Committee Meeting

of

ASSEMBLY TRANSPORTATION AND PUBLIC WORKS COMMITTEE

Assembly Bills No. A-3686; A-3897; and A-3952

(Prohibits foreign ownership of certain transportation infrastructure; prohibits New Jersey Turnpike Authority from contracting with private entity for operating highway projects, directs surplus New Jersey Turnpike Authority revenues to Transportation Trust Fund; and requires legislation authorizing sale of certain State assets to be approved by voters)

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

DATE: February 26, 2007
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

Assemblyman John S. Wisniewski, Chair
Assemblywoman Linda Stender, Vice Chair
Assemblyman Thomas P. Giblin
Assemblyman Gordon M. Johnson
Assemblyman Louis M. Manzo
Assemblyman David R. Mayer
Assemblyman Vincent Prieto
Assemblywoman Jennifer Beck
Assemblyman Francis L. Bodine
Assemblyman Sean T. Kean
Assemblyman Kevin J. O'Toole

ALSO PRESENT:

Maureen McMahon
Office of Legislative Services
Committee Aide

Aaron Binder
Assembly Majority
Committee Aide

Jerry Traino
Assembly Republican
Committee Aide

Meeting Recorded and Transcribed by
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ASSEMBLYMAN JOHN S. WISNIEWSKI (Chair): Good morning.

Would members kindly take their seat.

This is the Assembly Transportation Committee. We are being broadcast live on the Internet. I would ask if you have a cell phone or pager on, if you would either turn it off or put it on vibrate.

Today's agenda has several bills for discussion only; two bills upon which we will act; and we will also hear testimony from several individuals concerning the issue of asset monetization -- otherwise known as the proposal to lease or sell the New Jersey Turnpike -- and we will address that in due course throughout this meeting.

Let's first start with a roll call.

MS. McMAHON (Committee Aide): Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Here.

MS. McMAHON: Assemblyman Kean. (no response)

Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Here.

MS. McMAHON: Assemblyman Bodine.

ASSEMBLYMAN BODINE: Here.

MS. McMAHON: Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Here.

MS. McMAHON: Assemblyman Panter. (no response)

Assemblyman Mayer.

ASSEMBLYMAN MAYER: Here.

MS. McMAHON: Assemblyman Manzo.

ASSEMBLYMAN MANZO: Here.

MS. McMAHON: Assemblyman Johnson.

ASSEMBLYMAN JOHNSON: Here.

MS. McMAHON: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Here.

MS. McMAHON: Vice Chair Stender.

ASSEMBLYWOMAN STENDER: Here.

MS. McMAHON: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Here.

We have a quorum present.

The first bill that we will consider is Assembly Bill 3948. We also have, although not listed on the agenda -- we have the Senate companion on our agenda. It has been waived onto our agenda by the Speaker, and we have a letter that will be read into the record, as soon as we receive it.

Maureen, would you please read the statement.

MS. McMAHON: Assembly Bill 3948 and Senate Bill 25 authorize the Port Authority of New York and New Jersey to establish two additional air terminals outside the Port of New York district, one in each state, served by the Port Authority. The Port Authority is expected to acquire the lease of Stewart International Airport in Newburgh, New York, and expects that the addition of this airport will help lessen the congestion encountered by passengers at the Port Authority's other airports in the region, namely Newark Liberty, John F. Kennedy, and LaGuardia Airport. The state of New York has already enacted companion legislation.

ASSEMBLYMAN WISNIEWSKI: Assemblyman Scalera, would you please come to the table and address the Committee -- the prime sponsor of this legislation.

ASSEMBLYMAN FREDERICK SCALERA: Thank you, Chairman and members of the Committee, for posting this bill today. This bill, in my district -- which is encompassing both Essex County and Bergen County -- is really a quality-of-life bill. I'm sure history is -- Teterboro Airport is in my district. And since I've been there, we've had environmental issues, which we have a study going on. We've had quite a few crashes. And thanks to the Port Authority -- and I know they're here today -- we now have arrestor beds, so that if the planes come off the landings, they can't get off the airport property. It's this new type of concrete/foam cement that explodes and traps the airplane.

But the thing that comes up in the district consistently, whether you're in Bergen, or even traveling over to Nutley where I'm in Essex, is the amount of planes, takeoffs, and landings. Thanks to Congressman Rothman, we have an agreement with most of the operating units there to cut the flights down at night. But the question keeps coming up continuously, "What are we doing as the volume is increasing?"

Well, Stewart Airport is something that becomes part of an answer to that, and I can give you some data. Stewart Airport is a vital piece of comprehensive strategy to reduce airport overcrowding and delays. By investing in Stewart, the Port Authority takes another step in returning to its historic mission as a driver of a majority transportation project in the region. This agency will make significant investments in the airport, as it has throughout history. The growth, as we're experiencing at the metropolitan airports today -- astonishingly, in 2003, the region's airports saw 84 million passengers. Last year, the region's airports attracted over 100 million passengers for the first time. Approximately 11 million of these people come down to these three airports, including Teterboro, from the region where Stewart Airport is. So 11 million people actually come to LaGuardia, Kennedy, Newark, and Teterboro out of this airport.

In 1967, the state of New York approved the Port Authority to operate one airport outside of its district and boundaries. So that's all we're looking for here today, is to be able -- allow the same exact situation that is operating in New York, which was already approved in '67, for them to operate outside the boundaries. It would be great for my district. I think it's great for North Jersey. It's good for the economy. It's safety in the air. And this is also out of the same traffic controllers pattern, so it's actually shifting the air traffic to make it safer over the New York/New Jersey metropolitan area.

Thank you, Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman, very much.

It does show the wheels of government sometimes grind very slowly. New York did this in 1967, and here we are.

If you would just stay there. Bill DeCota, Director of Aviation from the Port of Authority of New York and New Jersey, is here -- no need to testify in favor -- and will answer any questions.

Any members of the Committee have questions?

Vice Chair Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

The only question I have is, this is allowing one in each state, but we are not getting any information about any plans for New Jersey.

ASSEMBLYMAN WISNIEWSKI: And I will defer to the sponsor; but my understanding is, is that this legislation allows the Governor of New Jersey to designate an airport in New Jersey when he desires to do so.

ASSEMBLYMAN SCALERA: No. That's actually incorrect.

What this does is, the Port Authority only has one region it can operate in. We're allowing them to operate one outside of the Port Authority district. In this case, it would be Stewart Airport. That's the way I--

ASSEMBLYMAN WISNIEWSKI: And I'm going to ask Mr. DeCota to come up, because that's not the impression he gave me.

ASSEMBLYMAN SCALERA: Sure.

Sorry about that, if I'm incorrect.

ASSEMBLYMAN WISNIEWSKI: That's okay.

W I L L I A M D e C O T A: Thank you. Thank you.

The legislation, as it is prepared -- because it was passed in 1967 -- does allow the designation of an airport by the respective governor of each state. In that state, that legislation is extremely old. It dates back to 1967, when there was some consideration of the Great Swamp. Obviously, there's never going to be an airport designated in the Great Swamp. So, in this case, the legislation is very specific, and it is really to allow the Governor of New York to designate Stewart Airport as an airport that the Port Authority could operate. I have not been part of any discussions that have dealt with the designation of another airport in New Jersey.

ASSEMBLYWOMAN STENDER: Mr. Chairman, I guess my question would be, why wouldn't we have language that-- Why wouldn't we accurately reflect that in the language of the bill, as opposed to permitting to?

ASSEMBLYMAN WISNIEWSKI: That's a good question.

My understanding, based on our meeting this morning, Mr. DeCota, was that the legislation is permissive. It allows the Governor of New Jersey to designate an additional airport location in this state. Is that correct or not correct?

MR. DeCOTA: That is correct. It's permissive. And because the Port Authority is a bistate corporate instrumentality of both New York and New Jersey, we need identical legislation to the legislation that was passed in New York in order for the Port Authority to be able to undertake the acquisition, and the operations, development, and maintenance of Stewart Airport.

ASSEMBLYMAN WISNIEWSKI: Okay. I think I understand that answer. So the answer is yes, that this--

MR. DeCOTA: It's permissive. It does not require. And the only reason for the language itself is so that we have effectively enabling legislation that would allow the Port Authority to do this, as a bistate agency.

ASSEMBLYMAN WISNIEWSKI: So should, at some point in the future, the Governor of New Jersey wish to designate such an airport, the Port Authority would, by virtue of this legislation, be able to act upon it?

MR. DeCOTA: The Port Authority Board would then have to authorize the acquisition, and the operations, and maintenance pursuant to that, but the Governor could certainly designate another airport.

ASSEMBLYMAN WISNIEWSKI: So without this legislation, the Governor could not do that; with this legislation, the Governor could do that.

MR. DeCOTA: That is correct.

ASSEMBLYMAN WISNIEWSKI: Okay.

Does that answer you question, Assemblywoman?

ASSEMBLYWOMAN STENDER: Yes.

But I guess if we are all saying that the point here is to allow the acquisition of the lease of Stewart International Airport, then knowing how contentious some of these airport issues can be, I'm just wondering why we wouldn't just say that, as opposed-- I mean, what's the--

ASSEMBLYMAN WISNIEWSKI: Well, I think that the rational is, is that when you're dealing with Port Authority issues, whatever they get we get. So if you look in Paragraph 1B, the legislation reflects that -- authorizes the establishment of one terminal in the state of New York and one terminal in the State of New Jersey.

As Mr. DeCota said, it would take an affirmative action by the Board of Directors of the Port Authority to act upon any recommendation that this Governor, or some future governor, may have about an airport. This does not require it, but it gives New Jersey the option that New York state is now getting, by virtue of that.

ASSEMBLYWOMAN STENDER: Okay.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Thank you, Chair.

Two comments and a question. The first question I have for the sponsor -- I understand his concerns about Teterboro, and my question is, if Stewart Airport comes online, does that mean we'll have less traffic out of Teterboro? Is there a relationship that says that once Stewart is up and -- it's going to prohibit or redirect traffic from Teterboro, that it will go directly to Stewart?

ASSEMBLYMAN SCALERA: Well, the one thing we do know is that about 11 million people come from that area down to our airports now. And what this would also do then is, the small traffic that we have or some of the other planes that do commerce in and out of Teterboro would be able to redirect to that area for some of its operations. And also, instead of also having to foster growth at Teterboro, they can foster the growth to go up at Stewart. So we would hope this in the further growth.

ASSEMBLYMAN O'TOOLE: Okay. But, I mean, it seems to me, it may be more convenient to go to Stewart, but there's not going to be a mandate that they redirect to Stewart out of Teterboro.

ASSEMBLYMAN SCALERA: Not a mandate.

ASSEMBLYMAN O'TOOLE: But what could happen, is you may have the same growth at Teterboro and just have growth from upstate New York in Stewart. So we may just-- If we come back a couple of years from now, Fred, is it possible that Teterboro is no less congested than it is now?

ASSEMBLYMAN SCALERA: Yes. I can't definitely say that what's there now is going to cut back. All they're going to be able to do though is, from the growth, if there's an option of getting people to go to Stewart from here forward, is to switch them to Stewart out of Teterboro.

ASSEMBLYMAN O'TOOLE: And my comments to the Chair, I share the Vice Chair's concern about whether there is need for a New Jersey site. And I, too, like you, thought that this meant that the Governor would have an opportunity to select a New Jersey site should he, or she, down the road think that a site was necessary in New Jersey. I don't want to see New Jersey get short-changed. If there is a need for another airport, I think we should have that ability.

But I would suggest, Chair, at some point in time -- I know we're busy the next couple of months -- is have the Executive Director from the Port Authority come here, whether it's the third tunnel issue, whether it's safety issues, whether it's the airport issues, whether it's security issues-- You know, Jamie Fox is no stranger to this body, and I think he's well-respected by both sides of the aisle. I'd love to have him here to talk in broad scope about some of the issues, not just narrowly defined as one airport. But there's a global transportation infrastructure question that, I think, you are starting to get your arms around -- we are. And I really would love to have his expertise and we can hear from him firsthand. I think it would be a little easier.

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

Thank you.

And just to reiterate, there is a provision in this legislation that would give New Jersey that option, should it desire to have that option down the road.

Any other questions on this legislation? (no response)

Thank you both very much.

ASSEMBLYMAN SCALERA: Thank you.

MR. DeCOTA: Thank you.

ASSEMBLYMAN WISNIEWSKI: We have both the Senate bill and the Assembly bill before us. We're going to do this with one vote.

Could I have a motion to favorably release Assembly Bill 3948, and its Senate companion, which is Senate Bill 25?

ASSEMBLYWOMAN STENDER: So moved.

ASSEMBLYMAN WISNIEWSKI: Moved by Vice Chair Stender.

ASSEMBLYMAN JOHNSON: Second.

ASSEMBLYMAN WISNIEWSKI: Seconded by Assemblyman Johnson.

MS. McMAHON: On the motion to release Assembly Bill 3948 and Senate Bill 25, Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Yes.

MS. McMAHON: Assemblyman Kean.

ASSEMBLYMAN KEAN: Yes.

MS. McMAHON: Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Yes.

MS. McMAHON: Assemblyman Bodine.

ASSEMBLYMAN BODINE: Yes.

MS. McMAHON: Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Yes.

MS. McMAHON: Assemblyman Panter. (no response) Assemblyman Mayer.

ASSEMBLYMAN MAYER: Yes.

MS. McMAHON: Assemblyman Manzo.

ASSEMBLYMAN MANZO: Yes.

MS. McMAHON: Assemblyman Johnson.

ASSEMBLYMAN JOHNSON: Yes.

MS. McMAHON: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Yes.

MS. McMAHON: Vice Chair Stender.

ASSEMBLYWOMAN STENDER: Yes.

MS. McMAHON: Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Yes.

The bill is released.

ASSEMBLYMAN SCALERA: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

And next we'll consider Assembly Bill 3649.

MS. McMAHON: Assembly Bill 3649, as amended, provides for partial payment schedules for roadway work performed by contractors for the New Jersey Turnpike Authority, and establishes the amounts that may be withheld from payments to contractors by the Authority for such work. The bill establishes that 2 percent of the amount due on the total contract price is to be withheld pending completion of the contract, except that upon substantial completion of the work, 1 percent would be withheld.

At any time during the performance of the work, if it is not progressing as defined by the New Jersey Turnpike Authority standard specifications, the Authority may, in its discretion, increase the withholding to 4 percent. The bill also provides that certain bonds may be posted in lieu of partial payments. Finally, the amendments today provide that no provision in the bill is to modify, limit, or restrict in any manner the obligations and powers of the Authority to comply with the carrying out and performing of every agreement or contract entered into with respect to the Authority's bonds for the benefit, protection, and security of the bond holders. The bill applies the same routine of standards as apply to the Department of Transportation.

ASSEMBLYMAN WISNIEWSKI: Thank you.

What this legislation does, essentially, is level the playing field. It applies the same standards to Turnpike contracting as currently exists on DOT contracting.

We have Doug Hritz and Bob Briant, from the Utility and Transportation Contractors Association, in favor of the bill and available to answer any questions if there are any.

Any members of the Committee have questions?

Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Yes, thank you very much.

Either through you or for the witnesses: I'm just trying to understand exactly why -- what's the purpose of the 2 percent or the 5 percent, generally speaking? And I'm trying to understand. There's a movement down to 2 percent, as opposed to a universal 5 percent? I just don't understand what we're doing here.

ASSEMBLYMAN WISNIEWSKI: Sure.

Mr. Briant.

R O B E R T A. B R I A N T JR.: Yes, Mr. Chairman.

The answer to that question is, there's a few things: One, before a contractor does receive payment, he has about 60 days of that contract already billed, paid for -- material, labor -- so he's already funded the project for 60 days. Holding 5 percent adds a cost to the project. So when the contractors bid these multimillion-dollar projects, they have to add the cost of financing into those projects. Going down to 2 percent -- which the DOT does, every municipality and county project does, I believe Transit does also -- it allows the contractor not to have to put those financing costs in his bid. In the end, you actually get a lower bid prices for that. Two percent is more than enough to withhold from a contractor.

In addition to, there's also bonds that are also provided by the contractor that guarantee the performance on that project. So an owner has many different avenues to ensure the quality of that construction. In addition, they also happen to have construction inspectors on their project, and they have to approve of all the work before it gets paid.

ASSEMBLYMAN O'TOOLE: Chair, do we have a position from the Department of Transportation on this bill?

ASSEMBLYMAN WISNIEWSKI: This mirrors the practice at the Department of Transportation. Perhaps you mean the Turnpike Authority?

ASSEMBLYMAN O'TOOLE: Either/or. I'd like to see something with authority. I mean, the question is -- and I don't know, this is not my area of expertise -- but is 2 percent enough for a job where, seemingly, there's a problem. Five percent was set as a threshold for a reason. I'm just trying to understand why we're going to a universal 2 percent. It may make sense; I don't know that. I'm trying to understand from somebody in the industry, either through the Turnpike Authority, or DOT, or some of the local authorities -- county or municipal -- as to why they thought 5 percent was necessary.

ASSEMBLYMAN WISNIEWSKI: Now, we have John Fuller, from the Department of Transportation here. Do you know an answer, John?

He's left.

Robert.

MR. BRIANT: Maybe I could give you a couple more answers.

The DOT now does this. So we're not changing DOT. They do this now. Counties and municipalities do this now. We did work with the Turnpike on this bill. In fact, you may see there's an amendment from the Turnpike that they want it added to the bill. So I'm speaking for the Turnpike, but I can tell you, accurately, we worked closely with the Turnpike on this issue. I don't know if there's anybody here from the Turnpike today. The fact that they gave us some amendatory language and we forwarded it to the Committee Aide, I would draw the conclusion that they haven't had a problem before. I don't know if it changed between Friday and today, but I would assume that they would be onboard with this.

ASSEMBLYMAN WISNIEWSKI: And my conversation with the Turnpike is, they're okay with this. They wanted amendatory language that essentially protects any agreements, contracts that are currently in effect, that have been executed, that they're currently operating under, and that this would operate only prospectively on new projects that are awarded.

ASSEMBLYMAN O'TOOLE: Chair, the language that the UTCA is looking for in terms of converting to a bond in lieu of the cash retainage, is that part of this bill?

ASSEMBLYMAN WISNIEWSKI: I believe it is.

D O U G H R I T Z: Assemblyman, are you referring to the language that was from -- I believe it was from Friday -- we submitted. That was pulled back, if it was talking about the bonds in lieu of this. Because the bonds in lieu of language is already in the bill. So basically, the only amendment today is the one that changes the effective date and the one that the Turnpike Authority had asked us to do.

ASSEMBLYMAN O'TOOLE: And just walk me through, Chair -- or maybe witnesses could -- in terms of prospectively, a contract -- say it's worth a million dollars, and you move from a 5 percent to a 2 percent. You want to convert from a cash retainage to a bond retainage. How, mechanically, is that done?

MR. BRIANT: Right now, there is statutory law on how that is done with -- such as local public contracts law. There is certain types of bonds that are required by the owner -- they have to approve the type of bond. So that bond goes to the owner, the owner has access to that. I guess it's an account. So if they ever have to utilize the bond, they can call the bond in, the face value of the bond. That's how it's done. The towns have been doing it; counties do it; DOT has been doing it for years.

ASSEMBLYMAN O'TOOLE: And you're saying now, through the Chair, that the 5 percent retainage is really being built into the bid now?

MR. BRIANT: Yes.

ASSEMBLYMAN O'TOOLE: And you're saying -- because that has to cover the 60 or 90 day finance charges, which is going to be expected, I guess, in all these projects?

MR. BRIANT: That is correct, Assemblyman.

When you have 5 percent retainage throughout the whole project, that ends up to be a significant dollar amount, and you have to finance that. So that financing goes right into your bid, like any other contingency.

ASSEMBLYMAN O'TOOLE: Okay.

Thank you, Chair.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Any other questions on the bill? (no response)

We have an amendment which implements the Turnpike's request to modify the effective date and to specifically state that any existing agreements are not affected by this language.

Could we have a motion to amend this bill?

ASSEMBLYMAN JOHNSON: Move the amendment.

ASSEMBLYMAN WISNIEWSKI: Moved by Assemblyman Johnson.

ASSEMBLYMAN GIBLIN: Second.

ASSEMBLYMAN WISNIEWSKI: Seconded by Assemblyman Giblin.

On the motion to amend the bill.

MS. McMAHON: On the motion to amend Assembly Bill 3949; Assemblyman O’Toole.

ASSEMBLYMAN O'TOOLE: Yes.

MS. McMAHON: Assemblyman Kean.

ASSEMBLYMAN KEAN: Yes.

MS. McMAHON: Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Yes.

MS. McMAHON: Assemblyman Bodine.

ASSEMBLYMAN BODINE: Yes.

MS. McMAHON: Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Yes.

MS. McMAHON: Assemblyman Panter is not here right now. Assemblyman Mayer.

ASSEMBLYMAN MAYER: Yes.

MS. McMAHON: Assemblyman Manzo.

ASSEMBLYMAN MANZO: Yes.

MS. McMAHON: Assemblyman Johnson.

ASSEMBLYMAN JOHNSON: Yes.

MS. McMAHON: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Yes.

MS. McMAHON: Vice Chair Stender.

ASSEMBLYMAN WISNIEWSKI: She said yes.

MS. McMAHON: And Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Yes. The bill is amended.

Now a motion to release?

ASSEMBLYMAN JOHNSON: Move.

ASSEMBLYMAN WISNIEWSKI: Moved by Assemblyman Johnson.

ASSEMBLYMAN GIBLIN: Second.

ASSEMBLYMAN WISNIEWSKI: Seconded by Assemblyman Giblin.

MS. McMAHON: On a motion to release Assembly Bill 3649, as amended; Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Yes.

MS. McMAHON: Assemblyman Kean.

ASSEMBLYMAN KEAN: Yes.

MS. McMAHON: Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Yes.

MS. McMAHON: Assemblyman Bodine.

ASSEMBLYMAN BODINE: Yes.

MS. McMAHON: Assemblyman Prieto.

ASSEMBLYMAN PRIETO: Yes.

MS. McMAHON: Assemblyman Panter. (no response)

Assemblyman Mayer.

ASSEMBLYMAN MAYER: Yes.

MS. McMAHON: Assemblyman Manzo.

ASSEMBLYMAN MANZO: Yes.

MS. McMAHON: Assemblyman Johnson.

ASSEMBLYMAN JOHNSON: Yes.

MS. McMAHON: Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Yes.

MS. McMAHON: Vice Chair Stender indicated yes.

Chairman Wisniewski.

ASSEMBLYMAN WISNIEWSKI: Yes.

The bill is released.

Thank you.

MR. BRIANT: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Okay. We're going to shift gears now. We're not-- There are no more bills being released from the Committee. The rest of the meeting is for discussion purposes. We have three bills that are listed for discussion only, plus we're also going to take testimony from some individuals who have been invited to talk about the issue of asset monetization or securitization, otherwise known as the potential to sell or lease the Turnpike.

I just wanted to, up front, make this statement. The General Assembly, of which we're all members, operates in a large part through the actions of its standing reference committees, such as this. Legislation is referred to these committees, we vote on them, put them on second reading, they go to the floor for a full vote. And it's in these committees where the discussion, and the debate, and the amendments -- quite frankly -- often happen. These standing reference committees are not just limited to hearing legislation that has been introduced, although we will do that today, but also to entertain discussions about matters that may come before this Committee, and may come before the Legislature. We have both the ability to hear legislation, but also to explore and investigate issues that may one day be before us as legislation.

This is not novel. This Committee has undertaken that type of activity in the past. With E-ZPass, this Committee held a series of hearings. There was no legislation before it, but we took testimony on the issue, to understand the issue and to ultimately craft legislation that became law. This Committee did it again with the commuter van issue. We took testimony on the problems the State was having with the commuter van issue and we ultimately, based on that testimony, crafted legislation that became law.

Earlier in February I drafted two letters, to both the Commissioner of Transportation and the State Treasurer. On February 2, I had asked for a number of documents relative to the ongoing effort to look at the commercial viability of asset monetization. As of this meeting today, we have not yet had a response. I also invited both the Commissioner of the Department of Transportation and the Treasurer to be here today to answer questions with regard to their ongoing efforts at looking at asset monetization. It has been no secret that they have spoken at other forums about this. They have made it known that they are working with consultants and other firms to look at the possibility of monetizing State assets, including the New Jersey Turnpike. My purpose in inviting them here -- I've had personal conversations with both of them, but I thought it was important and proper that they have the opportunity to share those thoughts with the Committee, and also to allow the Committee the opportunity to ask them questions on this topic. And I don't know what their answers would have been. Their answers could have, quite frankly, been "I don't know." Or their answers could have been, "I'll get it to you," or they could have had a more thorough answer.

But this Committee has the right and it has, quite frankly, the obligation to undertake this type of hearing to understand better the issue that is before us and that may be before us. So I am disappointed to have to advise the members of this Committee that I received word from both the State Treasurer and the Commissioner of Transportation on Friday that they would not accept our request to come here and testify today.

I want to let everybody know that I view their unwillingness to appear here today, to advise members of this Committee on what their actions are, to be an affront to this Committee, to be an affront to the members here, and an affront to the Legislature as a whole.

That will conclude my statement.

With that, I would like to call Peter Humphreys, who has submitted testimony, and to make a presentation on the securitization aspect of the New Jersey Turnpike.

Mr. Humphreys, welcome.

P E T E R H U M P H R E Y S, ESQ.: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Mr. Humphreys, if you'd push the button so the red light lights up.

MR. HUMPHREYS: Okay. Thank you very much.

Good morning, everybody.

It's nice to see you. It's nice to see everybody.

Mr. Giblin I know, from our -- we live in similar neighborhoods.

ASSEMBLYMAN WISNIEWSKI: Mr. Humphreys, let me just interrupt you. For the record, since we are making a record of this, if you could identify yourself, your firm?

MR. HUMPHREYS: Yes, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you.

MR. HUMPHREYS: Yes. My name is Peter Humphreys. I live in Short Hills, New Jersey, and I've lived in the state for almost 24 years. I'm a partner in the law firm of McDermott Will & Emery, which is based in New York City; and I'm head of the securitization practice of the firm. McDermott Will & Emery is the 13th largest law firm in the United States, and we have over 1,100 lawyers worldwide.

You should have a copy of my presentation. I hope you do -- yes. If other people would like a copy, there are some extra copies back there (indicating table in back of room) if anybody would like to see it. I'm going to refer to it, and there's some charts and slides which may be useful if people are interested.

ASSEMBLYMAN WISNIEWSKI: There's a mad dash for the limited copies.

MR. HUMPHREYS: Yes.

ASSEMBLYMAN WISNIEWSKI: We have a few more up here if anyone runs out. And I would urge people to share.

MR. HUMPHREYS: Yes, this is a fun topic, and little charts help, I think.

ASSEMBLYMAN WISNIEWSKI: Please proceed.

MR. HUMPHREYS: Okay.

Securitization has been the fastest growing financing technique in the United States over the past 20 years. Last year, there was almost $1.5 trillion of capital raised through asset securitization. And the laws, the government regulations, and accounting rules all operate to facilitate securitization. And the investment community understands the technique and is comfortable with the structures that are used.

Securitization over the last 20 years has had an enormous impact on our economy. It has enabled both large and small companies to raise capital at favorable rates. It has fueled the growth of consumer lending by providing funding sources for increased mortgage and credit card lending. Over the past 20 years, for example, I have worked on securitization transactions of mortgage loans, credit card receivables, auto loans, health-care receivables, trade receivables, leases, utility receivables, and franchise loans. Our motto is very simple: If it's got a cash flow, we can securitize it. But so far, the government hasn't really used securitization as a technique for raising capital.

So today, what I plan to do is give you an overview of what securitization is and how it could be used to raise money for New Jersey. Securitization is not borrowing. Securitization, as I am talking about today, is not selling or leasing the Turnpike. I'll say it again, I'm not talking about selling or leasing the Turnpike. In a securitization, control and operation of the Turnpike would stay with the New Jersey Turnpike Authority. The aim of securitization is to raise capital today by accessing revenues that will be paid in the future.

All right, I'm going to start with fairly basic -- what is securitization? And some of you know this, so I apologize for the basics, but let's just walk through anyway. What is securitization? Securitization generally is packaging financial assets with similar characteristics for sale to investors as securities. Actually, everybody in this room has been involved in securitization transactions. Your mortgage payment is securitized, your credit card payments are securitized, and your auto loans are securitized. Now, when financial institutions securitize financial assets, they keep the servicing. So when you send in your mortgage payment every month, you send into the bank, and the bank then turns it over to a securitization vehicle which pays investors. You don't see it; you just pay the bank.

Now, what is the advantage of this? The advantage for a bank is they can raise capital more cheaply. Most securitization deals are done at a AAA level, meaning the highest rating that anybody can get -- AAA. Now, as we know, banks aren't rated AAA; and the technique is to sell the financial assets away from the financial institution, isolate them in something called a *special purpose entity*, or an SPE. We like to use a lot of jargon, which is part of the shtick. SPE, okay, a special purpose entity. And the assets are sold from the bank or any other lending institution to the SPE, and the SPE then sells -- then issues securities. The securities are backed by the payments on the financial assets.

Now, why does this work? Well, it works because you are moving away the assets from the bankruptcy risk, or the insolvency risk, of the bank -- of the originator of the assets; and you're looking solely at the performance on the assets. And I can tell you, statistically, how many credit card payments are going to default. I can look at the portfolio from, say, Citibank, and I can tell you that over the last umpteen years 2 percent defaulted, or 3 percent defaulted, or whatever it is. And I can tell you that if I issue $90 of bonds for every $100 of credit cards, you're going to get paid. You're going to get paid 100 cents on the dollar. And so that's the idea. It's to isolate cash flows and issue securities backed solely by the cash flows, and not backed by the credit of the originating institution.

What's a special purpose entity? A special purpose entity is simply a company, or a partnership, or a L.L.C., or a trust that's separate from the originator. It has limited powers and limited purposes. The only thing it can do is a securitization deal. And it's bankruptcy remote, meaning it could go bankrupt, but it's not likely to, because the only thing it does is issue securities backed by the receivables it's received.

Okay, on the next page, there's a chart -- the first chart -- the typical securitization structure. I'm also a little bit embarrassed when I get to this point, because securitization is supposed to be incredibly complicated. And if you look at this chart, it doesn't look that complicated -- and it really isn't. So I usually say something like, "You're all sworn to secrecy," because I have to make a living doing this. But if you look at it, it's really fairly straightforward.

ASSEMBLYMAN WISNIEWSKI: You can cut your fees a little then.

MR. HUMPHREYS: Pardon?

ASSEMBLYMAN WISNIEWSKI: You can cut your fees.

MR. HUMPHREYS: Yes, I cut my fees. That's what people say.

But if you look at this chart, it is fairly straightforward. We have an originator of the assets -- who may be a bank, or a financial institution of another kind, or maybe even a turnpike authority -- and it sells receivables down to our friend, the SPE. And the SPE issues securities. It's got to be a sale. You've got to transfer the financial assets from the originator to the special purpose entity. That's crucial to these deals. There has to be a sale. If it's not a sale, the deal doesn't work. All right?

But that's our technique. And this technique has been used for mortgage deals, credit card deals, lease deals, auto loan deals -- pretty much anything you can see. Now, sometimes you'll see a lot more boxes, and we're very good at putting extra boxes in and confusing the situation. But that is our basic structure.

The next page, just flipping through, just think of a credit card deal. And if you look back at the chart and look at both pages at the same time, you might make some sense. The bank issues credit cards to its consumers. The consumers go and charge receivables -- they go and spend at the store, they garner receivables. The bank sells the receivables to the SPE for cash. The SPE issues securities backed by the receivables for cash. The deal is rated, based on the payment history of the consumers. So if there's $100 of receivables, you might issue $90 of AAA bonds and the bank keeps the bond -- 10 percent. And the bank retains the relationship with the credit cardholders that don't even know there's a deal going on, who have no idea their payments are going to a securitization vehicle to make payments to investors.

That's the basics. That's the simple basics. But when you come to look at tolls, what's the problems? Well, there's one major problem -- you don't have any receivables. Tolls aren't receivables. When you go through, you don't credit a receivable, you pay cash. You use E-ZPass, or you throw a quarter or 35 cents into the basket. So that's one big problem.

And typically, securitization is a packaging of existing financial assets. The toll revenues aren't existing; they're expectations in the future. So that's the problem. So what have we done in the past to solve these problems? And one mandate is, we've got to think outside the box in this; but, actually, I didn't really have to think outside the box. Because we've had the same problems in this state with other types of financial assets, and we've come up with solutions. So I'm going to throw two out today. One was tobacco. When we did the tobacco settlement, the settlement was to many billions of dollars. But the tobacco companies didn't pay the State of New Jersey billions of dollars. What they did was, they agreed you can increase the price of a pack of cigarettes by a dollar, or whatever it was, and those dollars-- Every dollar that was increased was given to the State of New Jersey. So what New Jersey did was, it said, "In those future expectations of tobacco payments, I'm going to securitize." And you passed a statute, and you allowed New Jersey to securitize all the tobacco payments and get the money up front. So that's what you did.

The other thing, which I think is probably a little bit more relevant -- only because tobacco was a confrontation, was litigation, it has some tails to it that people are uncomfortable with -- stranded costs. Now, let's look at the stranded cost technique in a little bit more detail. The stranded costs securitization model: What was stranded costs? When electricity deregulation took place, it became apparent that new companies could offer electric power cheaper than the existing electric companies, because existing electric companies had built big plants, and these plants weren't necessarily the most efficient way of producing electric power. So they were on -- they had a real competitive disadvantage against the new companies coming in who had built plants. So what was decided was that we would allow the electric companies to recover the costs of those plants by issuing securitization bonds. The costs of the plants were called *stranded* *costs*, mainly because they were stranded. You wouldn't get the money back to do them if you'd allowed the free market to take place, because they wouldn't have been able to compete with the newer, deregulated electric companies.

So what New Jersey did was, it passed the New Jersey Electric Discount and Energy Competition Act of 1999. And the way this worked was that New Jersey allowed every electric company to charge consumers a little bit extra on their electric bills every month. If you look at your bill, there's a little, little -- buried somewhere down at the bottom of the bill -- there's a tiny little charge that everyone is paying. That money was called a *transition bond charge*. And New Jersey passed a statute that allowed people to securitize transition bond charges. So what happened was that people -- the transition bond charges were transferred by the electric companies to special purpose entities, and the special purpose entities issued bonds backed by the future charges.

Now, the State of New Jersey did a couple of interesting things here. For a start, this was a future expectation of payment. If everybody stopped using electricity, there wouldn't be any way of paying back these bonds. Now, that's pretty unlikely. But you know, I guess it's possible. It's probably just about as likely as people not using the Turnpike anymore, just getting the train. But nevertheless, theoretically, people could not use electricity and then the bonds would default. But everybody got comfortable that everybody needs electricity, at least in the foreseeable future. So this future expectation by statute is created as a property right -- a legal piece of property that can be sold. And the statute allows that it can be sold to special purpose entities, SPEs. And it also allows -- the SPE can issue securities backed by these transition bond charges.

Let me just touch on a couple of little interesting things that New Jersey also did. There's something called the *true-up* in this statute; meaning that if it turned out that projections of future electric use weren't correct, that little charge would get increased on your bill and you'd have to -- and it would be increased so we had enough money to pay back the bonds. So if everybody left New Jersey, the last guy to switch out the light would have a really big charge on their electric bill. And that's how it worked -- that's how the statute works.

The other thing that was in was, it was non-bypassable; meaning that everybody who supplies electricity in New Jersey has to charge the consumers. It didn't matter whether you were the old power companies with the giant nuclear plants that you couldn't pay, or a new guy who just arrived with a hand generator. You still had to charge that extra bit of money to the consumers. And all that money, as I say, goes to the -- for the bonds.

And if you look at the next page, with our little chart again, you can see that this -- it looks a bit like the first chart I showed you, I agree. But here we have the New Jersey Board of Public Utilities that approves the level of the charges, so that you get regulation of it; and the electric company that sells the charges down to our friend, the SPE; and the SPE, in turn, issues bonds for cash. The cash, in turn, went back to the electric company, and the electric company then had money to offset the cost of its plants, the so-called *stranded costs* they couldn't otherwise recover. Okay?

We're talking billions of dollars here. We're not talking a few dollars. We're talking literally billions of dollars. And this was done pretty much all over the United States, and hundreds of billions of dollars were raised for electric companies this way across the United States. And all consumers are paying that little bit every month in their electric bills to make -- to go back and pay off these bonds.

So now, I guess this is the most important part of this, how these type of techniques could work with toll securitization. So let me throw this out, as this is an idea. New Jersey would pass a statute very similar to the stranded costs statute. The statute would create something called a *toll bond charge*. I just made that up, so you can call it whatever you want, but that's the idea. It's the same thing as a transition bond charge. And that's a property right in the future payments of tolls. So we're talking about tolls that we'd be paying a year from now, five years from now, 10 years from now. We're trying to pull the future revenues from the Turnpike to today.

Now, you could do this a couple of ways: You could increase the tolls, or you could allocate some of the existing tolls to this charge. I leave that to you, but that's the two alternatives. You would create a special purpose entity, like the stranded cost entity, and that would be empowered to engage in securitization of these toll bond charges. The special purpose entity would pool all these toll bond charges and create securities that are backed by the pool. And finally, if it turned out that your -- the estimates of how much usage of the Turnpike were wrong, then there would have to be a mechanic for either putting them up or, quite frankly, if it turned out we were underestimating how many vehicles were using it, you could put them down. But that mechanic needs to be in to make sure the bondholders get paid.

Okay, on the next page is the securitization of the toll bond charges. Again, it's almost embarrassingly similar to the other charts, as well. But there we have the New Jersey Turnpike Authority, who is -- originate these. They would sell it -- they would sell these future expectations to an SPE. The SPE would issue securities for cash; the cash would go back; and you'd get the cash today. And these-- This would be cash representing five, 10, 15 years of these little extra charges, added to the top.

Why do I think this is a benefit? Or, you may not agree it's a benefit, but one of the benefits of securitization is New Jersey doesn't lose ownership or control of the Turnpike. It's not a borrowing by the New Jersey Turnpike Authority. It's a sale of a future asset, and the distinction is well-recognized in the capital markets. You could do this a number of times. You could do it this year. You could do it next year. You could do it five years from now. You could do it whenever you felt like you wanted to do it, by creating a new toll bond charge. And you can use the money however you wish. You could pay your existing debt down; you could use it for other purposes -- that obviously is up to you guys.

You could get a slightly improved rating on the bond. The Turnpike Authority is, I believe, A3, and there's no reason why these bonds couldn't be issued at the AAA level. Meaning, you would save money on the interest cost of the bonds over what you would normally issue bonds at.

And finally, you're going to get access to a different investor base -- the asset-backed market, which is not just a municipal market. And it's a very, very broad market interested in asset-backed securities.

Let me sort of throw out a number, just to sort of get -- because I think it's good to try and put something about what levels we're talking about. And you should always be careful when lawyers start talking numbers, but nevertheless here's a number. If you increased tolls or allocate a toll of 15 percent -- 15 percent -- and you did a 15-year deal, you could issue bonds for approximately 1.2 billion this year, which I thought was a reasonable-sized deal for a first deal. That is kind of the scope of what we're talking about here. Obviously, the size of that would depend on how much you wanted to increase or allocate on the toll, how long the deal you wanted to do, how frequently you wanted to do these deals. But I certainly think it's worth exploring.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Humphreys. Thank you for your testimony. I hope you'd be willing to entertain some questions from members of the Committee.

MR. HUMPHREYS: Yes, of course.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Let me start by asking a couple of just basic questions. At the outset of your testimony, you said that securitization is not a sale or a lease. Then you mentioned in your testimony about the creation of a special purpose corporation and something gets sold to them. Is it my understanding you correctly that it's -- the asset itself if not sold; but it's the asset that's created, which is essentially the right for future payments?

MR. HUMPHREYS: Right, that's correct.

I envision creating an extra charge on the toll, or allocating part of the existing charge. But let's talk about introducing an extra charge. So let's say you increased the tolls by 5 cents. Those little 5-cent pieces would then be sold down to the special purpose entity. And it's the future flow of all these 5 cents, stretching out 10, 15 years, that get securitized and get-- The bonds get issued back by that flow of future money.

ASSEMBLYMAN WISNIEWSKI: In the example that you gave at the conclusion of your testimony, 15 percent -- you're talking about a 15 percent increase in tolls and a 15-year deal could theoretically produce $1.2 billion today?

MR. HUMPHREYS: Yes. This is my-- As I say, you should be careful when lawyers make these calculations. But yes, increase the tolls by 15 percent, which is I guess about $100 million gross a year on your -- based on about 700 million, or so, of tolls. Yes, if we stretch out a bond for 15 years, that should be enough money to pay about $1.2 billion of bonds and the interest.

ASSEMBLYMAN WISNIEWSKI: Now, am I correct in understanding that the Turnpike Authority already has the ability to issue bonds?

MR. HUMPHREYS: They do.

ASSEMBLYMAN WISNIEWSKI: And they have the ability to issue bonds based on toll revenue they expect to come in?

MR. HUMPHREYS: That's correct. That's correct.

ASSEMBLYMAN WISNIEWSKI: Why is it cheaper to do it this way, as opposed to letting the governmental agency issue debt, which always, in my understanding, there's nothing cheaper than governmental debt?

MR. HUMPHREYS: Well, the question is, first of all, do you want to issue more debt? And this is an alternative to issuing more debt by the State. Secondly, you're actually selling assets here. You're selling this future cash flow. And so it's not actually debt for an entity that already has about $5.5 billion of debt. This wouldn't add to that burden. It wouldn't touch that; it would leave that alone.

So it's a question, really. You could certainly do that. You could issue more, just regular, Turnpike Authority bonds. You could say, "Yes, we're going to increase the tolls," and just do it that way. But I thought we were looking for ways here -- new ways to raise capital, new ways outside the regular system, and this is one.

ASSEMBLYMAN WISNIEWSKI: Well, I guess my fundamental question: Would it be cheaper for the Turnpike to do it by itself, although it would have the earmarks of being traditional debt versus creating the special purpose corporation going through all that?

MR. HUMPHREYS: Well, I guess the question is whether they should issue tax-free bonds or you issue taxable bonds. And normally the reason it's cheaper is because they're tax-free bonds. You have to empower the SPE to -- maybe you could make that into a municipal entity that would issue tax-free bonds itself. So that's certainly one technique that you could use to get AAA debt on a tax-exempt basis, rather than on a taxable basis, which would preserve the benefits that you point out.

ASSEMBLYMAN WISNIEWSKI: And just one last question, and I'm sure other members have questions, as well.

The one issue that I continue to have concern about is the nomenclature, if you will, that this is not debt, that this is an asset. My understanding of debt is, is that there's an obligation. Somebody is getting paid back with something that we have or that we can have -- which is increased toll revenue. Why-- It may technically not be a debt of either the Turnpike or the State of New Jersey, but doesn't it have all the hallmarks of an obligation of the State or the Turnpike?

MR. HUMPHREYS: Well, it is debt. It's debt of this special purpose entity. We're not -- the actual bonds are debt. The securitization-- If we were starting from scratch, if we had never heard of securitization, and I came in and made this testimony, I think you could legitimately say, "Well, isn't this just like debt?" and it is. But the capital markets recognize the distinction between a financial institution selling assets like mortgages, credit card receivables, and then issuing bonds; and then alternatively, issuing the bonds directly backed by those assets.

So if Citibank issued bonds backed by their mortgage portfolio, it would cost them more money to do it than if they sold them to a special purpose entity, and the special purpose entity issued bonds which are also backed by the same mortgage assets. And it's because you're moving it away from the risk of the originating entity; in this case, the New Jersey Turnpike Authority -- it's been moved away.

Though, I don't know. This is-- If we were starting from scratch, I guess we'd all say, "Well, this isn't very different." But we've had 20 years of experience in the capital markets, and people accept that there is a real distinction, and people are comfortable with the technique.

ASSEMBLYMAN WISNIEWSKI: It's really -- I guess the distinction is based on the vehicles you create, whether it's a special purpose corporation taking that asset and moving it away from the Turnpike. Which, by the way, I will say, has very little risk; and they did a good job today cleaning the Turnpike.

MR. HUMPHREYS: Yes, they did that.

ASSEMBLYMAN WISNIEWSKI: We all got here very quickly.

MR. HUMPHREYS: Yes. We left very early this morning and had a nice time -- an hour to kill before your Committee hearing. So it was very good.

ASSEMBLYMAN WISNIEWSKI: They did a good job.

Members of the Committee?

ASSEMBLYMAN O'TOOLE: Mr. Chair?

ASSEMBLYMAN WISNIEWSKI: Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: Thank you.

And Chair, again, I want to thank you again for having this forum talking about a terrifically complex issue. Many questions from the public about whether it's a bond securitization, monetization. These are really interesting times, but I think we have to do a better job of trying to educate legislators and the members of the public. And Mr. Humphreys, I thank you for coming here and continuing the process of education.

I just need to get my hands around your law firm-- It says you were engaged last year for $1.5 billion in securitization. Is that worldwide, or is that--

MR. HUMPHREYS: No. I wish we had been -- no, but we weren't. Worldwide, there was 1.5 trillion of securitizations backed by assets. Yes.

ASSEMBLYMAN O'TOOLE: Okay.

And in the worldwide experience--

MR. HUMPHREYS: I'm sorry. In the United States, not worldwide. In the United States.

ASSEMBLYMAN O'TOOLE: The United States.

MR. HUMPHREYS: Yes.

ASSEMBLYMAN O'TOOLE: And throughout those experiences, did you have governmental agencies, State government, turnpike authorities, municipal authorities that were engaged in that, or was it more or less corporate credit card, mortgage, run of the mill--

MR. HUMPHREYS: No. In my firm, it's private entities -- corporations, banks, financial institutions, consumer lending companies. It's not governmental entities.

ASSEMBLYMAN O'TOOLE: So the 1.5 trillion in the USA, it seems all of it is in the corporate side, as opposed to the governmental?

MR. HUMPHREYS: Yes.

ASSEMBLYMAN O'TOOLE: So we're kind of -- we're swimming in waters, unchartered waters, in terms of the governmental agencies not being involved? Is that fair to say?

MR. HUMPHREYS: Yes. Yes. I think you are. I mean, there are certain government entities that do this. So there is, obviously, the Freddie Mac, Fannie Mae -- they do Sallie Mae. They do transactions where they used mortgages and student loans, and their quasi-government agencies.

The U.S. government has done securitization in the past. I actually represented the Department of Housing and Urban Development in a deal about 10 years ago, where they packaged their multifamily portfolio. But there are very few deals that have been done like this, if any.

ASSEMBLYMAN O'TOOLE: Yes. The one deal you mentioned about the New Jersey experience that I'm familiar with was the tobacco securitization.

MR. HUMPHREYS: Yes.

ASSEMBLYMAN O'TOOLE: I didn't quite understand. I think you made it more digestible. Here's what I understand -- what happened some years ago, Mr. Humphreys, through the Chair.

We had a $7.6 billion asset, that was the revenue from the tobacco funds, that was giving the State of New Jersey $300 to $333 million per year for 25 to 30 years, going out. So each and every year we had booked a revenue, from now and for the next 25 years out, $300 to $330 million. And the idea was born in the front office at that time that we were going to securitization the 7.6 billion. And in exchange for giving up that stream of revenue for 25 to 30 years, we were going to receive $2.3 billion in a two-year payout -- 1.1 and 1.2. So we securitized, whatever that term meant to those folks at the time -- gave up the $330 million of revenue each and every year, and we plugged in 1.2 million (*sic*) one year and 1.1 million (*sic*) into the budget. And the revenue that was booked for a generation kind of evaporated in two budget cycles.

And I'm just trying to understand, from a sound financial public policy standpoint, how that was a smart move, in retrospect. I think even people that voted for it have said that they were troubled by giving up that revenue for a one-shot or a two-shot revenue enhancement for a year.

So my question is, do you have any sense of whether the tobacco experience that you spoke of -- do you think it's a sound public policy to securitize a $7.6 billion asset to-- You're getting, really -- you're giving up 7.6 billion; and from a simple guy in the street, which I represent, you're getting 2.3 billion in exchange.

MR. HUMPHREYS: Well, I think whatever happens here, that it's very important to look at exactly what you're getting; and really understand what the revenue stream is going to be and what the price is going to be. No, it doesn't sound particularly good to get 2.2 billion for 7.6 billion. But when you look at these techniques, and when people come in and say, "We can get *X* for the Turnpike" -- $100 billion, $200 billion, or $5 billion, whatever the number is -- I think you have to really understand what that means. Does it mean that you're going to decrease (*sic*) the tolls by 100 percent like Indiana did? Or does it mean that you're going to get-- It's not just a fair price, it's also a really good price for New Jersey. And the question, it seems to me, is can you or can we as a state -- can we release the value from the Turnpike, or whatever else we're looking to get cash from, ourselves, or do we have to sell it to somebody else who will do it for us? That's a crucial question, and I think you have to really understand what we are capable of doing and what the private sector is capable of doing.

ASSEMBLYMAN O'TOOLE: I appreciate that.

And through the Chair, I'm glad you threw out the example that you did. It makes it more understandable for me. You talked about whether the tolls -- and it was just an example -- a 15 percent increase with a 15-year deal, we can generate $1.2 billion in securitized funds which can be used any which way. Your earlier testimony is that we can do it now, we can do it later, we can do it whenever. But if we are doing that -- say, hypothetically, we get a 15-year deal with a 15 percent increase, we are really locking in a 15 percent increase over 15 years. So if we're doing another one the following year, we have to do a toll increase on top of the toll increase. Is that correct?

MR. HUMPHREYS: Yes.

ASSEMBLYMAN O'TOOLE: Or extend the life of the 15-year deal to a 30-year deal?

MR. HUMPHREYS: Yes. And you could do a 30-year deal. I only think 15 years, because I think in the asset-backed market it's hard to get deals that stretch out much beyond 15 years. That's not to say you couldn't, but it's just been my experience, 15 years is pretty far out -- it's a pretty far out deal. Yes, you're right. In the first year, if you did the 15 percent increase and (indiscernible) with 2 billion dollars; then in year two, if you want to do another deal, you'd have to have an additional charge and do that. And you could do this -- you don't have to do 15 percent. I just threw that in.

ASSEMBLYMAN O'TOOLE: Right.

MR. HUMPHREYS: You could do 5 percent. You could do 10 percent. You could do 5 percent a year for five years. It seems to me that one of the things to look at here, in trying to see if you can raise revenue this way, is what are your options? If you sell the Turnpike and somebody wants to raise the tolls 50 percent, well, is it better to let them raise the toll 50 percent and get the money up front, or is it better to do deals like this which raise the toll 50 percent over the next 10 years?

ASSEMBLYMAN O'TOOLE: Or the option could be we do nothing--

MR. HUMPHREYS: Absolutely.

ASSEMBLYMAN O'TOOLE: --and leave the $880 million coming into the coffers in New Jersey, to stay intact where they are, as opposed to going someplace else. And that's an option as well, I suspect, that's still on the table.

MR. HUMPHREYS: Yes, absolutely.

ASSEMBLYMAN O'TOOLE: My last thought is that-- A little while ago, the New Jersey Supreme Court issued an edict that said you can't bond for operating expenses. And I'm trying to understand securitization bonding. I'm trying to understand the difference. If we are really getting a deal -- your hypothetical 15-year deal, 15 percent increase -- and we're getting 1.2 billion, and we're using that hypothetical 1.2 billion for next year, but the proceeds are being paid over 15 years, could someone make the argument that we're really bonding for operating expenses?

MR. HUMPHREYS: Well, I guess it depends on what you do with the 1.2 billion.

ASSEMBLYMAN O'TOOLE: Just say you spend it as the past has been -- the $1.2, $1.1 billion for your budget. Let's say we insert that 1.2 billion, as has been past practice, into the budget. It's gone in one year.

Is that part of -- considered operating expenses in a State government budget?

MR. HUMPHREYS: Well, I guess I don't know the answer to that. But it seems to me that if that's the plan, that's not a very good plan. I mean, the point here is not to have a really big party this year with the 1.2 billion. The point, as I thought it was -- that we were either going to use it for significant capital improvements or pay down the debt. And if that's the plan, then that seems to be not operating expenses. But the idea about using it, you could raise a lot of money here really quickly. We could do a 50 percent toll increase and have a really big bond. But I think that's not being fiscally prudent. So we have to think of ways--

ASSEMBLYMAN O'TOOLE: Okay. I appreciate your testimony. Thank you very much.

Thank you, Mr. Chair.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Vice Chair Stender.

ASSEMBLYWOMAN STENDER: Thank you, Mr. Chairman.

Mr. Humphreys, can I go back a little bit? You were talking about the stranded-cost securitization model.

MR. HUMPHREYS: Yes.

ASSEMBLYWOMAN STENDER: When you were talking about the transition bond charge, even with the electrical companies, is there any time limitation on that? Does that ever expire?

MR. HUMPHREYS: Yes. No, it does expire. The way the bonds were structured, they were issued for a period of time, say -- different times -- say five years, or 10 years, some period like that; and the stranded cost was calculated. It was reverse engineered. You had to get -- say the bond was $100 million. You know that you need enough money to pay $100 million plus interest for five years. And so the bonds actually amortized based on electric usage over that five-year period. And the extra charge is calculated so that you have enough money to pay down the bonds over five years. So at the end of five years, it's finished, it's over. And the charge would be released off the bill. There's no--

ASSEMBLYWOMAN STENDER: But then there's what you called the *true-up*.

MR. HUMPHREYS: Well, the way that worked was, let's assume that everybody assumed the electric usage would be 200, and it turned out electric use was only 100. Then the charges -- since the charge was on per kilowatt hour, you wouldn't be using as much electricity -- so it wouldn't generate as much revenue. So in the statute, it says if that happens you'd double the charge next year. So that's why I made the joke about the idea of the person -- the last guy to leave has a really big bill. Because if everybody left the state, the person who is left would end up with a really large electric bill in the last year, because he would have to pay off all the stranded bonds.

ASSEMBLYWOMAN STENDER: So the true-up costs don't expire, even though the stranded debt cost does?

MR. HUMPHREYS: No, the true-up would expire, because the bonds have to be paid back in five years. So at the end of five years, that's it.

ASSEMBLYWOMAN STENDER: Okay.

MR. HUMPHREYS: But if everybody -- if electric usage was significantly decreased in year four, then in year five the actual charge to consumers would be increased a great deal. So they would have to pay more on their electric bills to make sure bonds got retired.

ASSEMBLYWOMAN STENDER: Right, I understand. I guess where I'm going with this is, that the idea that if people were to significantly change their patterns of electric use, or to reduce their amount of consumption, you're saying that because of the true-up costs that they would still pay more, even if they have used less energy?

MR. HUMPHREYS: Right. That's right. That's right.

ASSEMBLYWOMAN STENDER: And that that stays in place forever.

MR. HUMPHREYS: But this charge is miniscule.

ASSEMBLYWOMAN STENDER: Okay.

MR. HUMPHREYS: I mean, it's a really tiny charge for everybody every month. It's not -- it's less than $10 a month. It's a very small charge. Okay?

ASSEMBLYWOMAN STENDER: So for instance, then taking that and applying it to the issue of the Turnpike, because of-- I mean, if people were to change their habits in terms of how they travel and move more to a mass transportation or into vans--

MR. HUMPHREYS: Right.

ASSEMBLYWOMAN STENDER: --or something else; but there are not as many trips per vehicle, the true-up costs would continue for as long as the term of the bonds?

MR. HUMPHREYS: Yes. You would-- Yes.

ASSEMBLYWOMAN STENDER: So if you do a 15-year deal, the true-up costs are in place regardless of whether people change how they move, or if you do it for 75 years, as we've been -- heard that a monetization deal has been talked about or contemplated -- that it would mean that, even if the people's transportation patterns change, that that fee would still have to be covered?

MR. HUMPHREYS: Yes. I don't think -- what I've just talked about -- 75 years isn't an option. I can't imagine you could do a 75-year bond, because I just don't think anybody would buy a 75-year bond. It's too long. But let's assume you did a 15-year bond, and let's assume that people decide they're going to get the train in year 10--

ASSEMBLYWOMAN STENDER: Right.

MR. HUMPHREYS: --and we've estimated $100 million a year we need, in this charge. We need $100 million a year to pay back the bonds. And people don't use the Turnpike any more. Then we have to increase this extra charge to pay back the bonds. Now, you have the power of statute here. One of the great things about talking to you today, most of my clients can't pass statutes. In fact, none of my clients can pass statutes. If they could, the world would be a much better place, but they can't.

ASSEMBLYMAN WISNIEWSKI: I'm not sure about that. (laughter)

MR. HUMPHREYS: Well, you might not be sure, but they're definitely sure.

But you can pass statutes, and you can build into this safeguards -- safeguards as regards the effect on the consumer, safeguards as they impact the true-up, and how this deal works, and all these points that really should be discussed in a statute. Because it would be--

A lot of people may be uncomfortable with increasing these charges dramatically in the future, and I can understand that. It's a trade-off. If you said, "Well, we're not going to have a true-up. We're going to have -- people will just have to rely on the fact that people use the Turnpike." Then the bonds could go out after 15 years. They could stretch longer. And that will affect the price of the bonds in the capital markets, because people will say, "Well, I'm not buying a 15-year bond, I'm maybe buying a 20-year bond." And a 20-year bond has a higher interest rate than a 15-year bond. So these are trade-offs, and it affects the interest rate and probably the revenue that you can generate by doing something like this. But it's a balance.

ASSEMBLYWOMAN STENDER: Thank you.

And one other separate question. Can you speak at all to the issue of what could be reasonably expected for costs of doing these kinds of deals? I mean, if we were looking to -- if government was trying to capture a $10 billion payout, which is one of-- I mean, we've heard numbers between 10 and 20 billion, has been talked about on this lease deal. What kinds of costs are reasonable and customary out of the capital markets to do that kind of deal, to yield that kind of money?

MR. HUMPHREYS: Well, you have to have an underwriter to sell the bonds, and they will charge you a fee. But the fee for something like this, it could range--

ASSEMBLYWOMAN STENDER: I guess percentage-wise is what I'm--

MR. HUMPHREYS: Well, it could range 50 basis points, 100 bases points, 50 -- or half of 1 percent, or 1 percent. It could be higher depending on the complexity.

There's usually somebody who's hired as a structuring agent who also gets a fee. The structuring agent will advise about what types of bonds can be done, about the techniques that could be used to maximize the returns here. You'll obviously need somebody to draft statutes. And you have pretty good statutes here already, as models, but somebody would have to draft statutes. There are costs that go -- the rating agencies. As you know, there are three major rating agencies -- Moody's, Standard & Poor's, Fitch -- and presumably all of them would want to rate these type of bonds. And so you'd have to pay their fees, which can be, you know, $100,000 each, maybe more, depending on where it goes. And then there's lawyers; "and lawyers have to get paid, too," he said with a grin.

But I don't know what that would cost. I mean, it's hard to estimate what a cost would be on this, because it's pretty virgin territory. You're going where you would need to draft a statute. You'd need to go through the rating process. So it can run fairly expensive. I think fairly -- the first deals on this can be fairly expensive transactions. Overall costs, you know, it could be a couple of million dollars to do a deal like this.

ASSEMBLYWOMAN STENDER: I guess what I was-- I mean, typically, like if you're doing something, if you're building something or you have some kind of engineering project, you can expect that you have a 10 to 15 percent fee that you're going to pay for professional expertise, engineers, architects, all that stuff then. So if you're doing a $5 million job, you have some idea in terms of where you can expect your costs to be. But you're suggesting that that kind of, sort of reference point or touchstone for that doesn't exist?

MR. HUMPHREYS: Well, I think it probably can be narrowed down. Again, if you decided to go and do this, most professionals will agree to give estimates and will agree to levels of fees. And I think that will be good. And I think you're probably very sensible to do that, as you explore it. I'm not, kind of, really ready to give you the fee cap today, but it is hard to say without really thinking it through. There's a lot of time and effort I can see in educating people about the Turnpike Authority. I mean, one of the biggest questions that always exists in any type of securitization is, what's the data points? I know, from looking around your reports, you've got $711 million of revenues in the last -- of Turnpike tolls. Well, that's great, but is that something that was just last year? Is it something that happened for the last 10 years? You need to get your hands around the amount of tolls that can be expected in the future and why. So there's a lot of data points that have to be worked out, and that takes time and effort, and money, unfortunately.

ASSEMBLYWOMAN STENDER: Right.

Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Mr. Humphreys, I know Assemblywoman Beck has a question.

I just want to interject one thought. You used, as an example in your presentation, the securitization of the tobacco revenue. Do you have any recollection as to what the fees and costs were on that deal?

MR. HUMPHREYS: No, I don't know. I'm sorry.

ASSEMBLYMAN WISNIEWSKI: Okay, thank you.

Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Just a couple of points of clarification that-- I have to say, your testimony has been excellent, through the Chair.

I assume that when you're talking about your example, all of the toll revenues are given back to the investors over the course of that 15 years. So all 711 million is paid back, is a return on their investment, correct?

MR. HUMPHREYS: No, I wasn't suggesting that.

ASSEMBLYWOMAN BECK: No. Or do you get to set the percentage that they receive back, or how did--

MR. HUMPHREYS: No, I was-- The example I threw out is, is that you could increase the toll by 15 percent.

ASSEMBLYWOMAN BECK: And they get that 15 percent?

MR. HUMPHREYS: No. A 35 cent toll would become 40 cents. Okay?

ASSEMBLYWOMAN BECK: Okay.

MR. HUMPHREYS: Now, a little extra 5 cents, or whatever it is -- 50 percent--

ASSEMBLYWOMAN BECK: They get?

MR. HUMPHREYS: That would be earmarked for this deal. And that money would have to be transferred. It couldn't be touched by the New Jersey Turnpike Authority. It doesn't matter what happens to New Jersey--

ASSEMBLYWOMAN BECK: Got it.

MR. HUMPHREYS: --that money would have to be earmarked. It would be every-- Kind of joking around, you get somebody who, every 40 cents, they've got to put 5 cents in the piggybank. That goes away, you never see it. It can't be used by New Jersey for anything. It has to go to pay the bonds back.

ASSEMBLYWOMAN BECK: Okay.

MR. HUMPHREYS: Now, where New Jersey gets the money is up front, because all those little 5 cents, over a period of 15 years, adds up to $1.2 billion. And so they get $1.2 billion up front, and as a return they have to give a little 5 cents every time somebody comes through the toll.

ASSEMBLYWOMAN BECK: Got it.

MR. HUMPHREYS: Okay.

ASSEMBLYWOMAN BECK: And through the Chair, just the types of investors that would buy this securitization, that would be interested in this, do we have a sense of who those entities are or what those entities are?

MR. HUMPHREYS: Well, the asset-backed market is primarily an institutional market. It's pension plans and big insurance companies. And they buy the bonds primarily based on rating, which is usually AAA, the highest rating. And they also buy for diversity of the portfolio. So if you're a big insurance company, you don't want to have all your assets in mortgage-backed bonds or in credit card-backed bonds. You want a bit of credit cards, a bit of mortgage-backs, some leases, some auto loans. So the whole thing is a mixture. And this is a new asset class. So I suspect it would be received pretty well, because we live in a market where people are constantly looking for new products.

You've probably read about some of the problems with the subprime mortgage market. And a lot of the mortgage securitizations that were happening last year, the same volume will not happen this year. So because of that, people will be looking for new types of assets, and this is possibly why.

ASSEMBLYWOMAN BECK: Okay.

Maybe just my final question, and I hope this isn't a stupid question, but because they have this sort of ownership over this revenue for that 15 years, I assume that that doesn't necessarily translate into them having any influence over the operations?

MR. HUMPHREYS: No.

ASSEMBLYWOMAN BECK: If you're under securitization, they have some independence. They're not involved.

MR. HUMPHREYS: Yes. What I've been talking about today is not, as I said earlier--

ASSEMBLYWOMAN BECK: It's not a lease.

MR. HUMPHREYS: --it's not selling, it's not leasing the Turnpike. The Turnpike-- You run the Turnpike just like you want to, just like you've done forever. It's exactly the same people who run the Turnpike. The only thing that you have to do is turn over a little 5 cents once a month.

And usually what happens with these deals is that-- Let me give you a credit card example. In a credit card deal, the bank issues the credit card to you, and you go around spending your credit card, spending it, whatever you want to do with a credit card, and you send your payment into the bank every month. Now the bank, unknown to you, has sold all those payments to a credit card deal, and the bank puts that money into its own account. And once a month, it tallies up all the payments it's received, and it writes a check to the credit card trust -- usually it's a trust -- but writes a check and sends some money over to the trust. And the trust then distributes it to investors. The bank doesn't change any relationship with the consumers. It's not restricted on the ability to change the terms of your credit card, promotions it gives you. It pretty much deals with you as if it hadn't done a securitization deal.

So similarly here, the Turnpike would operate just like it operates now.

ASSEMBLYWOMAN BECK: Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblywoman.

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Good morning, Mr. Humphreys.

I'm trying to understand this whole concept with securitization. You mentioned the number of $710 million in revenue for the Turnpike Authority?

MR. HUMPHREYS: Yes.

ASSEMBLYMAN GIBLIN: Okay. We raise the tolls 15 percent, that's equivalent of about $105 million a year, correct?

MR. HUMPHREYS: Yes.

ASSEMBLYMAN GIBLIN: Okay. So you do that over 15 years. That generates about $15.75 billion dollars. One--

MR. HUMPHREYS: One-point-five billion dollars.

ASSEMBLYMAN GIBLIN: Yes. What's that?

MR. HUMPHREYS: One-point-five billion dollars over 15 years.

ASSEMBLYMAN GIBLIN: One-point-five billion. Okay, that's right. I'm a little bit -- one digit off.

So the difference between the amount generated and the 1.2 we get up front, that's kind of the lawyers fees, the bonding fees--

MR. HUMPHREYS: No, no. I wish it was. No, it's not-- No, I could say now, I will be happy to do this deal for 300 million bucks, no problem. (laughter) No. It's interest costs. It's interest charges. Because you've got to pay interest on the bonds.

ASSEMBLYMAN GIBLIN: No, I understand that.

MR. HUMPHREYS: Okay.

ASSEMBLYMAN GIBLIN: You're paying up front, you're paying up front. But what I'm trying to get at, this is all with that isolated 15 percent increase, right? That's what you're -- like you're saying, the nickel a month, whatever way you're doing it. And the existing revenue would not be impacted at all. In other words, the Turnpike or the -- could continue to use it the way they have been for maintenance, or toll collection, or State Troopers.

Has this been done in any other state in the union, what you're talking about with securitization on the roadways?

MR. HUMPHREYS: No, I don't think so. I think this is new. I think -- we've seen plenty of deals done in the stranded cost area and the tobacco settlement area. Most of the states have done similar deals.

ASSEMBLYMAN GIBLIN: Okay. Is any other state contemplating something similar like this?

MR. HUMPHREYS: I don't know of anybody at this point, no.

ASSEMBLYMAN GIBLIN: Okay.

Thank you. That's enough.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Assemblyman Manzo.

ASSEMBLYMAN MANZO: Thank you.

Could this also be utilized, for example, for income tax receipts and sales tax receipts of the State?

MR. HUMPHREYS: Yes. Yes, I haven't really thought about expanding it. But yes, these techniques are all financial assets. Anything with a cash flow can be securitized. And in trying to do this, you could go and look at future revenues.

Now, I guess it's a little bit more difficult when you look at a -- I don't know whether you're talking about increasing sales taxes for a little charge, or whatever, but you could allocate, I guess, part of the sales tax.

ASSEMBLYMAN MANZO: We already did.

MR. HUMPHREYS: Yes, I know.

ASSEMBLYMAN MANZO: I'm thinking we have a penny that's been floating around. Say now, that penny, over the next 10 years, could that be securitized?

MR. HUMPHREYS: I guess it's the same idea. If you wanted to allocate that money and say, "Well, we're going to put the half a penny--

ASSEMBLYMAN MANZO: We already did. Right.

MR. HUMPHREYS: --for every -- half a penny is going to be allocated to our new SPE." Yes, I don't see why you couldn't do that. It's the same idea. You'd have to -- obviously, this is all-- It has to be passed by statute, because sales taxes, like tolls, only apply if somebody buys something. So it's the same concept.

ASSEMBLYMAN MANZO: And I assume this could also apply to, for example, if the Turnpike did naming rights, developed business or industrial parks on its -- just off its roadways? That the rents and the revenues from there could also be securitized?

MR. HUMPHREYS: Yes. Naming rights have been securitized. You'll find a number of stadiums that have been built have used securitization techniques to get the capital up front to build them. And one of the things they did was, they took future revenues from naming rights, future revenues for boxes, and they put them into a securitization vehicle and raised capital.

ASSEMBLYMAN MANZO: And the figure you came out with -- the guesstimation on the 1.2 billion -- did that assume a volume increase, as well, over the scope of that 15 years, or did it base it on the same volume that's on the roadway today?

MR. HUMPHREYS: No. I wasn't trying to-- All I did was, the number-- As I say, you want to be careful of lawyers with numbers. But all I did was say, you have about 711 million in toll revenue this year. Fifteen percent is about -- slightly over $100 million. So when you've paid interest, and you back out the interest costs over 15 years, you have about 1.2 billion left.

ASSEMBLYMAN MANZO: Okay. So conceivably, if the volume increased, you could work a formula out that would make a provision for that; to actually bring down the cost of that 15 percent toll road, if volume increases and more people are paying?

MR. HUMPHREYS: Yes. I mean the true-up could be a true-down as well. You could do it both ways. You could say that we're only trying to get enough cash to pay back the bonds in a sequence, and if we hit that target, the rest of the cash -- either you reduce the toll or the money could be used by the Turnpike Authority for other purposes.

ASSEMBLYMAN MANZO: And I assume anybody who would purchase or lease the Turnpike would probably do this very same thing?

MR. HUMPHREYS: Well, yes. I mean, one thing is, what's the exit strategy if you buy the-- If you buy or lease the Turnpike, there's got to be an exit strategy for your investment. If the investor is not going to be one-- No investor is going to buy the Turnpike expecting to hold it for 99 years. Okay? So the one exit strategy is to securitize revenues off the top.

ASSEMBLYMAN MANZO: Thank you, Mr. Humphreys.

Thank you, Mr. Chair.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Humphreys.

Seeing no further questions, I just had two last questions for you. Are you familiar with the New Jersey Supreme Court decision *Lance v. McGreevey*?

MR. HUMPHREYS: I -- vaguely. Is that the one about the debt caps?

ASSEMBLYMAN WISNIEWSKI: It said, basically, it precludes the State from issuing contract bonds in the future.

Do you have any thoughts -- I won't use the word *opinion* -- do you have any thoughts on the applicability of that prescription in this instance?

MR. HUMPHREYS: I don't really. I don't know well enough to give you a view on that. It seems to me, however, that what's going to be worked out here is whether or not this is, in fact, a sale of these revenues, rather than borrowing. And that's an important point that has to be worked out here.

I don't want to mislead the Committee either. This is a concept, and that's all that we're at, at this stage. It's a concept. There's a lot of things in here that would have to be worked out before this was a viable idea. But I think it's worth exploring.

ASSEMBLYMAN WISNIEWSKI: And then, just one last question. You had made mention before that the investors that would look to buy this asset probably would not be comfortable, generally speaking, going out more than 15 years. Is that correct?

MR. HUMPHREYS: Yes. But that's just my gut reaction on it.

ASSEMBLYMAN WISNIEWSKI: And I appreciate that. I guess the question I have, and maybe you don't have an answer, is we've seen the Indiana deal for 75 years and the Chicago deal for 99 years. Why did those investors choose those long-time horizons over what you're suggesting?

MR. HUMPHREYS: Well, I think what -- we need to talk about apples and oranges a bit. Actually, whether you talk about selling the Turnpike or leasing it for 99 or 75 years, basically-- I'm sorry, but I'm not going to see the return of the Turnpike. It's going to be-- As far as I'm concerned, it's sold, if it's for 75 years. So basically--

ASSEMBLYMAN WISNIEWSKI: You're not going to be around that long?

MR. HUMPHREYS: I don't think so, although I live in hope.

But I think if they are looking at it as essentially ownership of the Turnpike, that's a different investor outlook than if you're talking about buying bonds that pay a particular yield. And they're looking for much bigger yields, obviously, than 5, 6 percent interest, which is what a bond would pay. So it's an apple or an orange--

ASSEMBLYMAN WISNIEWSKI: Well, I appreciate your testimony. It's been insightful. And I think the Committee has learned something today. And hopefully, if we need you further, you might be willing to answer additional questions.

MR. HUMPHREYS: I'd be delighted to come back any time you want.

ASSEMBLYMAN WISNIEWSKI: Thank you, Mr. Humphreys.

MR. HUMPHREYS: Thank you very much. I appreciate it.

Thank you.

ASSEMBLYMAN WISNIEWSKI: We're going to switch around the order slightly here.

I first would like to point out that Assemblywoman McHose has legislation on for discussion today. And she could not be with us because of a snow day, and she is home with her children, and we appreciate that. But she has submitted to all the members of the Committee her written testimony concerning Assembly Bill 3686, and I'd like that to be included in the record.

Because of time constraints, I also would like to first move to Assembly Bill 3952, sponsored by Assemblyman Bodine, for discussion only.

Maureen, if you would read the statement.

MS. McMAHON: Assembly Bill 3952 provides that any bill or resolution introduced in either House of the Legislature that authorizes the sale or lease of any State asset having a value greater than $100 million must provide that the bill or resolution will not take effect unless it is proved by a majority of votes cast, thereon, by the legally qualified voters of this state at a general election. Under the bill, the term *State asset* means any real or personal property, or any tangible or intangible item.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Bodine.

ASSEMBLYMAN BODINE: Thank you, Mr. Chairman, and thank you for your continued leadership in this New Jersey Turnpike situation. We are all learning more, or being confused more, with each passing meeting. (laughter) But it's my belief that the toll roads, including the Turnpike and Parkway, are -- they belong to the public. The taxpayers funded them. The toll users provide for their maintenance. In one way or another, we all depend on them for transportation, deliveries, or shipments.

And to turn them over to a nameless corporation, I do not think that is in the best interest of the people. The current law, the State has a process established by which it can sell or grant property to a private entity. That process includes public notice, public hearings, and public auctions.

Additionally, the State House Commission must make a determination, based in part on public input, as to whether or not such a proposal is in the State's best interest. Current law -- the State House Commission is statutorily required to control the sale or leasing of all State-owned properties.

So I am very concerned about this. I'm concerned that if such a sale or securitization would go forward, it is not in the best interest of our residents. I think our residents should participate in major financial decisions. If we have toll increases, I'm concerned that there would be a certain amount of the traffic that would leave the Turnpike for other roads, and the State would then be obligated to maintain those roads. I'm concerned with the investor versus State ownership. I truly believe that the State has the safety and maintenance interests of our residents-- I'm not certain how investors would respond, when it comes to return on investment to the investors at the expense of Turnpike users.

And let me just point one thing out: The New Jersey Turnpike Authority employees have a great deal of pride in their work. All we have to do is look across the river and see what happened last week.

There's a lady in the audience this morning, and she's here after she worked all night to assure us that our roads, the New Jersey Turnpike, would be clear and safe. That's the kind of pride our employees have. I think that's the kind of interest our residents have in this Turnpike. And I am adamantly opposed to any sale of the Turnpike. And therefore my bill, which requires that any asset greater than $100 million would be put to the voters in the form of a referendum to approve it.

Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman. I appreciate you introducing this and being willing to discuss it today.

Do any members of the Committee have any questions? (no response)

I see that we have Steve Gardner, from the New Jersey Laborers-Employers Trust signed up in opposition to 3952.

Steve?

S T E V E N G A R D N E R: Mr. Chairman, thank you.

My name is Steven Gardner. I'm the Director of Government Relations for the New Jersey Laborers-Employers Cooperation and Education Trust. I'm here today on behalf of my Chairman, Raymond M. Pocino. I think I've circulated testimony -- Ray's testimony -- and with your indulgence, Mr. Chairman, I'd like, if I could, to talk about all three bills that are up for discussion.

ASSEMBLYMAN WISNIEWSKI: Please.

MR. GARDNER: I appreciate that.

First, I'm here in opposition to all three bills that are here. I want to begin by talking about one of the questions that this Committee was asking at the last hearing, which was: Would we be considering this type of a deal if we weren't in such financial straits? And I sort of think that's sort of the wrong question to be asking. The right question to be asking, and one of the right questions to be thinking about is: What is the framework in which a deal like this could succeed? And by that I mean this, we have long-term financial needs that need to be met. Whether we are in financial straits or not, we would hope that our government would always look to be innovators and creators. And whether or not we ever got to the point where we actually did a deal, the point would be that we'd always be considering new possibilities and new options. So to sort of ask the question it's implicit to say: Well, if everything is all right, then we shouldn't be talking about this, because there's no reason to change. But not changing, and doing the same things that we've been doing, has only gotten us into trouble.

So from that perspective I would ask, and I know that Ray would ask, that we always look to innovate and create and to lead. Having said that, there's a second part of your question, which is the financial straits. And it seems like the discussion that we've been having has become completely and totally divorced from the real financial needs of the State. New Jersey has few reasonable options available and we will not solve our problems through inaction.

Let me talk about one example that is near and dear to our hearts -- and that's the Transportation Trust Fund. In 2002, Ray, my boss, Ray Pocino, was a member of a blue ribbon panel that examined New Jersey's transportation infrastructure needs. At that time, the panel determined that a 12.5 cent gas tax was needed to begin to meet New Jersey's growing transportation needs. We understand that's not a popular recommendation, but it was a reasonable one and it was a responsible one. Instead, two different governors continued the Trust Fund down the path of refinancing and issuing more debt. Today, the TTF is over $8 billion debt in outstanding. By 2011, which is four years -- it seems like a long time, it's four years -- the Trust Fund will once again be bankrupt. Bankrupt -- all revenue that goes to the Trust Fund now will only go to pay debt service, and there will no longer be a capital program. None. So that's about a $1.6 billion cash obligation the State will, at some point, have to meet, which translates into a 30 cent gas tax -- 30 cents -- just to get us back, in 2011, to what we're spending today. That doesn't increase the capital program in any way. That doesn't begin to meet the growing needs. That's gets us back to spending what we're spending today. That doesn't address -- that 30 cent gas tax does not address the tunnel, which is going to be about a billion, billion-and-a-half on the stateside obligation right now, at the local share for the State; and it doesn't address the Turnpike widening, which is at, right now, about $2 billion. Thirty-cent gas tax today. That's what we're looking at by no other options on the table.

So we're not pretending to have all the answers. I'm not even sure we have all the questions to ask. This is a big -- these are big numbers and big problems. What we do need though are creative solutions, and we need to be open-minded to all the possibilities, good and bad. The bad ones, let's figure out why they're bad and let's move on. But to look at the Indiana deal and the Chicago deal and say, "Look, this is what happened. This is the worst case scenario, all these bad things -- tolls went up, this went up--" We can't do that. What we need to do is find a solution.

Chairman, you talked about, in 50 years when they don't plow the road for some reason and the State no longer has the ability to plow that road, what do we do? How do we handle that situation? Well, a creative solution, and we're not advocating for the BPU to step in, but you create a public body that would continue to oversee and implement the contract, so that ratepayers -- the people on the road -- still have a place to go to talk about their concerns, the public still has an interest, and the government still has an interest, because there's still oversight of that contract in a more meaningful way. I don't know if that's the answer to that particular problem, but it's maybe a solution.

And I think what we need to do is to move beyond what are all the problems and to begin to build a framework where this could succeed, and where if it met those conditions and the money was right, we could do a deal. Barring that, to just sort of point and poke holes, we're not moving the ball forward and we are looking at a 30 cent gas tax, or we're looking at significant toll increases. I mean, we talked about 15 percent toll increase for 15 years gets us $1.2 billion -- $1.2 billion. That's not even the TTF's capital program for one year. That's not the widening -- that was just $2 billion. So a 15 percent toll hike, you're still going to have to do a gas tax -- you're still going to have to do a gas tax. And until we're willing to recognize the reality of the situation, we're no longer going to be able to move forward. So I would just ask you to keep an open mind to all possibilities.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Should I interpret your testimony as being a criticism of the refinancing of the Trust Fund last year?

MR. GARDNER: Without doing the refinancing, the Trust Fund is broke. And--

ASSEMBLYMAN WISNIEWSKI: We had no alternative.

MR. GARDNER: The legislative body didn't act to make any changes, so there were no options on the table.

ASSEMBLYMAN WISNIEWSKI: So because we had no options, we did a refinancing that, if I understand your testimony, was not the best thing to do?

MR. GARDNER: I think we were on record as having real concerns about that.

ASSEMBLYMAN WISNIEWSKI: Okay. We're here again, with no real alternatives, to do something that essentially is using, whether you pick 10 years, 20 years, 50 years, or 100 years of toll revenue -- that hasn't been collected, the drivers haven't even been born yet -- and spending it today. How is that different than the refinancing of the Trust Fund, which doesn't solve the problem either?

MR. GARDNER: Unless you've see something I have not seen, is there a deal on the table? There's no deal on the table. You could do a 30 cent gas tax today, absolutely. We've (indiscernible) 100 percent, 30 cent gas tax. Let's do it.

ASSEMBLYMAN WISNIEWSKI: Maybe we should.

MR. GARDNER: And maybe we should. Maybe that should be the discussion. All we're suggesting today is that we keep our options open. That we don't burn down the bridge we try to cross. Now, maybe a Turnpike deal isn't in our best interest, and maybe that when we figure out what we really need to accomplish it, it doesn't make sense. But let's figure out what we need to accomplish, and then let's evaluate a deal. I haven't seen a deal. I don't know that you've seen a deal -- maybe you have. There's no deal on the table today. So let's figure out what kind of framework a deal should look like, allow the Governor to negotiate a deal based on that framework; and if it doesn't work, we walk away.

ASSEMBLYMAN WISNIEWSKI: Well, I'm not comfortable allowing anybody to negotiate a deal before the Legislature has an opportunity to understand how the deal would be negotiated.

MR. GARDNER: I just said that the Legislature would plan the framework.

ASSEMBLYMAN WISNIEWSKI: We have given people an opportunity today to come and tell us exactly how they propose to negotiate that deal; they chose not to come. It makes it very difficult for this body to seriously embrace good faith when it's not shown to this Committee.

But I appreciate your testimony.

ASSEMBLYMAN O'TOOLE: Mr. Chair?

ASSEMBLYMAN WISNIEWSKI: Assemblyman O'Toole.

ASSEMBLYMAN O'TOOLE: A follow-up thought, and a question. I'm glad, Chair, you asked the question -- about your position or your organization's position on the TTF, because I, like you, share the concern that you haven't really solved the problem. You have bond indebtness that pays $180, $190 million per year. In 2024, it jumps to $800-and-something million. And there is no funding source beyond, as you say, 2009.

My question to you, Steve, through the Chair is, you're saying solve the problem, but what is the problem? Is the problem we don't have enough money? Because if what I've heard, through monetization and securitization and bonding, we have an asset -- whether it's this special purpose entity asset, or whether it's the revenue asset, or whether it's the Turnpike in total -- that we have an asset and people want to sell or securitize that. And what the history has been, as you well know, is that the revenue -- a billion, 2 billion, 3 billion -- gets spent in a year or two, and it has evaporated. That asset has disappeared, it dissipated; and we have spent, for a year or two, a revenue source. And I don't think we're in any better shape after having done that. And you saw the failed experiment from a public policy standpoint with the tobacco funds.

So I'm trying to understand. You say the question isn't-- I think one of the questions should be, if we were in better fiscal shape, would we consider it? You think it should be a different question. What is the problem? Is the problem we don't have enough revenue now? Is that part of our problem?

MR. GARDNER: Correct.

ASSEMBLYMAN O'TOOLE: Okay. If we don't have enough revenue now, what happens when we deplete that revenue in a year or two? Let's say we go with your model, or the model from Mr. Humphreys, or the Governor's model of monetization. Within a year, or two, or three -- however you want to stagger those revenues -- that's gone. Then are we any better off three years down the road, two years down the road?

MR. GARDNER: Assemblyman, I think, through the Chair, that the answer to your question is easy. It's we have to stop doing things the same way that we've done them. You're absolutely right -- that if we monetize an asset, we get a big chunk of change. It's incumbent upon this body, the Senate, and the Governor to spend it wisely. And we're all nervous -- everyone's always nervous, and we're most nervous that we will get that money and it won't go to Trust Fund debt and it won't go to Turnpike debt, it will go to-- Who knows where? It will be scattered through the winds. So part of our fight and part of-- We're not advocating one method over another right now. We're advocating -- we have to look at all methods. But if we were to lease the Turnpike and it were to generate a significant amount of capital, we would maintain that that money -- after paying off Turnpike debt, if that's what had to be paid off -- that the remaining funds go first to Trust Fund debt, to alleviate the burden on the Trust Fund, that's sinking it like an anchor. You've got to pay off that debt.

And then on top of that, we've got to begin to get out of the cycle of, "Okay, well now, the Trust Fund is free and clear. Let's start bonding again like crazy." We began, and Governor Corzine began, the process a year ago, when he started to put in constraints on the ability to bond versus how much cash is in the fund. We need to strengthen those constraints. If we have to put a constitutional amendment on those constraints, let's do that. Let's find a way to get out of this cycle of just spending everything we've got.

ASSEMBLYMAN O'TOOLE: Just looking back, briefly, the general indebtedness -- not talking Transportation Trust Fund -- in 1982, I think it was about 2 billion. It goes gradually to 16 billion, 2002. It has, since that time, doubled. We're at $34 billion. Say we took 10, or 15 billion today, well, we're just going to pay down the debt where we were five years ago. There's no real pickup. And we have really liquidated a terrific asset or resource. And moving back the clock, we would have just brought the debt level back four or five years, and I'm not so sure that's really progress.

MR. GARDNER: Well, but one of the changes would be that we've already instituted financial constraints that did not exist prior to 2006, on the amount of increased bond indebtedness the Trust Fund could undertake, based on how much cash it has. So you're right, in a sense that we would still have a hole to dig out of, but the hole would be a lot smaller, and our ability to increase that hole is dramatically reduced.

ASSEMBLYMAN O'TOOLE: Okay. Thank you.

Thank you, Chair.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Any other questions?

Assemblyman Giblin.

ASSEMBLYMAN GIBLIN: Well, I'm kind of a new guy on the block as far as some of these issues where transportation is concerned. I might be saying something that people might not want to hear, but the issue I feel is that the only way to solve these current, long-range issues dealing with transportation is through a transportation tax. Chairman Wisniewski, early on, during my tenure, was very much a proponent of that issue. Going back, in 2002, you thought you had a done deal in a lame-duck session. I told your regional manager at that time, the day before he thought he had it in the bag, "Watch out, it's not going to happen." And he thought I was crazy. And my instincts were right.

So a lot of people have depunted when the moment of truth came about this issue of the Transportation Trust Fund tax's concern. It's right there. It's the 800-pound gorilla. Whether we deal with it now, or we deal with it at the end of the year after elections are held, but it's staring us right in the face. And a lot of these issues that are confronting us, as far as the State budget is concerned, the only way they're going to be solved is through a Transportation Trust Fund tax. You either can do it gradually -- 10 cents this year and 10 cents next year, 10 cents the following year -- whatever way you do it, whatever method you do it -- but I think it's the only way to try to start digging out of this hole.

There are so many concerns that I see traveling around the state -- north, south, east, and west. We're in absolute gridlock. That's having an impact upon the economy. You go up to Port Newark, the people at the Port are complaining they can't get those trailers out of there fast enough. There's all kinds of legitimate business issues that are confronting the State. It's money well spent; it spurs economic development.

And I just wanted to kind of express my sentiment about being supportive of that measure. So it might take a while to bring this to fruition. Selling this asset I think is penny wise, pound foolish. I listened carefully to what was said this morning about generating that additional 15 percent income. Somehow it doesn't all jive when you look at what we're handing over, in terms of what we're getting back as far as the bottom line.

And I listened carefully to the Governor's talk last week. And over here we're focusing on transportation, but I heard the Governor carefully say about issues of universal health care; I heard the Governor talk about issues about funding pre-K. I'm concerned that if the assets of the Turnpike are sold that they will really not get down to what we're looking at here, now -- transportation needs. They'll be diverted to other issues, with hospitals and things like that, and we'll be back to square one in terms of where we stand with the transportation system in the state.

Okay?

ASSEMBLYMAN WISNIEWSKI: Thank you.

Assemblyman Kean.

ASSEMBLYMAN KEAN: Thank you, Chairman.

And just some general observations. No disrespect, Steve, to you or your organization, but I have to chime in and echo the comments that were made by some of the other members of the Committee. I really agree -- there's a structural problem with respect to the TTF. However, I have to take my hat off and just thank, really, the leadership of the Chairman of this Committee and members from both sides of the aisle. Different members have had legislation -- Assemblyman Manzo. There's been op-eds in the paper. There's been people speaking out in the media. And I think looking back -- 10 years down the road, 15 years down the road -- the actions that this Committee has taken on a bipartisan level are going to be what made the difference in stopping this really earth-shattering moment from taking place. I really think it's going to be something that we will regret as a state if we go forward and sell these assets. And I just want to salute all the members that are really working hard to prevent that from happening.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Thank you, Chair.

I'll be quick.

Steve, I just wanted to ask a quick question, because I agree with some of what you've said, in regards to the Transportation Trust Fund. But if I understand, you are advocating that we go forward with the Turnpike monetization. Am I correct in asking?

MR. GARDNER: We're advocating that we create a framework where a privatization could succeed, and then see if we could put a deal together where it does succeed. And if it doesn't work, if the elements that we require to lease our asset don't generate enough revenue, or don't make enough sense, then we don't do it. But today, to have total inaction and say, "You know what? The Turnpike -- it's a bad deal; we shouldn't do it" -- understand the consequences. And the consequences are that we're staring down the barrel of a 30 cent gas tax.

ASSEMBLYWOMAN BECK: Is it your concern that it's mostly generated by the Transportation Trust Fund debt? Is that where this is-- I assume that you do work on the Turnpike, correct?

MR. GARDNER: We have members that do construction on the Turnpike, yes.

ASSEMBLYWOMAN BECK: Right. So you're biggest concern is the debt-laden Transportation Trust Fund, correct?

MR. GARDNER: That's correct.

ASSEMBLYWOMAN BECK: So you've advocating that we pay down debt with debt?

MR. GARDNER: We're advocating that you take an asset, that right now contributes $24.5 million to the Trust Fund, and pay off $8 billion in Transportation Trust Fund debt.

ASSEMBLYWOMAN BECK: Right.

But I think we heard Mr. Humphreys, through the Chair, when the question was asked, "Is this securitization debt?" his answer was yes. So we're going to pay down the Transportation Trust Fund debt with another form of debt. I guess I just find maybe your testimony is a little bit in conflict. And I don't disagree with you on the concern for some of the problems in this state, but I think there is an opportunity for us all to advocate for spending cuts. Because that's another way to generate revenue. If we decrease spending, you're also freeing up revenue to pay off things like the Transportation Trust Fund. And I just find it a little inconsistent that you're not in favor of what's going on with the Transportation Trust Fund, but yet you're supporting more debt.

Anyway, thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblywoman.

Any other members? (no response)

Thank you.

I'd next like to call up Ed Nyland and Bob Briant, from the Utility and Transportation Contractors Association.

MR. BRIANT: It's still morning, so good morning, Mr. Chairman and members of the Committee.

Robert A. Briant Jr. I'm the CEO of the Utility and Transportation Contractors Association. Our organization's numbers are approximately 1,100 member firms, active in all transportation, infrastructure, and environmental remediation throughout the State of New Jersey. I appreciate the opportunity to have brief comments relative to this issue.

Let me begin my testimony by stating that UTCA supports Governor Corzine's efforts to reduce the State's structural deficit and to provide for a budget that matches reoccurring revenues and expenditures. We also agree that the Governor -- that the best way to overcome these fiscal difficulties that New Jersey faces is to grow the economy. Improving our transportation infrastructure is a major component of the economic recovery plan. And UTCA appreciates that the Governor recognizes this factor as well.

However, as an Association that focuses on State transportation infrastructure assets, UTCA reminds our legislative leaders that the State's aging transportation infrastructure has numerous and expensive structural needs, and that funding system used to pay for the transportation improvements faces serious financial challenges.

On the fiscal side, as it stands today, the TTF debt is approximately $8 billion. Under the current program, that amount is expended to reach approximately $15 or $16 billion by the year 2011. So our Trust Fund is going from $8 billion today to, at the conclusion of this recent refinance program, at 2011, we're going to double that debt almost to about $15 to $16 billion. The current debt for the New Jersey Turnpike and Garden State Parkway is approximately $7 billion. We're bringing these things to your attention because this is just the sum total debt that we need to resolve, relative to our transportation investments in the State of New Jersey.

Unfortunately, there are limited options as to how this State can pay for both the debt payments and the critically needed transportation infrastructure improvements. Some have suggested that costs and government spending be cut, but realistically it's probably impossible to cut $15 billion from the State budget.

Chairman Wisniewski and others have suggested an increase in the gas tax. This is an option that UTCA fully supports, and the Association stands ready and willing to assist the Chairman in any effort to move a gas tax proposal through the Legislature. We would point out that the gas tax would need to be raised approximately 25 to 30 cents -- 25 to 30 cents by the end of this recent five-year refinancing program we're in now.

Just -- unfortunately to date, there has been no political will to address this issue, relatively to raise the gas tax. We've been there several times before; we've had discussions about this. This goes back to the early '90s. Every time we seem to approach closer to doing this every year, the administration -- or there's no will in the Legislature to get that done.

Finally, we come to asset monetization. That's a proposal that Governor Corzine has suggested as a way to alleviate the State's tremendous debt problems and to provide funding for capital programs. Though our Association shares the Governor's concerns regarding the fiscal situation our State faces, at first glance our organization has concerns with the concept of leasing the New Jersey Turnpike and other State toll roads to a private entity. We recognize that no proposal has been firmly introduced by the Governor. And in the absence of that, in lieu of looking at a detailed lease proposal, we wish to go on record and just discuss some of the concerns that we have, prior to being able to support something of that nature.

First off, if a private entity takes control of the New Jersey Turnpike, there's no guarantee that the company would continue to publicly bid construction projects to the lowest responsible bidder, as the current bidding statutes dictate. This causes great concern amongst our members. In our view of the other public entities that have utilized this model, they have contracted with large corporations which employ their own construction divisions. If such a scenario were used in New Jersey, our members would most likely be relegated at best to being a subcontractor to multinational construction companies, and the benefits of the State's low-bid process will be lost to the toll payers.

Also, based on the Indiana model, UTCA is concerned whether the private entity would continue the New Jersey Turnpike's 10-year construction program; and maintain the current level of annual construction funding for the remainder of the leased term, including adjustments for annual construction and inflation. In Indiana, there's an acknowledgement by state transportation officials that within the next five to six years, that the money set aside for transportation improvements will be spent. I personally asked the Secretary of Transportation from Indiana, "What are you going to do after the year is -- after the money is spent, five to six years from now?" He just put his hands up in the air, and said, "That's for the legislature to decide." In the meantime, that asset is going to be leased for another 75 years.

There is also a concern that the New Jersey Turnpike, under a private entity, may not maintain the current requirement that the New Jersey prevailing wage law continue to be applied to all construction and maintenance projects. Both the contracting and labor communities fully support continuing protection provided by the State's prevailing wage law for our working men and women who labor on these construction improvements. Also, UTCA has a great concern about leasing the State's most valuable transportation asset, as is the case in New Jersey Turnpike, and using the proceeds from that lease for nontransportation purposes, especially when considering the fiscal viability of the State's Transportation Trust Fund under the current program.

If a decision is made to borrow against the New Jersey Turnpike revenues, UTCA believes it would be in the State's best interest to have the existing New Jersey Turnpike Authority be the entity to securitize those tolls. If such a scenario was employed, we suggest coupling the proposal with an increase in the gas tax and include an annual increase for the CPI. The proceeds from these proposals should be used expressively for transportation purposes only. Using these proceeds to pay down the TTF debt and relying upon constitutionally dedicated revenues, after paying off the Turnpike and Parkway debt, would allow the State to reestablish a viable transportation spending program that meets these critical needs. Additionally, paying down the TTF debt falls in line with the Governor's mandate to reduce the State's debt load.

However, if the Governor intends to monetize New Jersey Turnpike tolls through a lease to a private entity, UTCA is committed to requiring all of the following conditions. By the way, if these conditions were not met, our organization would have to oppose such a deal. First, all assets realized by the New Jersey Turnpike lease must go to retiring TTF and Turnpike/Parkway debt. Second, all New Jersey Turnpike construction and maintenance projects continue to be publicly bid and awarded to the lowest responsible bidder, under the same bidding statutes currently stipulated by the New Jersey Turnpike Authority. Three, maintain the current requirement that the New Jersey prevailing wage law is applicable to all construction and maintenance projects. Fourth, fund the New Jersey Turnpike's 10-year construction program and maintain current level of annual construction funding for the remainder of the lease, including all adjustments for annual construction inflation. Finally, allow the New Jersey Turnpike's staff to plan and administer the New Jersey Turnpike construction and maintenance program. Again, we remind our governmental representatives that the state's critical transportation infrastructures' needs, and the serious fiscal problems our Transportation Trust Fund program faces in the immediate future, should significantly factor into any decision or discussion centered on State debt and the ability to pay for future State capital requirements.

We reiterate our willingness to partner with our leaders on a proposal to increase the gas tax. We recognize the Governor is exploring numerous options that may or may not include the leasing of the Turnpike to a private entity, and that we must see the proposal before our association can endorse any type of program or process.

With that, Ed Nyland, the Executive Vice President from our organization; and he wishes to just say a few more words.

Mr. Nyland.

Thank you.

E D W A R D   N Y L A N D: Okay. Bob already introduced me.

I just wanted to say to the members of the Committee, it was a pleasure driving over our State-owned roads and bridges this morning to come to this hearing. I'm kind of saying that for a reason.

Bobby mentioned a couple of things about the revenue; and members of our association really believe in a recurring stream of revenue. Bobby mentioned the increase in the gas tax. We like to call it the *user fee*, and it really is a user fee. We look at paying for a kilowatt hour -- every time we use one, we pay for it. When we drive over a mile of our road, we should pay to do that too.

A couple of things: One thing I heard this morning on the way here, I heard that, I think it was in the last two weeks, that the price of gasoline went up by something like 13 cents. We all drive into the gas station, we gladly pay that 13 cents -- maybe not gladly, but we pay it -- and it goes into somebody's pocket, not to maintain and fix our roads. And I look at that, at the way the market raises and lowers gas prices -- that I think this 25 to 30 cent gas tax increase, user-fee increase, is something that if we educate the public, it's something that they will understand if it does go to maintain our roads and bridges.

Another thing about the user fee: We are the third lowest in the country in our gas-tax user fee. I looked at New York; New York's the highest. I'm not advocating we be the highest, but we would more than solve our problem if we had New York's gas tax today. The other thing is, I think probably everybody on this Committee realizes that 31 percent of our gas is purchased by out-of-state travelers. I think that says something that we should really realize.

The toll increases -- make no mistake about it, if we sell or lease the Turnpike, the tolls will increase. This is a company that would buy or lease the Turnpike that needs to make a profit. They will increase the tolls. And if they will increase the tolls, why don't we increase the tolls? And why don't we just inform the public as to why we're doing it, and try to get the public to understand something is going to happen either way? And I think, because the Turnpike does not have to turn a profit like a company does, we should be able to run our roadway as well as a private company.

So just to join onto Bobby's testimony, we feel that the recurring source of revenue is the answer to the problem.

Thank you.

ASSEMBLYMAN WISNIEWSKI: Thank you both, gentlemen.

Bob, I think that the one issue-- You had estimated 25 to 30 cents, but that presumes rolling out that four more years of borrowing on the TTF. Obviously, if that were to be cut short and the State were to borrow less, that 25 to 30 cents would then be a lower number.

MR. BRIANT: Correct, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you.

Any other questions?

Assemblyman Johnson.

ASSEMBLYMAN JOHNSON: Thank you, Mr. Chairman.

From what I'm hearing, from the testimony that's been presented, you do support a gasoline tax increase?

MR. BRIANT: Absolutely. We feel that's the prudent step to take forward. It's a reoccurring source of revenue. And unfortunately, we've been there before and have not been able to get that done.

ASSEMBLYMAN WISNIEWSKI: From 12 to 30 cents a gallon, approximately, somewhere in there?

MR. BRIANT: It's going to be-- If we roll out and continue this next five-year program -- we're actually already one year into it, we have four more years to go -- we're going to have approximately $16 billion. We're going to probably need close to 25 to 30 cents in order to pay off that debt and then be able to maintain a capital program, if we wait another four years.

ASSEMBLYMAN JOHNSON: Here's a question out of left field for you: If we were to exempt diesel, or somehow discount the tax on diesel fuel that our truckers use every day, how would that impact on-- Or my question actually is, how much diesel is sold? How much taxes are collected from diesel fuel sold versus gasoline?

MR. BRIANT: I can give you a guesstimation.

ASSEMBLYMAN JOHNSON: Or percentage, I guess, I'm looking for. Percentage?

MR. BRIANT: I can give you a guesstimation. My guess would be around 20 percent of the revenue that comes into the TTF, or 25 percent, comes in from diesel.

ASSEMBLYMAN JOHNSON: So would it or could it be possible, or would it be feasible to somehow exempt truckers from this increased fuel tax, if they either are stationed in New Jersey or are purchasing fuel in the state?

MR. BRIANT: What you're saying is, you would have two different levels of motor fuel tax -- one for diesel, one for gasoline. We currently have that now.

ASSEMBLYMAN JOHNSON: Okay.

MR. BRIANT: So in order to do that, if you wanted to differentiate between the two types of fuels sold, you can easily do that. I think that's your question, correct?

ASSEMBLYMAN JOHNSON: Yes, that was it. That's kind of like where I was going, I think, and thanks for your answer.

I'm finished with this line of questioning.

ASSEMBLYMAN WISNIEWSKI: Thank you. Thank you, Assemblyman.

Any other questions?

Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Through the Chair, just one quick question.

Assemblyman Bodine's bill calls for a public referendum on any decision involving our highway. I'm just wondering if you support that?

MR. BRIANT: Well, to be honest with you, if we were to monetize something like that, I don't know if 100 million is the number, but I think that's something that would be prudent, and we would support that -- it going to the voters first.

We do want to establish one thing here, though, today. We're not supporting or opposing this Turnpike lease issue. It may make sense to take a look at what the -- just take a next step to look at what it is, to see what it could be. We're very, very leery. We're very concerned about it, because you don't want to get on the slippery slope; and we can have this process move forward, and then in the end we spend all the money. It's gone in five years and we're back in the same boat; we have more debt and we didn't do anything, or the money goes for many other things.

This is a very dangerous road we're following, but we have such tremendous debt now that we're not saying cut it off now. It may make sense to maybe look at what could be the next step, what could this thing be. But in the end, it may not be a product that's going to work for the State of New Jersey. And we'd prefer -- the right way to do things is to raise the motor fuels tax. Reoccurring revenue, I think, is the most responsible way to address this issue.

ASSEMBLYWOMAN BECK: Thanks.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblywoman.

Assemblyman Manzo, you have a question.

ASSEMBLYMAN MANZO: Has your organization, and perhaps any other labor organization, sat down with members of the administration, or potentially any of the other people involved in putting together this asset monetization procedure, and expressed your concerns?

MR. BRIANT: Well, we've met with many people to express our concerns about this. We've met with -- we've had discussions with several individuals from the administration. We've had discussions with your leadership in the Assembly.

ASSEMBLYMAN MANZO: Could you identify the members of the administration you had the discussions with?

MR. BRIANT: Excuse me? Can you repeat that?

ASSEMBLYMAN MANZO: Can you identify the members of the administration you had the discussions with?

MR. BRIANT: Yes. We've had discussions with one of the chiefs of staff, we've had discussions with the Commissioner of

Transportation, we've had a discussion with the State Treasurer relative to our concerns, concerning this matter.

ASSEMBLYMAN MANZO: So as I understand it, I would assume you've laid out your organization's issues on the table, and I'm sure other labor groups have done the same. And you seem to indicate that -- under what parameters you could support an asset monetization. Do you find it disingenuous to sort of place the Turnpike workers as an expendable commodity, when you sat down and had these discussions with administration people?

MR. BRIANT: If you look at our testimony, I think we talk about having the Turnpike run it and handle it.

ASSEMBLYMAN MANZO: But not guaranteeing jobs, like I'm sure you would do for your members?

MR. BRIANT: Again, I think what we've testified to and what we've said is that we'd like the Turnpike to do this and not have a private entity do it. And if a private entity does it, our testimony and what we've discussed, is more or less like the monetization that the gentleman that preceded us -- they weren't going to get involved in the administration of the Turnpike. That would be done with the current Turnpike Authority.

ASSEMBLYMAN MANZO: Just a word of caution that -- I think you would fool yourself into thinking that any private company that secures the operation of the Turnpike is going to be looking at anything other than a profit margin. And when it comes to unionized workers on any aspect of the roadway, you can forget about it. Because they'll find a way to undo what they promise you -- I assure you, maybe not five years out, but 10, 15 years down the road -- and you will be without a prayer at that point.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

Any other questions? (no response)

Bob, thank you for your testimony.

MR. BRIANT: Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: I'd like to, next, call Brian Tobin, from the Associated General Contractors of New Jersey.

B R I A N N. T O B I N: Is it still morning?

ASSEMBLYMAN WISNIEWSKI: Actually, it's not morning. By my clock, it's seven minutes after twelve.

MR. TOBIN: Good afternoon, Chairman and Committee.

My name is Brian Tobin. I am the Executive Director of two construction associations, statewide associations. The first being the Associated General Contractors of New Jersey, which is a statewide association of general and specialty contractors involved in heavy and highway construction, site development, and utility contracting of public and private projects. The majority of the work done on the New Jersey Turnpike is done by our membership. The other group is the New Jersey Asphalt Pavement Association, which is also a statewide organization, whose members consist of asphalt producers, asphalt installation contractors, liquid asphalt producers, and the various associate members.

I'm going to keep my testimony very brief.

Bob and Ed did quite a good job of covering a lot of the stipulations, for lack of a better term, that the contracting industry has in terms of supporting a deal.

But actually, I wanted to go off script a little bit, because it encourages me to hear some discussion about the gas tax discussion. We haven't heard that in public in a while, and it's encouraging to hear that, because it's firmly the opinion of our board of directors that the Turnpike discussion is somewhat of a distraction from the greater problem, which is a TTF which does not have a stable and dedicated funding source.

But in theory, the idea of public/private partnerships appear to be a viable supplement to a larger plan. But the vague nature of the current plan specifics in the State of New Jersey are of tremendous concern to the contractor community at large. Which is why, if asked directly if the AGC and the NJAPA are going to support the sale or the lease of the Turnpike, we're going to have to be vague. The details of the plan are not known to the public; they're not known to yourselves; and they're not known to the Governor's office, as per a conversation we recently had with them.

Based upon the models in Indiana and Chicago, the AGC and the NJAPA will reserve opposition or support of a potential lease until more information is made available. I was going to cover the three details, but Bob and Ed did a very good job of that.

Are there any questions?

ASSEMBLYMAN WISNIEWSKI: I promise to let you go first next time.

MR. TOBIN: Okay.

ASSEMBLYMAN WISNIEWSKI: That way--

MR. TOBIN: That's the unfortunate thing for going last, because you get to go *ditto*.

ASSEMBLYMAN WISNIEWSKI: That way they could say the same thing that -- you've covered it very well.

Any questions from members of the Committee? (no response)

Brian, thank you for your testimony. I appreciate you taking the time to be with us today.

I'd next like to, for discussion only, call Assembly Bill 3897.

Maureen, would you just read the statement?

MS. McMAHON: Assembly Bill 3897 prohibits the Turnpike Authority from entering into an agreement or contract with a private entity for the comprehensive or overall operation or management of a highway project. The Authority may continue to enter into agreements or contracts with private entities for services, such as the operation of the E-ZPass system or the Garden State Art Center.

The bill also provides that all revenues or other funds of the Authority not needed for debt service on bonds issued by the Authority, or other indebtedness; for the operation and maintenance of the Turnpike and Parkway, or for other purposes; or for payment as provided in a contract with the State or the New Jersey Transportation Trust Fund shall be paid to the TTF. The payment of surplus Authority funds to the TTF shall begin in the year following enactment of the bill and occur every year thereafter when surplus funds are available.

Finally, the bill provides that the annual audit by the Authority of its books and accounts shall include a certification of the amount of all revenue and other funds which are not required for the above purposes and are available to be paid to the TTF.

ASSEMBLYMAN WISNIEWSKI: Assemblyman.

ASSEMBLYMAN MANZO: Thank you, Mr. Chairman. And thank you for airing this bill. I also wanted to thank Assemblyman Sean Kean for making this a bipartisan bill, along with Assemblyman Gordon and I, in pushing this issue forward.

I find the sale or the lease of the New Jersey Turnpike to be categorized as an asset dimunization, Mr. Chairman. Ever since President Eisenhower declared the interstate highway system vital to our national defense, this fiscal conservative felt so strong about the issue that he committed the Federal Government to assuming 90 percent of the costs of what was to become the greatest public works project in human history -- the refurbishing and creation of America's interstate highway system. If a component of our national defense is achieved through the maintenance of our nation's interstate highway system, then we should be as consistent in keeping the New Jersey Turnpike Authority out of the grasp of foreign appendages; alike our efforts on behalf of Port Newark and Port Elizabeth.

Asset monetization of our nation's toll roads are being pushed by private and public investment firms and corporations, such as Goldman Sachs, who see these traffic arteries as commodities to make profits at the expense of our residents. The Cintra-Macquarie consortium, which purchased 75 years of rights of the Indiana toll roads, will be boosting tolls 70 percent through the year 2011, and thereafter at the rate of inflation each year. Cintra-Macquarie estimates a 12.5 internal rate of return on its Indiana investment.

Their deal for the Chicago Skyway has already yielded them back 44 percent of their initial investment. The Ohio Turnpike, which drastically rose rates for five-axle trucks during the 1990s, saw a mass diversion of truck traffic onto alternate toll roads, free roads. Such routes, such as Ohio Route 20, saw drastic rises in accident rates. Rising tolls in New Jersey will have like results, pushing more traffic on our already overcrowded alternate routes. The State and local government will be forced to expend additional resources for the maintenance demands of these arteries without, at that point, adequate funding resources to do so.

On the other sides of the equation, toll operators will trim expenses, make no doubt about that. That's what businesses must do to drive profits. Nonlabor contracts, maintenance plowing, and construction projects will be driven by a profit margin rather than a safety margin. If the Legislature imposes a maintenance standard by law, the private entities will demand subsidies. If subsidies aren't provided over time, the New Jersey government might find itself, under public pressure, forced to buy back the roadway or cancel the leases -- again at a substantial profit for the corporate owners.

Anything the private sector can do to drive profits, with the exception of those that put the public safety at risk, can be done by the State of New Jersey. Securitizing the tolls of the Authority, offering stock options can raise substantial moneys, currently, without risking our future and by maintaining State control and ownership. Asset modernization is a far better policy than asset monetization.

Chairman Wisniewski, you've pointed out how previous privatization plans -- the Parsons fiasco, the initial company bankruptcy of the E-ZPass operators -- cost New Jersey residents a lot of money. But let me shed some light on our State's first venture with asset monetization. The asset was the State's pension fund proceeds. In February of 2006, the

State Treasury's Division of Investment approved $25 million of the pension fund revenue to be invested in three funds of hedge funds. The front company was Amaranth Advisors; which Goldman Sachs' hedge fund partners, Arden Alternative advisers and the Rock Creek fund, all bought into with the pension fund resources. Amaranth made a fortune in 2005 when it used borrowed sums to bet that natural gas futures would rise, and then benefited from surging gas prices after Hurricane Katrina.

The hedge fund took the same highly leveraged position with our moneys in 2006. But natural gas prices fell, absent a major hurricane season. Aramanth went bankrupt. Because New Jersey pension dollars were being wagered on a terrible hurricane season to produce the type of carnage and destruction that would cause natural gas prices to rise, while most of us were thanking God for an uneventful hurricane season, New Jersey pensioneers lost $16 million.

Mr. Chairman, that said, another $330 million was also leveraged in high-risk capital. That $330 million returned far below the rates that a Christmas Club would return for an individual going to their local bank for money. Again, asset monetization. We needn't allow the private profiteers to begin to spoon-feed the snake oil to gullible legislators. We should nip this scheme in the bud right now.

I urge this Committee not only to hear this bill, but, as swiftly as possible in a future hearing, to move this bill. It protects New Jersey Turnpike Authority assets; and those seeking to privatize our toll roads should take it and shove it up their asset monetization. (laughter) (applause)

Thank you, Mr. Chairman.

ASSEMBLYMAN WISNIEWSKI: Thank you, Assemblyman.

I wasn't expecting that conclusion. (laughter)

Members of the Committee have any questions for Assemblyman Manzo?

Assemblywoman Beck.

ASSEMBLYWOMAN BECK: Through the Chair, not a question, but if you would be open to it, I would love to join as a co-sponsor of that bill.

Thank you.

ASSEMBLYMAN MANZO: I welcome it.

Thank you, Assemblywoman.

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

Thank you, Assemblyman. I appreciate your testimony.

I'd like to call John Lowden, International Federation of Professional and Technical Engineers.

John, thank you for your patience.

JOHN G. LOWDEN JR.: Good morning -- good afternoon.

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

MR. LOWDEN: The red light's on, yes.

ASSEMBLYMAN WISNIEWSKI: Okay.

MR. LOWDEN: My name is John Lowden, and I represent the International Federation of Professional and Technical Engineers, as the Atlantic Area Vice President, representing over 10,000 working men and women here in New Jersey. Nearly 3,000 of these are employed by New

Jersey's three major toll roads. I, myself, am an employee of the New Jersey Turnpike, working out of Mt. Laurel; and I live in Berlin Township.

I do not pretend to be a financial expert. I do not know much about the workings of Wall Street. The only street, if you would call it that, that I know is the New Jersey Turnpike. That is why I am here representing IFPTE in support of Assemblyman Manzo's bill, A-3897, prohibiting the sale or lease of New Jersey's toll roads.

You have already heard numerous financial statistics of the potential windfall of a long-term lease. Out-of-state experts have testified previously how much more efficient a private firm will administer these roads. They claim that they should be rewarded with control of these lucrative assets because they would be assuming all the risks. I will reiterate that I'm not an economic expert, but having a virtual monopoly on the control of our nation's most vital, economic corridor sounds like a pretty safe risk to me.

Assemblyman Wisniewski has spoken to the Committee and at other gatherings about his misgivings to this quick-fix gimmick, describing it as a three-card monte. I couldn't agree more. And I would like to add, the proponents of this venture, who are genuinely concerned about the future and the welfare of New Jersey, are gambling with the economic stability and security of our state.

As to the matter of efficiency, I would contend that these toll roads are the model of efficiency. The career employees, both management and union, take great pride in what they do. We are not just workers putting in our time, then going home with no concern for New Jersey citizens and the public at large. On the contrary, maintaining a safe, efficient roadway is of the utmost importance of management and the union alike.

Now, on the Turnpike side, both Local 194 and management have worked hand in hand to assure the safest possible conditions for both the motoring public and its employees. Please don't confuse the fastest rate of travel, at the expense of safety, as efficiency. During inclement weather and other emergencies, the Authority does not cut corners and call that *efficiency*. Out-of-state experts can claim that these minor details can be covered in a contract. But try telling that to someone stranded on a snow-covered stretch of highway in Pennsylvania. The New Jersey Turnpike, the Garden State Parkway, and the Atlantic City Expressway have a track record of over 50 years of efficient operation.

Now, I can appreciate the dilemma that the Governor, you the Legislature, and the State as a whole are in. I, too, am a taxpayer and a voting citizen of New Jersey. The State has problems and it needs money. Now, there's several options you as legislators are being asked to consider. I will submit to you that the toll roads are not the problem.

Now, despite how Senator Lesniak feels, I, as well as many citizens, would consider these valuable assets as jewels of New Jersey. So whether you call it monetization, securitization, privatization, or liquidation, I implore you not to lease or sell New Jersey's family jewels.

I'd like to thank you, Chairman Wisniewski, members of the Committee, Assemblyman Manzo, Assemblyman Kean -- I guess he left -- and thank you. And I would be remiss if -- I was asked to mention this because, in an earlier testimony, I think someone said something about the Transportation Trust Fund and funding the Turnpike widening. Like I said, I'm not a expert, but I don't think that the Transportation Trust Fund is funding the widening project. That's done with Turnpike debt.

Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, John.

Any questions for Mr. Lowden? (no response)

Thank you for your testimony. I appreciate it.

MR. LOWDEN: Thank you.

ASSEMBLYMAN WISNIEWSKI: We have two more individuals to testify: I'd like to call Jack Koscis, Building Contractors Association of New Jersey.

Tom? You look like Tom.

T O M D i G A N G I: I am indeed, sir. I'm sorry, I'm standing in for Jack who could not be here for the meeting today. I'd like to keep my statement short.

My name is Tom DiGangi. I'm the Director of Government Affairs for the Building Contractors Association.

On behalf of the Building Contractors Association and it's CEO, Jack Koscis, we would ask the Committee to consider every option for funding needed infrastructure, maintenance, and improvement. That's effectively my message. We represent general contractors and construction managers that employ thousands of skilled craft workers annually on public works projects. And we see, firsthand, the needs are great, whether it's roads or bridges, transit, schools -- the need is there. And what we need you to do is to try and find solutions, not to limit our options.

So I'm not really speaking on a particular bill, but more toward the fact that shutting off any option -- whether it's a gas tax or asset monetization -- without thinking it all the way through and seeing what we can actually try to achieve, we think is bad public policy. And we would ask you to just hold your fire until we can find out more from the administration.

Thank you very much.

ASSEMBLYMAN WISNIEWSKI: Thank you, Tom.

Any questions? (no response)

Thanks for your testimony.

MR. DiGANGI: Sure thing.

ASSEMBLYMAN WISNIEWSKI: And finally, Damien Newton, Tri-State Transportation Campaign.

D A M I E N N E W T O N: Good afternoon.

Thank you for the opportunity to testify today.

ASSEMBLYMAN WISNIEWSKI: Just state your name for the record.

MR. NEWTON: Oh. My name is Damien Newton. I'm the New Jersey Coordinator for the Tri-State Transportation Campaign.

We e-mailed our comments to the Committee earlier. However, while I was sitting in the back, I did this to my comments (indicating written testimony) and scribbled all over them. So since we e-mailed you comments, I'll stick to the stuff that I've added while I've been sitting here today.

Just to head off some questions that I suspect will be coming -- we were opposed to the Transportation Trust Fund reauthorization in the Spring. While we understand the need to refuel -- pardon the pun -- the capital program and the Transportation Trust Fund, our organization's position is that any financing plan for transportation should be sustainable, in that the money coming in should be able to, for the most part, cover the Transportation Trust Funds' needs of the year. We understand that large projects are going to require some bonding -- the new rail tunnel under New York City being one of them. But as a whole, we prefer more of a pay-as-you-go strategy. And a lot of our comments on this -- on the potential privatization of the Turnpike -- would be along those lines also.

Also, we've heard the motor fuels tax -- the 30 cents number -- thrown out a lot today, and different ideas on that. We would think that any sustainable plan for transportation financing would not just be a motor fuels tax, but would require a variety of different revenue sources; one of which could include increasing fares on transit users, which is -- I'm sure everyone here is aware -- going to be a topic that will be in much debate over the next coming weeks. And while we would support that as part of a general plan to get transportation financing on sustainable footing, we're not a fan of it, I suppose, after there hasn't been money put into transportation from a tax gas or from tolls -- an increase in any of those from the last year.

Earlier, during Mr. Humphreys testimony, I noticed there were many questions about previous securitization plans. Because when the money came in, a lot of it was spent right away on different projects. That's something that I think a lot of people are concerned about -- whether it's, again, privatization, securitization, whatever road gets traveled here -- is how the money is spent. And whether it's spent sustainably, whether it's spent on long-term financing to improve the general economic picture of the Transportation Trust Fund, is a concern that everyone I think in this room, and everyone that's talked about privatization, is going to have. So it's something, though, that is going to be more up to you and more up to the Governor's Office, than would be part of the deal with the -- whatever agency, privatization, securitization, whatever it's done with.

So that's sort of a separate issue, almost, than the privatization part -- piece of the equation, if you understand. There's two aspects: It's how are we getting the money; and then how are we spending the money? And one is as important as the other. But how we spend the money wouldn't be part of the contract with whoever, as we move forward with this.

Our major concern with any privatization plan that goes forward is that the money does get spent back on transportation. The State roughly uses a user fee for transportation. Gas tax money goes and pays for transportation projects for the most part. If money is going into the General Fund from a privatization plan, people will -- it's going to make transportation financing more confusing for people from the general public to understand. Right now, there's an easy cause/effect. There's a user fee for using transportation. If that money goes somewhere else, it's going to confuse the issue for people, and it's going to make it more difficult in the future to come back to the public when we need more transportation money.

If we do lease the toll roads -- just to use an easy word, *lease* -- lease the toll roads, and we get a certain amount of money and it gets bled into the General Fund and spent -- and we still have a similar transportation financing crisis in the next five, 10 years -- when it's time to do something about that, the public's going to be even more skeptical than they already are about how that money is going to be spent.

So any money that comes off the toll road sales, or whatever word is being used, we think definitely needs to be put back into transportation.

Another thing, from more of a transportation angle, one thing that hasn't been discussed as much -- we've heard some of it -- about moving traffic back on to alternative routes besides the Turnpike, or the Parkway, or whatever road would be affected by a leasing scheme. But it's hard to judge how that's going to really play out. We've been able to see, in some of the other states where privatization's been done, some traffic move over. But the toll roads that have been looked at -- in Indiana, and in Chicago, and in California that have had privatization done to them -- none of them are the New Jersey Turnpike, none of them are the Garden State Parkway that actually traverse the entire length of the state in one way or another.

These roads are very important to our transportation system. Without them or with a major change to the traffic patterns on them, everything is going to get changed. The Chicago Skyway is not the New Jersey Turnpike. We have a whole list of concerns -- transportation related -- which unfortunately, since I was out of the state for the last week, I didn't bring with me today. But I'll e-mail those to the Committee also, and I apologize for that. Yesterday was not a good day to fly.

But the transportation concerns of this also need to be taken into account, even if we get an amazing deal -- a deal that would fix transportation funding and any other things that Senators, or

Assemblymen, or Governor Corzine think would be important projects to do. Even if we get all of that, if transportation studies, if traffic studies show that we're going to be really damaging the transportation system and other roads -- the 295s of the world, any other roads that are running parallel, whether they be local or interstate highways -- then the deal probably shouldn't go forward. And that's something that needs to be considered, which hasn't been getting as much play in the press, because it's a more complicated issue to understand than just a money issue; whereas everyone understands that the State has a finance problem right now in different areas.

So anyway, I apologize for not having that, but I'll get that out to everyone as soon as I get back to the office.

ASSEMBLYMAN WISNIEWSKI: Damien, thank you for your patience and your testimony. I appreciate your comments.

Any questions from the Committee? (no response)

Thank you again for your testimony.

I just want to remind everybody that the Assembly Transportation Committee will not meet on March 1, but will meet again on March 12. And we will continue to look at this issue, in addition to hearing regular bills as a regular Committee meeting.

But until that time, we stand adjourned.

Thank you.

(MEETING CONCLUDED)