SAVE.OUR.STATE.

FINANCIAL RESTRUCTURING AND DEBT REDUCTION

Frequently Asked Town Hall Questions

Why not manage the pension fund better?

The pension fund is, in fact, being managed better. The rate of return on our investment in 2006 was almost 10% and last fiscal year went all the way up to 17%. We avoided any involvement in the sub-prime credit disaster on Wall Street. We have worked hard to de-politicize the investment process and focused on diversification to minimize our risk and maximize our return.

The fundamental problem is that we are playing catch-up from 10 years of expanding benefits and failing to make cash contributions to pensions. As a result, we have to catch up to $25 billion of avoided responsibility. This number is not a creation of this Administration, it is calculated for the pension boards by outside, independent actuaries using industry standard assumptions.

The changes and cuts we've made to benefits for future employees through the most recent union contract negotiations will also help in the long-term, but those changes do not help pay for the benefits already promised people for past service.

Why not tax bonds, stocks and other intangibles instead of raising the tolls?

We do tax these things, with the exception of tax-exempt bonds, which are used to finance public activity. Investment earnings from stocks and bonds are taxed through our state income tax. We came to this financial restructuring and debt reduction proposal because we share the public’s concern about our already high levels of income and sales tax. We worry that soon our taxes will be so high that they’ll discourage people from living in New Jersey and businesses from expanding and adding jobs in New Jersey.

Why create an entirely new entity when you already have the Turnpike Authority?

The Public Benefit Corporation is necessary in order for the State to maximize the value of our toll roads. The creation of a non-profit, independent PBC will allow for essential structural differences that will increase investor confidence in the model and allow the

State to maximize value in its toll roads. By removing political control over the defined, predictable toll schedule, we increase investor confidence that political influence cannot enter the process.

Unlike State authorities like the Turnpike Authority, there will be no gubernatorial veto of the minutes of the non-profit, independent PBC, thus allowing for the steady revenue stream to pay off the PBC's debt to remain uninterrupted by any change in the political landscape. Further, the Concession Agreement (which is a legally binding contract) signed between the State authority that will own the toll roads and the PBC will ensure that core issues like safety, maintenance and operating standards, reinvestment in the toll roads and compliance with the previously agreed upon defined, predictable toll schedule are adhered to at the risk of significant financial penalties.

The creation of a non-profit company independent of the political process will allow the State to maximize its toll road revenue with the goal of paying off half the State's debt and providing for transportation infrastructure investment for the next 75 years. Within this structure, the State takes on no debt and has zero legal or moral obligation to pay for any debt incurred.

Instead of solely raising the tolls, why not solve the problem through a combination of raising the tolls and raising the gas tax?

The prospect of raising tolls on the Parkway, Turnpike, AC Expressway and Route 440 is not something we embrace happily. The fact is that whether this problem is solved now or kicked down the road the same way it has been for years, it will have to be solved. The difference between now and the past is that the State's debt is spiraling out of control, taking with it the State's ability to fund anything beyond its basic obligations.

Unlocking the toll road value will allow us to cut the State's debt in half and pay for transportation infrastructure investment for 75 years. Currently, over one half of the Turnpike's revenue comes from out of state drivers, and over thirty percent of riders on the Parkway and AC Expressway are from out of state.

Regarding the gas tax, if we were to raise it significantly, for example, by 30 cents, such an increase - which would be nearly a 300 percent increase over the current tax of 10.5 cents – would generate approximately $1.5 billion, which would be enough revenue to temporarily renew the Transportation Trust Fund. This step would in no way approach the restructuring goal of paying down the State debt, including approximately $9 billion in outstanding TTF debt, and this option would not address the significant deferred investment in the toll roads, nor provide funding for the long promised widenings of the Turnpike and Parkway.

Toll revenues (both today and under the PBC structure) are first used to pay operations of the roads, debt service on bonds, and capital investment on the roads. In the State authority structure that we utilize to run the toll roads today, there is precious little funding available for capital investment in the roads, except for the limited circumstances in which a toll increase has been put in place. A significant portion of the toll increases anticipated by the PBC will be to provide for capital investment in the toll roads themselves and then, subsequently, to payments to a State authority (the authority that enters into the concession agreement with PBC) which will then, pursuant to the authorizing legislation, invest the funds in statewide transportation projects through the TTFA.

When considering any increase in the gas tax, one has to take into account the fact that Washington is contemplating a 40 cent increase in the Federal gas tax over the next five years, from 18.4 cents to 58.4 cents. For a driver with a 14 gallon gas tank, the federal increase would mean an extra $5.60 every time they filled up.

The previously discussed 30 cent increase, when combined with a 40 cent Federal increase, would mean that the driver with a 14 gallon tank would pay nearly $10 more every time they filled up. If you filled up your car twice per week, that would mean an extra $1000 per year. And that same driver would not see a fraction of the benefit that they would otherwise see through the Governor's financial restructuring and debt reduction initiative, which includes billions of dollars of capital reinvestment in New Jersey's transportation infrastructure.

<u>Why not cut pensions and impose buy-out packages?</u>

Vested pension benefits of public employees are protected against reduction by the federal and State constitutions. Operating within these legal constraints, this Administration still has made important changes in employee benefits and reduced our employee headcount. For the first time in 20 years we've taken real steps to control benefits for state workers and not added to them. This Administration has cut our net headcount by 2000. This number includes the almost 1,000 positions for homeland security and child welfare, so we've actually had to cut the existing workforce by 3,000.

The pension reforms enacted last year will impact new employees and thus have out year benefits. In addition, the one-half percent increase in employee pension contributions enacted last year provides immediate benefit. This Administration, in the most recent rounds of contract negotiations, made great progress, enacting a defined contribution system for high income workers, requiring a health care contribution of 1.5 % for all State workers, and raising the retirement age to 60. Long term, these items and others achieved in the most recent contracts will save the State:

- Defined Contribution - $158.5 million by 2022
- Retirement Age - $77.3 million per year by 2022

- Increased Pension Contribution - $103.9 million in FY 08 and $239.7 million per year by 2022
- Healthcare Contribution - $60 million per year beginning FY 08
- Health Plan Changes - $30 million per year beginning FY 08

<u>What guarantees exist that other Governors and Legislatures won't tamper with future budgets and savings?</u>

Our financial restructuring and debt reduction plan includes important safeguards to protect future generations. The initial, one-time payment from the PBC which will be used to pay down debt only happens once and will only be used to pay down State debt and extend the life of the Transportation Trust Fund. The initial one-time cannot be misused by future political officials because the payment happens only once.

The plan also includes a safeguard designed to prevent a recurrence of the mistakes of the past that have led to the accumulation of $32 billion in bonded debt, nearly all of it without voter approval. The Governor supports a constitutional amendment so that any future State debt issuance that is not paid from a dedicated revenue source requires voter approval.

There also are protections regarding the payments that will flow from the PBC in the future. Any payments from the PBC in the future will only be used to help meet the State’s transportation needs, and this will be specified in the concession agreement between the State authority that will own the toll roads and the PBC and pursuant to the authorizing legislation. The funds from the future payments will be invested in projects identified in the State’s transportation capital plan.

The Governor’s plan also includes an important protection that will prevent the practice that was used over many years of using one-shot revenues to fund recurring expenses in the State budget. The Governor will seek legislation to ensure that the rate of growth in the State budget in the future (after the flat budget the Governor will propose in February) is limited to the rate of growth in our recurring revenues. If we can’t use tricks and gimmicks to spend more than we bring in, we’ll stop the history of spiraling spending with no way to pay for it other than borrowing against the future.

<u>How is this different than the privatization of the MVC?</u>

Under the structure we are proposing no party can profit at the expense of the citizens of New Jersey. That’s why this new independent, non-profit company is called a Public Benefit Corporation. One of our most important innovations in this structure is the creation of a PBC. This means no outside investor or anyone on Wall Street will make a profit from owning or successfully operating our toll roads.

The toll roads will still be owned by the State of New Jersey. The PBC will act for the public benefit and will operate the roads with the same standards of safety, repair, maintenance, capital investment and environmental compliance. The big difference is that it will have a professional, non-political, board of directors and management that will be kept separate from undue political influence.

Through a concession agreement the State will set the standards for the way the roads are run. This includes not only operating standards, but also other conditions we care about such as guaranteeing open, competitive bidding processes, ensuring fair treatment of employees, and public access to information.

How will finances of the PBC be structured? Will there be a balloon payment? What about the salaries and pensions of the PBC employees…i.e., who will be responsible for covering those costs?

The PBC will operate its business in accordance with sound business principles. The debt that it issues to fund the initial payment under the concession agreement will be structured consistent with the standards in the relevant market in which the debt is being issued. So, tax exempt municipal bonds may be structured to mature in 40 years with principal amortized over the course of the bonds' term. Bank loans may be structured with principal amortization and refinanceable maturities. Regardless of which market the debt is issued in, all principal on the PBC's debt will be amortized prior to the final termination date of the PBC concession agreement.

Compensation of PBC employees will be an operating expense of the PBC and will be determined in accordance with the terms of the labor agreements with the unions representing the employees.

As to the pension benefits of the employees who will move from being employees of the toll road authorities to being PBC employees, our goal is to enable those who are members of the Public Employee Retirement System (PERS) today to remain in PERS. They will retain the benefits that accrued to them in PERS. Once these employees work for the PBC, PBC will be responsible for the costs of their pension benefits going forward. The State will file a request with the U.S. Department of Labor seeking approval for these employees to remain in PERS. However, as the PBC is a non-governmental employer, these employees can only remain in PERS if approved by the U.S. Department of Labor. If this approval is not received, then a pension plan providing similar benefits will be put in place.

Why not just cut spending?

New Jersey's budget has a structural shortfall, meaning that recurring, mandatory expenses are growing at a faster rate than the recurring revenues needed to sustain balance in the budget from one fiscal year to the next. More specifically, expenses are growing as a whole by an annual average of 6 to 7 percent, while revenues are growing by an annual average of 3 to 4 percent.

To achieve the Governor's goal for restructuring, it is already assumed that New Jersey must "freeze" overall State spending from FY 2008 to FY 2009. To accomplish this "freeze," approximately $2 billion to $2.5 billion in spending cuts and restraints are required to close the gap with the amount of recurring revenue growth available to the State budget.

While $2 billion to $2.5 billion in cuts may appear small in comparison to a State budget of $33.4 billion, it is easy, but ill-advised, to oversimplify the challenge.

Approximately three quarters of all budget spending goes back to New Jersey citizens in the form of grants and State aid. This portion of the budget funds property tax relief, health care and prescription assistance to the needy, grants to the developmentally disabled, aid to education, and many other critical functions of government. The remaining one-quarter supports the operations of State government, including a workforce that includes State Police, prison guards, institutional nurses and the providers of other key services designed to preserve the safety, health and well-being of the people of the State. It also provides funding to meet contractual, legal and constitutional obligations to public employees and retirees, as well as required payments to investors who have purchased New Jersey's bonds.

Ultimately, the choices we are faced with to meet the goal of $2 billion to $2.5 billion in cuts are daunting and dire. Due to the limited flexibility in budgetary areas that we cannot cut due to contractual, constitutional and legal requirements, the choices include major reductions to the operations of government and/or significant cuts in the grants and State aid programs that many residents deem as necessities.

It is against this backdrop that the debate would begin on <u>additional</u> cuts to <u>recurring</u> expenses to align revenues with expenditures so that New Jersey can break the cycle of budgetary shortfalls.

<u>Why do you say that debt taken on by the PBC isn’t State debt?</u>

The PBC will be an independent, non-profit corporation with an independent board of directors and management. The concession agreement will define the terms and conditions associated with the PBC collecting tolls and operating, maintaining, investing in and improving the roads, as well as the terms under which the PBC is required to make an initial payment to the State and subsequent payments. Any debt issued by the PBC will be debt of the PBC, and the bondholders’ only recourse is against the revenues collected by the PBC. Neither the State, nor its taxpayers, has any legal or moral obligation for the debt issued by the PBC, and this will be spelled out in the enabling legislation.

How do you lock in funds just for transportation improvements and debt reduction?

Initial proceeds can only be used for the specified purposes of paying down debt and funding transportation capital needs. As to future payments from the PBC, the authorizing legislation will direct the State authority that receives those payments to expend them exclusively for transportation investment purposes.

The Public Benefit Corporation will sell bonds in order to obtain the projected $32 - $38 billion infusion of monies. Who or what provides the guarantee of repayment in the event of a shortfall?

The PBC will be required to maintain reserves to ensure that the bonds are paid if there is a shortfall in toll revenue. There is no guarantee from the State or the taxpayers to repay the PBC's bonds. The State of New Jersey, and the taxpayers, will have neither a moral nor a legal obligation for repayment.

What strategies are being contemplated to deal with potential increase in truck traffic on secondary roads?

While we understand that diversion will occur, toll increases have not historically diverted traffic from the New Jersey Turnpike to "free" roads. Although traffic volume initially decreased after two previous toll increases, it increased in the following years, leading to overall traffic volume growth of over 66 million vehicles over the past twenty years.

In addition, the Governor's debt reduction and financial restructuring plan will mitigate potential diversion by providing over 19 billion dollars to improve state, interstate, county and municipal roadways.

Moreover, the State of New Jersey's truck access regulations, which went into effect January 22nd, will prevent diversion of trucks from toll roads to non-tolled roads. These rules require all large trucks, unless they are making a delivery, to remain on the National Network, which consists of the interstates, the Atlantic City Expressway, the New Jersey Turnpike and parts of some state highways. All trips off of the National Network must follow the most direct route.

New Jersey will strictly enforce its truck rules. For example, NJDOT recently built a new weigh station on Route 78 and has invested in weigh-in-motion technology. NJDOT also provides grants to support local law enforcement and has committed to fund local truck inspection sites. In addition, over 150 State Police randomly inspect large trucks throughout the state.