
Committee Meeting

of

ASSEMBLY TRANSPORTATION, PUBLIC WORKS, AND INDEPENDENT AUTHORITIES COMMITTEE

*"The Committee has invited Richard Sarles, Executive Director
of the NJ TRANSIT Corporation, to provide testimony
on the Access to the Region's Core Tunnel project
and other issues concerning NJ TRANSIT"*

LOCATION: Committee Room 11
State House Annex
Trenton, New Jersey

DATE: January 26, 2009
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman John S. Wisniewski, Chair
Assemblywoman Linda Stender, Vice Chair
Assemblyman Thomas P. Giblin
Assemblyman Matthew W. Milam
Assemblyman Vincent Prieto
Assemblywoman Caridad Rodriguez
Assemblyman L. Harvey Smith
Assemblywoman Connie Wagner
Assemblyman John F. Amodeo
Assemblyman Scott Rudder
Assemblyman Scott T. Rumana
Assemblyman Brian E. Rumpf



ALSO PRESENT:

Maureen McMahan
Jonathan Pushman
*Office of Legislative Services
Committee Aide*

Aaron Binder
*Assembly Majority
Committee Aide*

Jerry Traino
*Assembly Republican
Committee Aide*

*This transcript was prepared from an Internet Webcast,
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(This is an excerpt of the Assembly Transportation, Public Works and Independent Authorities Committee meeting held January 26, 2009, including the testimony of Richard Sarles, Executive Director of the NJ TRANSIT Corporation, regarding the Access to the Region's Core Tunnel project and other issues concerning NJ TRANSIT.)

ASSEMBLYMAN JOHN S. WISNIEWSKI (Chair): --being the testimony, the discussion of the members is not only amplified for this room, it is also broadcast live on the internet.

And I would ask for a roll call, please.

MR. PUSHMAN (Committee Aide): Assemblyman Rumpf.

ASSEMBLYMAN RUMPF: Here.

MR. PUSHMAN: Assemblyman Rumana.

ASSEMBLYMAN RUMANA: Here.

MR. PUSHMAN: Assemblyman Rudder.

ASSEMBLYWOMAN RUDDER: Here.

MR. PUSHMAN: Assemblyman Amodeo.

ASSEMBLYMAN AMODEO: Here.

MR. PUSHMAN: Assemblywoman Wagner.

ASSEMBLYWOMAN WAGNER: Here.

MR. PUSHMAN: Assemblyman Smith.

ASSEMBLYMAN SMITH: Here.

MR. PUSHMAN: Assemblywoman Rodriguez. (no response)

MR. PUSHMAN: Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Here.

MR. PUSHMAN: Assemblyman Milam.

ASSEMBLYMAN MILAM: Here.

MR. PUSHMAN: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Here.

MR. PUSHMAN: Vice Chair Stender.

ASSEMBLYWOMAN STENDER: Here.

MR. PUSHMAN: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Here.

MR. PUSHMAN: We have a quorum.

ASSEMBLYMAN WISNIEWSKI: We have several bills that are on the agenda that we will be considering. But first we're going to take some testimony.

Just so everybody's clear on the agenda: Assembly Bill 3285 by Assemblywoman Casagrande, and Assembly Bill 3358 by Assemblyman Diegnan are going to be considered together -- they're similar bills, and there will be an Assembly Committee substitute.

We have amendments on just about all of the bills, and we'll get to them in due course. For discussion only is Assembly Bill 3338, adding a nonvoting member to the NJ TRANSIT board.

And speaking of New Jersey TRANSIT: One of the nation's largest and best-run transit agencies is right here in New Jersey, moving an enormous number of people every day; and we'd like to see them move more people so we can free up capacity on our roadways and help the environment. We have with us this morning the Executive Director -- and I'd like to call Executive Director Rich Sarles up, along with anyone else you have, Rich.

Good morning.

RICHARD R. SARLES: Good morning.

ASSEMBLYMAN WISNIEWSKI: Mr. Executive Director, there are lots of issues that are going on in New Jersey TRANSIT that are of interest, not only to the public, but also to members of this Committee. I think two of the big ones are the tunnel underneath the Hudson River -- and you hit a milestone in that recently with the Record of Decision, which is something that many people have not believed was going to happen for a very long time. So congratulations on that. I'd like you to brief the Committee on that issue.

Something else that is also of equal importance is the current financial crisis in the country and how that impacts everything. And what many people may not believe is that there is a small impact on New Jersey TRANSIT in terms of the cross-border leasing that had been done over the years, which provided enormous financial benefit to the agency. But now (indiscernible) some problems with companies like AIG, there is a potential impact on New Jersey TRANSIT, and I'd like you to discuss that with the Committee as well. I know you may have a statement, so I'll let you start with that.

MR. SARLES: Thank you very much, Mr. Chairman.

And with me today is Charlie Wedel, our Chief Financial Officer. So when you have questions on the financial aspects, he may help me out a little bit.

ASSEMBLYMAN WISNIEWSKI: Good morning, Charlie.

MR. SARLES: Good morning, Mr. Chairman and members of the Committee. Thank you for inviting me to speak here today.

I'm pleased to give the Committee an update on the ARC Mass Transit Tunnel, as well as to review with the Committee certain financial issues which arose in the wake of the financial market collapse last year.

The news on the Mass Transit Tunnel is that we're on-track to begin construction this year. Thanks to the leadership and hard work of Governor Corzine, Senator Lautenberg, and Senator Menendez, as well as the entire Congressional delegation, this vital infrastructure project has received all necessary approvals from the Federal Transit Administration and is ready to receive Federal funding. Those approvals include the FTA's Record of Decision, formally ending the rigorous Federal environmental review, and the FTA's notification to Congress that the Agency intends to approve the project's entry into final design. The Tunnel truly is on the move.

As I have said before to this Committee: We are committed to building this Tunnel and proud to lead this effort on behalf of Governor Corzine and Commissioner Dilts, because I know that it is the ideal project to boost our economy and it will create lasting transportation benefits for our citizens. Passengers will be served by new, state-of-the-art Penn Station expansion under 34th Street, featuring wide platforms and 13 high-speed escalators, with direct connections to New York subways including, for the first time, the Broadway and Sixth Avenue lines.

The Mass Transit Tunnel also doubles the rail capacity between New Jersey and New York, and improves the robust rail system within New Jersey. Since I appeared before the Committee about a year ago, we have finalized the last piece of the regional funding commitment for the Mass Transit Tunnel. Together with our partner, The Port Authority of New

York and New Jersey, local funding of \$5.7 billion is now committed. Today, New Jersey TRANSIT and the Port Authority are working closely with our Federal delegation to ensure Congress includes money for the Tunnel and other worthy shovel-ready TRANSIT projects in the Federal stimulus package now being put together in Washington.

As our Senator said last week at the Lautenberg Rail Station, within months of receiving a Federal funding commitment, we can all advertise some \$600 million worth of construction contracts, with another \$3 billion to follow shortly thereafter. Let me be clear about this: actual construction will start, not just design work. In fact, the Mass Transit Tunnel will create some 6,000 construction-related jobs a year, each year, through its completion. Those figures are conservative. The jobs created by the tunnel during construction will generate \$4 billion in new gross regional product, keeping our hardworking families working.

Then after the tunnel is completed, the increase in regional convenience and competitiveness generated by the tunnel's added rail capacity will produce 44,000 permanent jobs. With more and improved service, both to New York and within New Jersey, a boost to regional competitiveness in the future, and a major stimulus to the economy now, thanks to the thousands of good-paying jobs during construction the Mass Transit Tunnel is the right project at the right time.

Chairman Wisniewski and members of the Committee, I would also like to take this opportunity to update you on our efforts to protect New Jersey TRANSIT from the effects of the current financial crisis on its U.S.-leveraged lease portfolio. Let me start by providing some background and context.

In the early 1990s, the Federal Transit Administration, as part of their push to encourage innovative financing, promoted leveraged lease transactions to transit agencies across the country, called *lease in, lease out* -- or *LILO* transactions; and subsequent *sale in, lease out* -- or *SILO* transactions. Under these lease-back transactions, executed by New Jersey TRANSIT from 1994 to 2003, TRANSIT agencies sold or leased assets to private entities in exchange for up-front cash payments, usually 5 to 10 percent of the asset's value. New Jersey TRANSIT's benefit from these leases totaled \$110 million. At the outset of these leases, New Jersey TRANSIT made deposits with third parties sufficient to make on-going lease payments. Under the agreements, AIG and other third parties were required to maintain a minimum credit rating to protect the equity investor.

The downgrading of AIG's credit rating in the summer and fall of 2008 resulted in a series of technical defaults that precipitated a series of demands from the equity investors -- first for AIG to provide additional collateral, and subsequently to replace AIG.

The financial crisis has impacted nearly every bank and financial firm worldwide, making it virtually impossible to replace AIG with a credit-worthy party at a reasonable cost.

I wish to emphasize that neither New Jersey TRANSIT nor any other of the nation's transit agencies, to my knowledge, have defaulted on a single lease payment. The AIG downgrade has resulted only in technical defaults. But an uncorrected technical default can cause a lease termination event, placing New Jersey TRANSIT in a very difficult financial situation.

Equity investors can use a technical default as a mechanism to terminate the lease, thereby gaining a tax advantage. When the equity

investors entered into the leases, they anticipated receiving tax benefits that were subsequently denied by the IRS in 2003. A lease termination, however, will take advantage of the original termination value schedules, allowing the equity investors to regain the original tax benefits.

So what is New Jersey TRANSIT's estimated liability on their leases? First, it's very important to again state that all payments are being made under the leases. In addition, AIG has posted government securities as collateral to protect the equity investors on the majority of the leases. Should AIG fail to pay on their leases, we would anticipate New Jersey TRANSIT's exposure to be in the range of \$150 million.

It is also important to note that New Jersey TRANSIT is not alone. At least 31 transit properties in 18 states have exposure from entering these lease-back arrangements. The public transit sector's total exposure from these deals, if they are called upon to pay investors, totals at least \$1.5 billion.

New Jersey TRANSIT has been very active in seeking a solution to this dilemma facing the public transit agencies across the country. New Jersey TRANSIT joined a coalition of transit agencies facing this threat to engage the Federal government. We have had numerous conversations in Washington including with President Obama's transition team, the United States Department of Treasury, the United States Federal Reserve Bank, the Federal Reserve Bank of New York, the United States Senate Committees of Jurisdiction, the United States House of Representatives Committees of Jurisdiction, and the New Jersey Congressional delegation. As a coalition, we believe the most appropriate way to protect transit agencies is for the Department of Treasury to guarantee the lease

transactions. By using the Triple-A credit rating of the Federal Government, the technical defaults would be cured and the equity investors would be protected should AIG fail.

However, I must emphasize that the Treasury has yet to agree to such a guarantee. We have also been actively seeking a Federal legislative solution, and have had some modest success. In fact, just last Thursday, the House of Representatives included a provision requiring the Department of Treasury to guarantee the lease transactions in legislation that would establish new conditions for the disbursement of the second half of the \$700 billion Troubled Asset Relief Program. This is the second time the House has passed the release guarantee, and we remain vigilant in working with the Senate to include the guarantee provision.

Another alternative is to seek a private market solution using a credit-worthy entity as a replacement for AIG. This approach has two major drawbacks: First, due to limited competition, it is very costly; and second, there could be no assurance that the replacement party would not be downgraded in the future, putting us back in the same situation.

I wish to thank our Congressional delegation, particular Senator Menendez, who, with his leadership on the Senate Banking Committee, spearheaded the charge to include a Federal guarantee for these transactions in the auto bail-out bill. As you all know, the auto bail-out bill was not signed into law. With the help of Senator Menendez and the Congressional delegation, we are continuing our efforts to secure a Federal guarantee and prevent any significant financial harm to New Jersey TRANSIT.

In conclusion, the members of the Committee have been strong advocates for transportation. I look forward to working with you as we

continue to build a transportation transit system that provides a sound foundation for our economy and gives our residents an excellent quality of life.

I'd be happy to answer any questions.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Sarles. I appreciate your testimony, and updating the Committee on two very important issues.

I take the prerogative of the Chair and ask two first questions, one about the trans-Hudson Tunnel. Break down for the Committee, if you can, where the funding for the Tunnel is coming from. In particular, what agencies are providing what levels of funding?

MR. SARLES: First of all, there are \$3 billion from the Port Authority of New York and New Jersey. Then there is \$2 billion -- I'm sorry, \$2.7 billion from the State, \$1.25 billion of which comes from the New Jersey Turnpike Authority. And the remainder comes from former highway funds that can be used either for transit or for highways. And a small part is from the Transportation Trust Fund.

ASSEMBLYMAN WISNIEWSKI: There is, I think-- The small portion from the Transportation Trust Fund-- You're talking about-- There was a swap of SEMAC dollars?

MR. SARLES: That was the money that came from the Federal highway formula funds -- that's what I was referring to today -- called SEMAC, National Highway System money, that sort of thing.

ASSEMBLYMAN WISNIEWSKI: So there's \$3 billion from the Port Authority, \$2.7 billion from the State of New Jersey, and what's the Federal government's share?

MR. SARLES: We are asking the Federal government for \$3 billion.

ASSEMBLYMAN WISNIEWSKI: And so the total project price is--

MR. SARLES: \$8.7 billion, today.

ASSEMBLYMAN WISNIEWSKI: Right. Does that include an estimation for increases in costs? It's going to take how long to build?

MR. SARLES: It will take us to about 2017 to complete it. It does include estimates for inflation of those costs. In fact, as we arrived at the \$8.7 billion with the Federal Transit Administration. They had asked us to increase the inflation factor from about 3.2 percent which we were using -- thought was reasonable, and was based on historic averages over the last 10 years or so -- and we increased it to 4.25 percent.

ASSEMBLYMAN WISNIEWSKI: Thank you. And the one thing I noticed, and if you could give a little history on it: I didn't hear New York state mentioned in that. And this Tunnel does go from this state to New York state. Could you address that?

MR. SARLES: Yes. It certainly goes into New York state, into Penn Station. That's where 60 percent of our riders go every day. The Port Authority, as you know, is a bi-state agency, and they collect tolls from not only New Jersey residents, but from New York residents. And about 40 percent of the tolls come from New York residents who are commuting, and about three-quarters of those people end up on the Garden State Parkway or the New Jersey Turnpike.

The question has been asked before about why doesn't New York state government contribute. It gets down to New York state and

New York City have other major transportation projects. They are extending the -- they are building the Second Avenue subway; they're extending the Number 7 subway line; they're building East Side Access, which is a commuter rail improvement -- all of these into midtown Manhattan. If we were to wait for them to contribute money, we'd have a long wait, I think, because obviously we know where their priorities are. So this-- People from New York are contributing through a collection of tolls on the Turnpike, the Parkway, and the Port Authority crossings, as well as the airports and that sort of thing.

ASSEMBLYMAN WISNIEWSKI: Obviously, that's always a point of contention, because New Jersey people-- They're contributing actually a greater share of that same money to the same pot. And so, from my perspective, I wish New York state were paying its fair share for the Tunnel. Maybe we'll make fares for New York commuters a little higher using the Tunnel than for New Jersey commuters.

Let's just address, briefly, the AIG issue. In your testimony, you had said that, worst-case scenario, there's not a Federal back-up for the AIG. There's no credit-worthy partner that can be found. There's a potential for \$150 million exposure. Is that \$150 million in one shot or is that \$150 million over a number of years?

MR. SARLES: You want to try that, Charlie?

H. CHARLES WEDEL: Sure. Chairman, (indiscernible) 16 different leases, so basically each one has its own requirements, based on the downgrading of AIG. So technically what would happen is each one would be handled separately and it would be handled over a number of, at least, months if not years.

ASSEMBLYMAN WISNIEWSKI: And if New Jersey-- Again, just talking-- We all understand this is worst-case scenario, but there's lots of things that have happened recently that none of us thought would happen, so we need to consider these. If New Jersey TRANSIT had to make up \$150 million at the fare box, what does that mean in terms of fares?

MR. SARLES: Well, actually, I would hope that we would not have to make it up at the fare box, yes. That is the last place I'd like to go for that. I would prefer to see-- The way we would look at it is not to interfere with our program of keeping the railroad in a state of good repair and safe, not to go back to the fare box. But maybe what we'd have to do is to defer some capital projects a little bit until we got this straightened out.

ASSEMBLYMAN WISNIEWSKI: But if you had to raise that kind of money, (indiscernible) is that a 10 percent increase?

MR. SARLES: It's a lot more than a 10 percent increase.

MR. WEDEL: Right.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Stender, Vice Chair.

ASSEMBLYWOMAN STENDER (Vice Chair): Thank you, Mr. Chairman.

Good morning.

First of all, I wanted to say that I am so very pleased to hear about the progress of the Tunnel which, of course, I've been following because of the impact for mass transit, and for our state, and for our environment.

You talked a little bit about the \$3 billion coming from the Feds, but that's not assured yet -- is that correct?

MR. SARLES: That is correct. We have to make those arrangements this year. That's one of the next steps. That was why it was so important about the Record of Decision being issued, that we can now have those discussions with them.

ASSEMBLYWOMAN STENDER: And the \$3 billion is then separate from the securing the AIG, correct?

MR. SARLES: Yes, total (indiscernible).

ASSEMBLYWOMAN STENDER: So it's a total of-- How much money are you really looking for from the Feds?

MR. SARLES: We're looking for \$3 billion from the Feds. The AIG discussion -- we're not looking for any money from the Feds. In fact, all we're asking the Federal government to do is simply step in and guarantee the payments that AIG was making. I want to emphasize it: AIG has continued to make the payments they're required to make. It's only a technical default, because they were downgraded in their rating, that they came back to us. So we're not asking the Federal government to make any payments, we're just asking them to guarantee it, and AIG has been making those payments.

ASSEMBLYWOMAN STENDER: And when the Federal government stepped in to help AIG, there was no connection between that and this?

MR. SARLES: Unfortunately, not.

ASSEMBLYWOMAN STENDER: That was one of the many problems, I presume.

With the Tunnel being built, could you speak a little bit to the kind of increase in service, and new service, you would expect as a result of that?

MR. SARLES: We'll basically double the amount of service that goes into New York over what we have today in the peak hours. Today we can-- Between us and Amtrak we send 23 trains an hour into midtown Manhattan. When the Tunnel is built, we will have a capability of sending about 48 trains into Manhattan. And this not only increases the frequency on the existing lines that have service into New York -- such as the Northeast Corridor, the North Jersey Coast Line -- but it allows us then -- and is one of the principal reasons for building this Tunnel -- is to provide one-seat ride service from other rail lines into New York that don't have it today, such as the Raritan Valley Line, the Main Line, the Bergen County Line, the Pascack Valley Line. They will now all be able to have direct service into Manhattan, which is a major improvement -- as well as the Boonton Line, Montclair-Boonton.

ASSEMBLYWOMAN STENDER: And are you expecting to, as part of this goes forward, to be looking to expand rail service into areas that don't currently have it?

MR. SARLES: With this Tunnel-- If we did not build this Tunnel, it would be difficult to get the benefit of any expansion of rail service. By building this Tunnel it allows other services to be expanded in the future because we removed the bottleneck.

ASSEMBLYWOMAN STENDER: And then when we have expanded service -- if we're going to double the amount of capacity -- then

that means that we're going to have double the ability to get people in and out of these stations, correct?

MR. SARLES: That's why at Penn Station we have to add tracks and platforms, because as people well know, going into Penn Station today, you have-- We cannot actually let people down onto a platform to wait for a train. We have to keep them up in the concourse -- the waiting areas -- because the platforms are so narrow. And it takes a while for people to exit the trains; and, in fact, during the middle of rush hour the (indiscernible) people are actually backed up into the train. We can't move a train out because they are going up through these narrow escalators or stairways. So we're building more tracks and platforms. And so yes, we do need more capacity.

ASSEMBLYWOMAN STENDER: And also at the stations, in terms of parking? I mean, I think that continues to be a problem.

MR. SARLES: Yes, we've had a program for a number of years to expand parking at the stations, and we will have to expand parking in the future at stations where that's-- We can work that out with the communities. As well as using shuttles-- I mean, that's the other part. For communities that do not wish to have more of their land used for parking, we encourage use of shuttles to the station so people can just walk a block, hop on a shuttle, and then go right to the station and not have to put more parking in.

ASSEMBLYWOMAN STENDER: Thank you.

And one question I had about the Raritan Valley Line, since you mentioned the one-ride service. I know that you've ordered new engines that will allow -- that will be a conversion.

MR. SARLES: Yes. What we've done -- and frankly, because I want to get these engines in early before the Tunnel is completed -- we've ordered dual-mode locomotives. These locomotives have both a diesel engine in them as well as the ability to put a pantograph up and run off electric power.

ASSEMBLYWOMAN STENDER: That's great.

MR. SARLES: So on the Raritan Valley Line, as an example -- which I ride every day, most every day -- diesel will continue to operate into Fanwood, Westfield. But when we get to Newark -- Newark Penn Station -- we put a pantograph up and they'll turn off the engine and run into New York on electricity. Same thing for trains coming out of, say, Bay Head or Belmar. Take the Long Branch, they'll turn the diesel off, put up pantograph-- I tell you, I've seen this happen in Newark -- takes one or two minutes, the time at the station. And that will be true of all the other diesel-powered lines.

ASSEMBLYWOMAN STENDER: And we expect those within the next couple of years?

MR. SARLES: Yes, we expect to get the dual-mode locomotives about 2011, 2012, so this way we get experience with them, everybody gets trained well on them, we work the bugs out. And so that when they do enter the new Tunnel, they'll be running very reliably.

ASSEMBLYWOMAN STENDER: Great, thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Director Sarles, first of all I want to applaud your leadership in terms of making this ARC Tunnel become a reality. I know there were many players involved in it, but certainly you were most instrumental in making it come to fruition.

Looking back: There was a similar project done up in Boston -- a lot of problems with construction, tremendous cost overruns. With the management of this project, do you have staff in place or are you going to rely on project managers? I mean, it's-- These are different times, as you know.

MR. SARLES: Yes.

MR. SARLES: I mean, there's no unlimited tap as far as financial resources are concerned. So I'm sure you're sensitive to that issue.

MR. SARLES: Very much so. A couple of things on that: First of all, the core staff that runs this project are either New Jersey TRANSIT or Port Authority employees. We are controlling the project. Yes, we do hire consultants to do design. Yes, we do hire consultants to do a construction inspection (indiscernible). But we're running the project, keeping our eye on the money, and making sure the decisions are made correctly and intelligently. Our staff that report are part of the project team and, as I say, they're either New Jersey TRANSIT employees or Port Authority employees. We've created an integrated team which exists in Newark.

The second part is that part of going through the Federal Transit Administration process is, I will say, an extraordinarily rigorous review by them and their technical experts of the project costs. And as I mentioned earlier, this is where we reviewed the amount of project

contingency which, at the FTA's request, it will now increase to about \$1.6 billion, \$1.7 billion. So part of that \$8.7 billion is over \$1.6 billion in contingency that takes care of unforeseen circumstances. And we also increased the inflation rate, because of what was happening a year ago is not happening now.

So we are putting in place good controls, project controls, and we're having our people being in charge of this project -- not letting someone else run it for us.

ASSEMBLYMAN GIBLIN: The most ambitious date that you can start this project -- you have a date in mind?

MR. SARLES: I would say that we could go to construction -- assuming we continue to work along with the Federal government -- this summer with the first contract, which would be an underpass under Tonnelle Avenue where the tracks will pass under Tonnelle Avenue. I would see also advertising the contracts. The wagger contracts for digging the Tunnel are boring contracts, and bringing big machines that may be in Europe and Japan. And we're going to go with design-build contracts. This allows the final design of a lot of the details of the Tunnel to go on while we start construction. We expect to advertise those contracts this year, and start awarding them before the end of the year -- to start construction before the end of the year.

ASSEMBLYMAN GIBLIN: What kind of number do you think -- with construction jobs during the course of this project (indiscernible)?

MR. SARLES: About 6,000 construction-related jobs every year during the course of the project.

ASSEMBLYMAN GIBLIN: I know that building construction trades have had a fair amount of unemployment. But would a project like this, in terms of local employment, or opportunities for minorities and women-- I know similar agreements were made at Newark Airport, Gateway Newark, Devils Arena, places like that. Do you envision something like that, to try to give opportunities for local youngsters or underemployed people to get a break, so to speak, with a good job with benefits?

MR. SARLES: There are two pieces to that: on the business side and on the labor side. On the business side, we see the extraordinary opportunity for DBEs. We see that -- over \$1 billion of construction opportunities for the Disadvantaged Business Enterprises. On the labor side, we're working with the State Labor Department to put together the right training programs so that exactly what you said can be brought about in terms of making opportunities available to local people, and minorities, women -- that sort of thing.

ASSEMBLYMAN GIBLIN: Just one final thing: Going forward, I know you had the issue with AIG. How are you handling that with new equipment in the future?

MR. SARLES: We're not doing those anymore.

ASSEMBLYMAN GIBLIN: You're not doing it at all? Okay.

MR. SARLES: No, not for (indiscernible).

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.
Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Thank you, Chairman.

Executive Director Sarles, it's always great to see you. And I want to personally thank you for all your hands-on help, especially in my District, throughout the times; and your leadership on this ARC Tunnel, which actually starts in my District so I've been part of many, many discussions of it. And it's a very exciting time.

My youngest rides the train every day from Secaucus to New York to college -- he commutes. So he tells me how crowded they are and doubling the capacity would be wonderful. As our friends in labor-- To create these jobs, especially 6,000 a year for each year -- that would be a great boost to our economy. One of the great things that I just heard from you is that you will be working to make sure minorities get some of these jobs. And I know working with them to get education out there, to know about applying for these jobs, is key. But I think this is a win-win for everybody, not just for this particular area but for the whole region. And I think it's a wonderful project.

I've seen so many other of the concepts from when it began, and seeing it to being almost shovel in the ground, it's wonderful. And I want to, again, thank you.

MR. SARLES: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Assemblyman Rudder.

UNIDENTIFIED MEMBER OF COMMITTEE:
Assemblyman Rudder, but (indiscernible) wanted to speak today,
(indiscernible)--

ASSEMBLYMAN WISNIEWSKI: Well, you know, I was told-- Actually I was told Scott wanted to speak, so-- (laughter). There's two Scotts.

ASSEMBLYMAN RUDDER: Scott Rumana, Scott Rudder -- I get myself confused.

Mr. Director, thank you again for coming. This is an exciting project on many levels, but I have a couple of concerns, and some are philosophical and some are related to the project itself.

And one of my concerns that I have is that while we are looking at record number unemployment rates, this-- A lot of your testimony did deal with, this does create jobs. And so from that perspective, that's a good thing. Where I'm concerned is that we're going to be spending several billion dollars to help New Jersey residents leave New Jersey to get a job someplace else. And so, from that perspective, I look at those dollars would be better spent here within New Jersey -- completely within New Jersey -- either working on our structurally deficient bridges, 66 percent of which are structurally deficient; whether we're talking about providing tax incentives to encourage businesses to either relocate here or retain our businesses that are currently here.

And so I'm curious as to why we're going this way right now -- and I understand there's years of preparation into this -- but why are we not spending more money on our structurally deficient bridges and why are we not spending more money, this same money, providing tax incentives to attract businesses here so that we don't have to have New Jersey residents leaving New Jersey for a job?

MR. SARLES: Some of that goes beyond my expertise.

ASSEMBLYMAN RUDDER: I know some of that falls into your purview.

MR. SARLES: I'll try to stick to my purview.

With regard to state of good repair on the TRANSIT system: I will tell you that that and safety are always our first priority, and we keep New Jersey TRANSIT facilities near (indiscernible) state of good repair -- that's our first priority, before any expansion of anything.

The project itself-- We all have to realize that Manhattan is the financial center of this region, if not this nation. And there are a lot of high-paying jobs there. And building something like the Tunnel allows our residents to take advantage of those jobs. But the Tunnel goes beyond that. As I said in my testimony, it opens up the bottleneck on the rail system. If we don't open up the bottleneck on the rail system, we cannot expand the service on the rail service which also provides a lot of service for people traveling within New Jersey. So a person who gets on in Trenton and wants to go to New Brunswick -- and there are many of those people; in fact, a lot of them get off at the River Line -- if we can't run more trains then they don't have any more service either. And they will be finding themselves also not being able to get on the train because they get too crowded. So this does not only improve service to New York, but by opening the bottleneck it improves service throughout New Jersey, gets people off the road, takes 22,000 vehicles off the road every day when this project is completed -- in New Jersey.

ASSEMBLYMAN RUDDER: Thank you. And again, I know I kind of laid out some other issues there that are beyond your purview and ours here as well. But I guess my chief concern is that we're not doing

enough to stimulate the economy internally. But I understand what your job is in making sure that this Tunnel goes through.

One other question I have, and looking back at some of the research is why we've moved from Grand Central Station to Penn Station as a point of destination. When we talk about the jobs in New York City, where we have a significant amount within the Grand Central Station area -- why we shifted.

MR. SARLES: Actually, there was no shift. The Tunnel was always intended to go into midtown New York in the vicinity of Penn Station, if not Penn Station itself. What was also part of the desire was to go beyond Penn Station to Grand Central. It's costing us \$8.7 billion to get to Penn Station. We have designed this project so that in the future we can go beyond Penn Station to the East Side, whether it's Grand Central or to the Second Avenue line, or whatever. But we've left that window open.

Right now, today, we cannot build east of Penn Station because Manhattan is served by this water tunnel. That water tunnel is east of Penn Station. It's down below, but right now we cannot go into that area until they complete another water tunnel -- I mean, this serves all of Manhattan -- until they complete another water tunnel on the West Side. And at that point -- a couple years hence; it's under construction -- then they can decommission temporarily the water tunnel on the East Side and do repairs. And at that point the next generation after me can then look at the funding and the ability to tunnel over to the East Side. But right now, you can't do that.

ASSEMBLYMAN RUDDER: Thank you. Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Rumana.

ASSEMBLYMAN RUMANA: Thank you, Mr. Chairman.

A lot of the points I was going to make or ask about have already been asked, so I don't want to reiterate all of those questions again.

I just want to make a couple of points: One, I certainly support our Chairman in his point about New York state. It is a very frustrating thing to hear, as a New Jersey resident and certainly a New Jersey taxpayer, that New York state is not contributing to this Tunnel. But I also understand from our previous discussion in the presentation today about why that's not happening. And I do recognize the importance of this project very much.

Let me just take a step back and say I also want to thank you for being here. You are an excellent Director of New Jersey TRANSIT, Mr. Sarles, and I'm very proud of your service.

Kind of picking up on what Assemblyman Giblin had said about the Boston tunnel, because that was something I was going to raise myself. Trying to make sure that the taxpayers are aware of all of the cost controls that TRANSIT has in place to ensure that this project doesn't -- that the costs do not, all of a sudden, increase as much as what we saw with some other projects like the Boston tunnel.

And in listening to some of the testimony, I recognize that you have worked -- not you, but the people who are working on the financial end of the project -- have put in inflation costs -- or estimated inflation costs. I don't know where they are looking as far as how the Stimulus Package may affect that. One of the outfalls of -- outcomes, rather, of the

grand Stimulus Package coming out of the Federal government clearly is going to be inflation. I think everybody recognizes that. And it may be a lot more than what you are or were originally estimating, because we weren't facing that fact until now. Now, when you put \$825 billion, or close to \$1 trillion into this economy -- in terms of how they're going to do that obviously the (indiscernible) of that is going to be inflation much more than what we've seen in years past. I don't know how you deal with that. And what happens if that does occur? And I guess as you work through the Federal contribution to the project, maybe that should be part of that discussion: that they will cover those inflationary costs if they, in fact, are the ones who are going to be causing that anyway for us.

MR. SARLES: That certainly will be part of the discussion.

We are in dynamic financial times. It's been extraordinary, the last year or two, for all of us. When we put this estimate together, and when we were discussing with the Federal government what the inflation factor should be -- and we actually increased it over the historic average -- we were in a highly inflationary period. That was about a year ago, if you recall. Commodity prices were going through the roof, steel, concrete. Now it's gone the other way, and it's -- we don't see the inflation we saw before. So for a time period here, we're not hitting those inflationary times. They could come in the future. It may be the right, perfect time to be out bidding contracts now with unemployment going up, with the commodity prices having nosedived down. I couldn't think of probably a better time. But you're right about the future. We do have a large contingency in there, and we're going to try to stick with it.

ASSEMBLYMAN RUDDER: Mr. Chairman, that is my point in question. Like I said, they were covered by other members.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.
Assemblyman Rumpf.

ASSEMBLYMAN RUMPF: Thank you.

Good morning, again, Director. Thank you for being here. I appreciate you coming by on a regular basis to keep us informed.

The new Tunnel, Director: Any anticipation as to -- whether or not the MOM Line is ever created and constructed -- will the new Tunnel-- Has it been designed to accommodate that additional ridership?

MR. SARLES: The new Tunnel is designed to accommodate increased ridership. Where it comes from will be as we proceed over the future years.

With regard to MOM-- Actually, we took a step back in the plan a minute because we saw, with the new Tunnel coming, it would actually increase the ridership forecast for it. So we've taken that into account when we've planned a new MOM Line. So we actually see more benefits from the MOM Line with the new Tunnel being built.

ASSEMBLYMAN RUMPF: Perhaps it's more incentive to see that the powers that be move that forward.

With regard to the financial arrangements that you discussed, in terms of New Jersey providing *X* amount and the Federal government, the Port Authority-- In the event there are not those cost overruns that you've been forced to consider, as well as the inflation of 4.2 percent that's

factored in, where will the excess money go back to? What player in this consortium?

MR. SARLES: Actually, it would go back to-- I would like to see it go back to the local equity investors, if you will, which is New Jersey and, of course, the Port Authority and New Jersey Turnpike.

ASSEMBLYMAN RUMPF: And one would hope that should that extension to Grand Central ever take place -- being as though it would be entirely, now, a New York project, perhaps New York would be considering some funding responsibility for that as well.

Just one final question, Director. The \$120 million that is going to TRANSIT, as you mentioned, from the increase in tolls -- has that been put to use? And where is that--

MR. SARLES: It's \$1.25 billion that's coming to NJ TRANSIT for the ARC Tunnel.

ASSEMBLYMAN RUMPF: No, not for the ARC Tunnel, for the operations.

MR. SARLES: I don't believe that's the case. I mean, I don't see \$120 million coming to us from the Turnpike.

ASSEMBLYMAN RUMPF: Well, it was my understanding -- and I apologize if I'm incorrect -- but that the Governor had announced that the funding increase through the toll increase -- 1.25 would go towards the Tunnel, and \$120 million -- \$60 million per year for two years -- was going to NJ TRANSIT.

MR. SARLES: We are not getting \$120 million from the New Jersey Turnpike.

ASSEMBLYMAN WISNIEWSKI: Assemblyman, I think that was part of the original proposal, but I don't know that that actually became-- There's no agreement, there's no documentation to do that. I think that was the original proposal that did not actually happen.

ASSEMBLYMAN RUMPF: All right. I thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

I know Assemblywoman Stender has some questions that she wants to follow up--

Mr. Sarles, one of the goals NJ TRANSIT has -- long-standing goal -- increasing rail service in the state. So we've heard the Assemblyman talk about the MOM Line, we've heard about one-seat ride on the Raritan Valley Line, and the list goes on and on, on places that are logical extensions. And, obviously, I think you made the point that none of that's possible if you don't have the capacity to get through the Tunnel. The current tunnel capacity -- where are we at with that? What's left?

MR. SARLES: There's none left. There are 23 trains per hour. I will tell you we've done everything to squeeze the last bit of capacity out. The beginning of the decade -- the signal system was changed. They'd get up to 23. Now we're putting double-decker cars out there so you can get more people on the cars. There's no place else to go now.

ASSEMBLYMAN WISNIEWSKI: And on the double-decker cars, you're in the middle of a contract with Bombardier to receive double-decker cars.

MR. SARLES: Right.

ASSEMBLYMAN WISNIEWSKI: How many have you received? How many more are you going to get? What's the status of that?

MR. SARLES: We've received over 200 cars to date. We have over another 100 to come before we finish out that contract. So it will be up around 329, 349, something like that.

ASSEMBLYMAN WISNIEWSKI: And as I understand it, then there's an RFP that's either out or is going to go out for new rail cars.

MR. SARLES: We have an RFP that's out now. We've received proposals, but we're in the process of discussing those with the vendors about requiring more cars, more EMUs.

ASSEMBLYMAN WISNIEWSKI: They would be different than the double-deckers?

MR. SARLES: Those would be. They would-- The existing Arrow III cars -- these are the ones that run on the Northeast Corridor -- well, they run on all the electrified lines -- they are probably 30, close to 40 years old. We're looking at replacing them.

ASSEMBLYMAN WISNIEWSKI: You used the term *DMU* (*sic*) in terms of the replacement.

MR. SARLES: EMU.

ASSEMBLYMAN WISNIEWSKI: EMU.

MR. SARLES: I'm sorry, electric multiple unit cars.

ASSEMBLYMAN WISNIEWSKI: Okay. And so what you're looking-- You've asked for proposals from manufacturers on essentially replacing those types of cars.

MR. SARLES: Yes.

ASSEMBLYMAN WISNIEWSKI: Would they be used with the-- Are they envisioned for a particular line, or is it just systemwide?

MR. SARLES: They would be systemwide on existing electrified lines.

ASSEMBLYMAN WISNIEWSKI: Is there funding set up for that, or is that something that, ultimately, the Legislature is going to have to consider on how that gets paid for?

MR. SARLES: There's available funding for that.

ASSEMBLYMAN WISNIEWSKI: There is? Is that through the TTF?

MR. SARLES: That would be TTF.

ASSEMBLYMAN WISNIEWSKI: Okay. And what's the status of that process? Is it something that, hypothetically, by summer you're going to be looking to procure -- enter a contract? Is it something that's just in the formative stages?

MR. SARLES: No, we are receiving proposals. We are going back and forth on the proposals to see how we can get to the right price. And that's where we are. So I would hope that this year we would make a decision and go forward.

ASSEMBLYMAN WISNIEWSKI: So when you're back and forth, you're basically-- Whoever submitted proposals, you're talking to them, saying, "This is too much. Why did you put this in it? We need this. You didn't give us that." That type of stuff.

MR. SARLES: Right.

ASSEMBLYMAN WISNIEWSKI: And that's a standard process?

MR. SARLES: Yes.

ASSEMBLYMAN WISNIEWSKI: Okay.

Assemblywoman Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

Mr. Sarles, just as a follow-up on that, why-- If you're ordering new cars, why aren't you ordering all new double-deckers which would increase capacity?

MR. SARLES: This is one of the things we look at, and we're actually reevaluating. The electric multiple units are generally better for areas where you have very high-density service and you have frequent stops. They have a little bit better acceleration characteristics than the ones that are locomotive hauled. In fact, in these next few weeks, we're testing the double-deckers with locomotives to just see how close we come to the acceleration characteristics of the EMUs. But that's generally why you use them. Because in certain areas where you need quick acceleration between stations that are closely spaced, you sometimes can get a little bit more capacity by using those.

ASSEMBLYWOMAN STENDER: Okay.

The other thing I had wanted to ask some questions about-- When you were last here, you talked to us about the change of service scheduling; how you were kind of moving things around. I know that there had been elimination of some trips on Sundays, and there had been some changes to schedules, and employee levels, and so on. If you could, just bring us up-to-date on the status of that and whether that all worked.

MR. SARLES: Sure. Over the past year, we were facing significant increases in ridership. I mean, we only have a finite amount of resources. So what we did, basically, is put the seats where the demand was. Some of the areas, like the Raritan Valley Line, where on Sunday

morning we did not see a high demand for service, we went to bi-hourly service rather than hourly service. In fact, we eliminated a train I occasionally take early in the morning.

But by doing that, we were able to live within our resources and put the seats where the high demand was, where people were standing and that sort of thing. So that's what we were doing. We made adjustments. We were very conscious of the fact that we have to provide transit to the transit dependents, those people without cars for whatever reason, so we do not eliminate service anywhere. But sometimes we asked people to transfer at a station. If you were on the M and E Line, for instance, we might ask people to transfer at Broad Street Station to get into Midtown, or to go to Hoboken or something like that.

ASSEMBLYWOMAN STENDER: (indiscernible) (speaking off microphone)

MR. SARLES: Yes, we lost -- we did not see a significant difference, because basically where we did it, it's more discretionary riders and they can shift. We were very careful to try to make sure that people who needed to get to work could still get to work.

ASSEMBLYWOMAN STENDER: And then the last question is: You were doing that in response to increased ridership. As gas prices have started to decrease, has the ridership changed?

MR. SARLES: There's been a change in the pattern. A couple things went on. In New Jersey, as you know, there's been a slight decline in employment. New York City was still growing in that period of time. And we had the skyrocketing prices, which was a double-edged sword for us because it did encourage people to come to TRANSIT, and it also drove up

our energy costs. So we were getting it both -- positive in one way, negative in the other.

What has occurred now with the drastic reduction in gas prices -- from the highs, anyhow -- and to the fact that New York City employment has occurred at the end of last year -- you know, the decline -- we're now seeing the leveling off of employment -- leveling off of ridership; in fact, some decreases, especially on the weekends for discretionary riders. But also we're seeing it on the weekdays, too.

ASSEMBLYWOMAN STENDER: Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Smith has a question.

ASSEMBLYMAN SMITH: Mr. Sarles, it's always good to see you, especially here instead of Jersey City. (laughter)

My question deals with how green are we thinking with regard to our upgrades, and the new trains and buses that we're putting on the line, irrespective of the decrease in the price of fuels? We need to prepare for the future. How are we going about doing that?

MR. SARLES: There are several things. In fact, we're going to be participating with APTA in a whole sustainability effort, and putting together a sustainability plan. But some of the things we've done, or are doing, are: when we order buses -- and we're replacing all the TRANSIT buses that go into the urban areas in New Jersey -- we will be meeting the latest U.S. EPA requirements in terms of reducing the amount of emissions from those buses. So they will be right up-to-date on that. And that's replacing an entire fleet of TRANSIT buses.

When we're ordering these dual-power locomotives, not only will we meet the latest EPA standards, but we will actually -- by being able to shut down the diesel engines when we hit electrified territory -- reduce the amount of emissions. We are participating with the State in looking at -- in fact, I think we're going out for proposals this year -- areas where we can introduce solar power. We have lots of roofs. If you look at our bus depots, the maintenance garages, you look at our major rail maintenance facilities, there are a lot of roofs out there. And we're going to put those to good use by introducing solar power where it makes sense economically. Those are a few of the things we do, but we're going to be expanding that as we get further into this. The Tunnel alone -- which is a big effort -- reduces the carbon emissions -- reduces emissions by about 67,000 tons a year, because we take people off the road. So we are green, and we're going to get greener.

ASSEMBLYMAN SMITH: We're getting green. We're probably about lime now. (laughter) Have to add a little levity, Rich. You're sitting there all tense.

But what about our personnel? You know, when you make these types of transitions, I don't like to-- I like to think that we're taking our personnel that we have with us, who maintain these vehicles -- that we're taking them with us, and we retool and retrain them as well, which broadens the personnel issue to a more permanent level. You know, these construction jobs are great. I'm glad we're doing something in the Tonelle Avenue area in Jersey City and that circle. But I'm also concerned about the permanency of our personnel and how we grow our staff and re-staff for the future.

MR. SARLES: Clearly our most important assets are the people who work for NJ TRANSIT. There's no doubt about it. We have close to 11,000 employees. And most of all of those people are out working on maintaining and operating the system.

What we do when we have new equipment coming in, we have training programs for people so they can maintain the new equipment. So the people who are in the maintenance shops come up to that technology, because it is more sophisticated technology. The same thing with the operators when they come on board. But what we're also looking at -- and our -- and this I'm talking about on the rail side -- is, we do have turnover. We have new people coming in as people retire. And we are looking at providing more training to the folks so they can learn this new equipment and just have formal training programs in addition to on-the-job training. So that's very important. It's something that we're focusing on.

ASSEMBLYMAN SMITH: Have you looked at-- This is my last one. Have you looked at the windmill situation to create electricity along the routes that we have there to lessen our dependency on electricity coming from other sources?

MR. SARLES: As I said earlier, we're primarily looking at solar power. We actually own very little of the right-of-way. We've had some discussions here in the State about that possibility. But once you get beyond the tracks, generally we don't own too much except at the yards. So it's something to look at.

ASSEMBLYMAN SMITH: I understand. But there is a space. There is a corridor between the tracks and the area that extends out from the track.

MR. SARLES: Sometimes not a lot.

ASSEMBLYMAN SMITH: Okay. Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblywoman Wagner.

ASSEMBLYWOMAN WAGNER: Thank you for coming here today.

Assemblyman Prieto and Assemblyman Smith both touched upon education. Are there any implications for how we would train our vocational students, or our community or State colleges for jobs?

MR. SARLES: There are a couple of things. One is, we have been -- and I'm trying to recollect now. On the project itself, we have been working with some of the colleges -- local colleges, New Jersey colleges -- in terms of bringing the students in so they understand what we're doing and they can learn. I mean, this is a massive project, a complex project, it's a generational project. So it's important. And I remember being an engineering student -- how important it was to go out and see construction projects. So we're working with them, and we're bringing them on to do that.

We also hire people from colleges, and bring them in and train them so that they know what it is to work in a public transportation area. It's public service. It's something I-- When I came out of college, I decided I wanted to do public service and not go in the private sector. So we encourage people to come in and do that. And as this project moves along, I see more of that opportunity.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblywoman.

Assemblyman Giblin, for the second time.

ASSEMBLYMAN GIBLIN: Just one question, Director Sarles, a little parochial: The Montclair Line weekend service.

MR. SARLES: Yes.

ASSEMBLYMAN GIBLIN: Is that in the cards in the foreseeable future?

MR. SARLES: There are two things that have to happen. There's a New Jersey Department of Transportation project -- that bridge project that has to be completed. And then that at least allows us -- because they're working on weekends now to do that project. And I think that's going to be completed this year -- I think next year, 2010.

The other issue is that Amtrak, with the two existing, 100-year-old tunnels, takes one out of service every weekend. So it makes it difficult to do maintenance work, to do reconstruction. It makes it difficult to add more slots on the weekend, because we only have one tunnel for trains going in and out.

What we're looking at, because we're not sure exactly when that's going to end, is perhaps starting weekend service that would at least go to Hoboken until there is enough capacity to get into New York. So that's what we're looking at.

ASSEMBLYMAN GIBLIN: When do you anticipate that--
(speaking off microphone)

MR. SARLES: What we would be looking at is probably in 2010, after the DOT project gets done -- so when we have the resources.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

And I'd like to thank the Committee members for their questions.

Gentlemen, thank you for your testimony. NJ TRANSIT is a well-run agency, Charlie, Rich, thanks to your stewardship. Thank you for the work you've done on the Tunnel project. Most importantly -- and I think it gets overlooked -- thanks for your commitment to safety. One of the fundamental hallmarks of your tenure as Executive Director -- and I know you believe it strongly -- is to make sure that not only are the trains on time, but they're on time safely. And I want to thank you for your leadership in that area.

Gentlemen, we appreciate your testimony.

Thank you.

MR. SARLES: Thank you very much.