Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION:	Committee Room 11 State House Annex Trenton, New Jersey	**DATE:**	December 10, 2010 10:00 a.m.

MEMBERS OF COMMISSION PRESENT:

B. Carol Molnar, Chair
Anthony F. Annese, Vice Chair
Senator Paul A. Sarlo
Senator Steven V. Oroho
Assemblyman David W. Wolfe
Steven Petrecca
Robert Romano
Beth Schermerhorn
Paul Stridick

ALSO PRESENT:

James Vari *Executive Director*	Rosemary Pramuk *Senate Republican*
Thomas LaBue *Commission Staff*	Jerry Traino *Assembly Republican* *Commission Aides*

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey

TABLE OF CONTENTS

(A teleconference meeting of the New Jersey Commission on Capital Budgeting and Planning was held on December 10, 2010. Members present via telephone were Senator Paul A. Sarlo.)

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

In accordance with the Open Public Meeting 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 faxed to the Trenton *Times* and the *Star-Ledger*, and filed with the Office of the Secretary of State.

(phone rings)

MR. LABUE (Commission Staff): Capital Commission.

SENTAOR SARLO: Hi, it's Senator Sarlo.

MR. LABUE: Okay; Carol, do you want to speak through the mike to see if he can hear it?

MS. MOLNAR: Yes.

Good morning, Senator.

MR. LABUE: Okay.

MS. MOLNAR: All right, we'll take a roll call.

MR. VARI (Executive Director): Senator Sarlo.

SENATOR SARLO: Here.

MR. VARI: Senator Oroho.

SENATOR OROHO: Here.

MR. VARI: Assemblywoman Pou. (no response)

Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Here.

MR. VARI: Deputy State Treasurer Romano.

DEPUTY STATE TREASURER ROMANO: Here.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Here.

MR. VARI: Mr. Petrecca.

MR. PETRECCA: Here.

MR. VARI: Ms. Schermerhorn.

MS. SCHERMERHORN: Here.

MR. VARI: Ms. Cimiluca. (no response)

Mr. Annese.

MR. ANNESE: Here.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Here.

MR. VARI: Madam Chair, you have nine members present; you have a quorum.

MS. MOLNAR: Thank you.

On the administrative side, we have to approve two sets of minutes. Last year we met in February to approve the recommendations; so we have to approve the minutes of February 23, 2010 and the minutes of October 1, 2010. I guess we should do them separately.

Do I hear a motion to approve the minutes of February 23?

MR. PETRECCA: So moved.

SENATOR OROHO: Second.

MR. VARI: On the motion to approve the minutes--

MS. MOLNAR: Any changes, though? (no response)

If not, take the vote.

MR. VARI: On the motion to approve the minutes of February 23, 2010.

Senator Sarlo.

SENATOR SARLO: Abstain, because I was not present.

MR. VARI: Senator Oroho.

SENATOR OROHO: Yes.

MR. VARI: Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Yes.

MR. VARI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Yes.

MR. VARI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. VARI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Yes.

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

MS. MOLNAR: Okay; we'll approve now the minutes of October 1, 2010.

Do I hear a motion?

ASSEMBLYMAN WOLFE: Motion.

MS. MOLNAR: Second?

SENATOR OROHO: Second.

MS. MOLNAR: Okay; let's take a vote.

MR. VARI: On the motion to approve the minutes of October 1, 2010.

Senator Sarlo.

SENATOR SARLO: Abstain, as I was not present.

MR. VARI: Senator Oroho.

SENATOR OROHO: Yes.

MR. VARI: Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Yes.

MR. VARI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Yes.

MR. VARI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. VARI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, you have eight votes in the affirmative; the motion is approved.

MS. MOLNAR: Thank you.

Our next item is the Debt Report. I'm welcoming -- Jim Petrino?

MR. VARI: Yes.

MS. MOLNAR: Okay -- Jim Petrino.

Thank you.

Good morning.

J A M E S   P E T R I N O: Good morning, Chairwoman Molnar, Commission members.

My name is Jim Petrino, Director of the Office of Public Finance in the Department of the Treasury. Seated next to me is Anthony Longo, a manager on my staff.

On behalf of State Treasurer Andrew Sidamon-Eristoff, we're here today to present the Commission the Debt Report for the State Fiscal Year ending June 30, 2010.

I trust you have noted that the format of this year's report has been revised and its content greatly expanded. I think these changes will result in a much-improved report, and hope when we're through today the Commission will agree with me.

I think it would be helpful to begin, with the Chair's permission, by providing the Commission with an overview of the significant format and content changes and the reasons for them, followed by a walk-through of some of the key data. Would that be all right?

MS. MOLNAR: Okay, thank you.

MR. PETRINO: For those concerned that they did not brown bag their lunch, I can advise that I do not intend to go through 75 pages of data one page at a time. I will be happy, however, to address any questions the members may have on any aspect of the report following the walk-through.

First, a little background: As you know, in 1995 the statute governing the Commission and the content of its annual capital plan was amended to require the inclusion of a report on the State's debt. The Office of Public Finance, as managers of the State's bond issuance and outstanding bond portfolio, was the logical agency from which to solicit the data for inclusion in the capital plan.

Beginning in 1996 and each year since, OPF has generated this report for use by the Commission. The format of the original report was designed to meet the minimum requirements of the 1995 amendment, primarily to include the debt outstanding and the annual debt service for the fiscal year then ended; the current fiscal year; and the succeeding five fiscal years. While the original report included a variety of supplemental descriptions and data, we were able to easily assemble the bulk of this required data onto a single page. Over the years, as new programs were financed with bonds, they were simply added on to that one-page master table. As the members, I'm sure, can attest, the growth in State debt was met with a corresponding reduction in font size for that one page of data.

In January 2010, the Commission's governing statute was amended once more, this time to expand the content and alter the format of the Debt Report beginning with the Fiscal Year 2010 report. Specifically, the report -- in addition to the original requirements -- must now include all items comprising long-term obligations as recorded in a schedule of long-term debt changes, bonded and non-bonded, in the State's comprehensive annual financial report, or CAFR. Further, the report must now include the unfunded actuarial accrued liabilities for State-administered pension plans and post-retirement medical benefits. A copy of the amended statute is included in the report beginning on page 4.

Because these additional components are of an accounting and actuarial nature that do not easily adhere to normal bond data -- for example, there's no debt service on accounting and actuarial liabilities -- we recognized immediately that some changes would need to be made. This gave us a unique opportunity to rethink and, ultimately, re-craft the Debt Report into what we hope will prove to be a more readable, more informative, and more useful report. The result is before you this morning.

Before proceeding with the walk-through of the data, I'd be remiss if I didn't acknowledge the support of Treasurer Eristoff and his office for this endeavor, and the work of my small staff at the Office of Public Finance, particularly that of the gentleman sitting beside me, Anthony Longo, who put in many a late night turning ideas, concepts, and raw data into the charts, graphs, and tables you have before you today.

If you'd like to begin the walk-through, I could do that.

MS. MOLNAR: Yes, thank you.

MR. PETRINO: The report has an introduction, and, as I mentioned, a statute, but what I'd like you to turn your attention to, I guess, from the data perspective, begins on page 8 -- this is section 3 of the report -- Outstanding Obligations. This first page, page 8, is a summary of the outstanding obligations of the State, which now include the afore-mentioned additional items as reported in the CAFR. So the first chart at the top is the summary of all the obligations broken down by category:

general obligations, obligations subject to appropriation, CAFR reconciliation -- which I will describe later and had been included separately in previous years' reports, and then the new item this year which is the non-bonded obligations. So the total of all those items as of June 30, 2010 is $57,933,955,000 -- that's an increase of $6,717,000,000 from the prior year -- most of which is in the non-bonded obligation category.

Further on that page there are two other summary charts. These are of the bonded obligations, for which the Office of Public Finance and Treasury's most familiar with, so this is the subset of the general obligations and the allocations subject to appropriation. Those obligations total, as of June 30, 2010, $32,840,232,000 -- a change from the prior year of $1,254,000,000.

The following page shows some graphical representations of the different categories. And what I'd like to call your attention is on the following page -- page 10. This is where we really modified what you were used to seeing in prior reports into a structure as reported in the CAFR and the footnotes of the CAFR regarding debt. And basically, the report is now changes in long-term obligations. And with bonded obligations, there's multiple categories you could assign to any particular bond issue -- some are general obligations, some are subject to annual appropriation by the Legislature. Some are supported by general State revenues -- the general fund of the State. Others are supported by dedicated revenues -- revenues dedicated either constitutionally or statutorily to service the debt.

So I thought it important to break out those categories to give you the important subtotals by those categories, and that's what this report attempts to do here. So this first page, the first category, is bonded obligations -- obligations supported by general State revenues. And the first item is general obligations which are depicted on this page. The total outstanding general obligations, as of June 30, 2010, is $2,596,000,000. These are the bonds authorized by statute that were approved by voters and the general obligations are supported by the full faith and credit of the State.

Turning to the next page, bonded obligations is continued. These are the obligations supported by general state revenues, continued. And they're broken down into different categories and this is the individual listing by program by the bond issuing authority -- for instance, the Building Authority, the Economic Development Authority, and so forth.

The subtotal at the bottom of that page, the total obligation supported by general State revenues -- these are the general fund obligations -- amount to $18,216,288,000 as of June 30, 2010.

The following page indicates -- again, still under bonded obligations -- but now the category is obligations supported by the dedicated State revenues, or those for which a portion of State revenues are specifically dedicated to service the debt. In this category-- It's still subject to appropriation, by the way; so that's why it still continues in that category. Revenue bonds at the Garden State Preservation Trust is supported by the $98 million a year dedication of the sales tax; Transportation Trust Fund Authority by the various motor fuels taxes and a portion of the sales tax; and so forth. The total of these obligations supported by dedicated State revenues is the next subtotal there: $14,623,944,000 as of June 30, 2010 -- an increase of $687.8 million.

The next subset is now all obligations, or the aggregate obligations, subject to appropriation -- that includes the dedicated and the general revenues of $30,243,492,000. Adding back in the general obligations from page 10 of 2.5, the aggregate at the bottom of this page -- obligations supported by general and dedicated State revenues -- $32,840,232,000 as of June 30, 2010 -- in increase of $1.254 billion which you'll see in the right-hand column. This is the bonded debt -- this is what I call the Office of Public Finance debt figure, and this compares with what you've seen in that one-page chart over the years, in the prior reports.

Turning to the following page -- this is still under the bonded obligation category -- is the CAFR reconciliation. Now what I have to address with you here is that the CAFR is the State's financial statements, on an accounting basis. Accounting rules put forth by the Governmental Accounting Standard -- GASB, Governmental Accounting Standards Board -- require certain depictions of debt obligations and associated costs. Certain obligations must be reported on the State's books, but are not really State obligations; they are not supported by general or dedicated State revenues. Other obligations are not required to be reported because there is another funding source, or those obligations are recorded on another entity's books. Some of the obligations we've issued on behalf of New Jersey Transit, for instance -- and you'll see these depicted in the categories here -- are recorded. The asset and the liability for their rolling stock in railcars that were financed is recorded on Transit's books -- Transit being a related entity to the State, therefore it cannot be recorded on the State's books.

So-- And I'm going a little adrift, because my specialty is not in the accounting side. These are represented as reductions to the State debt because they're not recorded in the CAFR. So after accounting for these and other bond adjustments, you'll see the total CAFR reconciliation adds a figure of $4.043 billion to the debt number. All these adjustments are related to bonded obligations, so I've included them in the total at the bottom, highlighted in yellow -- aggregate bonded obligations, $36,883,983,000 -- which represents an increase of $1.4 billion from the prior years.

Still not through: Page 14, the following page, now addresses the non-bonded obligations. Again, and their requirement this year they be included in this report. This has been included in the CAFR year to year, but has not been in our debt report. Certain governmental activities are reported here: Accumulated sick and vacation payable -- there are no bonds associated with those; those are accounting liabilities. Capital leases -- these are for office buildings for which there are no bonds issued; these are just long-term leases for office space and other facilities. I should note that the one and the line under it -- State equipment line of credit -- were included in our report in prior years even though they were not bonded because the State is obligated to pay them; but now that we have a non-bonded obligation category they appear here because there are no bonds or financing instruments associated with them.

Net pension obligation, pollution remediation obligation, other post-employment benefits are in that total; governmental activities. The numbers are sizeable -- it's $21,049,000,000 as of the end of June, an increase of $5.3 billion from the prior year.

So when you add the non-bonded to the total bonded obligations, as reconciled to the CAFR from the prior page, the big number that appears in the CAFR each year -- the aggregate bonded and non-bonded obligations -- as of June 30, 2010 is $57,933,955,000. The CAFR is not finalized yet. My understanding is it may be out later this month, and these figures will tie to what will be reported in there.

There's one item below that line that I'll just point out: business-type activities. These are not considered obligations of the State but are reported in the CAFR. And so to demonstrate full compliance with the new statute that we include the information as presented in CAFR, we've included that down here. And these are the-- The largest item there is the advance from the Federal government for unemployment fund. This obligation is not a State obligation to repay; it's from assessments on employers and employees. Deposit fund contracts, the other line item there relates to certain lottery contracts and amounts payable from the lottery.

Moving on to page 15 -- and I won't keep you much longer with this -- here is where we show the pension and other post-employment benefits. I have to point out that the actuarial reports for the fiscal year ending June 30, 2010 are not completed as of now; therefore we don't have the comparable data to include in this report. So what we've chosen to do is to show the June 30, 2009 figures from the '09 actuarial reports, as compared to June of '08. So I would just caution you that adding the '09 number to the '10 obligations from the previous pages is mixing years.

But those numbers are there before you: there's the State pension plan figure for June 30, '09 -- was unfunded actuarial accrued liability was $30.7 billion, and the post-retirement medical at $56.72 billion, for a total of $87.509 billion -- which you can see depicted there.

The rest of the report I would just touch on very briefly, because that's the core data -- that's the numbers people like to refer to and probably will refer to all year. But we wanted to show a 10-year history of outstanding obligations, and this report -- the upper portion of this report -- appears in the CAFR year to year -- it's in the statistical section in the back. What we've chosen to do was to take that information, replicate it here, but also add the pension and other post-employment obligations at the bottom so you can see how that's tracked over time.

The N/As along the line of post-retirement, medical, and other benefits from '05 and prior were because those numbers were not estimated or provided.

So that's a historical perspective. The last page of this section is legislatively authorized but unissued debt. This kind of shows what is out there that, as the title says, is legislatively authorized but has not yet been issued. This is a statement that had been in previous debt reports.

MS. MOLNAR: What page is that?

MR. PETRINO: I'm sorry, that's page 18.

MS. MOLNAR: Okay.

MR. PETRINO: I don't know if you'd like me to pause at this point, or just sort of--

MS. MOLNAR: Yes, I had a few questions on the first section.

MR. PETRINO: Okay.

MS. MOLNAR: I'm sure my colleagues do too.

Now you mentioned that the CAFR report is still not finalized, correct?

MR. PETRINO: That's correct.

MS. MOLNAR: From a timing point of view, would it make sense for this Debt Report to come later, like next year, have it a week later -- like next Friday, the equivalent of next Friday? Would that be any help to you or not?

MR. PETRINO: Well, I think it would be helpful, but I don't know if it would be practical. I know from time to time, year to year, the CAFR has been issued in December; it's been issued later. I know that the current Treasurer has been very steadfast in wanting the CAFR in December -- at an earlier point; not waiting until January, February, March. And the Office of Management and Budget has done that. My understanding is that it's nearly in final form and due to be released later this month.

Would it be helpful to have that information out there coinciding with this? Certainly. I mean, I feel like I'm putting out CAFR information that isn't available yet. We are ahead of that, and we have been for a number of years, as the CAFR has been later and later. I don't know if you could delay your receipt of this information to another month, or even a couple of weeks, if that would help.

MS. MOLNAR: Well, last year we met in February to approve the capital.

Okay, page 3 -- I'm curious: the South Jersey Port Corporation. It says, "A portion of the annual debt service has consistently been paid from the reserve which the State has constantly replenished." Is there something systemic with this one corporation -- why the State has to constantly replenish their debt service?

MR. PETRINO: Well, I can't address the nature of the operation down there, only to say that the operation of the port facilities has been insufficient to fulfill their capital obligation in terms of repaying their debt. I think they're undertaking construction of a new port in one of the counties -- it may be Gloucester County, if I'm not mistaken -- which I think is intended to generate additional economic activity. But the reserve funds are there to support the debt. It's not the full debt service -- it's only a fraction of the annual debt service that the revenues are short in supplying the debt service reserve is tapped to pay the bond holders and then they petition the State through appropriation process to replenish that fund for the subsequent year.

MS. MOLNAR: So our Legislature (indiscernible) to say we're not going to appropriate the money. They can make that decision -- that's their decision.

MR. PETRINO: It's clearly their decision.

MS. MOLNAR: To appropriate or not to appropriate.

MR. PETRINO: It's subject to appropriation.

MS. MOLNAR: Okay.

MR. PETRINO: The phrase of the *moral obligation* does reside in the statute of the South Jersey Port Corp., but it is just that: a moral obligation, or duty, of the State to cover that. But it still is, absolutely, subject to appropriation.

MS. MOLNAR: Okay, page 12: This is the bonded debt, correct? The bottom line there.

MR. PETRINO: Yes.

MS. MOLNAR: Did I hear you say?

MR. PETRINO: Yes.

MS. MOLNAR: It went from $31.6 billion up to $32.8 billion -- a $1.254 billion increase.

MR. PETRINO: Correct.

MS. MOLNAR: I can see that some of the pieces -- the Transportation Trust Fund and the School Facilities Construction-- In your mind, what are the main reasons for this $1 billion increase? I was hoping we would see a decrease, but I guess not.

MR. PETRINO: Well, the main reason is because the State continued to fund the ongoing programs of both of those programs -- the school construction program, where debt has been authorized and you can refer to the authorized but unissued table a few pages forward that shows how much is still authorized to be issued; and transportation as well was just in fulfillment of the five-year capital plan established back in, I guess, 2006 -- that is, apparently, about to expire.

So, yes, I would say the bulk of the increase in the bonded obligations are for those two programs which continue to be the primary capital programs funded with bonds.

MS. MOLNAR: Okay, my last question: On page 14, net pension obligation and other post-employment obligations: One went up $2 billion and the other went up over $3 billion -- the post-employment benefits. Is that due to the increase of retirements that's taking place among all of our State employees?

MR. PETRINO: I don't know the answer to that question directly. I mean, I know I believe it results -- or what the figure represents, is the accumulated non-contributions, or contributions not made to the pension funds and to the retirement benefits. I may have to throw a lifeline to someone from OMB if you need to get more into the accounting aspect of that, but that's my understanding.

There's a glossary in the back -- it's Section 7; I hadn't covered that yet -- where I took the definitions that appear in the CAFR for those amounts, so it might be worthwhile to reference those.

MS. MOLNAR: It seems such a large increase of $3 billion for other post-employment benefits. Okay.

All right, any questions or comments?

Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Yes; first of all, I'd like to compliment you on the format. I know we had requested this; it's a lot easier to understand. I think you did a very good job explaining it.

MR. PETRINO: Well, thank you very much.

ASSEMBLYMAN WOLFE: But I want to go back and forth between page 11 and page 13. You have on page 11 -- I'm sorry; page 11 and 3 -- on page 11, the last thing you mentioned is moral obligation and you mentioned the South Jersey Port Corporation. But you don't show -- and maybe there's reason for it -- HMFA and HESAA; you don't show them. Is there any reason why they're not there?

MR. PETRINO: Yes, I'd be happy to explain our rationale behind that.

ASSEMBLYMAN WOLFE: I mean, don't get too technical.

MR. PETRINO: No, no, it shouldn't be. Those are three programs -- you mentioned the other two -- and there's a little discussion of that in our introduction.

ASSEMBLYMAN WOLFE: On page 3, right.

MR. PETRINO: Yes, on page 3 -- exactly. They carry the moral obligation in their statute. HMFA bonds covered by that were issued many, many years ago; in fact, those are amortizing off. They no longer issue bonds under that particular statute. So in a few years, those will be gone completely. They have never drawn on their reserve funds. These were certain mortgage bonds that they never had to draw on their reserves, so we never had to replenish the reserve fund.

ASSEMBLYMAN WOLFE: So they're in fiscally good shape, then?

MR. PETRINO: Yes.

ASSEMBLYMAN WOLFE: Okay.

MR. PETRINO: Same thing we the HESAA, which are bonds supported by student loans, and they've never had to draw on the reserve funds.

ASSEMBLYMAN WOLFE: Good.

MR. PETRINO: So while it is in the statute about the moral obligation, there's a long history of not needing to draw on that.

ASSEMBLYMAN WOLFE: We'll, we'll have to congratulate them, then. Thank you; thanks a lot.

MS. MOLNAR: Senator.

SENATOR OROHO: Yes.

Thank you very much, Madam Chair.

First of all, as Assemblyman Wolfe had mentioned, I want to congratulate you and thank you very much on the new format of the report. I know my other colleague on the phone, Senator Sarlo, and I did a bill in the Senate last year to look for further transparency and a full accounting for all the debt, be it bonded or non-bonded obligations. And I found the report to be extremely more user-friendly and informative, and I also-- Obviously what gets measured gets mastered -- we see the number of our debt level-- Actually I had a very similar question with respect to the pension and the other post-employment benefits. As I looked there, from the net pension obligation, is that, essentially, the cash payments over the years that should have been made into the trust fund that still have yet to be made into the trust fund?

MR. PETRINO: That's my understanding.

SENATOR OROHO: Pretty much, okay. Now on the other post-employment benefits, now I believe that's on a pay-as-you-go. We do those on a pay-as-you-go, and, I guess, under the generally accepted government accounting standards, just like the financial accounting standards, you have to determine, essentially, what your accumulated liability is now and put that on your books. But from a cash flow standpoint, I think we pay those as the benefit claims come in -- we pay them on cash basis -- I believe that's correct.

MR. PETRINO: That also is my understanding.

SENATOR OROHO: Okay. Other than that, as I said, looking at the usefulness of the report I found it significantly more informative and I know we had a long discussion about this last year at one of the meetings. And I know Assemblyman Cryan in the Assembly and Senator Sarlo and I in the Senate, Senator Sarlo and I got together and to bring more transparency to the debt level. And what this does show, very significantly, is that the bonded debt as well as the non-bonded obligations, the increase in there that we do need to have, obviously, the continued look at benefit reform as well as-- I know we passed the law requiring the obligations to be funded because, obviously, that's a significant issue. The benefits themselves as well as the level of funding for those obligations.

I'll just end by saying I really appreciate the new look, being user friendly, as well as highlighting those areas that we have to work on -- and quickly.

MR. PETRINO: I appreciate your comments; thank you very much. It was a little bit of a labor of love, almost.

SENATOR OROHO: Yes.

MR. PETRINO: If we're going to change it, let's try to do a good job. And Anthony and the rest of my staff -- we put a lot of time into it.

SENATOR OROHO: I found the explanations as to how the report laid out, and why things were included and why things weren't included, from the moral obligation standpoint, because obviously if we haven't funded them, and we don't expect that we would need to, it's a different story than if we already demonstrated we've had to put the money in. You have a different level of-- Obviously, you've demonstrated the responsibility there, so-- I appreciate it. Thank you.

MR. PETRINO: You're welcome.

SENATOR SARLO: Madam Chair, may I just ask two quick questions?

MS. MOLNAR: Sure.

SENATOR SARLO: Hi, it's Senator Sarlo. Thank you, Madam Chair.

First, let me actually commend my colleague, Senator Oroho, because those of us who serve on the Budget Committee spend a lot of time in Trenton, so he actually made it there today. Today would have been my fourth day in Trenton this week, and I couldn't pull it off, but he did. (laughter) So I commend Senator Oroho for making it there today.

I also want to commend those who made the presentation and those who worked the report. I think it is a good format; I think it lays out, in a very transparent manner, all of the debt that is obligated. So I want to commend those who both prepared it and those who are presenting it today.

Two questions I have: The $1.3 billion increase in bonded debt -- did any of that receive approval of the voters? I know the Governor is big on approval of the voters for bonded debt, going forward; it was the hallmark of his campaign. Any of the $1.3 billion increase, did any of that receive approval of the voters?

MR. PETRINO: This is Jim Petrino. The portion attributable to general obligation bonds were certainly from prior years' bond acts -- so that was about $70 million of the increase. The rest of it, though, was from programs that were enacted prior to the change in law requiring the voter approval.

SENATOR SARLO: Okay, so these were just an extension of additional borrowing on previous borrowed dollars.

MR. PETRINO: Previously authorized borrowed.

SENATOR SARLO: Previously authorized.

MR. PETRINO: Yes sir, that's right.

SENATOR SARLO: And since we are on the transparent issue, the *Wall Street Journal* reported today -- I was just looking at the clip -- that the report did not include obligations, or potential obligations, for student-backed loans. I was just wondering why that would not be included. I know that maybe it's a moral obligation, maybe it's not a requirement, but shouldn't that have been included? And what would that dollar be?

MR. PETRINO: Senator, again, that is exactly what we were discussing in connection with the moral obligations. It had been depicted in prior years' reports, even though the State never had to put up a dollar to pay that. And we thought actually in prior years it was erroneously inflating the State's obligation, because that program has run sufficiently well that the student loan repayments have more than adequately funded the debt obligations. So a decision was made to not include that total in these totals as described. That figure is -- I don't have the exact figure, and I apologize for not having it; but I know it's well over $2 billion.

SENATOR SARLO: Two billion?

MR. PETRINO: Yes, sir.

SENATOR SARLO: So it has been included in previous reports.

MR. PETRINO: It has.

SENATOR SARLO: This year, because your explanation, you decided to just to keep it out of the report?

MR. PETRINO: Yes, that's correct. We feel it shouldn't have been there in year's past; it was there-- If you recall, in prior years, we had sort of an above-the-line and a below-the-line where we had a total State debt which was somewhat equivalent to my concept this year of debt supported by State revenues. And then I had a section beneath that, that was debt supported by other revenues where it was just depicted. And that number was then added to the total and, unfortunately, that larger number was the one that was cited quite frequently as the outstanding debt, even though the State never had to pony up to pay it. So we thought it was more accurate to remove it this year.

SENATOR SARLO: Thank you.

MR. PETRINO: You're welcome.

SENATOR SARLO: Madam Chair, just a quick question: Were we voting to accept the report? We're not voting to approve the report; we're just voting to accept it as the--

MS. MOLNAR: Correct. We vote to accept the report as part of our Commission.

SENATOR SARLO: Okay.

I will have to step off, so I'll cast a vote, and you can record it that I will -- not voting to approve it, of course, but I'll vote to accept the report as presented.

MS. MOLNAR: Thank you, Senator.

SENATOR SARLO: And on the other vote, I believe there's one other vote, on the recommendations I'll vote yes on the recommendations on the various potential capital improvements.

MS. MOLNAR: Good; thank you very much.

SENATOR SARLO: Okay?

MS. MOLNAR: Thank you.

SENATOR SARLO: Thank you; thank you, folks.

MS. MOLNAR: Are there any more questions or comments? Assemblyman Wolfe, did you have a question?

ASSEMBLYMAN WOLFE: No.

MS. MOLNAR: Mr. Annese, did you have a question?

MR. ANNESE: Yes. Madam Chair, the Commission's obligated to make a recommendation about future State debt. Would you have any position on that, or comment on that? In the past, we usually had a statement in here, and I didn't come across one. Or is that something that you would rather defer to the Commission?

MR. PETRINO: Well, I can address it, partially, I believe, sir.

In Section 6 we include -- is labeled as State Comparisons, and we drew some statistical comparisons of the State of New Jersey's debt under a couple of economic statistics. These are excerpted from-- It begins on page 68; I'm sorry. These are excerpted from the Moody's Debt Medians which, in prior years, we've had included basically the whole report. This year we just chose to go with the statistical tables. And we hope that that gives the Commission sort of an indication of where New Jersey stands. I think we used to include a table that would say what if we issued $500 million, or $1 billion additional bonds, how would it affect the rankings? Clearly, in terms of debt outstanding, you can sort of do your own comparison by looking at some of these. But part of the flaw of that analysis was that you don't know what other states are going to do, so if we issue $1 billion but another state ranked below us issues $5 billion, they may leapfrog us. So it's kind of hard to put in perspective -- like, how would we stand?

One thing that's fairly clear in terms of the aggregate tax-supported debt is that it's very difficult to go much higher to supplant New York or California as the most indebted states, because there's $30 billion and $50 billion between us, respectively.

To the extent that that can help you assess where we stand nationally, relative to our neighbors, and how much more we could incur without worsening that position, I think you can obtain that from these statistical tables.

MS. MOLNAR: As a follow-up, it says, "an assessment of our ability to increase the debt." Do you have any feel that if we increased our debt at all, would our bond ratings go down? Do you know where we stand with bond rating agencies?

MR. PETRINO: Our bond ratings are-- At present, two of the three agencies have us with a stable outlook; Moody's has us with a negative outlook at present. Ratings are largely dependent on economics and budgetary nature of the State. Certainly the total outstanding debt and the ability to service the debt is a criteria. But for the rating, they look at how well the State is managing both its budget and the economies in the State as well. So I think--

MS. MOLNAR: Were we downgraded at all, a couple of years ago?

MR. PETRINO: The last downgrade -- no -- was quite a number of years ago.

MS. MOLNAR: So this Aa-2 has been around-- That rating's been on there awhile?

MR. PETRINO: Yes.

MS. MOLNAR: A couple of years -- two, three, four years?

MR. PETRINO: Yes. I have that if you-- The last rating change.

I think the last rating change, actually, was in 2005, when Standard and Poor upgraded us. They had downgraded us without the others, and then upgraded us a year later.

MS. MOLNAR: All right, good.

Any other questions or comments?

Senator.

SENATOR OROHO: Just one thing for clarification. One the issue of student loans -- because I know the things that are included and not included. Like, for example, the Turnpike Authority -- we don't include because there are separate revenues that cover that.

MR. PETRINO: They are secured solely by the revenues of that Authority -- the toll revenues -- and there's no State allocation, moral, legal, or otherwise.

SENATOR OROHO: So on the issue of the student loans is that, so far, we haven't had to put a penny into that, because there's other revenues that cover that, obviously for the student loan repayments themselves.

MR. PETRINO: Exactly. The only reason it had been mentioned before was that moral obligation clause in the statute that said--

SENATOR OROHO: Of that issue.

MR. PETRINO: Yes.

SENATOR OROHO: But had it been something like the South Jersey Port Authority -- or the Port Corporation -- where we were putting money in, we would have had to make a different decision.

MR. PETRINO: That's absolutely correct.

SENATOR OROHO: Okay; I just wanted--

MR. PETRINO: And to the extent that that ever happens, I would argue that we should include it.

SENATOR OROHO: We should include it. To the extent that--

MR. PETRINO: Yes. And with the South Jersey Port Corp. I might add that I put the full amount of the debt service in here, but we have not had to pay the full debt service.

SENATOR OROHO: The full amount.

MR. PETRINO: Yes, it's been a fraction of it -- usually less than half. The debt service-- Yes.

SENATOR OROHO: Okay, we haven't--

MR. PETRINO: It fluctuates from year to year due to the revenues of the Corporation, so it's hard to predict what it will be. So I put the full amount in there, even though we don't actually have to pay that full amount.

SENATOR OROHO: Well, that's a good decision.

MR. PETRINO: So it's conservative.

SENATOR OROHO: Thank you.

MR. PETRINO: You're welcome.

ASSEMBLYMAN WOLFE: Excuse me, Chairwoman.

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN WOLFE: I have to be leaving. I'd like to vote in favor of both the acceptance of this and also the capital projects.

MS. MOLNAR: That's good; thank you.

ASSEMBLYMAN WOLFE: Thank you.

MS. MOLNAR: Mr. Annese, you had a question?

MR. ANNESE: Yes. Earlier in our discussions, I believe it was Senator Sarlo who made reference to an article he read in the *Wall Street Journal* this morning. I, myself, heard the New York broadcast news early this morning on ABC talk about this debt report. And judging by the lack of reporters I see in front of me, apparently the media got this before we did, and this is the first time that's happened. Do you have any comment about that -- how or why? What's going on there?

MR. PETRINO: I do not have any thoughts on that.

MR. ANNESE: Okay.

MR. PETRINO: I don't know how that--

MR. ANNESE: Because they're reporting on things that-- Before we had a chance to review and vote on and change or adopt or whatever. Basically, they're commenting on a preliminary report. As extensive as this is, and I want to commend you on all the work that's been done, but we have our own WikiLeaks or whatever you want to call it. (laughter)

MS. MOLNAR: Senator Sarlo mentioned it was in the Journal; so the Journal had it yesterday. For them to put it in today's Journal, I don't understand. I didn't get it until 4 o'clock last night.

MR. PETRINO: Yes, we made some changes to the printed version as late as yesterday morning. So I mean we didn't go final-final until midday yesterday.

MS. MOLNAR: Amazing.

Any other questions or comments? (no response)

Okay -- do I hear a motion to accept the debt report for Fiscal Year 2010?

SENATOR OROHO: So moved.

MR. ANNESE: Second.

MS. MOLNAR: Okay -- any other questions or comments? (no response)

If not, we'll take a vote.

MR. VARI: On the motion to approve the debt report, Senator Sarlo votes in the affirmative.

Senator Oroho.

SENATOR OROHO: Yes.

MR. VARI: Assemblyman Wolfe votes in the affirmative.

MR. VARI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Yes.

MR. VARI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. VARI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, the motion has nine votes in the affirmative, and it carries.

MS. MOLNAR: Perfect.

Thank you for all your help; thank you.

Okay, last but not least, we have our capital projects -- our staff recommendations.

There are only one or two departments that we're recommending monies for.

SENATOR OROHO: Other than specially dedicated funds.

MS. MOLNAR: Yes. So rather than go department by department, are there any questions or comments on any of the recommendations?

SENATOR OROHO: Not me.

MS. MOLNAR: It's kind of a lean year. We'll rely on the legislature to make their appropriations.

Any comments on the capital? (no response)

Okay; do we have a motion to accept the staff's recommendations?

SENATOR OROHO: So moved.

MS. MOLNAR: Second?

MR. ANNESE: Second.

MS. MOLNAR: Okay; we'll take a vote.

MR. VARI: On the motion to approve recommendations for the capital budgets for the departments, Senator Sarlo votes yes.

MR. VARI: On the motion to approve the debt report, Senator Sarlo votes in the affirmative.

Senator Oroho.

SENATOR OROHO: Yes.

MR. VARI: Assemblyman Wolfe was yes.

Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. VARI: Mr. Stridick.

MR. STRIDICK: Yes.

MR. VARI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. VARI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, the motion has nine votes in the affirmative, zero in the negative. The motion is approved.

MS. MOLNAR: Thank you.

Other business: I want to thank Jim Vari and his staff for all their hard work. Tom is retiring and Jim's moving on. They've all done a yeoman's job. They've been very helpful to me and our Commission. (applause) So hopefully we won't be meeting until next year.

Any other business -- other than having a happy holiday and a Merry Christmas and a Happy New Year, is there any other business? (no response)

If not, meeting adjourned.

(MEETING CONCLUDED)