

Discussion Points

1. *The Governor's budget incorporates an estimated \$5.183 billion over two fiscal years in federal stimulus funding provided by the American Recovery and Reinvestment Act (ARRA) of 2009. According to a table on page 42 of the Governor's abbreviated budget, the State will use \$3.074 billion (\$854 million in FY09 and \$2.220 billion in FY10) from ARRA for budget relief. In addition to these funds which will offset revenue shortfalls, \$2.109 billion will be used for new or expanded programs or initiatives. The ARRA allocates funds to states both by formula and by competitive awards. Most executive departments anticipate stimulus funding in either FY 2009, FY 2010 or both.*

Question: Please itemize the federal stimulus funding, if any, other than portions of the \$3.074 billion allocated for budget relief, included in the department's budget, by fiscal year and federal program, setting forth program goals and eligible uses together with the amount for state administrative expenses and the amount for allocation to local public and private recipients, respectively. Please identify intended and actual recipients and the process by which the department determines recipients and funding awards.

NJDOT

NJDOT will receive \$651.7 million in funding from the Highway Infrastructure Program of the American Recovery and Reinvestment Act. The funding will support infrastructure projects; such as: roadway resurfacing and bridge repairs, through competitively bid contracts.

The breakdown for this total is as follows:

- \$468.0 million to NJDOT for State Highway projects.
- \$164.2 million to the state's three Metropolitan Planning Organizations (MPOs) for transportation projects on the local highway system.
- \$19.5 million for Transportation Enhancement projects. (These are projects that are administered by NJDOT in conjunction with local entities, and are primarily projects to provide streetscape improvements, restoration of historical transportation facilities, and recreational improvements geared toward bicyclists and pedestrians.

The types of jobs created are construction, engineering, manufacturing, and fabricating. The complete list of NJDOT ARRA projects can be found at:

<http://www.nj.gov/recovery/infrastructure/NJDOT%20ARRA%20Project%20List.pdf>

NJ TRANSIT

Federal stimulus funding is enabling NJ TRANSIT to accelerate more than a dozen key capital projects that will create and preserve jobs. NJ TRANSIT is investing more than \$424 million provided by the American Recovery and Reinvestment Act (ARRA) in transit projects that will build system capacity, extend accessibility and ensure service reliability for decades to come. Major investments include the long-awaited River LINE/Atlantic City Rail Line transfer station; River LINE frequency and safety improvements; minibuses that serve riders in rural areas and people with disabilities; station and parking rehabilitation projects; track

Discussion Points (Cont'd)

and bridge repairs; major equipment overhauls; and a \$130 million investment in the Mass Transit Tunnel project. All projects will get underway this spring and summer. Construction will begin in 2009 and early 2010. Investments in all three of NJ TRANSIT travel modes – commuter rail, light rail and bus – are included in the geographically balanced package of projects being advanced with Stimulus funding. Additionally, all projects were subject to the approval of three regional oversight committees, called Metropolitan Planning Organizations, which guide the federal transportation expenditures. These projects will complement an array of capital projects already underway throughout the region and will create and preserve jobs as well as leave significant and lasting assets to future generations.

Question: Are there ARRA funds that flow through the Department of Transportation for which the State has no discretion?

There is a total of \$164 million that will be allocated by New Jersey three Metropolitan Planning Organizations (MPO) for dispersal to county and municipal governments. The state's three MPOs are: The North Jersey Transportation Planning Authority, the Delaware Valley Regional Planning Commission, and the South Jersey Transportation Planning Organization. Together, all three MPOs cover all of New Jersey's 21 counties. (The DVPRC also covers a portion of Pennsylvania in the Philadelphia metropolitan region.)

Question: Please also set forth the timetable for obtaining federal approval of funding, obligation and allocation of funding to recipients, and use by recipients. Could any of this funding be used to offset other State appropriations, and if so, what programs and in what amount?

NJDOT

NJDOT began developing a list of transportation projects to be funded by the federal economic stimulus package in the fall of 2008 at Governor Corzine's directive to accelerate transportation projects. NJDOT examined its entire 10-Year Capital Program to identify projects that could be accelerated and become candidates for stimulus funding. Ultimately, NJDOT selected projects that it could deliver to the public as quickly as possible.

As details about the federal economic stimulus were revealed, NJDOT assumed that we would be required to authorize projects within 180 days. NJDOT initially selected \$1.4 billion in highway and bridge projects based upon our ability to meet the following guidelines within 180 days:

- Advance projects with minimal community impacts, Right of Way (ROW) acquisition, and permit requirements.
- Complete environmental document approvals.
- Streamline NJDOT's internal review process and making project delivery as cost-effective and efficient as possible.
- Identify projects located throughout the state.
- Identify construction as well as critical design and ROW initiatives so that future construction projects can be ready for delivery sooner than planned.

Discussion Points (Cont'd)

Ultimately, the stimulus package required federal authorization of 50 percent of the allotted funding within 120 days of appropriation. Many of the projects in NJDOT's initial, \$1.4 billion pool could not be authorized within the 120-day timeframe. This required us to develop a program that would best meet the goals presented and put New Jersey in the best position to receive additional funding in the case that such funds are available through redistribution.

As a result of the parameters in the Act, NJDOT's ability to deliver projects quickly became the defining factor in project selection, in addition to application of sound engineering principles and extensive use of data generated by the Department's infrastructure management systems (bridge, pavement, and drainage) to guide our project selection.

NJDOT subsequently used the guidelines listed above to identify projects that can be fully authorized within 120 days. We determined that we can use stimulus funding to authorize 40 projects that are located throughout New Jersey and valued at \$468.0 million.

Selected projects include high cost movable bridge replacements, bridge deck replacements and rehabilitations, bridge deck and beam replacement, bridge painting, roadway reconstruction, resurfacing, drainage improvements, and highway safety improvements. NJDOT will devote its stimulus allotment to acquiring ROW for one project, designing nine projects, and starting construction on 30 projects. In addition, NJDOT identified additional shovel-ready projects and is prepared to obligate any additional stimulus funds that may become available from lower bids than anticipated or redirected to New Jersey through redistribution from other states. The projects represent an opportunity to improve New Jersey's infrastructure based upon the need for each project and the specified timelines of the stimulus legislation.

All ARRA funds have been programmed in the Statewide Transportation Improvement Program (STIP) in accordance with federal requirements. All ARRA funds have been allocated to projects with the exception of the \$19.5 million in Transportation Enhancement (TE) funds. NJDOT will consider TE projects from previous Local Aid solicitations that can be authorized for construction within the established one-year timeframe. In addition, through the current Transportation Enhancement solicitation, NJDOT plans to identify additional projects that can be ready for authorization within the one-year timeframe.

For the State Highway and Transportation Enhancement allocation, 50% of the combined total must be obligated within 120 days or the unobligated balance will be subject to redistribution to other states. The remainder of funds must be obligated within one year. As of April 21, 2009 the Department has already obligated more than \$279 million of its allotment of ARRA funds for state highway funding meeting the 50% obligation requirement of the Act already.

The \$164 million allocation for the local projects via the three Metropolitan Planning Organizations (MPO's) does not have a 50% obligation requirement. The funds allocated to the MPO's must be obligated within one year or the balance will be subject to redistribution to other states.

Discussion Points (Cont'd)

None of the funding can be used to offset other State appropriations. The State must maintain its expenditure of State transportation funds and New Jersey was required to certify same to the Federal government.

NJ TRANSIT

The NJ TRANSIT investment plan complies with the strict federal requirements for stimulus funds and follows Governor Corzine's direction to create and preserve jobs while also benefitting transit riders statewide. More than a dozen NJ TRANSIT projects meet strict federal guidelines that aim to ensure the swift expenditure of funds New Jersey receives for ARRA funding, committee members were told. Under the guidelines, NJ TRANSIT must obligate at least 50 percent of the apportioned funds within 180 days. As a result, only projects that have already received federal environmental approvals or that are exempt from that process are being accelerated.

Additionally, all projects are subject to the approval of three regional oversight committees, called Metropolitan Planning Organizations, which guide the federal transportation expenditures.

The North Jersey Transportation Planning Authority approved \$342 million in stimulus-funded projects while the South Jersey Transportation Planning Organization and Delaware Valley Regional Planning Commission approved a combined total of \$82 million in ARRA-funded projects.

Question: What additional positions, if any, have been and will be hired with these funds? If this money is being used for new or expanded activities, will the new or expanded activities be continued in FY 2011? If so, how will they be funded?

None have been hired, nor are there currently any plans to hire new positions.

Question: If this money is being used for new or expanded activities, will the new or expanded activities be continued in FY 2011? If so, how will they be funded?

There are no new or expanded activities that would need funding in 2011.

2. a. Over the past several years, the overall staffing level in the executive branch has been reduced through restrictions on hiring. The FY 2010 budget proposal envisions continuation of the hiring restrictions, coupled with possible furloughs or further reductions in positions.

Question: How have hiring restrictions affected staffing in the Department of Transportation? What strategies has the department employed to deal with these staff reductions? What projects, work products or functions has the department discontinued or deferred because of "frozen" staffing levels? Will the department be able to accommodate furloughs in FY 2010 without increasing spending for overtime?

Discussion Points (Cont'd)

NJDOT

The Department's FY 2010 FTE target of 3,443 will allow NJDOT to deliver the planned \$2.2 billion state and federal capital program and continue to provide a basic road maintenance and winter operations program. The Department has lost staff from the Early Retirement Incentive and through a continued hiring freeze. Strategies deployed to address the loss of staff include the redeployment of in-house staff to high value functions while outsourcing other functions, improved work processes, increased use of technology, and adjusting service standards for lower priority work. Specific examples are as follows:

Road and Bridge Design. NJDOT has increased the amount of design performed by in-house staff by redeploying staff from other functions and streamlining work processes. By policy the Department has been redeploying in-house staff to work directly on the design of roadway and bridges. Over the last five years the amount of in-house road and bridge design has increased from approximately 5% of the capital program to over 35 % of the program while staffing levels continue to decrease.

Road and Bridge Maintenance. The statewide complement of DOT employees, volunteers from other state agencies, and contractors is now below what is needed to maintain past standards for winter operations. To respond to this situation but still keep the roads open and safe during a storm, the Department has adjusted its standards for responding to a snow event. We are no longer able to adhere to a 90 minute spread cycle time for salt and abrasives. And we are no longer adhering to a 100 percent black pavement policy for plowing. A small amount of snow accumulation with an unfrozen base is sustainable for road travel. Other work activities such as: drain cleaning, tree trimming, and graffiti removal are performed as needed as opposed to on a scheduled basis. Operations developed the GEMZ (Grassland Eco-Mow Zone) mowing reduction program. GEMZ reduces the acres of grass mowed each fiscal year, thus freeing up labor resources to perform previously deferred activities. The result was successful at reducing the time and cost spent mowing grass. Those resources freed up by GEMZ were shifted to other activities some of which are mentioned above. The impact of the ERI program and the promotional freeze has had the biggest impact in the South Region. As a result, a number of South Region crews have been consolidated from 26 crews to 21 crews. The Department's Budget Message target of 1,723 employees within Maintenance and Operations will enable the Department to maintain current service levels.

Construction Inspection. The Division of Construction and Materials administers the highway construction contracts program. Federal regulation mandate that the State Transportation Department provide adequate supervision and inspection of federal projects to ensure work is in conformance with the Contract. The Division of Construction and Materials has been losing staff for a number of years. At the same time, projects have become more complex and have required a greater percentage of work to be performed outside normal business hours. Larger projects often demand more aggressive construction schedules which require multiple shifts. The Department is using consultant Resident Engineers on an increasing number of projects in order to support the Capital Program.

Discussion Points (Cont'd)

Bridge Inspection. Likewise, the Federal National Bridge Inspection Standards (NBIS) require that all bridges be inspected every two years and that necessary repairs are made to keep them in a safe condition. The NJDOT has historically met the requirements of the NBIS by using a combination of State and Consultant staff to perform the required bridge safety inspections. In recent years, however, the percentage of the 2,450 State-owned bridges inspected by in-house staff has been reduced from the historic norm of approximately 70 percent to 45 percent due to attrition of staff and the addition of the inspection of culverts (NJDOT & County Municipal), sign structures, high mast pole lights, and dams to the workload of the Structural Evaluation Unit.

Local Aid Administration. Technology has also been used to deal with reductions in staff. An integrated web-based grant management system, SAGE, was implemented in November 2007. The SAGE system streamlined and expedited all aspects of awarding federal and state transportation grants to local agencies. SAGE replaced an outmoded and labor intensive paper based system.

Auditing of Consultant Contracts. FHWA requires that the Department maintain administrative staff adequate to support the federal program. Our federal reimbursement program is eligible to the extent that we can demonstrate to FHWA that our Department has adequate internal controls in place to not only support our engineering services but also our billings in conformity with all applicable federal regulations. Due to staffing shortages, the Department's ability to address the FHWA compliance issues is hindered. In order to address this compliance issue, a new self-audit process was established to assist in addressing the backlog of unaudited costs for 351 firms. The Department's Budget Message target of 292 employees within Management and Administration will provide the opportunity to increase the auditing staff by three FTE and, thereby, address FHWA compliance issues.

The Department anticipates being able to accommodate furloughs in FY 2010 without increasing spending for overtime.

NJ TRANSIT

Over the past two years NJ TRANSIT has reduced its administrative operating funded workforce from 1,104 to 864, or 22%, through a combination of an early retirement program, managed attrition and restructuring of work activities. We have also eliminated certain marketing initiatives, training efforts, and market research as well as streamlining customer service. To allow core functions to be met, NJ TRANSIT has been maximizing the use of technology. For example, our customers are now getting their information from our website, thereby allowing cut backs on call-center hours. This effort also entailed redeploying staff from low call volume hours to higher volume periods. Also, in the coming year, we will be reducing the number of timetables we print since many customers get their information from the web. We have, and will continue to make these changes without adversely impacting riders.

Unlike most other State agencies, NJ TRANSIT is a 24/7 operation that provides bus and rail service throughout the State and is responsible for insuring the safety of its customers.

Discussion Points (Cont'd)

The ongoing fiscal austerity has mandated that NJ TRANSIT strategically manage service growth and reengineer administrative tasks to allow core requirements to be met. For example, in fiscal 2009, NJ TRANSIT achieved no net service growth by tactically redeploying existing equipment and personnel. This was accomplished by adjusting service frequencies and route patterns to serve the greatest number of customers, while continuing to protect most destinations for the transit dependent.

Given the financial challenges in fiscal 2010, new service growth will be extremely limited. In fact, only two new services will be added – the Meadowlands rail link service to the new sports complex, and the addition of special express bus service in Newark on the Liberty Corridor.

Regarding the impact of furloughs, with the challenge of a 24/7 operation, furloughs will be limited to non-service related non-agreement administrative staff on a rolling basis and will be accomplished without overtime.

2. b. Legislation enacted in June 2008 (P.L.2008, c.21) established an early retirement incentive program under the Public Employees' Retirement System for eligible employees in most agencies of the Executive Branch of State government, including the Department of Transportation (DOT). An employee wishing to receive benefits under the program had to retire by August 1, 2008, although an extension until July 2009 was permitted if authorized by the employee's department. According to the September 15, 2008 report by the Director of the Division of Pensions to the Joint Budget Oversight Committee, of DOT's 399 eligible employees, 164 (41 percent) applied for retirement under the program; virtually all of those retirements took effect last August 1. These retirements included about 70 employees engaged in capital program management and almost 60 employees with responsibility for operations. The legislation included an "anti-backfill" provision limiting the number of new employees hired by all Executive agencies to fill vacancies created by retirements under the incentive program to 10 percent of the number of "incentive" retirements. At a meeting of the Assembly Transportation, Public Works and Independent Authorities Committee on March 12, 2009, the Commissioner testified that the Department "anticipated no new hires" at the present time.

Question: What amount of salary and fringe benefit costs does the department expect to save in FY2010 through net reduction in staffing due to retirements under the retirement incentive program? How many of the positions vacated by these retirements have been eliminated (de-authorized)? Since August 1, 2008, how many have been filled through promotions and personnel transfers within the department, and how many have been filled through new hires? To what extent has the department reshaped its priorities in developing the 2010 transportation capital program in response to a net reduction of workforce resulting from the program?

A total of 164 NJ DOT employees retired under the ERI Program. The salaries of 47 of the 164 ERI program retirees impacted the General Fund. The salaries of these 47 retirees totaled \$2.528 million. Fringe benefit amount based on total salaries of \$2.528 million is \$838,032. Fringe benefits for the majority of these employees are paid from the State's Interdepartmental Accounts. The salaries of the remaining 117 ERI program retirees were

Discussion Points (Cont'd)

funded through salary charges to the Federal and Transportation Trust Fund for capital projects.

The 164 positions vacated by the ERI program retirees have not been eliminated (de-authorized). These positions have been "frozen" and therefore cannot be filled.

The Department has not reshaped its priorities in developing the 2010 transportation capital program in response to a reduction of the workforce resulting from the ERI program. The Department is maintaining a \$1.6 billion Capital Program in FY 2010--maintaining NJ's investment of over \$600 million for bridges and continuing investments in safety, roads and congestion. In order to maintain the size of the Capital Program the Department has looked for efficiencies in work processes, increased use of technology, redeployment of staff, and where necessary using contract forces to supplement in-house staff.

2. c. In his March 12 testimony, the Commissioner indicated that engineering work in connection with the capital program would be performed "in house."

Question: In view of both the constraints on the department's FY2010 budget and the "no-new-hires" policy, how does the department plan to ensure that engineering staff resources are sufficient to execute the tasks associated with developing and implementing the capital program?

In his March 12 testimony, Commissioner Dilts indicated that he would attempt to use in-house forces wherever possible to deliver the FY 2010 Capital Program. It would never be possible to deliver the entire program with in-house staff. In order to maintain the existing level of in-house design work, it will be necessary maximize the percentage of NJDOT staff assigned to "developing and implementing" the Capital Program. We have done many things to maximize efficiency to date; including restructuring of units with the Capital Program Management units and the adoption of new procedures/processes to increase efficiency. Current staffing levels already approach the minimum necessary to be productive. Any additional loss of staff resources would necessitate the reassignment of staff to units directly connected to program delivery (from those not) where possible as a means to maintain something close to current staffing levels. All non-essential work performed from the areas losing staff would have to be eliminated, and essential work that could not be handled by the remaining staff would have to be "farmed out" to the extent necessary.

3. The FY 2009 appropriations act anticipated that \$25 million in procurement savings would be achieved by executive departments. A chart on page 75 of the Budget in Brief categorizes those savings and indicates they will continue into FY 2010. The FY 2010 budget includes another \$25 million from procurement savings (Budget in Brief, Appendix I, page 8).

Question: Please indicate the FY 2009 amount of procurement savings achieved by the Department of Transportation, by the categories set forth in the referenced table, and the sources of those savings by department program. What is the annual amount of these savings as continued into FY 2010? How have these reductions

Discussion Points (Cont'd)

affected the department? What projects, work products or functions has the department discontinued or deferred in order to achieve these savings?

The Office of Management and Budget will be providing a response to this question on behalf of all agencies.

4. a. *The legislation (P.L.2006, c.3) enacted in March 2006 to reauthorize and revise the financing of the Transportation Trust Fund Authority (TTFA) created the Financial Policy Review Board, allocating the board to the Department of Transportation. The board, for which no funding is explicitly provided under the Executive's FY2010 departmental budget recommendation, is charged (N.J.S.A.27:1B-22.2) with preparing an annual "Statement of Condition of Transportation Financing" certification of the Authority's adherence to certain standards. One of these standards would maintain control, from the level of FY2007, in expenditures of Authority funds on "permitted maintenance," which is defined under the Authority's governing statute as "work necessary for preserving or maintaining the useful life of public transportation [and highway] projects . . . for not less than five years." (N.J.S.A.27:1B-3 r.) The 2006 legislation also directed the Department to report to the Governor and Legislature on the amount of Authority funds that have been expended on permitted maintenance and on the Department's and NJ Transit's salaries and overhead during Fiscal Years 2006 and 2007 (N.J.S.A.27:1B-22.3). In response to an OLS discussion point question in connection with the FY2009 budget, the Department indicated that it does not charge in-house maintenance or operational costs to the Transportation Trust Fund.*

Question: How much was spent from the revenues and other funds of the TTFA on permitted maintenance and on salaries and overhead of the department and the New Jersey Transit Corporation in FY2007 and FY2008? What is the projected expenditure from that source on permitted maintenance in FY2009, and what amount of Authority funds does the department plan to spend on permitted maintenance in FY2010? How does the department anticipate that the costs of the Financial Policy Review Board will be funded? Given that the board appears to have been legally constituted upon the qualification of a third member, which occurred in April 2008, when does the department expect that the board will begin to issue the statutorily prescribed certifications, and what is the initial fiscal year to be covered by those certifications?

Permitted maintenance for NJDOT and NJ TRANSIT totaled \$120.7 million in FY 2007 and \$118.43 million in FY 2008. Salary and overhead costs for NJDOT and NJ TRANSIT totaled \$170.2 million in FY 2007 and \$175.98 million in FY 2008. The amount of permitted maintenance planned for both FY 2009 and FY 2010 is \$115.95 million. The Financial Policy Review Board has not incurred any costs to date and not yet requested any future funding. The first certification for State Fiscal Year 2008 compliance was submitted to the Legislature on March 19, 2009.

4. b. *The TTFA's enabling statute provides that the salaries and overhead of the department and the New Jersey Transit Corporation for the fiscal year beginning July 1, 2006 and each fiscal year thereafter shall not exceed 13 percent of the total funds appropriated from the revenues and other nonfederal funds of the authority for those fiscal years. The FY 2010 budget recommends new language providing that the amounts appropriated from the revenues and other monies of the TTFA for salary and overhead*

Discussion Points (Cont'd)

costs of employees of the department and of New Jersey Transit associated with the construction of capital projects shall not be subject to any percentage limitation.

Budget information attributes department salary savings of \$6.3 million to how Transportation Trust Fund administrative costs will be funded, and also indicates a reduction to New Jersey Transit's operating subsidy of \$20 million to "use of non-State funding sources".

Question: Are each of these budget reductions made possible by the new budget language setting aside the 13 percent limitation on salary and overhead costs? What percentage of TTFA resources will be allocated to those purposes in FY 2010 under the proposed budget? What percentage of the pay-as-you-go component of the FY 2010 TTFA capital plan will salary and overhead costs comprise? Does this represent an appropriately prudent financial outcome, in light of recent reports of higher than anticipated TTFA debt service costs resulting from the Series 2008A bond sale and recently expressed concerns about the TTFA's financial viability in FY 2011, the final year of the current 5-year reauthorization?

NJDOT has been incurring more timesheet charges against Transportation Trust Fund projects than it has billed in recent years. In FY 2010 the Department intends to fully bill all costs incurred on Trust Fund projects and thereby reduce by an estimated \$6.3 million the project costs currently being absorbed by the State General Fund.

NJ TRANSIT's \$20 million reduction in its state operating subsidy is not related to the new budget language which explicitly exempts salary and overhead costs from the 13% cap. The new language identifies those instances where NJ TRANSIT or NJDOT employees are actually constructing the capital improvement. This is commonly referred to as "force account construction". NJ TRANSIT labor agreements require that certain types of rail track work only be performed by NJ TRANSIT employees. We do not believe there was any legislative intent to restrict actual construction performed by NJ TRANSIT and NJDOT employees and this budget language makes that interpretation explicit.

The total amount of salary and overhead costs planned for FY 2010, excluding force account construction, will be \$208 million or exactly 13% of the \$1.6 billion Transportation Trust Fund Capital Program.

Salary and overhead costs incurred by State employees, contractor employees, and consultant employees working on Transportation Trust Fund projects are treated as capital costs and eligible for bond financing. This is standard industry practice for capital project accounting. The NJTTFA does not regard these costs as requiring pay as you go financing and therefore this action does not have any impact on the NJTTFA's ability to finance a full \$1.6 billion capital program in FY 2011.

New Jersey Transit

5. *The NJ Transit proposed operating budget for FY2010 totals \$1.789 billion, an increase of 3.8 percent over the adjusted FY 2009 budget. Farebox revenue is projected to increase 3.6 percent from \$755 million to \$783 million. The last fare increase the agency implemented occurred on June 1, 2007, was implemented over 13 months rather than 12,*

Discussion Points (Cont'd)

and averaged 9.6 percent. FY 2010 budget information indicates that NJ Transit will implement a \$17 million part-year fare increase to help offset the \$62 million reduction to the operating subsidy, and fund increased operating costs.

Question: Why is NJ Transit seeking a fare increase and what specific conditions and factors led to this decision? Please explain if management considered and analyzed other alternative courses of action and what they are.

The proposed FY 2010 NJ TRANSIT Operating Budget does not include a fare increase. Instead, the budget assumes 2 percent ridership growth over FY 2009 projected year-end actuals. While this relies on a slightly optimistic assumption of a rebounding economy, we currently expect to end FY 2009 with an overall one percent ridership growth over FY 2008, and signs indicate that our stimulus program will continue to push that positive trend.

As indicated below, wage freezes, furloughs and other non-service reductions will be implemented before any consideration is given in the future to raising fares.

Question: When is the fare increase expected to take effect, and what is the estimated revenue from bus, rail, light rail, peak and off-peak services? Also, please explain and provide details on the proposed fare increase plan and policy, and provide the proposed rate schedule for all ticket types. What will be the short and long term impact of this increase on ridership, service and farebox revenue?

As indicated above, the FY 2010 Budget does not include a fare increase.

Question: Has management devised a long term strategic plan for the increase or adjustment of fares and revenue requirements? Please explain the planning, strategy and decision making process that management utilizes to evaluate the need for a fare increase.

As a matter of public policy, NJ TRANSIT supports a 'fair' fare approach that includes a moderate, inflation- based fare increase every other year with State assistance filling in the alternate years. This spreads the cost of public transportation between the riders who use the service and the other State residents who benefit from transit's contribution to reduced road congestion and cleaner air. Without a policy to fund public transportation, the State faces an annual challenge to determine how to handle the inflationary affects of the cost of providing daily public transportation to the more than 900,000 New Jersey riders who make over 270 million trips annually to get to work, shopping and other recreational activities.

6. The FY 2010 recommended budget for NJ Transit includes a \$23.4 million increase for salaries and wages, and the number of bus and rail operating positions for the next fiscal year is estimated to increase by 204 positions. According to budget information, the agency's General Fund subsidy is being reduced by \$10.4 million due to wage increase limitations, and \$2.6 million due to a management furlough.

Question: What is the annual budgeted increase for management, agreement and non-agreement employees, and are these increases automatic for any management or

Discussion Points (Cont'd)

non-agreement employees? Please elaborate on the steps that will be taken to limit wage increases and institute a management furlough. When will these steps take effect, and for how long? Can NJ Transit impose these measures unilaterally, or will contract provisions need to be renegotiated?

NJ TRANSIT does not give management and non-union employees automatic annual raises, nor do they participate in a cost-of-living adjustment (COLA). All merit increases earned by management and non-agreement employees are based on performance against goals. Beginning in January 2009, the merit increase program was suspended. This policy can be implemented without the need for negotiations.

Regarding the impact of freezing wages for unionized workers, NJ TRANSIT cannot unilaterally impose these same measures. And of our 21 labor unions, all are in the course of multi-year contracts with the exception of two unions that are currently in contract negotiations. NJ TRANSIT will follow the State's lead in negotiating wage increases with these unions. Any savings depend on the successful conclusion of those negotiations.

Similar to the wage freeze, the FY 2010 budget also assumes a one-day per month or 12-day furlough program for non-agreement employees.

Regarding the impact of furloughs, with the challenge of a 24/7 operation furloughs will be limited to non-service related administrative staff on a rolling basis and will be accomplished without overtime.

As indicated above, and unlike most other State agencies, NJ TRANSIT is a 24/7 operation that provides bus and rail service throughout the State and is responsible for insuring the safety of its customers. The ongoing fiscal austerity has mandated that NJ TRANSIT strategically manage service growth and reengineer administrative tasks to allow core requirements to be met. For example, in fiscal 2009 NJ TRANSIT had nominal net service growth by tactically redeploying existing equipment and personnel. This was accomplished by adjusting service frequencies and route patterns to serve the greatest number of customers, while continuing to protect destinations for the transit dependent. In addition, over the past two years NJ TRANSIT has reduced its administrative operating funded workforce from 1,104 to 864, or 22%, through a combination of an early retirement program, managed attrition and restructuring of work activities.

Question: Please explain the need for the additional positions, and provide detail on the likely impact on operations and services. Are these full and/or part-time positions, classified or unclassified, and are they temporary or permanent? Please also provide details on the fiscal impact to the budget, and how they will be funded. Please explain the considerations that underlie NJ Transit's decision that increasing manpower is more cost effective than scheduling overtime, as the corporation has done in the past.

Given the financial challenges in fiscal 2010, new service growth will be extremely limited. In fact, only two new services will be added – the Meadowlands rail link service to the new sports complex, and the addition of special express bus service in Newark as part of the federally funded Liberty Corridor. In addition, targeted incremental bus service will be added to relieve severe overcrowding and fully annualize service added in FY 2009 and rail maintenance staff will increase to accommodate the addition of the new multi-level railcars.

Discussion Points (Cont'd)

It is estimated that 204 new employees will be required to staff these increases based on specific formulas equating how many additional operators and mechanics and infrastructure employees are needed. Virtually all of these new staff will be permanent full-time agreement employees.

The FY 2010 budget assumes the labor/fringe costs of these new and incremental services at \$16.5 million, which will be partially offset by revenues of \$11.7 million, with farebox revenues growing as the new services mature.

Regarding the use of overtime, it has been NJ TRANSIT's budget policy to fund certain crew assignments with planned overtime since it is a more cost effective approach than hiring additional staff.

In fact, NJ TRANSIT commissioned a study which found that we would have to hire 1,400 more employees at an incremental cost of \$11.4 million more than we pay in wages and overtime to meet our service requirements.

7. *The Senior Citizen and Disabled Resident Transportation Assistance Program assists counties to develop and provide accessible feeder transportation service to accessible fixed-route transportation services and accessible local transit service to senior citizens and the disabled. The program also enables NJ Transit to develop, provide and maintain capital improvements that afford accessibility to fixed route and other transit services in order to make public transit facilities accessible to senior citizens and the disabled. Appropriations for this program amounted to \$34.4 million in FY2006, \$34.9 million in FY2007, \$36.9 million in FY2008, and \$33 million in FY2009, and are budgeted at \$30.2 million in FY2010. This trend in program funding follows the trend in revenue to the Casino Revenue Fund from which its resources derive; that revenue has been affected by both economic conditions and temporary tax increases.*

Question: What impact has the decline in funding had on Senior/Disabled Transportation Assistance program service levels, and what further impact on those service levels may be expected in FY2010? If increased funding from local government or third party sources has been used to avoid or mitigate any such impact, please explain. To what extent did increased funding in FY2006-FY2008 lead to service levels that are not sustainable?

The demand for increased transportation services for seniors and persons with disabilities has been growing throughout the state.

By law, NJT distributes the casino revenue funding based upon county percentage of the State's total 60+ population. NJT establishes an annual minimum allocation for smallest counties (approximately 2 percent of funds available to counties) and no county may receive more than 10 percent of the total allocation available to counties. Because some counties have been more successful in seeking funding from other sources, the impact of the casino revenue varies from county to county. For example in Essex and Salem Counties, casino revenue funds exceed over 90 percent of the funds available for senior and disabled transportation. In other counties, such as Somerset which provides significant county funding, casino revenue funds represent less than 20 percent of the county transportation

Discussion Points (Cont'd)

budget. Thus, although a drop in funding hurts all county transportation programs, it hurts some programs more than others.

Unfortunately, the drop in casino revenue funding has come at the same time as a tightening of funding streams across levels of government. Counties have been considering cuts in local funding to transportation programs during this same period; and, although the fuel crisis has subsided, increases in casino revenue funding from 2006-2008 did not provide the projected expansion of service anticipated. Although ridership gradually increased from approximately 1.6 million to 2 million trips annually, increased fuel costs mid-way through the period absorbed a significant percentage of the increased funding holding down continued expansion.

We are only in the first year of the drop in funding, and although the cuts in county services to date have been minimal, there has been a shift, in order to avoid service cuts, in funding from capital to operating. If allowed to continue for as little as two to three years, this would seriously impact the vehicle fleets and result in either significantly higher vehicle maintenance costs or reduced services resulting from reduce fleets. This second year of reduced spending as proposed in 2010 would most likely result in cuts in senior and persons with disabilities transportation programs at the county level as they have, for the most part, already shifted capital to operating under the current 2009 grant cycle.

The counties are only now developing their 2010 transportation budget, but early indications are that counties will not be able to sustain the current levels of service, with most cuts occurring as of January 1, 2010.

8. *The FY2010 Executive budget proposal for NJ Transit recommends a reduction in the operating subsidy \$62 million. The introduction to the departmental budget attributes this reduction to "a number of saving initiatives and [maximization of] several non-State funding sources." The budget reflects the latter of these offsets to New Jersey Transit's appropriation requirement in the form of an increase of \$100.2 million (16.4 percent) in anticipated "other resources."*

Question: Please identify the individual "savings initiatives" and "non-State funding sources" (other than fare increases addressed in the response to Question 5 and the savings discussed in question 6) referred to in the budget introduction, specify the amounts anticipated to be realized from each initiative and each non-State funding source, and explain how the Corporation expects the specified savings/new revenue to be achieved. What savings will these initiatives and non-State funding sources produce beyond FY2010?

To provide context for the FY 2010 reductions, it must be noted that over the past several years NJ TRANSIT has strategically reduced administrative costs to minimize the need for service reductions. In fact, the agency has achieved an all-time administrative-cost low, spending only 8 cents of every operating dollar on administration and a full 92 cents on service delivery. For example, in FY 09 NJ TRANSIT achieved about \$12 million in savings by cutting over 140 positions through early retirement and attrition, which we will receive the annualized benefit of in FY 10. We also achieved a prescription drug savings of \$2 million and cut costs for facilities by \$500,000 through office consolidations, among other actions.

Discussion Points (Cont'd)

In FY 10, we have identified \$22.5 million of additional administrative savings in part through continuing to employ technology to reduce expenses. We will reduce the number of printed timetables by more than 20%, relying, as our customers do, more on the web, thereby saving \$400,000. We have launched a dependent health care audit, a wage freeze for non-agreement employees, and will save through the furlough program, in addition to other cut backs.

For the remaining reduction, we are benefiting from supplemental federal transportation funding that is flexible enough for the Department to use in support of transit operations.

Concerning the remaining FY 2010 programmatic reductions (not discussed earlier), they are listed below along with their anticipated savings:

<u>Savings</u>	<u>Initiative</u>
\$ 2.0m –	Dependent Health Care Audit
\$ 0.8m –	Reducing Rail Timetable Printing
\$ 0.6m –	Eliminate On-Line Pass Sales/Fulfillment Savings
\$ 0.6m –	Reduce In-House Ticket Machine Light Maintenance

These reductions will be achieved by cutting ineligible health care coverage by updating employee dependents' status, reducing printing costs due to increased web usage, cutting expensive distribution costs due to an expanding TVM network, and eliminating duplicative maintenance functions.

9. *The downturn of the U.S. subprime mortgage market that began in 2007 has resulted in a losses to banks worldwide from declining values of securities tied to home loans and commercial mortgages and other similar instruments. NJ Transit pension portfolios, for the majority of its employees, include fixed income positions portfolios which in turn include mortgage-backed or collateralized debt securities.*

• **Question:** In light of the recent downturn in the mortgage-backed securities market, have fixed income portfolios been appropriately revalued to reflect current market values? If the ratings on those securities is downgraded, how will investments be impacted or revalued? What is the total loss incurred by NJ Transit assets if these securities are marked down to current market value?

Our fixed income investment managers each believe their investments on our behalf of mortgage-backed and other collateralized debt securities positions are being appropriately revalued to reflect current market values. indeed, all sectors of our fixed income portfolios are being marked-to-market on a regular basis. In addition, our fixed income positions portfolios - including our mortgage-backed and other collateralized debt securities positions, are independently and regularly marked-to-market by our third party custodian, BNY/Mellon. Their figures are consistent with those of the investment managers.

If ratings on our mortgage-backed and other collateralized debt securities positions are downgraded, then we expect the market prices of the securities may decline. It is hard to say whether this will definitely occur, because many such positions have fallen in market price despite no change to date in credit rating. The market for these securities may have already anticipated a downgrade in credit rating. If one does occur, there may be little or no

Discussion Points (Cont'd)

market reaction. In terms of investment impact, we note that the vast majority of our mortgage-backed and other collateralized debt securities positions are current performers, with no delay or reduction to date in the payment of all principal and interest obligations. Their market prices have declined, but it is not at all clear that their investment value has yet been impacted.

10.a. NJ Transit has noted for several years that fuel cost increases continue to exceed available revenue. There was a sharp increase in oil and petroleum costs from fall 2007 to summer 2008. With instability in oil and petroleum real production, there is a possibility prices will see another such increase in the future.

Question: How will NJ Transit alter its business model to adjust to unstable oil and petroleum markets and mitigate future increases in fuel costs? What steps did NJ Transit take to minimize the fiscal impact of the sharp increase in fuel prices that occurred in 2007-2008?

NJ TRANSIT uses over 36 million gallons of fuel annually, so every penny increase in the price of fuel costs \$360,000 annually. In order to mitigate volatile fuel price changes, we have fuel contracts that enable us to lock in future fuel prices based on market conditions. Although this practice cannot safeguard against the kind of skyrocketing price increases that were seen last year, over the years, it has produced substantial savings. We continue to closely monitor the market to utilize every opportunity to control fuel costs including the development of a request for alternative fuel hedging strategy proposals.

Question: What progress has NJ Transit made in its examination of alternatives to diesel powered rolling stock? What steps has NJ Transit completed toward increasing the use of alternatives to diesel fuel?

NJ TRANSIT has advanced a number of initiatives to reduce dependence on fossil fuels, ranging from alternative-fuel and dual-powered locomotives to the generation of solar power.

The Board of Directors approved a contract for 26 dual-powered locomotives that will be able to switch from diesel power to overhead electric power, reducing reliance on diesel fuel while providing operational flexibility. The first dual-powered locomotive is expected to be placed into service in 2011.

The agency also worked on an extensive research project with Rowan University on the use of diesel fuel blended with renewable soybean-based bio-fuel for our locomotive fleet. Results show no negative impact on horsepower or mileage, and indicate a reduction in carbon monoxide and particulate matter emissions while at the same time reducing reliance on petroleum-based fuel. Pending final review by the DEP, NJ TRANSIT expects to gradually move to a B20 biofuel blend over the next year.

Also, as part of our efforts to reduce diesel-fuel consumption and emissions, we instituted a new policy last year requiring locomotive engines to be turned off during extended layovers at rail yards. The policy is in effect at six rail yards and was made possible by investment in

Discussion Points (Cont'd)

new starters, block heaters, batteries and wayside electric power stations to help ensure reliable cold-weather engine starts.

And, we are gaining valuable experience in operating and maintaining hybrid and Compressed Natural Gas (CNG) vehicles, including 90 hybrid non-revenue fleet vehicles, seven diesel-electric hybrid buses and 76 CNG buses.

We are also working to take advantage of federal tax credits designed to spur a "green" economy by advancing a proposal to install solar arrays on eight buildings that would be capable of generating a total of about 5 megawatts of energy. The power would be used on site, reducing reliance on carbon-based fuels and other sources used by utilities to make electricity. With a goal of awarding a contract this summer, we would be able to generate solar power next year.

Motor Vehicle Commission

11. The Motor Vehicle Commission continues to operate with a structural deficit which requires continued use of surplus. The MVC has previously noted the possibility the surplus will be fully depleted in FY 2010. In FY 2009 and as recommended for FY 2010, Commission resources will be allocated to other State purposes, either through imposing new interagency charges on the MVC or by revenue diversion. The MVC recently proposed fee increases by regulation that are estimated to generate \$40-\$60 million in additional revenue, of which \$20 million would be reallocated for general State purposes. Under law, fees may be increased to take into consideration the MVC's costs of transactions for which fees are charged, and the proposed increase was justified in part on the basis of more closely aligning fees with costs.

Question: Please comment on the MVC structural deficit and the impact of operating changes, overall revenue levels, and revenue from the proposed fee increase in achieving structural balance. What further steps will the Commission need to take assure that it is able to maintain operations at adequate levels if and when the surplus is depleted, and balance costs with resources? Did the MVC structure its proposed fee increases with the knowledge that it would not retain all of the revenue it produces in FY 2010? If not, are there plans to alter the proposal to provide the MVC with more net revenue in FY 2010? Please cite significant examples of fees that, as set currently or as proposed, would recover full transaction costs.

The current statutes provide the Motor Vehicle Commission with base revenues of approximately \$200 million annually based on a proportional split of specific revenues however, they did not provide the Commission with the ability to increase fees in order to maintain economic viability. This was achieved in more recent legislation as part of the *MVC Forward Report* which permitted the Commission to increase specific fees based upon the cost of providing the service. Without this ability, the commission would continue with a structural deficit due to the increases in salary contracts, fringe benefits, rent and utility costs, etc. which are currently absorbed by the Commission.

Due to the current economic climate, revenues collected by the Commission have been decreasing forcing the Commission, in concert with the Division of Revenue (DOR) and the

Discussion Points (Cont'd)

Office of Management and Budget (OMB) to revise its projections. In response to this decline and escalating costs, the Commission has had to rely on its re-appropriations (surplus) as well as the continuation of efficiencies.

The MVC structured its proposed fee increases based solely on the factors set forth within the governing statutory provision that authorizes the MVC to increase certain fees (N.J.S.A. 39:2A-36.1). In the same provision, it is set forth that revenues from the proposed adjustment be remitted to the MVC. There are no plans to alter the proposal to provide the MVC with more net revenue in FY 2010.

The MVC knows of no fee set currently, and there are no fees currently proposed, that fully recover transaction costs.

12. In FY 2008 and FY 2009 the Motor Vehicle Commission initiated and implemented its Facilities Master Plan for facility and customer service improvements, and the regionalization of driver testing services. The MVC estimated a savings of approximately \$3.5 million.

Question: Is this estimate still accurate? What are the amounts of savings that have been realized to date from the regionalization and consolidation programs? What progress has been made, and is the MVC on schedule to complete these improvements?

The MVC is anticipating savings of nearly \$3.5 million over the next several years by moving forward with renovations, construction and a variety of other facility improvements. These savings are not about regionalization and consolidation but more of an emphasis on reducing the number of leases by building facilities on State-owned land. Specific projects include South Brunswick, Flemington, Randolph and Freehold, which was recently completed. In addition, construction for three more sites, Rahway, Lodi and Bakers Basin is anticipated which will place State-owned buildings on State-owned property with a current vehicle inspection site,

MVC's Capital Plan for construction and renovations for MVC facilities totals \$59.8 million and is funded through bond proceeds from the Commission's enabling legislation. Of this amount, \$50 million is for the capital improvement projects noted above.

By the end of 2009, the Commission anticipates savings of \$1.8 million for lease costs and related utilities based on its Facilities Master Plan. These savings are based on the termination of leases for the Newton Driver Testing Center and the Montclair Inspection Station and several agency sites including the Wayne 23 Regional Service Center which closed on March 31, 2009.

13. In 2008, the Motor Vehicle Commission eliminated evening hours for all agencies and regional service centers statewide. Thereafter, it announced that, having completed two years of planning, it would close the four regional service centers beginning in March/April 2009 and distribute operations among the 43 local agencies.

Discussion Points (Cont'd)

Question: How did the Commission's elimination of evening hours for all agencies and regional service centers reduce operating expenses in FY 2009? What impact, if any, did the elimination of evening hours have on the Commission's customers? What is the status of implementing the plan to close regional service centers? What is the fiscal impact of implementing the plan, in FY 2009, FY 2010 and FY 2011 respectively? What impact on customers will result from these closures? Will evening hours be resumed at local agencies upon their assumption of functions from the regional service centers?

The Commission's efforts to eliminate evening hours at motor vehicle agencies and regional service centers have resulted in a 33% reduction in overtime expenses and increased business during normal operating hours, especially on Saturday. With the enactment of a comprehensive media plan, MVC received minimal complaints from the public regarding this elimination of service hours. The Commission has also reduced its salary account due to the reduced hours of part-time employees by 50%.

The Motor Vehicle Commission never anticipated the closing of the three remaining Regional Service Centers, West Deptford, Eatontown and Trenton as reported by the media. The Wayne Regional Center was closed on March 31, 2009 due to an eviction from the landlord. Customers were redirected to six sites that include Wayne 46, Newark, Bayonne, East Orange, Paterson and Newton.

With this closing, the MVC also had to initiate new services at the agencies that were originally only provided at Regional Service Centers. These services, including the resolution of outstanding actions against the motorist, collection of fees for restoration of driving/registration privileges, surcharge payments and activities concerning driver conferencing. As this pilot continues, the MVC will continue to monitor the progress of providing these services in anticipation that MVC sites, such as the new Freehold agency, will become a "full service" agency. At this time there is no plan to resume evening hours.

14. The Department of Homeland Security has set the extended Real ID Act compliance deadline for December 31, 2009. States that meet certain benchmarks for the security of their credentials and licensing processes will automatically be granted a second extension until May 11, 2011 to complete full implementation of Real ID.

Question: Does the Commission have a plan concerning the costs incurred in relation to the requirements of the federal Real Act? How will the December 31, 2009 deadline affect the Commission's operation budget in FY 2010? Will the Commission qualify for the second extension to May 11, 2011?

The Commission is focused on obtaining federal funding for its Real ID efforts. In federal fiscal year 2008, the Commission received \$1.287 million in federal funds and subsequently has applied for \$3.7 million in federal funds under the Real ID 2009 grant opportunity. Early indications from the United State Department of Homeland Security (USDHS) are currently projecting that this amount will be reduced to approximately \$1.3 million due to increased participation by other states. Upon award of the Real ID 2009 grant, this funding will become part of the Commission's Fiscal Year 2010 Budget allowing for \$2.6 million in total for Real ID efforts.