

Discussion Points

Department of Transportation

1. The enacted FY 2007 budget anticipated savings from management efficiencies (\$50 million), information technology efficiencies (\$20 million) and procurement efficiencies (\$15 million). These savings, while reflected in the Interdepartmental Accounts section of the budget, were to be obtained from executive agency budgeted appropriations, presumably in direct correlation with identified efficiency improvements.

Question: What amount of the department's original FY 2007 appropriations were reallocated to Interdepartmental Accounts as savings from management efficiencies, information technology efficiencies and procurement efficiencies, respectively? What specific efficiencies were achieved by the department that correlate to the reallocations? What adverse impacts, if any on the output and outcomes of department programs and services resulted or will result from these funding reallocations, in the current fiscal year and as projected for FY 2008?

The Department of Transportation submitted \$4.6 million in budget reductions to address the \$50 million in targeted management efficiencies required to offset salary program transfers. The Department calculated that it would need approximately \$1.8 million less in salary program transfers due to attrition savings and current estimates of non-state revenue reimbursement. Another \$192,000 in savings was generated by targeting additional attrition of administrative positions in the Capital Program Management organization. A reduction of \$45,000 was realized from lower than budgeted master lease purchase payments for previously purchased vehicular equipment. The Department also closed the Harding Rest Area and realized savings from eliminating contract services that were used to maintain the facility. Finally, NJ TRANSIT identified \$2.5 million in subsidy funding that could be applied to the savings target as a result of increased passenger fare revenue and other non-fare revenue.

NJDOT did receive an information technology efficiency reduction target of \$400,000. Since the Department does not have any General Fund financed OIT or other IT expenditures, the \$400,000 was assessed against the Maintenance and Operations salary account for future attrition of administrative positions.

Transportation Trust Fund

2. P.L. 2006, c.3 increased the TTFA annual bonding cap from \$650 million to \$1.6 billion.

Question: What new debt does the TTFA plan to issue in FY2008? What bonding authority remains available to the TTFA? What is the aggregate debt service schedule for all debt being serviced through the TTFA, including debts from NJ Transit for the Hudson-Bergen Light Rail, and from the Economic Development Authority?

The TTFA intends to issue approximately \$1.2 billion in new money bonds during FY 2007. This will leave approximately \$1.1 billion in unused bonding authority credits that have accumulated since inception of the bond cap in 1996. The aggregate debt service schedule for all debt being serviced through the TTFA is currently \$15.9 billion.

Discussion Points (Cont'd)

New Jersey Transit

3. The New Jersey Transit (NJT) proposed operating budget for FY 2008, as displayed on page D-416 of the Governor's FY 2008 Recommended Budget, totals about \$1.587 billion, an increase of 4.5 percent over the adjusted FY 2007 budget. Operating revenues are projected to grow from \$666 million to \$746 million (+\$80 million, or 12 percent). NJT has proposed a rate hike, which could take effect as early as June 1, 2007, and has conducted public hearings and informational sessions on its proposal. According to a press report, Executive Director Warrington cited the need to close a \$60 million budget gap as the reason for increasing fares by an average 9 percent. Average daily ridership for all components of NJT is projected to reach 441,600 in FY 2008, a growth of 1.4 percent above FY 2007.

Question: How much of the \$80 million increase in operating revenues is expected from proposed fare hikes?

The recommended FY 2008 Budget includes \$60 million from the proposed average 9.6% fare increase.

Question: How much is expected from increased ridership at current rates? At rates as they are proposed to increase?

Prior to adjusting for the fare increase, the proposed budget included an increase in passenger revenue of \$20 million. The amount due solely to increased ridership is \$9 million with the fare increase.

Question: What effective date of fare increases is implicit in FY 2008 operating revenue projections?

FY 2008 operating budget revenue projections assume that the fare increase would take effect on 6/1/07, one month prior to the start of the fiscal year. By implementing the fare increase early, NJ TRANSIT will be able to apply 13 months of the yield from the increase to the FY 2008 budget gap. This allows the fare increase percentage to be lower than it otherwise would have been.

Question: In projecting ridership change for FY 2008, what impact is the fare increase estimated to have on ridership numbers or behavior?

The projected diversion from the proposed fare increase effectively lowers the assumed ridership growth from 3% to 1.4%.

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Question: Has NJT received any testimony during public hearings and other public forums that has caused it to revise its original proposal? If so, what are these revisions?

NJ TRANSIT recently completed two weeks of public hearings on the fare proposal and is in the process of evaluating comments received at these meetings on our website and through the mail. Upon the completion of this review, the agency will recommend a fare proposal prior to Board action on the fare increase scheduled for the April meeting.

4. NJT recently approved a \$409 million contract to purchase 1,145 new buses, which will enable it to replace 80 percent of its current bus fleet at a rate of 200 buses per over a six-year period. These new buses are to be fifty percent cleaner (in terms of emission) than the buses they replace, will seat 42 passengers, will be equipped with closed-circuit security cameras, and are to enter service by winter 2008. Based on the numbers given, these buses will cost about \$357,000 each, and to acquire 200 buses per year would require annual outlays of \$71 million. The FY 2007 Transportation Trust Fund (TTF) capital program for NJT includes a line item for "Bus Acquisition Program" of \$20.92 million, compared to FY 2006 funding for this purpose of \$4.28 million.

Question: Please provide a detailed plan of finance for this new bus acquisition contract, showing for each year of the plan federal funds by source, non-federal pay-as-you-go sources, TTF annual capital program authorizations, and any other funding sources or techniques, including any debt financing external to the Transportation Trust Fund Authority, such as the NJ Economic Development Authority. What impact on annual operating costs are anticipated from deployment of these new buses?

NJ TRANSIT recently took a new approach with respect to bus procurements. Previously, we replaced transit buses sporadically in smaller orders. NJ TRANSIT must replace approximately 200 to 250 buses a year— just to maintain the current fleet at a state of good repair.

Recognizing this, NJ TRANSIT set aside \$47 million in the proposed FY08 capital budget and approximately \$70 million for bus purchases in the following years and consolidated our order into a larger-scale procurement spread out over 6 years to achieve the best price. This multi-year purchase also has the benefit of standardizing the fleet, which has maintenance cost benefits. We've allocated funding from the New Jersey Transportation Trust Fund for this procurement.

This phased procurement will avoid extraordinary maintenance expenditures associated with continuing to operate transit buses well beyond their normal life span of 12 years.

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5. Following the enactment of P.L. 2006, c.3, which authorized the TTF Annual Capital Program at \$1.6 billion annually for FY 2007- FY 2011, NJT received a TTF Capital Program Allocation of \$675 million, an increase of \$141 million over FY 2006. The FY 2008 budget recommends the same allocation to NJT as in FY 2007. Among the items included in NJT's FY 2007 Capital Program from the TTF was \$95 million for "Rail Transit Initiatives", for which only \$6 million was authorized in FY 2006. The "Transportation Capital Program for FY 2007", dated July 1, 2006 lists multiple potential projects to which these funds could be allocated, in no rank order, including major commuter rail system extensions or restorations.

Question: Please itemize the specific projects or purposes for which FY 2007 "Rail Transit Initiatives" funding have been expended or committed to date, and the amounts expended or committed. What specific factors, circumstances or events prompted NJT to choose these projects or purposes from among the many potential projects listed in the "Transportation Capital Program for FY 2007"? Has any portion of this line item has been transferred to other line-items during FY 2007? If so, please identify those line items and the amount transferred to each.

In ISTEA federal authorization language from the 1990s, Congress created the New Jersey Urban Core – fundamentally a single project – but really a number of related projects including Secaucus Junction, Hudson Bergen Light Rail, Newark Elizabeth Rail Link (Newark Light Rail Extension to Broad Street), Penn Station New York – 7th Avenue Concourse, etc. Congress bundled these projects into a single category to give New Jersey special flexibility with respect to implementing these projects. For example, funds allocated to one project under Urban Core can be used as a local match for another project.

Transit Rail Initiatives roughly mirrors New Jersey's Urban Core, representing the funds that we have available to match the federally authorized projects. As projects advance through the federal/state environmental review process and mature to the point that they are ready for funding, we dedicate Rail Transit Initiatives funding to them. In FY07, \$95 million of TTF was allocated to Rail Transit Initiatives. A breakdown of the amounts spent/budgeted as of January 2007 is detailed below. No portion of this line item has been transferred to other line items during FY 2007.

FY07 TTF Rail Transit Initiatives	Budgeted/Spent
Northern Branch	\$15 M
Meadowlands Rail	\$5 M
Hudson-Bergen/Newark Light Rail Vehicles	\$20 M
Passaic Bergen Rail	\$2 M
Total	\$42 M

Motor Vehicle Commission

6. The Department of Homeland Security (DHS) has released requirements for the standardization of state identification documents, through the "Real ID Act" P.L.109-13. States will be required to begin issuing these documents, described as "internal passports" by May 2008, with a possible extension to December 2009. Many states oppose the rule as an unfunded mandate, and the cost to New Jersey is likely to be significant.

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DHS has estimated the cost of implementation at \$23.1 billion over 10 years, of which \$10 billion to \$14 billion are costs to states. A report issued in September 2006 (before final regulations were issued) by the National Conference of State Legislators (presented in part by the American Association of Motor Vehicle Administrators) estimated the cost at \$11 billion, but they noted that "The findings...have likely underestimated the full impact of Real ID", pending the release of the final regulations.

Question: What is the projected cost of Real ID Act to New Jersey? How does that cost compare to other states? How will the MVC meet that cost?

On May 11, 2005, the Real ID Act was signed into law. This federal legislation provides for the comprehensive overhaul of every state's driver license and identification card security and issuance processes. The federal government is establishing minimum requirements in order for state-issued driver licenses and identification cards to be accepted for federal identification purposes. Beginning May 11, 2008, the federal government will no longer accept noncompliant driver licenses and identification cards for official purposes.

Accommodating the requirements of the Real ID Act would require extensive changes to the security and issuance of State driver license and identification cards which would result in significant modifications to long-standing state laws and processes. Some of these changes include: redesign of the physical document, presentation and verification of the information an applicant provides, physical security of production locations, security of materials, background checks of employees, extensive fraud prevention programs, the development and use of interactive state and federal verification systems, extensive technology development, enhanced data protection, and expanded public education campaigns.

The Act requires a considerable investment by the states. Depending on specific federal requirements in the rulemaking, the cost of the Act is exponentially higher than originally anticipated. The estimated nationwide cost could be up to \$23 billion.

The Notice of Proposed Rulemaking was published on March 9, 2007. The Final Rule is expected to be published no sooner than August 2007, which will leave the states with less than ten months after the final rulemaking issuance to implement the vast changes. New Jersey will request an extension which will delay the issuance of the first Real ID compliant driver license until December 31, 2009. Total re-enrollment under the Real ID process must be completed by May 2013.

In the past four years, the Motor Vehicle Commission has made great strides in improving its ID and driver license issuance process focusing in the area of security through the establishment of a Division of Security and Investigations, implementation of the 6-Point ID program, police presence in 33 agencies, installation of security cameras and physical security enhancements. Due to the complicated nature of our current identification and driver license process, the Act will require massive overhauls of these established processes and technologies. The convenient experience to which our customers have become accustomed will be profoundly impacted. For example, the time and financial component for the requirement to image all source documents at the point of service would impact our customers.

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If New Jersey decides to implement Real ID, it will have far-reaching effects and as a result, extensive discussion and information sharing is necessary. In order to prepare for Real ID, MVC has created an Enhanced Digital Driver License Project Team which will be responsible for Real ID review, cost analysis, and implementation if it is determined that New Jersey will be Real ID compliant. The Team consists of representatives from MVC, the Department of Homeland Security, Office of the Attorney General, Department of Health & Senior Services, Office of Information Technology, and Department of Treasury and other stakeholders. Based on the rulemaking, the Team has commenced preparation and planning for the significant changes that Real ID would require, however the regulations are an integral part in knowing the projected costs. Early review of costs has the Project Team focusing on technology, equipment, staff, facilities and contract renegotiation of our current Digital Driver License (DDL) production. MVC will continue to consult with other states throughout the process.

7. In a FY 2007 discussion point, OLS observed that the Motor Vehicle Commission's adopted budgets for FY 2006 and FY 2007, as reported in its 2005 Annual Report and Service Assessment, relied on non-recurring revenues to support operating levels – in other words, the Commission was facing a structural budget deficit. In response to the OLS discussion point, the Commission acknowledged that a structural deficit was “unavoidable in the long term”, and that in the short term it would exercise fiscal responsibility, by implementing efficiencies and preserving carry forward balances for the next few budget years.

In its 2006 Annual Report and Service Assessment, the Commission indicates a revised operating budget for FY 2007 of about \$295.6 million (down from its original FY 2007 budget of \$319 million) against current revenues of \$293.5 million, thus estimating that it will spend down only about \$4.1 million in carry forward balances, rather than \$38 million as originally projected. However, its FY 2008 budget plans \$299 million in operating expenses while projecting \$280 million in current revenues, which would result in a reduction in carry forward balances of about \$19 million, from \$76 million to \$57 million. Based on these data, the Commission will largely succeed in preserving accumulated balances for FY 2007 but not for FY 2008.

Question: What steps did the Commission take to reduce operating expenses in FY 2007 below its original budget? What impact, if any, did those steps have on its customers? On the fulfillment of its organizational responsibilities? Assuming the FY 2008 budget is enacted as proposed, please provide annual projections for operating budgets at current service levels and revenue projections assuming no fee increases or revenue diversions, for the fiscal years 2009-2013. Based on these projections, how much of the projected FY 2008 ending balance of \$57 million is spent down in each fiscal year after FY 2008? In what fiscal year, if any, will all accumulated balances be consumed, and what is the operating deficit in the fiscal year next following?

Many factors will influence MVC's financial picture: technology advances, a new Enhanced Inspection and Maintenance contract, the compliance determination of the Real ID Act and other unexpected mandates. Our projections indicate that funding will be stable through 2010 based on our current operating assumptions and expenses. However, one of the major factors that could influence these projections is the impact of the Real ID Act, if

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New Jersey chooses to become compliant. MVC is aware that the budget process will require re-examination of our current practices in advance of the 2011 Budget and will consider all of our financial challenges.

The MVC Budget is complex. MVC is unique in that it pays for its own negotiated salary contracts and fringe benefits, which are continuing to increase. The cost of living increases related to third party contracts as well as escalation of central costs are part of the issues that continue to increase the MVC budget. Fluctuations in revenue projecting can also make forecasting a challenge.

Our approved FY 2007 Budget had an FTE level of 2,875. Due to the hiring freeze and attrition, our current FTE is 2,630. During the Second Quarter of FY 2007, our FTE level was reduced from 2,875 to 2,749 for additional savings. Our FTE level for FY 2008 is proposed to continue as 2,749. A blanket hiring freeze exemption on Customer Service Representatives, our entry level position, has ensured that customer service at the agencies is not negatively impacted. However, the back-end operations which includes the Contact Center and the Agency Help Line, are critical to assisting our front line employees at the agencies, have been impacted by the hiring freeze. In addition, the attrition resulting from the hiring freeze have been in the areas that delayed progress on our most important projects – MATRX, the Oracle Financial Suite, Point of Service program, and facility construction and renovation.

In addition to savings, MVC diligently looks to provide efficiencies each year. Enhanced Inspection and Maintenance program continues to be a significant portion of MVC's budget. MVC recently renegotiated a one-year extension for the Parsons contract resulting in savings of \$7.1 million which includes the conversion of lanes to On-Board Diagnostics (OBD) only lanes, elimination of off-cycle inspection vehicles, and other savings to the state. Other efficiencies include a reduction in overtime costs due to the inclusion of flex-work week at MVC, closures planned at the Englewood Agency and the Ridgewood Inspection Station, reduced motor pool expenses, decrease in overall advertising, and the removal of antiquated SNA lines at our inspection stations.

Our major projects include the Motor Vehicle Automated Transaction System, known as MATRX. This project, for which the Request for Proposal (RFP) will be advertised in a few weeks, centers on a complete updating of our over 20 year old computer system. It is anticipated that this project will result in operational efficiencies as each component is completed. The Oracle General Ledger implementation is another critical improvement that is intended to support accurate reporting for the executive decision making process. Other statewide projects include the use of credit cards at all MVC facilities and the Point of Service program that will give MVC a unified view and control of all cash intake to the organization, and allow us to put in place industry best practice retail controls and accountability for every clerk, cash drawer, and workstation.

