Commission Meeting

of

NEW JERSEY COMMISSION ON
CAPITAL BUDGETING AND PLANNING

LOCATION: Committee Room 9
State House Annex
Trenton, New Jersey

DATE: February 19, 2014
10:00 a.m.

MEMBERS OF COMMISSION PRESENT:

B. Carol Molnar, Chair
Anthony F. Annese, Vice Chair
Senator Paul A. Sarlo
Senator Samuel D. Thompson
Assemblyman Angel Fuentes
Assemblyman Declan J. O’Scanlon Jr.
Thomas Neff
Steven Petrecca
Robert Romano
Beth Schermerhorn

ALSO PRESENT:

Thomas J. Solecki  Aaron Binder  Jerry Traino
Executive Director  Assembly Majority  Assembly Republican
Commission Aide  Commission Aide

Meeting Recorded and Transcribed by
The Office of Legislative Services, Public Information Office,
Hearing Unit, State House Annex, PO 068, Trenton, New Jersey
State of New Jersey
Commission on Capital Budgeting and Planning
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Chris Christie
Governor

B. Carol Molnar
Chair

Kim Guadagno
Lt Governor

Commission Meeting

The meeting scheduled for February 14, 2014 has been cancelled.

In compliance with the Open Public Meeting Act, P. L. 1975, Chapter 231, please be advised that the next meeting of the New Jersey Commission on Capital Budgeting and Planning is scheduled for:

February 19, 2014
Wednesday at 10 a.m.
Statehouse Annex, 3rd Floor, Room 9
Trenton, New Jersey

Agenda

1. Call to Order
2. Open Public Meeting Act Notice
3. Roll Call
4. Approval of the Minutes of October 25, 2013 and November 15, 2013 - Action
5. Debt Report Presentation for Fiscal Year 2013 - Action
6. Fiscal 2015 Capital Recommendations - Action
   • Department of Agriculture
   • Department of Children and Families
   • Department of Corrections
   • Department of Education
   • Department of Environmental Protection
   • Department of Human Services
   • Department of Law and Public Safety
   • Juvenile Justice Commission
   • Department of Military and Veterans Affairs
   • Office of Information Technology (OIT)
   • Department of Transportation
   • Interdepartmental Accounts
7. Other Business —— Action may be taken
8. Adjournment

(Parking is available in the State House garage)

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# APPENDIX

State of New Jersey  
Debt Report  
Fiscal Year 2013  
submitted by  
James M. Petrino  

pnf: 1-37
B. CAROL MOLNAR, Esq. (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 the 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 Secretary of State.

We will now take a roll call.

MR. SOLECKI (Executive Director): Senator Sarlo. (no response)

Senator Sarlo? (no response)

MS. MOLNAR: I don’t know if he can hear you.

MR. SOLECKI: Senator Thompson.

SENATOR THOMPSON: Here.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: Here; present.

MR. SOLECKI: Assemblyman O’Scanlon.

ASSEMBLYMAN O’SCANLON: Here.

MR. SOLECKI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Here.

MR. SOLECKI: Mr. Petrecca.

MR. PETRECCA: Here.
Mr. Solecki: Ms. Schermerhorn.

Ms. Schermerhorn: Here.

Mr. Solecki: Mr. Neff.

Mr. Neff: Here.

Mr. Solecki: Ms. Cimiluca. (no response)

Mr. Rutala. (no response)

Mr. Annese.

Mr. Annese: Here.

Mr. Solecki: Ms. Molnar.

Ms. Molnar: Here.

Mr. Solecki: Senator Sarlo, can you hear us? (no response)

Madam Chair, we have a quorum.

Ms. Molnar: Thank you.

First order of business is the approval of the minutes of October 25, 2013 and November 15, 2013.

Do I have a motion to approve?

Mr. Annese: So moved.

Ms. Molnar: Do I have a second?

Ms. Schermerhorn: Second

Ms. Molnar: Any discussion?

Assemblyman O'Scanlon: I need to abstain on the October 25. I wasn’t present at that meeting.

Ms. Molnar: All right; who is speaking?

Assemblyman O'Scanlon: This is Assemblyman O'Scanlon.
MS. MOLNAR: Okay.

SENATOR THOMPSON: Madam Chair, I would also say, of course, since I was not here at that time I will be abstaining on quite a few things today.

MS. MOLNAR: Thank you, Senator.

Okay. We’ll take a vote.

MR. SOLECKI: For the minutes of October 13 approval, Senator Sarlo. (no response)

Senator Thompson.

SENATOR THOMPSON: Abstain.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: Yes.

MR. SOLECKI: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Abstain.

MR. SOLECKI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. SOLECKI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Mr. Neff.

MR. NEFF: Yes.

MR. SOLECKI: Mr. Annese.

MR. ANNESE: Yes.

MR. SOLECKI: Ms. Molnar.

MS. MOLNAR: Yes.
MR. SOLECKI: Madam Chair, we have a quorum. The motion is approved.

MS. MOLNAR: Okay -- November 15, now, right?
MR. SOLECKI: For the minutes of November 15, Senator Sarlo. (no response)

Senator Thompson.

SENATOR THOMPSON: Abstain.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: Yes.

MR. SOLECKI: Assemblyman O'Scanlon.

ASSEMBLYMAN O'SCANLON: Yes.

MR. SOLECKI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. SOLECKI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Mr. Neff.

MR. NEFF: Yes.

MR. SOLECKI: Mr. Annese.

MR. ANNESE: Yes.

MR. SOLECKI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. SOLECKI: Madam Chair, we have a majority.

MS. MOLNAR: Thank you.
The next order of business is the debt report presentation for Fiscal Year 2013. I’d like to welcome Jim Petrino.

JAMES M. PETRINO: Good morning, Chairwoman Molnar and Commission members. I am Jim Petrino, Director, and this is Anthony Longo, Manager, from the Office of Public Finance in the Department of the Treasury.

On behalf of the State Treasurer, Andrew Sidamon-Eristoff, we’re here today to present to the Commission the State of New Jersey Debt Report for the Fiscal Year ended June 30, 2013.

The Office of Public Finance has provided this report to you since 1996 to further the Commission’s statutory obligation to prepare annually a State Capital Improvement Plan. A report on the State’s overall debt is just one of several required components of such annual plan. The statute further prescribes that the debt report shall include information on the outstanding general obligation debt and debt service costs for the prior fiscal year, the current fiscal year, and the estimated amount for the subsequent five fiscal years; similar information on capital leases and installment obligations, similar information on items comprising long-term liabilities -- bonded and non-bonded -- as reported in the State’s Comprehensive Annual Financial Report, or CAFR, and the unfunded actuarial accrued liabilities for State-administered retirement systems and post-retirement medical and other benefits.

The report presented to you today includes all such information, some of it in much greater detail than required.

The report is organized into eight sections: an introduction with a discussion of what’s covered and not covered by the
report; a copy of the legislative requirement for this report; a section on outstanding obligations, which includes summary tables and charts, changes in long-term obligations, pensions, and other post-employment benefits; a 10-year history of outstanding obligations; and a listing of legislatively authorized, but unissued, debt. Section 4 provides data on annual debt service with summary tables and charts, followed by more detailed data. In Section 5 we provide obligation profiles for each bond issuer, and further for each major bond issue or program funded with bonds. This is followed by selected debt statistics which compare New Jersey’s standing relative to other states. Section 7 contains a glossary of terms and headings used throughout this report and in the bond community in general. And finally, we provide a listing of bond and obligations issued subsequent to the end of Fiscal Year 2013.

Now, a couple of caveats to be mindful of in reviewing the report: As described more fully in Section 1, this report covers only those obligations that are secured by State of New Jersey revenues -- general or dedicated -- which are required under accounting standards to be reported in the State’s annual financial statements or footnotes. Obligations supported by issuer revenues, such as toll roads, local government obligations, and conduit obligations are not included in this report.

Secondly, some of the data contained in this report is taken directly from the FY 2013 CAFR; however, as noted in the report, the FY 2013 CAFR has not yet been completed. However, Treasury’s Office of Management and Budget has provided the necessary year-end data which is included in this report. While it is Treasury’s belief that the data provided
here is accurate and not expected to change, such data is still subject to confirmation via the audit process.

And lastly, the actuarial reports for fiscal year ended June 30, 2013, have not yet been completed. As a result, we have only included pension and post-employment actuarial data for the fiscal year ended June 30, 2012, and its changes from June 30, 2011. This is consistent with past years’ reports.

At this point, Chairwoman, I’ll pause to ask if you have any questions before proceeding with a very brief walk through of some of the summary data.

MS. MOLNAR: Why don’t you do your walk-through and then we’ll do some questions.

MR. PETRINO: Okay.

If I could refer to page 8 of the report, please. This is a summary of the outstanding bond and non-bonded obligations. There are three sections to this. My favorite and the one I’d like to comment on first is in the middle, because it refers to the aggregate bonded obligations. My office-- The Office of Public Finance is the entity responsible for managing the issuance of bonds and their post-issuance requirements. So as of June 20, 2012 -- this is broken into two categories: general obligations of the State, and obligations subject to annual appropriation by the Legislature. As of June 30, 2013, the bonded obligations supported by State revenues amount to $34,974,000,000, an increase of $945 million from the prior fiscal year. The general obligations amount has grown, as you can see, by $16 million, or 0.07 percent; and represents 6.9 percent of the total
outstanding. The subject to appropriation debt increased by 2.9 percent, and that represents 93.1 percent of the outstanding bonded obligations.

The table below that, breaks it by bonds supported by general State revenues versus dedicated State revenues -- or those that have a constitutional pledge of State revenues.

And then the top compilation on this page 8 combines the aggregate bonded obligations with the non-bonded obligations. So repeated -- there are the general obligations, obligations subject to appropriation by the Legislature, followed by what we call a CAFR reconciliation. And for the benefit of the members, the annual financial statements included in the CAFR under governmental accounting standards must record certain items that we don’t normally consider bonded obligations.

There are certain offsetting revenues provided by the recipients of the bonded funds that are offset in financial statements. There are other bond issues by other entities that are not considered State debt, but for governmental account purposes must be recorded in the CAFR. An example of that are the tobacco settlement corporation bonds, and other obligations of the TTFA that are supported solely by Federal revenues.

And then there are non-bonded obligations, and this runs into, again, accounting statements such as sick and vacation leave payable; the net pension liability, and OPEB. So if you look at the figures there, combined with the bonded indebtedness, the bottom line, as of June 30, 2013, the outstanding liability is $78,408,000,000. This is a change of $6.6 billion from the prior year. Most of that growth, you’ll note, is from the non-bonded obligations. This is the summary of what is contained in
all of the subsequent pages. There is much more detail of each of these components.

I can pause there, rather than go into a 70-plus page-by-page-- (laughter)

MS. MOLNAR: Good question.
I had a comment. The $928 billion, subject to appropriations, that’s basically the Transportation Trust Fund isn’t it -- most of that?

MR. PETRINO: Yes, that’s correct.
MS. MOLNAR: And then the $5 billion is the pension obligation -- on the non-bonded.

On the Transportation Trust Fund, is that, basically, for debt service -- the $945 million?

MR. PETRINO: No, those are outstanding obligations as of the year-end date. The detail is contained on pages 11 and 12; for TTFA there was a growth of approximately $955 million.

One thing I could note, that for the bonded growth it is the Transportation Trust Fund Authority, just mentioned. The EDA’s School Facilities Construction debt increased by $389 million. There was an increase of bonds, attributable to bonds issued by the Health Care Facilities Financing Authority for the Greystone and Marlboro projects of $106 million; and growth in our general obligation debt of $16 million. All of the other programs and bond issuers listed and identified here in the package had reductions in their outstanding debt service due to the normal amortization of those bonds, as well as some of the summary funding bonds helped to lower the debt.
MS. MOLNAR: Okay. The Transportation Trust Fund is basically funded by the fuel tax revenue?

MR. PETRINO: The motor fuels tax, as well as some of the sales tax.

MS. MOLNAR: Okay, thank you.

Any questions or comments? Senator.

SENATOR THOMPSON: First, I guess, I’d make a comment or two. This is my initial meeting here, so I don’t have the benefit of background of what may or may not have transpired before or how you get to this point.

Your reports that we’re looking at today and that we’re going to be voting on, I actually got them some time yesterday afternoon -- and started reviewing them at about 9 o’clock last night. And at about 12:15 this morning I stopped. (laughter) So there’s a lot of information here that I don’t have a good grasp of. I take my assignment here very seriously, and I anticipate I’ll be having a lot of conversations with you before we get to this point in the future. But I haven’t had the benefit of that today. So consequently I’ll be abstaining on the votes on these things.

But I do note right here, just taking a bottom line thing, that the aggregate bonded and non-bonded obligations is up $6.6 billion, which is about 9 percent. Nine percent in one year seems awfully high to me. Is this sort of routine -- what you see, year-to-year -- or is this an exceptional year in terms of the amount of increase that we’re seeing this time, versus other years?
MR. PETRINO: Well, a large part of that non-bonded growth, of course, is due to pension and post-retirement medical benefits -- the amount unfunded--

SENATOR THOMPSON: You’re referring to the fact that-- Let’s see now, what we’re speaking of here is obligations. That’s the additional unfunded liabilities that occurred in the last year that has caused this, or--

MR. PETRINO: Yes.

SENATOR THOMPSON: Just that one year increase in the unfunded liability brought that about.

MR. PETRINO: Yes, and it has been for the past several years. There is a 10-year history of all these obligations that begins on page--

SENATOR THOMPSON: Yes, I had a quick glance at that last night -- just a quick glance. And I was kind of disturbed, as I looked at it, as I saw the size of the increase that was occurring there.

MR. PETRINO: That increase should reduce year-to-year as the State continues on its path--

SENATOR THOMPSON: Well, of course, we’re phasing in the pensions contributions -- that one-seventh increase every year. So until we reach a point where we’re making the full contribution -- seven-sevenths -- then we’re going to see the unfunded liability continue to increase until we reach that point. And at that point then it will sort of stabilize, but it wouldn’t necessarily decrease once we’re making the required contributions? Thus those contributions would be adequate to sustain it at the level of unfunded liability, or would they be adequate to
begin reducing it? Or are we going to be relying on-- Part of the reason for the increase is we used to be able to get more ROI -- return on our investments. And, of course, nowadays, with the market, that’s down. And are we looking for-- Well, when the market starts going back up, and we get a better ROI, then will we be narrowing that gap somewhat?

MR. PETRINO: Well, that’s correct. If the investment returns went up, obviously that would definitely do that -- because the unfunded actuarial liability really represents the assets versus the liabilities.

SENATOR THOMPSON: Right.

MR. PETRINO: So if your asset base grows on the investment earnings on that -- add to it -- yes, that would reduce the liability.

SENATOR THOMPSON: Therefore, the contributions in order to both keep it going and, perhaps, recover it would be reduced -- if you can get a better ROI.

MR. PETRINO: Yes.

Sitting here, this is John Megariotis; he’s the Deputy Director of the Division of Pensions. I brought him along just in case we ventured into areas that I’m not involved in day-to-day. So I don’t know if you have anything you could add to the questions.

JOHN D. MEGARIOTIS: The net pension obligation is slightly different than just the increase in the unfunded liability and the net OPEB, because they’re the differences between what the actuary determined was the calculation amount, and then what the employer -- the State -- actually contributed. And that accumulates, year over year. The
growth in the unfunded liability is, as Jim said, a comparison between assets and liabilities. So there is a linkage between the two, but they’re just, for our purposes, slightly different.

MS. MOLNAR: Okay.

I want to draw our attention to pages 16 and 17, where you do show a 10-year history. The bonded obligations in 2004 were approximately $22 billion, and now it’s almost double at $40 billion. It looks like $14 billion is in revenue bonds, and $7 billion is in installment obligations. Do you have any comments on those two items? What is in those numbers? What’s causing--

MR. PETRINO: I’m not sure I understand your question, Chairwoman. Do you mean what types of bonds are covered by those--

MS. MOLNAR: Yes, page 16. Revenue bonds went up $14 billion in 10 years.

MR. PETRINO: Okay.

MS. MOLNAR: What’s causing that? And installment obligations went up $7 billion. Do you have a feel for what’s -- any substantial items?

MR. PETRINO: Both of those categories are covered by what we consider obligations subject to annual appropriation by the Legislature. For accounting reasons, some are deemed installment obligations, some are deemed revenue bonds. There’s a further breakdown of each type of bond. Where would that be, Anthony?

ANTHONY LONGO: Each section-- Each program overview -- one of the categories we have lists which section in the CAFR you can find
it. So for instance, if you pick one of the program overviews on page, maybe, 25, the Building Authority bonds are part of the revenue bonds in the CAFR. So you can go through each program and see which category they’re included in the CAFR.

MR. PETRINO: And in our bonded obligation breakdown on pages 11 and 12, you can also identify-- Revenue bonds are New Jersey Building Authority bonds, and Garden State Preservation Trust, and Transportation Trust Fund Authority. The installment obligations are most of everything else.

MS. MOLNAR: Is there one agency driving the revenue bond increase of $14 billion?

MR. PETRINO: I would say the Transportation Trust Fund Authority is the largest issuer of bonds in that category. In the past, also, the Garden State Preservation Trust has issued $1 billion in bonds -- a billion-plus, actually, in bonds. So I would say those are the largest drivers of that revenue bond category. And then on the installment obligations, it would be the schools construction program, by far.

MS. MOLNAR: This may be jumping ahead a little bit -- Section 4, on the debt service. For some reason, it seems to be peaking in 2018 -- all the debt service. What’s driving that?

MR. PETRINO: Well, this is an aggregation of many, many bond issues and many, many programs. And as a general matter we try to issue the bonds with a pattern of repayment that would be level, year-to-year. But then as you issue bonds less frequently or more frequently, those annual amounts can stack on top of one another. Some programs, by their nature, don’t lend themselves well to that level of debt service, or
we’ve refunded bonds of certain maturities that remove them from the debt service pattern because it was economical to do so. So that also lends itself to some rises and falls in an annual pattern. With so many different issues, issuers, programs, and series of bonds issued during the year, it is a monumental task to try to level all of the different programs into a level annual debt service statewide. We try our best within the various programs to do so, but for the reasons I mentioned, there is an uneven pattern of payment of debt service.

MS. MOLNAR: Page 21 -- School Facilities Construction. From 2013 to 2018 it’s going to -- the debt service is going to go up 400 percent, from $300 million to $1 billion. Is there a match? Do we match other school districts? Is that what that is, that schools construction?

MR. PETRINO: No. The School Facilities Construction line there -- that is bonds issued by the EDA that fund what is now the Schools Development Authority, and the bond authorization -- the original authorization was $8.6 billion, then there was an addition in 2009. So the total bonding capacity of that program is $12.55 billion. This is all under that; it was previously the EDA, then it was the Schools Construction Corporation, and now it is the Schools Development Authority that manages that school construction program. You may recall there is money allotted for what were known as the Abbott Districts, and then other bond money allotted for the non-Abbott Districts.

MS. MOLNAR: So this is not higher ed’s schools? This is strictly K-to-12 schools?

MR. PETRINO: Correct.
MS. MOLNAR: Our debt service is going to be $1 billion by 2018 to fund this construction. There’s no-- The schools that we’re building, there is no funding from the local municipalities, school districts at all in this?

MR. PETRINO: I believe there is. I believe there is some, certainly in the non-Abbott districts.

SENATOR THOMPSON: There is a match in the non-Abbott districts.

MR. PETRINO: Yes.

SENATOR THOMPSON: In the Abbott Districts, it is 100 percent State; but in non-Abbott, it’s a match.

MS. MOLNAR: That wasn’t a voter-approved bond, was it?

MR. PETRINO: No, it wasn’t.

MS. MOLNAR: Okay.

UNIDENTIFIED MEMBER OF COMMISSION (on phone): No, it wasn’t.

MR. PETRINO: It predated the constitutional amendment.

MS. MOLNAR: Okay. Anybody else here have comments? (no response)

Anybody on the teleconference with comments? (no response)

Any comments regarding our ratings -- page 67? We’re fourth as far as net tax-supported debt per capita. We seem to be fourth all the way across. Total net tax-supported debt we’re third; gross tax
supported debt we’re third. Any comments on our rating? Did it go up, down -- I’ve lost track.

MR. PETRINO: Yes, the rating is the same. Two of the agencies do have the State obligations on what they call negative outlook. And how they would define that is that they will look ahead to the next 24 months, and there are certain drivers that could change the rating downward and there are certain drivers that could improve the outlook to stable or upgrade.

MS. MOLNAR: I forgot what this Aa3 means. Is that--

MR. PETRINO: Well, Aa3 -- that’s a Moody’s rating. Each of the agencies has their own nomenclature, but the Aaa is the highest in Moody’s. I’m sorry, Aa3 -- that is like an Aa-minus category. I’m sorry, that’s in the Aa category. So they go Aaa, and then Aa1, and then -- Moody’s goes in with numbers: Aa1, Aa2, Aa3.

MS. MOLNAR: So Massachusetts has a better rating than Hawaii, and Hawaii has a better rating than us.

MR. PETRINO: Correct.

MS. MOLNAR: I see.

MR. PETRINO: Yes.

MS. MOLNAR: Okay. The other thing is our enabling statute says that as part of our debt report -- which you’ve nicely put together -- we also have to provide an assessment of New Jersey’s ability to increase its overall debt, and a recommendation on the amount of any such increase. Do you have any comments regarding that?

MR. PETRINO: I don’t. To do an assessment of the ability to increase debt-- Clearly, I mean, we’re authorized and all of the
debt we issue is either voter approved or legislatively authorized. To do an assessment of that nature involves a study of the revenue base supporting the payment of the debt service. My office, really, just handles the debt side of things, and that would be a much larger undertaking to try to do an affordability study.

MS. MOLNAR: But as far as the Legislature, they may look to us to make some kind of recommendation: Yes, they can issue debt, or no, they should back off for a year or so.

MR. PETRINO: I understand. So these State comparisons that we provide are intended to try to give you a sense of where we are in the world, relative to our neighbors. You know, if you can draw some conclusions based on that, just in terms of the debt side. But what is not here and cannot be here -- or at least not organized by the Office of Public Finance -- is any type of revenue analysis.

You know, one of the things that rating agencies always cite, even under the negative outlook, is the state being a high-wealth state and its ability to afford these high levels of debt. That’s all I can offer on that.

MS. MOLNAR: Do you do a “what if?” If we issued another $1 billion in debt, where would we be on these charts? Would we move up to third, mathematically?

MR. PETRINO: That’s an analysis that could be done, probably fairly easily. I don’t have that right now; eyeballing the numbers here -- I don’t think so. I think we’re kind of lodged there, depending on which category you look at. There’s a net tax-supported debt; there’s a large gap between -- we’re number 3 -- between 3 and 2. Where New York
resides as a percentage of gross domestic product, there’s also a fairly sizable gap. So I think the ability to sustain another $1 billion is well within reason, based on that kind of analysis. But that’s not a sophisticated analysis.

MS. MOLNAR: So $1 billion would not put us third per capita, would it?

MR. PETRINO: We can verify those numbers. I’d be happy to do that very quickly, but I don’t think I can do that in my head.

MS. MOLNAR: Right, okay. I’d be interested in that -- where that would put us per capita in all these charts, really.

Where do you foresee us in the next-- Do you see the State of New Jersey issuing at least $1 billion in the next fiscal year?

MR. PETRINO: While our plans aren’t certain as yet, I would say yes. I believe it’s our plan to continue to issue bonds as authorized for both transportation projects and school construction projects, at the least. So those are, again, programs that require substantial capital. There is substantial bonding authority on the books -- already authorized -- and I believe it would be the plan to continue to fund these projects in that manner.

MS. MOLNAR: I guess this question is more for our legislators: Is there any movement towards increasing the fuel tax to help fund these transportation bonds?

SENATOR SARLO: Madam Chair, when you have a moment, I have a question -- a few questions, but one on transportation. But I’ll wait to--
MS. MOLNAR: Would that help alleviate some of the bonding if we did increase the fuel tax?

MR. PETRINO: Well, only if it was set aside for pay-as-you-go capital. You know, if that were to further support additional bonding, then you’d be in the same situation.

MS. MOLNAR: All right, who was that? Senator Sarlo?

MR. SOLECKI: I believe so.

SENATOR SARLO: Yes, it’s Senator Sarlo. Madam Chair, when you get a moment, I’d like to ask a couple of questions.

MS. MOLNAR: Yes, all right. We’re giving you the floor, go ahead.

SENATOR SARLO: Is it okay to go now?

MS. MOLNAR: Go ahead -- yes, yes.

SENATOR SARLO: Okay. Just following up on your questions, with regards to transportation. I notice with regards to the transportation revenue bonds in this report, they’re increasing about, roughly, the $900 million in the obligations, subject to appropriations. So we’re borrowing more money for the transportation revenue bonds. Doesn’t that conflict, though, with the Administration’s policy on pay-go to fund transportation in lieu of a gas tax, in lieu of a user fee? I mean, the last few years we’ve heard a lot from the DOT Commissioner in regards to pay-go in our annual budget to reduce borrowing for transportation -- and that’s in lieu of a gas tax or some type of user fee. By increasing $900 million, aren’t we conflicting with the Administration’s policy on pay-go?

MR. PETRINO: Well, I’m not a spokesperson on policy here. However, I think it’s the intention and the goal to fund these
programs with as much pay-go as viable, even in circumstances of a given fiscal year.

ASSEMBLYMAN O'SCANLON: If I could chime in; it’s Assemblyman O’Scanlon.

I don’t know if it’s these folks’ position to be speculating about the Administration’s policy, but we all would like to pay; we’d all like more revenue and less debt. I think we can all agree to that. The question is: Where are you going to get the money in any given year? Overall, if the intent here is to suggest that this Administration is somehow being irresponsible, I don’t think we can go there unless we’re going to say where we’re going to find extra money to pay more as we go.

And regarding transportation projects: This Administration, I know their policy -- because we’ve heard that testimony and it’s been confirmed -- is to do projects that last longer and fund them over a shorter period of time -- certainly for a shorter period of time than they’re going to last. That’s not an irresponsible use of debt. So if you want to have that discussion, I’d be happy to have it.

SENATOR SARLO: No, no. While I have the floor here, no, Assemblyman, the question I had is we’ve increased about $900 million -- and it’s from year to year -- for transportation revenue bonds. And I just thought that conflicted with what we were -- the thoughts of pay-go. And I understand that these folks may not be the ones to answer. But it is $900 million -- is that the correct number I’m reading, $928 million? Is that the correct number?

SENATOR THOMPSON: While they’re looking for that, I might interject here. When we speak of the question about raising
the gas tax and speaking of it as pay-go versus bonded indebtedness, the inclination has been that when we increase a tax like the gas tax they don’t use it for pay-go, instead they use that to do more bonding and you increase the bonded indebtedness even more.

MR. PETRINO: Senator Sarlo, the figure -- the growth figure was -- for transportation was $955 million.

SENATOR SARLO: Okay, all right. While I have the floor, I just have a question regarding on that page 8 -- the chart -- the CAFR reconciliation, which is based upon the close of the Fiscal 2013 budget. Typically we receive that report in December, the end of December. Is there any reason why that report has not been published and included in this report as the accurate numbers for the closeout of the budget that ended on June 30, 2013? Is there any reason why that report has not been issued?

MR. PETRINO: My understanding, Senator, is that it’s just not completed yet.

SENATOR SARLO: It’s not completed, okay. You might not be-- And if you’re not the person to answer, I understand; I respect that. Will it be completed before the budget address next week?

MR. PETRINO: I don’t know.

SENATOR SARLO: Okay, all right.

And then the third question I have is, I recognize a majority of the increase on the non-bonded obligations on page 8 -- of the $5 billion non-bonded obligation -- most of that has to do with pension potential payment and post-retirement medical benefits. If I’m reading this correctly, the totals on June 30, 2102, were $34.4 billion for pensions and
$51.5 billion for post-retirement medical -- a total of $85.9 billion for those two categories as of June 30, 2012. Now, the question I have is: Where are the June 2013? Shouldn’t that have been included in this report, because in a bipartisan manner we passed pension and health benefit reforms, so it would be nice to see -- is it beginning to make a dent in these two categories? So the question I have is: Do we have those numbers as of June 2013?

MR. PETRINO: We do not, Senator.

SENATOR SARLO: Okay.

MR. PETRINO: Those are-- The actuarial reports for Fiscal 2013 are also not yet complete.

SENATOR SARLO: Do we have any idea when they might be completed?

MR. PETRINO: I’m looking at my colleague from the Division of Pensions. He thinks in the next several weeks.

SENATOR SARLO: In the next several weeks. Thank you.

MR. PETRINO: You’re welcome.

MS. MOLNAR: Okay.

SENATOR THOMPSON: As a follow up to that question--

MS. MOLNAR: Yes.

SENATOR THOMPSON: --if we don’t have those numbers, how good are the numbers we have right there for the non-bonded obligations and anticipated increases? In other words, these are subject to change, I gather, since those numbers are not available.

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MR. PETRINO: On pensions, or--

SENATOR THOMPSON: On the non-bonded obligations, there. You said the $5 million is -- a major portion is because of the pension, and so on and etc. But we don’t have those numbers yet for 2013. So if we don’t have the numbers, then this $5 million is not necessarily correct -- it could go up, go down, it could go who knows which way. Is that correct?

MR. PETRINO: Well, we were provided the numbers by the Office of Management and Budget; those are the balance sheet items that you are referring to, not the actuarial numbers, which is different.

SENATOR THOMPSON: But would those affect these numbers?

MR. PETRINO: OMB has represented to me for inclusion in this report that these are the numbers they are working with. The audit hasn’t been completed, so if anything were to come up in the audit process that would change these -- yes, then it would be subject to change. But these are the numbers as of now. And they had expectations that they wouldn’t change. Again, if something came up, the audit will confirm it.

MS. MOLNAR: Mr. Neff.

MR. NEFF: Just a couple points, for the record. And one is, personally, I think this report is very accurate and thorough in terms of disclosing the liabilities -- whether they be bonded debt or soft debt. And that’s in stark contrast to what existed approximately a decade ago. If you look at the 10-year history of our debt, and you look at the OPEB line, which is what is of most concern to rating agencies and where the debt is
increasing the most, it would reflect that there was no OPEB 10 years ago. And, of course, that’s nonsense because OPEB was always there; it just simply wasn’t reported, and it was inaccurate and it was misleading. And I think a lot of steps have been taken over the last 10 years -- not just the last four -- but to make this report better and more accurate, and better disclosure. And I think it’s a testament to the Office of Public Finance that they’ve really turned a corner and done more accurate reporting.

So in that vein I want to just make a general comment that some of the debt you see increasing here -- which is, as Senator Thompson had referenced, going up rather high -- is really debt that’s just simply reflected as an actuarial matter or as a matter of math, and not because of policies that have changed over the last year or two that were endorsed by this board or the current Administration. The OPEB liabilities, the pension liabilities, if anything they would be higher but for the actions of, I think, the legislators, who are on this phone call, over the last few years. And that’s a testament to what their activities have been. Those numbers would be much higher if not for the pension reforms that Senator Sarlo mentioned. And those sort of -- what the debt would be like if those steps hadn’t been taken isn’t reflected anywhere in this report. I would suggest that maybe next year or the year after, if we can continue on improvements to this report, perhaps show what this debt would have looked like if those reforms weren’t made in the last two years. Because I think it would tell a very different story, one that I think is compelling in terms of the steps that were taken to bring debt under control at some point. Because I think you’ll notice that the hard debt that’s been issued by the State is growing at maybe 3 percent according to this report. And it’s
really the soft debt of OPEB and pensions that are going up -- those are the real problems, in terms of debt with respect to the rating agencies and others who look at these things. It’s just a comment I wanted to make, for the record, so the report reflects that.

MS. MOLNAR: Thank you.

I just had a couple more questions. Is there technically a due date for the CAFR report, and who gets the CAFR report? Is it sent-- It’s just sent to the rating agencies?

MR. PETRINO: Well, no. The Comprehensive Annual Financial Report is the State’s financial statements, as audited by the State Auditor. I mean, I don’t know the statute behind that, whether that’s to be delivered to the Governor and the Legislature, or if it’s just a requirement of a governmental entity to annually create--

SENATOR SARLO: Madam Chair, I can weigh in as the Budget Chair. It’s an important document to see where the State of New Jersey lies as you are entering into the new budget cycle, as we are preparing a budget for June 1, 2014. It gives us what our closing balances, what the shortfalls are based upon the closing of the previous budget cycle, which is June of 2013. So it’s typically issued right around January 1. It’s issued to the Administration and the Legislature.

MS. MOLNAR: Thank you, that’s helpful.

I’m not sure you can answer this question; it’s a broader question. Today we’re going to vote on capital matters -- some capital funds -- and it’s practically nothing. So what is New Jersey’s position on funding its infrastructure? Has it developed any position? Have you seen any position?
MR. PETRINO: I’m not aware of that; I’m not privy to those discussions of that nature. Again, we handle what we’re directed to handle, vis-à-vis the bonding authority that is provided by the Legislature and/or the voters.

MS. MOLNAR: Does the Treasurer have mandate as far as funding capital?

MR. PETRINO: I don’t-- I’m not aware of that.

MS. MOLNAR: Okay. Now, to follow up: So perhaps to fulfill our enabling statute, an assessment of State’s ability to increase its overall debt, you’re going to provide us-- Could you provide us some potential scenarios if we increased our debt $1 billion, $2 billion, $3 billion -- I don’t know how much higher anybody else wants to go. What do you think we’ll be issuing next year -- how many billion?

MR. PETRINO: Next year I would expect a continuation of funding for the school construction program, for the transportation trust fund program. There is also general obligations authorized, but not yet issued by the voters, that could be issued in the next fiscal year to fund open space and higher education. If you recall, the most recent general obligation bond act was the Building Our Future bond act of 2012. It authorized $750 million in bonds; we’ve issued $100 million of that, so there’s $650 million more that goes to classroom construction at public and private colleges in the state.

So I would anticipate being in the market. The good news is interest rates have remained extraordinarily low, so the cost of the debt-- We issue significantly most of our debt with fixed rates, so we lock in the rates we’re getting at the time we go to market. If there’s
opportunities where we see rates having improved we monitor that carefully and continuously to issue refunding bonds, to save on the annual debt service costs. So that’s sort of the silver lining in our debt program -- is that rates have been low for a number of years, and our expectation is that, while they may rise, there’s no precipitous rising of rates at present -- or expectation of that at present.

MS. MOLNAR: It seems, based on page 16, the debt’s been going up about $2 billion a year. So why don’t you do $1 billion, $2 billion for next year. Would that be reasonable? Unless you think it’s going to go $5 billion.

MR. PETRINO: No, it would be reasonable to do $1 billion, $2 billion, and $3 billion to give you a better snapshot.

MS. MOLNAR: All right, that would be helpful. A lot of these are based on the revenue we take in. Are we going to hit our revenue target that we had in our budget for a year?

MR. PETRINO: That’s way out of my league. I have no idea.

MS. MOLNAR: All right. You don’t know what our revenue is going to be; okay.

All right. Any other questions or comments? (no response)

I think we have to have a motion to accept the report. I don’t believe we approve it; we accept it.

Do I hear a motion?

MR. ANNESE: So moved.

ASSEMBLYMAN O’SCANLON: So moved.
MS. MOLNAR: Okay. We’re now going to take a vote.

This is based on we’re going to get more information, though, on where we stand if we issue additional debt. Do you have a timeframe when you could get back to us?

MR. PETRINO: I think we can turn that around pretty quickly.

MS. MOLNAR: All right. Next week or so?

MR. PETRINO: If I had calculators and things here I could probably have done it, but we’ll go back and we’ll get it to you as quickly as possible. Procedurally, how do we-- Do we send it through Tom?

MS. MOLNAR: Yes, and he’ll send it to the rest of the members.

MR. PETRINO: Very good.

MS. MOLNAR: Okay, we’ll take a vote.

MR. SOLECKI: On the motion to approve the debt report--

MS. MOLNAR: Accept -- accept the debt report.

MR. SOLECKI: Accept the debt report,

Senator Sarlo.

SENATOR SARLO: Yes, I just want to clarify. I missed what you said. I heard approved. Isn’t the vote to accept, not to approve it -- just to accept it, correct?

MS. MOLNAR: Correct.

SENATOR SARLO: All right. I vote yes to accept the report.
MR. SOLECKI: Senator Thompson.

SENATOR THOMPSON: Well, if it’s just to accept, I can vote yes on that.

MR. SOLECKI: Assemblyman Fuentes.

ASSEMBLYMAN FUENTES: Yes.

MR. SOLECKI: Assemblyman O’Scanlon.

ASSEMBLYMAN O’SCANLON: Yes.

MR. SOLECKI: Mr. Romano.

DEPUTY STATE TREASURER ROMANO: Yes.

MR. SOLECKI: Mr. Petrecca.

MR. PETRECCA: Yes.

MR. SOLECKI: Ms. Schermerhorn.

MS. SCHERMERHORN: Yes.

MR. SOLECKI: Mr. Neff.

MR. NEFF: Yes.

MR. SOLECKI: Mr. Annese.

MR. ANNESE: Yes.

MR. SOLECKI: Ms. Molnar.

MS. MOLNAR: Yes.

MR. SOLECKI: Madam Chair, the action is approved.

MS. MOLNAR: Okay, the report has been accepted.

MR. PETRINO: Thank you very much.

MS. MOLNAR: Thank you for coming today.

MR. LONGO: Thank you.

MR. PETRINO: You’re welcome.
MS. MOLNAR: Our next order of business is to approve the capital recommendations. Last year we did it in one vote; we did not go through department by department. I will open it up to discussion, if there is any. Any discussion?

SENATOR SARLO: Madam Chair, just one question.

MS. MOLNAR: Yes.

SENATOR SARLO: I have no problem voting on it all in one vote. I don’t know who is going to answer the question. The question is in regards to the transportation capital recommendation. In that category it talks about -- let me flip to that page, here. Are the dollars that we are approving all for debt service, or for new projects? It says here -- the Fiscal 2015 request -- “The Department of Transportation requests $1.227 billion for capital constructions, primarily used to fund the debt service of the TTF.” So is the request -- the $1.2 billion -- it’s not for new projects, the way I read that. It’s just funding prior debt. Is that correct?

MR. PETRECCA: Madam Chair.

MS. MOLNAR: Yes.

MR. PETRECCA: That debt service will be used to fund prior program authorization for projects that weren’t funded yet, as well as the current year’s program authorization.

MS. MOLNAR: Does that mean current debt?

MR. PETRECCA: On the debt that will be issued, yes. It will be for prior bonds, as well as what’s going to be issued.

MS. MOLNAR: Do we have--
MR. PETRECCA: It will be used to cover prior programs for projects that haven’t been spent, as well as the current year’s -- partially the current year’s programs.

MS. MOLNAR: So we’re issuing new bonds, correct?

MR. PETRECCA: Correct.

MS. MOLNAR: And using it for debt service for prior bonds?

MR. PETRECCA: No, we’re using it for debt service to fund projects. The bond proceeds will be used for projects from prior years’ program authorizations and current year program authorization.

MS. MOLNAR: All right. But we’ll issue debt to do this, right? We’ll issue bonds to do it?

MR. PETRECCA: Correct.

MS. MOLNAR: Got it.

Does that answer your question, Senator?

SENATOR SARLO: Yes. So it funds the debt service or projects that were done in the last fiscal year? Is that-- I had a hard time hearing him.

MR. PETRECCA: Yes -- in prior fiscal years and in the current fiscal year.

SENATOR SARLO: Okay. Do you know what the breakdown of how many new projects are in there, or you don’t have that breakdown?

MR. PETRECCA: I don’t have that breakdown.

SENATOR SARLO: Okay, thank you.

MS. MOLNAR: All right.
So we’re recommending I think a total of $1,580,000,000. But $1,260,000,000 is Transportation Trust Fund, and $101 million is the debt service for New Jersey Building Authority. So that leaves us with about $200 million for capital projects. And $95 million is also EPA. That leaves us with $125 million that we’re using for capital. Based on our requests, it’s just woefully so low.

It’s unfortunate that there are not a lot of funds for our infrastructure -- the current year.

Do I have a motion to approve these recommendations?

Or, comments, first.

Yes, Senator.

SENATOR THOMPSON: A couple of questions first, and then a comment.

I know in DOT, the recommendations here exceeds the requests put in by DOT by $32 million; and for New Jersey Building Authority, the debt service recommendation is about $9.3 million more than they requested. How do we come to the conclusion to recommend more than they want?

MS. MOLNAR: Which department was that?

SENATOR THOMPSON: DOT. Our recommendation is about $32 million more than it indicates that they requested. And New Jersey Building Authority, we are recommending about $9.3 million more than they requested (indiscernible) property. Both good purposes, but it just seems kind of anomalous.

MS. MOLNAR: Yes, I see; I see what you’re saying.
MR. SOLECKI: I can tell you that the debt service amortization schedules change coming from the Office of Public Finance. And so sometimes there is some variability into what we thought initial debt service was going to be, versus--

SENATOR THOMPSON: You mean the Department, while they submitted those requests initially, they changed what they wanted, or somebody else rather?

MR. SOLECKI: No. An analysis of the debt service amortization changes what that debt service cost is going to be for the upcoming year.

SENATOR THOMPSON: Well, the Department doesn’t take that into consideration when they’re making their request?

MR. SOLECKI: They’re using the most current amortization schedule that they have, but when the Office of Public Finance comes along two or three months later and finds out that that number has changed, then the request changes.

SENATOR THOMPSON: Okay.

MS. MOLNAR: It’s a moving target -- yes.

SENATOR THOMPSON: That is the first thing. And then my basic comment here, again, I vote for this and I’m recommending these things. At this point I have no idea how we came along with this process -- that the departments submit their recommendations; the Treasurer, and so on, looks through them and goes through them and decides, “Well, this is what we’re going to recommend that you recommend,” etc. But I don’t know whether they do this by looking at each item requested, “Well should we really do this?” or do they do it by
saying, “Well, we anticipate this is how much money we’re going to have,” then devising the list to fit how much money is going to be available or what.

I need to learn a little but more about this process before I can go along with the recommendations. I mean, I also look at it-- I was provided within the last two weeks to review FY 2014 recommendations and requests, etc. And I noted the recommendations, of course, were substantially less than the requests. But then our recommendations -- what came out in the budget, virtually everything that was recommended was thrown out, too. So I’d like to know more about this whole process before I get involved in voting yes or no on these things.

MS. MOLNAR: We did come up with a priority list. Life and safety issues are usually number one, but there are other items--

SENATOR THOMPSON: Well, I recognize that, but there are many things that fall into that category and some of them you say yes to, and some you say no. And there are other things-- Well, we have priority lists that you say, life and safety. I look at these requests; there are many other requests that come in year after year. And, perhaps, it might be roofs in one area. And the report says, “These roofs are just falling apart, and we just keep pouring money in the dark hole and nothing has been done.” But money is not available so it doesn’t get done. Somewhere along the way we need to take a look at all these needs out there that we just keep passing over every year. And the situation only gets worse, and it’s going to cost more. We need to take more of a long-term look at this and see what we’re going to do about some of these infrastructure projects that you’re speaking of that, year after year, they just, “Well, sorry, it doesn’t fit into
this year’s money.” But the situation deteriorates. I mean, we have a lot of property that needs a lot of work.

MS. MOLNAR: We asked the departments and the agencies to start budgeting more money for maintenance, because maintenance becomes capital eventually if they don’t take care of it. So we did ask them to put more money into that. They have over the years, but there’s still some--

SENATOR THOMPSON: But a number of these things are capital projects, when you talk about replacing roofs and so on.

MS. MOLNAR: Yes.

SENATOR THOMPSON: That’s a long-term project; the life is 30 years, 40 years, etc.

MS. MOLNAR: Absolutely.

SENATOR THOMPSON: A lot of buildings are old, and if we don’t do something about them, it’s going to cost you a lot more.

MS. MOLNAR: We have, I believe, an interdepartmental account for roofs that, rather than designate capital for them, they get it out of this fund -- so some of them will get their roofs.

Any other questions or comments? (no response)

If not, we’ll take a vote on approving these recommendations for 2015.

MR. SOLECKI: On the motion to approve the Fiscal Year 2015 capital recommendations, Senator Sarlo.

SENATOR SARLO: Yes.

MR. SOLECKI: Senator Thompson.

SENATOR THOMPSON: Abstain.
MR. SOLECKI: Assemblyman Fuentes.
ASSEMBLYMAN FUENTES: Yes.
MR. SOLECKI: Assemblyman O'Scanlon.
ASSEMBLYMAN O'SCANLON: Yes.
MR. SOLECKI: Mr. Romano.
DEPUTY STATE TREASURER ROMANO: Yes.
MR. SOLECKI: Mr. Petrecca.
MR. PETRECCA: Yes.
MR. SOLECKI: Ms. Schermerhorn.
MS. SCHERMERHORN: Yes.
MR. SOLECKI: Mr. Neff.
MR. NEFF: Yes.
MR. SOLECKI: Mr. Annese.
MR. ANNESE: Yes.
MR. SOLECKI: Ms. Molnar.
MS. MOLNAR: Yes.
MR. SOLECKI: Madam Chair, the motion is approved.
MS. MOLNAR: Okay. We have approved these recommendations.

Now, before our teleconference people leave, our enabling statute says we’re supposed to make our recommendations by December 1 of every year -- so here we are in February. We don’t necessarily have to wait for the debt report to approve these capital items, is my understanding. So we could meet in December or January to approve the recommendations, and then have the debt report. We did that a few years back. So it’s just a comment.
Any other items to come before the Commission? (no response)

If not, meeting is adjourned.

(MEETING CONCLUDED)