
Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

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

DATE: December 4, 2009
10:00 a.m.

MEMBERS OF COMMITTEE PRESENT:

B. Carol Molnar, Chair
Anthony Annese, Vice Chair
Senator Paul A. Sarlo
Senator Steven Oroho
Assemblyman Joseph Cryan
Assemblyman David W. Wolfe
State Treasurer David Rousseau
Gary Brune
Jack Donnelly
Paul Stridick



ALSO PRESENT:

James Vari
Executive Director

Rosemary Pramuk
Senate Republican Aide

Beth Schermerhorn
Assembly Republican Aide

Meeting Recorded and Transcribed by
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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 time, date, and location. The notice of the meeting has been filed at least 48 hours in advance by mail and/or fax to the Trenton *Times* and the *Star-Ledger*, and filed with the Office of the Secretary of State.

We will now do a roll call.

MR. VARI: Senator Sarlo. (no response)

Senator Oroho.

SENATOR OROHO: Here.

MR. VARI: Assemblyman Cryan. (no response)

Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Here.

MR. VARI: Treasurer Rousseau.

TREASURER ROUSSEAU: Here.

MR. VARI: For Commissioner Richman, Mr. Stridick.

MR. STRIDICK: Here.

MR. VARI: Mr. Brune.

MR. BRUNE: Here.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Here.

MR. VARI: Mr. Annese.

MR. ANNESE: Here.

MR. VARI: Chairwoman Molnar.

MS. MOLNAR: Here.

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

MS. MOLNAR: Thank you.

First, I'd like to welcome two of our new members, Senator Oroho and Assemblyman David Wolfe. Both have budget experience, and we look forward to working with you.

ASSEMBLYMAN WOLFE: Same here. Thank you.

MS. MOLNAR: I also want to thank a person on this Commission who has worked many years for Capital Planning -- that's our Treasurer, David Rousseau. He started out in the Senate Democratic Office, back in the 1990s, and he's worked his way up, and now he's our State Treasurer. And he has served on this Commission at least 10, 15 years. So I want to thank David. Thank you so much for your service.

TREASURER ROUSSEAU: Thank you. (applause)

MS. MOLNAR: Okay, our next item is the Executive Director's report.

MR. VARI: Madam Chair, just a quick comment on the upcoming voting meeting which was, as you know, postponed. That will be a date to be determined in late January. We'll work through you, Madam Chair, to come up with a date for the voting session.

MS. MOLNAR: Thank you.

Okay, our next item is the debt report. Now, before we get started, I'd like to give our new members some background.

The enabling legislation requires us to give a report of the State's overall debt. The report has to include the outstanding debt and

debt service costs for the prior year, the current year, and then subsequent five fiscal years. We also have to give an assessment of our ability to increase its overall debt. Now, we don't have a staff per se, so we do have to rely-- Our bylaws state, "the staff shall be provided by the Division of Budget and Accounting of the Department of the Treasury." So they've done a fabulous job, and I do want to thank everyone who's worked preparing the Capital Plan and working on the debt report. So today's report will cover those items that we have to provide, based on the statute. Now I apologize-- We should go back and approve the minutes before we start the debt report. We have to approve the minutes of October 9 and October 23.

Do we have a motion to approve those two minutes?

MR. ANNESE: So moved.

MR. VARI: Does anyone second?

MR. BRUNE: Second.

MR. VARI: On the motion to approve the minutes of October 9 and October 23, 2009; Senator Oroho.

SENATOR OROHO: Abstain.

MR. VARI: Assemblyman Cryan votes in the affirmative by letter.

Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Abstain.

MR. VARI: Treasurer Rousseau.

TREASURER ROUSSEAU: Come back to me. If you need me to vote for them, I will. If not, I'm going to abstain.

MR. VARI: Mr. Stridick.

MR. STRIDICK: I can vote affirmative for the October 9; abstain on the November date.

MR. VARI: They're both October.

MR. STRIDICK: Then the next one -- what is it, the 23rd.

MR. VARI: Mr. Brune.

MR. BRUNE: Yes.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. VARI: Treasurer Rousseau.

TREASURER ROUSSEAU: I'll vote yes on both of them, then.

MS. MOLNAR: Thank you.

MR. VARI: Madam Chair, the minutes are accepted.

MS. MOLNAR: Thank you.

Okay, now we can move on to our debt report. I'd like to welcome, from the Office of Public Finance, Nancy Feldman, Executive Director.

Good morning.

NANCY B. FELDMAN: Good morning. I'm Nancy Feldman; I'm the Director of the Office of Public Finance in the Department of the Treasury.

MS. MOLNAR: Could you put your mike on? I don't believe it's on.

MS. FELDMAN: You know, I thought I did. Thank you.

On behalf of Treasurer Rousseau and his staff, and the staff of the Office of Public Finance, I am pleased today to be here to present to the Commission the annual debt report for Fiscal Year ended June 30, 2009. As required under New Jersey Statute 52:9 S-3, this report has been prepared and submitted to the Commission to assist you in preparation of the State Capital Improvement Plan.

The report in front of you today is consistent with past years, and is designed to satisfy the statutory requirements set forth, namely the Commission's State Capital Improvement Plan should include a report on the State's overall debt. More specifically, as stated by the Chair, this report contains the required information relating to outstanding general obligation debt, debt subject to appropriation, capital leases; and debt service costs for prior fiscal years, the current fiscal year, and estimated amounts for the five subsequent fiscal years.

At this time, with the assistance of Deputy Director Jim Petrino and Kate Singer, manager in the Office of Public Finance, we would like to give you an opportunity to ask any questions about the contents of the report for FY '09 and the State debt portfolio.

Thank you.

MS. MOLNAR: Are you going through each section, or just--

MS. FELDMAN: No; I mean, if-- We haven't done that in the past. If there are certain things you would like us to cover, we can do so.

MS. MOLNAR: Okay. I had a few questions. The first item is the reconciliation between the debt and the CAFR Report; I think that's E-1.

MS. FELDMAN: Yes, it is.

MS. MOLNAR: I compared it to last year. I was just wondering if you could address some of the increases, perhaps. The first one is-- It says: "OPEB liability." I believe that may be the health benefits, I'm not sure. That has increased 3.5--

MS. FELDMAN: Let me first state that the information relating to the CAFR is provided to us by the Financial Reporting Group within the Office of Management and Budget. They're not information that we develop, monitor, or manage. And so I would be able to give you a high-level, general definition of what that is, but we would perhaps need to have folks from OMB give a more detailed description of why things may have changed to the magnitude that they have.

MS. MOLNAR: Okay.

MS. FELDMAN: So, OPEB is the post-employment benefits. It is an accounting issue that came into play in FY '08, and it reflects the costs of providing non-pension benefits; and the year-over-year change is a function of the obligations that the State has entered into with employees and the costs of those benefits to be provided over time.

MS. MOLNAR: So you say non-pension benefits. That would include health benefits?

MS. FELDMAN: Primarily health benefits. It is my understanding that there are some other limited things that may be included there, but primarily health benefits.

MS. MOLNAR: All right. And the next line item is obvious: It says “net pension” and that has increased 1.5 over last year. So they just gave you the numbers; there’s no--

MS. FELDMAN: Right. These are numbers-- We have not, from my understanding -- the State’s annual CAFR has not been published. It is still in the auditing process, as noted. The numbers on page E-1 are footnoted as that the CAFR numbers are preliminary unaudited numbers, and upon completion of the audit those numbers will be finalized and released.

MS. MOLNAR: Good.

Mr. Rousseau?

TREASURER ROUSSEAU: Yes?

MS. MOLNAR: Could you shed any light on those increases? Do you have any feel for--

TREASURER ROUSSEAU: Well, the net pension obligation is the number that the actuaries tell us now, and it’s based on the fact that the pension system lost a significant amount of money last year. If the pension system gains a significant amount of money next year, it’ll go the other way. Actually, on the OPEB-- I’m actually surprised that the number went up that much, because our actual number that we’ve reported as the liability for OPEB actually went down, so I’d like to get back to you on why it went up when our known liability went down.

MS. MOLNAR: Yes, it almost doubles from last year.

The other item is Capital Appreciation Bond Accretions. Could you refresh my memory on what that is? That went up 1.7.

MS. FELDMAN: Yes. There are two lines here that relate to each other: Capital Appreciation Bond Accretion and Unamortized Discount on CABs. Capital Appreciation Bonds, also known as CABs, are zero coupon bonds that are issued that do not pay annual interest; they pay interest at maturity. And in order to account for the accrual of an interest expense that's not going to be paid until the maturity of the bond, there are two accounting entries that deal with the fact that there is a long-term liability to get to, let's say, \$100 in value of a bond, and the portion of that that may have already been accrued -- or accreted is the word that's used to describe the incurrence of that interest that is not yet paid.

MS. MOLNAR: Okay.

TREASURER ROUSSEAU: And, Madam Chair, if you will, if you combine the two numbers together, I think-- When you look at the one number, the capital accretion, it looks like it goes up from 7.9 to 9.7; but when you look at the net number of the two, it's really a \$1.5 billion to \$1.7 billion difference; the difference isn't as significant as it appears.

MS. MOLNAR: Okay.

I believe the Senator-- You have a question on this page?

SENATOR OROHO: Yes, a few, if you would. But going back, if I may, to the other post-employment benefit liability and the net pension obligation. In trying to take a look at the-- I know some of the debt financing prospectus that's out there. I believe what these -- at least what I was able to determine that these numbers represent -- were the actual cash contributions that were expected to go into those funds that have not yet been paid for the past couple years. Like, for example: if you take a look at the net pension obligation-- I guess we'll get our latest

actuary's report in June 30, 2009. I guess that was the end of -- that hasn't come out just yet. But the actuary will come up with a new accrued liability. That's not this.

MS. FELDMAN: No, sir. Can I interject for one moment?

SENATOR OROHO: Sure.

MS. FELDMAN: My understanding -- and again, I'm not an accountant, but my understanding is this number is the annual required contribution.

SENATOR OROHO: Right.

MS. FELDMAN: This would be the amount that would be required to make current contributions and amortize unfunded liabilities. So that would be the amount if we were to cover all liabilities potentially owed.

SENATOR OROHO: It was the cash that was supposed to go into the fund that hasn't gone into the fund yet? That's what the 6.6 and the 6.4 represents?

MS. FELDMAN: It's the annual required contribution, that aggregate that if you were to do that would be the whole.

SENATOR OROHO: Right; that have not been paid.

Thank you.

MS. MOLNAR: Assemblyman?

ASSEMBLYMAN WOLFE: Yes, thank you for your explanation so far. This is my first meeting; I'm on the Budget Committee, but these terms are a little bit confusing to me. On F-1 -- or, I'm sorry, D-1? Could you just state, in layman's terms, a general definition for me,

or perhaps for other folks here: “general obligation subject to appropriation” and “moral obligation,” the difference between them?

MS. FELDMAN: Sure. If you turn back one page preceding that, C-1.

ASSEMBLYMAN WOLFE: There is a definition. Thank you very much.

MS. FELDMAN: There are definitions. If there’s some confusion, or further explanation, we’d be happy to provide that to you. Sometimes it ends up being a little bit more lingo than it might otherwise be.

ASSEMBLYMAN WOLFE: Well, with that being said, and there is a definition here. Under moral obligation, I notice that we have not included these \$100 billion for long-term debt for the pension system underfunded and also for the medical benefits for post-retirement.

MS. FELDMAN: This is, sir, a report on bonded debt.

ASSEMBLYMAN WOLFE: Right.

MS. FELDMAN: And those are not bonded debt. Those are dealt with in table E-1, with respect to the fact that there are accounting relations to what is reported in the Comprehensive Annual Financial Report with those liabilities associated with them.

ASSEMBLYMAN WOLFE: So you’re saying they *are* included in the report, or they’re *not* included?

MS. FELDMAN: What we were just discussing on page E-1--

ASSEMBLYMAN WOLFE: Right.

MS. FELDMAN: --are the connections between the net pension obligations and the amounts that are listed as bonded debt, right?

Pension benefit obligations are clearly an obligation of the State, but they are not bonded debt. There are pension bonds listed in here for when they were done in the past, but not the non-bonded liability.

ASSEMBLYMAN WOLFE: But don't they reflect an obligation to pay?

MS. FELDMAN: This report, sir, is a bonded debt report, so the CAFR will cover those liabilities; and the actuarial reports and the audit for the pension.

ASSEMBLYMAN WOLFE: All right; thank you.

MS. MOLNAR: One other question; I'm sorry, two other questions: The very last page, "long-term debt issued since June 30, 2009." I believe in December we're going to issue \$209 million for Open Space. Has that happened yet, since it is December?

MS. FELDMAN: Yes. These are bonds that have been issued as of the date of this report. There are, scheduled to be issued, a \$209 million General Obligation Bond Issue for a variety of purposes, primarily Open Space, that have been approved by the voters in the past.

MS. MOLNAR: Do you know when they will be issued?

MS. FELDMAN: They will be sold on the 17th. They will be marketed on the 8th, and sold on the 17th, the actual cash exchange.

MS. MOLNAR: All right, I'm wondering if perhaps we should update this page, before we send it on to the Legislature and the Governor, to include that, since it will be issued in another week.

MS. FELDMAN: We can do an addendum, since the report is as of November. I don't want to change the page in here, but we can

certainly give an update to describe what has happened since November, which would include that.

MS. MOLNAR: Yes, that would be helpful for our statutory duty. The other thing is F-4, is the Transportation Trust Fund. It looks like another \$3 billion will be appropriated. And after 2011, am I correct, that the whole amount will be for debt service?

MS. FELDMAN: After this amount of debt is issued, the authorization expires and the full amount of \$895 million allocable to transportation will be allocated to debt service. There would be no additional cash for construction from the existing statutory -- the legislation.

MS. MOLNAR: Thank you.

Assemblyman.

ASSEMBLYMAN WOLFE: Yes, I have another question relating back to my original question about the definition of these terms. Under *moral obligation*, the description you have is the Legislature is not obligated to provide a fund for those obligations, correct?

MS. FELDMAN: That's correct.

ASSEMBLYMAN WOLFE: This is almost like, I think it's \$2 billion, \$2.3 billion?

MS. FELDMAN: I'm sorry, which page are you looking -- are you looking at for \$2.3 billion?

ASSEMBLYMAN WOLFE: I'm on D-1.

MS. FELDMAN: Yes, there are bonds that have been issued that have, pursuant to a statute, a requirement that a request, if necessary, be made to the Legislature for an appropriation if the pledged revenues are

not sufficient. And, as a result, to the extent the Legislature chooses to make that appropriation, those bonds would be paid from an appropriation. Otherwise, they would be paid only from the revenues available from the pledge source.

ASSEMBLYMAN WOLFE: Okay, so that's basically almost like a reserve fund?

MS. FELDMAN: There is, in most cases -- there is a reserve fund that is replenished from an appropriation, if made by the Legislature.

ASSEMBLYMAN WOLFE: Okay, thank you.

MS. MOLNAR: Senator Sarlo.

SENATOR SARLO: The major driver appears to be -- and if you could confirm -- and I apologize for being late, perhaps this question has come up already -- but it appears to me the major driver of the increase, from year to year, especially from the last fiscal year to this current fiscal year, is investment on transportation and infrastructure. Is that correct?

MS. FELDMAN: That's correct. Transportation and schools are the two primary programs for which debt has been issued.

SENATOR SARLO: So it looks like to me, from the data from FY '08 to FY '09, we're talking approximately \$1.1 billion increase; and the majority of that was debt that was geared towards highways, bridges, roadway infrastructure. That's not a one-year project; that will last another 20 -- 15 to 20 year useful life cycle.

MS. FELDMAN: That is correct.

MS. MOLNAR: Are there any other questions or comments?

Mr. Annese.

MR. ANNESE: Good morning. Could you talk to us a little bit about interest rates that the State is paying now?

MS. FELDMAN: Long-term fixed rate interest rates in the tax-exempt market are generally at among the lowest rates. They have been, I would say, in history -- although I'm not sure how far back those rates go -- but in quite a long period of time, somewhere in the low-to-mid 4 percent range. So 4.25 to 4.5 is sort of the range of a long-term fixed rate bond issue.

MR. ANNESE: You're talking about 30-year bonds, is that it?

MS. FELDMAN: Yes.

MR. ANNESE: Okay. Are many of our bonds now callable that we could refinance or things like that?

MS. FELDMAN: We do not have many callable bonds. Prior to the last couple of years, there had been a tremendous push to refinance when interest rates were beginning to be at the low rates that they are now. And we have mostly non-callable bonds in the portfolio. But every year bonds become callable that can be refinanced.

MR. ANNESE: And then you do that?

MS. FELDMAN: And we have been doing that, yes.

MR. ANNESE: All right, thank you.

MS. MOLNAR: Senator Sarlo.

SENATOR SARLO: Thank you, Madam Chair.

The \$2 billion annual debt service equates to approximately 10 percent or so--

MS. FELDMAN: I believe the number is closer to 7.5.

SENATOR SARLO: Seven-and-a-half percent, okay, of the

total. Do you have any statistics or data what other states would be across the country, of what their debt service is for investment in schools and infrastructure?

MS. FELDMAN: There are-- There definitely are numbers, and I believe they may be in--

SENATOR SARLO: Is it in the report that we have?

MS. FELDMAN: There's a Moody's report here, behind Tab G. This particular report doesn't show debt service as percent of budget. There is some information out there that we could provide, upon your request.

SENATOR SARLO: Would you be able to provide that to this committee? I would be interested to see whether there are trends in other states--

MS. FELDMAN: Yes.

SENATOR SARLO: --for their debt service, relative to investment in infrastructure and schools and things of that kind.

MS. FELDMAN: We certainly can do that.

MS. MOLNAR: Any other questions or comments?

Okay, as I said before, we present the debt report. We really aren't passing judgment on it, we just have to present a debt report to the Legislature, saying "here's where we are, here's where we're headed."

All right; I'd like to add that we accept the report, but we also ask that it be updated to include the December bonding that is happening on the 17th, and it would be helpful to have an explanation provided the Commission members regarding those two line items in the reconciliation of the CAFR, the net pension liability, and the non-pension liability increases.

It would be helpful to get some detail, but I believe we could still vote to present this debt report to the Legislature.

ASSEMBLYMAN WOLFE: Excuse me, I just have a question.

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN WOLFE: Yes, before we vote, on page F-6, it's the school construction: Assemblyman Cryan and I have been on the Education Committee for a number of years, and the Schools Construction Corporation and its different name changes have been a concern to the majority of legislators. We've issued more money to them and I see here we've got 2010, 2011, 2012, 2013 appropriations of \$1.1 billion per year. And I think it was the sentiment of the Legislature that the public should vote on the issuance of these types of bonds. Is that part-- That's not part of your recommendation, but you're just saying these-- Right now, the plan is to go forward with issuance of these bonds?

TREASURER ROUSSEAU: These are the bonds that the sentiment of the Legislature, if I remember correctly, of at least 21 senators and 41 assemblymen a year-and-a-half ago, was that the next \$2.9 billion didn't have to go to the voters, that it was-- And that's this money, right?

MS. FELDMAN: This is the authorization that was in place, both from the original authorization of \$8.6 billion, as well as the authorization of \$3.9 billion. There is no expectation of any new authorizations in here. And this is based upon the rate of spending that has been taking place. No individual bond issue has gone to the board at this point to issue these. But this is the authorizations that are on (indiscernible).

ASSEMBLYMAN WOLFE: Thank you.

MS. MOLNAR: I also want to let the new members know, though, that it does state in the statute -- enabling statute -- that “the Commission shall review all bills introduced in either House which make provision for an appropriation for a capital project or for the authorization of the issuance of bonds. The Commission shall study the necessity, desirability, and priority of such appropriation.” I’m not sure this year if anything was brought to our attention. I believe there was one bond that perhaps we should have seen. But in the future, hopefully this Commission will be in the loop.

ASSEMBLYMAN WOLFE: Could I just ask one question?

MS. MOLNAR: Yes, Assemblyman.

ASSEMBLYMAN WOLFE: I know this is a report-- Hello? I hear voices. (laughter)

MS. MOLNAR: Yes, we have Assemblyman Cryan on line.

ASSEMBLYMAN WOLFE: As a report, it is just basically showing what is, what has been proposed, not really necessarily what will be. And coming back to what the Chairperson has just said, I do think it’s incumbent that-- This is our first meeting here, and it sounds as though the committee’s kind of being overlooked -- not through you -- I think just really, as a matter of procedure; and the report doesn’t really list, in terms of priority, what is more important, or least important, of all these projects. And I’m sure you know they’ve just been authorized. But I think it would be helpful in the future, perhaps in presentations, that we do know, while things have been authorized, which are more pressing and which are, let’s say, doable for the future -- if that is possible under the circumstances.

MS. MOLNAR: Good suggestion.

ASSEMBLYMAN WOLFE: Thank you.

MS. FELDMAN: Deputy Jim Petrino wanted to point out some information that may address some of that.

JAMES M. PETRINO: On, I believe, it's page D-3, we do have a comparison from last year to this year of authorized but unissued debt, so that would give you a little snapshot of what's left to issue under existing authorizations. And as it was already discussed, new authorizations pursuant to past legislation would now have to go to voters, is my understanding. But these are the existing authorizations and it's primarily in the school construction program and the Transportation Trust Program. General obligations as well.

MS. MOLNAR: Senator.

SENATOR OROHO: Yes, not a question, but I was going to wait until it came time for voting. But if we could, just focusing in on E-1, if you would allow me to make a suggestion with respect to this.

MS. MOLNAR: Sure.

SENATOR OROHO: After hearing some of the questions and whatnot: I've looked at the statutory charge, and I've looked at how it's presented, the importance of this Commission and how it's presented to the public when we are selling our debt and whatnot. So this is a very important Capital Planning and Budgeting Commission. It's a long term -- we're supposed to have certainly a long-term perspective. I understand the issue about the bonded indebtedness, and on E-1 I want to thank you for having that reconciliation to essentially what right now is our cash payables. When I was looking at the page and trying to understand what the other post-employment benefit liability represented -- because I know our total

liability, as of June 30, 2008, was about \$55 billion unfunded. And when I looked at the net pension obligation, I knew that as of June 30, 2008, our total unfunded liability was about \$23 billion. And this year, knowing, as the Treasurer mentioned, what happened in the market; and certainly when you're looking at the present value calculations with respect to what's happened with interest rates, we know that that's going to go up. And as a long-term Commission, one of the things I think we need to do -- and it will be reflected in my vote as far as the acceptance of the report is-- I appreciate that reconciliation, but I do really think being a long-term Commission, that this page should reflect all earned obligations. Because if you look at the other post-employment benefits, that \$55 billion is for earned benefits for active and retirees. The unfunded pension liability-- We know that there is going to have be cash flow contributions coming up, just like there's going to have be cash flow contributions for the payment of the funded debt, or the structured debt -- that there's going to have to be cash commitments from the State in order to pay off those liabilities. So as a long-term planning Commission, I think what we really need to do, because if you take all that into consideration, the \$51 billion translates into over \$125 billion of real, true cash contributions that the State has obligated itself to. And as a long-term planning Commission, I really do think that that's something that we should ask as a Commission -- that this page be more comprehensive than what it is right now.

MS. MOLNAR: Yes.

TREASURER ROUSSEAU: Madam Chair, can I just react?

MS. MOLNAR: Sure.

TREASURER ROUSSEAU: First of all, my belief is that, for right now, this is the same report that's been issued for 12 years, and if a year from now people want to change it, that's fine with me.

SENATOR OROHO: I'm new, too.

TREASURER ROUSSEAU: But to talk about the two issues you were saying-- If you try to put a difference between our bonded debt and those other two types of debt that you just said-- As we all know, our bonded debt is a hard debt; that's a hard number, we know what that number is. The estimate right now for our healthcare contribution is an estimate, and it's based-- And that can be changed by any number of things. The Legislature could change the law. The Legislature can't change the law and change our debt payments. The Legislature can change the law and change our obligations for pensions and could change our obligations for health care. We also-- Healthcare reform could have a significant impact on our long-term healthcare contribution. If there's national healthcare reform, maybe some of our costs go down, not only for our active employees, but our retirees. So those two types of debt, those two types of, let's use the word *soft* debt, are things that are not definite numbers. They are point-in-time estimates. Everything else here -- correct me if I'm wrong, Nancy -- everything else here is basically a definite number.

MS. FELDMAN: Yes.

TREASURER ROUSSEAU: Not a point-in-time estimate that has other outside influences that could change it. So I think that that's where those two things have a little bit different magnitude. And remember, these numbers on pensions right now don't include the fact that-- And both of the bills were done on a bipartisan basis; and this recent

Legislature and this Governor for the first time ever passed not one, but two bills that reduced benefits in the future on pensions. And that hasn't been factored in yet, because they haven't really hit the system yet. So right there's an example of how this number might go down. I mean, if all of a sudden-- We're having a pretty good year right now in the market, in our investments. So that impacts the unfunded liability. So I think it's a different view on the unfunded liability. I remember a senator who sat in your chair back in 1997 and really talked about that same point, that we were taking a soft debt -- our pension obligation at that point -- that could disappear just based on market increase -- and actually it would have on its own -- and turned it into a hard debt. So that was the difference there. Who knows, three years from now this pension-- If we have three years of 18 percent returns, that number's going to go down significantly. Or three years of 12 percent return, or things like that. So I think that that's the difference between the hard debt and the soft debt, and why right now I wouldn't accept any debt change.

SENATOR OROHO: May I respond?

MS. MOLNAR: Yes, Senator.

SENATOR OROHO: Thank you.

ASSEMBLYMAN CRYAN: May I answer the question?

SENATOR OROHO: Yes.

ASSEMBLYMAN CRYAN: This is Assemblyman Cryan. I apologize for calling in. (indiscernible) I have a conflict at noon, so I apologize to the committee.

I have a couple of questions for the Treasurer. The person who spoke previous -- I don't know who that is -- I have a couple of questions for

you. One: The pension unfunded liability and the accrual of it -- is it not a fact that there's been more money put in the pension system in the last three years than the previous 14?

TREASURER ROUSSEAU: Yes, it is a fact that that number would be significantly more than that if we hadn't made those contributions.

ASSEMBLYMAN CRYAN: And is it reasonable, in the same question, to say that when the Legislature, in its good wishes and its good thoughts in the lame duck session of 2001, lowered the retirement age to 55, that that had an adverse impact in terms of pension liability in the long term?

TREASURER ROUSSEAU: It probably had the most adverse impact of any piece of legislation that was ever done on pensions, yes.

ASSEMBLYMAN CRYAN: And is it also a fact -- because I did read this stuff, although I don't have it in front of me -- if one looks in prior pages and looks at the pension and refunding the debt under Republican Governor Whitman, to be candid about it, in 1997, that we are still paying for that debt as part of this as well. Is that not a fact?

TREASURER ROUSSEAU: Yes, that's true as well.

ASSEMBLYMAN CRYAN: Well, I think it was Assemblyman (indiscernible), I'm not really sure who actually was speaking. Let's just be clear: the Governor's new Chief of Staff was actually part of the Legislature for those two. The reality is is that we have long-term issues coming up that have been dealt with responsibly by this Legislature. What we need to do is understand their concerns of post-retirement medical, concerns of long-term debt. The idea of painting it as somehow irresponsible in terms

of the last couple of years is frankly ridiculous. So we should just move on and try to deal with the issue. I look forward in Governor Christie to be as strong with the funding of pensions as he said he would. And we move forward from there. Thank you.

MS. MOLNAR: Senator.

SENATOR OROHO: Thank you. Assemblyman Cryan, thanks for joining us. It's Senator Oroho, and I just want to mention--

ASSEMBLYMAN CRYAN: I apologize, Senator; I didn't know who was speaking, so I apologize.

SENATOR OROHO: It's Senator Oroho, and I just want to mention that I don't think this Commission is partisan. The way I look at it, we're a long-term planning-- And that was my point. We're a long-term planning Commission, and just my suggestion was that the page that talks about comprehensive -- the reconciliation to comprehensive; and I know that for the CAFR -- but that it include all earned--

ASSEMBLYMAN CRYAN: Senator, I appreciate that, but here's my deal: I've been on this Commission for a number of years. This is a report that's presented to the Commission. Frankly, the Republicans, whoever the members have been for the last couple of years, complain about the report and the way it's framed. They don't offer any sort of legislation afterwards to ask for a change in terms of how it's done, or any sort of follow up. Why don't we get the politics out of this, why don't we deal with the debt that's in front of us, why don't we turn the page? The reality is, as you know and as I know, there hasn't been an explosion of debt under this administration. We're dealing with the issues that are in front of us. Why don't we offer to move on? If you want to amend the report,

we'll drop something after the new administration. If it requires legislation, I'd be happy to co-sponsor it with you.

SENATOR OROHO: All right; that's fine. I'd love to talk to you about that. I just want to finish, and please react to the Treasurer. In my experience, as in the private sector, the one thing you do is, you do your planning based upon the laws and regulations that are in effect today -- the ones you know you're going to have to deal with. The biggest thing we have here is the other post-employment benefits. And I'm not trying to make this a political issue. That's not what I'm trying to do, Assemblyman. So please understand, all I'm trying to do is say that as a long-term planning Commission, we should have a long-term perspective as to what the future cash requirements will be for the State. That's all I'm saying. And with respect to the Treasurer, I understand. I understand why the report is this way. What I'm trying to do is offer suggestions how I think it should be. And I'll finish it at that, because we are looking at earned cash commitments. And when you look at the other post-employment benefits, we don't have-- It's a completely unfunded liability. We don't have--

ASSEMBLYMAN CRYAN: I certainly believe Governor Corzine's been quite public about the concern in post-retirement medical and what it will do long term, as every municipality and county is.

SENATOR OROHO: That's not my point.

ASSEMBLYMAN CRYAN: Second, your point, Senator-- Again, I'd be happy-- I agree with you. Let's look forward on the issue, not behind us, and I'd be happy to work with you on any sort of planning you'd like, in terms of the new Legislature.

SENATOR OROHO: I appreciate that. Thank you.

ASSEMBLYMAN CRYAN: Thank you.

MS. MOLNAR: Senator Sarlo.

SENATOR SARLO: Thank you. And please, don't take this as being political, but--

SENATOR OROHO: I won't. (laughter)

SENATOR SARLO: Please don't. The increase -- and I asked this question earlier -- the big increase from FY '08 to FY '09 is a billion dollars -- \$1.1 billion for investment in infrastructure, schools and roadways. The question I have is, of the \$33 billion of hard debt, which I would hope most of it is for investment in infrastructure, how much of that \$33 billion is still remaining from the Whitman pension (indiscernible)?

ASSEMBLYMAN CRYAN: (indiscernible)

SENATOR SARLO: Am I correct in saying -- and I think I have it -- it's \$2.573 billion?

MR. PETRINO: That's exactly right -- \$2.573 billion.

SENATOR SARLO: Is that the right number I'm looking at?

MR. PETRINO: Yes.

SENATOR SARLO: State pension funding, \$2.573 billion?

MR. PETRINO: That's the balance, the outstanding balance as of June 30, 2009.

SENATOR SARLO: And that's in the hard debt number -- in the hard debt number.

MR. PETRINO: Yes.

SENATOR SARLO: And we're going all the way back to--

MR. PETRINO: The bonds.

MS. MOLNAR: D-5?

SENATOR SARLO: Okay. And that's unfortunate, when we're talking about hard and investment infrastructure, the State is still kind of carrying \$2.5 billion worth of debt from that.

SENATOR OROHO: And once again, Senator Sarlo, my point is not to say-- We could go down, and on D-3, we could pick any number, one of these-- The reason why the type is so small is because we have too much debt. And we could go through it and pick any number, one of these issues, as to why that debt should not have been taken down, or whatever. That's not my point.

SENATOR SARLO: Right. And these are projects between Republicans and Democrats -- they're both responsible for these--

SENATOR OROHO: My point just being that we, as a long-term planning Commission, should have in front of us what are the cash-flow commitments that we've made as a Legislature, either Republican or Democrat, so that we know what our true, true picture happens to be of the cash contributions and the cash obligations that we have done, whether it be funded debt to employees, or whatever. That's my own point. That's it. Thank you.

MS. MOLNAR: One of our mandates is to give an assessment of the State's ability to increase its debt, so if we have this soft (indiscernible) cash commitment, that does affect our ability to increase our debt. So there is an interaction, interplay. So it may not be directly stated in the report, but to do the other arm of it we have to know of some of these background numbers.

Any other questions or comments? (no response)

Okay; the debt report. We can all agree on the prior year, fiscal year. The current year -- we're going to ask for an updated page showing the post-November bond issues that's going to happen in December. Now, the estimated debt service for five fiscal years, we can say that we know that's subject to change; that's as of this moment. But when you're presenting this report, you state that that piece is subject to change.

Is there any other adjustments to the report you'd like? (no response)

Okay--

TREASURER ROUSSEAU: Yes, first I'd like to thank the Office of Public Finance for putting the report together; and make a motion the Commission accept the report.

MS. MOLNAR: With those--

TREASURER ROUSSEAU: With those changes mentioned by the Chair.

MS. MOLNAR: Thank you.

MR. ANNESE: Second.

MS. MOLNAR: Any discussion, further discussion? (no response)

MR. VARI: On the motion to accept the debt report, as amended.

Senator Sarlo.

SENATOR SARLO: Yes.

MR. VARI: Senator Oroho.

SENATOR OROHO: For the reasons I suggested before, I think it would be a strong recommendation, but I have to vote no. Thank you.

MR. VARI: Assemblyman Cryan.

MR. LaBUE (Aide): Assemblyman Cryan, your vote on the debt report.

ASSEMBLYMAN CRYAN: My vote is yes. What were the other two recorded votes? It's very hard to hear on the phone; I apologize.

MR. VARI: It's "yes" for Senator Sarlo, and "no" for Senator Oroho.

SENATOR SARLO: Don't leave me hanging, Cryan. (laughter)

ASSEMBLYMAN CRYAN: I vote yes. But I have to tell you, we're accepting a report here, not adopting whether we agree with all debt or anything else. We're accepting the report that's provided, and I vote yes.

MR. VARI: Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: For my very first vote, I think that this is a very interesting discussion, and I did not intend this to be, nor did I see this as, a political blame game. I think it's really a report on the status of things and where things are going to go. However, I think due to some of the questions we have here, and due to the fact that the Commission, I think, has been not really given the respect or the diligence perhaps that is due it, I'm going to vote no on this initial report. Thank you.

MR. VARI: Treasurer Rousseau.

TREASURER ROUSSEAU: Yes.

MR. VARI: Mr. Brune.

MR. BRUNE: Yes.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: Yes.

MR. VARI: Chairman Molnar.

MS. MOLNAR: Yes.

MR. VARI: Madam Chair, you have seven votes in the affirmative, two in the negative. Motion carries.

MS. MOLNAR: Okay, thank you. I want to thank you all for coming today.

SENATOR OROHO: Good discussion; thank you.

MS. MOLNAR: Good questions; thank you.

Mr. LaBUE: Assemblyman Cryan, it passed.

MS. MOLNAR: Our next item is the New Jersey Building Authority report. I'd like to welcome Charles Chianese, Executive Director.

You should have gotten in your packet some material from the Building Authority -- descriptions and the dollar amounts, which total \$9,215,000.

Good morning.

CHARLES CHIANESE: Good morning, Madam Chair.

Let's see, is this on? (referring to PA microphone) I think it is.

Members of the Commission, good morning.

On October 20, 2009, the New Jersey Building Authority Board approved the project report -- which is before you this morning -- for consideration, titled "The State Capitol Complex, Cultural Campus and

Other State Office Building Renovation Projects.” With me this morning, to my right, is Steve Sutkin, who is a director in the Department of Treasury of the Division Property Management and Construction. To his right is John Geniesse, Chief of Staff for the Division of Property Management and Construction. To my left is the Chair of the State House (*sic*) Joint Management Commission, Kathy Crotty. And supporting the JMC is Carl Costantino.

The New Jersey Building Authority, as you know, Madam Chair, has enjoyed a long-standing relationship with your Commission and appreciates the opportunity to come before you this morning. I will say, unlike the previous discussion, with regard to the projects before you, all of these projects will not require any additional financing; they will not require any bond issue. They will be fully funded from project surplus that has resulted from bringing in other authority projects under budget. So no additional State appropriation will be required to fund these projects.

At this time, with your approval, with the approval of the Chair, I would like to ask Mr. Sutkin to start the overview of the projects. After the presentation, we would be happy to address any questions that Commission members may have. Madam Chair, if that’s acceptable?

MS. MOLNAR: Sure, thanks.

MR. CHIANESE: Steve?

S T E V E N M. S U T K I N: Good morning, Madam Chair, and Commission members. We appreciate the opportunity to present the following projects included in the project report which, as Mr. Chianese mentioned, were approved by the New Jersey Building Authority on October 20, 2009, which we now submit for your consideration.

These projects, which are DPMC projects -- I defer to Ms. Crotty on the JMC-related projects -- the DPMC projects have an estimated total cost of \$6 million and address some of the highest priority capital needs that DPMC has identified among the 40 buildings and other facilities that fall under our responsibility.

The first project that I want to bring to your attention is a project for the New Jersey State Museum Auditorium, which includes HVAC heating, ventilation, air conditioning upgrades in the amount of \$500,000. The museum was built around 1964, and the Auditorium still has much of the original HVAC systems in place and received only minor duct work modifications during its operational history. The original pneumatic automatic temperature controls are in various stages of failure and disrepair. This affects the health and comfort of visitors to the auditorium facility, and limits the ability to operate the facility in an energy-efficient manner. A recent consultant report recommended the HVAC system upgrade, which will include replacement of the existing automatic temperature control system with a new digital control system; repairs to the outside air control sequencing, which controls carbon dioxide levels; and duct work modifications and system rebalancing. The estimated cost, as I noted, is \$500,000.

Would you prefer for me to go through all of them--

MS. MOLNAR: No, just highlight, maybe, some of the main ones.

MR. SUTKIN: Okay. The next project, which was noted in the project report, is for the Taxation Building water infiltration repairs.

The Taxation Building is a 10-story building that was constructed in the late 1960s, and the exterior joint sealants throughout the façade of the buildings are in poor condition and are failing, allowing water to enter into the building and below. At some locations the joint sealant is missing entirely from the joints; and in addition, the fourth floor bridge from the Taxation Building to another adjacent facility, 33 West State Street, is no longer utilized and is leaking. Water joints in the brick exterior wall on the east façade of the Tax Building are in poor condition and need to be re-pointed. A 2006 consultant report recommended repairs to include replacement of the joint sealants throughout the exterior of the building, removal of the bridge to 33 West State Street, and reconstruction of the exterior wall, and the re-pointing of the brick veneer at the south end of the east façade. And the total estimated cost for that project is \$1.1 million.

The third project is the Hughes Justice Complex elevator modernization, estimated at \$2 million. All 14 elevators at the Justice Complex were installed nearly 30 years ago. Presently, none of the elevators comply with the current Americans with Disabilities Act requirements or the Firefighters Service Codes. Our elevator consultant has issued a report recommending a full modernization of the Justice Complex elevators due to their age and observed deteriorating physical condition. Modernization is needed to ensure long-term reliability and serviceability, and to upgrade motion control features in order to come into compliance with the current safety code standards most recently established in 2004. The estimated cost, as I noted, is \$2 million.

The next project is similarly a Justice Complex project, for the atrium skylight replacement in the amount of \$700,000. This skylight system was integrated in the original design when it was constructed, as I noted, 30 years ago. The normal life expectancy of a skylight system is approximately 15 years. The skylight system has been leaking intermittently into the atrium for the past several years, and a 2008 consultant report recommended complete replacement of the existing skylight system with a new system at an estimated cost of \$700,000.

The next project relates to the Cultural Campus Plaza waterproof membrane replacement. The Cultural Campus consists of the State Museum, State Library, the Planetarium, Junior Museum, and Auditorium. The exterior plaza, which dates back to 1962, has had a major water infiltration problem that has existed for several years. In the past, water had seeped into the Museum facility through an overhead walkway and building soffits, causing severe damage and continued safety hazards. More recently, shortly after completion of a Museum renovation project by the New Jersey Building Authority, there was a leak into the Museum compact storage area which was temporarily repaired. Due to this emergent need to protect the New Jersey State Museum project, DPMC worked with the Office of Management and Budget to utilize available capital appropriations in order to award a construction contract this past July for the project to remove and replace the concrete, the drainage system, the underlying water, and the underlying waterproofing membrane system. In this case, Authority funding would be utilized to reimburse the State General Fund for the total cost of the project, \$1.7 million.

Thank you again for the opportunity to present these items to you, and for your past support. At this time, we refer to Ms. Crotty regarding the Joint Management Commission projects, and we are also available to answer any questions you have with respect to the projects I spoke about. Thank you.

MS. MOLNAR: I just have one question on the Welcome Center membrane plaza repair. Is that a design issue?

MR. CHIANESE: Madam Chair, would you prefer for Ms. Crotty to overview the project first? That's a JMC project.

MS. MOLNAR: Oh, it is? Oh, I'm sorry. Because it was mentioned--

MR. CHIANESE: You're referring to the Welcome Center membrane?

MS. MOLNAR: Yes.

MR. SUTKIN: There are two membrane repairs.

MS. MOLNAR: Okay.

KATHLEEN CROTTY: Good morning, and thank you for allowing us to appear this morning.

I am here as the Chair of the State Capitol Joint Management Commission which, by way of background, was created in 1992 following the historic renovation of the State Capitol -- the legislative wing of the State Capitol. And subsequent to that, of course, this building, the State House Annex, and the garage were then built as well to complement the legislative wing.

Our job is to-- The role of the Commission is to ensure that the historic renovation -- the integrity of the historic renovation is preserved,

and that the building is maintained in a way that is consistent with its historic nature; and to coordinate activities in the building so that it meets the needs of the tenants: the Legislature, the Executive Branch, and the public.

The projects that the-- The buildings that we are requesting action on -- the garage and the State House Annex -- both Building Authority projects, they're both originally funded and managed by the Building Authority. The State Capitol Joint Management Commission, like every State agency, has limited capacity to fund any significant capital projects, yet the buildings, by their nature and their age, require pretty careful attention. And in identifying these projects, we worked with the Department of Treasury and a series of consultants who have made the recommendations that are before you.

The first relates to the air handler in the east wing of the State House Annex. And this air handler affects the space in the building at the basement level of the building that was formerly used by the Office of Legislative Services Library staff. It came to our attention that a number of the staff had been experiencing some health-related problems as a result -- which we later learned were a result of some of the conditions in that wing. We were forced to relocate the staff to what had formerly been a public space and available for use by the public in the State House Annex. So we're interested in remedying that situation. We have taken a number of preliminary actions which were recommended by the consultant. The air handler is one that is not within the capacity, the financial capacity, of the Commission to deal with. And subject to this being addressed, we would be able to then relocate the staff back into the space that was outfitted for

them, and make the space on the first floor that they're currently using available for public use again.

The Welcome Center membrane has created a safety hazard in the atrium of the garage, the main entry point into the garage. And on any occasion where we have even a relatively small amount of rain, we have leaking there and in three or four locations in the atrium. As a consequence, it's pretty unsightly and unsafe for people entering the State House Annex, and that is the main point of entry to the building.

And the final project relates to the State House garage. And these problems came to our attention as a result of structural studies that were done after each of the flood incidents that we've had over the past couple of years. I think they're a function of both the age of the garage and the flooding conditions, and obviously rather an important issue that has to be addressed. Again, this is a case where the Commission made some preliminary repairs at the suggestion of the consultant, but this is again one that is beyond the financial capacity of the Commission to address. Yet it is extremely important that it be done.

MS. MOLNAR: When was the plaza put in?

MS. CROTTY: It would have been in the mid-90s. The Capitol-- The State House Annex, the building we're in now, and the garage, were both completed sometime in the mid-90s.

MR. CHIANESE: I think it was prior to 1995; it was around 1994. I think essentially what we're dealing with is a function of age. Obviously, for the reasons that Ms. Crotty stated -- certainly with historic structures -- there tends to be much more maintenance that has to go along with them. But the fact that the State House is in a flood plain as well,

with respect to the garage, and it's been flooded twice all the way up to the Welcome Center, is serious and certainly has long-standing effects on any facility.

MS. MOLNAR: I had one other question. You say "funding for the projects will be provided through the Building Authority Surplus Construction Fund." Exactly how much is sitting in this Surplus Construction Fund?

MR. CHIANESE: We have approximately \$14 million, of which, if the Commission will recall, previously you approved the Newark parking lot project which was, I believe, around \$2.5 million. This is another \$9 million worth of projects. The Building Authority had approached the Department of the Treasury and the JMC and asked for prioritization of the projects. Knowing that pay-as-you-go capital is scarce, the Building Authority was fortunate enough where we were able to bring a number of projects in under budget. You know that the Building Authority has a long-standing reputation of doing so -- in fact, I don't think we've ever brought a project in over budget -- so we have about \$14 million to reprogram. We asked the State to prioritize what are the most critical projects, and the two rounds of projects that came back was the \$9.2 million before you, as well as the Newark parking lot project.

MS. MOLNAR: So that would be about \$11.7 million earmarked of the \$14 million.

MR. CHIANESE: Correct.

MS. MOLNAR: You do say the ultimate cost depends on the result of bidding, which could be as much as 10 to 15 percent above the cost estimate.

MR. CHIANESE: Correct. That's why we-- You know, I'll never take the initial project cost up to the full authorization, because we need some flexibility in the event that the market conditions are such where bids are coming in higher than anticipated, the estimates weren't quite exactly what we had thought them to be. When you're dealing with historic structures, you can open up a wall and run into issues that you never anticipated, which is going to be more costly. So we like to leave some flexibility to the extent of 10 to 15 percent, which traditionally the Building Authority has set forth in its project reports.

MS. MOLNAR: Any questions or comments? Senator.

SENATOR OROHO: On the same exact issue with the surplus funds: so it is essentially the that 10 or 15 percent, say, contingency type of the thing? Is that mainly where the surplus project cost came back from? Or any relation to the fact that we're getting a lot more bids because of the economy, or anything like that?

MR. CHIANESE: The surplus has accrued over a number of years.

SENATOR OROHO: Okay.

MR. CHIANESE: So it's not in any one year. And it is a combination of bids coming in lower than anticipated and, quite frankly, just good management in the field of ensuring that we bring the project in under budget. We generally try to-- We take the budget very seriously, and it's a combination of better pricing and efficiencies that we were able to achieve in the field.

SENATOR OROHO: Okay, thank you.

MR. CHIANESE: You're welcome.

MS. MOLNAR: Okay, we have a resolution in front of you. Oh, I'm sorry. Mr. Annese.

MR. ANNESE: Good morning. I'd like to talk for a minute about the parking garage, and if I'm reading correctly it's about \$2 million to repair it?

MR. CHIANESE: Yes.

MR. ANNESE: Is that correct? (affirmative response) Good.

If we have another three floods sometime in the future, will these same problems reoccur?

MR. CHIANESE: Well, that's a good question. With water-- Water is a very difficult issue to address. One of the concerns that we've always had is the mechanical systems, which I believe are on that lower level. And there's been discussion -- many discussions -- to relocate the mechanical systems to a higher elevation, but it's very costly. My recollection is that it's somewhere -- \$6 million, \$7 million to--

MS. CROTTY: Depending on which option--

MR. CHIANESE: Right, to relocate the mechanical systems. With respect to any structural cracking or what have you, it really just depends on the nature of the flood, the force of the flood, any debris that may be floating around in the garage. This has resulted after numerous floods. There's no way to avoid the fact that the State House is in a flood plain, and in looking at the Welcome Center after the last flood, the water came all the way up, if I recall, to literally over the first floor.

MS. CROTTY: Not entirely, but pretty much.

MR. CHIANESE. Just about. It was that far from the first floor. So, it's a hard question to answer. It's a very difficult--

MS. CROTTY: The consultant report that was done with respect to the garage does not tie entirely to the flooding. It's in part due to age. The flooding, obviously, has exacerbated that. As I said, we've taken some -- we've done some preliminary repairs. They identified a number that were somewhat more urgent. They were undertaken by the Joint Management Commission. They were smaller dollar amounts, and we had the capacity to do it. But this was-- Among all the recommendations they made with respect to correcting conditions in the garage, this is the next item that the consultant suggested that had some urgency attached to it.

MR. ANNESE: If I recall correctly, the problems weren't solely as a result of Mother Nature. Part of the problems were due to water management control upstate or upriver, and out of our control -- out of the State of New Jersey's control. I understand there has been some litigation in that area, and could you bring me up to date there on what New York state is doing regarding water control, and releasing water from their dams?

MS. CROTTY: The management of the river is way beyond our jurisdiction, but you're correct. There is a very active effort among people in Pennsylvania and New York, both public officials and citizens, to pressure the State of New York and the Delaware River Joint Basin Commission to change the way they manage the dams upstate so that more water is released from the dams at opportune times and it reduces the potential for flooding in the river.

MR. CHIANESE: You're absolutely right, Mr. Annese. There was significant damage along the Delaware, certainly up the New York and Pennsylvania lines, with respect to the release of water from the dams. And with the last flood, Ms. Crotty is correct, there was an intense dialog that

took place with respect to management of release of the water. So I'd like to believe that from the experience that has occurred over the last two floods, that they have their act together with respect to the release of water. Because it clearly has an impact here in Trenton, no question about it.

MR. ANNESE: Would you know if there has been any resolution of that discussion?

MS. CROTTY: To my knowledge, and I only am familiar with it from what I read in the press, it's not -- there's been no final resolution. There's still a lot of discussion going on among the officials in New York, and New Jersey, and Pennsylvania.

MR. CHIANESE: I know, from folks that I know who live along the Delaware, that, with respect to the release of water, the last few times, at least, the word has been that there seemed to be a better management of the release of the water. Of late, there hasn't been any damage, and they seem to correlate it to the fact that there has been other provisions put in place relative to the release of the dam water.

MS. CROTTY: But in addition to that, following the most serious, really serious flood we had in 2006 -- was, I think, the most serious one -- the Department of Environmental Protection, the Army Corps of Engineers, undertook a pretty extensive study of what actions could be taken unilaterally by the State of New Jersey, and they have begun to address some of those issues. And so have some of the municipalities along the river with respect to their own problems. There's been, I think, a lot of activity relating to trying to deal with the floods. But again, it's to some degree way beyond, ultimately beyond our control. We have, oddly -- it's unfortunate -- the staff in the Complex, the building management staff, has

become very skillful in responding to potential flood and dealing with it, reducing the potential damage to the equipment in the garage and the dislocation of the employees. That's an unfortunate consequence of having had this occur on three occasions now.

MR. ANNESE: Do any of your plans include part of a remediation effort? You know, pumps, things like that, to help us in the interim.

MS. CROTTY: The consultants' reports don't suggest that that's really a very viable alternative. The biggest consequence, as Chuck mentioned, of the flooding in the garage is the damage or the potential infiltration of the equipment that is located on the lowest level of the garage. Part of the report that we requested makes a series of recommendations -- there are several different recommendations -- as to relocating the equipment that is at that level.

The ultimate decision as to where that equipment should go is also related to the construction of the park on the State House grounds and the build-out of that master plan, with respect to the park. They're related. And so the Joint Management Commission has been reluctant to choose an alternative, all of which are very expensive, before the park design is completed. You see, if you observe the grounds of the Capitol, there's a large grassy area now behind the Capitol. There is a plan to actually construct a park over the next six to eight months. There's a design that's been completed, bids are out at the moment to accomplish that. But the park has several different stages; it's a four- or five-stage project which we anticipate would take probably a decade to complete. And as I said, the relocation of the equipment from the garage and the design of the park are

related. And the projects, under any set of circumstances, under any option we choose, of relocating the equipment is very expensive. The Commission does not have the money to do it. And so as a short-term measure, we have just tried to really, really stay on top of managing any potential flood incident. We thank God we haven't had one now in, I guess, two years.

MR. CHIANESE: And to add to what Ms. Crotty indicated, I believe on two occasions since the last big flood -- through a joint effort between the Department of the Treasury and the JMC -- the equipment was relocated temporarily. It was pulled up in anticipation of a flooding event. So there's a very keen awareness of when floods are going to reach the stage of actually coming into the garage and the planning takes place to actually get ahead of that, pull the equipment out so as to avoid all the ruin -- all the equipment being damaged and ruined and have to be replaced. But it's quite an effort to pull that off each time there's a flood anticipated. So obviously, at some point, the better option would be to relocate it to a higher elevation. But the numbers that I've seen are somewhere north of \$6 million, just to do the relocation of the equipment.

MS. MOLNAR: What's baffling is when this garage was designed, the architects knew that we were in a flood zone, so why would they design a garage with the equipment susceptible to flooding?

MS. CROTTY: This is a discussion that we've had a number of times at the Commission.

MS. MOLNAR: It's just baffling.

MS. CROTTY: I think the fact is that the floods that have occurred are far worse than was anticipated at the time that the garage was built. And that's probably a function of development along the upper

Delaware River, particularly on the Pennsylvania side. Again, the garage was built in 1995, and the development up there has been intense and it's probably had a serious consequence on the river.

MR. CHIANESE: In fact, the consultants had indicated that it was supposed to be a 100-year flood, and so at the time I think the thinking was that it really wasn't an issue. The problem is that the garage has been flooded two times already; so it's a good question. I think the wisdom at the time was it wasn't going to be an issue. But that would have been the time to address it.

MS. MOLNAR: Any other questions? Senator.

SENATOR OROHO: Just one to add with respect to -- and thank you very much. One thing I definitely will do when it's raining is grab my umbrella and park outside, after listening to this. (laughter) But with respect to the flooding: Does the consultant report deal with the structural integrity of any buildings that might be affected? Do we know, at least, that structurally the buildings are okay?

MS. CROTTY: Yes. The garage is the only building that has actually been flooded.

SENATOR OROHO: Okay.

MS. CROTTY: And that's really what led to the request for the consultant report. In fact, every time there has been an incident, the building management brings in a structural engineer to examine the garage before it's reopened, on every occasion.

SENATOR OROHO: Thank you.

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

If not, on page -- I don't have a page number; New Jersey Building Authority. Mine says Page 54. I don't know-- There's a resolution 11-2; I won't read the whole thing, but we are resolving that the Capital Planning Commission hereby approves the Capitol Complex projects, and we recommend the projects to the Governor and the Legislature, based on the testimony today that it will be coming out of reserve funds and no additional financing is required.

MR. VARI: Is there a motion?

ASSEMBLYMAN WOLFE: I'll make the motion, yes.

MR. VARI: Second?

SENATOR OROHO: Second.

MR. VARI: On the motion to approve the project report.
Senator Sarlo.

SENATOR SARLO: Yes.

MR. VARI: Senator Oroho.

SENATOR OROHO: If I may just, real quick--

MS. MOLNAR: Sure.

SENATOR OROHO: You may, as the Treasurer said before, come back to me. I'm going to abstain for right now, because the one thing I can't do, looking at the situation we're in, with respect to our debt situation-- The hurdles that I'll look at is the benchmarks of approving these. And certainly a number of these rise to that occasion; the critical care kind of thing. Right now, as far as that, I have a hard time assessing, since we're voting on them in a block, all those projects. Obviously the garage, without a doubt. For right now, until it's necessary, I'm going to abstain.

MS. MOLNAR: Okay.

MR. VARI: Assemblyman Wolfe.

ASSEMBLYMAN WOLFE: Yes.

MR. VARI: Mr. Brune.

MR. BRUNE: Yes.

MR. VARI: Mr. Donnelly.

MR. DONNELLY: Yes.

MR. VARI: Mr. Annese.

MR. ANNESE: This is a tough issue for me. I'm going to vote yes on this, with the caveat that I'm hoping in the future that you might come back and possibly ask us for more money to move the equipment that has to be moved. I see no point in just fixing something and it floods again, and fixing it and it floods again. I believe in long-term, permanent solutions. But in the interim, I'll say yes, but maybe we can find some money for you in the future. So to answer, my vote is yes.

MR. VARI: Chairwoman Molnar.

MS. MOLNAR: I agree with Mr. Annese. I will vote yes, though.

MR. VARI: Madam Chair, you have six in the affirmative, one abstention.

MS. MOLNAR: It does not pass.

MR. VARI: We'll have to address this at the next meeting. Is that okay?

MS. MOLNAR: Would you vote, Senator?

SENATOR OROHO: My only issue is that we're voting on all these in a block and this is (indiscernible). I'll vote yes. Thank you.

Let me just explain: The only reason why I'm-- The issue of voting on each one of these in a block-- Some of these are certainly a lot more critical than others. I understand that it's surplus funds. I understand that cash is fungible. There's going to be other priorities to come down the line. But for this, it's certainly-- Certainly there's nothing in here that I would call discretionary comfort care, as opposed to critical care. So I will vote yes. All right?

MR. VARI: Okay, very good.

MS. MOLNAR: Thank you, Senator. It now passes; thank you.

MR. VARI: Motion carries.

MS. MOLNAR: Thank you.

MR. CHIANESE: Thank you.

MS. CROTTY: Thank you very much.

MS. MOLNAR: Now we have three more departments we have to hear from for our 2011 capital requests. We have Human Services, Education, and Corrections. These are just presentations. We are not voting on these today. This will be recommendations after January 19.

SENATOR OROHO: That I understood. Thank you.
(laughter)

MS. MOLNAR: Okay, they can make their presentations. So save your material so that when we come back--

Okay, our next department -- we have some biggies coming up -- Department of Human Services. I'd like to welcome Diane Zompa, Chief of Staff.

Good morning.

C H R I S T O P H E R B A I L E Y: Good morning, Chairwoman Molnar, and distinguished members of the New Jersey Commission on Capital Budget and Planning. My name is Chris Bailey, and I serve as the Department of Human Services Assistant Commissioner for Budget and Finance. Originally Diane Zompa was to deliver the Department's testimony today, but she's under the weather. So I will do my best to fill in for her.

To my left is Joe Guider, Director of our Office of Budget and Planning. And to my right is Katherine Fling, Director of our Office of Property Management and Construction. Sitting in the audience are Patricia Howell and Karl Sheidy from the Division of Developmental Disabilities. They will assist Joe, Katherine, and myself to answer any questions you may have at the conclusion of my remarks.

I am pleased to have the opportunity to present the Department of Human Services capital budget request for Fiscal Year 2011, and to inform you of our accomplishments with the '09 and '10 appropriations.

I'd like to begin by expressing the Department of Human Services' appreciation for the continued support of this Commission, and for the assistance of staff at OMB in the preparation of our 2011 request.

As you know, the Department of Human Services serves nearly 1.5 million of New Jersey's most vulnerable citizens. We provide a wide array of services, including direct care, at our State-owned and operated hospitals. Nearly 3,000 of our clients reside in our seven centers for individuals with developmental disabilities. Another 2,000 reside in our five psychiatric hospitals. Our facilities provide 24-hour, seven-days-a-week

residential care, treatment and rehabilitation to New Jersey citizens with psychiatric diagnoses and developmental disabilities. We also provide services through community-based residential placements that we support through a network of contracted community service agencies. Let me add here that, while we typically do not address capital needs for our community-based services in this forum, we need to acknowledge that as we depopulate our institutions, the need for investment in our community infrastructure will increase.

The Department's clients residing in our 12 State-owned facilities are generally people with disabilities so severe that they cannot live independently, whether it is for a short period of time, whether the condition is assessed and stabilized, or for longer periods of time because of the severity of their illness or multiple diagnoses. Through your capital budget recommendations in years past, you have demonstrated an understanding of both the need for these services and our infrastructure needs, acknowledging our responsibility to maintain and upgrade the aging infrastructure of our facilities.

Our request for specific capital projects, and the priority ranking we assign to them, is based on our overriding commitment to providing appropriate and safe living environments for our clients that will enhance their ability to respond positively to treatment. We must also earn our Federal funding reimbursement by maintaining good standing with the accrediting bodies for the services that we provide. They include JCAHO for mental health services, and CMS for services to individuals with developmental disabilities. We must also address the findings of the Department of Justice, and we must ensure that our facilities comply with

all regulatory standards. These include the Uniform Construction Code, fire safety codes, both State and Federal statutes and regulations, and Department of Environmental Protection standards.

I am pleased to say that we have completed projects in FY '09 that have increased our compliance with these standards. And we have started a number of such projects with \$9 million in FY '10 capital funding that was appropriated based on your recommendation. This includes \$6 million in HVAC funding and \$3 million in roofing dollars.

In the interest of time and consideration of the departments to follow us on the agenda, the printed testimony that you've been provided goes into detail about the projects funded with '09 and '10 dollars. I'd like to skip ahead to Page 6 and focus on our '11 capital request.

I believe you already have received detailed information about each project in your packet. Our first priority continues to be HVAC system improvements. This year, we're requesting a total of \$40.9 million for HVAC system improvement or replacement projects so that we can continue to address the needs at our facilities. We have prioritized the projects by facility, based on the age and condition of the existing systems, and the needs of our clients.

Our first priority for HVAC system replacement for the FY 2011 budget is \$5.5 million to replace two chillers at the Hunterdon Developmental Center. The Office of Energy Savings is aware of this critical need and is assessing it in conjunction with the other energy-related projects at this facility. These chillers provide air conditioning to the facility. One of the chillers failed several years ago, and was replaced with a temporary rental chiller that was later purchased as a cost-savings measure.

This chiller's five-year warranty expired some time ago, and at present the unit does not run at full capacity. The facility's other chiller is failing as well. The summer of 2009 was a difficult one for the employees at Hunterdon, as they attempted to keep these two chillers operational through the hottest months of the year. If this request is approved, we anticipate having to rent at least one chiller for the summer of 2010. We would then plan to have the two new chillers operational for the 2011 season.

Our other critical projects for HVAC replacement are at the new Lisbon and Woodbine Developmental Centers, at \$7.5 million and \$3.6 million, respectively. Both facilities need new chiller plants, again to replace their antiquated equipment with vastly more energy-efficient and cost-effective equipment.

Our second priority continues to be the replacement of failing roof systems, when 30 of our buildings systemwide have roofs that are in extremely poor condition. We have actively leaking roofs at many of our facilities. These roofs have been in service far beyond their 25- to 30-year life spans. They have been repaired again and again over time.

For FY 2011, we are requesting \$7.35 million for roofing so that we can replace aging roofing systems and protect our clients, staff, and building contents. Our number one priority roof repair and/or replacement project for FY 2011 is \$1.5 million for the roof at the Ann Klein Forensic Center. This is one of our newer facilities; however, the roof applied when the building was new had only a 10-year warranty. That warranty has expired. Some sections of the roof are in good condition; other sections require replacement; and still other sections can be addressed with repairs.

We started this project with funding left over from the original facility construction. Our FY '11 request for an additional \$1.5 million would ensure that we can address the facility's needs and obtain 20- to 25-year warranties on the new sections.

And we are requesting \$750,000 to replace the roof on the laundry services building at Ancora Psychiatric Hospital. This roof has aged past its 25-year life expectancy and is actively leaking. Providing laundry services onsite at Ancora continues to be the most effective method of handling this facility's laundry. And Ancora's laundry operation also does the laundry from the Woodbine and Vineland Developmental Centers.

We are also requesting roofing dollars for the Greenbrook Regional Center. The Center's roof is actually made up of a number of smaller roofs on different sections of the building. We have requested \$1.5 million to replace all the roof sections. We have made all the repairs we can, yet we continue to battle leaks. We believe it's time to replace the roofs at this facility.

Historically, we have submitted our capital project funding requests as lump-sum dollar amounts for each project, including all costs up front, as if we were going to spend the funds in one fiscal year. This year, in order to acknowledge the difficult budget climate, we've opted to base our requests on our anticipated expenditures during FY 2011 for priority projects No. 3 and lower.

The Department's third priority project this year is to replace the failing steam distribution systems at both North Jersey and Woodridge Developmental Centers. The request is for \$1 million. With these funds, we will be able to design the projects. We will return to the Commission in

a subsequent capital budget cycle for the necessary construction dollars, based on a design firm's construction estimate. At this time, we anticipate construction costs at approximately \$11 million for both locations. The existing piping systems at these facilities are more than 30 years old. Numerous leaks are ongoing at both these sites. The piping provides steam for heating the facilities' residential buildings and to operate the main kitchen. The systems consist of steam and condensate return lines that are encased in conduits filled with asbestos-containing insulation. Because of the presence of asbestos, every repair involves an asbestos abatement project to get through the insulation to the leaking pipe. At North Jersey, we will prioritize replacement of the main distribution line from the powerhouse. If this section was to fail -- and it is showing signs of decay -- the entire campus would be without heat. Obviously the replacement of the entire distribution system is essential to this facility.

The Department's fourth priority project for FY 2011 is \$750,000 to design the proper closure of three landfills at Ancora Psychiatric Hospital. We will return to the Commission in subsequent capital budget cycles for the estimated \$5.3 million in construction funding needed to accomplish the closures in compliance with NJDEP requirements. Ancora ceased using these landfills in the 1980s. Given the other investments we've made at this facility, closing these landfills in compliance with DEP and New Jersey Pinelands Commission requirements would be the next logical step from both the environmental and property management perspectives. The Pinelands Commission required us to submit a plan to close these landfills in order for them to approve the Camden County Municipal Utility Authority connection project. The

Pinelands Commission will expect us to follow through with that plan, and rightfully so.

This concludes my formal remarks. Let me add that the Department of Human Services appreciates the difficult position the Commission is in with competing priorities and increasing costs through one of the worst economic downturns in decades, if not our lifetime. We urge you to continue to make thoughtful investments in our residential facilities so that the most vulnerable among us can be cared for appropriately.

We would be happy to field your questions at this time.

MS. MOLNAR: Thank you.

Any questions or comments? (no response)

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

MR. BAILEY: Thank you.

MS. MOLNAR: Our next department is the Department of Education, Barbara Gantwerk, Assistant Commissioner of Student Services.

I'd like to welcome--

A S S T. C O M M I S S I O N E R B A R B A R A G A N T W E R K:
Madam Chair, and members of the Commission, good morning. I'm Barbara Gantwerk, and I'm the Assistant Commissioner for the Division of Student Services; and I appreciate this opportunity to come before you today to discuss the capital funding needs of the Marie Katzenbach School for the Deaf, the State school to educate deaf and hard-of-hearing youngsters. With me today are David Corso, Director of Administration; and Ronald Goodwin, Interim Superintendent of the Katzenbach School, who are also with me to answer any of your questions.

Currently, approximately 185 children attend the Katzenbach School; 96 of the students are boarding. They're on campus from Monday morning until the close of school on Friday. Students and staff at the Katzenbach School share a common language, American Sign Language. It is the glue that binds this community together and makes Katzenbach School unique in this state. The school moved to its current location on Sullivan Way in 1926. The 117-acre campus is comprised of 31 buildings which require constant maintenance because of their age. In today's world, maintenance of the school's facilities is a challenge. We have been working with other departments of State government to share that responsibility. During the last two years, the school has invested in several large-scale facility improvements including re-paving campus roadways, upgrading the school's fire alarm system, and making minor renovations to bathrooms and student residences. Under the leadership of Bernard McLaughlin in the Treasury, facility personnel from other agencies volunteer their time, and the students at Katzenbach School have been the beneficiaries. And I want to thank everyone for their efforts and support for these projects.

As you know, these children are in our charge and we are responsible for their health and safety, as well as their education. In light of this responsibility and in recognition of the serious fiscal situation facing our State, our 2011 capital request for \$1.35 million is limited to the projects that are essential for the health and safety of the students and staff at the school. The projects that we are requesting are the same projects that were requested last year when no funding was received.

We're asking for one sprinkler and fire alarm installation for \$400,000. An inspection of the Katzenbach School campus by the Division

of Fire Safety conducted in March of 2008 revealed the need to install a sprinkler system in the windowless basement and the entry foyer of Building No. 1 which now houses the elementary and middle school students.

The high school air conditioning for \$500,000: Some students attending school at Marie Katzenbach have medical conditions which require their educational programs to be provided in an air conditioned setting. For these students, failure to provide an education program under the conditions specified in their Individualized Education Programs can be a compliance issue or legal issue, as well as a serious medical issue.

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

Campus lighting, \$200,000. The school campus is home to students when school is in session. At night, the campus is dangerous because it is too dark to see in many locations. For deaf people, this problem is exacerbated by their dependence upon vision to monitor their environment. Problems with outside lighting accounted for multiple fire code violations in April 2008. Additional lighting is absolutely essential for the safety and security of students, their families, and staff. The State fire inspector's recent finding also called for the need to increase the amount of outside and emergency lighting at the Katzenbach School. During the school week, our campus operates a 24-hour operation, with students regularly traveling from school to the educational resource center to do their homework, or receive tutoring, or to go to the athletic facilities, and ultimately to their dormitories. In addition, evening workshops offered during the week for parents or programs offered by our tenants require that the campus be adequately lit for the safety of our community. With the assistance of the Office of Energy Management, we have identified the areas most in need of additional lighting, while employing technologies to reduce our overall energy costs while providing maximum visibility.

Also, the high school window replacement for \$250,000. This project is to replace damaged window panes in the vocational high school. These windows have cracks and leaks, thereby furthering the challenge of properly cooling or heating the school's classrooms and offices, particularly in extreme weather. Maintenance staff has caulked and sealed the windows, but damages have exceeded our ability to properly maintain them.

We ask that you continue to support investment in the Katzenbach School, and hope the Commission will recommend that the 2011 budget include funding for these key initiatives.

Thank you very much for the opportunity to speak to you today on behalf of the Katzenbach School for the Deaf community, and we are available to answer any questions that you may have. Thank you.

MS. MOLNAR: Thank you.

Any questions or comments? Assemblyman.

ASSEMBLYMAN WOLFE: I just have a comment, a positive comment. Dr. Jochem, I think was the gentleman's name, was the leader of the--

DAVID CORSO: Dr. Charles M. Jochem.

ASSEMBLYMAN WOLFE: Years ago, over 30 years ago, I was invited to the school to present a flag that had been flown over the United States Capitol by Congressman Forsythe. It was a new Boy Scout troop that was being formed there among the students at the school. I had never been there before; I came with five or six people from the community. And I will never forget how impressed I was by not only the children, but the parents and the instructors, and also Dr. Jochem. Was that the gentleman's name?

MR. CORSO: Jochem.

ASSEMBLYMAN WOLFE: I'm really glad that that's really still under the care of the State.

MS. GANTWERK: Thank you.

ASSEMBLYMAN WOLFE: Although we're not voting today, I think it's a very worthy project.

ASSISTANT COMMISSIONER GANTWERK: We appreciate the support and invite you all to visit.

ASSEMBLYMAN WOLFE: Thank you.

MS. MOLNAR: Thank you; it's nice to hear a comment.

Any other questions? (no response)

I want to thank you for your presentation.

ASSISTANT COMMISSIONER GANTWERK: You're welcome. Thank you.

MS. MOLNAR: Our last department is the Department of Corrections. I'd like to welcome Lydell Sherrer, Deputy Commissioner.

D P T Y. C O M M I S S I O N E R L Y D E L L S H E R R E R:
Good morning, Madam Chairwoman. On behalf of Commissioner George Hayman, I'm pleased to present the Department of Corrections' Fiscal Year 2011 capital budget request to you and the Commission. Seated with me are Assistant Commissioner for Administration Carmella Elmer; and Bruce Hauck, Director of Operations.

I believe you have the Department of Corrections' formal written testimony. For the sake of time, I'll summarize its contents. But before I do that, I'd like to mention one of the Department's emergent needs. The wastewater treatment plant at our Albert C. Wagner facility in Bordentown is currently in the second phase of a three-phase rehabilitation project. Funding in the amount of \$1.6 million is still needed to complete this project. This plant processes wastewater for the inmate population and staff for Albert C. Wagner, 1,257 inmates; and the Garden State Youth Correctional Facility, 1,830 inmates; and, under an inter-governmental agreement, the sewage of Chesterfield Township. Unless the project is fully

rehabilitated, it is not likely the plant will be able to keep pace with future development plans.

That being said, this year's capital budget request is comprised of 37 projects, totaling \$301.5 million. Of this amount, \$80.9 million, or 27 percent, addresses two construction projects needed to preserve bed space at our Central Reception and Assignment Facility, and the program requirements of our female population at the Mahan Correctional Facility for Women. The balance of our request, \$220.6 million, or 73 percent, is needed to address the preservation of our physical plant and infrastructure Department-wide.

This year we included two energy improvement initiatives in support of the revised State Energy Master Plan. These proposals are geared to reducing operating costs, while at the same time reducing our carbon footprint; \$1.6 million is needed to support the installation of a micro steam turbine at Bayside State Prison, which will produce 15 percent of the facility's electric energy needs, thereby reducing its operating costs by approximately \$337,000 annually.

The second energy improvement project identifies \$4.4 million to support solar energy initiatives at East Jersey and Bayside State Prisons, and agri industry at Jones Farm. By utilizing solar panels as the primary renewable energy source for selected refrigerator units, we will reduce the State's annual carbon footprint by more than 1,000 metric tons of carbon emissions, reducing operation costs by approximately \$163,000 in net to the State, and an estimated \$515,000 in solar renewable energy credits per year.

At this time, we'll answer any questions you may have. And I'd like to thank you for the opportunity to present the capital needs of the Department of Corrections to the Capital Budget and Planning Commission.

MS. MOLNAR: Thank you.

I had a question on Priority 4: 200-bed medium security facility, \$42 million. That equates to about, if I do my math right, \$220,000 per bed. Is that a similar cost based on the past?

A S S T. C O M M I S S I O N E R C A R M E L L A E L M E R:
We don't have that information with us, but I'm sure that it is consistent with past-- Inflated for the inflation factors that we've seen over time.

MS. MOLNAR: The other thing, prior years-- It used to be around 30-- It cost the taxpayers in New Jersey-- It used to be \$30,000 to continue housing one prisoner. Do we know that number today?

ASSISTANT COMMISSIONER ELMER: The fully-loaded cost, which includes not only those accounts budgeted in the Department of Corrections budget, but also the interdepartmental accounts which account for the fringe benefits of employees, have calculated that cost to be approximately \$48,000 a year.

MS. MOLNAR: Thank you.

Any other questions or comments?

Senator.

SENATOR OROHO: Just one quick question, if you would. With respect to the prioritization, priority 1, 2 and 3, what kind of criteria-- Is there criteria that is given to you, or are you able to develop your own

criteria? Like, for example, payback or safety, or is it-- Do you use any specific standard criteria as to what gets the priority?

ASSISTANT COMMISSIONER ELMER: Well, in this year the chillers are our priority number one, because we cannot afford to lose the maximum security prison, the only maximum security prison that we have. And as far as the other priorities, we don't look at payback as the significant element. We look at safety and security.

SENATOR OROHO: My question would have been a question for any of the departments: Is there any standard prioritization standards given out?

MS. MOLNAR: We do give them some list of items they should look at: fire safety, etc. We could get them to you.

SENATOR OROHO: If you could; I would love to see them, because then I could understand how they're coming up with their different priorities.

Thank you.

ASSEMBLYMAN WOLFE: I have a question.

MS. MOLNAR: Sure, Assemblyman.

DEPUTY COMMISSIONER SHERRER: And we do follow those guidelines, by the way.

MS. MOLNAR: Assemblyman.

ASSEMBLYMAN WOLFE: You have in the request something for -- let me put it this way -- the prison that's being demolished, what is that called? What was the name of that facility?

DEPUTY COMMISSIONER SHERRER: Riverfront State Prison.

ASSEMBLYMAN WOLFE: Pardon?

DEPUTY COMMISSIONER SHERRER: Riverfront State Prison.

ASSEMBLYMAN WOLFE: Riverfront. So it's not Bayside?

DEPUTY COMMISSIONER SHERRER: No, no, sir.

ASSEMBLYMAN WOLFE: Okay. Are there any plans to replace that?

DEPUTY COMMISSIONER SHERRER: No plans to replace.

ASSEMBLYMAN WOLFE: How about the personnel who are in there?

DEPUTY COMMISSIONER SHERRER: All the personnel have been reassigned to other vacancies throughout the State Corrections' facilities.

ASSEMBLYMAN WOLFE: Okay. Thank you.

MS. MOLNAR: There is also discussion -- I don't want to call it Rahway Prison, because it's in Avenal. I don't know the correct name.

DEPUTY COMMISSIONER SHERRER: East Jersey State.

MS. MOLNAR: East Jersey, thank you. There was some discussion of -- since it's so old, going back to the 1800s -- of knocking that down and rebuilding it. Is there more, any new discussion on that?

DEPUTY COMMISSIONER SHERRER: No discussions, no plans. We're just trying to maintain it.

MS. MOLNAR: Maintain what you have, even though it is pretty old.

DEPUTY COMMISSIONER SHERRER: Yes.

MS. MOLNAR: Okay, thank you.

Yes, Mr. Brune.

MR. BRUNE: Just one question on Chesterfield's relationship with the priority number, which I think is No. 7. Is it still Priority No. 7? You took some pains to mention in your testimony that that's an emergent project. Is it still Priority No. 7? Maybe that's the first question, in the scheme of things.

ASSISTANT COMMISSIONER ELMER: It's still Priority No. 7, because we did find \$1.6 million to fix the second train (*sic*), which would make us two-thirds whole. And the remainder would be the third train, and that would depend on the development in Chesterfield Township. Now that we're in sort of a depressed economy, we don't anticipate--

MR. BRUNE: That's what I wanted to get at, Carmella. Before I get there-- This \$1.6 million, is that construction money? Or is that, that you need here, is that to construct the third train?

ASSISTANT COMMISSIONER ELMER: Yes, it is.

MR. BRUNE: Okay. So, the only question I have was: Can you just describe to us the relationship between Chesterfield and the Department, in terms of what's driving the need for that investment? Does Chesterfield play a role in the financing part of that, or is it totally on the Department?

ASSISTANT COMMISSIONER ELMER: There are economic conditions in the agreement, and the Attorney General's Office is reviewing that right now. They do pay for the actual processing of the sewage; but as far as the capital improvements, as of today we have not had any

contribution from Chesterfield Township. But the attorneys are reviewing that for any future repair.

MR. BRUNE: So maybe going forward it would help us, I think, as we work this out, to understand-- Maybe you could just send us a copy of the agreement.

ASSISTANT COMMISSIONER ELMER: Oh, sure.

MR. BRUNE: We have to understand how we got to where we are, what is the reason that we have an ACO, or whatever you want to call it, in the first place with that particular town. Why are we processing their sewage? Just be a little, maybe historical help to us as we struggle with that one.

ASSISTANT COMMISSIONER ELMER: Sure, we can provide that to the Chair.

MS. MOLNAR: Any other questions or comments?
Assemblyman.

ASSEMBLYMAN WOLFE: I just want to compliment you on your presentation. Being a new member, it was helpful to me to see you have priorities listed for your requests.

DEPUTY COMMISSIONER SHERRER: Thank you.

ASSEMBLYMAN WOLFE: Thank you.

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

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

Okay, now are there any other items? (no response)

Well, if not, I want to wish you all a happy holiday.

And we will be making recommendations to the Governor and the Legislature after January 19, 2010. See you then.

Thank you all for coming. Meeting adjourned.

(MEETING CONCLUDED)