,261</u>	<u>149,173</u>	<u>159,956</u>	<u>170,843</u>	<u>184,880</u>	<u>197,930</u>
REVENUES LESS EXPENSES	\$ 13,306	\$ 17,428	\$ 6,249	\$ (-11,733)	\$ (-17,286)	\$ (-23,033)	\$ (-28,150)	\$ (-35,110)

(A) Prepared by Vollmer Associates.

(B) After adjustments.

(C) Furnished by the Authority.

**New Jersey Highway Authority
Projected Operating Results (A)
Revised Tolls (B)**

Thousands of Dollars

	<u>1985 Actual</u>	<u>1986 Actual</u>	<u>1987</u>	<u>1988 (B)</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
REVENUES								
Toll Revenues								
Barriers	\$ 78,570	\$ 83,968	\$ 87,920	\$ 130,220	\$ 143,070	\$ 148,250	\$ 158,880	\$ 165,470
Ramps	16,554	18,002	19,410	32,160	39,320	41,260	43,740	45,730
Central Office	764	779	860	1,180	1,320	1,370	1,430	1,480
Subtotal	<u>95,905 (C)</u>	<u>102,757 (C)</u>	<u>108,190</u>	<u>163,560</u>	<u>183,710</u>	<u>190,880</u>	<u>204,050</u>	<u>212,680</u>
Concession Revenues								
Restaurants	3,140	3,511	3,780	4,030	4,290	4,550	4,830	5,120
Service Stations	2,476	2,519	2,940	3,110	3,240	3,380	3,520	3,660
Subtotal	<u>5,616</u>	<u>6,030</u>	<u>6,720</u>	<u>7,140</u>	<u>7,530</u>	<u>7,930</u>	<u>8,350</u>	<u>8,780</u>
Garden State Arts Center (D)	5,842	7,499	9,050	9,200	9,300	9,400	9,500	9,600
Income on Investments (E)	7,819	7,431	6,600	6,813	6,944	6,944	7,075	7,125
Other (D)	<u>526</u>	<u>615</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>	<u>950</u>
Total Revenues	<u>115,708</u>	<u>124,332</u>	<u>131,510</u>	<u>187,663</u>	<u>208,434</u>	<u>216,104</u>	<u>229,925</u>	<u>239,135</u>
EXPENSES								
Operating Expenses (D)	63,633	70,528	81,300	103,290	114,451	125,428	139,606	152,780
Debt Service (E)	28,769	26,376	33,961	46,269	56,962	56,958	63,383	68,956
State Payment (D)	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Reserve Requirement (D)	--	--	--	2,500	2,500	2,500	2,500	2,500
Total Expenses	<u>102,402</u>	<u>106,904</u>	<u>125,261</u>	<u>162,059</u>	<u>183,913</u>	<u>194,886</u>	<u>215,489</u>	<u>234,236</u>
REVENUES LESS EXPENSES	<u>\$ 13,306</u>	<u>\$ 17,428</u>	<u>\$ 6,249</u>	<u>\$ 25,604</u>	<u>\$ 24,521</u>	<u>\$ 21,218</u>	<u>\$ 14,436</u>	<u>\$ 4,899</u>

(A) Prepared by Vollmer Associates.

(B) Toll revision assumed effective 2 April 1988.

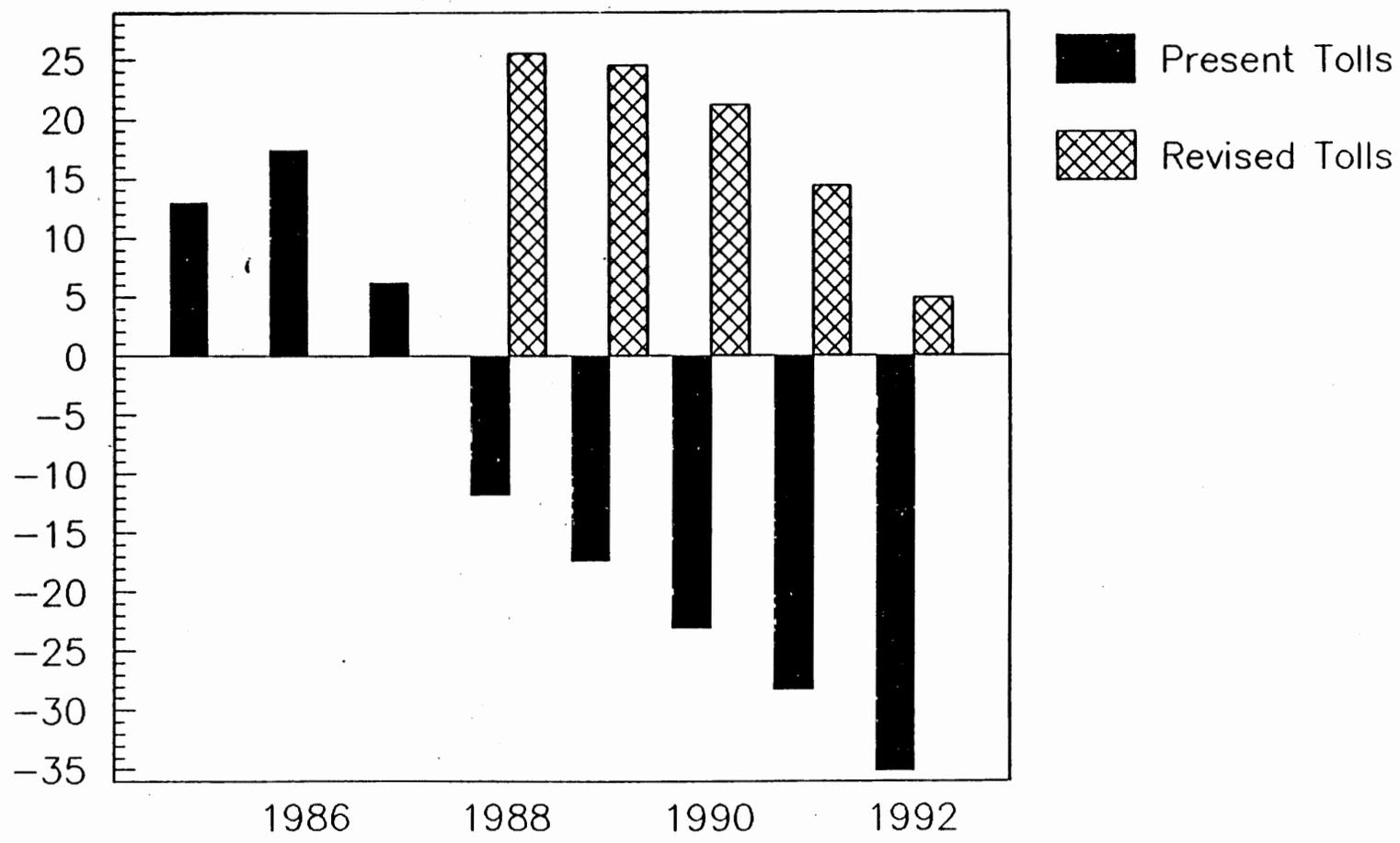
(C) After adjustments.

(D) Furnished by the Authority.

(E) Furnished by Government Finance Associates, Inc.

N.J. HIGHWAY AUTHORITY FINANCIAL PROJECTIONS (Revenues Less Expenses)

Millions of Dollars

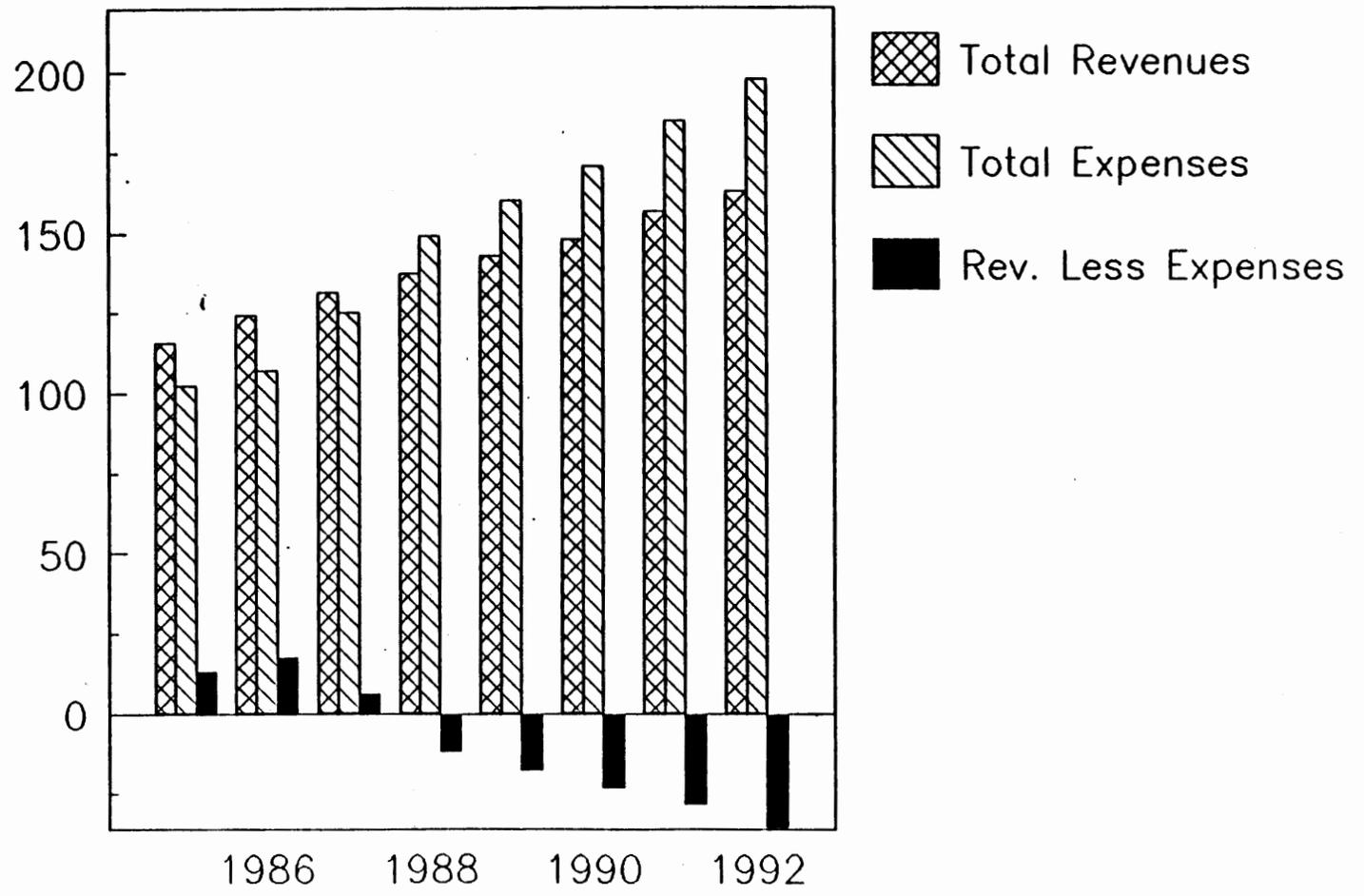


27 33X

N.J. HIGHWAY AUTHORITY FINANCIAL PROJECTIONS (Under Present Toll Schedules)

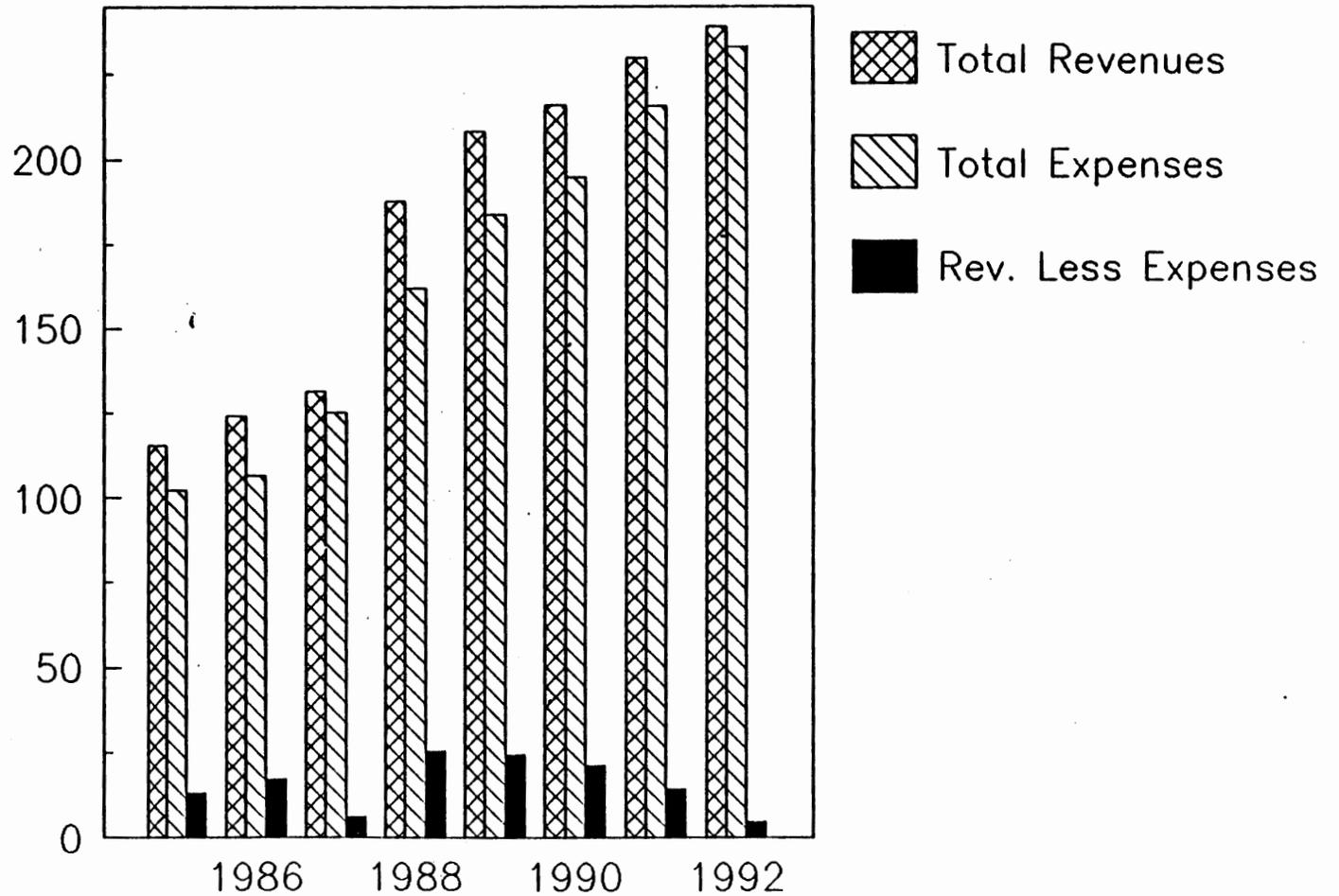
Millions of Dollars

28
34X



N.J. HIGHWAY AUTHORITY FINANCIAL PROJECTIONS (Under Revised Toll Schedules)*

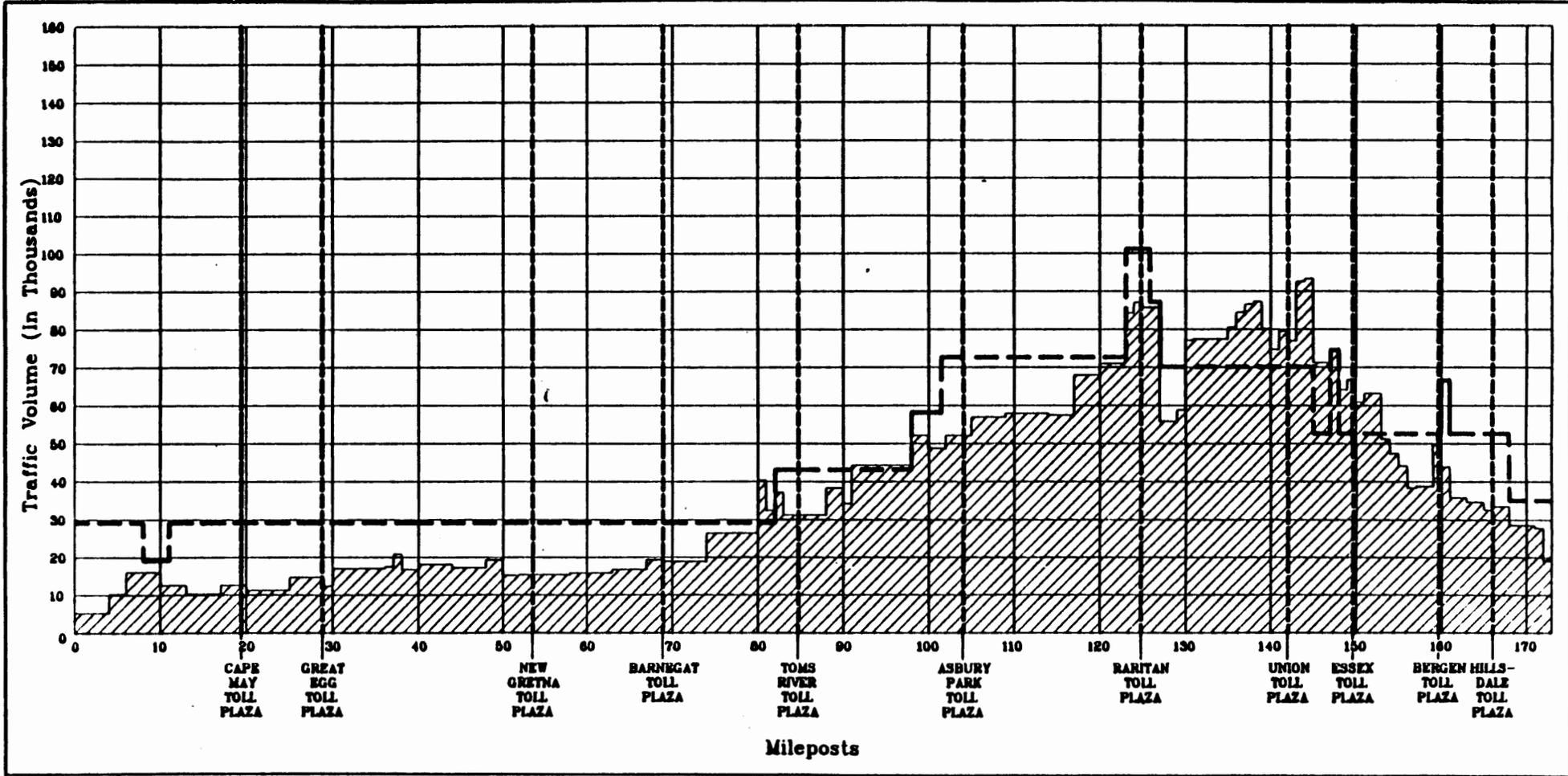
Millions of Dollars



* 1985-1987: Present Toll Schedules

29
35X

30
367



Legend: Dotted line = daily capacity
 Slanted line = present volume on average day of year

STATEMENT BY SENATOR GERALD CARDINALE, R-BERGEN,
BEFORE THE SENATE INDEPENDENT AUTHORITIES COMMITTEE
DECEMBER 9, 1987

INFORMATION WE HAVE RECEIVED FROM RECENT PRESS REPORTS AND THROUGH OTHER SOURCES CAN LEAD US TO THREE CONCLUSIONS.

1. THE NEW JERSEY HIGHWAY AUTHORITY IS POORLY MANAGED AND HAS NO CAPACITY TO PLAN FOR THE FUTURE; OR,

2. THE NEW JERSEY HIGHWAY AUTHORITY IS ARROGANT AND HIGHHANDED IN ITS ATTITUDE TOWARD THE CITIZENS OF THIS STATE AND THE LEGISLATURE; OR,

3. THAT THE AUTHORITY IS CORRECT AND THE TOLL INCREASE IS IN THE BEST INTEREST OF THE NEW JERSEY MOTORING PUBLIC.

I BELIEVE NONE OF THESE CONCLUSIONS IS ACCURATE, BUT BASED ON THE EVIDENCE SO FAR GATHERED, I JUST DON'T KNOW.

WE HAVE A MAJOR TRAFFIC CRISIS IN OUR STATE. EVERY MOTORIST WHO SITS IN THE DAILY GRIDLOCK IS AWARE OF THIS. AND THEN, ONE MORNING IN THE NEWSPAPER THEY READ THAT THE TOLLS ON THE GARDEN STATE PARKWAY ARE TO BE INCREASED BY 100% - AN ACTION TAKEN BY THE HIGHWAY AUTHORITY UNILATERALLY AND WITHOUT ACCOUNTABILITY.

I MUST SAY, HOWEVER, THAT THE NEW JERSEY HIGHWAY AUTHORITY IS NOT THE ONLY "INDEPENDENT AUTHORITY" TO MANIFEST THESE SYMPTOMS.

THE NEW JERSEY TURNPIKE AUTHORITY, THE PORT AUTHORITY, AND OTHER SPECIAL AGENCIES AND AUTHORITIES HAVE ACTED WITHOUT REGARD FOR THE PUBLIC'S INTEREST AND POCKET BOOK.

I THINK IT IS TIME WE IN THE LEGISLATURE TOOK A HARD LOOK AT THE OPERATION OF THESE AUTHORITIES. THERE ARE OTHER ALTERNATIVES THAT ARE AVAILABLE AND I THINK WE AS LEGISLATORS HAVE AN OBLIGATION TO CONSIDER THEM.

UP TO NOW, MOST OF THE PUBLIC COMMENTS IN THE MEDIA HAVE BEEN CENTERED ON:

1. SECRECY;
2. THE NEED FOR THIS REVENUE AS JUSTIFIED BY THE AUTHORITY;
3. DISPUTED FINANCIAL ANALYSIS BY LEGISLATORS OR OTHERS;
4. AND, A GENERAL PUBLIC OUTRAGE AT THE PROSPECT OF A 10 PERCENT INCREASE.

I WOULD LIKE TO ADD MY VOICE TO ALL OF THOSE WHO HAVE OBJECTED TO THE FOREGOING AND SUGGEST ANOTHER ALTERNATIVE FOR THE COMMITTEE TO CONSIDER.

IN SEVERAL FOREIGN COUNTRIES -- MOST NOTABLY ENGLAND -- AND RECENTLY BEGINNING IN SEVERAL PARTS OF AMERICA, GOVERNMENTS HAVE FOUND IT PRACTICAL TO DIVEST THEMSELVES OF CERTAIN FUNCTIONS OR TO UNDERTAKE NEW OR EXPANDED FUNCTIONS UTILIZING WHAT HAS COME TO BE KNOWN AS 'PRIVATIZATION.' THIS PRACTICE IS BEING USED FOR TWO PURPOSES: TO MANAGE ASSETS WHICH REMAIN THE PROPERTY OF THOSE GOVERNMENTAL AGENCIES; OR TO SELL OUTRIGHT CERTAIN FACILITIES, WHILE ENSURING THAT THE ASSOCIATED GOVERNMENT SERVICES WILL CONTINUE AT REASONABLE COST. FOR INSTANCE:

A. TODAY IN THE NORTHERN VIRGINIA SUBURBS OF WASHINGTON D.C., A PRIVATE TOLL ROAD IS BEING CREATED LINKING LOUDOUN COUNTY TO DULLES AIRPORT. THIS PROJECT REQUIRED ENABLING LEGISLATION BY THE STATE OF VIRGINIA.

B. RECENTLY, GROUND WAS BROKEN FOR THE FIRST PRIVATELY OWNED TOLL BRIDGE TO BE BUILT IN THE UNITED STATES IN 40 YEARS. IT WILL LINK FARGO, NORTH DAKOTA AND MOORHEAD, MINNESOTA. THE TOLL WILL NOT BE \$2 OR \$3. IT WILL BE MUCH LESS, AND THERE IS NO PUBLIC SUBSIDY INVOLVED.

THERE ARE MANY INSTANCES OF THE SALE AND LEASE BACK OF PUBLIC HEALTH CARE FACILITIES, CORRECTIONAL FACILITIES AND OTHER SUCH PROJECTS BEING REPORTED REGULARLY IN OUR MEDIA.

THERE IS A VERY SIMPLE REASON FOR THIS TREND. PRIVATE MANAGEMENT OF MOST FACILITIES CAN PROVIDE A FLEXIBILITY OF MANAGEMENT POLICIES. FINANCIAL INCENTIVES PRESENT IN PRIVATE MANAGEMENT, BUT ABSENT IN PUBLIC MANAGEMENT, CAN LEAD TO MORE EFFICIENT OPERATIONS.

IN SUCH PUBLIC/PRIVATE ENDEAVORS, NEW CAPITAL IS RAISED TO EXPAND SERVICES WITHOUT CREATING ADDITIONAL PUBLIC INDEBTEDNESS. THE REAL INCOME FROM EITHER NEW OR EXPANDED SERVICES PROVIDES A METHOD OF RETIRING THE NEW DEBT.

MY OWN OPINION OF THE GARDEN STATE PARKWAY PROPOSAL IS THAT THE PLANNED EXPANSION OF FACILITIES HAS BEEN PROJECTED TO PRODUCE REVENUES IN ADDITION TO THOSE ALREADY BEING COLLECTED. HOWEVER, IF THE NEW REVENUES ARE PROJECTED, THESE ARE NOT SUFFICIENT TO JUSTIFY THE CAPITAL INVESTMENT.

40x

IN BUSINESS, SUCH UNDERTAKINGS ARE THE BASIS OF FAILURE AND MANAGERS WHO CREATE SUCH PROGRAMS ARE NOT AROUND VERY LONG. IN GOVERNMENT OPERATIONS THAT LOSE MONEY, THE MANAGERS JUST SOAK THE PUBLIC.

HOWEVER, LEAVING ACTUAL FINANCIAL CALCULATIONS FOR ANOTHER TIME, LET'S LOOK AT SOME BASIC CONSIDERATIONS.

THE PARKWAY WAS BUILT IN THE 1950'S. ITS ORIGINAL COST HAS BEEN RETIRED BY THE 25 CENT TOLL OR OTHER INCOME SOURCES. IN ADDITION, IT HAS BEEN POSSIBLE FOR THE PARKWAY TO BE MAINTAINED IN AN EXEMPLARY FASHION.

IT HAS NEVER LOST MONEY!

INDEED, THE PARKWAY HAS HAD SURPLUS INCOME BEYOND WHAT ITS MANAGERS HAVE BEEN ABLE TO SPEND. SOME OF THAT INCOME HAS BEEN USED TO FUND EXPANSION. SOME HAS BEEN USED TO FINANCE OTHER TRANSPORTATION NEEDS IN THE STATE THROUGH THE TRANSPORTATION TRUST FUND.

WE MUST ASK OURSELVES WHY -- IF THE BULK OF THE FACILITY PAID OFF -- IF THE USE OF THE FACILITY HAS INCREASED AS DRAMATICALLY AS WE ALL KNOW IT HAS -- WHY DOES THE INCREASED REVENUE NOT ALLOW FOR CONTINUED EXPANSION?

SOME CRITICS SUGGEST THAT THE MANAGEMENT IS INEFFICIENT. THE DEFENSE IS OFFERED THAT BY COMPARISON WITH SELECTED OTHER T ROADS THE PARKWAY MANAGEMENT LOOKS GOOD. A MORE COMPREHENSIVE LIST OF COMPARISONS SHOULD BE GENERATED, PERHAPS, SO THAT WE CA KNOW IF THE MAINTENANCE COSTS PER MILE ARE IN FACT EXCESSIVE OF NECESSARY.

ARE WE RECEIVING PROPER INCOME FROM CONCESSIONS? ARE STA RATIOS TO MILES TRAVELED, TOLLS COLLECTED AND REPAIRS NEEDED COMPARABLE TO WHAT ONE MIGHT FIND ON OTHER TOLL ROADS?

WE, ON BEHALF OF OUR CONSTITUENTS, ARE EXPECTED TO BE INFORMED. BUT HOW CAN WE BE. NO MATTER HOW HARD WE LOOK AT T OPERATIONAL SIDE, THE REVENUE PROJECTIONS, THE LEGITIMATE EXPANSION NEEDS, WHAT WILL WE DETERMINE?

COLLEAGUES, I'VE BEEN AROUND LONG ENOUGH, AND YOU HAVE BEEN AROUND LONG ENOUGH TO KNOW THAT THE BEST WE WILL COME TO IS A DISAGREEMENT. THE EXECUTIVES OF THE AUTHORITY WILL PROVIDE EXPERTS WHO SAY X. OUR EXPERTS MAY SAY Z. RECONCILIATION WILL BE IMPOSSIBLE. THE TOLLS WILL GO UP. THE PUBLIC WILL BE ENRAGED FOR A WHILE. WE WILL TELL THEM WE DID OUR BEST AND BLAME THE INCREASE ON CIRCUMSTANCES BEYOND OUR CONTROL. WE'RE POWERLESS. IT'S SOMEBODY ELSE'S FAULT.

BUT LET ME OFFER SOMETHING DIFFERENT THAN JUST CYNICISM.

WHY NOT HAVE THE ASSEMBLY AND SENATE JOIN HANDS IN A TOTALLY BIPARTISAN EFFORT TO EXPLORE WHETHER THROUGH PRIVATIZATION WE MIGHT NOT RETAIN THE PRESENT TOLL STRUCTURE AND STILL PROVIDE NEEDED EXPANSION AND EFFICIENT MAINTENANCE.

I HAVE BEEN IN TOUCH WITH AT LEAST ONE MUNICIPAL DEVELOPMENT CORPORATION THAT IS OFFERING ITS CONSULTING, AND PERHAPS MANAGEMENT, SERVICES TO US. THERE ARE PROBABLY MORE COMPANIES. I'M NOT JUST CENTERING ON THIS ONE.

43X

LET'S SEE IF THERE IS A BETTER WAY. I'VE INTRODUCED A CONCURRENT RESOLUTION TO ACCOMPLISH SUCH AN INITIATIVE. IT OCCURS TO ME, HOWEVER, THAT WE DON'T NEED A RESOLUTION. IF BOTH COMMITTEES AGREE TO MEET JOINTLY, WE COULD GET ON WITH THE QUESTIONS IMMEDIATELY. WE COULD PERHAPS DO A REAL SERVICE FOR CONSTITUENTS.

IN SUMMARY, I DON'T WANT THE TOLLS TO GO UP. I KNOW YOU DON'T WANT THE TOLLS TO GO UP. SO WHY NOT TRY THIS NEW APPROACH TO KEEP THEM WHERE THEY ARE?

A CONCURRENT RESOLUTION establishing a joint committee of the Legislature to study the feasibility of privatizing transportation infrastructure and services.

WHEREAS, Alternative approaches to the provision or delivery of what have been traditionally considered to be public goods or services, commonly referred to as privatization, have attracted increasing public attention in recent years; and

WHEREAS, Privatization of the provision of public goods or services covers a wide diversity of possible options, ranging from the turning over to private firms the entire responsibility therefor, to public-private partnerships, or to the contracting out of public functions or services to private firms; and

WHEREAS, Privatization affords to governments the possibility and opportunity to avail themselves of goods and services that can be produced or provided more efficiently by for-profit private firms, at less cost to taxpayers or the fee-paying public, and without sacrificing the quality of the functions performed or services provided; and

WHEREAS, To the public, privatization offers relief from unresponsive and unaccountable public agencies, most recently exemplified by the New Jersey Highway Authority's unilateral initiative to virtually double user tolls for the Garden State Parkway; and

WHEREAS, Some forms of privatization such as turnkey projects financed, constructed, managed and operated by private

firms also make possible the husbanding of scarce public financial resources for use in performing those functions or providing those services which only government can and should provide;

WHEREAS, The State of New Jersey and its political instrumentalities are confronted by the monumental task of having to finance not only the rebuilding of an aged infrastructure but also of extending or expanding that infrastructure to accomodate State growth at a very time when federal funding of transportation infrastructure or service projects is progressively diminishing;

WHEREAS, The construction, reconstruction, maintenance and operation of of the State's transportation infrastructure constitute a subetantial part of the State's infrastructure capital needs that require the most urgent attention in that they involve issues of public safety as well as the economic well-being of the State; now, therefore,

BE IT RESOLVED by the Senate of the State of New Jersey (the General Assembly concurring):

1. There is established a joint committee of the Legislature to study the feasibility of utilizing for-profit private firms to construct, manage or operate highways or bridges of this State, including toll roads and bridges operated by the New Jersey Turnpike Authority, the New Jersey Highway Authority and the New Jersey Expressway Authority, and to provide transportation services. The joint committee shall be comprised of eight members, four of whom shall be appointed by the President of the Senate from the Senate Independent Authorities Committee, except that not more than two of these members shall be of the same political party, and four of whom shall be appointed by the Speaker of the General Assembly from the members of the Assembly Independent and Regional

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Authorities, except that not more than two of these members shall be of the same political party. Members of the joint committee shall serve for the term of the Legislature in which appointed or until the committee files its report and recommendations in accordance with section 4 of this resolution. Vacancies shall be filled in the same manner as the original appointment for the remainder of the term of office. The joint committee shall select a chairman and vice chairman from among its members and a secretary who need not be a member of the joint committee.

2. The joint committee shall be entitled to accept the assistance and services of such employees of any State, county or municipal department, board, bureau, commission or agency as may be made available to it, and to employ such legal, stenographic, technical and clerical assistants and incur such traveling and other miscellaneous expenses as it may deem necessary, in order to perform its duties, and as may be within the limits of funds appropriated or other made available to it for its said purposes.

3. In carrying out the study, the committee shall have all the powers granted pursuant to chapter 13 of Title 52 of the Revised Statutes.

4. The committee shall report its findings and recommendations to the Legislature within twelve months of the adoption of this resolution, including any legislative bills it may choose to submit for consideration by the Legislature.

47X

STATEMENT

This concurrent resolution establishes a joint committee of the Legislature to study the feasibility of utilizing for-profit private firms to construct, manage or operate highways or bridges of the State, including toll roads and bridges operated by the New Jersey Turnpike Authority, the New Jersey Highway Authority and the New Jersey Expressway Authority, and to provide transportation services.

TRANSPORTATION

Establishes a joint committee to study feasibility of privatizing transportation infrastructure and services.

487



FOR RELEASE:

IMMEDIATE CONTACT :
12/9/87

Sen. Gerald Cardinale
(201) 567-2324

Prompted by the proposed doubling of tolls and massive highway improvement program on the Garden State Parkway, Senator Gerald Cardinale (R-Bergen) today said the state should give serious consideration to privatizing the operation of the toll road.

Cardinale introduced legislation that would establish a legislative commission to study the feasibility of privatizing the operation of the Garden State Parkway and possibly other state highway authorities.

"The current volume of traffic, which has reached crisis proportions, and the uncontrolled actions of our independent authorities in increasing tolls, demonstrates the need to explore innovative approaches to managing our toll highway system," said Cardinale.

The commission, which Cardinale's legislation would establish, would be composed of members of Senate and Assembly Independent Authorities Committee. It would be charged with studying the feasibility of privatization as a solution to the state's highway crisis.

Cardinale said, "It is time we explored the possibility that private enterprise could do a better job in managing highways for the travelling public than independent authorities. Privatization has been adopted for toll roads and bridges in other states."

Cardinale pointed out that a private firm, with the authorization of the Virginia Legislature, will be building and operating a toll road connecting Dulles Airport with Arlington Virginia.

A private firm has built, and is operating, a toll bridge connecting Fargo, North Dakota with Moorehead, Minnesota. The Department of Transportation of the State of Minnesota has employed a consulting firm to examine the entire range of possibilities for the privatization of that state's highway system.

"It is possible that we may find that private enterprise would be more responsive to the needs of the citizens of our state than the independent authorities. Our authorities are not directly accountable to the motorists they serve. The recent actions by the Highway Authority and the New Jersey Turnpike Authority show they have little regard for the public's pocketbook."

Municipal Development Corporation

180 Maiden Lane, New York, NY 10038 (212) 968-1400

November 30, 1987

Dr. Gerald Cardinale
Assistant Minority Leader
Senator, 39th District (Bergen County)
New Jersey Senate
350 Madison Avenue
Cresskill, NJ 07626

Dear Gerry:

I am writing to recommend the consulting services of Municipal Development Corporation (MDC) to the New Jersey House and Senate Standing Committees on Independent Authorities for their use in any investigation of potential privatization opportunities. As you know from our previous conversations, MDC Consultants bring a unique combination of qualifications to their work with legislative committees and other government clients. For example, we are currently working with the Minnesota Department of Transportation to identify and evaluate the myriad of privatization alternatives open to them across the broad spectrum of their activities. Aspects of MDC's work of particular interest to New Jersey legislators would include:

I. MDC's Turnkey Privatization Experience

As the first private sector firm formed specifically to provide public sector services and facilities, MDC has developed a series of precedent-setting public/private partnerships in several key areas:

Highway Finance, Construction & Operation - To solve severe traffic congestion problems in the Northern Virginia suburbs of metropolitan Washington D.C., MDC is working with landowners, legislators, the State Department of Transportation and the Governor's Task Force to finance, build, own, and operate a 17-mile private toll road linking Loudoun County with existing toll highways to Dulles Airport. We are soon to complete Phase I of this major project which required the drafting and passage of enabling legislation by the Virginia legislature.

Bridge Finance, Construction & Operation - MDC recently broke ground on the first private toll bridge to be built in the U.S. in forty years. When it opens next Spring, the bridge will provide a new link between the cities of Fargo, North Dakota and Moorhead, Minnesota. It will also serve as a prototypical example of the public and private sectors working together to provide critical transportation infrastructure. In addition, MDC this month announced formation of THE BRIDGE GROUP, a joint effort with The Parsons Corporation (Worldwide Engineers/Constructors) to apply a public/private approach to restoring the country's aging bridges to a safe and useful condition.

Healthcare Facilities Development - MDC is currently using its resources to

finance, design, build, own and leaseback a series of public healthcare facilities in six Florida cities. Working with several non-profit healthcare delivery agencies and the Florida State legislature which grants their annual operating funds, MDC is providing the new facilities critical to servicing the healthcare needs of Florida's growing clinical populations.

II. MDC's Financial Advisory Expertise

James J. Lowrey & Co., the nation's leading independent financial advisor to state and municipal governments, is a wholly-owned subsidiary of MDC and participates fully in all MDC Consulting engagements. Since its formation in 1979, Lowrey & Co. has advised on more than \$17 billion in financings for over 70 government clients. In addition, the firm had several engagements with or concerning independent authorities comparable to those monitored by the New Jersey congressional committees (eg., the Southeastern Pennsylvania Transportation, the New York Power and the Rhode Island Public Buildings Authorities).

MDC believes that any realistic, comprehensive consideration of privatization options must include a sophisticated knowledge of the latest and most innovative financing techniques available to both the public and private sectors. The participation of James J. Lowrey & Co. experts on MDC's consulting team ensures its ability to take full advantage of the highly technical factors at work in today's economic environment of high speed change.

III. The MDC Consulting Staff

The collective prior experience of consultants on MDC's staff includes having served as Chairman of the New York Thruway Authority, President and CEO of the Connecticut Resources Recovery Authority, and Assistant Director of Financing for New York City's Metropolitan Transportation Authority. As you know, I myself served as head of the federal Urban Mass Transportation Administration and Chief of Staff to former Secretary of Transportation Elizabeth Dole. In addition, President Reagan recently appointed me to his 12-member Commission on Privatization.

Background material and press coverage of MDC is enclosed for your review. I look forward to learning more about your upcoming bill and hope to have the opportunity of working with you and your colleagues in the New Jersey legislature.

Sincerely,


Ralph L. Stanley
Vice Chairman

/cg

cc w/ enclosure: Mr. James Carroll, New Jersey Senate Minority Office

STATEMENT

BY

JAMES W. CONLON

CHIEF ENGINEER

NEW JERSEY HIGHWAY AUTHORITY

TO

NEW JERSEY STATE SENATE

INDEPENDENT AUTHORITIES COMMITTEE

DECEMBER 9, 1987

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All monies remaining from annual operating revenues after deducting operating expenses, paying debt service, paying \$10 million to the State Transportation Trust Fund and meeting certain reserve fund requirements, are deposited in the Parkway Construction Fund. In addition, proceeds from bond sales are deposited in the Parkway Construction Fund. This money is used to finance the Parkway's Capital Improvement Program.

In March, 1986 the Commissioners of the New Jersey Highway Authority adopted a \$570 million, Five-Year Capital Improvement Program for which only \$241 million has been bonded. Approximately \$200 million has been expended and another \$90 million has been obligated to contracts already awarded. I will highlight just a few of the many projects already completed or underway.

In the last five years the Authority has rehabilitated 121 bridges at a total cost of \$50 million or \$400,000 per bridge. We have replaced two-thirds of the timber guard rail with weathering steel beam guide rail and concrete median barrier to conform to current design standards. We have widened 30 miles of the Parkway by the addition of one lane in each direction. These widenings took place in northern Ocean County, Monmouth County, in the Raritan area, in Essex County and in Bergen County. We have added an additional 12 miles of third-lane to the mainline roadway in each direction by converting the shoulder to a travel lane between the Lakewood-Brick interchange and Double Trouble - Dover Road in the Toms River area. We have spent over \$60 million resurfacing the Parkway--placing over 400,000 tons of asphalt to resurface nearly 500 lane miles of roadway.

We have added 150 new commuter parking spaces at our Cheesequake

60x

commuter parking lot to raise the number of free spaces available in Sayreville to 415. We increased the number of free commuter lot spaces available at our Montvale commuter lot from 77 to 177. We constructed a new free commuter parking lot at Interchange 165 in Paramus which provides 90 spaces. To encourage carpooling and to encourage our patrons to use New Jersey Transit buses and other buses, we now operate 20 free commuter lots, providing in excess of 2,600 spaces daily.

In the early 1970s the Parkway's fatality rate was about 1.5 fatalities per 100 million miles of vehicle travel. Due, we think, in large part to continuing improvements in the geometry of the roadway resulting from our Capital Improvement Program, the fatality rate has gradually decreased until it now is about 0.8 fatalities per 100 million miles of vehicle travel. In concrete terms, in 1986, if our fatality rate was still at the level it was in the early 1970s, instead of 35 fatalities we would have had 70 fatalities. Even more impressive I think is the fact that if we had the same fatality rate as the U.S. Interstate Highway System had in 1985, we would have had 61 fatalities. If we had the rate that existed on all U. S. highways in 1985, we would have had 150 fatalities.

Much critical safety, rehabilitation and extraordinary maintenance work remains to be done in order to keep the Parkway as safe as possible and to maintain our already excellent accident experience. Among the future Capital Improvement work necessary to maintain

that record is:

Resurfacing and drainage improvements in the southernmost 17 miles of the Parkway. This portion of the Parkway has never been resurfaced since it was built in 1954-55. It is presently in such poor condition that we can no longer keep the road in safe condition just by patching potholes.

A continuing resurfacing program for about \$10 million a year.

Repairing the settled pavement area through the Cheesequake and Matawan swamps, where the pavement has settled seven feet from its original level. This area is in danger of being flooded by high tide from nearby Raritan Bay and presently rides like a roller coaster.

A continuing bridge rehabilitation program of about \$12 million a year--over 300 bridges still need some repair. Quite frankly, if some of these repairs are not made, it may be necessary to close certain bridges.

The installation of a lane control traffic signal system in the Union/Essex area. I feel this is essential to warn motorists of construction and accidents and also to protect those who must work

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in roadway, our maintenance men, state police and tow truck operators.

These essential safety projects have a total estimated cost of \$176 million.

Among the expansion projects which, will improve capacity of the Parkway, or improve traffic flow on local roads at Parkway interchanges which I consider essential to the continued safe and efficient flow of traffic are a number of projects with a total estimated value of \$331 million. These include:

The construction of new ramps to and from the south at Interchange 17, and a new ramp at Interchange 25, all at the request of Cape May County and local officials

Improvements at Interchange 30, 36, 40 & 44, requested by Atlantic County officials, the later two in conjunction with a planned Atlantic County beltway west of the Parkway

Construction of new ramps to and from the North at

Interchange 69 at the request of Ocean County and with the support of the New Jersey Department of Environmental Protection to facilitate access to a proposed resource recovery plant

Construction of ramps to and from the south at Interchange 74 in cooperation with Ocean County.

Improvements to the intersection of Route 36 and Hope Road at our Interchnage 105 in Monmouth County. This will reduce congestion on Hope Road and improve access to the Parkway when the Route 18 Freeway construction is completed

Construction of a service road on each side of the Parkway from Interchange 88 to 91 in order to provide access to Cedar Bridge Avenue and State Route 88 where there is no present access and to provide full access at Interchange 88 with Rt. 70 and at Interchange 90 with Chambers Bridge Road in Ocean County. To accommodate State and county plans to widen these roads east and west of the Parkway, we must construct new bridges to carry the local road system over and under the Parkway. If we did not agree to do this, the present bridges will not accommodate the four-lane divided roadway the County and State are planning

64x

to construct at each of these crossings.

We plan to widen the Parkway by the addition of one new lane on the mainline roadway in each direction between Interchanges 83 and 91, where we presently operate a temporary third-lane in the old shoulder area.

We plan to improve access to and from the local road systems at Interchange 114 with Red Hill Road, at Interchange 116 with Crawfords Corner Road, at Interchange 120 with Laurence Harbor Road and Interchange 127 with State Route 440 which leads directly to Interstate 287 to the north and to the Outerbridge Crossing and Staten Island to the east.

We plan to complete Interchange 142 to provide for the missing movements to Interstate 78. This will remove much Parkway and Interstate 78 traffic from local streets in Irvington.

We also plan to widen most of our toll plazas to accommodate increasing traffic.

In an effort to continue to encourage the use of mass-transit and reduce traffic on the Parkway, we intend to continue to build

commuter parking lots where there is a reasonable demand for them and particularly where we can connect with mass-transit, such as New Jersey Transit bus lines. For example, we intend to double the size of the Allwood Road Parking Lot, in Passaic County, increasing the number of free spaces available from 235 to 460.

We also plan on expanding our service areas, which are heavily congested and are necessary for public convenience.

Completion of the remaining projects on the present Capital Improvement Program which can be completed by 1992 is estimated to cost \$563 million .

Not included in the present Capital Improvement Program, but essential to improving existing traffic congestion on the Parkway are:

At-grade Intersection improvements between Interchange 8 and 12 and eventual elimination of the traffic signals by the construction of grade separation bridges in Cape May County.

Widening by the addition of one lane in each direction between Interchange 80 and 83 in the Toms River area.

The addition of a fifth lane in each direction on an interim basis between Interchange 129 and 140 in Middlesex and Union Counties, and expansion of the

maintenance yard in Clark

These projects already under study or design will cost at least \$81 million to construct.

Let me analyze briefly what the result would be if we are unable to finance major portions of the Capital Improvement Program.

First, with regard to the safety-related projects which total \$176 million, these projects were essential to safety of the Parkway's patrons. It isn't reasonable to continue to operate bridges without making repairs to ensure that the bridges are not a danger to the traveling public.

With regard to the projects totaling \$331 million which I have listed as essential to improve the capacity of the Parkway, and to improve traffic flow on local roads, I have been advised by our financial experts that we can only finance, under the proposed toll increase, \$410 million in Capital Improvements in the next five years.

If we first do the essential safety work, then we can only do \$234 million in expansion projects and projects designed to assist the counties and municipalities adjacent to the Parkway. Add to that need, \$81 million in the former State-owned sections in Cape May, Toms River and Union-Middlesex, and we have \$412 million of vital needs and only \$234 million will be made available under the current program.

We will therefore be forced to choose which of these essential

67x

programs will be funded and which will not. Will we elect not to add an additional lane in each direction in the Toms River area? I hope not, because this is one of the highest traffic growth areas on the Parkway and is the area which our studies indicate will have the greatest traffic demand in proportion to present capacity. Will we choose not to improve the Union-Middlesex section of the Parkway? I hope not because this is one of the most heavily travelled sections of the Parkway and one of the most frequently congested.

I have attached to my statement volume capacity charts prepared by our traffic consultant showing traffic demand which he estimates will occur on the Parkway in 1990 and in 1995. The 1990 traffic projections are shown on Figures V-1 thru V-4 and the 1995 traffic is shown on Figure V-5.

Traffic in 1990 is projected to be greater than in the 1986 base year used in this study by increases of 20% in the northern section and 50% in the southern sections. With this growth there will be significant deterioration in travel conditions. Traffic demand will exceed capacity by a small amount in Cape May County where there are traffic signals and at-grade intersections.

In the Toms River area the demand will be approximately twice the capacity of the roadway. On weekends and during commuter hours, drivers will either choose other routes or suffer through

serious congestion at certain hours of the day and night.

These studies indicate that traffic demand will exceed capacity virtually throughout the Parkway between Milepost 75 in Lacey Township, Ocean County, and the Bergen Toll Plaza at Milepost 160 in Bergen County.

After Toms River, the greatest deficiency in capacity occurs in the Union-Middlesex section between U.S. Route 1 and the Union Toll Plaza, and, again between the Union and Essex Toll Plazas.

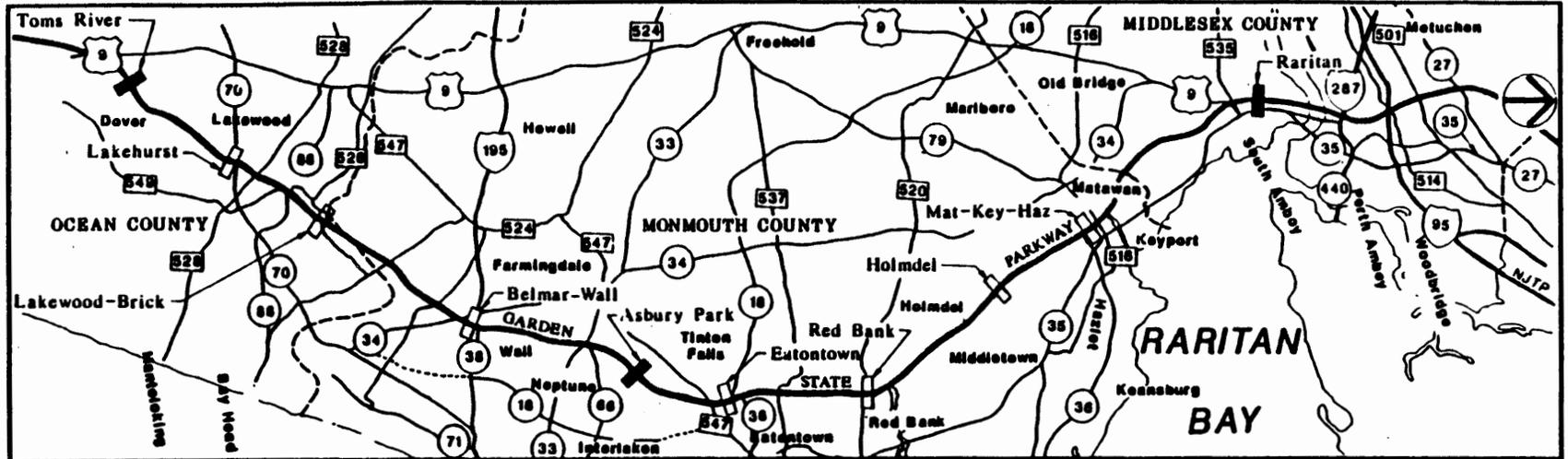
By 1995 lack of capacity, and consequent traffic congestion will occur frequently between Mileposts 8 and 12 in Cape May County; between Interchanges 30 and 50 in Atlantic County; between Interchange 67 in Ocean County and 156 in Passaic County.

GARDEN STATE PARKWAY

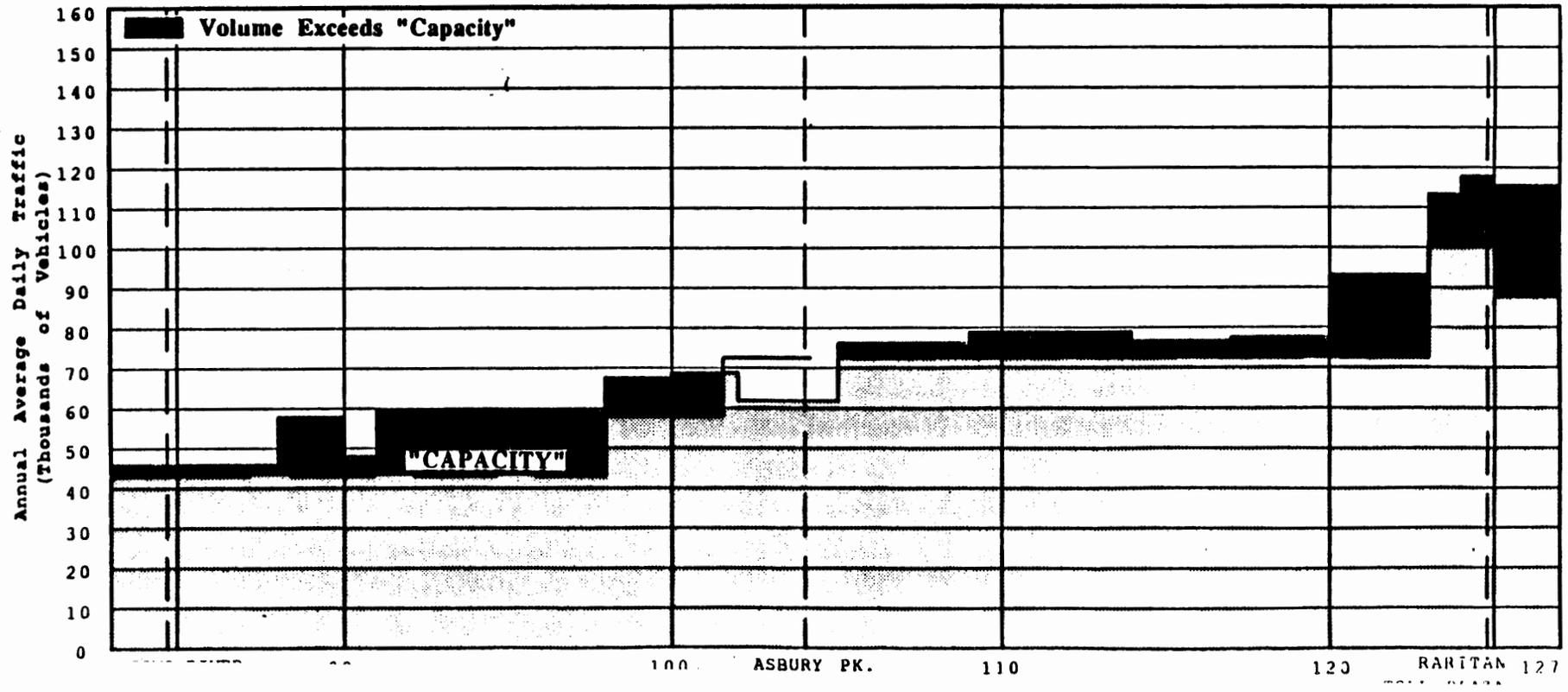
Evaluation of 1990 Traffic

Figure V-3

Milepost 83-127



72x

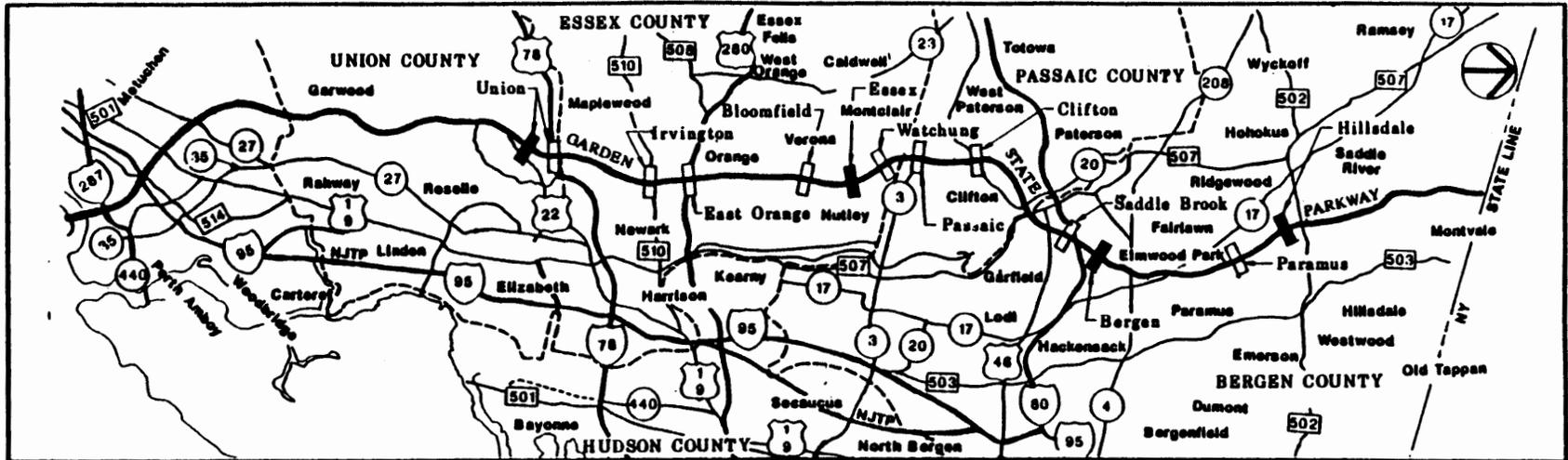


GARDEN STATE PARKWAY

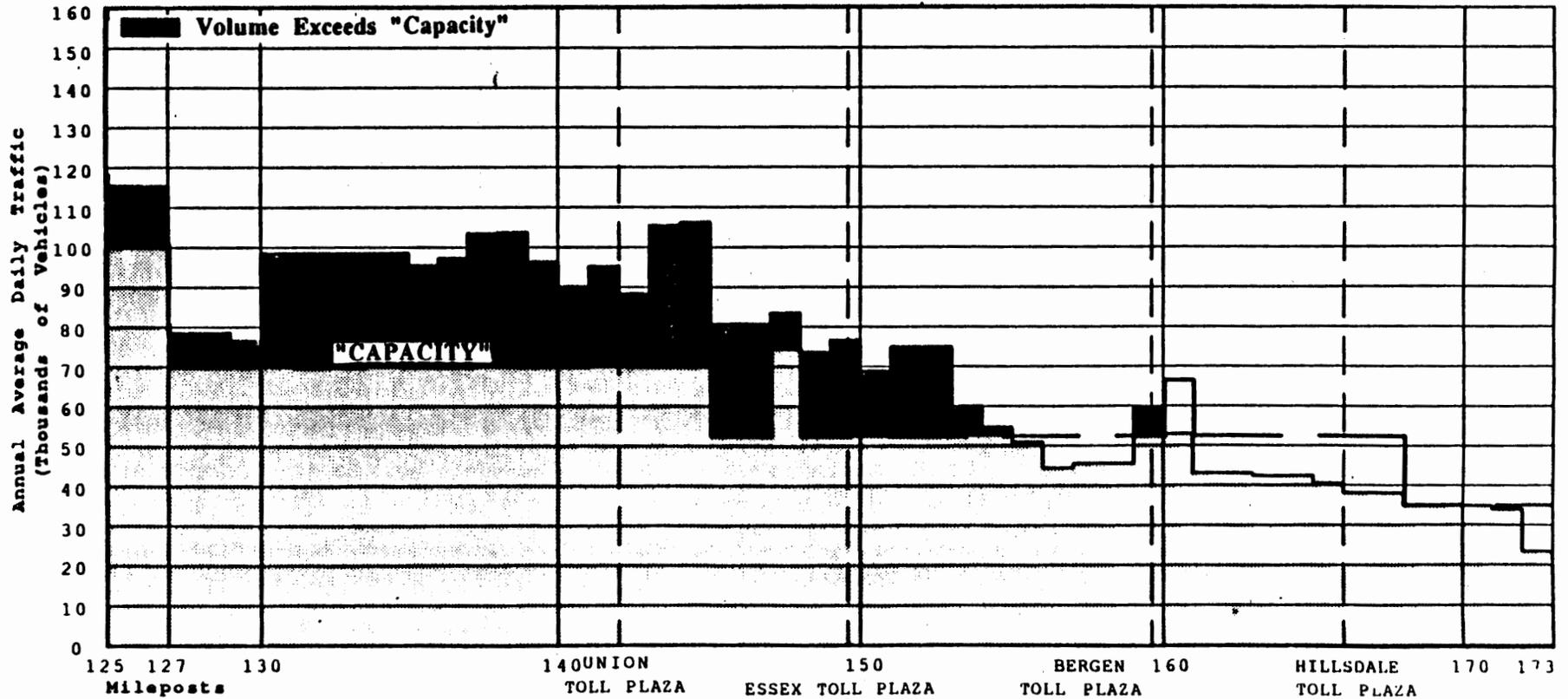
Evaluation of 1990 Traffic

Figure V-4

Milepost 127-173



73X



GARDEN STATE PARKWAY

Evaluation of 1995 Traffic

Figure V-5

Milepost 0-173

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