Discussion Points (Cont'd)

1. At this time last year, the Office of Legislative Services (OLS) projected that at the end of Fiscal Year 2006 the Transportation Trust Fund (TTF) would have an unmet cash need for projects authorized through Fiscal Year 2006 of about $1.4 billion. The unmet cash need represents the difference between trust fund expenditures (i.e., annual trust fund program and debt service costs) and trust fund resources (i.e., annual State appropriations, bond sale proceeds, and trust fund earnings). In other words, it appeared to OLS that the TTF had over $1.4 billion in authorization for projects without any remaining resources to pay for those projects.

Question: **Was the OLS analysis correct? If not, why not? If so, how is the unmet need being addressed? Does addressing this need consume resources that are intended to fund the next five years of TTF projects?**

Yes, the FY 2007 TTFA Financial Plan to the Legislature shows an estimated FY 2006 unfunded liability at year end of $1.410 billion which is essentially unchanged from the previous year (FY 2005). Since the Authority only bonds for anticipated cash disbursements for the upcoming fiscal year, not obligation authority, there is always an unfunded balance associated with active construction projects that span several years. The FY 2007-2011 financing plan includes the estimated spend-out of all current construction contracts.

2. **The recently enacted statute (P.L.2006, c.3) providing increased funding for the Transportation Trust Fund Authority (TTFA) authorizes appropriations from the fund of up to $1.6 billion per year in Fiscal Years 2007-2011, or up to $8 billion over the five-year period. In statements or letters to Legislative committees, the Commissioner of Transportation indicated that the TTFA is expected to raise $6.4 billion in "new money" through the issuance of bonds over the five-year period, and the State Treasurer estimated that the "new money" from bonds would be $6.2 billion. In other materials provided to the Legislature, the Executive has indicated that $601 million will be available to the TTFA for pay-as-you-go spending during the same five year period.**

Question: **How will $8 billion of projects be paid for with the $6.2 or $6.4 billion of borrowing and $601 million of pay-as-you-go? Will there be an additional unmet need of $1 billion or more to be paid for in future years?**

The Authority anticipates issuing $6.2 billion in bonds (par value) which will yield approximately $6.4 billion in net proceeds for transportation projects. As noted in Question #1, the Authority only bonds for anticipated cash disbursements for the upcoming fiscal year. Accordingly, there will be active construction projects underway at the beginning of FY 2012 that will require financing until project completion, just as there is currently.

3. **Under the provisions of P.L.2006, c.3, one criterion by which the Financial Policy Review Board is to evaluate the TTFA's fiscal discipline is whether the amount expended on "permitted maintenance" under the Annual Transportation Capital Program in FY 2008 and thereafter exceeds the amount expended in FY 2007. According to the department, expenditures for permitted maintenance totaled about $174.6 million in FY 2005.**

Question: **What is the amount of projected spending on "permitted maintenance" for FY 2006, for the department and NJ Transit, respectively? How much is allocated to each**

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entity for "permitted maintenance" in the proposed Annual Transportation Capital Program for FY 2007? Please indicate the specific line items in the proposed FY 2007 program that include funds for "permitted maintenance", and the specific amount included in each.

NJDOT is reducing its permitted maintenance expenditures from the TTF from $26 million down to $16.9 million in the FY 2007 budget as follows:

Description	FY 2006	FY 2007
Bridge, Emergency Repairs	10,000,000	10,000,000
Drainage Rehabilitation and Maintenance	3,000,000	2,000,000
Orphan Bridge Emergency Repairs	900,000	900,000
Regional Action Program	1,000,000	2,000,000
Sign Structure Repair Program	1,000,000	1,000,000
Signs Program Statewide	1,000,000	1,000,000
Access Management	250,000	0
Electrical Facilites, Repair & Replacement	1,500,000	0
Emergency Response Operations	250,000	0
Equipment (Vehicles)--Pothole Killer Rental	1,500,000	0
Good Neighbor Landscaping	1,000,000	0
Restriping Program	3,000,000	0
Technology Evaluation	100,000	0
Traffic Signal Relamping	1,500,000	0
Transcom Membership	425,000	0
Total	26,425,000	16,900,000

NJ TRANSIT has reduced its permitted maintenance and other capital to operating transfers from $157.8 million in FY 2006 to $103.2 million in FY 2007. The changes are detailed below by capital program line item.

Description	FY 2006	FY 2007
Rail Capital Maintenance	34,700,000	63,900,000
Bus Vehicle and Facility/Capital Maintenance	49,170,000	33,600,000
Building Capital Leases	9,300,000	5,700,000
Bus Engines and Tires/Other Parts	29,100,000	
AMTRAK-Northeast Corridor Access	27,500,000	
Rail -Wheels FY 94-01	4,000,000	
Rail-Equipment Other Parts	4,000,000	
Total	157,770,000	103,200,000

4. **Traditionally, government agency debt issued to fund the acquisition of long-term assets has an amortization period that does not exceed the useful life of the assets in question. P.L.2006, c.3 increased the maximum duration of Transportation Trust Fund Authority (TTFA) bonds from 21 years to 31 years.**

Question: **How does the Department determine the lifespan of individual projects? How is an average lifespan calculated for any given annual capital program? For any particular TTFA bond issue? Do federal standards or criteria determine the useful life of an asset or project, and are those standards or criteria binding on the Department?**

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NJDOT/NJT uses research by FHWA, other State DOT's, and actual experience in New Jersey to estimate the useful life of investments. Since the useful life of transportation investments depends on a variety of factors such as usage, weather conditions, and design specifications, there are no universal binding standards imposed by FHWA, GASB, IRS, or any other governmental body. The average lifespan of the DOT/NJT capital program is estimated by assigning a useful life to each line item in the capital program and weighting that estimate by the dollar value of the investment. In order to estimate the overall average lifespan of projects generating cash disbursements over the next five fiscal years, useful life values were assigned to all projects authorized in the FY 2003-2006 capital programs and all planned projects shown in the FY 2007-2010 State Transportation Improvement Program (STIP). The resulting calculations show an average weighted useful life of all NJDOT and NJT projects of 24.84 years.

Question: **How will transportation construction be altered to create an average asset lifespan of 31 years? When the maximum debt amortization period was altered in 1995 from 11 years to 21 years, were there any associated construction changes? If not, can the TTFA envision projects funded with 40-year debt?**

The 31 year maturity specified in TTFA renewal legislation is a maximum maturity, not an average maturity. The TTFA will continue to issue serial maturities as it has done in the past. The estimated weighted average maturity of debt to be issued during the FY 2007-2011 period is 23.6 years. IRS regulations state that the weighted average maturity of bonds should not exceed 120 percent of the average economic life of the assets financed. Since the average useful life of the capital program is estimated to be 24.84 years, the bonding plan is well within the parameters established by IRS for matching asset life with bonding maturities.

5. The FY 2006 Appropriations Act included language provisions relating to the issuance by the Transportation Trust Fund Authority of Grant Anticipation Revenue Vehicles (GARVEEs) that were to provide up to $175 million toward funding the Route 52 Causeway Replacement project. This same language is recommended for FY 2007.

Question: **Please provide a status report on the Route 52 Causeway Replacement project. What obstacles or circumstances have thus far prevented the TTFA from issuing GARVEEs in FY 2006 for this project? Why is financing this project through GARVEEs a viable option in FY2007 if the TTFA was unable to proceed with GARVEEs in FY 2006? Why is it advisable to proceed with the project in this way in FY 2007, rather than through the capital program and conventional TTF financing? Since the language in question authorizes a TTF project of $175 million *in addition to* the capital program of $1.6 billion, why does the Department believe that this language recommendation is consistent with the letter and spirit of section 6 of P.L.2006, c.3, which sets forth as a standard for State of Condition of Transportation Financing certification that total appropriations from TTF resources not exceed $1.6 billion annually?**

The Route 52 Causeway Replacement project was delayed when all bids were rejected in December 2005 for being well in excess of engineering estimates. After reviewing the bid results and conducting alternative design analysis, the Department revised the design specifications and readvertised the project on April 6, 2006. Bids are due on May 23, 2006.

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The Authority will not issue the GARVEE bonds until the bid price is known and the contract has been awarded. The underlying rationale for using GARVEE bonds on this project has not changed as a result of the bid rejection in December. The very high cost of this project, coupled with the small size of the MPO where the project is located (South Jersey Transportation Planning Organization), makes GARVEE financing the most appropriate financing strategy. Since this is a 100 percent federally funded project, and the GARVEE bonds are secured ONLY by federal funds, this project is not subject to the $1.6 billion appropriation cap for projects financed with Trust Fund (State) monies.

6. The capital construction responsibilities of the Department of Transportation are to a substantial extent met by private design firms, construction companies, etc., providing services under contract. Payments under these contracts account for a substantial portion of the department's budget, and the awarding of these contracts is itself an important departmental responsibility.

Question: **Has the Department undertaken any significant review in the last 10 years of its procedures for awarding construction contracts? How do its practices in this area compare with those of other states? To what extent does the Department currently rely on negotiated bidding for its contract offerings? Could competition in the process for bidding on transportation projects be enhanced? If so, are there any organizational or statutory impediments to the implementation of such enhancements?**

The award of NJDOT construction and design contracts mirrors current federal procurement law. Construction contracts are awarded to the lowest responsible bid from a prequalified construction firm. There is no negotiation allowed in the award of a construction contract. For planning and design contracts, the federal "Brooks Act" (Public Law 92-582) precludes any consideration of price in the award of engineering (design) contracts which directly lead to a construction contract. Accordingly, design contracts are awarded to the highest qualified consultant firm which also must be prequalified with the NJDOT. Once the highest qualified firm has been selected, the Department attempts to negotiate a reasonable cost agreement. If an acceptable price cannot be negotiated with the highest ranked firm, the Department is empowered to begin negotiations with the second ranked firm, and so forth.

NJDOT has experimented with several methods of innovative construction contracting over the last ten years. The Department now routinely makes use of incentive and disincentive clauses for projects that will potentially cause significant traffic disruption and delays to the motoring public. In addition to their low bid award amount, contractors can receive bonuses for projects delivered ahead of schedule or pay penalties for each day the project is not completed on time.

NJDOT has also experimented with another method approved by FHWA called Cost Plus Time Bidding or sometimes referred to as A+B Bidding. Under this method, contractors submit both a conventional price bid and separate "bid" on the total number of calendar days that will be needed to complete a project. The time is weighted by a "road user cost" factor that measures impact on the motoring public. The contract is awarded to the bidder with the lowest overall construction and time bid.

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Another innovative contracting method used by NJDOT with mixed results is "design-build" (e.g. Route 29 Tunnel). Instead of completely designing the road first, and then constructing the road to detailed specifications, the design build method allows the design and construction to be procured through one low-bid procurement. Under this method, construction can begin before all design details are finalized (e.g., pile driving could begin while bridge lighting is still being designed). However, this approach only works well when the end product or facility can be well defined.

NJDOT has also initiated major changes to its process for selecting design consultants over the last several years. Design projects are no longer advertised until the Feasibility Assessment Report (scoping) is fully approved and available to all vendors for review. This allows for better proposals and reduces the time required to negotiate an agreement once a selection is made. Some consultant selections were once made on the basis of subjective technical scores less than 1 percent apart. The Department's Consultant Selection Committee now weighs a variety of factors in the best interest of the State when the difference in technical scores is not statistically significant (less than 5 percent). Another innovation implemented by the Department relates to the type of contracts negotiated. Most design and architectural contracts issued today in the United States are on a Cost Plus Fixed Fee basis. Under such contracts, the consultants are entitled to recoup all documented direct costs, a reasonable overhead rate, and a fixed fee (profit). The Department has initiated Lump Sum basis contracts which allow the consultant to charge only one negotiated fee for their service. This method can be used whenever the project scope is considered to be well defined with little probability of encountering unknown factors (e.g. bridge inspections).

Question: **What rules and procedures, if any, secure contractors' guarantees for road-building quality? Has the Department considered moving towards a European model, under which contractors guarantee roads for a set number of years and assume all repair and resurfacing costs?**

The primary approach used by New Jersey and other state DOTs for ensuring road building quality is a comprehensive inspection process for all materials used on the site; inspection of the project while it is being constructed; and test borings of sample locations after the construction is completed. Projects are not closed and vendors paid until NJDOT is fully satisfied that the project has been constructed in full compliance with NJDOT construction specifications.

Warranties have been successfully used in other countries and by some other states to protect investments from early failure. Many European countries use some form of warranty in their highway contracts, with a warranty period ranging from one to five years. The consensus among the European transportation agencies is that warranties do improve construction quality. FHWA does allow some warranty clauses with the objective of encouraging improved quality and contractor accountability without shifting the maintenance burden to the contractor. Ordinary wear and tear, damage caused by others, and routine maintenance remain the responsibility of the State DOTs. Warranty provisions are normally limited to a specific construction product or feature. A general warranty for the entire project is unacceptable since the contractor does not control the design process or make decisions during that phase. Contractors cannot be required to warrant items over which they have no control. An example of this might be a warranty for

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asphaltic concrete pavement. It would be appropriate for the contractor to warrant the smoothness of the pavement or the rutting performance, but inappropriate to warrant reflective cracking which might occur due to preexisting underlying layers regardless of how well the contractor constructs the new pavement. Warranty provisions have been used in other states for asphalt concrete pavements, bridge painting, traffic striping, and bridge expansion joints. While NJDOT is interested in the possible use of warranties, there is no definitive data at this time showing the additional cost of such contracts would more than offset the costs of correcting premature failure of investments.

7. The budget proposes a staff reduction for the Department, anticipated to reduce costs by $1,374,000.

Question: **Please provide specific detail about this proposed reduction. Is it permanent? In which agencies of the Department will the reductions occur, and how will those agencies' operations be affected? Which titles or positions will be removed?**

The Department is reducing its General Fund salary accounts by a total of $5,921,000 through the elimination of 128 positions, not $1,374,000. The savings will be achieved through a combination of: eliminating funded vacancies, attrition, reducing the number of unclassified employees, and reassignment of employees to non-state funded functions. All of the reductions presented are considered permanent.

<u>Eliminating Funded Vacancies ($2.131M):</u>
The NJDOT will save $2.131 million by eliminating fifty-six (56) funded vacancies within the Maintenance & Operations (48), Administration & Support Services (7), and Intermodal Services (1) program classes. There will be little or no impact to current service levels resulting from the loss of funded vacancies.

<u>Attrition, Redeployment, and Non-State Funding ($2.7 M):</u>
Another $2.7 million in savings will be achieved through a combination of attrition and reassignment of administrative employees to FHWA/TTF eligible functions. The number of classified employees in the administrative and support areas of the department will be reduced by 57 classified positions between now and June 30, 2007. In order to not negatively impact winter operations and other roadway and bridge maintenance activities, the Department will not "attrit" any positions in its Maintenance & Operations program during this time.

<u>Reducing Unclassified Employees ($1 million):</u>
One million dollars will be saved through the elimination of thirteen (13) unclassified positions primarily in the Administration & Support Services program. In those cases where the targeted unclassified employees are career employees with Civil Service status, efforts will be made to reassign those employees to federally funded activities within the NJDOT.

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Consolidation Savings ($90,000):
The Department will eliminate one (1) manager position in the Division of Intermodal Services and consolidate the responsibilities of this position with those of another manager within the organization. This initiative is expected to save approximately $90,000.

8. The budget proposes a $27 million increase to the NJ Transit's operating subsidy, $5 million of which is to replace a one-time revenue. Farebox revenue is projected to increase by $43.1 million, and system-wide revenue per trip per rider is expected to be constant at $2.94.

Question: **What is the policy of the department for the target amount of cost recovery through fares for NJ Transit?**

Consistent with industry standards, TRANSIT fares cover about half (45-50%) of system operating costs. In addition to keeping transit service affordable for working families, fare policy implies a contract between users and the state, as all share in transit congestion relief and economic benefits.

Historically, both fare and state appropriation increases were avoided by using $2.7 billion in capital (since 1990) to cover operating costs, a practice that has been stopped and frozen at current levels ($356 million annually) in the Governor's budget. To maintain fare box recovery in the range of 45-50% going forward, a predictable schedule of reasonable appropriation increases, coupled with periodic, inflation-based fare increases at 18 to 24 month intervals, will be required to adequately fund operating expenses. That contract would balance annual responsibility for covering basic inflationary costs ($45 million annually on a $1.5 billion base), extraordinary expense growth (fuel, insurance, security health care) and the cost of new and expanded train, bus and light rail services to meet demand.

9. In Fiscal Year 2006, funding for Transportation Assistance for Senior Citizens and Disabled Residents increased to $34.4 million, up 36 percent from the FY 2005 funding level. The program's appropriation for FY 2007 is recommended to increase again, by about 2 percent, to $34.9 million. The program's recommended funding is tied to the level of revenue realized by the Casino Revenue Fund.

A review of financial records for this program for the period FY 1999-FY 2006 shows that some moneys appropriated for each year remain unspent, although all these unspent moneys are obligated, and that 25 percent of total funding for that eight-year period -- $52.6 million out of $208 million appropriated – remains unspent. Most of the unspent funds are from FY 2005 and FY 2006 appropriations. Through April 7, 2006, $43.3 million of the $59.6 million appropriated for those two years remained unspent. There are no evaluation data presented in the Executive Budget proposal that detail the program's activities or accomplishments.

Question: **Please explain in detail the manner for determining the annual amount of funding recommended for this program. Please also describe how funding is allocated.**

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The Senior Citizens and Disabled Residents Transportation Assistance Program is designed to:

- Strengthen the County role in transportation
- Foster coordination among various county transportation programs and funding sources (Offices on Aging, Transportation, and Human Services) by requiring annual application, coordination planning, a local citizen's advisory committee and a local public hearing process to address the use of funds and the provision of transportation services
- Focus efforts on increasing mobility and accessibility for seniors and persons with disabilities in an effort to maintain their independence as part of the community.
- NJ TRANSIT retains funds for capital accessibility improvements on bus and rail service.

The original legislation (1984/85 first program year) states that 7½% of the dollars collected in the casino revenue fund are allocated to this transportation program. For a number of years, the dollars in the program increased slowly. During this slow growth period, the 21 county community transportation systems experienced stagnant growth. During this same period, the increase in seniors and the higher visibility of the disabled in the community and workplace as a result of the ADA put added pressures on the county systems. In 2006, the program experienced the first significant increase in some time as the result of new taxes going into the casino revenue fund. Some of those new taxes are temporary and are set to expire or be diverted into other programs after three years. The funds are allocated, by law, as follows:

- 85% of funds are allocated to counties

- 15% of the funds are allocated to NJ TRANSIT for administration of the program to the counties and to fund bus and rail accessibility improvements. Up to 10% of the NJ TRANSIT funds can be set aside to administer the program, however, the average used for administration over the years has been approximately 6%, with the balance of the administrative funds used for accessibility projects.

The 85% set aside for the county programs is allocated to the counties as prescribed by law based upon:

- The percentage of the State's total 60+ population per county;

- An annual minimum allocation for smallest counties (established by NJ TRANSIT). The 6 smallest counties receive a minimum of 2%; and

- No county may receive more than 10% of total funds available to counties

Q*uestion:* **What specific services or activities are funded and by whom they are provided?**

The specific service provided varies from county to county, but each of the 21 counties provides a transportation service for seniors and disabled residents. Some counties have been able to

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secure additional grant dollars for rural transit or income disadvantaged residents, but casino revenue is by far the largest single source of funds for these local services. Most counties provide a demand-response service where registered clients call ahead and schedule a trip for medical, nutrition, shopping, educational or any other purpose. Non-emergency medical transportation is the most significant and largest trip purpose in these systems. Some counties also provide modified fixed-route or shuttle types of services, which run on a regular schedule, i.e. the shopping mall bus on Tuesday etc.

Over the past decade, specialization and decentralization of medical facilities has put an increased burden on the county systems. The expanding demands for dialysis transportation have also placed increased pressures on service in recent years. The aging demographics of the state have also placed significant demands upon the system. Many riders who were in their late 60's two decades ago remain riders now, well into their eighties, leaving in little room for expansion to accommodate new seniors and persons with disabilities until this year's increase.

Last year, the 21 county systems reported, in total, a fleet of 973 vehicles; providing nearly 4 million trips and traveling 20 million miles. Casino revenue funds made up approximately 50% of the 21 county's budgets. The additional funding in 2006 will increase the percentage casino revenue funds represent in their total budgets.

The administrative funds are used by NJ TRASNIT to perform the following functions:

Annual Review of Application for Funds from the Counties
Monitor Operations - Site Visits
Review Vehicle Specifications/Inspect Equipment
Verify Reimbursement Requests
Provide Driver and Management Training
Promote Best Practices
Attend local Citizen Advisory Committee Meetings and Local Public Hearings

The NJ TRANSIT capital accessibility projects funded with casino revenue funds are projects identified both internally and by advocacy groups as projects that would improve accessibility, but are not currently included in NJ TRANSIT'S capital program. Projects range from constructing a high-level platform at a rail station to the replacement of wheelchairs lifts and securements on older buses.

Question: **What new or expanded transportation services for the elderly and disabled are being supported with the increase in funding that was provided in FY 2006?**

Due to increased costs, slow growth in the casino revenue fund prior to 2006 and increased demands by the growing population served, the increased funding will only allow counties to better deal with the increased demand for current services. However, this increase in funding has allowed some counties, such as Somerset County, to develop new services. In Somerset, transportation and planning staff worked with advisory committees and local government to develop five new modified fixed-route services called C.A.T. (Community Access Service) which will begin service in May, 2006. Each route serves a different part of the County one day a week, with each route designed to serve major medical facilities, shopping malls and county government services.

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In addition, in many cases, the county systems welcomed the increase as an opportunity to catch up with long overdue replacements for vehicles. Most county fleets consist of vans and body-on-chassis minibuses. In a perfect world, the useful life of such equipment, which is on the road at least five days a week, eight hours a day, would be five years. With a total county fleet of 973 vehicles, that would mean that every year counties should be replacing 195 vehicles. At an average price of $50,000 for these specially equipped vehicles, that would mean approximately $9,750,000 of the counties $29.2 million allocation should go to capital equipment. The counties are not at that level of vehicle replacement but this increase in funding has allowed many to start to bring their fleets up to date.

Since the county systems are strained by increased costs, especially the doubling in fuel prices in the last several years, another very important use of the increased funding is to avoid service cuts. Having reported traveling 20 million miles last year, it is estimated that the counties have seen fuel costs rise $2 million dollars in the last several years. Although cumulatively the increase in funds for 2006 is significant, when one divides the increase amongst the 21 counties, the actual dollars per provider is in the range of several hundred thousand dollars per county, which could translate into 4 or five minibuses or 3 or 4 drivers per county.

The new funds have brought stability to the county programs, allowed them to begin to upgrade their fleets to acceptable levels and, in some cases, allowed for limited expansion of services.

Question: **What are the reasons for the apparent delay between appropriation of funds and expenditure of funds for services? Should the Legislature be concerned that these funds are being appropriated too far in advance of the time when services are actually provided?**

This program is the only program funded with casino revenue funds that has a significant capital portion to it. Oftentimes the procurement of equipment or the development and construction of a capital project can take several years for initial design, specification writing, award, delivery and/or construction completion.

Of the $52 million cited as unspent, approximately $15 million of it is tied to capital projects, either in process or in development. Approximately $1 million is for administrative expenses for FY2006. Of the remaining $36 million, $29 million represents the county allocations for the FY2006 budget. In the program guidance developed by NJ TRANSIT, counties must submit applications for funding and then enter into a contract with NJ TRANSIT for those funds. An administrative decision, in consultation with the counties, was made early in the program that the counties would be awarded their funds to coincide with the county fiscal year which runs on a calendar year basis. Therefore, county fiscal years have a 6 month delay compared to the State's fiscal year for which the counties are applying for funds. The process takes several months for the counties to complete the grant contracts with NJ TRANSIT and prepare their individual budgets. So for the first six months of the state fiscal year there is little activity in the 85% of the program that represents the county allocation.

The grant is administered as a reimbursement program. Once the county fiscal year begins in January and the county begins to incur costs they bill NJ TRANSIT who reviews their documentation before reimbursement is made. Only now, as we enter into the month of April, will county expenses start to be drawn down in any significant way. The remaining $7 million in

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funds represents unbilled capital purchases from earlier county portions of the program or, in some cases, delinquent billings from counties. There are counties still billing NJ TRANSIT at this time for the county fiscal year 2005 expenses, which ended in December. However, their future programs depend on the funds remaining available to them. This reimbursement request approach for each and every program dollar provides NJ TRANSIT with more accountability than awarding grant dollars on, for example, a quarterly basis and then having to audit expenses at the end of the year. This program as designed to clearly place the responsibility on the county to document spending before funds are drawn down.

By design, all regulatory requirements regarding application, public input and entering into contracts are completed before the first day when actual expenses are incurred. Unlike other casino revenue funded programs, which are designed as a pay as you go and can go over budget, this transportation program is designed to put service on the street equal to the dollars allocated from the fund. In order to meet that goal, programs must be planned and positions (drivers and mechanics, etc.), equipment (vehicles) and supplies (oil and fuel) must be in place to deliver service to the end-user.

10. As displayed in the Governor's Budget (p. D-397), the operating budget for New Jersey Transit will increase by $118 million, or 8.4 percent, in FY 2007. Personal services funding -- salaries and wages and, presumably, employee benefits – is increasing at 6.3 percent, and accounts for $54.2 million of the total increase.

Question: **How will the size of the NJ Transit workforce change under the FY 2007 budget if adopted as proposed? How much overtime, in hours and in spending, was incurred in FY 2005? Has been incurred to date and is projected for FY 2006? Is budgeted for FY 2007? What increase in rates of compensation, under terms of negotiated union labor contracts, are reflected in FY 2007 personal services funding? What change in compensation packages for NJ Transit executive management/non-union labor is reflected in FY 2007 funding? What other factors are driving the increase in this part of NJ Transit's budget?**

As a result of additional cost efficiencies and revenue enhancements, NJ TRANSIT's total operating expenses are budgeted to increase by $102.5 million, or 7.3%, over FY 2006 budgeted levels and total personal services costs (salaries, wages and fringe benefits) are increasing by $40.5 million, or 4.7%, over FY 2006 levels.

The current FY 2007 Operating Budget proposal assumes a net increase in headcount of 116 positions. This includes 115 positions attributable to increases in Bus and Rail service levels that are necessary to respond to ridership demand and system expansion assumptions inherent in the proposed budget. An additional 72 new positions associated with new Rail equipment and facilities coming on line and capital-funded positions for the THE (Trans-Hudson Express) Tunnel project are essentially offset by the elimination of 71 funded positions.

NJ TRANSIT incurred actual overtime costs in FY 2005 of approximately $91 million or 2.8 million overtime hours. In FY 2006, overtime costs of $62 million have been incurred to date and are projected to total $92 million by fiscal year end, consistent with the budget which is driven by service requirements and wage rates. For the fiscal year to date, overall labor is essentially on budget ($348.5 million). The FY 2007 Budget assumes overtime costs at FY 2006

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budgeted levels + 3% (attributable to increases in wage rates) or a total of approximately $95 million.

Approximately 97% of the agency's overtime cost is incurred for Bus and Rail services with the remaining 3% attributable primarily to Police overtime. More than half of Bus and Rail overtime is scheduled since it is more efficient to staff peak periods on overtime rather than hire new employees. For example, it would take approximately 1,600 additional employees to replace the estimated $89 million of bus and rail overtime, and the cost of these new employees with fringe benefits would be at least $10 million higher. An external, independent review of NJ TRANSIT's practice of using scheduled overtime concluded that this is a common and necessary industry business practice and is a cost effective alternative to increasing manpower.

NJ TRANSIT's proposed FY 2007 Budget reflects current collective bargaining agreements that provide for an approximate 3% annual increase. With respect to non-agreement employees and management, the budget includes an assumption of an average 3% increase, administered wholly on the basis of a merit program with no automatic increases. It should be noted that the budgets for FY 2004-06 assumed below inflation merit increases for non-agreement staff, 2% per year, and the FY 2006 Budget reflected a freeze on salaries for Sr. Director and above positions with a salary of $100,000 and over.

Another factor driving NJ TRANSIT's personal services budget is growing healthcare costs. Over the last 5 years, consistent with market conditions, the agency's healthcare costs have risen at an annualized rate of approximately 14% and FY 2006 costs are expected to increase 10%. The proposed FY 2007 budget for personal services funds healthcare cost increases at approximately 7% after considering the retention of a health care consultant to identify cost efficient plan design changes and other best practices recommendations.

11. In responses to an OLS discussion point regarding the FY 2006 Executive Budget proposal, the Motor Vehicle Commission (MVC) informed the Legislature that the commission was in the beginning stages of developing a facilities development and siting implementation plan, having received and accepted as a tool for guidance a major consultant's study on the subject, as well as a five-year capital plan. The MVC also informed the Legislature that its FY 2006 budget plan included $23.7 million in costs related to facilities development, of which $23.3 million were capital outlays for construction or fit-out of six new agencies, and improvements at 14 other agencies or sites.

Question: **Please provide an update of the planning efforts described above. If both plans have been completed, please provide a copy of each. If not, when is completion anticipated? What is the status of the capital projects the MVC identified as being funded in FY 2006? What specific projects are included in the FY 2007 budget plan for the MVC? After the completion of these projects (both FY 2006 and FY 2007), what does the MVC estimate will be the available balance in the Trust Fund for MVC capital projects? If the five-year capital plan is completed, what does the commission conclude as to the adequacy of this balance to meet the capital spending needs identified therein? Does the MVC foresee a time when it must return to the Legislature for additional capital funding to meet its needs, and if so, when and for what amount?**

Discussion Points (Cont'd)

In 2003, Standard & Poors (S&P), through consultant selection, was hired to provide a strategy and recommendations highlighting how Motor Vehicle Commission (MVC) facilities can best serve the public. In addition, S&P analyzed the current portfolio of our facilities - including agencies, driver testing centers, and inspection stations; and made recommendations that took into consideration safety, parking availability, structural issues, and proximity to mass transit.

Some of the Siting Study recommendations were implemented in the current budget year with the careful replacement of month-to-month leases and the search for new property, which were considered cost-saving initiatives. The MVC strategy, however, is more than just the placement of agencies; it involves a plan for developing a model MVC agency and a capital plan for maintaining these properties into the future. A software decision-making tool for the acquisition and leasing of properties for the MVC has also been recommended.

The MVC has been working diligently to develop a Facilities Master Plan in an effort to prioritize the many projects outlined in the original Siting Study and other subsequent reports. MVC is working with the Division of Property Management and Construction, Department of Treasury, to finalize the plan and secure Treasury support for our efforts.

Projects for FY 2007 include releasing MVC from month- to- month leases and either renovating the current location or moving to a location that would be better for customers. It is MVC's goal to work on eight (8) leased properties this fiscal year. Other projects continuing for FY 2007 is an architectural design contract which has been awarded to look at some of our current state owned facilities such as: Bakers Basin, Rahway, and Lodi for the purposes of updating these facilities. In addition, a request for proposal to construct five (5) new agencies on State owned land is underway.

Information Technology remains another important component of funded capital projects planned by the MVC. The New Comprehensive System project, entitled MATRX, has progressed during FY 2006, and MVC has successfully begun the "Oversight RFP" part of the process with Mathtech who was awarded the contract to write and deliver a request for proposal (RFP) specifications. The New Comprehensive System is intended to modernize and make the critical business processes used by MVC in serving the motoring public more responsive and efficient.

The MVC does not foresee requests for additional funding in the short term future. Recommendations will be based on service to our customers and the availability of funds. The balance of the funds provided through the bond is estimated to be $99 million at the end of FY 2006 and $ 48M at the end of FY 2007. The majority of the funding will be expended towards the end of the time frame allotted due to the nature of construction projects. Within the guidelines and amount of funding provided by the bond issued to MVC, a prioritized plan will be utilized to successfully complete improvements in both facilities and information technology to benefit the citizens of New Jersey.

12. a. The Budget recommends $277.8 million in funding for the Motor Vehicle Commission in FY 2007, an increase of $1.1 million or 0.4% above FY 2006. According to detailed information supplied to OLS, recommended funding for MVC workforce costs - salaries and wages and fringe benefit costs – totals $178.5 million, an increase of $21.5 million or 13.7 percent above the FY 2006 level.

Discussion Points (Cont'd)

Question: **Please explain the components of change in MVC funding for salaries and benefit costs, i.e., how much of this increase is for contractual wage increases, staff growth, and fringe benefit increases, respectively. How many additional full-time and part-time staff will be funded in FY 2007 compared to FY 2006? If new staff are to be hired in FY 2007, please explain why further staff growth is needed.**

Contractual increases are a major component of the growth in the salary projection for FY 2007. Contractual amounts include cost of living increases of nearly $3.6 million, increments of approximately $1.4 million, and management raises costing $300,000. The impact of the "tenth step" agreement is estimated at almost $1 million. Fringe benefits are very significant burden of the MVC budget, totaling approximately $40 million, and will increase by $4M when comparing estimates for FY 2007 to FY 2006 projected expenditures.

An increase in staffing is a component of the FY 2007 budget, with a total growth of 126 FTE. The need for these positions is linked to the successful implementation of the MATRX initiative, information technology projects, urgent needs in the School Bus Inspection program, and additional staffing in the support areas of the MVC. The impact of these positions will be minimized through budgetary controls that include keeping the number of part time staff frozen at current levels and reducing overtime by $2 million in FY 2007.

It is important to note that this growth in total full time positions count is a short term requirement that is absolutely required to implement MATRX and other priority initiatives. It is our intention to implement turnover/attrition programs in the out years (FY 2009 and FY 2010) as a result of technology efficiencies which will be available with the successful implementation of the New Comprehensive System (MATRX).

b. The MVC's 2005 Annual Report and Service Assessment, issued in September 2005, also sets forth budget information for FY 2005-2007. While fully consistent with the Governor's budget, this information further notes that for FY 2007, the Commission expects to spend about $319 million for operating purposes while receiving about $280 million from current revenues, with the difference attributed principally to unexpended FY 2006 funds. The MVC projects that an opening "carryforward" balance of $45 million will be reduced to a closing "surplus" for operating purposes of about $14 million. This seems to suggest the MVC may be facing a structural deficit in FY 2008.

Question: **Is the MVC concerned that it faces a structural budget deficit in FY 2008 if it fully implements its FY 2007 spending plan? To what extent and for what purposes are costs included in the FY 2007 budget that will not recur in FY 2008? What revenue growth, if any, does the MVC project in FY 2008, exclusive of new or increased fees? What cost increases does the MVC project in FY 2008 to maintain current services?**

MVC remains mindful of the resources available to us in the years ahead as the State faces the enormous challenge of the budget crisis. As we strive to implement the "Fix DMV" recommendations and to complete the transition from the Department of Transportation, proper staffing and funding remains a challenge. At the time that the MVC was established, an amount of $200 million was estimated as being sufficient to operate and maintain autonomous

Discussion Points (Cont'd)

operations separate from the central services of a department. It is acknowledged that the estimate for funding and staffing was significantly understated.

It is not anticipated that the revenues will fluctuate significantly in the next few budget years. Revenue collections as dictated by "proportional share" remain within a margin of stability. Given the pressure of contractual increases and the Commission's priorities, MVC is planning on streamlining and making efficiencies where necessary to delay the need for a fee increase for as long as possible. As a result of our efforts, the MVC's FY2007 operating budget is estimated at approximately $295.6 million. While a structural deficit is unavoidable in the long term, the MVC will adhere to policies of financial responsibility in the short term. This will include implementing efficiencies, working smarter where possible, and preserving carry forward balance for the next few budget years.

The FY 2006 budget as presented in the September 30th Report included significant growth in staffing and had aggressive spending for projects in the facilities and information technology areas that has not occurred. The current year hiring that was presented in the MVC 2005 Annual Report has been reviewed and significantly reduced to only the highest priority initiatives. The FY 2007 requested FTE of 2,875 is not significantly more than the projected staffing of 2,842 presented in the FY 2006 budget.

During the current budget year, additional hiring has been revised or delayed in order to operate at a significant savings over what was budgeted. MVC is developing reduction plans in step with the rest of State government that include reducing overtime, finding efficiencies in printing, postage and mailroom, decreasing the budget for advertising, and eliminating or delaying equipment purchases. Safety advisories will be proposed to reduce costs related to re-inspections and these will save many New Jersey drivers from returning to the inspection lanes for certain inspection violations, while they will be advised of the corrective actions required. These planned efforts to reduce spending are already achieving savings in both FY 2006 and FY 2007 and will avoid the risk of a shortfall in the next few years.

While annual spending may exceed current year revenues, the use of the "carry forward" balances will be judiciously utilized to avoid a request for additional revenues. As MVC finalizes the actual expenditures for FY 2006, it is projected that the carry forward balance will exceed original estimates primarily due to conscientious efforts to participate in the statewide effort to reduce spending.