New Jersey Turnpike Authority

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JON S. CORZINE
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KRIS KOLLURI, *Chairman*
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KENNETH B. ROTTER, *Acting Executive Director*

September 4, 2008

Governor Jon S. Corzine
Office of the Governor
P.O. Box 001
Trenton, NJ 08625

Dear Governor Corzine:

As you know, the New Jersey Turnpike Authority cannot certify, as required under its bond covenants, that next year's revenues will be sufficient to meet its debt service obligations. Neither does the Authority have the funds to pay for capital projects that will bring about much needed safety improvements and relieve congestion on its roadways. Therefore, we write to respectfully inform you that the Board intends, pursuant to its statutory authority, to propose a toll increase to meet its debt service obligations and pay for the Authority's capital needs.

We intend to propose for public consideration an increase of tolls on the Turnpike by an average of 60 cents per passenger car in 2009, an additional 90 cents in 2012 and an additional 30 cents in 2023. Under this proposal, Parkway drivers would pay an average of 15 cents more in 2009, an additional 25 cents in 2012 and an additional eight cents in 2023. Trucks on both the roadways will see a roughly proportional increase.

As you know, the New Jersey Turnpike Authority has provided the highest quality transportation to its patrons for over 50 years. The Turnpike is a critical mode in the movement of goods, connecting the ports of Newark and Elizabeth to major commercial distribution centers from Boston to Washington, D.C. In order to continue to provide the motoring public with a high level of service, we must undertake a number of significant projects to enhance safety and relieve congestion. Chief among these projects are a bridge repair and replacement program, the widening of the Turnpike between Interchanges 6 and 9, and the widening of the Garden State Parkway from milepost 30 to 80. Another important project is a $1.25 billion investment in the mass transit tunnel known as the ARC project, which is critical to relieving congestion on the Turnpike. These projects, which have long been planned and promised, are critical to the safety and efficiency of New Jersey's two major arterial roadways.

Although the ARC mass transit tunnel is not specifically included in the Turnpike Authority's Capital Program, mass transit capacity between New York and New Jersey is now virtually exhausted. The tunnel would double the number of NJ Transit rush-hour trains into and out of New York, providing commuters an alternative to short distance trips on the Turnpike's Western and Eastern Spurs and other highly congested areas. This could preserve capacity for commercial and interstate traffic, and prevent the need for the expansion, at tremendous economic and environmental cost, of this section of the Turnpike.

As members of the Board, we are committed to fulfilling our fiduciary obligations to the public. While all of the bridge projects and the widening projects are imperative, the Authority currently cannot pay for even one of these projects. Credit market fluctuation and softening revenues on the two toll roads have put financial pressure on the Authority's operating budget and capital program. Earlier this spring, the Board was forced to authorize the issuance of a one year, $150 million note in order to complete several important projects that were already in progress.

As the Authority approaches its next fiscal year, by December 1st it must affirmatively certify its ability to meet debt coverage ratios memorialized in its existing bond covenants. This year the Authority will be unable to issue this certification. Under Section 713 of the Authority's General Bond Resolution, the Authority's inability to certify the adequacy of its projected 2009 revenues to meet its debt coverage obligation will automatically trigger a process by which the Authority's Traffic Engineer will be automatically engaged to fix a toll schedule to satisfy the revenue shortfall. The Trustee, as the representative of the bondholders, will monitor the Authority's activities to ensure compliance with Section 713. If the Authority fails to act in accordance with Section 713, the Trustee will act to ensure the requirements of the General Bond Resolution are met.

Such extreme action, even if taken, will not pay for any of the Authority's capital needs. In other words, the Capital Program will come to a grinding halt, creating serious concerns for bridge safety and congestion hazards. As fiduciaries of this Authority, we must prevent this scenario from ever occurring. We consider it our responsibility to the public to act affirmatively to meet our bond covenant obligations and pay for much-needed safety and congestion relief projects.

We believe increasing tolls, even minimally, is an action of last resort, not one of first choice. The Board has not exercised its authority to increase tolls since 2000 on the Turnpike and since 1989 on the Parkway, which was the only toll increase in the entire history of that highway. Although the Board remains reluctant to burden motorists with a toll increase in this time of escalating fuel prices, the needs of these roadways, and the costs of meeting those needs, have increased exponentially since the previous toll increases. We can no longer afford to defer taking action.

Over the last several years, we have made tremendous strides to reduce the Authority's operating costs, starting with the consolidation of the Turnpike and Parkway in 2003. Since the consolidation, we have eliminated 403 positions, reducing our workforce from 2,768 to 2,365. The annualized savings this year for these eliminated positions is estimated to be $30.1 million, with a total estimated savings since 2004 of $87.195 million. Budgeted overtime decreased by nearly 20 percent since 2006, and for the next two years the Board has mandated a 5% reduction in overtime. We have also reduced the number of Authority-owned vehicles by 117, saving approximately $580,000. Finally, we have eliminated Authority-sponsored E-ZPass for past, current and future Board members.

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The toll increase that we intend to propose is necessary to address the Authority's substantial capital needs. Ultimately, our goal is to maintain the safety and efficiency of the Turnpike and Parkway. This revenue-raising proposal would enable the Authority to meet that objective. We look forward to discussing this proposal with you and the public.

Thank you for your time and consideration.

Sincerely,

Kris Kolluri,
Chairman/NJDOT Commissioner

Michael R. DuPont,
Treasurer

Raymond M. Pocino,
Commissioner

Clive S. Cummis,
Commissioner

David G. Evans,
Commissioner

Harold L. Hodes,
Commissioner