
Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

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

DATE: November 7, 2008
10:00 a.m.

MEMBERS OF COMMISSION PRESENT:

B. Carol Molnar, Chair
Anthony Annese, Vice Chair
Senator Paul A. Sarlo
Senator Anthony R. Bucco
Assemblyman Joseph Cryan
Assemblywoman Marcia A. Karrow
State Treasurer David Rousseau
Gary Brune
Jack Donnelly
Joseph Donohue
Paul Stridick



ALSO PRESENT:

James Vari
Executive Director

George J. LeBlanc
Senate Majority
Mary Alice Messenger
Assembly Majority

Rosemary Pramuk
Senate Republican
Beth Schermerhorn
Assembly Republican

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
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James Vari
from
Rosanne Fairbanks
Director
Administration
Office of the Attorney General
New Jersey Department of Law and Public Safety

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(The New Jersey Commission on Capital Budgeting and Planning held a teleconference meeting on November 8, 2008, at 10:00 a.m. The member of the Commission present via teleconference was Senator Paul A. Sarlo)

B. CAROL MOLNAR (Chair): I'd like to call the meeting to order.

In accordance with the Open Public Meetings law, the Commission has provided adequate notice of this meeting by giving written notice of the time, date, and location. The notice of the meeting has been filed at least 48 hours in advance by mail and/or fax to the Trenton *Times* and the *Star-Ledger*, and filed with the Office of the Secretary of State.

We will now take the roll call.

MR. VARI (Executive Director): Senator Sarlo.

SENATOR SARLO: Here.

MR. VARI: Senator Bucco.

SENATOR BUCCO: Here.

MR. VARI: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Here.

MR. VARI: Assemblywoman Karrow.

ASSEMBLYWOMAN KARROW: Here.

MR. VARI: Treasurer Rousseau.

STATE TREASURER ROUSSEAU: Here.

MR. VARI: Mr. Stridick for Commissioner Doria.

MR. STRIDICK: Here.

MR. VARI: Mr. Brune.

MR. BRUNE: Here.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Here.

MR. VARI: Mr. Annese.

MR. ANNESE: Here.

MR. VARI: And Chairwoman Molnar.

MS. MOLNAR: Here.

MR. VARI: Chairwoman, you have a quorum.

MS. MOLNAR: Thank you.

The next item is our Executive Director's Report.

MR. VARI: Not much to say today. We did do our follow-up letters from the last meeting on all the questions that you had. And the departments are working on those. And as we get our responses back, we will inform you of the responses and take them into our consideration when we make our recommendations.

MS. MOLNAR: Thank you.

Next item is the approval of the minutes of October 24, 2008.

Any changes, questions, comments? (no response)

If not, do I hear a motion to approve?

ASSEMBLYMAN CRYAN: Motion.

ASSEMBLYWOMAN KARROW: Second.

MS. MOLNAR: Thank you.

Take a vote.

MR. VARI: Senator Sarlo.

SENATOR SARLO: Abstain, as I was not present.

MR. VARI: Senator Bucco.

SENATOR BUCCO: Yes.

MR. VARI: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Yes.

MR. VARI: Assemblywoman Karrow.

ASSEMBLYWOMAN KARROW: Yes.

MR. VARI: Treasurer Rousseau.

STATE TREASURER ROUSSEAU: Abstain for right now.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Yes.

MR. VARI: Mr. Brune.

MR. BRUNE: Yes.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Chairwoman Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, you have eight votes in the affirmative, two abstentions. The motion carries.

MS. MOLNAR: Thank you.

Our next item is the Debt Report. I'd like to welcome Jim Petrino, Deputy Director of the Office of Public Finance.

STATE TREASURER ROUSSEAU: Madam Chair.

MS. MOLNAR: Yes, we have a few comments from our Treasurer.

STATE TREASURER ROUSSEAU: Just a few quick comments before Jim presents the report.

First, right from the beginning, there was never an attempt by anybody to whitewash -- whatever words people want to use -- on this report. If the report was not completed today, I myself would not have made a motion to accept it. So let's be clear on that right from the beginning.

There is before you today the addendum that will go into the report, which provides the information on a crosswalk to the CAFR. My reading of the law is that that is not even required to be in the report, however it has been in the report for the 10 years that the report has been done. And we will continue to do it.

Last week, when the report was being sent out, we were still not comfortable with those numbers, and we were not going to put numbers out. I was not going to allow numbers to go out that I was not comfortable with. So that issue is now over and done with. You have-- I believe everybody has an addendum.

Jim, have we handed it out, or are we about to hand it out?

Everybody has an addendum to the report that will replace pages D1 and E1. So that addresses, right off the bat, this issue about trying to hide information. It was never the attempt to do that. And as I said, if that report -- if that information wasn't in this report today, I myself would not have even made a motion to accept the report, and we would have held it until December when we could get the report.

Some of the other issues that have been raised-- First, I'd also just like to make a comment -- and I've been on both sides of this aisle, on

both sides of this process. It always amazes me that documents that are internal documents that have not been vetted publicly yet-- This is technically a draft report. This Commission could decide to reject it. But it ends up in the hands of reporters. I understand that that's the way it is in Trenton, and that's the way it's always going to be. But it's always disappointing when internal department work ends up going out before the body that it's being presented to has the opportunity to deal with it.

Addressing some of the other issues that were raised in the memo to the Commission from Senator Bucco and Assemblywoman Karrow -- I think I've already addressed the first issue that the report does not contain any discussion. It now does.

Again, we all have a disagreement about whether or not tobacco debt is a debt of the State. For CAFR purposes it is a debt of the State. For our other debt reporting, it is not a debt of the State. Because as we've said, in here and out of here, the taxpayers of the state have no obligation whatsoever to pay that debt. And any attorneys who worked on that deal -- and there were attorneys that are both now Republicans and Democrats who worked on that deal -- will reiterate that.

I have no idea what you're referencing to in your memo about the \$1 billion of debt to fund a new rail tunnel. As far as I know, there's been no debt issued at all for a rail tunnel. If somebody can show me a document where debt has been issued for a rail tunnel, show it to me. I don't think that that's-- Again, it's another cheap stunt about trying to do things.

The report -- they were talking about, it doesn't contain any reference to the \$650 million statutorily allocated set-aside to reduce debt.

The report doesn't need to have that in it. This is a report of our debt status as of June 30, 2008. As of right now, that \$650 million is still sitting in an account to be used for debt reduction. I am still working with the Office of Public Finance and the Governor to develop that plan.

Finally, "The report contains absolutely no discussion of the State's \$100 billion in long-term debt due to a grossly underfunded pension system and a completely unfunded long-term obligation--" This report has never, ever, ever included the unfunded pension liability or the post-retirement medical. What it does show is, it shows in the CAFR true-up -- it shows what the annual value of that is. And for the first time ever, it will include now the value of the OPEB. So, I mean, to say that it has never-- This report has never included that data, under Democrats or Republicans. It has never included what the OPEB number is or what the pension obligation is. And, again, if you can show me a report where it had in the past, I would be glad to make-- We've always discussed it. I mean, if we go back to discuss minutes, there will be open discussions that, yes, the OPEB number is now \$50 billion. It's actually gone down from \$58 billion to \$50 billion. Our pension obligation number, as of June 30, was about \$28 billion. And that's the last official mark in time for pensions. Is it higher now? Yes. But, again, we don't make those determinations until June 30 of every year.

So before-- I was just disappointed in the reaction to this. Like I said, we screwed up a little bit by not having the data out there. And I will take some responsibility for that. But it would never have been the intention of me -- and I would have also urged all of my other Executive Branch colleagues -- that we would have never released this report today if

we did not have that data. We now have the data. It's all in front of you. Jim will present it, and then we can have a discussion of that data.

MS. MOLNAR: Thank you very much.

This report is always a work in progress. It's evolved over the 10 years for the better. We keep improving on it.

Treasurer Rousseau, would you suggest, perhaps, that we should vote on the Debt Report, going forward in future years, maybe in December? This CAFR may not be done so early.

STATE TREASURER ROUSSEAU: The CAFR actually isn't going to be done in December either. But the question is whether or not these numbers-- Did the 10-day difference this year, between this year and last year, have a difference? Yes. I mean, it may be better that, in the future, we do this at the December meeting. Yes.

MS. MOLNAR: All right.

You used the term OPEB. What is that?

STATE TREASURER ROUSSEAU: OPEB, it's--

MS. MOLNAR: What's that stand for?

STATE TREASURER ROUSSEAU: It's our post-- It's some acronym for post-employment health benefits.

MS. MOLNAR: Oh, okay.

J A M E S P E T R I N O: Other Post-Employment Benefits.

MS. MOLNAR: Okay.

I heard the pension number. You said that was \$50 billion?

STATE TREASURER ROUSSEAU: It was \$58 billion last year when the first estimate of it was ever done. And now it's \$50 billion. It's actually gone down over the last year.

MS. MOLNAR: And the unfunded pension -- you said \$28 billion.

STATE TREASURER ROUSSEAU: Roughly \$28 billion, yes.

MS. MOLNAR: All right. Okay.

You're still working on the \$650 million set-aside, as far as where to apply it to pay down debt?

STATE TREASURER ROUSSEAU: Yes.

MS. MOLNAR: Do you have a feel for when you'll have an idea what's going to happen with the \$650 million?

STATE TREASURER ROUSSEAU: No.

MS. MOLNAR: Okay. A decision will be made before the new budget year, July 1?

STATE TREASURER ROUSSEAU: Yes, a decision probably will be made even sooner than that.

MS. MOLNAR: Okay.

STATE TREASURER ROUSSEAU: It definitely will be made before the budget.

MS. MOLNAR: Good.

Would it make sense to open it up to questions or comments at this point or should we wait?

We will wait to hear the whole report.

Okay. If you could proceed with your report, we would appreciate it.

MR. PETRINO: Okay. Good morning.

As the Treasurer said, my name is Jim Petrino, Deputy Director of the Office of Public Finance in the Department of the Treasury.

And on behalf of Director Nancy Feldman, Treasurer David Rousseau, I'm here today to present to the Commission the annual debt report for the State Fiscal Year ending June 30, 2008.

The report has been prepared and submitted to the Commission to assist you in your preparation of the State Capital Improvement Plan, pursuant to New Jersey Statute 52:9S.

Upon review you will note that the format and content of this year's report is generally consistent with those of prior years. It is designed to satisfy the statutory requirements. The statute -- a copy of which is included in this report under Tab A -- provides that the Commission's State Capital Improvement Plan include a report on the State's overall debt, which report shall include information on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years; along with similar information on capital leases and installment obligations.

It should be noted that this report speaks to the status of the State's debt position as of June 30, 2008, and is solely intended to comply with the statute by providing a snapshot at that point in time. It is not and has never been a document that sets forth the Department's or administration's agenda for project or program development, or its financing. Such agenda-setting is properly discussed by other parties in other forums. Rather, this report is merely a report of the facts as they exist at this point in time.

You have been, and later today, I believe, will continue to receive testimony regarding the various departments' capital needs and objectives. It is our belief that providing you with the answer to the

question, “Where do we stand today?” when combined with the answers to the question, “What do we need tomorrow?” that you collect from the various departments of State government, will sufficiently enable you to complete the State Capital Improvement Plan in accordance with statute.

You will also note, as the Treasurer pointed out, that two of our schedules appearing on pages D1 and E1 of the report were not complete as of last Friday, our deadline for finalizing the report for delivery to the members in advance of this meeting.

As of late yesterday, the compilation of the incomplete data was finalized, and an addendum was prepared and distributed to the members this morning. I will address the content of the addendum as we get into the report.

Joining me today is Kate Singer, one of our Managers in the Office of Public Finance, who has had the unenviable task of collecting from a variety of sources and compiling the data that is summarized in this report. What I propose to do, with the Chair’s permission, is provide the Commission a brief walk-through of the report, after which we can field the members’ questions, if any.

However, if you have any initial comments or questions, I’d be happy to address them now. (no response)

Hearing none, I guess--

As I mentioned, the report is in a similar format and sequence. We addressed the legislative requirements of this report and the Commission’s task as set forth in statute. That’s all contained in Tab A. I won’t read any of this word-for-word. We’d be here a long time. I will just try to give you some of the highlights or salient points.

Tab B is what we labeled the “Debt Management Goals for Fiscal Year 2009.” And we’ve adjusted some of these based on comments we’ve received in the past from this Commission, as well as changes in the financial markets and our debt management practices. So some of them to touch on here: to actively manage the outstanding debt; to minimize debt service costs and adjust to market volatility; to issue debt under authorized programs at the lowest possible interest cost, consistent with providing funding for authorized programs; increase investor interest in State bonds in order to reduce the relative interest costs, taking a greater outreach to the investor community to promote the sale of our bonds to -- the more interest there is in the bonds, the more investor demand, the better the interest cost that we end up bearing -- reduce outstanding debt in accordance with statute and upon budget appropriation; maintain the State’s highest investment grade short-term credit rating -- which we still do maintain; improve the long-term credit rating of the State and its bond-issuing authorities; and opportunistically refund outstanding bonds to minimize our debt service costs. And what that means is, as interest rates improve or get better, lower -- monitor our debt portfolio and take advantage of declines in interest rates to refund existing debt at lower costs.

So that is what we, the Office of Public Finance, do on a daily basis. And those would be our management goals set forth for Fiscal ’09.

Tab C is just sort of a description of the types of debt that are incurred by the State and its bond-issuing authorities. I’ll pass by that. If there are any questions, I can address each of those in turn.

Tab D is where we get into the core of the outstanding debt information. The first page, D1, is the one that was not completed as of

last week. So if you could refer to the addendum that was distributed today-- This is just a real snapshot summary of the outstanding debt as of June 30, 2008, broken into three primary categories: general obligation debt, at \$2.8 billion; subject to appropriation debt, at roughly \$27.4 billion outstanding; and moral obligation, at 1.7, roughly.

So our Debt Report total of \$31.864 billion-- There are CAFR adjustments -- what I call *CAFR adjustments*. We'll see when we get into Tab E what they are specifically. But debt is reported under GASB accounting rules in a different manner than the fact of the debt being outstanding. And a lot of the debt reported under GASB guidelines is not securitized debt. It's not bonds. It's obligations of the State. This report is on outstanding securities-bonded indebtedness. So what we do is, we reconcile our debt number to what has to be reported in the CAFR, for accounting purposes.

And that number, subject to final audit-- We're presenting the numbers. We're comfortable that these numbers will not change in any significant way, but it's still subject to the final audit. The CAFR long-term debt number is \$44.508 billion. And that will be reported in the annual financial report when OMB issues that when its completed -- upon completion of the audit.

Page D2 under Tab D, continuing, is the one that you need a magnifying glass for, unfortunately. This is what shows, by program -- by major program and by bond issue -- are the debt service for the prior fiscal year, the current fiscal year, and the next succeeding five fiscal years. This is all, just to be clear, based on the debt outstanding as of June 30, 2008. It does not include any new debt that may be issued in the future.

There's an outstanding debt column which shows, by each program and category, the outstanding debt for that particular program or category and then the bond ratings attributable to those bonds. There are two sections on that, and this is as we've presented in the past. There are other obligations (indiscernible) the bonding, for which debt service is offset by other revenues. These are State obligations, but there is a revenue source behind them. An example would be the Higher Education Student Assistance Authority, which issues bonds secured by student loans. There's a moral obligation in the statute attributable to that, whereby, if there were a default in student loan payments, the State would have a moral obligation to step in and support that debt. That has not happened in the history of that authority. We depict it here, but it's not a debt. It's more of a contingent obligation. It's not really a debt of the State. And that's why these below-the-line items are presented as such.

The following page is interesting. It compares the outstanding debt as of June 30, '07 with June 30, '08, again by the individual program, or category, or bond issuer. So you can see where the increases have been. And it's-- Of the total increase from \$29.7 billion last year to \$31.8 billion this year, it's an increase of about \$2.1 billion. Fully \$2 billion of that is attributable to the Economic Development Authority's School Facilities Construction program and the Transportation Trust Fund Authority's transportation program. So basically 93.2 percent of the increase in the outstanding debt was for roads and schools.

Moving forward-- I will continue, unless you have any questions as we go.

But Tab E is where we do the detailed reconciliation to the CAFR. And that was the information that was not available last week but is in the addendum today. So, again, if I could refer you to that Page E1.

Again, we start with what we present in the report, of \$31.8 billion to the CAFR's \$44.5 billion. We indicate which obligations that we include in this report but are not included in the CAFR. And the reasons why they're not included in the CAFR are set forth. They do not record the moral obligation of the South Jersey Port Corp. or the Higher Ed Student Assistance Authority. They don't record debt that appears on the books of other constituents. For instance, a portion of the New Jersey Educational Facilities Authority's Capital Improvement Fund program is-- We get revenues back from the colleges. It was a shared program. The State's obligated for the debt, but the colleges record a portion of the debt on their books. So under accounting guidelines, you wouldn't record it on the State's books and the colleges' books. So these figures, a total of \$3.2 billion, is not included on the State's financials -- their accounting report -- audit report, I should say.

And then we show the obligations that are not included in this report but do appear in the CAFR. They're things such as compensated absences, which is accrued sick and vacation time; other loans payable that are not secured with bonds. As the Treasurer mentioned, the OPEB liability and the pension obligation, etc. -- a total of \$15.9 billion there. And that's how we get down to the total that appears in the CAFR. So this is the crosswalk that let's you see why our numbers are so different.

MS. MOLNAR: Can I ask you one question on this?

MR. PETRINO: Absolutely.

MS. MOLNAR: I'm sorry. I was going to hold the questions to the end, but--

MR. PETRINO: No, that's fine.

MS. MOLNAR: I have last year's report. And last year, the net pension obligation was a billion lower. What was the reason for the increase on that one?

MR. PETRINO: I'm not a pension expert, I must say. I don't know if we have the answer other than it went up.

STATE TREASURER ROUSSEAU: There are two things going on there. We're always two years behind on pensions. So what you don't see here is, you don't really see the value of the extra cash this administration put into the pension system over the last couple of years. And you also don't see the impact of the laws that the Governor signed over the last two years that will generate about \$6.5 billion worth of savings for the pension system over the next 15 years, between now and 2022. So it's just a-- Our pension obligation, yes, has been going up. We've been putting cash against it. And then also, last year, bipartisanly, the Legislature adopted -- enacted two pieces of legislation to really significantly reduce benefits for the future. That will start showing up a little bit next year, or really not until the year after that. And then it will now get masked by what's going on as the value of the funds -- the funds go down. So it's a combination of three moving pieces.

MS. MOLNAR: I noticed last year's report did not have the OPEB liability on it. This year it does.

STATE TREASURER ROUSSEAU: Yes. And that's due to the fact that this is the first year it is required to be in the CAFR.

MS. MOLNAR: Okay. It did go up \$3 billion, I'm seeing.

STATE TREASURER ROUSSEAU: Well, actually, if there had been a number in last year's report, it would have actually been a higher number. Because last year, even though it wasn't required to be put in the CAFR, we had done an estimate and actually publicly put it out on the Web. Actually, the Governor publicly used it in all of his town halls last year -- that the number was \$58 billion. So when the number was \$58 billion, the annual piece of that would have been higher than this \$3.1 billion that we have here. Because this represents the annual number of a \$50 billion obligation. So last year's OPEB number would have actually been higher. But OPEB has gone down because of things like the fact that now there is a payment for retirees -- even retirees into health care. There is more of a payment for active employees. And also there has been significant benefit changes. And that has been recognized right away. There isn't as much of a delay on the health benefits side as there is on the pension side.

MS. MOLNAR: All right. So it is probably shown -- annually it's probably \$4 billion instead of--

STATE TREASURER ROUSSEAU: I guess if you do a percentage of what \$3.2 billion is versus \$50 billion, and what a number would be up to \$58 billion, probably somewhere around that.

MS. MOLNAR: All right. Okay. Thanks for explaining that.

You may continue.

Thank you.

MR. PETRINO: Okay. Thank you.

The next tab, I guess Tab F, is where we indicated State debt programs with remaining unissued authorizations and existing anticipated debt issuances. There are three programs that really are the primary programs at present: the General Obligation Bond Program, which funds capital needs across the board. These are the annual -- the bond acts that go before the voters and we issue bonds in support of the cash flow needs of the agencies. DEP is a big recipient of it -- the Green Acres bond programs, etc. The Transportation Trust Fund, you all know about, funds the transportation and transit needs of the state. And the Economic Development Authority's School Facilities Construction program is the other major program for which there is substantial bonding authority in place.

So as we go through the pages in Tab F, what I provided in terms of general obligation bonds is: I've depicted \$200 million a year for the next three fiscal years. This is a little ambitious. What drives the funding of the various general obligation programs is the cash needs of the using agencies. So if -- I'm not picking on DEP because they're here -- if they're spending more quickly, then we'll have to do a bond issue sooner. If the program is a little slower in getting the cash out the door, we'll sell the bonds later. We try to time the cash flow needs so that we don't incur the debt cost before the need for the cash. So this is-- I don't have hard data that supports \$200 million a year. This is sort of an average take. So that's what's in there.

But to depict that, we showed what the projected debt service would be if we did issue \$200 million a year. And that's on Page F2. And Page F3 shows the various bond acts that remain in existence with the

dollar amounts authorized, unissued and outstanding. So that's just a factual table that speaks for itself.

The Transportation Trust Fund follows the general allocation section. We've depicted bond issues in the next three fiscal years -- this year and the next two, I should say -- the amount for '09 we're depicting at \$1.4 billion of the \$1.6 billion that the Legislature authorized per year. We're entering the bond market, I believe it's next week, with a \$750 million offering, the balance to come in the Spring. The projected debt service associated with these bond issues is on Page F5. It should be noted that the amounts go down through 2011, and that's because there is a-- These bonds are supported by the statutory and constitutional dedication of funds in the amount of \$895 million a year. And as you will see on Page F5, the projected debt service will consume that entire \$895 million, if we were to issue in these amounts and at the assumed interest rates behind them.

MS. MOLNAR: Can I ask one question on that?

MR. PETRINO: Yes, you may.

MS. MOLNAR: Last year, it looked like the entire fund would go for debt service around 2011. It looks like you're slowing down on issuing debt, and now that's been pushed out to 2020. Has there been a change of philosophy as far as issuing debt?

MR. PETRINO: You're referring to TTFA, or all of the debt?

MS. MOLNAR: That Transportation Trust Fund-- It looks like we're issuing less than what we had projected last year, per year.

MR. PETRINO: Yes. Interest rates are higher. There's been a lot of disruption and volatility in the capital markets. And our ability to

finance the cash needs of the agency are more difficult than they have been in the prior years. And as interest rates go up, the debt service costs go up. When you have a fixed funding source, that means less debt can be issued to -- when you have a fixed (indiscernible). That's just -- this is the circumstance as it is today, which I guess would indicate that in 2011, we would have used up our financing capabilities under the current dedications.

MS. MOLNAR: In 2011.

MR. PETRINO: Fiscal 2011, that's correct.

MS. MOLNAR: Not 2021? Because I thought the debt service is \$895 million -- would consume the whole fund.

MR. PETRINO: I may be misinterpreting your question. I'm sorry. Say again?

MS. MOLNAR: The whole \$895 million will go for debt service in what year?

MR. PETRINO: Basically beginning 2012, under these projections. I mean, close enough. You can see there are small amounts left -- 892, 290, 92. That's just a function of the bond structure.

MS. MOLNAR: You're saying we're basically there in 2011.

MR. PETRINO: Yes.

MS. MOLNAR: All right. Thank you.

MR. PETRINO: And then lastly in this chart, and then I will kind of wrap it up, is the School Facilities Construction program, which begins on F6 and F7. Here, as you know, the Legislature authorized an additional \$3.9 billion of bonds this past Summer to continue that program. And that was on top of the original \$8.6 billion that was

authorized. So there still was a balance of approximately \$1.2 billion from the initial authorization not yet issued, plus the \$3.9 billion. That gets you to about \$5.1 billion to be issued. The Schools Development Authority has indicated to us that their spending under that program -- approximately it's \$1 billion a year. So we anticipate bond issues of approximately \$500 million twice a year to achieve -- to satisfy the cash needs of that program. Those bond issues have been projected on F7. And the -- I didn't get that -- debt service that it generates is depicted there as well.

Continuing on -- and I'll wrap this up briefly, because a lot of it is supported in the documentation -- Tab G is where we show comparisons to other states and where we rank. Moody's Investor Service, which is one of the bond rating agencies, puts out an annual, what they call, *Moody's Medians*, where they compare state debt rankings in terms of debt per capita, debt per income, etc. New Jersey ranks fourth and third in the respective categories shown. We've added a hypothetical \$500 million and \$1 billion of new debt, which indicates that the rankings would not go up. We would not move into second place or anything after that. We indicate which states are in the top five, and then we provide after that the actual report from Moody's, which you can read at your leisure.

Tab H is really background data. It provides more detailed information on each of the categories of bonds depicted in Tab D -- principal and interest per year for the time horizon. We're talking '08-'14. That's just the support data.

Tab I is the report on capital leases. This is provided to us from the Office of Management and Budget. Again, certain State leases are categorized for accounting purposes as capital leases because of their long-

term nature and are reported as such. And these are not bond-secured capital leases, but the other -- what we would feel are operating leases, but are reported as capital leases for accounting purposes.

And finally, the last tab is what has occurred since June 30, since the close of the fiscal year. We did have a couple of bond issues in July. The Health Care Facilities Financing Authority issued \$252 million under its Hospital Asset Transformation Program. The other new money bond issue was a small \$9.8 million issue of the Sports and Exposition Authority. And between the two, there were two funding bond issues: One, the Transportation Project Sublease Revenue Bonds of the EDA for the New Jersey Transit Light Rail System; and other Sports Authority bonds. And that's-- As I said, the only other thing to note is that next week we're going into the market with \$750 million of Transportation Trust Fund Authority.

MS. MOLNAR: How much was that?

MR. PETRINO: Seven hundred fifty million is our offering amount. If there's a larger market, and rates are good, we may issue more at this time, as we show the financing need is \$1.4 billion for the fiscal year. So we're testing tumultuous waters in the capital markets next week. We'll see what kind of reaction we get.

MS. MOLNAR: You indicate the debt that's issued already. For the rest of this year, how much more debt will be issued, approximately?

MR. PETRINO: Well, it's hard to say. The transportation authority is in here -- we would estimate about \$1.4 billion. I estimate \$500 million for schools. We hope to be in the market for that, in the next

installment for the School Facilities program, in the January timeframe. And then that's really all on our agenda at the Office of Public Finance right now. There's another Health Care Financing Facilities Authority transaction that is in development under the Hospital Asset Transformation Program. That might be in the -- between \$100 million and \$200 million. And New Jersey Transit has indicated to us a desire for financing for some of its rolling stock. But again, that would be what we call sort of below-the-line because there are revenues to offset that. But that's what we have on our plate, and that's what is under consideration.

MS. MOLNAR: Thank you.

I just had a few questions. Tab B: You mentioned this was last year's goal also -- was to improve the long-term credit rating of the State. What is it, and what is your goal?

MR. PETRINO: Well, each of the categories of debt has its own rating. Our general obligation debt is our strongest credit, and that's AA by Standard & Poor's; and equivalent of Aa- by -- Moody's has different nomenclatures -- Aa3; and AA- by Fitch. And it's subject to appropriation debt. It is generally one-half notch below that. Moody's, I believe it is, actually differentiates a little bit further. So some of the debt is at A1, some is at A2. We have tried. We've appealed to the rating agencies, through the Treasurer's Office and Governor's Office. They examine not just outstanding debt, but the developments of the budget -- the stability of the State's budget, and finances, and fiscal situation. And while I think the rating agencies have indicated that the trends are favorable, they just have not taken a formal action to upgrade it to date.

STATE TREASURER ROUSSEAU: Madam Chair, if I could just add--

MS. MOLNAR: Sure.

STATE TREASURER ROUSSEAU: Every July we go up to the rating agencies and make a pitch for-- We will actually get copies. Maybe we should start putting them in the report. We will get the copies of what they said from July. And all three of them were positive. They just didn't take the step of upgrading our rating. And it wasn't necessarily because of what they were seeing on the-- It was what they were seeing on the horizon on the economy -- was part of it as well. And also you have to remember that the rating agencies at that point in time were -- had been very gun-shy. And as we've seen in the last couple of months, they've come under fire for some of the things they've done on the business side of the world. You really have to-- I mean, there were very positive things they wrote about. There were very positive things about the direction we were going. But there is always concern about the underlying economy. I think that was the thing that didn't push them into doing some type of an upgrade for us.

MS. MOLNAR: The other question I have -- maybe it's for Mr. Rousseau. We are giving \$3.9 billion again to the school construction-- I see we have a new chief -- new head of school construction. And I read in the *Ledger* that-- It says there was a series of scandals, and millions of dollars in waste that nearly derailed the construction program three years ago. Is there any oversight in place this time around?

STATE TREASURER ROUSSEAU: I think there is. I'll defer to the legislators on their vote. There is a tremendously new higher level of oversight due to legislation that's been enacted. The focus of this

administration -- this is not the Schools Construction Corporation of 2003 or 2004. This is a brand new entity that has much more oversight. And things have happened that will never happen again.

MS. MOLNAR: Never say never.

ASSEMBLYMAN CRYAN: I'd like to note that as well, as the Chair of the Education Committee, there's a new confidence level. As a matter of fact, it would be a good time to welcome Mr. Kolluri, who will be the new head of the SDA. I know there's positive steps. I think there's a great comfort level. It was demonstrated certainly through the Education Committee and with the votes that took place.

MS. MOLNAR: Good.

Now, I'd like to open it up for any questions or comments from our staff.

Senator Bucco.

SENATOR BUCCO: Thank you, Madam Chair.

I appreciate the Treasurer's report on the CAFR. But it seems to me that since we only received the State Debt Report last night -- and having to send a letter out -- then all of a sudden we get the addendum. I think if it wasn't for our letter, maybe we would not have gotten the addendum. So I do appreciate the Treasurer working on that and getting it to us today so that we can have all those numbers.

With the money -- the \$600 million for the debt reduction -- can you explain that? Are we using it, or are we not using it? And if we're not using it, why aren't we using it?

STATE TREASURER ROUSSEAU: Right now we are developing-- Again, I think this is more of an appropriate discussion -- for this to be had at other forums. But since we're here, I'll talk about it.

Right now, we're looking at it in the scheme of what we're doing with our overall revenues -- about whether it's wise to use it all, use a portion, hold a portion of it in reserve. And I need to sit with the Governor and other people in the Governor's Office to make a determination of what we're going to do. The one thing we are -- the one thing that we -- our guiding principle will be, regardless of what this is used for -- maybe we hold it in reserve or whatever -- but it still is not going to be -- it's going to be used for one-time expenses that are out there. We're not going to use this to balance this year's budget. It will be used for one-time expenses out there, whether it be debt reduction or any other one-time expenses that are out there.

And I anticipate that I will make a decision on a go or no-go within the next month on some level of debt relief. I can almost guarantee, sitting here today, that we will not go out -- we will not use the whole \$650 million right up front. Some piece of that will be held in reserve to see what happens with other things. But some piece of it could be -- a decision could be made within the next two or three weeks to say, "Okay, we're going to use X for debt relief right now," and then hold the other piece in reserve. But that decision will probably be made in the next -- actually, probably before December 1.

SENATOR BUCCO: Before when?

STATE TREASURER ROUSSEAU: Probably before December 1. I will have a more concrete plan on how we're using the money.

SENATOR BUCCO: And you'll give the committee an update?

STATE TREASURER ROUSSEAU: Yes.

SENATOR BUCCO: Thank you.

Thank you, Chairwoman.

MS. MOLNAR: Assemblywoman.

ASSEMBLYWOMAN KARROW: Yes, thank you, Chair.

A couple of things. I don't whitewash anything I ever say.

Regarding the debt that Senator Bucco just talked about -- the debt reduction money: The Transportation Trust Fund -- the last time we issued, and the Legislature appropriated, all that money, there was millions of dollars that were part of that issuance for capitalized maintenance -- which I personally object to paying over 30 years the lifespan of filling a pothole or striping roads that last two or three years. We're paying debt on all of that money, as well as-- I believe that the number that was projected at that time -- and I don't know what it really came out to, Treasurer -- was about \$40 million toward Wall Street houses, out of that bond, to issue the Transportation Trust Fund bonds.

And so I guess as a policy recommendation -- since statutorily this Commission has the appropriate right to make recommendations on how to pay for capital projects -- perhaps the \$650 million debt reduction fund would be better used to pay for new capital projects that we're hearing about this year so that we don't have to pay professional fees, so that we don't have to issue new debt since that pot of money is already there. Would you comment on that please?

STATE TREASURER ROUSSEAU: I think that part of-- The reason we decided to use it as debt to reduce debt, rather than avoid debt, is

that at the time we were doing this, rates were so low that it didn't matter. It was better for us to eliminate debt that was higher rated than issue new debt.

Now things may be a little different, but we're probably not in the market for much. And remember, the stuff -- the things we're in the market on is the Transportation Trust Fund, which is a dedicated revenue source that we have to use for transportation purposes. It was the view of the majority of the Legislature and the Governor to place this money in a debt reduction bond to be used to reduce debt, knowing that, yes -- knowing that there were going to be some places where we were going to increase debt. The reduction of debt also provides an immediate savings to the budget of \$130 million for five years, where avoiding debt would have provided nowhere near that savings in the short-term to allow us to afford programs like education, mental health, etc.

So it was a combination of two decisions: getting the budget relief of -- if we did the whole \$650 million, it would be roughly \$130 million for five years instead of if you did -- if you just avoided the issuance of \$650 million of debt. There is no way you would get that level of budget savings up front, because you would be saving the money over 30 years instead of five years. And it was a combination of the two. We all know how we struggled for last year's budget. And that \$130 million protected a number of things that were in the budget -- I mean, \$130 million of more cuts.

And again, we structured it so that there would be five years worth of savings. So many times in the past we've structured, refinanced, and did things to move all of those costs -- all the savings into one year or

two years. And the thing to remember about this debt reduction fund -- however it's used, however much of it's used -- the fact that we established it. The first time in the history of the State that we ever put a plan together to reduce debt.

ASSEMBLYWOMAN KARROW: And that's all fine, but things have changed in the market. Interest rates have changed in the market. And this Commission has seen some truly emergent issues coming out that are life safety issues. And it is our -- appropriate for us to make recommendations on where to get some of that money. And as I said, rather than issuing new debt, where we have to now pay Wall Street as well as all those fees associated with new debt, is this a place where you can look and see if some of that money -- not all of it, but some of it -- could be used to shift for some of these life safety issues?

STATE TREASURER ROUSSEAU: Remember that the debt retirement-- The long-term obligation fund and debt retirement -- whatever it was called -- the fund did have -- it was \$650 million in debt relief. And it did have -- \$35 million of it was supporting some of the most critical life safety projects that we identified, that this Commission decided -- they identified last year, in the process, and went into the '09.

Again, as we talk over the next three weeks on what we're going to do, we will look at all of those things. But the places that we're about to issue debt are places we have dedicated revenue sources from. It would be crazy to use this money for that when we couldn't use the money from-- We can't use the gas tax money to support anything else in the budget. And if we don't do this debt relief, we then have \$130 million worth of shortfall in our debt service account that we have to find on top of the

revenue shortfall that the Governor's already talked about and the need to do the stimulus package. So it would be more -- it would put even more pressure on the current year's budget and more pressure on future budgets.

As of right now, I would think that we would still use this money for debt relief. Because, again, looking at where we're going over the next issuances -- the issuances are places where we have a dedicated-- TTF is the biggest one. We have a dedicated funding source -- that we couldn't use that money for anything else. It has to be used for transportation purposes.

I hope that sort of answers your question.

ASSEMBLYWOMAN KARROW: It sort of answers my question. I still maintain that not issuing -- issuing more debt and paying all those fees and services, like we did with the TTF, and we certainly will with the education bond issue as well, will be just massive, massive fees associated with \$3.9 billion -- that it just continues to proliferate that debt service into the capital budget. So I think it's a place where it's healthy to look at some chunk of it -- like I said, not all of it, but some piece of it -- for these life safety issues.

So I heard what you said, and I hope you'll consider some of it toward some of these projects.

Before I forget, Chair, I just want to welcome Senator Sarlo back. It's really good to hear his voice. We all missed him so.

Treasurer, can you also comment regarding -- let me see, what tab is this -- B1, the debt management goals for Fiscal Year 2009? Comparing those goals to 2008's goals, one of them -- one of 2008's goals dropped off the radar screen, and I just would like a comment on why. The

goal of minimizing the issuance of all additional debt, when appropriate, was a goal of last year.

MR. PETRINO: Well, I mean, I can comment on that a little bit. I mean, one of the replacement objectives, I guess you can say, is to reduce the outstanding debt in accordance with the statute and upon budget appropriations. So that's the \$650 million pool we're talking about there. And also to -- right -- to issue debt under the authorized programs, consistent with providing funding for those programs that need the funding. It's a fine line between where -- how do you fund pay-as-you-go capital funding and debt financing to fund the program?

We still only finance those needs that become apparent. For instance, when a program is about to run out of cash and needs funding, that's when we do the bond issue. So we don't go out there and issue debt for the fun of it, to amass a pot of money, to then spend it. It's really driven by the programs that are set forth.

ASSEMBLYWOMAN KARROW: I was hoping the answer was because the bond issue -- the ballot question passed saying, "Debt shall not be issued without voter approval." I hope that was the answer.

MR. PETRINO: Well, I was going to mention that as well. That is a step in -- creates an additional step for new legislation that would authorize new debt, clearly. So if the voters speak, then-- The issuance of debt is always based on the needs of the program, and it's always -- upon authorization. So authorization by the Legislature, or authorization by the voters, or both -- whatever it is, it is. Our mission is to get the lowest possible cost, only issue the debt when absolutely needed, and move on from there.

ASSEMBLYWOMAN KARROW: And my final comment for now, Chair, is just simply on Page G1. So that I'm not accused of any cheap stunts by talking to the press afterwards about this report, I'll just say it in public. Last year, New Jersey ranked number four in the nation in net tax-supported debt as a percentage of personal income. We have achieved going to number three in the nation as being -- having the worst personal debt to income ratio in the nation. We were four last year, three this year. And that's my last comment.

Thank you.

MS. MOLNAR: Assemblyman.

ASSEMBLYMAN CRYAN: Thanks.

I just have a couple.

Dave, to understand -- you're going to take a pragmatic approach at the \$650 million, based on the economic conditions that are out there -- the impact to the budget, not only from the long-term standpoint of \$130 million per year, which was saved; and, if I understand--

I just want to make sure I understand this. You guys are going to look at this thing in regards to the economic crisis that's hit this country in the past five or six weeks. Is that correct?

STATE TREASURER ROUSSEAU: Yes.

ASSEMBLYMAN CRYAN: Okay. I also want to understand, if you can, since -- the impact of the Tuesday vote. Can you just, at least -- since we are in the discussion of this incredibly exciting topic of debt -- (laughter) the impact of Tuesday, in terms of the process? Do you have any idea of how that works? This \$27 billion of this is actually -- things that

would have occurred or gone on-- If this existed 20 years ago, that would have been on the ballot, if I understand it right. Is that about right?

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: So is the process now, as I understand -- the Legislature will move-- What is your-- How does this thing work now in terms of your needs on an ongoing basis and how we actually get, so to speak, to market? Does anybody know?

STATE TREASURER ROUSSEAU: I'll take it first, and then Jim can follow me.

I don't think-- Once the voters -- once the Legislature authorizes something to go on the ballot, and once the voters have approved it, their job is going to be no different than it has been right now when the voters approve something or when the Legislature approves something. We don't issue-- It's not like if next November the voters approve a billion dollars of debt for something that they're going to go out two weeks later and issue that billion dollars. They don't issue it-- They're going to continue the same process they use: You don't issue it until you need it. And we all know how long it takes sometimes to get the need out there on a capital project.

ASSEMBLYMAN CRYAN: So you folks will come, I assume, to the Budget committees and ask for authorization of debt as the beginning of the process. Is that how it will kick off? I'm trying to understand.

STATE TREASURER ROUSSEAU: I guess it would either be the administration or-- We know that some things generate from the Legislature, if everybody decides that they want to have something on the

ballot next year to -- I'm not going to use a policy, because I don't want people to think -- to buy widgets -- a \$500 million widget bond issue. It starts anywhere. It can start from the Legislature, it can start from the Governor. But it has to go through the process, just the same as it would have to be, even if it was a contract bond. It's just that now every single one of them will go to the voters.

ASSEMBLYMAN CRYAN: Okay. I would imagine, given the complexities of what we're talking about today, that -- and some of the stuff we heard, especially about Question 2, and interpretive statements, and so on along the way -- that we have got-- And I would argue that, remember, this Commission has it as well -- a great deal of voter education and voter awareness; not in a negative way -- just making sure that people understand what's going on. Because the idea of bonding-- What you do, and you do as you talk about-- Every time you're here you bond for a specific purpose. You don't bond for the joy of it. And having that (indiscernible) is going to be -- I don't want to say a burden, but it's going to be a heavy lift for everybody here to make sure that folks understand that this stuff today is really about school construction, open space, roads. I mean, that's the real stuff here.

We talk about debt like it's something terrible, when, in fact, sometimes there is such a thing as good debt -- like debt with revenue sources like the TTF -- that we're going to have to go back and do. But I think we characterize debt, respectfully, as something evil, when the fact of the matter is, when your child is going in a high-quality school, I don't think you consider debt evil. I think when you're able to get home at 5:30 because the road is right, I don't think that's evil. When you can enjoy a

park on a Saturday, that's not evil. And frankly, when you have less development, especially in the more suburban counties -- to be candid about it -- because open space is purchased property, and there's less congestion, that's not evil. So I think we just have a lot of work to do, because I think we've toned this thing as something that it isn't, in many respects.

So with that, I appreciate it.

SENATOR BUCCO: Also, to carry on with that, Assemblyman, I think because of the ballot questions being approved by the voters, it's going to take better planning, by whatever administration is here, on bonding. It's not going to be just -- we get a bill in, and approve it, and go on. I think there's a better planning process that has to be thought out -- how far we're going with our bonding -- which is good for the State.

MS. MOLNAR: In the past, this Commission was consulted before a bond referendum was put on the ballot. Now, lately, we have not been consulted. Do you have any comment on that?

STATE TREASURER ROUSSEAU: I think the statute calls for the Commission to review general obligation bonds that went on the ballot. I'm trying to think of when the last general obligation bond that we had went on the ballot.

Kate?

CATHERINE SINGER: It was 2007.

STATE TREASURER ROUSSEAU: It was 2007. And truthfully, I don't know why.

MS. MOLNAR: We were not consulted.

So we don't-- When it's appropriated by the Legislature, we don't get involved.

STATE TREASURER ROUSSEAU: Right. It was--

MS. MOLNAR: It's just GO bonds.

STATE TREASURER ROUSSEAU: Now, basically, since everything is going to go to the ballot, and almost everything that is going to the ballot will probably -- correct me if I'm wrong, guys -- but will probably be a GO -- most of it will be GO. Since it's going on the ballot, this Commission will do -- have a lot more--

MS. MOLNAR: We're going to be very busy. We might have to meet during the year then.

STATE TREASURER ROUSSEAU: More than likely -- these guys know from sitting there -- most of the bond issues are usually done -- you need to get them done by August to be able to go on the ballot. They're usually done in May. When the Legislature leaves in June is when they're normally--

MS. MOLNAR: We used to meet sometimes in May or June to go through these ballots. So it looks like we may have to reconvene in light of this new process.

The debt service is linked to the revenue stream of the State. And we all know that sales tax and income tax is going to be down. Do you have a feel for the projected revenue shortfall for '09?

STATE TREASURER ROUSSEAU: At this time, all I will use is a number that the Governor used in his speech -- about \$400 million; but that's for the current year. I may have more to say about that in the next

week or so. But for right now, that's the official number right now -- is \$400 million.

MS. MOLNAR: I also noticed our Legislature is passing some bills that, down the road, are increasing payments by the government. I'm wondering, are they factoring in the economy into this formula?

ASSEMBLYMAN CRYAN: The answer is yes.

MS. MOLNAR: I'm curious, where are you getting the money to pay for these increased--

ASSEMBLYWOMAN KARROW: That is a good question.

SENATOR BUCCO: That's what we're going to find out.
(laughter)

MS. MOLNAR: I read it, and I'm going, "We're going to need \$35 million instead of \$5 million." I'm going, "Okay. It's a 700 percent increase."

ASSEMBLYWOMAN KARROW: You can have my seat on the Budget Committee and ask that question. (laughter)

ASSEMBLYMAN CRYAN: There are accounts there for surplus dollars for the things that we've used that's part of the budget process. It's not as if the money isn't there, and it's not as if we're praying for it to come from the sky. There are surplus accounts, and that's where that stuff is--

STATE TREASURER ROUSSEAU: And the other thing is-- I mean, there are-- Government budgeting is a matter of choices. And to sit back right now, as people need food, as people need heating assistance-- And we're talking about-- The magnitude of the program that the Governor announced is not \$500 million, it's \$125 million, right now, of money that

is needed. And I don't think anybody here-- Yes, there will be questions from everybody in the Legislature about how we're going to pay for it, but I don't think anybody is going to disagree that the need is out there for these types of things -- heating assistance, food assistance, mortgage assistance, things like that. People are going to realize there is a need. And, yes, it's going to be a matter of choices. There are-- We did end the year with a better situation than we thought in '08. That's going to help a little bit. But clearly, it's just one more-- In addition to the revenue shortfall, we're going to have to fund it. And government is priorities -- it's about setting priorities. And right now, this Governor and, hopefully, this Legislature -- which I think they will pass most of the things, and I think most of the things will pass with bipartisan support -- realize that at this time, government has to step in a little bit and help people.

MS. MOLNAR: I'm trying to read my notes. I don't know if I wrote it down incorrectly, but the \$650 million debt reduction-- It will be a savings of \$135 million over five years, or \$135 million savings each year over five years?

STATE TREASURER ROUSSEAU: Each year.

MS. MOLNAR: It is each year.

STATE TREASURER ROUSSEAU: If we do the whole \$650 million, it will be \$135 million each year for five years.

MS. MOLNAR: Each year. Okay. Thank you.

Any other questions or comments?

Mr. Annese.

MR. ANNESE: I refer you to Page B1, where we talk about the management goals. The third one down is a new one, where you're

suggesting that we increase investor interest. How are you planning on doing that?

MR. PETRINO: Well, for example, in the Transportation Trust Fund Authority bond issue that we're marketing for next week, we've -- we're trying to reach more retail investors in this state. We've taken out newspaper advertising, and there will be some radio advertising as well.

A lot of the traditional investors are a little gun-shy about being in the market these days, but we're seeing strong retail interest. We call them *retail buyers*, high-net-worth individuals or other partnerships, etc. So we're making an appeal to try to reach that category. That seems to be the strongest, most stable part of the market right now.

MR. ANNESE: All right. Thank you.

MR. PETRINO: As well as Internet -- the Web site.

STATE TREASURER ROUSSEAU: I was just thinking, there will actually be a public announcement either today or in the next couple of days -- a press release that we'll be putting out basically saying this is our first real foray into dealing with investors. And I guess the Web site is www.buynjbonds.gov.

MR. PETRINO: www.buynjbonds.gov.

STATE TREASURER ROUSSEAU: It's our first real foray into-- Other states have done it. If any of you -- especially those who live in North Jersey and happen to listen to radio stations, every once in a while you'll hear -- MTA does it, the city does it. There was an Ed Koch ad, I think, for one of them. So it's that type of thing. And you will hear sometime after -- you'll hear radio ads.

MS. MOLNAR: Are you going to be in one of these ads?

STATE TREASURER ROUSSEAU: No. (laughter)

MS. MOLNAR: David, I think they should put you on.

STATE TREASURER ROUSSEAU: No.

MS. MOLNAR: We have to vote to accept this report.

I would suggest for next year that perhaps we present this in our December meeting. It's really hard to get these numbers together in November. It's a little too soon. So maybe it's food for thought for us for next year.

STATE TREASURER ROUSSEAU: Or actually it can be a later November -- we can arrange the schedule to have a later one in November.

MS. MOLNAR: Second or third week, but definitely not the first week.

STATE TREASURER ROUSSEAU: Yes. I think the 10-day difference was a big difference this year.

MR. PETRINO: Yes. It's a lot of data assemblage, and it's multiple agencies. Certain of those numbers just don't get vetted properly in time. So I would endorse any further--

MS. MOLNAR: We had to move the date to accommodate some members of the Commission. So next year we'll have to try to work with that.

All right.

STATE TREASURER ROUSSEAU: I would like to move the acceptance of the report.

MS. MOLNAR: Okay. Do I hear a second to accept the report?

MR. ANNESE: Second.

MS. MOLNAR: Okay. Any discussion before we vote? (no response)

MR. VARI: On the motion to accept the debt report, Senator Sarlo.

SENATOR SARLO: Yes.

For the record, I will vote to accept the report. I am not-- I just want to go on record that I'm not endorsing it, or supporting it, or supporting any further debt at this point in time. But I will accept the report as prepared and as presented.

MS. MOLNAR: Thank you.

MR. VARI: Senator Bucco.

SENATOR BUCCO: No. I don't think we had enough time to really delve into this, because we just got the report. And also, I'm surprised that it wasn't complete. And I don't think we have a true picture of our debt. So at this time, I'm voting no.

MR. VARI: Assemblyman Cryan voted yes.

Assemblywoman Karrow.

ASSEMBLYWOMAN KARROW: I concur with Senator Bucco. I'm voting no for the same reasons that he just put forth.

MR. VARI: Treasurer Rousseau.

STATE TREASURER ROUSSEAU: Yes.

MR. VARI: Commissioner Doria votes yes by letter.

Mr. Brune.

MR. BRUNE: Yes.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Chairwoman Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, the motion carries.

MS. MOLNAR: How many votes yes?

MR. VARI: Eight in the affirmative, two in the negative.

MS. MOLNAR: Good. Thank you.

We're open to any suggestions for next year's report and timing of it. If you want to give us any comments going forward.

So if you want the report done slightly differently next year, we're open to comment. Anything that would make it--

MR. PETRINO: And we welcome, too, any suggestions, as well, from this Commission. We've expressed that before, and we'd be happy to take certain comments on formatting, etc.

But thank you very much.

MS. MOLNAR: Okay. Moving along, we will now begin our capital requests. Our next department is the Department of Environmental Protection. I'd like to welcome Barbara Gantwerk, Assistant Commissioner of Student-- Wait a minute now. I'm sorry.

It's out of order. I'm sorry.

We're taking the Department of Environmental Protection. I'm sorry. I believe we'll welcome Amy Cradic.

I'm so sorry. There's slight confusion in my write up. I'm so sorry.

ASSISTANT COMMISSIONER AMY CRADIC:

That's okay. Thank you.

Good morning.

On behalf of the Department of Environmental Protection, I would like to thank the Commission for the opportunity to present the Department's capital needs request for Fiscal Year 2010.

At the outset, let me first recognize we are in the midst of a critical time in the future of the State's finances and that your task will be monumental as you balance the needs of capital investments in the State, and those needs against the demands of a much smaller revenue base.

With that said, after a very careful consideration, I am here today to request your consideration of \$74.7 million in capital funding to address some of our most urgent needs that currently do not have alternate funding sources. In summary, these capital needs represent 9.6 percent of our entire capital budget request. These capital needs include environmental infrastructure financing of wastewater treatment facilities, information technology, flood control financing, requests for the Palisades Interstate Park Commission and the State Mosquito Control Commission. The remainder of our capital request is supported by dedicated resources that support shore protection; recreational development in parks, forests, and wildlife management areas; and site remediation.

New Jersey's Environmental Infrastructure Financing Program just completed its 32nd financing year, proving to be a valuable asset to the State in terms of water quality protection. Two weeks ago, the Environmental Infrastructure Trust accepted bids on \$135 million in new bonds that reflect interest rates of 4.79 percent. We will match that with

DEP loan funds for approximately \$303 million worth of environmental infrastructure projects. The effective loan rate for traditional projects will be 2.4 percent, and Smart Growth projects will be 1.2 percent. Besides the environmental benefit, we estimate 12,000 to 15,000 jobs created.

Earlier in October, 135 new project sponsors submitted planning documents for the 2009 financing, which represents our Fiscal Year 2010 budget request. Eligible projects fall under the broad categories of wastewater treatment, stormwater and nonpoint source pollution control, and water supply, totaling \$770 million. Federal funding for this program decreased from \$52 million to \$27 million in 2008, and may remain at that level in 2009. The funding from capital funds identified in our request for the municipal wastewater assistance and water supply not only represents the State's match to this program, but is also needed to close the gap in the funding shortfall created by the cuts in the Federal program.

The Department has worked closely with OIT to identify the information technology capital budget needs that are a part of this budget request. Further, our request has been identified in the Department's IT strategic plan, supporting the statewide enterprise IT goals, as well as the Governor's priorities and DEP's business plan. They are all essential to efficient government service, and protecting the environment and public health and safety.

Our eighth priority overall is the funding of the Department's and OIT's enterprise Citrix infrastructure expansion, totaling approximately \$235,000. Citrix is used to access the State's computer systems outside the Garden State Network. Citrix provides the necessary access to the Department's enterprise data systems by our field operations responsible for

emergency response, routine investigations, and compliance inspections. Through Citrix, the Department provides county environmental health inspectors limited access to enterprise data systems to perform their share of DEP-related work.

In 2007, more than 18 million visitors attended and utilized the State Park System. Recreational opportunities are provided at 42 State parks, 11 State forests, three recreation areas and golf courses, 118 wildlife management areas, 43 natural areas, and more than 50 historic sites and districts. These areas encompass approximately 712,000 acres of New Jersey. In all, the Department is responsible for more than 1,900 structures.

As you know, in 2006 the voters approved a constitutional amendment ensuring stable funding for maintaining parks and natural areas. This amendment dramatically changed the Department's capital request as it is before you today. Thanks to the voting public, the Legislature, and the Governor, we are no longer dependent on variable capital funding levels to maintain our parks and wildlife management areas.

Over the past year, we have continued to work on various capital projects throughout the entire state, completing restoration of the High Point Monument, the Trenton Battle Monument, Batsto and Atsion Mansion. We've worked to improve our infrastructure in the parks and wildlife management areas, improving several dams including Sally's Pond Dam, Hopatcong Lake Dam, and water supply at Pequest Trout Hatchery, as well as renovating closed sanitary facilities that can now be reopened to the public.

We have improved fishing access at various wildlife facilities, providing additional amenities to our natural resources that comply with the Americans with Disabilities Act. We are making great strides removing abandoned or unsafe structures throughout the state, throughout DEP's facilities.

At Waterloo Village, we have completed exterior projects at eight buildings, protecting the interiors, and have additional projects in design. We are also in the final stages of completing a preservation plan for Waterloo Village which, when completed, will be the basis for a new request for proposal for a new operator of Waterloo Village in the future.

New Jersey's Shore Protection Program remains viable with the annual dedication of \$25 million. That funding, coupled with Federal and local support, has been and will continue to be critical to the State's efforts to protect our coastline and to support the tourism industry.

The Department has committed \$31 million in shore protection projects to coastal communities. This figure represents our need to meet Federal funding matches if all U.S. Army Corps of Engineers-endorsed projects are congressionally authorized for funding and appropriations are made.

Over the course of the past calendar year, Department-sponsored beach construction was completed in Avalon and Ocean City. DEP participated with the Corps in the continuing construction of the Wildwood seawall. Corps construction, with DEP participation, is scheduled to begin in Long Branch in 2008, and in Harvey Cedars in mid-2009. DEP is preparing for 2009 beach construction without Federal sponsorship in North Wildwood, Strathmere, Sea Isle, and Stone Harbor.

Our Fiscal Year 2010 capital request focuses on beachfill projects that cover Sea Bright/Long Branch, Ocean City, Long Beach Island, Port Monmouth, and Keansburg. As in the past, our request for dedicated shore protection funds will be used in large part to leverage approximately \$61.1 million in Federal funds.

The flood control projects contained in our request include funding required as the State's match to Federal HR-6 projects. Specifically, \$10.8 million in State funds will leverage \$31.7 million in Federal funds. Major projects to be continued in Fiscal Year 2010 include the Green Brook, South River, Saddle River, and Passaic River at Harrison. Included in our request is funding necessary to support the North Jersey District Water Supply Commission's management and operation of the first completed Federal flood control facility on the Ramapo River; as well as the floodgate at Oakland, which protects Oakland upstream of the dam.

Our Fiscal Year 2010 request also includes \$6 million in capital moneys needed to maintain New Jersey's navigational channels along the Intercoastal Waterway. The funds will serve to eliminate the hazards of shoaling and the lack of routine maintenance dredging.

We have also requested \$2 million for the removal of large structural debris as part of the harbor cleanup process to protect navigation and decrease shoreline hazards. This past year, we removed a breakaway section of the historic ferry area at Liberty State Park.

Our Fiscal Year 2010 capital needs for site remediation include \$84.8 million in funds to continue ongoing remediation projects, water line replacements, operation and maintenance, and closure of sanitary landfills. Offsetting part of these needs, we anticipate Federal participation from the

Superfund Program at a level of \$10 million, and \$45.5 million from the CBT dedication. To date, the availability of the dedicated CBT funds for cleanups has allowed the State to avoid the issuance of bonds in the last 10 years.

Requests on behalf of the Palisades Interstate Park Commission are included at a level of \$4.3 million. Specifically, the Commission is seeking \$1.2 million for recreation development for a shoreline and public access project; \$2.7 million for road improvements along Henry Hudson Drive, which is for paving and drainage; and \$400,000 for historic preservation.

The State Mosquito Control Commission is requesting approximately \$880,000 for the replacement of heavy equipment used by county mosquito control commissions, and \$164,000 for openmarsh water management projects at the Forsythe National Wildlife Refuge.

In closing, I would like to thank you for your time. And we are available to answer any of your questions.

MS. MOLNAR: Thank you.

I have one general question. A good portion of your funds come from the dedication of the Corporate Business Tax. Now, in light of the economy -- I'm sure that's going to be -- there's going to be a reduction in the collection of the Corporate Business Tax. How will this reduction affect your priorities?

ASSISTANT COMMISSIONER CRADIC: We would, if necessary, defer projects.

MS. MOLNAR: So your number one project will still stay number one, and you'd defer some lower down on the list.

ASSISTANT COMMISSIONER CRADIC: Correct.

MS. MOLNAR: Okay. Thank you.

Any questions or comments?

Senator.

SENATOR BUCCO: Thank you, Madam Chair.

Good morning.

ASSISTANT COMMISSIONER CRADIC: Good morning.

SENATOR BUCCO: In your opening statement, you mentioned the 2006 constitutional amendment for a stable source of funding to maintain parks and natural areas.

That money is coming from where, through the CBT?

ASSISTANT COMMISSIONER CRADIC: Correct.

SENATOR BUCCO: How much is in that?

ASSISTANT COMMISSIONER CRADIC: It's approximately, in the last year, about \$19 million -- an average of about \$15 million -- between \$15 million and \$19 million annually.

SENATOR BUCCO: Has that all been expended?

ASSISTANT COMMISSIONER CRADIC: We have a plan going forward. We are spending about \$18 million -- we spent \$18 million last year on projects -- on design and construction. They're phased projects, and sometimes they are multiple-year projects.

SENATOR BUCCO: Okay. And then I also noticed in your request the \$109 million for parks, forestry, and wildlife management areas. Is that part of that, or is that separate?

ASSISTANT COMMISSIONER CRADIC: That's a total of all need. When the Legislature passed, and the voters approved, the CBT

funds for a stable source of funding, we had about a \$300 million backlog for projects statewide.

SENATOR BUCCO: So you're looking for an additional \$109 million then?

ASSISTANT COMMISSIONER CRADIC: That just represents the entire need for the system.

I have Director Barth here with me as well. He might want to further explain.

SENATOR BUCCO: And you also have in here, for Commission's recommendations, for \$19.6 million for recreational land development and conservation projects.

My whole thrust of this is -- very honest with you -- is Lake Hopatcong, which sits in my district and also in the 24th District. And I continually try to get money to keep that Commission going. And that Commission is really now -- has sent out notices to all of their employees that as of the end of the month, they will no longer be employed by the Commission. It takes only \$700,000 -- which is a minimum amount -- to keep that Commission going, to keep the State-owned lake -- and I will repeat that, a State-owned lake -- the largest lake in the State of New Jersey owned by the State of New Jersey -- to keep that free of weeds; and also other projects that they're doing, trying to clean up the runoff from lawns with fertilizer and from catchbasins, and whatnot.

And yet, I keep getting a refusal from DEP to fund them. And I'm concerned about that. Since you have this money, and this is a State asset -- and why we are going to let this go is beyond me, when we invested \$3 million in weed-harvesting equipment, invested in training people to run

that equipment. And now, after six or seven years, the Department is saying, "No, we're not going to fund it." And it's incomprehensible to me why the State of New Jersey wants to neglect its asset. And similarly to what I had said last meeting with my comments on our stewardship of State-owned properties, we continually let it deteriorate. And we are terrible stewards of State properties. And this is one more example of where the State is failing the citizens of the State of New Jersey.

That Commission came about in around 2000 -- 1999-2000 -- because the weeds in that lake were uncontrollable. People couldn't run their boats through it, they couldn't swim in it. And yet, we did nothing about it until I came up with the Commission concept and put it in place. I was grateful for the Legislature for passing that and the Governor signing it into law.

That lake area provides to our general Treasury, by OLS estimates, \$20 million a year from fees, from taxes -- sales taxes, fuel taxes, the sales taxes from the restaurants, from the mom and pop shops throughout that area. And yet we can't seem to come up with \$700,000 to keep that going.

It's a recreational area. And I understand the recreational area of the shore. And you have in here requests for the shore, and I appreciate that and support that. Because it is a recreational area, it does provide a lot of revenue to the State of New Jersey. But don't take out of one hand and put it in the other. I think it has to be looked at on all avenues in getting this done.

And I'll tell you, if I can't get that money, I cannot support any of the recommendations for the DEP. Because I think you're negligent in not taking care of this State asset.

Thank you, Madam Chair.

MS. MOLNAR: Any other comments?

Assemblywoman.

ASSEMBLYWOMAN KARROW: There are a lot of projects listed in here for improving and expanding parks, specifically your recommendations -- your priorities 11 and 12 talk about improving parks and expanding parks. After what happened in this year's budget with the DEP's last minute announcement that they were going to be closing parks all over the state, and then keeping them open and trying to find other avenues, and then the recent attempt to go to different counties and ask parks commissions, and parks departments, and counties to partner up with the State to keep them open -- which in my opinion is outrageous. I mean, this is the State's obligation. County governments and local governments already are so strapped down from the State of New Jersey putting things on their shoulders.

Is your indication that you want more money for parks expansion an indication of your commitment to keep all the parks open this year, and not do that again?

ASSISTANT COMMISSIONER CRADIC: We are working very hard, Assemblywoman, to do that. We are looking at business efficiencies at times, we are looking at partnerships. We've had many for many decades that have been very successful, understanding that the

current fiscal climate is making it difficult for county and municipal parks as well. We are looking at our various assets to try to make improvements.

I can give one example. We are using the capital funds to put better amenities in our campsites. Because if you look at other states where their camping rates are going up, it's because there's water and electric. It's a changed generation. They don't want necessarily only the rustic campsites. So we are taking the CBT capital dollars, looking at where we can maybe increase revenue by improving amenities at our park system so that the revenue goes up, and we're providing more public service through the capital construction program. There's a very high need for cabins across the state. They often sell out very quickly, reserve very quickly. So we're trying to locate parks where we can add additional cabins because there's a public demand there. And also, cabins bring in -- larger cabins bring in approximately \$16,000 a year, which is a good revenue source. So we see public demand for our campsites going down, which means we have to increase some amenities at our more rustic-- And cabins -- we always see a public demand that can't be met. There aren't enough cabin facilities in our camping areas. So we are very closely looking at our CBT dollars for capital construction, looking at public demand, and trying to increase amenities so that the revenue goes up in the State Park Service, where the public is asking us to do that.

We also did a customer service report -- that the public could give us some feedback. They asked for better trail amenities. We're also using the CBT money for that to bring more people in and, again, provide the type of infrastructure that they're looking for when they come to our park system. In the long run, we think we'll be able to, again, have better

public service, better visitor amenities, and increase the long-term revenue of our facilities across the State Park Service. That's only one of many efforts that we're looking at to stabilize some of the funding for the State Park Service in the future.

ASSEMBLYWOMAN KARROW: I appreciate all of that. Especially in the time of an economic crisis, people look for cheap recreation for their families. And I really appreciate that, which was one of the issues that I think the entire Budget Committee in the Legislature was very upset about -- with the attempt to close certain State Parks; that when you are in a crisis, your family doesn't go out for lunch, they may go out for a picnic for instance. They drop the pool membership, and they use one of the reservoirs instead.

But the expansion issue-- And this is where I totally agree with Senator Bucco. And you know, you and I have had this conversation before about the failure of the State to maintain its assets. One of the places where it's very difficult is in DEP, which has, for years, acquired properties with housing units on it, or whatever, that end up in neglect. And I can do an infomercial right now for my bill that I just put in on leasing State property, but I won't.

My concern is -- and here it is -- is that we just saw this massive retirement. A lot of people left the DEP, as well as other departments. The Governor has basically said he's not backfilling any positions. I have seen personally what that impact has done in many departments -- the Labor Department, for instance, where they have an amazing backlog in the tens, and tens, and tens of thousands of unemployment applications that cannot get processed in a timely way. I have also seen that in Fish and Wildlife, in

your Department, where the wildlife management people can't get out to do inspections on the bear damage. And they're sending out people from other parts of that Division to do inspections that should be doing other things. And the fact that you're talking about blazing new trails, and building new cottages, or whatever you want to call it -- I mean, camping for yuppies. I don't know what you even call that. If they want electricity and running water, stay home. (laughter) I don't know what that is. With all due respect, my constituents would probably want that too. I don't know what that is though. I mean, camping is camping. Call it whatever you want.

My concern is, who is going to maintain all this stuff? And the Commissioner had a big pushback during the budget about raising fees, and looking at fee structures -- looking out of the box at fee structures where there would possibly be a higher cost to use certain facilities on weekends, and a lower cost during the week to stimulate people to come in during the week. And I'm really concerned about the fact that we don't maintain what we have. We don't have the staff to maintain it. We're not going to be backfilling positions to maintain it. And we keep talking about growing more of this, and yet there was a commitment by the Commissioner to close parks.

So let's talk philosophically -- and I'm going to be really blunt. Is this a promise, by asking for more money to blaze new trails, that there's not going to be an attempt to close any parks or put the onus on any other smaller government? You're going to continue to do what the State's responsibility is in keeping the people's parks, that are currently available, open and usable?

ASSISTANT COMMISSIONER CRADIC: Assemblywoman, we're working very hard to, again, look at our entire operation and see how best to move forward in the future. Looking at existing assets, our campgrounds that are existing -- when we're making improvements to those, those are areas that we haven't made improvements to in a very, very long time. Some people still want some rustic, and some would like little better amenities there.

We are going through a very comprehensive effort right now of looking at buildings that were purchased through open space funding that most likely -- particularly historic sites -- would not suit well for a museum. If there is an ability to auction those off with an easement, or provide a lease and put them back into the economy for other types of reuse -- such as bed and breakfasts, or bookstores, or other types of uses for those buildings that are currently vacant on State land-- That's also a way to take our limited dollars and focus them on our existing facilities, and take some structures that may not be in use right now and maybe serve the public in a different way while ensuring their future preservation. So there are multiple efforts going on.

ASSEMBLYWOMAN KARROW: I mean, I can get district biased also, as the Senator, and talk about Bulls Island, which is way down on your priority list. It's one of the most actively used boat launch areas and walking areas in the State of New Jersey. And it's a very small park, and it's a \$350,000 request, and it's way down at the bottom. But you're talking about putting up new cabins way before you're talking about fixing something that, as I said, is one of the most actively used boat launches in the state. And I just worry about that priority without a commitment to

what is existing -- a full commitment to what's existing; that you're going to maintain and take care of what's there now, that people have been using for generations, versus putting up new stuff. And I understand the need for those cabins and fixing what you have got in existing park areas. But this whole idea of developing and expanding park areas is a concern of mine.

Let me just move on, because I think you attempted to give me an answer that you are not in a position to answer. So I appreciate you trying.

Regarding Waterloo Village: Now that they've had that auction that, I know, pained so many people in the state, what's happened with that piece of land, specifically? That's your priority 13 and 15 asking for preservation and repairs.

ASSISTANT COMMISSIONER CRADIC: Currently, for Waterloo Village, what we've done initially is to stabilize the buildings, repair roofs so there is not further water damage. We have recently settled and maintained some of the most important historic assets to buildings for their future interpretation, like the Grist Mill, the blacksmith's house, the General Store. In mid-November we'll be meeting with an advisory group which involves county and local officials, and some other friends groups like the Canal Society, to talk about how to move forward. We are going to put out a request for information and do some outreach with the corporate community about what future uses for the site will be, in line with preservation partnerships for the future buildings. We are also in a position now where the Indian Village is fully restored. We're going to put out a request for a new concession there, to run that, to bring fourth graders back into Waterloo Village so that they can, once again, learn about New Jersey's

Native American history. So we've made some tremendous progress. We have a preservation plan that we've contracted for. We expect that report sometime in January. That report will outline the history of the buildings, what some of their potential future uses may be. All of those buildings don't necessarily need to be museums. There's 19 historic buildings. Some of them, again if you look at national models, could be bed and breakfasts, overnight stays. Make Waterloo Village a public destination again. That might include a nonprofit partnership, some corporate presence there to run some of the bigger facilities like the concert tent or the wedding hall, and some open public use for historic preservation and interpretation of the historic buildings and the Indian village. So we are doing a lot of public outreach right now. We have a Web site up. And we are doing outreach with the corporate community, the local municipal and county governments for feedback; and we are hoping that in 2009 we put out a request for proposal for a future operator that may be a multiple partnership -- public and private.

ASSEMBLYWOMAN KARROW: That sounds really promising.

My final question is regarding your request for all this new equipment for the Mosquito Control Commission -- the bulldozer and the front-end loaders. Having served on local and county government, which is vastly smaller than the State of New Jersey, I used to marvel at government just creating -- and this is not a slam at the DEP, because I've seen it everywhere -- but creating fiefdoms within departments and not looking outside your own Department, as if you're a stand-alone.

Surely the DOT has this equipment that can be used. Surely there are other departments that can do shared services within the State of New Jersey without having everybody having to own their own. Can we look at a bigger picture and the macro side of ownership of government -- that it's all owned by the people in the State of New Jersey, and it's not the DEP's, and it's not the DOT's? And if I need to talk to the Acting Commissioner and help do that, I would be happy to.

But it's time that we start thinking out of the box in government and everybody stop thinking that we all need our own stuff. There already exists that stuff someplace else in the state. The DOT are infrastructure experts. They know how to do it. They own the equipment. Why not rely on their services to come over into the DEP when something needs to be dredged or cleaned out?

ASSISTANT COMMISSIONER CRADIC: We can look into that.

ASSEMBLYWOMAN KARROW: Thank you.

MS. MOLNAR: Senator.

SENATOR BUCCO: Yes, thank you, Madam Chair.

Just to pick up on some of Assemblywoman Karrow's comments -- especially the one about sharing. State government is asking municipalities and counties to share services, and yet we don't follow our own advice. I'm glad that she brought that up. And maybe we can start looking outside the box, as she has said.

But I was pleased to hear that you want to continue improving our park systems and our infrastructure within the DEP's park systems and whatnot. And that gets me back to Lake Hopatcong. And I'd like to have,

through the Chair, a -- on the moneys available on that constitutional amendment through the CBT, how much moneys are left in there. And if there is any that is allocated, I want to know where it's going to. I would also like to know, on boat registration fees, since we register all watercraft in this state, how much money is left in that; if we could have it, again, through the Chair.

And you said you had a Web site. Can you just tell me a little bit-- What is the Web site for now?

ASSISTANT COMMISSIONER CRADIC: We have a Division of Parks and Forestry Web site, a Division of Fish and Wildlife Web site, where we provide information for our different facilities. There's a specific--

SENATOR BUCCO: But you say you also go out looking for comments.

ASSISTANT COMMISSIONER CRADIC: Oh, for Waterloo. I'm sorry, I'm not sure I'm understanding you.

SENATOR BUCCO: A Web site for comments from municipalities about parks.

ASSISTANT COMMISSIONER CRADIC: For Waterloo in general, we have created a special Web site, because there's a lot of interest in that site, in particular because we cancelled the lease several years ago. So there is a dedicated e-mail there. You can also go to the State Park Service Web site, and we always receive public information and requests through that Web site.

SENATOR BUCCO: What is that Web site, please?

ASSISTANT COMMISSIONER CRADIC: I can get the exact--

SENATOR BUCCO: Through the Chair, could you get us that Web site so that we can get into it?

ASSISTANT COMMISSIONER CRADIC: I certainly will.

SENATOR BUCCO: I would appreciate that.

Again, I thank you. And I hope we can come to some resolution on Lake Hopatcong, because that is important to the State of New Jersey, and to my district, and surrounding districts.

Thank you.

Thank you, Madam Chair.

MS. MOLNAR: It's a lovely lake, Lake Hopatcong.

SENATOR BUCCO: Thank you.

MS. MOLNAR: Any other questions or comments?

Mr. Donohue.

MR. DONOHUE: One thing I was curious about: On your list, there are several clusters of historic improvements. I counted, I think, at least four different groups of historic buildings. Do you have a master list that prioritizes which historic buildings need the repairs and most urgently, like internally?

ASSISTANT COMMISSIONER CRADIC: We can provide that, through the Chair.

MR. DONOHUE: All right. Thank you.

MS. MOLNAR: Mr. Brune.

MR. BRUNE: Amy, I just want to clarify one point on Bayshore. I think we tapped the Shore Protection Fund for some operating

there. Is it possible-- I think in the past we might have tapped it for capital. Is it possible to consider that for the need expressed here?

ASSISTANT COMMISSIONER CRADIC: Yes.

MR. BRUNE: Okay. Thank you.

MS. MOLNAR: Thank you.

Any other questions or comments? (no response)

If not, I want to thank you for your presentation.

ASSISTANT COMMISSIONER CRADIC: Thank you very much.

MS. MOLNAR: Our next department is the Department of Education. I'd like to welcome Barbara Gantwerk, Assistant Commissioner of Student Services.

ASST. COMMISSIONER. BARBARA GANTWERK:
Good morning, Madam Chair and members of the Commission.

I'm Barbara Gantwerk, Assistant Commissioner for the Division of Student Services in the Department of Education. And I appreciate this opportunity to come before you today to discuss the capital funding needs of the Marie Katzenbach School for the Deaf, the State's only public institution with an explicit mission to educate deaf and hard-of-hearing students.

Currently, approximately 215 children attend the Katzenbach School. One hundred and five of them are boarding students, on campus, living there from Monday morning until the close of school on Friday. Students and staff at the Katzenbach School share a common language, American Sign Language. It is the glue that binds this community together and makes Katzenbach unique in this state.

This year, the Katzenbach School is celebrating its 125th anniversary. The school moved to its current location on Sullivan Way in 1926. The 117-acre campus is comprised of 31 buildings, which require constant maintenance because of their age. In today's world, maintenance of the school's facilities is a challenge. We have moved toward working with other departments of State government to share the responsibility. During the last two years, the School has invested in several large-scale facility improvements, including repaving campus roadways, upgrading the school's fire alarm system, and making minor renovations to bathrooms in student residences. Under the leadership of Bernard McLaughlin in the Treasury, facility personnel from other agencies have volunteered their time, and the students at Katzenbach School have been the beneficiaries. And I want to thank everyone for the efforts and support for these projects.

As you know, these children are in our charge, and we are responsible for their health and safety, as well as their education. In light of this responsibility, and in recognition of the serious fiscal situation facing our State, our 2010 capital request for \$1.88 million is limited to projects that are essential for the health and safety of the students and staff at the School.

The projects include the boiler room, the powerhouse maintenance, for \$160,000. The powerhouse generates steam, which is used to heat all the major buildings on campus. The powerhouse dates back to the early 1900s and is similar to those used by other State agencies. The maintenance and upgrades are necessary following the findings of the most recent PEOSHA inspection on November 20, 2007.

Sprinkler and fire alarm installations for \$400,000: An inspection of the Katzenbach campus by the Division of Fire Safety, conducted in March of 2008, revealed the need to install a sprinkler system in the windowless

basement and entry foyer of Building No. 1, which now houses the elementary and middle school students.

For air conditioning at the high school: \$400,000. Now, some students attending school at Katzenbach have medical conditions which require their educational programs to be provided in air conditioned settings. For these students, failure to provide an education program under the conditions specified in the students IEP, their individualized education program, can be a compliance or legal issue, as well as a serious health issue.

Approximately half of the school's students attend classes in the vocational high school, which is more than 30 years old. The building is constructed with large glass pane windows that do not open. The HVAC system cycles air through the building year round. The central air conditioning units have outlived their useful lifetime. They are now unreliable and need to be replaced. The units often break down or malfunction. When that happens, classroom temperatures can exceed 85 degrees, forcing the school to disrupt instruction and relocate students elsewhere on campus. Because of the age of the equipment, repairs are difficult and costly. Repairs also take time. Sometimes it is necessary to relocate classes for several days while waiting for needed repairs. Because of the construction of the vocational high school, there is no alternative to replacing the air conditioning system. Without an HVAC, there is inadequate ventilation. It is not possible to use room air conditioners there.

Campus lighting: \$200,000. The School campus is home to students when school is in session. At night, the campus is dangerous because it is too dark to see in many places. For deaf people, this problem is exacerbated by their dependence upon vision to monitor their environment. Problems with outside lighting accounted for multiple fire code violations in

April '08. Additional lighting is absolutely essential for the safety and security of students, their families, and staff. The State Fire Inspector's recent findings also called for the need to increase the amount of outside and emergency lighting at the Katzenbach School. During the school week, our campus operates a 24-hour operation, with our students regularly traveling from school to the Educational Resource Center for homework and tutoring, or the athletic facilities, and ultimately to the dormitories. In addition, evening workshops offered during the week for parents or programs offered by our tenants require that the campus be adequately lit for the safety of the community. With the assistance of the Office of Energy Management, we have identified the areas most in need of additional lighting, while employing technologies to reduce our overall energy costs while providing maximum visibility.

And we have small cap projects at \$170,000. And the following projects are, again, essential for the health and safety of the students. Security upgrades of \$68,000 for cameras and a card swipe system for the buildings where the students are present. Shower replacement: \$81,000. Showers in residents for high school boys and elementary students are in critical need of repair. Tiles need to be replaced and the area needs to be grouted. And continued deferred maintenance will lead to ceiling, wall, and floor damage, as well as problems with mold. The fire suppression system: \$20,000. A cooking suppression system is required for the stoves in the middle school practical arts classroom. And cooking is part of the middle school curriculum for all students.

A high school window replacement: \$250,000. This project is to replace damaged window panes in the vocational high school. These windows have cracks and leaks, thereby furthering the challenge of properly cooling or heating the school's classrooms and offices, particularly in extreme weather.

Maintenance staff has caulked and sealed the windows, but damages have exceeded the ability to properly maintain them. The project was previously funded but never implemented. The funds reverted to the State. The project remains outstanding.

Repair of the porches in Building 30: The porches on the back of the building are in serious disrepair and present a health and safety hazard. This building houses the State Specialized Child Study Team, regional consultants for the deaf, the Alumni Museum, an assistive devices center operated by the New Jersey Division of the Deaf and Hard of Hearing, and offices for the following organizations: the New Jersey Association of the Deaf, Katzenbach Parent Staff Organization, Katzenbach Parent Staff Education Foundation, and Katzenbach Alumni Association.

We ask you to continue to support investment in the Katzenbach School, and hope the Commission will recommend that the 2010 budget include funding for these key initiatives.

Thank you very much for this opportunity to speak to you today.

And with me are David Corso, Director of Administration in the Department of Education; and Dennis Russell, Superintendent of the Katzenbach School, who are available to answer your questions.

MS. MOLNAR: Thank you.

Any questions or comments?

Assemblywoman.

ASSEMBLYWOMAN KARROW: Just very briefly, I just want to say, this is exactly what government should be doing -- is safety issues and taking care of those--

I know that the facility is in great need, and it truly is. Just for point of clarification regarding that sprinkler system, why wasn't that a part of the original whole package that came through last time?

SUPERINTENDENT DENNIS RUSSELL: Madam Chairperson, Assemblywoman Karrow. Is that correct?

ASSEMBLYWOMAN KARROW: That's correct.

SUPERINTENDENT RUSSELL: The original request for the fire alarm upgrade was based on a 2000 report that was prepared by the Treasury, which talked only about upgrading the alarm system. It identified the fact that there were no sprinklers in certain areas on the campus, but it did not call for them to be put in. It was only about the alarm system itself. So this issue was raised by the fire marshal when he came in and inspected the buildings just this last year. It's the first time it's been raised.

ASSEMBLYWOMAN KARROW: It is the first time?

SUPERINTENDENT RUSSELL: Yes. I'm sorry, it was raised in 2006 and again in 2008. The fire inspector cited the school, calling for the installation of this fire system. I'm sorry.

ASSEMBLYWOMAN KARROW: Is this the first time you've asked for this?

SUPERINTENDENT RUSSELL: Yes, it is.

ASSEMBLYWOMAN KARROW: Why didn't you ask for it after the first citation?

SUPERINTENDENT RUSSELL: Because, as I said, the original request was based on the STP report prepared by the Treasury. That's the reason.

ASSEMBLYWOMAN KARROW: Okay. I'm just surprised that you didn't ask for it right away. I mean, when you're talking about children and--

SUPERINTENDENT RUSSELL: Yes.

ASSEMBLYWOMAN KARROW: Okay. Thank you.

MS. MOLNAR: Mr. Brune.

MR. BRUNE: I just have one point of clarification.

Barb, on priority number one, can we-- Is there a citation from PEOSHA on priority number one -- I mean with the boiler?

SUPERINTENDENT RUSSELL: There's not a citation, per se. What we have is a written report of an inspection that PEOSHA did. It's like a consultation report. And at the end of the report there are five written recommendations. And our request is based specifically on their recommendations.

MR. BRUNE: Okay. And just one other question: The lack of access to the top of the boiler -- what does that signify? What issue is attached to it?

SUPERINTENDENT RUSSELL: Apparently, the code requires that a permanent platform -- to be constructed so that you have access from the platform. We don't have a platform. The access right now is by a ladder or some other temporary means, which apparently is a violation itself.

MR. BRUNE: So you have access to the bottom of the boiler but not the top.

SUPERINTENDENT RUSSELL: I'm sorry?

MR. BRUNE: You have access to the bottom of the boiler but not the top of that boiler.

SUPERINTENDENT RUSSELL: Yes. But then if we need to get up there, we have something temporary.

MR. BRUNE: Is there something at the top of the boiler, like some valves, or what have you, that is particularly a safety issue?

SUPERINTENDENT RUSSELL: I would say yes. I don't have a (indiscernible) but--

MR. BRUNE: All right. Maybe, through the Chair, if you could just provide what it is uniquely at the top of the boiler that we'd need access to for safety purposes, that would be helpful.

SUPERINTENDENT RUSSELL: I can do that.

MR. BRUNE: Thank you.

MS. MOLNAR: Mr. Vari.

MR. VARI: On priority number four, the campus lighting request, is that the project that-- I think we put you in contact with someone from the State Police on that.

SUPERINTENDENT RUSSELL: Yes.

MR. VARI: Okay. And is that moving along?

DAVID F. CORSO: They have contacted us, so we're getting moving with it, yes.

MR. VARI: All right. Thank you.

MS. MOLNAR: Any other questions or comments? (no response)

If not, I want to thank you for coming today.

ASSISTANT COMMISSIONER GANTWERK: Thank you.

MS. MOLNAR: Okay. Other business-- I don't believe there is any other business.

At our next meeting we will make our recommendations, and that's on December 12. It seems a long way off, but it really is not. So hopefully we'll see you all there.

Meeting adjourned.

(MEETING CONCLUDED)