Commission Meeting

of

NEW JERSEY COMMISSION ON CAPITAL BUDGETING AND PLANNING

LOCATION:	Committee Room 11 State House Annex Trenton, New Jersey	**DATE:**	November 18, 2005 10:00 a.m.

<u>MEMBERS OF COMMISSION PRESENT:</u>

B. Carol Molnar, Chair
Anthony F. Annese, Vice Chair
Senator Wayne R. Bryant
Assemblyman Joseph Cryan
Assemblyman Guy R. Gregg
Patrick R. Brannigan
Gary Brune

<u>ALSO PRESENT:</u>

Rosemary Pramuk
(Representing Senator Robert E. Littell)
David Rousseau
(Representing John E. McCormac)
Joe Latoof
(Representing A.J. Sabath)

Michael Lihvarcik, Executive Director
New Jersey Commission on Capital Budgeting and Planning

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B. CAROL MOLNAR (Chair): I'd like to call the meeting to order.

In accordance with the Open Public Meeting Law, the Commission has provided adequate public notice of this meeting by giving written notice of time, date, and location. The notice of the meeting has been filed at least 48 hours in advance by mail and/or fax to the Trenton *Times*, and the *Star-Ledger*, and filed with the Office of the Secretary of State.

We will now take a roll call.

MR. LIHVARCIK (Executive Director): Senator Littell. (no response)

Senator Bryant.

SENATOR BRYANT: Present.

MR. LIHVARCIK: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Here.

MR. LIHVARCIK: Assemblyman Gregg.

ASSEMBLYMAN GREGG: Here.

MR. LIHVARCIK: Mr. Rousseau.

MR. ROUSSEAU: Here.

MR. LIHVARCIK: Mr. Latoof.

MR. LATOOF: Here.

MR. LIHVARCIK: Mr. Brune.

MR. BRUNE: Here.

MR. LIHVARCIK: Mr. Brannigan.

MR. BRANNIGAN: Here.

MR. LIHVARCIK: Mr. Annese.

MR. ANNESE: Here.

MR. LIHVARCIK: Ms. Molnar.

MS. MOLNAR: Here.

MR. LIHVARCIK: Madam Chair, you have a quorum.

MS. MOLNAR: Thank you.

I ask, in the interest of moving the meeting along, if you could turn off all cell phones? We'd appreciate it. Thank you.

Is there any Executive Director's report?

MR. LIHVARCIK: Given the duration -- the potential duration of this meeting, no, Madam Chair.

MS. MOLNAR: Thank you.

We have three sets of minutes to approve: the minutes of September 30, October 21, and October 28.

ASSEMBLYMAN CRYAN: Motion.

MS. MOLNAR: Can we move all three together, unless there's some reason to do it separately? (affirmative response)

I hear a motion.

ASSEMBLYMAN GREGG: Second.

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

If not, we'll take a vote to approve the minutes -- three sets of minutes.

MR. LIHVARCIK: Senator Bryant.

SENATOR BRYANT: Yes.

MR. LIHVARCIK: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Yes.

MR. LIHVARCIK: Assemblyman Gregg.

ASSEMBLYMAN GREGG: Yes.

MR. LIHVARCIK: Mr. Rousseau.

MR. ROUSSEAU: Yes.

MR. LIHVARCIK: Mr. Brune.

MR. BRUNE: Yes.

MR. LIHVARCIK: Mr. Brannigan.

MR. BRANNIGAN: Yes.

MR. LIHVARCIK: Mr. Annese.

MR. ANNESE: Yes.

MR. LIHVARCIK: Ms. Molnar.

MS. MOLNAR: Yes.

MR. LIHVARCIK: The motion passes. All three minutes are approved.

MS. MOLNAR: Thank you.

MR. LIHVARCIK: I'm sorry. Mr. Latoof.

MR. LATOOF: Yes.

MR. LIHVARCIK: I'm sorry.

MS. MOLNAR: Okay. The next item is our debt report presentation. I'd like to welcome Jim Petrino, Deputy Director, and his guests.

J A M E S M. P E T R I N O: Thank you, Madam Chair.

Thank you, members of the Commission. Good morning.

My name is Jim Petrino, Acting Director of the Office of Public Finance in the Department of Treasury. And on behalf of Treasurer McCormick and his staff, and the staff of the Office of Public Finance, I'm here to present to you the debt report of the State of New Jersey for the Fiscal Year ending June 30, 2005.

This complies with the statutory requirements -- or assists this Commission in complying with its statutory requirements regarding debt for the State. The report is remarkably similar in format and style as prior years, for consistency and in compliance with the statute. I'm happy to either walk through in a sort of page-by-page overview, or I can open it up to questions now, as you've all received this previously.

It's up to you, Madam Chair.

MS. MOLNAR: Any preference by committee members?

ASSEMBLYMAN CRYAN: Why don't you just give us a summary?

MS. MOLNAR: Just give us a quick thumbnail summary.

MR. PETRINO: Certainly.

The table of contents will reveal what's in here. The first few pages set forth the legislative requirements and the types of debt issued. Tab D1 is the primary page. And I appreciate the fine print, as this is getting smaller and smaller. So I beg your indulgence there. We may need to move this to a two-page report in the future.

But it provides the debt service amounts by bond issue or bond purpose, and bond issuer for the Fiscal Year ending June 30, 2005, and then for the current Fiscal Year 2006, and succeeding years up through '11. There's a column with the outstanding debt as of June 30, '05, and the ratings by the three primary rating agencies. It should be noted on here that in July -- which is July of this year -- just beyond the date of this report, Standard & Poor's did upgrade, by one notch, the State's ratings. Moody's and Fitch, the other two, have stabilized their ratings. So we're very happy about that.

Moving forward, Page D2 is a schedule that tries to illustrate, as best as we can, the amount of authorized, unissued, and outstanding debt compared to the prior fiscal year and the current fiscal year -- or the fiscal year that just ended. What that means is, we tried to incorporate those programs for which there is a statutory limit or created by statute, and consider that in comparing the debt. In other words, it's not all new debt that's come up, it's debt that's been authorized over the years. And when you account for that, then this gives a picture of how much true new debt has been incurred.

Tab E is how we reconcile the debt report in the Office of Public Finance to what will appear in the State's comprehensive annual financial report that's done primarily by OMB and the State Auditor. And I believe that's expected to be out in the weeks to come.

I could walk through this, if I could, maybe, briefly. I take the outstanding debt as we know it, which is principal and interest. There are certain obligations that I count that are not included in the coffer, such as the Chapter 12 County College Bond Program, the debt of the county colleges recorded on their books. So, for accounting reasons, the coffer does not pick that up.

The NJEFA -- two of their programs. Colleges are responsible to provide a match to the State. The State is responsible for the debt, though we use the revenues to offset that debt. OMB or the accountants characterize a portion of that debt as on the books of the college, since they're responsible for that. So they take that out of the coffer, and so forth.

There are several others there. If you had any questions on any in particular, I'd be happy to answer them.

Then I add back in what's not included in my report. There is accounting obligations that is not securitized debt -- compensated absences. That's the sick and vacation time.

I will note, there are some new GASB accounting requirements that are-- The one new one that was picked up this year by OMB -- capital appreciation and bond accretion in the amount of $4.2 billion. What this means is, a lot of our debt that has been issued over the years was issued in the form of capital appreciation bonds, very similar to U.S. savings bonds, where you sell them at a discount and they mature at face value in the years to come.

The interest compounds, and it's paid at maturity. We treat that as an interest expense when it is paid, in the debt community. In the accounting world, under GASB 34 now, I believe it is, they want you to put on the books, as a liability or as debt outstanding, the portion of that interest -- of that compounded interest that has accreted to the date. So that is where we differ in accounting and-- The debt world and the accounting world tend to differ there. And if you had any other questions on that, I'd be happy to try. I don't know if OMB is here to maybe go into that a little more.

Tab F, moving on, is where we try to give some indication of where we rank, nationally, with our debt in a couple of categories that are counted by one of the rating agencies, Moody's Investors Service. And they put out a debt median every year. And it shows where we rank. We rank fourth in net tax-supported debt per capita. That tax-supported debt is a percentage of personal income and total. And if we were to add the subsequent columns -- where if we were to add another half-billion of new debt or billion of new debt -- how that would affect the rankings. That's illustrated there. If you have any questions, I'd be happy to answer that also.

Beyond that, we take a look at what might be on the horizon. Tab G looks at the general obligation indebtedness. I would anticipate $200 million in bonds in this fiscal year and the next fiscal year. We're starting to get demand from the using agencies that use the bond proceeds. So I would anticipate maybe in April or May -- the bond issue for '06 and the subsequent year.

G2 depicts what that debt service might look like at present rates. A new G2 was distributed to you. We did a last minute formatting change when we had sent the books out to you originally, and we dropped the footnote. But I've corrected that and distributed that to you today.

G3 is the depiction, as of June 30, '05, of each of the various general obligation bond acts.

Tab H is the Transportation Trust Fund Authority. We did sell $953,020,000 in bonds in October of this year. We do not anticipate any more issuances this fiscal year.

Tab H2 depicts that debt service combined with the existing debt service and the other obligations funded by the TTFA appropriation, to show the aggregate debt service now approaching the $805 million that is traditionally appropriated to that agency.

The next tab is the Garden State Preservation Trust. Bonds were sold and are to be delivered on December 1 of this year. And it's $650 million. That will -- that is the end of that bonding capacity -- the billion, one-fifty for open space farmland preservation purposes. That debt service is depicted on I2. Absent any further authorization, I do not anticipate any more bond issues by that agency.

J1, the New Jersey Educational Facilities Authority -- which has, from time to time, been authorized by the Legislature to issue bonds on behalf of colleges and universities for a variety of programs. Those programs have been funded through the sale of bonds. I don't have any plans, at present. I have not heard from that agency that they had any plans to issue any additional bonds. The schedule on J2 shows what's outstanding. And again, absent any new legislative initiatives, this will be the debt service picture going forward.

Tab K is the school facilities construction program. That is the bonds issued by the Economic Development Authority and administered by the Schools Construction Corporation. This is the agency administering the $8.6 billion authorization that resulted from the Supreme Court decision.

K1 indicates where we believe the bond issues will fall by fiscal year. And K2 illustrates the existing debt service and the results of those bond issues. They are spending the money in accordance with the existing contracts that they have. I know there was some controversy about their practices there. And I believe that's all being addressed at the SCC. But the current contracts -- they're still going forward with, and the schools are being built.

Continuing on, Tab L is -- shows the -- for each one of the obligations listed on Page D. This gives a more detailed principal and interest through Fiscal Year 2011 for each of those issues. And I ask you to page through that at your leisure. That is the backup numbers behind the summary table on D1.

Tab M-- As in the past, we depict -- even though the Office of Public Finance does not manage or, in any way, operate the capital leases of the State. These are long-term leases of State office facilities that, by virtue of those long-term leases, are deemed to be a capital lease and the net rent payments, therefore, must be allocated as principal and interest. There are no bonds financing these properties. These are just rent payments that, for accounting reasons, have to be categorized as principal and interest. And, traditionally, we have included this in here even though this is not securitized debt. But this was of interest to this Commission and has been provided over the years. And we continue to do so. The source of this is from OMB.

N and O are some research reports that the rating agencies provide regarding the various states, including New Jersey.

I believe P is the legislative requirements. I think that's the administrative code. I'm sorry, the statutory requirements.

Tab Q -- the outstanding debt. This is just a summary page. If I were to have brought a poster board or something, I might have put this up there by type of debt.

And Tab R concludes with bonds that we've issued subsequent to the fiscal year ending June 30, 2005. So you can see, there has been still quite a need for capital. And we've been managing that effectively.

That is the debt report for the year. And I'd be willing to entertain any questions that any members might have.

MS. MOLNAR: Thank you very much.

I have two quick questions.

On G2, the total debt service between 2006 and 2007-- There's a blip. All of a sudden it increases 300,000 -- 300 million. I'm sorry. What is causing that increase between those two years?

MR. PETRINO: In 2006-- Actually in 2005 -- in January of 2005, we did a refunding bond issue of prior GO refunding bond issues. It resulted in significant savings in Fiscal Year 2006. That's reflected here. We just delivered the final portion of those bonds yesterday. So that resulted in significant savings in Fiscal '06. Fiscal '07 resumes the normal debt service expense for the general obligation program.

MS. MOLNAR: Thank you for that explanation.

The other question-- B1 -- it's our debt management goals. How is New Jersey doing in meeting the goals that are enumerated here; especially, I'd say, the first four? The first one you mentioned our status was upgraded by two agencies and stabilized by two. How about the rest of the goals? How are we doing on those?

MR. PETRINO: Well, as you noted, with respect to the long-term credit rating-- Yes, we think we've turned the corner. A lot of the rating is not contingent, necessarily, on the debt management aspect, but also on the overall financial condition -- fiscal condition of the State's budgeting practices and its programmatic fiscal performance.

As you know, there were a series of downgrades over the years as we wrestled with budget difficulties. Those have been resolved, we think.

The current budget, for the current fiscal year, turned the corner by eliminating the, sort of, what they term *one-shot* revenue items. And that was recognized by -- actually recognized by all three agencies. One made the move of the upgrade. The others recognized that and rendered the stable rating. And they want to see what comes in the future. And the new administration will have the task of carrying that on and continuing that progress.

The short-term investment grade -- or rating the State-- We continue to have the highest grade on our short-term paper. We do an annual cash flow borrowing to balance the mismatching of revenues. Revenues occur periodically over the year. Many of our expenses go out early in the year. So we borrow to cover those expenses, pay that borrowing back within the same fiscal year. We don't carry over from one to the other. And that's recognized by the agencies. And there were sufficient funds to do so. So we have maintained the highest ratings on our short-term papers.

General obligation debt-- I think we've maintained that standard where we issue only as needed. I'll give you an example. I guess it was dam, lake stream, etc., bonds that were on the ballot in '03 that passed by the voters. We have not sold bonds for that yet, even though there have been appropriations, where we're developing a need as the appropriations are put into place -- and the agencies need to start spending the money. Then we will provide the money. We don't go out and do a $200 million bond issue and then have it sit there. The IRS doesn't look favorably on that. So we have to-- So that's how we try to manage that -- is to sell the bonds as needed, rather than incur the debt and pay the debt service costs before the cash is actually needed to be spent.

And the mix of pay-as-you-go appropriations-- We've bonded that. That's an ongoing challenge. It's shared by the Executive Branch and the Legislative Branch. Many agencies and authorities -- bond issuing authorities in the State were empowered with the ability to issue bonds for specific purposes. Those purposes were authorized by the Legislature and carried out by those authorities. To the extent a future Legislature or administration wishes to curtail that type of capital financing and alternatives-- And you'll see a change in that. Otherwise, it's a -- in my mind -- a fitting way to incur debt, because debt spreads an obligation out over a number of years of the life of these programs being funded. So when you're building colleges or roadways that will last for 20 years, it's only fitting -- and it's a proper accounting convention -- to amortize that over a certain period of time.

The large capital projects will require huge appropriations in the immediate year. So it's a way to-- It needs to be managed, but it is an effective tool. And that's really it. I mean, it has to be monitored and addressed always.

MS. MOLNAR: Any other questions or comments?

ASSEMBLYMAN CRYAN: I have a couple. I just want to ask about the cigarette tax.

Good morning.

MS. MOLNAR: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Thanks. I have a couple questions on D1 of the ledger.

The cigarette tax revenue--

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: That's paid for, in part, by the revenue generated from the sale of cigarettes, right? Is it not?

MR. PETRINO: Yes, that was from the additional taxes that were enacted last year. That's correct. A portion of those additional taxes.

ASSEMBLYMAN CRYAN: A portion.

Do you have any analysis, based on the proposal of the smoking ban, in terms of how that would affect that revenue and what the impact would be, fiscally, to the State?

MR. PETRINO: I don't have that. I know that Treasury--

MR. ROUSSEAU: Let me.

MR. PETRINO: Yes.

MR. ROUSSEAU: I'll try to take this one.

This pledges $.51, I think it was -- around that number. Our total cigarette tax is now up around two and change.

This is the first call on that money. So we would need a rather significant drop, almost down to nothing, to have this money not be there. Where the risk is, on the cigarette tax, is clearly to the general fund and those areas, because this is now-- One-fourth or one-fifth of the tax is dedicated for this. I don't think there's any fear that we would ever go below that level of tax revenue. I mean, people would have to totally stop smoking for that to happen.

But it's clearly something that, in the secondary market and things like that, people are going to look at when trading these bonds.

Correct, Jim?

And it's something -- we may have to do an ongoing disclosure. I know that in some of our due diligence calls on these bonds, and things like that, questions are asked about that. And our answer basically comes back, "Well, yes. There could be some decline in consumption." If we were dedicating 90 percent of the tax, there would be some concerns. But like I said, we're dedicating probably close to a quarter, if not 20 to 25 percent of the tax for this. And this becomes the first call.

ASSEMBLYMAN CRYAN: It makes sense. I just-- The reality is, if we do that ban, we'll take away thousands of outlets for that product, as well. So there will be a decline, because anybody who owns a bar and a restaurant is not going to have the product available on the premise as a convenience to the customers. And, clearly, there will be a decline in some logistical level. I just wanted to get the fiscal impacts. So our obligation here, today, is with the General Fund -- general revenue.

MR. ROUSSEAU: Yes, that's where the impact is more likely to be felt than here.

ASSEMBLYMAN CRYAN: Could you explain-- I just have a couple of other issues.

Could you go through colleges again for me? We've had Higher Ed in here, and we talked about their request for capital. You touched upon it. I forget which tab it was.

MR. PETRINO: Tab J.

ASSEMBLYMAN CRYAN: Do local universities have the opportunity to go through debt without the use of EFA, or must they come in through the State?

MR. PETRINO: Oh, no. I think they have their own bonding capacity. In fact, they do borrow through the EFA, and the EFA is a conduit without the State credit. It's on their own credit, on their own revenues. Do they have their own bonding capacity? I believe Rutgers does. I don't know if they have to all go through the EFA.

ASSEMBLYMAN CRYAN: So is there other debt out there--

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: --in terms of obligations with universities that, as a collective body, we need to get a handle on at some point?

MR. ROUSSEAU: Yes. This J2, right here, would only be-- J2 is probably the best place to look at it.

MR. PETRINO: Yes.

MR. ROUSSEAU: J2 would be only the debt that we have responsibility for, as well as-- Yes, their debt -- that they either do as a revenue-producing building, or debt that they've secured on their own -- that's on their books, not on the State's books, not in this report at all. And I think to clarify what Jim said, I think they all have the ability to go out and borrow on their own. But, clearly, they do better -- they get better rates and things by going through--

A Rutgers, a UMDNJ, some of the bigger ones might be able to get the same market rate that they would out of EFA. But the smaller colleges -- probably EFA is the place they go.

MR. PETRINO: That's correct. It becomes a known name to investors when they see an EFA college deal than if a smaller college went out on their own. The amount of research that investors, etc., would have to do on that college are -- would be much greater. But the EFA is a known name, and they know the practices.

ASSEMBLYMAN CRYAN: Or if EFA said no.

Do we have any sort of collection? Is there any data collection that shows the debtedness of each, or do you have to go university by university, school by school?

MR. ROUSSEAU: You have to go university by university. But we can get it for you. I think OMB has access to all their financial statements. And that's where it would show up.

ASSEMBLYMAN CRYAN: And could you just go through, one more time, the-- I just want to go through the TTF. Obviously, we're going to deal with it legislatively. Let's just go through the numbers one more -- just more of a basic overview one more time.

Which tab is that?

MR. PETRINO: It is Tab H, H1 and H2.

ASSEMBLYMAN CRYAN: We basically hear in '06-- For next year's fiscal budget, how much debt obligation is there to the TTF for the '06-'07?

MR. PETRINO: For '07?

ASSEMBLYMAN CRYAN: Yes.

MR. PETRINO: The aggregate debt service, shown here, of 789,207--

ASSEMBLYMAN CRYAN: Okay.

MR. PETRINO: Now, there may be some incidental charges that OMB also needs to adhere to. There are some variable rate bonds in here. These are estimates. These include some estimates of variable rate bonds. So there is some fluctuation there.

ASSEMBLYMAN CRYAN: So we have an $800 million obligation.

MR. PETRINO: Yes, 790.

ASSEMBLYMAN CRYAN: Yes, 790.

Do the bond markets-- I guess that's really all I wanted to-- I can understand the rest from here.

My last question has to do -- is a follow-up to Ms. Molnar's question on the refinancing of sales, on the page where we showed the 457.

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: Are there other opportunities for that in the future, or are there other things you guys are looking at, or are we moving towards a new-- Does that opportunity exist again in the future?

MR. PETRINO: We have undertaken many refundings. We watch that constantly. Wall Street watches that constantly. Proposals come to us. We generate our own looks at our outstanding debt portfolio. And I would have to tell you, there may be some opportunities, depending on where the markets go -- and the rates have started to rise of late. Many refunding opportunities that we were looking at or pursuing we've had to, sort of, table for a little while. Hopefully the rates will go back down, and we can take advantage of those opportunities.

This general obligation refunding was done in several parts. It was done in January, the rates were good. We had significant savings there. We've done refundings of the TTFA many times there. We've done--

Many are escaping me, but we have done a lot of refundings. Let's put it that way.

MR. ROUSSEAU: We just did the Garden State Preservation Trust.

MR. PETRINO: The Garden State Preservation Trust we just sold yesterday. And the savings will generate, we believe, another $4.5 million for additional projects. That's a unique instrument in that through Fiscal Year 2009-- The way it's statutorily created through 2009, the appropriation of $98 million a year is split between the debt service and projects. So any debt service savings becomes project money.

ASSEMBLYMAN CRYAN: Oh, it does?

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: There's no option to cut it down.

MR. PETRINO: Yes, it's through '09.

So we did that to recognize the rates were moving away and we might lose this opportunity to generate additional funds for programs. We just did that. We'll close on that next month.

So we are-- The bottom line to your question is, we are looking at this a lot, as--

ASSEMBLYMAN CRYAN: I know you are. I just wanted to--

MR. PETRINO: I don't have any on the table right now--

ASSEMBLYMAN CRYAN: There's nothing -- okay.

MR. PETRINO: --for pure interest rate savings. The market rates have been rising lately.

ASSEMBLYMAN CRYAN: And clearly -- last point. Clearly, you mentioned we've been stabilized or improved in the investor grade quality of our bonds. How does one reconcile that with ranking fourth overall? Because as you can tell, we have a debate about the debt versus ongoing obligation.

MR. PETRINO: The State is still a strong state. Unemployment is low. Income is high. It's one of the highest ranked states. I can't recall if it's one or two in personal income. The rating agencies recognize that, over all, the State can absorb the levels of debt at these levels and still have this investment-grade rating, or maybe even improve if the fiscally sound practices continue, despite the level of debt. There is a lot of room between fourth place and third place, put it that way, also.

In the course of their ratings, they do recognize all of those strengths in New Jersey. It's a densely populated state. There are strong capital needs. Those are recognized. And we're not penalized for incurring debt.

ASSEMBLYMAN CRYAN: Do I take the investors services upgrade as a validation of the practice of how New Jersey manages its debt?

MR. PETRINO: Not solely that. That would be part of it. It's also how it prepares and implements its budget -- it's fiscal practices, as well, not just the financial. They do-- I think they recognize that we have a strong debt management unit at the State. I think they would attest to that, if asked.

They look at the overall ability to generate the revenues to support the debt. After all, that's what their rating is. It's a gauge of how strong is the State's ability to honor its obligations.

ASSEMBLYMAN CRYAN: Thank you.

MS. MOLNAR: Any other questions or comments?

Mr. Rousseau.

MR. ROUSSEAU: I would just like to thank Jim and his staff for putting the report together, and everything that they've done during the last four years to help us manage through this maze of debt. They've been--

As he said, they're always looking at places where there's opportunity to save. And at the same time, we were probably going through the biggest period of debt issuance, not -- mainly because of the things that were set up before we even got here: Schools Construction, TTFA. And for them to just manage the day-to-day operation of that, with a staff of two to three people, I guess, is just amazing.

I just want to give you my thanks and the thanks to your entire staff for everything that you guys have done in the last four years.

MR. PETRINO: I appreciate that. Thank you for that recognition.

We are a model of efficient government. Two to three people is not an exaggeration. It's had a good run at it.

Thank you.

MS. MOLNAR: Assemblyman Gregg.

ASSEMBLYMAN GREGG: Thank you, Madam Chair.

Let me stay with my colleague for a second.

In the book, on the Transportation Trust-- I'm looking at the schedule of debt. And it appears that we're not going to see debt removal from the Transportation Trust Fund until 2019. Or actually 2020 will be the first year where the debt -- aggregate debt service goes down. It's H2.

MR. PETRINO: Yes, that would be correct.

ASSEMBLYMAN GREGG: I know in public discussions, we've talked about the year 2016 and 2017. Have those been just public relations snafus, or has there been a change in the structure of the debt?

MR. PETRINO: No, there has been no change in the structure of the debt. I guess I'm not familiar with--

ASSEMBLYMAN GREGG: Well, I just know what I read in the newspapers. And, historically, it's been talked about in 2016 and 2017. We're really talking about 15 more years before any appreciable debt service is removed from that Fund.

MR. PETRINO: That may be the result of the bond issue. If you look in the column, 2006 TTFA sale, where in order to fund the remainder of this Fiscal Year's capital program, given the limitations in the early years, we could only-- Much of the amortization had to occur in those years '16 through '20. So that could have added on. The years quoted may have been prior to that bond issue. So that may be the answer.

ASSEMBLYMAN GREGG: Let me flip over to D1, the debt analysis chart. Could you just tell me, under the Economic Development Authority, there's a line item that says State pension funding.

MR. PETRINO: Yes.

ASSEMBLYMAN GREGG: Could you explain to me how the pension funding is in our debt issue?

MR. PETRINO: That's the name of the obligation. That was a bond issue that was done in 199--

MR. ROUSSEAU: That's the 1997 pension bonds.

ASSEMBLYMAN GREGG: That's the pension bonds.

MR. ROUSSEAU: That's yours.

ASSEMBLYMAN GREGG: Don't look at me, I didn't vote for it. (laughter)

MR. ROUSSEAU: We'll take the other ones. That's yours. (laughter) We'll take Motor Vehicles securitization and the cigarette tax. That one is ours. The pension bond is yours.

ASSEMBLYMAN GREGG: I don't think the Supreme Court agrees with you, but that's another thing.

The Department of Human Services program is right under it.

MR. PETRINO: Yes. There were a couple of bond issues that were done. I don't recall the years -- in the '90s. Special needs, housing facilities, group homes, etc., where there are private providers of those services, had -- would each have mortgages on their properties at very high rates. The EDA aggregated those, sold the bond issues. The State was paying for it anyway through their reimbursement to these providers, and really reduced that component. Instead of paying mortgages at very high rates, we now have tax (indiscernible) bonds that are much better. So that was done for savings.

ASSEMBLYMAN GREGG: How much does the State-- Every year, on a yearly basis, there must be an average amount of debt payment requirements that end. It may be in this book someplace. But do you know what the dollar value would be? In other words, we have approximately a $30 billion budget every year. There must be a certain amount of debt service that falls off on a yearly basis.

MR. PETRINO: Yes, absolutely. I mean, bonds aren't amortized. Bonds we've issued 10 years ago continue to amortize. The 20-

year bonds are being paid off. We've even had some bonds from the 1980s that were 25-year bonds that we just paid off.

You might want to look at the bottom of D1. There's a breakdown for each year, principal and interest component on the annual debt service. Principal being the amount of bonds being paid off or amortized. So you can see, in 2005, we've retired or paid down $749 million. And you can see those numbers going forward.

As far as any particular bonds that are ending-- What we call the *911*-- That was a financing that was for the statewide emergency phone system. I'd have to go back and look at what year that was done in. But the final payment was done in 2005. So that will-- That's one that's off the books.

It's hard to show that with, for instance, the New Jersey Building Authority, which may have six or seven series of bonds. Some of those series from 1991 might be paying off and being eliminated. But the series in 2004 begins. So it looks like a continuance, but we're trying to-- In most cases, we're at 20 or 25 years on the bond, depending on the asset that's being financed.

I'm not sure if that answered your question.

ASSEMBLYMAN GREGG: I want to be clear. I want to make sure I understand the bottom of D1 clearly. We're just looking at the principal for 2005 as 749.

MR. PETRINO: Correct.

ASSEMBLYMAN GREGG: Then the next year, in 2006, it drops to 668.

MR. PETRINO: That's right.

ASSEMBLYMAN GREGG: So that would show a decrease.

MR. PETRINO: Yes, overall.

ASSEMBLYMAN GREGG: Overall.

MR. PETRINO: Right, in the amount being amortized. That's primarily due to a lot of the refundings, wherein we -- the debt is paid from an escrow fund. You sell new bonds and put it in an escrow. So there's a reduction in the principal payments in '06. And that, sort of, reflects the savings then.

ASSEMBLYMAN GREGG: But then immediately in 2007, we almost double.

MR. PETRINO: Yes.

ASSEMBLYMAN GREGG: And what does that reflect?

MR. PETRINO: That's the result of many of the bond issues that were undertaken in 2005 and 2006 that will begin amortizing in 2007. Usually during the period of construction, we don't start amortizing the debt.

ASSEMBLYMAN GREGG: So, basically, what we did is back loaded the payment, basically. So we're taking it later rather than up front.

MR. PETRINO: *Back loaded* might be not the right word. I would say we, sort of, deferred amortization for a period of time during construction. We sold bonds in 2006, but didn't start amortizing them, paid interest only for -- maybe it's '06 and '07. And then '08 would begin the pay down.

There are a number of circumstances of that, related to construction projects.

ASSEMBLYMAN GREGG: To B1, debt management goals. I think you've got it memorized so you don't have to flip over the--

I guess some of the questions I want to finish with are just generalized questions of where the State is, where it should be, the direction we're in. I think one can always make arguments or spin the type of state New Jersey is -- that perhaps it can follow a different road to get places because of the dynamic of the income here, or the density of population, or all of those points of view.

But there must be some standards that the rest of the world looks at us, when they rate us three or four. It looks like this analysis shows that, basically, this is something the citizens might understand -- is the debt of the State of New Jersey that you show, which is certainly not all the debt, not all the amounts of money that we owe in liabilities, unfunded liabilities. But this is kind of capital debt that they can understand. It's more than the State budget.

MR. PETRINO: The amount outstanding.

ASSEMBLYMAN GREGG: Now, how many states have that as a ratio?

MR. PETRINO: I couldn't answer that right now. I mean, that's--

ASSEMBLYMAN GREGG: Through the Chair, I think these are types of things that would be good to have, because I think this is what the public wants to know. We can put the 8.7 million people into the debt, come up with a number. That may mean some value, it may not. Pennsylvania is a far larger state than we are but has a smaller budget than we do. So I think comparing, perhaps, the actual debt that a state has, versus, perhaps, the budget.

MR. PETRINO: Debt outstanding relative to its annual budget.

ASSEMBLYMAN GREGG: I'm sure that the folks who rate our bonds may or may not look at those things. It also encumbers the citizens as it relates to other services that they may wish to have and we might be able to afford if we didn't have all the debt.

In one of your debt management goals -- and this may be repetitive, but it may be worthwhile to be repetitive, because I think it makes a lot of sense that-- It does say, no new general obligation debt -- I might substitute the word just *debt* -- should be in an amount no greater than the amount of obligation of debt that is being retired. Do you think that that's a good principle?

MR. PETRINO: I think that would be very limiting to the State's ability to fund its capital needs. While noble from an overall debt limitation perspective, I think you'd probably hear the anxiety of the programs that are in need of the capital dollars.

ASSEMBLYMAN GREGG: Do you believe that debt is the only solution to capital projects?

MR. PETRINO: No, it's never the only solution. But what it does allow is to finance a need today and have the users of that facility pay it off over time, rather than hit today's taxpayers, if you will. I mean, the alternative is simply a budget appropriation for a $500 million capital project that will be enjoyed by taxpayers for 20 years. Why those that happen to live here and pay taxes at this moment would have to incur that obligation-- I understand your question. Obviously, that's a subject of debate.

ASSEMBLYMAN GREGG: I think that makes sense. But at some point, when you have a revenue limitation -- that you do have to differentiate between what should be pay-as-you-go and what should be debt. And I think what I have found in my very short tenure here is that there seems to be a very fine line between what is a capital expenditure and what should be an ongoing repair and maintenance.

And I think that, again, in my short time here, that that line is causing all sorts of trouble. And right after we finish with this segment of our meeting, we'll be moving to another segment again -- which I continue to note, in the people who are coming in front of us, that we are capitalizing things out 20 and 25 years that have absolutely no capacity to last that long.

Do you think that when we do go into a capital debt program and a capital purchase that, clearly, the life expectancy of that project should be taken into account in the length of time that we borrow for?

MR. PETRINO: From my perspective as a debt manager and administering the program, we try not to do that. It's a matter of priorities. Fortunately, I'm not on that side of the table and have to identify what the State's priorities are. And, you're right, it is walking a line. That's why the goal here was to effectively balance pay-as-you-go capital versus debt. Where should that be? Should it be up here, or in the middle, or not at all? There's a couple of states that have no debt. I can't imagine how they manage that. I would imagine they do not have the roadway needs and the wastewater treatment needs, etc., etc., that a densely populated state like New Jersey has.

MR. ROUSSEAU: Where we do use debt for those shorter term needs -- and it's usually a line of credit type debt, which is a shorter period, three to five years for those types of things. I mean, we're not-- Our buildings are 20-year debt, our roads are 20-year debt, things like that. The debt schedule does match as much as we can. So if we're going out and buying State Police cars on a line of credit instead of paying cash up front for them-- Now, that's a policy decision that's made by -- not by Jim, but a policy decision that's made by the Executive Branch and the Legislature to go that way. We don't go out and buy State Police cars with 20-year debt. We go out and buy State Police cars with three to five year -- probably even three-year line of credits, because of their usage.

So we do-- When we take that step to use debt for things that people may consider -- should be operating -- the debt isn't 20-year debt, it's three. It matches the life expectancy of that capital asset.

ASSEMBLYMAN GREGG: Well, I appreciate your point of view, David. I don't think we have gotten to the point where we're doing that with IT, yet -- information technology. We have not gotten to do that, and have never done it, with things like air conditioning. We have not set up programs in our actual operating budgets that show that a roof was not going to last 25 years.

So much of what we're seeing here needs to be assimilated someplace else. And we would not be incurring a debt that is greater than the size of our budget, because we would have placed priorities in a different place, ensuring when we need a building, we could buy a building.

When we need to replace a building, we can replace a building, because that will last 20, 25, or 50 years. But everything in the middle of that will not last that long. And, quite frankly, I think we've used a business model as government to get to that, because the business amortization and capitalization model is designed as a tax write-off. It's not necessarily designed to actually fulfill the need of the replacement. But in many cases, the Federal government and State government has changed that view. If you have a piece of equipment, they're not letting you capitalize that for 20 years. We in government, however, have, in many cases, done that, for out to 20 years. So what we disallow from the business, as we should -- because the life expectancy of a piece of equipment -- and, in fact, a piece of equipment is probably not 20 or 25 years in today's technology.

I bring this up again because it's going to be a continuing mantra from this side of the ledger -- that I believe this State is in serious trouble. And I don't have the optimistic outlook, and I don't think that if we did not have a rationally sized budget last year, we would have gotten the ratings we got. At the direction the State was going -- it was not positive, as we were increasing our spending, doing it on the backs of debt, doing it on the backs of robbing Peter to pay Paul. And I don't see the bright and shiny outlook. And I truly believe it is time for us to get our fiscal house in order, start changing some of the rules as it relates to how we borrow, and make sure the public knows when we borrow we borrow for something that will be there for a long time. And we will not have people continually coming up here asking for what I consider operating expenses to fix their buildings or upgrade their technology.

So I will be watching these numbers as we move forward and looking at these ratios. And I certainly would hope that the committee does get a list. And I know it is made publicly. I don't have the name of the book that reviews virtually every state -- its debt and its obligations. And that may be something that each member of the committee should get a look at. Because there are states that do not have debt. I want to say it's Utah. I can't remember the state that has no debt. But there are states that have no debt, or a very, very small percentage of debt. Perhaps New Jersey needs to start looking at that model. Because there are a lot of services the folks in New Jersey wish to have on a regular basis, on a yearly basis. We are not every other state. The best thing we can do for our citizens is to limit the debt service that we have to have so we can provide those other services on a yearly basis.

Thank you for indulging my time, Madam Chair.

MS. MOLNAR: Thank you.

Senator Bryant.

SENATOR BRYANT: Thank you, Madam Chair.

I just want to address a couple of things, because I think the State is managing this debt in a way that is prudent.

And I believe that when one compares our budget and debt, and says the debt exceeds what our budget is, is very telling of what America does. No one has a house that matches their budget. So when you tell the New Jersey people that our debt service is larger than our budget, you haven't told them much, because their house debt is larger than their budget. And they expect the capital needs are going to have to be paid for. And, therefore, it's paid over time.

We can allude to things that we'd like to change, whether it's an air conditioner or whether it's IT. IT is a very interesting situation because of the way technology changes, one doesn't know whether it's going to last for two years or it's going to last for 10 years. And we can argue over that -- of how we fund it.

But I think, by and large, that's such a minor portion. If you look at this debt book, and you look at what we do for our colleges and what we do for our roads-- And when you tell me a state like Utah-- Utah has no people. And when you have no people, you don't have to spend any money. But when you have a state that's so densely populated -- almost 9 million people that runs the corridor -- you must end up providing the kind of service that people expect.

And, therefore, we have a first class state. I don't want to go to a third class state. I don't want to be a Mississippi. I want to be a New Jersey. And New Jersey provides great services to all of our citizens in all kinds of categories. And that has to be taken into account.

So to tell me that our debt is higher than our budget, I don't think tells us much.

Would you say that, on average, most of our debt that we do -- or the majority of our debt -- actually does coincide -- and this isn't a question -- with the life expectancy of that debt. Whether it be a roof for 20 years or a building for 15 years-- Is that how most of our debt is going to-- I mean, I think we need to get the--

MR. PETRINO: Clearly, the capital projects, yes, go longer. I can think of a couple of circumstances where we financed, specifically, technology infrastructure. The Educational Facilities Authority -- one of the lines is Technology Infrastructure Fund. That is one that you'll note the amortization ends in '09. I believe we sold those. They might have been 10 years in total. But a portion of the-- A portion of it was five years, and a portion was 10 years -- I believe is how that was structured. So we did try to keep it shorter, more to its life span.

A lot of the technology infrastructure and software of the various State departments is financed in that line of credit that David mentioned, along with the police cars. And we also financed a lot of the technology infrastructure. And that is retired over a three- to five-year period. So we did try to match the assets.

SENATOR BRYANT: I'm going to ask just one other question, and I'll close up on that.

Looking at the budget last year -- and we do note some ratings did go up, and others, at least, were stable. Was it not that one-time revenues was cut back on, which helps, in terms -- as one of the elements that helps -- as well as increasing our surplus as another element that demonstrates to the market that we're moving in a much more prudent way?

MR. PETRINO: That is correct. That was noted in the rate reports, both from those that rendered the stable rating, as well as the one that increased the rating.

SENATOR BRYANT: Thank you very much. And you're doing an excellent job.

MS. MOLNAR: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Thanks.

I just have a couple more. E1 -- the compensated absences, $488 million, (indiscernible).

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: Who is that? You mentioned it.

MR. PETRINO: That's accumulated sick and vacation payable. They changed the name of it, I believe.

ASSEMBLYMAN CRYAN: So if everybody left tomorrow, and we paid them all their vacation and sick time, it still would be $489 million?

MR. PETRINO: I don't know if it's if they left tomorrow, or if that is just the accrued obligation over a period of time. I would have to ask OMB, which provides that figure.

MR. ROUSSEAU: I think it's some actuarially determined number.

ASSEMBLYMAN CRYAN: It's an estimate.

MR. ROUSSEAU: I'm sitting here, Mary is sitting there, Beth is sitting there, George. We probably all have enough sick days to get the $15,000 when we leave State government. That, somehow, is actuarially determined in here.

ASSEMBLYMAN GREGG: Why?

MR. ROUSSEAU: That's the way the statutes read right now, that State employees--

ASSEMBLYMAN GREGG: It's a liability, it's not a debt.

MR. ROUSSEAU: Well, yes, but it's a long-term liability. And that's why it shows up on this page. It's a CAFR liability, not really a debt liability. Remember, this page, E1, tries to take our debt and compare it to our annual financial statements.

ASSEMBLYMAN GREGG: Well, since we're being so open here, why wouldn't we have the unfunded liability for our pensions and for our health programs?

MR. ROUSSEAU: Pensions is there on E1. And in two years, we will have to start showing the CAFR for 2008, I think -- it's either 2007 or 2008. I'm not sure which GASB rule it is. We will have to start showing the liability for post-retirement medical. We will have to start showing that liability. I mean, two years ago we had to start showing pensions. Two or three years ago we started showing pensions. And sometime in '07 or '08, we'll have to show the liability for post-retirement medical, which will be a substantial number.

ASSEMBLYMAN CRYAN: Big number.

MR. ROUSSEAU: It will dwarf pensions.

ASSEMBLYMAN CRYAN: My other question to you is -- and I know it's not your forte -- is the capital leases -- just on L2.

MR. PETRINO: Yes.

ASSEMBLYMAN CRYAN: The end of Fiscal Year '05 -- if I read the subsequent chart, M1, right. I mean, all these properties that we lease -- our total debt is $539 million?

MR. PETRINO: Yes, and more of the details provided in Tab M that lists each property--

ASSEMBLYMAN CRYAN: Right.

Who does the cost? Could you just--

MR. PETRINO: That's also an OMB function, where they take inventory of the long-term leases of the State. They have to ascribe a value to that property, under accounting guidelines, if it meets certain tests, a certain duration of the lease. It has to be treated as if you were buying the building. There's no financing involved here. It's just the net rent. So you have to allocate principal and interest to that net rent payment.

In order to do that, you have to have an appraisal of the property. And that's why we call it an imputed principal balance. It's made up for accounting purposes. It's not necessarily a debt outstanding.

ASSEMBLYMAN CRYAN: So it's not really a debt, because it's just an ongoing lease. Is that correct?

MR. PETRINO: Well, it has an end--

ASSEMBLYMAN CRYAN: I mean, it has a debt, but it hasn't ended.

Could you answer for me, because one of the things that drives me nuts in this thing is, nobody ever comes in and says, "We need a new building. Here's what we're paying in leases, and here's our cost savings." I really don't get the sense that departments do that, at least not to my satisfaction. I'll put it to you that way, in terms of how leases expire, and what the net savings are, and all those sorts of things.

Is that something that's available through you -- that groups come in here? We provided a new headquarters, last year, for a couple of areas, and they couldn't even tell us what the cost savings was on moving out of their old buildings. Is that something that's provided through OMB? Is that how it works?

MR. ROUSSEAU: It would be a combination of OMB, Property Management. And what happens in a lot of these instances is that we have 10 floors in Building A; we go and move someplace to their new, owned headquarters. We still have five years left on that lease in Building A. We take places where we may be overcrowded or something like that, and bring people into that building. So it's not as-- I wish it was as easy as you're saying.

ASSEMBLYMAN CRYAN: I get it, Dave. I don't want to delay the Commission.

Thanks.

MS. MOLNAR: I just had one more question on the Transportation Trust Fund. The current revenue is being used for the debt service. I'm sorry if this is a naïve question, but how does New Jersey fund future mass transportation projects then?

ASSEMBLYMAN CRYAN: If you've got a solution, we're open to it. (laughter)

MR. ROUSSEAU: Jim will implement that solution. Those two gentlemen there, that gentleman over there, and the new Governor will work on what that solution would be.

MS. MOLNAR: So all mass transportation projects are on hold.

SENATOR BRYANT: Well, we have enough money to get to June 30.

MS. MOLNAR: June 30 of '06.

All right. I'm glad you clarified it. I didn't mean to sound naïve, but--

ASSEMBLYMAN GREGG: That was a great question.

MR. PETRINO: That is the question.

MS. MOLNAR: Okay. Are there any other questions or comments? (no response)

If not, we'd like to take a vote to accept the report. That's what this Commission does.

SENATOR BRYANT: So moved.

MR. BRANNIGAN: Second.

MS. MOLNAR: Okay.

Any discussion or comments? (no response)

If not, we'll take a roll call -- or vote.

MR. LIHVARCIK: Senator Bryant.

SENATOR BRYANT: Yes.

MR. LIHVARCIK: Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Yes.

MR. LIHVARCIK: Assemblyman Gregg.

ASSEMBLYMAN GREGG: Yes.

MR. LIHVARCIK: Mr. Rousseau.

MR. ROUSSEAU: Yes.

MR. LIHVARCIK: Mr. Brune.

MR. BRUNE: Yes.

MR. LIHVARCIK: Mr. Brannigan.

MR. BRANNIGAN: Yes.

MR. LIHVARCIK: Mr. Annese.

MR. ANNESE: Yes.

MR. LIHVARCIK: Ms. Molnar.

MS. MOLNAR: Yes.

MR. LIHVARCIK: Madam Chair, the motion passes.

MS. MOLNAR: Thank you.

MR. PETRINO: Thank you very much, everyone.

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

We will begin our Fiscal 2007 capital request presentations.

Our first department is the Department of Corrections. I'd like to welcome Peter Roselli, Assistant Commissioner, and his guests.

Could you introduce your staff and guests for the stenographer?

ASST. COMMISSIONER PETER T. ROSELLI: To my left is Carmella Elmer, the Department's Director of Financial Management. To my right is Jim Barbo, Director of Operations, who, among other assignments, manages the Department's capital program. To his right is Gerry Kennedy, Assistant Director for Operations. Sitting behind us is Bob Werner, our analyst for capital projects and facility maintenance.

Good morning, Madam Chairwoman. On behalf of Commissioner Devon Brown, I am pleased to present the Department of Correction's Fiscal Year 2007 capital budget request to you and the Commission.

The Department of Corrections is responsible for the custody and care of persons committed to adult and youth State correctional institutions. It provides educational, vocational, and counseling programs and services contributing to the rehabilitation of offenders and their ultimate reintegration into the community upon release from custody. The

Department is responsible for ensuring that county and municipal jails comply with statewide standards, as well.

The adult correctional institutions: The adult correctional facilities include South Woods, New Jersey, East Jersey, Bayside, Northern, and Riverfront State Prisons; Southern State and Mid-State Correctional Facilities; and the Central Reception and Assignment Facility. The Edna Mahan Correctional Facility for Women provides for custody of adult females. Adult male inmates are also housed in minimum security units at Ancora, a satellite of the Bayside State Prison; and Jones Farm, a satellite of the Central Reception and Assignment Facility.

Special units and treatment centers also fall under the jurisdiction of the Department. The Adult Diagnostic and Treatment Center provides specialized evaluation and treatment services for state prisoners committed under the State's Compulsive and Repetitive Sex Offender's Act. A special treatment unit, operated jointly by the Department of Corrections and the Department of Human Services, provides for the secure care and treatment of civilly committed sex offenders who have completed their custodial terms as state prisoners.

The Department also contracts with nonprofit agencies to provide bed spaces for select, pre-release offenders in community residential facilities.

Youth correctional institutions, the Youth Complex: In addition to the adult facilities, the Department operates three youth correctional facilities. Garden State, Mountainview, and Albert Wagner Youth Correctional Facilities provide for the custody, care, and rehabilitation of younger and less violent males, age 18 to 26. The Juvenile

Justice Commission, an independent agency within the Department of Law and Public Safety, maintains jurisdiction over offenders younger than age 18 committed to State custody.

Parole/community services: As of September 2001, parole services were transferred to the State Parole Board. And, as such, the Department no longer supervises parolees.

Correctional facility policy and planning, major facility issues: The major capital facility challenges that the Department has had to face for the last 10 years -- overcrowding; the ongoing use of trailer units; the use of antiquated, obsolete facilities; and the maintenance of existing physical plant and infrastructure -- continue to have the highest priority in the Department's capital plan. However, this year, the most pressing issue facing the Department is the catastrophic failure of the high temperature, hot water underground distribution system at the South Woods State Prison.

The South Woods State Prison is a medium security facility housing approximately 3,200 inmates, and is the Department of Correction's largest and most recently constructed institution, having opened in May 1997. This system, which was installed from 1995 to 1997, supplies hot water throughout the South Woods grounds to various buildings, where it is used for heating, domestic hot water, and cooking purposes. Approximately three miles of this system's piping runs throughout the prison grounds.

Multiple pipe failures have occurred in this system. The first failure occurred in March 2000, with subsequent failures in 2002, 2003, 2004, and 2005. These failures not only affect the hot water system, but also have affected the other utility lines located near the hot water piping. In addition, each occurrence has disrupted the normal operation of the facility, resulting in both custody and maintenance staff overtime and unplanned expenditures from the Department's operating and capital appropriations, totaling in excess of $3 million to date.

Due to the number of failures, their location throughout the institution, and the short period of time from the opening of the facility to the first occurrence, staff from the Department of Corrections, the Division of Property Management and Construction, and the Bureau of Risk Management in the Department of the Treasury all agree that a complete and catastrophic system failure has occurred. Therefore, this system must be replaced.

The proposed replacement piping is anticipated to be an above-ground installation that would be readily accessible for maintenance and repairs, should they be required in the future. A design consultant was contracted in October of this year, using funds from the Department's allocation of the Fiscal Year 2006 fire/life safety and renovations appropriation.

Due to the potential loss of over 3,000 bed spaces, this project has become the Department's highest capital priority in its Fiscal Year 2007 request. The Department is also discussing with the Department of the Treasury other potential funding sources for this work.

As I stated previously, the major capital issues of overcrowding; the ongoing use of trailer units; and the use of antiquated, obsolete facilities; and the maintenance of the existing physical plant and infrastructure continue to have the highest priority in the Department capital plan.

Despite recent decreases in the inmate population, prison overcrowding continues to be a major challenge for the Department. Over the eight fiscal years from 1991 to 1999, the Department's adult inmate population increased by 9,775, or 45 percent, from 21,525 to 31,300 inmates. During the next three fiscal years, from 2000 to 2002, the state prison population decreased by approximately 4,000, to 27,300. Since then, the population appears to have stabilized at this level. However, the last several months have shown an increase of 500 inmates, to 27,800.

Sufficient, additional, and replacement bed space has not been constructed over the last 10 years to keep pace with the current inmate population, especially when we consider the deterioration of much of the Department's housing stock.

During the past eight years, alternatives to traditional institutional incarceration have expanded considerably. The Department has increased the number of noninstitutional treatment and alternative program slots by 356 percent, from 762 in 1995 to more than 2,800 in Fiscal Year 2006. Over the last three fiscal years, additional residential treatment space has been added to the State Parole Board alternative programs, as well. However, the number of inmates who can be assigned to such programs is limited.

The recent stabilization of the inmate population and the use of alternatives to incarceration have not appreciably relieved pressure on DOC facilities, since most of the reductions have been experienced in the number of State prisoners housed in county facilities. During the last several years, the number of State inmates housed in county facilities had dropped from over 5,000 to less than 2,000. Recently, the total has again surpassed 2,000. The result is that State correctional facilities continue operating at well beyond their design capacity.

State prisoner population growth is directly attributable to various legislative enactments and public safety practices, including the New Jersey Code of Criminal Justice, Title 2C, enacted in 1979; the Parole Act of 1979; the Graves' Firearms Act; the Comprehensive Drug Reform Act of 1986; the 1997 No Early Release Act, NERA; and other statutory changes.

The No Early Release Act, which requires an offender to serve 85 percent of his or her sentence, is anticipated to double the length of stay for a significant number of State commitments. There are currently 5,000 inmates serving terms under NERA. To date, only about 700 NERA sentenced inmates have been released. Over the past two years, NERA admissions have averaged about 100 per month, while NERA releases number fewer than 30 per month. This leads us to anticipate some modest increase in the inmate population during the next several years, due to continued buildup of NERA sentenced inmates.

A second major issue facing the Department -- the continued use of modular buildings, essentially trailers constructed of inexpensive, nondurable materials, throughout the state -- is directly related to the rapid prisoner population growth during the 1980s and 1990s.

In response to prison overcrowding, the Department initiated the installation of these units in May 1981. Since then, the Southern State facility, which currently provides housing for 1,702 prisoners in 13 trailer units, and eight individual trailer units at four institutions housing an additional 975 inmates, remain in operation. Due to recent fires which destroyed a 120-bed unit at Southern State in August 2003, a 100-bed unit at East Jersey State Prison in February 2004, and partially destroyed a 100-bed unit at the Riverfront State Prison in March 2004, these units have become primary life/safety concerns. Finally, Cottage D at the Edna Mahan facility had to be permanently vacated in June 2005 -- this past June -- due to mold and water damage that rendered it unusable and unrepairable.

Although the 20-year-old Southern State facility is the Department's primary focus because it is comprised entirely of trailer units for prisoner housing, the trailer units at the Bayside, East Jersey, Edna Mahan, and Riverfront facilities are also a concern.

A third major capital issue is the continued use of antiquated, obsolete facilities. The East Jersey State Prison is a medium/maximum security prison with 2,000 beds of various security levels. This facility was constructed more than 100 years ago, in 1886, and other than selected wings at the New Jersey State Prison, is the Department's oldest facility. Despite extreme efforts to provide short-term maintenance to this aged facility, its basic infrastructure is obsolete, outmoded, and in a chronic state of disrepair.

The final major capital issue has to do with the ability of the Department to continue to maintain the existing physical plant and infrastructure to ensure the availability of existing bed spaces within the limits of annual capital appropriations. This includes the necessary improvements that must be made at all facilities to meet new codes with regard to fire safety and environmental concerns. The catastrophic failure of the high temperature, hot water piping system at the South Woods facility; the 10-inch water main leak at New Jersey State Prison in December 2004; the failure of the boiler at the Administrative Close Supervision Unit at the Northern State Prison in June 2005; the failure of the 7-wing left locking system at the New Jersey facility; and the steam line leak and road collapse at the Bayside State Prison in August 2005 are all indications of the Department's need for additional capital funding.

The interacting effects of continued prison overcrowding, combined with the aging trailer units, use of antiquated facilities, and the inability to maintain buildings and infrastructure underscore the need for both new construction and internal renovations.

In sum, the objective of the Department's capital program over the last 10 years has first been to maintain existing facilities and minimize further deterioration so that bed spaces added through new construction, contracts with the counties, and community-based expansion could relieve overcrowding.

The Department has continued this effort by funding the following capital projects with its $3 million Fiscal Year 2005 allocation from the statewide fire/life safety, and renovation appropriation: roof replacement, North and South Halls, Edna Mahan; secondary egresses, administration building and cottages, Mountainview; the replacement of the leaking steam supply and condensate line to the Administrative Close Supervision Unit at the Wagner facility; the replacement of the water supply system at the Mid-State Correctional Facility; and security fencing improvements to Cottage C at the Edna Mahan facility.

The Department will fund the following capital projects with its $5 million Fiscal Year 2006 allocation from the statewide appropriation: sally port receiving gate replacement, East Jersey; security surveillance improvements at the New Jersey State Prison; the replacement of leaking pipes and damaged ceiling in the Randall Cottage at Edna Mahan; and the repair of the latest leak in the high temperature, hot water piping system at the South Woods facility. In addition, the $1 million Fiscal Year 2006 appropriation for locking system replacements, recommended by the Commission and subsequently appropriated by the Legislature, will be used to fund the replacement of the wing-3 locking system at East Jersey; and the replacement of the 7-wing left locking system at the New Jersey State Prison.

A second objective of the Department's capital program is the replacement of trailer units constructed of inexpensive, nondurable materials. The Department received a capital appropriation of $4 million in Fiscal Year 2006 to begin the replacement of the individual trailer units installed in response to the prison overcrowding in the 1980s. The Commission, in its Fiscal Year 2006 capital recommendation for the Department, endorsed this project for funding. The unit to be replaced with this funding is the D Cottage trailer unit at Edna Mahan, which, as I stated earlier, had to be permanently vacated due to mold and water damage earlier this year. Originally installed in November 1981, with a design capacity of 48 beds, the unit will be replaced with a 107-bed site adaptation of the Department's dormitory prototype. In addition to replacing the existing trailer, approximately 59 beds will be added to the design and operating capacity of Edna Mahan when the project is completed, an increase sorely needed at this facility. The Department very much appreciates the Commission's support for this replacement funding.

A third objective of the Department's capital program is the replacement of existing aged facilities, which are costly to maintain and operate. New facilities would be designed to reduce custody staffing requirements, and would incorporate state-of-the-art security technology to enhance operating efficiencies.

The Department's Fiscal Year 2007 capital request addresses all of these objectives. However, in light of recent events, the Department's most pressing capital concern is now the catastrophic failure of the hot water distribution system piping at the South Woods facility. Therefore, the request has, as its first priority, the replacement of that system at a cost of $8 million.

The continued use of trailer units continues to be a major challenge. The Fiscal Year 2007 request has, as its second priority, the replacement of all of the trailer units at Southern State, at an initial cost of $14.9 million for programming and design. The phased replacement of the individual trailer units at various facilities is the third priority, with a request of $11 million to replace the two remaining trailer units at the Bayside facility, at present housing 280 prisoners, with two of the Department's 134-bed dormitory prototypes.

The complete Fiscal Year 2007 capital request consists of 38 projects, with a total cost of $131 million. Of this amount, $46.2 million, or 45 percent, addresses the replacement of the aforementioned modular units in the East Jersey State Prison. The balance of $85.1 million, or 65 percent, addresses the preservation of the physical plant and infrastructure, with the highest priorities being compliance with the fire safety code, replacement of internal locking systems, replacement of existing facility security perimeters, and roof replacements.

Thank you for this opportunity to present the capital needs of the DOC to the Commission. We would be happy to answer any questions you or Commission members may have.

MS. MOLNAR: Thank you.

Any questions or comments?

Assemblyman Cryan.

ASSEMBLYMAN CRYAN: South Woods -- what happened? Who built it? Who built the piping system?

ASSISTANT COMMISSIONER ROSELLI: I don't know the name of the construction company that did it. I'm told that it's Perini.

ASSEMBLYMAN CRYAN: I'd ask-- Let me follow up and say, I'd like to know if they do business? Can somebody find out? Do they still do business with the State? Unless I'm mistaken, you're asking for $3 million -- eight past $3 million -- $11 million. Is this a construction issue?

ASSISTANT COMMISSIONER ROSELLI: Not to our knowledge.

ASSEMBLYMAN CRYAN: What's the problem, if it's not a construction issue?

ASSISTANT COMMISSIONER ROSELLI: Oh, it is a construction issue. I was answering your question, Assemblyman, whether--

ASSEMBLYMAN CRYAN: I don't know who Perini is.

ASSISTANT COMMISSIONER ROSELLI: Jim Barbo indicates that they're not doing any business with the Department of Corrections at this point.

ASSEMBLYMAN CRYAN: I sure hope they're not in the school construction business.

The first problem happened three years after the completion of the job. Did I get that right, March 2000 from '97?

ASSISTANT COMMISSIONER ROSELLI: Yes, sir.

ASSEMBLYMAN CRYAN: Were there any warranties, guarantees, things like that, that one would normally associate with that product? Or is that-- I mean, three miles of piping--

ASSISTANT COMMISSIONER ROSELLI: As we understand it, the standard terms and conditions of a State construction contract were in place for this project, which was done through the State Building Authority.

ASSEMBLYMAN CRYAN: Peter, what does that mean?

ASSISTANT COMMISSIONER ROSELLI: Excuse me?

ASSEMBLYMAN CRYAN: What does that mean? Were there guarantees, or--

ASSISTANT COMMISSIONER ROSELLI: As we understand it, the contractor was -- had a one-year warranty from the date of acceptance, and a manufacturer's guarantee on materials and equipment for one to three years. A consultant is currently reviewing the project documents to determine the exact term of the guarantee.

ASSEMBLYMAN CRYAN: And whether or not there's any liability they can pay for.

ASSISTANT COMMISSIONER ROSELLI: Yes, sir.

ASSEMBLYMAN CRYAN: The other thing that struck me about this is, it's three miles of piping that has issues, right? Is that right?

ASSISTANT COMMISSIONER ROSELLI: Yes, sir.

ASSEMBLYMAN CRYAN: Underground. And it's only $8 million -- which I know sounds foolish. But I thought that sounded kind of low.

ASSISTANT COMMISSIONER ROSELLI: Well, that's the preliminary estimate that our Department staff and the Division of Property Management has returned.

ASSEMBLYMAN CRYAN: How preliminary is preliminary? Like, out of the gate or--

ASSISTANT COMMISSIONER ROSELLI: Very preliminary. We are actually engaged in a study that we have commenced as of September to determine precisely what the cost would be.

ASSEMBLYMAN CRYAN: Okay. So when will the study be ready?

ASSISTANT COMMISSIONER ROSELLI: As I understand it, in the Spring.

ASSEMBLYMAN CRYAN: Peter, let me ask you then-- I know there's changes and whatever. But if you're still here, certainly as a legislator, I'd like you to provide me a copy of it, through the Chair, if that's all right -- whatever the right protocol is for that.

ASSISTANT COMMISSIONER ROSELLI: Yes, sir.

ASSEMBLYMAN CRYAN: How solid, in all honesty, is $8 million to fix three miles of piping?

ASSISTANT COMMISSIONER ROSELLI: As I listened to the discussion among the specialists, I think that's a reasonable value.

ASSEMBLYMAN CRYAN: It's in the game, this number? Yes?

I guess that's it. Thanks.

MS. MOLNAR: Any other questions or comments?

Assemblyman Gregg.

ASSEMBLYMAN GREGG: I want to stay with my colleague on this one for a second, because this seems to be the continuing, recurring issue we have in the State of New Jersey. We contract with people, they do a poor job, and nobody's at fault.

In order for this to have occurred-- And I think I heard in your testimony that what we're going to do now is take the pipes that we had put underground, and we're going to move them above ground. Is that correct?

ASSISTANT COMMISSIONER ROSELLI: That's what we anticipate will be the recommendation.

ASSEMBLYMAN GREGG: Which, to me, without having any consultants or professionals in front of me, reeks to design flaw. In other words, we're not going back and saying we're going to go underground and put pipes down there because we put a faulty product under there. We're actually changing the whole concept. Either way, there are consultants, there are engineers, there are any number of people who are involved in this. And I was in the Legislature when we did this prison. This is not that long ago.

I'm looking at you just saying, if this was K. Hovnanian, and they were a private entity, and this kind of failure in design had occurred at the local level to citizens in the State of New Jersey, we would be passing laws to require them to come back and fix it. We have homeowner warranty funds and things of that nature, because we know we want things built correctly the first time.

I can't believe you're here. I mean, I'm new on this committee. I'm embarrassed that this is even here. I couldn't come here, in good faith, being who you are. Maybe all of you need to be removed. Because this is outrageous that the State of New Jersey, through one of our authorities, has allowed this to occur, and then had the unmitigated gall to come in front of a Commission to say, "We want to borrow money to fix it." The taxpayers shouldn't have to borrow anything to fix it. We should go back and find out what happened. And those consultants who said, "Do it this way," should pay for it if they made a mistake. And the contractor should be found. And if he is doing any business in the State of New Jersey-- For you not to know who did this immediately, I don't know why you're here.

ASSISTANT COMMISSIONER ROSELLI: In response, Assemblyman, I would say to you that we are, with the Treasury Bureau of Risk Management, preparing a claim to recover the $3 million we spent to date, with regard to fixing these intermittent leaks and failures. And, in addition, the Bureau of Risk Management, through its expert consultants, is examining the alternatives that the State has to recover full cost for whatever ensues here from the proper party, whether that be the manufacturer of the equipment that was placed in the ground, or whether it be the installer, or whether it be both.

So from that point of view, the State will pursue that vigorously.

I might also mention -- and I'm not passing the buck -- that the Department of Corrections does not manage the construction of capital facilities in its purview. That is done by specialists in the Treasury Department's Division of Property Management and Construction, and consultants that they hire, as well.

And so while I can understand your concern-- And, certainly, we would agree that this is unacceptable capital construction -- certainly. We, as the operators of the State correctional system, have the responsibility to inform you as a legislator, and this Commission, as to our need to continue to operate.

In this particular case, we have a circumstance where we face the tenuous situation of having 3,200 inmates who, if we had to evacuate them, would be difficult to place because of our overcrowding in other locations. And in addition to the State's county correctional system -- which is, as well, stressed at this point in time.

So we share your concern. And we are particularly chagrined that this is occurring in our newest facility.

ASSEMBLYMAN GREGG: Well, I appreciate those comments. But I think you need to get to this Commission as well as, I'm sure, the Budget and Appropriations Committee as it moves forward, as well, to find out who is at fault here and bring that to us. Because if you need to fix something immediately -- and it would fall down to your locks and other things -- many of us would say, "Take it out of another fund. Take it out of your operating expenses. Do what needs to be done, and come to the Budget Committee. Because if this is an at-risk issue to the security of your prison, and then, therefore, the security of our citizens, it should be done immediately." But this is years. We're already seeing years happening here. And this is a Commission that talks about long-term capital projects, not immediate issues that could be critical.

But I would hope you would get information back to this Commission about what occurred here. Because this is not the first scenario in the short time I've been here that there appears that there's faulty work being done. And it appears that the State's solution, at least from what I'm hearing, is just to push it in the corner, fix it, hire somebody else to fix it, get another consultant, get another expert, find somebody else who will find what happened, and just cover it over for lack of a better term. And I don't think that's good, prudent use of taxpayers' dollars.

We should find these people. If they-- If the contracts need to be changed-- You just mentioned a contract that talks about a one-year warranty, or whatever the case may be. Come to us and say, "Let's change that," as a Legislature. Maybe we need to have new contracts when you do public work. It's obvious we've been shown that some of the public work that's been done over the last few years has been not so good. With the looming Schools Construction Corporation hanging over us, this is the last kind of thing I think the public wants to hear about -- that even when we build something, we can't even build it right -- especially when it's a prison. It's not right, and it's broken. I don't think you would have waited two or three years in your home if you didn't have hot water, or if you had a problem with pipes continuing to break, or an air conditioning unit that wasn't functioning. We would be chasing those people down immediately -- a brand new, incredibly expensive facility.

So I mean this to be as chastising as it sounds. I would hope that we get more information about this. If this is your number one priority, let's make it your number one priority. Let's get it fixed. But let's not do it at the taxpayers expense or incurring any more debt.

I appreciate your time.

MS. MOLNAR: Any other questions or comments?

Mr. Brannigan.

MR. BRANNIGAN: I'd like to echo the comments of Assemblyman Cryan and Assemblyman Gregg. I think this is an outrageous case. And I'm not willing to let the Department of Corrections point the finger at the Department of Treasury. You're a customer. You should be monitoring. You should have facilities people looking at what's going into the ground when it's going into the ground. And I think this case warrants a very thorough analysis to see how something could go so wrong so quick.

And I echo the Assemblymen's concerns about warranties of one year for a system of this type. You can give a one-year warranty on balloons. This is so outrageous that my comment here was, maybe it's criminal. So I think this deserves a very thorough report back and an accounting on who made decisions all along the line, including the Department of Corrections. We just cannot ask for the trust of the people of New Jersey when we allow things like this to happen. It's an embarrassment.

MS. MOLNAR: Thank you.

Any other questions or comments?

Mr. Brune.

MR. BRUNE: Peter, just on a different topic-- Just to share with the Commission a conversation you and I had before. And on Priorities 5 through 9, which are things like locking systems, and perimeter security, and roof repairs-- We don't want, necessarily, the-- These are all lumped together, I guess is the point -- in part because this is (indiscernible), I guess, to the committee.

These are lumped together. And we're encouraging the Department to break out at least the most critical of these, that they amount to almost $40 million. It's our impression from the past that that's a much better way to make sure that nothing slips by that is particularly critical. So you and I have spoken about that.

And I just want to make sure, through the Chair, that what we're going to ask the Department to do is just, sort of, at least break out the top priorities in those categories, the ones that are particularly worrisome, and will submit that back.

ASSISTANT COMMISSIONER ROSELLI: As we have done in past years, Gary, we'll be happy to do that. We have all the detail, and we can provide it to you as you wish to have it.

MR. BRUNE: Thank you.

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

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

ASSISTANT COMMISSIONER ROSELLI: Thank you.

MS. MOLNAR: Our next department is Law and Public Safety. I'd like to welcome Daniel Foster, Director of Finance and Facilities Management.

Good morning.

D A N I E L W. F O S T E R: I'd like to introduce, to my left, Madeline Crane, Deputy Director of Facilities. And to my right is Lieutenant Miranda from the Division of State Police and its facilities.

My remarks are quite lengthy, but what I have done is tried to shorten it considerably. The information is provided to you to read at your leisure.

Good morning, Chairwoman Molnar, members of the Capital Planning Commission, and Executive Director Lihvarcik. On behalf of Attorney General Harvey, I would like to thank you for this opportunity to outline the Department of Law and Public Safety's capital budget for Fiscal Year 2007. I would also like to thank the Commission for the support it has provided to the Department over the past several years.

Before presenting the Commission with a summary of the Department's capital requests, I would like to cite a passage from the 9/11 Commission report that I ask you to keep in mind as I outline our Fiscal Year 2007 requests. This is not intended to exploit the events of 9/11, but, rather, I ask that you allow these words to serve as a somewhat harsh, yet sobering reminder of how this Department's role has been redefined since that fateful day. This role comes with inherent needs if we are to be successful in our mission to protect the citizens of this state.

The cite is as follows. "The losses America suffered that day demonstrated both the gravity of the terrorist threat and the commensurate need to prepare ourselves to meet it. The first responders of today live in a world transformed by the attacks on 9/11. Because no one believes that every conceivable form of attack can be prevented, civilians and first responders will again find themselves on the front lines. We must plan for that eventuality. A rededication to preparedness is, perhaps, the best way to honor the memories of those we lost that day."

It is this spirit of rededication that the Department of Law and Public Safety presents our capital request for Fiscal Year 2007. Please view each of the following requests as pieces to a select group of puzzles or projects the Department is trying to assemble.

Although it is sometimes difficult to outline these requests in a manner which does not make them appear as an endless wish list for the Department, understand that the recurring elements presented today all contribute to global themes being addressed by the Department. Whether the request pertains to homeland security and domestic preparedness initiatives, or whether it pertains to operational support issues such as facility and equipment upgrades, the common thread that runs through each of these requests is that they are all intended to increase the Department's ability to serve and protect the citizens of New Jersey and all who may travel within its borders.

Our first capital priority involves the critical repairs that are needed to the Regional Medical Examiner's Office and State Toxicology Laboratory at the Albano Institute of Forensic Science in Newark. This institute is a 24-year-old, State-owned facility used by the New Jersey Medical Examiner as a base of operations for mass disaster planning, training, and other medical examiner functions. It is the largest morgue in the state, and serves as a staging area for catastrophes.

Due to the age of the facility, as well as changing requirements, several modifications are needed to ensure the continued health and safety of those that work there, as well as a consistent quality of scientific performance. These modifications include the replacement of the existing detection equipment used in drug testing, toxicology cases, and investigations involving violent, sudden, or unexpected deaths; as well as the replacement of the existing refrigeration cooling units which are well beyond their life expectancy and are in danger of failing.

The Department's second priority is to replace and upgrade the aging HVAC systems that are intended to be long-lasting and energy efficient, and to facilitate healthy working environments within the four Division of State Police facilities identified as requiring immediate attention.

The facilities identified in this request are Troop B Headquarters in Totowa; Buildings 4 and 15 at State Police Headquarters; and the Southern Regional Lab in Hammonton, which currently has a 35-year-old system that can no longer meet the cooling needs of the laboratory. Building 4 contains the offices of the Intelligence Services Section, Transportation Safety Bureau, Medical Services Unit, and the Evidence Management Unit. Building 15 contains the Office of the Superintendent, the Identification and Information Technology Section, and the Operational Dispatch Unit. As an example of the poor HVAC systems, temperatures in Building 4 routinely reach 83 degrees during the summer months, and the current system has no fresh air intake and no ability to remove the humidity in the building, which has led to mold problems.

Although we do appreciate the $500,000 we were appropriated to address the HVAC systems for the control rooms at radio tower sites in Fiscal Year 2006, we will still need to address the heating and air conditioning problems in the remaining State Police facilities. It is becoming a critical working condition issue for the employees located in these facilities.

Another paramount concern within the Department is the State Police's ability to effectively communicate with all agencies and disciplines during the day-to-day operations, and especially during catastrophic events. The Department is requesting funding to support the purchase of new consoles for the operational dispatch units in Totowa, West Trenton, and Buena Vista, which is on par with the recently installed equipment at the new Hamilton complex.

State funding is also necessary to replace the 15-year-old portable radios that use analog technology, which is no longer supported by the manufacturer. The Division of Criminal Justice is also seeking support to convert their radios to digital technology to coincide with the State Police conversion.

The need to modernize the radio system in New Jersey is one of the Department's utmost concerns. Simply put, radio communication serves as a lifeline for troopers, firefighters, EMS personnel, and all those who have come to call -- we have come to call *first responders*. And call on them we will.

Another serious concern that prompts our request for funding is the condition of the aging helicopter fleet within the Division of State Police. I would like to thank Executive Director Lihvarcik for taking the time to tour the Aviation Bureau's Central Region office two months ago. It is my understanding that this tour indicated a detailed overview of the maintenance costs and downtime, which continue to increase in a fleet being tasked with broader responsibilities. This year's request includes funding for the purchase of eight new helicopters.

We have examined our airborne law enforcement mission with emphasis on domestic preparedness, as well as our air ambulance responsibilities, and are having difficulty answering the call. With the exception of a used 1994 Sikorsky purchased in July of 2002, the remaining MedEvac helicopters average 17 years of age. As these aircraft continue to age, maintenance and repairs occur more frequently and become more costly.

Although the number of MedEvac missions remains somewhat constant, averaging approximately 2,000 flights per year, the Division's homeland security and law enforcement missions have grown considerably. In Calendar Year 2002, there were 1,500 flights. By the end of this year, we expect 3,500 flights.

There are also mounting concerns, on our list of State Police priorities, regarding various aging facilities and eroding infrastructure, requiring upgrades and repairs. This request includes enhanced security measures, repair of storm sewer systems, electrical systems, replacement of generators, roof repairs, upgraded telephone systems, and a variety of critical repairs to prevent further deterioration of facilities and an increase in hazardous conditions. For example, the poor condition of the bulkhead at the Bivalve Marine Police Station at Maurice River has led to rodents gaining access to the underside of the station. The Department hopes that you will provide funding to help keep our State facilities safe for our employees.

Funding has been requested to have a sprinkler system installed throughout the Office of Weights and Measures facility to protect the sophisticated, high-value equipment, estimated at $5.6 million, used to verify and calibrate various weights and measure devices used in commerce throughout the state.

The area of forensics continues to be one of the most exciting areas in law enforcement today. As advances in forensics technology continue, the benefits to the law enforcement community increase tremendously.

Our forensics request for Fiscal Year 2007 consists of funding to support two vital projects which are critical pieces to the forensic and DNA advances the State has made over the past few years. These upgrades are intended to minimize turnaround times of evidence analysis, while also resulting in a higher quality of findings to ensure the conviction or exoneration of those charged with criminal offenses.

The first request is to upgrade the three regional crime laboratories in order to bring labs in other regions of the State to a level of compatibility with the new, high-tech center in Hamilton Township.

The second forensics request is to expand and equip the North Regional Forensic Laboratory in a plan that provides an additional 6,000 square feet at that facility. The current facility is overcrowded due to the closing of one of its buildings after being damaged during Hurricane Floyd. This lab is in jeopardy of losing its ASCLAD certification.

Security and surveillance equipment, as well as audiovisual production equipment, have been identified as vital needs within the Division of Criminal Justice. The Division's High Risk Team requires specialized clothing, search equipment, and tools to allow them to complete their operations safely and successfully.

The Division of State Police is also looking to replace its deteriorating Marine Police Station at Lake Hopatcong. A feasibility study is being conducted on a building that has been donated to the State by the Morris County Park Commission, which could potentially serve as the Lake Hopatcong State Police Marine Station. Please take note that this is -- this request has changed from our original capital submission, which proposed the purchase and renovation of another building on lakefront property.

Lake Hopatcong has the most boat traffic of any lake in the state and has activity year round. The renovation of this donated facility, if deemed possible by the feasibility study, is a prudent solution.

The final capital request that I will outline today involves the Division of State request to fund their interior fit up of the Regional Operations Intelligence Center, the ROIC. This center is responsible for developing, supporting, and building consolidated statewide intelligence-sharing operations that address major crimes which impact public safety and homeland security. As the arm of the intelligence-driven policing, the ROIC functions to integrate local, State, and Federal law enforcement and emergency response agencies in a collaborative effort to protect the public.

This funding would enable the State Police to complete the second floor addition to the Emergency Operations Center currently being built, and would incorporate the offices and functions of the ROIC and the 9-1-1 call center. Having the Emergency Operations Center, the ROIC, and the call center all housed in the same facility is a common-sense approach.

These three operations combine to prepare for, respond to, and mitigate emergency situations.

The capital needs I have detailed here today are critical to ongoing operations of the Department of Law and Public Safety. As stated earlier, these requests are the critical pieces to puzzles the Department of Law and Public Safety is striving to complete. Continued support and funding will undoubtedly assist us in our endeavors to maintain our infrastructure so we may continue to serve the citizens of New Jersey.

Again, I want to thank you for the support you have given us in the past. And I trust that you will assess these requests on their merit.

I will now be happy to answer any questions you may have.

MS. MOLNAR: Thank you.

Are there any Federal Homeland Security funds available for any of these projects?

MR. FOSTER: There's no Federal Homeland Security dollars for these particular projects. Most of the money has already been identified for many infrastructure projects.

MS. MOLNAR: Okay.

Assemblyman Cryan.

ASSEMBLYMAN CRYAN: Just one.

The radios-- I thought we made all sorts of investments to make sure that all our radios talk to each other in previous years. I know, as part of the Budget Committee, we allocated money to that. And I'm a little surprised to hear about radios today.

MR. FOSTER: You're absolutely correct, Assemblyman. The issue here is with the portable radios -- where there has been a bandwidth situation that has changed -- so that there is not interference with the cellular calls. So it's a process of replacing some of them and rebanding some of the others.

ASSEMBLYMAN CRYAN: Didn't we-- I mean, I didn't go back and check, but I remember putting up new antennas so that things -- money for new antennas. Am I right? Were you there for that?

MR. FOSTER: Yes, I was. I remember Captain Nutt explaining the situation and where we were. This was covering all our radio needs but for this rebanding and the situation with the portables.

ASSEMBLYMAN CRYAN: Are there any more *buts* after portable, if we did this? Or is this the end of the line?

MR. FOSTER: None that I know of, sir.

ASSEMBLYMAN CRYAN: Thank you.

MS. MOLNAR: Any other questions or comments?

Mr. Brune.

MR. BRUNE: Dan, just two quick questions. The HVAC is in the first two priorities -- is a request for HVAC equipment. And there is a program called Clean Energy, run by BPU, that provides rebates. Do we assume that the costs reflected here assume those rebates or not?

MR. FOSTER: No. No rebates have been taken into account here. We were working with DPMC and doing projections. And the numbers that we worked out -- we didn't take any credits for any rebates. Now, keep in mind, some of those numbers, even though its identified as, for example, $1.6 million, it's not all the cost of that particular air conditioner. The actual air conditioner is probably around $1.1 million. There were other ancillary costs.

MR. BRUNE: So we want to work with you to identify whatever the correct piece was.

MR. FOSTER: That's fine.

MR. BRUNE: And the other question is, we have-- Some of our staff at OMB have been able to see the Medical Examiner's office. We've seen the condition of that and know about the needs there. I wanted to ask you to clarify. Apparently, in the past, forfeiture money was used to upgrade that facility. And do you know the extent of that and whether that's available in '07, again, to any degree?

MR. FOSTER: I'd have to go back and look at the reports. It's been a while ago since we've put any forfeiture money into the Medical Examiner's office.

We do have the ability-- We have a small amount of-- If you remember in the forfeiture, we have a commitment of an ongoing cost that was offset. So we have to always, at least, come up with $2.2 million before there's any availability of any funds. And forfeiture dollars do not normally come in at a level that would be able to address this situation. We might be able to come up with small projects.

MR. BRUNE: We were convinced of the need there. We just need to work with you on what the alternatives are.

MR. FOSTER: Absolutely.

MR. BRUNE: The last question is -- because the Chairwoman asked about the Federal grants. This is a mass disaster planning facility, in the sense that it's the biggest morgue in the state. Are you saying that the Federal money is not eligible for this, or you simply don't have any available left?

MR. FOSTER: I would have to go back and look at the reports. But what happened was, there was a priority structured, and there was a lot of different facilities that probably had a higher priority than this particular one.

MR. BRUNE: Okay.

Thank you.

MS. MOLNAR: Mr. Brannigan.

MR. BRANNIGAN: Are all critical State Police facilities-- Do they all have adequate backup generating powers, so that in a catastrophic event we would have all of our State Police facilities in operation?

MR. FOSTER: Yes, they do. If you look at our request -- and in two or three of these requests we have identified specific generators. And I will cite, for example, Building 15 is a critical facility in that it has -- it's considered the hub of State Police in that it has their bulk of their IT and technology information in there, and their non-criminal information checks, and their CAD system, and stuff runs through there. They need these two big, large, oversized generators. And that accounts for-- I believe they're \$900,000 each. The request includes two, so it's \$1.8 million that we were looking in that category.

There was other generators that we were requesting, for example, in Building 6 -- considerably less money. But it's still needed. And there's other facilities that we need to upgrade these generators.

MR. BRANNIGAN: Madam Chair, through the Chair, could we ask-- There are multiple State agencies -- the Department of Health and the Department of Corrections; we've heard the Department of Military and Veterans' Affairs with their armories -- that have a need for continuous

24/7 power capability, particularly if we have a disaster, either man-made or natural disaster.

Could we have an analysis done of the various generation power needs? And if we could do this together as a State, rather than coming in here and having these generators inside one or two projects. Because I think if we were -- if we looked at the problems encountered in Louisiana, and the people dying in hospitals because they didn't have power-- It's a potential serious problem. And I think we've been approaching it piecemeal here. And I would like for the Commission to get a comprehensive analysis of the emergency generation needs for critical facilities throughout the state.

MS. MOLNAR: Okay.

Any other questions or comments? (no response)

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

Our next department is the department of Juvenile Justice. I'd like to welcome Howard Beyer, Executive Director.

Good morning.

HOWARD L. BEYER: Good afternoon, actually.

Good afternoon, Madam Chairwoman, Executive Director Lihvarcik.

I'll try and keep my comments brief but to the point.

To my right is Director of Administration, Ro Fairbanks, and from, also, the Office of Administration, Dan Smurlo -- are here joining me.

We have a speech, but I'd rather just speak to you, if that's okay. As you know, we are the Juvenile Justice Commission. I think Peter mentioned that the Juvenile Justice Commission takes care of the younger kids. They could be as young as 11, up to 18, and it goes over 18 at times, when the kids are doing well with us. We have worked very hard over the last several years to go from a punitive style Commission to a very rehabilitative one.

And I know there was a discussion about government and things maybe not working so well. I want to say one thing very positive. We also worked very hard. We had a private vendor providing medical care for us. And the government, the administration, allowed us to take medical care back, meaning we are running our own medical care. The doctors, the nurses, the EMTs now work for the Commission. And we now believe we're doing a much better job, because we really care about the kids that we take care of. Not to say that the private vendor didn't, but it's not the dollar that's the most important thing, but the welfare of the child comes first.

And the reason I bring that up is, now that we have the medical care back, we have our hospital at the New Jersey Training School that really needs a lot of work. It's old, it's dark, it needs renovation. And with our new medical system, and with the staff that we have, if we could get -- ask for your consideration to perhaps help us on that, it would be a big plus. When kids are hurt, they're scared. Obviously, they are away from home, they're away from their parents. If we could put them, at least, in a much nicer place to convalesce-- Anybody who has ever been in a hospital knows it's not the most pleasant thing. And if you're incarcerated, if you're removed from society-- So that's one of our first issues -- if we could possibly get funding to renovate the hospital at the New Jersey Training School.

We also have a list of critical repairs that we need funding and support on for all our different places, because we have secure places -- five secure places -- meaning kids who are in facilities that are protected by a fence, public safety being the first issue. And then we have residential programs that are in need of repair throughout the state. And they are in the package of information that we have shared with you.

I also want to say, from a very, very positive point, that we at the Commission are very appreciative of the support that you have given us over the years. You have supported us on fire safety and electrical upgrades, gas lines. And while, in some cases, we may be still waiting for the money, it is a very, very good feeling to come here and get that kind of support.

I have many times asked-- I think I usually always leave asking you to come visit us. You supported us on upgrading our vocational training building at the New Jersey Training School, for instance. What a beautiful place it is. And there are so many cool things going on vocationally now. Education is our foundation. And we have made vocational education as important. We are not putting out cooks to work at McDonalds. We actually have chefs teaching our kids to be chefs. And we have relationships with unions so that kids can now go into a career and work in a restaurant or a hotel, working in a restaurant or running a kitchen. They're actually certified.

So the positive things that are happening are happening within the walls and the confines of those buildings which you have supported us on. And it's one thing to talk about it; I would just love for you to be able to see it.

And the other thing that we have talked about is -- that we are really looking for is upgrading our fence down in the Bordentown area -- the fence and the whole perimeter of our facility. While we have moved forward in a very positive way in the way we deal with kids, our most secure place is Bordentown. That is our facility. And while it probably isn't the design that we would, perhaps, wish it to be or hope it to be, it's what we have. And we want to use it the most effective way we can.

Right next to our most secure facility is our reception unit. And because we wanted to do more positive rehabilitative work for the kids who are in juvenile medium and the kids who are in the reception unit, we built a fence, joined it together. It's a secure fence, but it is not of the highest security. And so in order to ensure safe travel between the two buildings -- which are maybe a hundred yards apart and now connected by this fence -- it has to be staff intense. If we can get an upgrade on the fence, we can reduce the cost of using as many officers as we need and rely on the non-climbable type of fence for that kind of facility. But, again, it is allowing greater movement, greater opportunities to do the rehabilitative work that I would hope you would want us to be doing.

And I'd like to say that I thank you, because we are very grateful for all you have done and supported us on.

I just want to say to Assemblyman Gregg, by the way, when I was a much younger guy, you came to visit me at Trenton Prison. I remember giving you a tour. I'd like to give you a tour. I want to take Assemblyman Cryan on a tour. I'd like to take you all on a tour. I'd like you to get a feel of what we're doing. We just got retired race horses at the Training School. We built barns and put up a fence. And you should have seen the kids -- the reaction of the kids when the horses came in. We're raising butterflies. For every 12 butterflies you raise, the kids can earn up to a hundred dollars.

So there's so many good things that are going on around the Commission. And we couldn't do it without you. So thank you very much. And we are here to answer any questions you'd like.

MS. MOLNAR: Thank you.

I want to thank you for your hard work and compassion, on behalf of our youth in New Jersey.

Any questions or comments?

Mr. Brune.

MR. BRUNE: I just have one comment.

Howard, it's the same comment we gave to Corrections. There's a-- Priority 2 is critical repairs, as you know -- $3 million. If there's any way that you can break that out for us into the respective projects. Not this instant. It doesn't have to be here. But if, through the Chair, you can provide a list -- prioritized list of what you would fund.

DANIEL SMURLO: In the package with the speech, we included the questions that OMB asked, so we have written answers to those. And we also have a spending plan. It's not in priority order, but it's just-- We put something together to show that these are our needs.

MR. BRUNE: That's terrific. I would just ask if you could tell us, off-line, what is your priority order. And we could share that with the Commission. That would be good.

Thank you.

MR. SMURLO: That's kind of a tough one, because there are so many. We have a couple of potential failures. There's one at the Pinelands, where we may have to be replacing the septic system. It's not a real old system, but it's starting to fail. We're not sure yet. We're still doing some investigative work on it. But we had to put that in, because if it goes, it's going to have to go -- we're going to have to repair it quick.

MR. BRUNE: Thank you.

MS. MOLNAR: Thank you.

Any other questions or comments? (no response)

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

MR. BEYER: Thank you very much.

Assemblyman Cryan, we're at 24 today.

ASSEMBLYMAN CRYAN: Okay. Thanks.

MR. BEYER: Thank you very much.

MS. MOLNAR: Our next department is the Office of Information Technology. I'd like to welcome Charles Dawson, Chief Technology Officer.

Good morning -- or good afternoon.

CHARLES S. DAWSON: Good morning, Madam Chair and distinguished members of the Commission. Thank you for this opportunity to present the Office of Information Technology's capital budget request for Fiscal Year 2007.

Before I begin, I would like to introduce the members of my management team that are here with us today. They helped me to shape this request. They will assist me in answering any of your questions. To my right is my Chief of Staff, Alfonsina Comune. To her right is Deighton Liverpool, who is our Chief of Application, Development, and Maintenance. And to my left is Ann Timmons, who's our Manager for Budget Planning.

As I said, we are here to answer your questions. We hope to create a clear picture of our funding requests.

Let me start with a little background on OIT. In effect, we are the State's IT nervous system. We are the home of the State government's technology and computer infrastructure, including the entire Web network, New Jersey.GOV; telecommunications and 9-1-1 systems; 450 critical government service applications; and we provide print services, producing more than 36 million checks and documents per year.

As the State's lead agency in cyber security, we make sure that systems are private, secure, and always available. These are significant challenges, but we are meeting them. And we are being recognized for our success.

Although we are often compared critically to other states, in fact, New Jersey is a national leader in IT. Over the past four years, we have twice been ranked among the top five states in use of IT, in the prestigious Brown University e-government survey. Our third-place ranking this year -- with our third-place ranking this year, New Jersey finished ahead of states that are consistently recognized as the leaders in state government information technology, such as Washington, Virginia, Michigan, and California.

I have focused on making sure New Jersey continues its strong growth in IT. These national recognitions reflect that commitment. Our accomplishments have come while faced with some major roadblocks. OIT's mission is to serve the citizens as the State's central IT agency. However, we lack the authority to act in such a matter -- such a manner, oftentimes.

As I have stated to this Commission before, many agencies are duplicating OIT's efforts. Taxpayers have been forced to shoulder this burden.

I want to take this time to thank the Capital Commission and the Office of Management and Budget for recognizing this problem and playing their part in the solution.

This year, we have welcomed the opportunity to work with OMB to review department capital budget requests for technology purposes. I thank you for your responsiveness to our earlier calls for greater oversight. You have recognized the value of this type of cooperation.

We are already seeing results. Our first review meeting was with the Department of Agriculture. As a part of their capital budget request, they asked for funding for a geographic information systems infrastructure that replicates what we already have in place. Agriculture was not even aware that OIT could provide these capabilities. By making us part of the review process, we eliminated the need for a separate project. This is a great example of what we can accomplish by working together.

As we continue in this process, I am sure we will find more opportunities. Departments can significantly reduce costs by taking advantage of the centralized capabilities that OIT has to offer. However, to offer these centralized services, OIT needs the appropriate funding. The departments can take advantage of every item in our budget capital request to provide services to citizens. Funding these requests centrally through OIT eliminates the need to duplicate this funding for IT through every department.

While our request involves 12 different areas, I will limit my remarks to the top priority ones, and a comment about the fiber optic network requirements.

First is Garden State Network, security and core strengthening. Our top priority in our capital budget request is to continue building and protecting the State computer infrastructure, known as the Garden State Network. This is an ongoing process that must be funded every year. The network is the secure, 21st century backbone to ensure the delivery of information and services to homes and businesses throughout the State.

OIT seeks $3.9 million for critical upgrades to reduce the State's vulnerabilities and replace outdated components. With these funds, we will purchase and install equipment to protect our existing systems or replace devices vulnerable to intrusion.

The State network gets about 4.5 million attacks each day from hackers attempting to exploit vulnerabilities in our network. In addition to this increased level of activity, attacks are becoming more complex and sophisticated, making these upgrades critical. Our environment must be available to citizens, and I should add businesses, 24 hours a day, seven days a week.

Second priority is OARS. Our capital request also includes $6.5 million in continued funding for OARS, Availability and Recovery Site. OARS is the foundation of the State's IT disaster recovery plans. Since the initial funding, OARS has greatly evolved due to a variety of construction, as well as technical issues. By the end of this year, we should complete the electrical infrastructure and network connectivity for OARS. Recovery capabilities will be available for critical Internet services.

As you know, the OARS project is extraordinarily complex. We have arranged for a detailed discussion with representatives from OMB and an on-site visit to the OARS facility. I would be happy to make my staff available to make arrangements for each member of the Commission to visit the OARS site as well.

Number three, IBM enterprise server replacements. Our third request is $13.5 million for IBM enterprise server replacements. Our current mainframes need to be upgraded to newer technology that provides the functionality needed to meet the demands of our citizens. We are not replacing green screen computers with newer versions of the same technology. These are critical upgrades that provide critical features to ensure the availability of critical systems, such as Motor Vehicle applications. Online applications for initiatives as varied as unemployment insurance, child support, and digitized drivers' licenses can all be hosted on this same infrastructure.

Due to the critical nature of this request, and the tremendous constraints on our budget, we have explored multiple solutions to fund this initiative. I would be delighted to share that additional information with members of the Commission after today's meeting.

Number four, critical facility preservation projects. Three million dollars is needed for continued critical upgrades to our facilities. This request builds upon the funding we received last year for IT communications and facilities improvements. The servers and mainframes that make up the State computer network consume large amounts of power.

We use uninterruptible power supply systems to deliver the necessary conditioned power every second of every day. The computer rooms lose power from PSE&G and sustain voltage variations daily. These mini-outages can shut down everything in the data center unless protected by a UPS system. The UPS equipment we want to replace has a life expectancy of 13 to 15 years. Our current equipment ranges in age from 15 to 20 years old.

UPS systems generate a great deal of heat and require constant cooling. The air conditioner serving the UPS system is 20 years old. It is at the end of its life expectancy and must be replaced. If the systems fail, we would be unable to process and produce, for example, property tax rebates, unemployment checks, and Motor Vehicle documents.

Number five, data management infrastructure upgrade and expansion. We are requesting $4.235 million for a data management infrastructure upgrade and expansion. This will further enable the development of a central data management infrastructure. Every State service requires the State to collect and maintain data from the citizens. Managing this data centrally creates incredible cost savings for the State.

For example, server hardware, database software, and maintenance costs are reduced as much as 50 percent, resulting in initial acquisition savings of almost $4 million. The State also saves more than $800,000 per year on maintenance.

Six: SAN storage infrastructure and fabric upgrade. Our sixth request is $1.36 million for the OIT Storage Area Network infrastructure. All information must be stored so it can be delivered to users when they need it. And as more information and services are added to the State Internet, OIT needs more storage devices to hold all the data. Storing data also requires more than just the physical machines that store the data. There is also an infrastructure of fabric and wiring used to deliver the data.

By offering our storage environment to all agencies, OIT saves the State the cost of providing dozens of separate storage environments. It does not make sense for each department to provide its own data storage solution.

Number seven, enterprise application hosting refresh and growth. OIT needs $950,000 for new application servers. For the past several years, OIT has been purchasing servers for various enterprise and State agency application needs. Over time, just like any asset, servers become outdated, worn out, and prone to operational malfunctions. Some of these servers are over 8 years old. Industry standards call for servers to be replaced every five years.

The servers are now likely to fail. These servers host critical Web sites, including the State home page. Funding these server replacements now would allow for planned, orderly, tested process to ensure as little disruption as possible.

As my last comment -- it has to do with the Garden State fiber optic network. A fiber optic network, for which we requested $3.7 million, will provide a nearly limitless foundation for future expansion -- network expansion. New Jersey continually needs additional high-speed computer bandwidth to deliver information through the Internet. By building a State-owned network, we originally estimated potential annual savings of $4 to $6 million beginning in FY 2009.

However, since we first submitted our request, there are now attractive, cost-effective, commercially available partnering options to address these issues. We're going to be looking at these opportunities to create beneficial partnerships between the public and private sectors.

In conclusion, OIT takes its responsibility as the State technical stewards very seriously. We have developed plans to spread the costs of these enterprise initiatives among the departments. We currently lack the proper resources and clear-cut authority to implement our plans fully.

So I present OIT's request today, asking not only for the proper funding, but also for your continued support. We have begun to make important strides in reviewing departmental capital budget requests. It is forward thinking such as these that will enable us to transform IT from an expenditure to an investment.

Thank you, Madam Chairperson and members of the Commission, for your help and assistance. To get a hands-on look at our operations and see our systems in action, I cordially invite each of you to tour our facilities. Some of the OMB representatives on this Commission were able to stop by for a tour in the past. We were delighted that they found it quite a valuable experience. Feel free to contact our office, and we will gladly make the arrangements.

Thank you again for this opportunity to speak to you today. I will be pleased to take your questions at this time.

MS. MOLNAR: Thank you.

Any questions or comments?

Assemblyman Cryan.

ASSEMBLYMAN CRYAN: I promise I'll be brief.

I have a couple for Priority 3. You talked about Motor Vehicle there. We just got done reading a debt report that talked about all the money we put into Motor Vehicle upgrades. Do we need this? Do we need you to do the digitized drivers' licenses and any of that stuff?

MR. DAWSON: Absolutely. We provide the -- most of the technical solution for the Motor Vehicle Commission for their ability to deliver that digitized drivers' license.

ASSEMBLYMAN CRYAN: See, here's my problem. On the debt report today, we looked at the Motor Vehicle Commission. It's right on D1. This State, this body made an effort to revitalize. It's a complete success story to most folks. And are you telling us that the computers now all have to be upgraded? Is that what you're saying?

MR. DAWSON: Well, there are components to the solution for the digitized drivers' license and the rest of these applications associated with it that are, and have been for some time, centralized. And as we go to using images and those kinds of things that are required under the new drivers' licenses, it requires additional storage, it requires other kinds of technical capabilities that we would need to upgrade ourselves in order to deliver that.

ASSEMBLYMAN CRYAN: We didn't plan for the additional storage or needs when we were going to one of the most complicated licenses in the history of the country?

MR. DAWSON: Yes, there was very much an understanding that that was going to be (indiscernible). Ann Timmons will elaborate on that.

A N N T I M M O N S: One of the things on the enterprise server, just so you know-- After we submitted our initial request-- On the mainframe is a major component of the current DMV system. We have been in discussion with Motor Vehicles' fiscal office to talk about an equitable funding solution for these servers. And that's why Mr. Dawson referred to the fact that we've come up with a variety of different funding models where we would need -- where we could minimize the Capital Commission's contributions, so to speak, to acquire these enterprise servers.

And, again, in talking to Motor Vehicles, depending on the kind of solution we can come to terms with, they are willing to donate a portion of the cost of these mainframes. But they feel it has to be a fair and equitable portion of the cost, because they've got to report that expenditure to their bondholder.

ASSEMBLYMAN CRYAN: So do we have enough capability to do the digital drivers' licenses under the current system, or do we not?

MR. DAWSON: There will be a need for additional assets. And I think what Ann was describing to you is an ongoing negotiation between ourselves and the--

ASSEMBLYMAN CRYAN: I got that part. I just don't get the part where-- I mean, I sat here for an hour and looked at a debt service thing. And as a legislator, I voted for reform. And I'm sitting here now and hear about how we need more support, storage, and more of that when, quite frankly, the license thing was planned out from the beginning. We all knew what we were doing. We all knew it was in the wake of the 9/11 terrorists having licenses, the whole deal. It just seems to me-- It just jumps off the page as aggravating. How is that?

DEIGHTON LIVERPOOL: If I may, for a minute. The digitized drivers' licenses -- that involves a combination of different technologies. On our mainframe, it's not only the drivers' license systems that actually run on the mainframe. We have, for example, NJCSF, which is all financial systems. They run on the mainframe.

This was an example. What Steve alluded to here was an example of one of the systems that actually runs on the mainframe that we would need. As part of that component, we need to upgrade the mainframe to ensure that we can continue to provide the service to the rest of the technologies that combine--

ASSEMBLYMAN CRYAN: I understand. It's one part of what (indiscernible) things are-- I get it.

MR. LIVERPOOL: Yes.

ASSEMBLYMAN CRYAN: I was going to ask you about property taxes in a minute.

I guess I still want to ask the question. Do we have enough capability to do the digital drivers' licenses that we projected in the State of New Jersey, under our current technology?

MR. LIVERPOOL: We do have the capability to do that. However, again, with-- And I thought it was Senator Bryant that earlier said -- and spoke to the change in technologies. As technology changes, and the ability to continue to support the systems that we produce, we have to, in lots of cases, upgrade.

ASSEMBLYMAN CRYAN: The property tax stuff that you mentioned -- in terms of rebates and checks. I'm interested. One of the debates in the last election -- and I know both candidates, at least at some point, mentioned it -- the idea of providing credits back to folks, as opposed to taxes. Does this system-- If we funded this thing, would it be able to do that, or would we need more bells and whistles?

MR. ROUSSEAU: I'm going to interrupt here. That's really more of a Treasury operational issue than an OIT issue.

PAMS, which is being established, will ultimately be able to do that, which is a statewide assessment system where the ability to do a direct credit would be there. PAMS is probably still three to four years away from direct -- from being totally up and running. But there will be that capability three, four, five years from now.

MR. DAWSON: Also, the--

ASSEMBLYMAN CRYAN: Let me ask it this way, Dave. If we have that capability in three to four years, then why do we want to invest in upgraded technology in the mean time?

MR. DAWSON: Well, also, the main -- IBM mainframe-- One of the main components of some of our provisional services is going to be, basically, incapable of handling this. And that will go out of maintenance in 2007. So we've got to actually step up to that commitment to provide that through, actually, more efficient technologies that will allow us to partition some of these pieces of hardware more efficiently. So rather than them being used at 40 percent capacity, we can use them at a much higher amount and use multiple applications on them.

ASSEMBLYMAN CRYAN: A couple other quick points--

Do you guys keep some sort of-- Are these folks, all in the back, with OIT? Are these folks all with you?

MR. DAWSON: Yes.

ASSEMBLYMAN CRYAN: Do you guys keep something that says this piece of hardware or software is going to run out or be expired in some-- Is there some piece of the puzzle that some of us could at least see?

Because this thing is-- It just seems like-- I know I'd like to, at least, recommend to the Governor-- It just seems to me that information technology is one area where there could be a significant cost savings in this government.

MR. DAWSON: Oh, yes.

ASSEMBLYMAN CRYAN: And I don't know why we do not-- Is there something that identifies your hardware -- when it expires, when the next new toy has to be bought, for lack of a better way to put it? Is that about right? Do you have something like that?

MR. DAWSON: Yes, we do.

ASSEMBLYMAN CRYAN: Through the Chair, could I ask for it? Is that feasible?

MR. DAWSON: We'll provide you, through the Chair, that information.

ASSEMBLYMAN CRYAN: And my last thing was, do you have anything to do with SACWIS? The answer is no, right?

MR. LIVERPOOL: The answer is limited.

ASSEMBLYMAN CRYAN: What's you're limited role there?

MR. LIVERPOOL: We actually-- As part of the process, we are involved. Some of our developers are involved with putting -- helping to put a system together, along with the vendor, CMI -- AMS.

ASSEMBLYMAN CRYAN: So you're responsible for part of the selection. Is that what you said?

MR. LIVERPOOL: We're part of the selection process. We did participate as part of a team.

ASSEMBLYMAN CRYAN: You were part of the selection process.

MR. LIVERPOOL: The team.

ASSEMBLYMAN CRYAN: The team.

MR. LIVERPOOL: In reviewing the RFP and those things, yes.

ASSEMBLYMAN CRYAN: Did you know it's $15 million over budget, and about 18 months late for a variety of reasons?

MR. LIVERPOOL: Unfortunately, that part of the process we have no control over.

ASSEMBLYMAN CRYAN: Not your game.

MR. DAWSON: When I described a little bit earlier, Assemblyman, our frustration, in terms of dealing with some of these projects, that's one of those issues that we feel needs to be addressed. It's one thing to be part of the review team. It's another thing to have a critical role in deciding what business solution is put into place.

ASSEMBLYMAN CRYAN: So anybody can do almost anything and go past you. I've learned that already on this committee.

MR. DAWSON: Unfortunately, there's a lot to that. And in other states, there is significantly more authority, especially in a centralized or consolidated structure.

ASSEMBLYMAN CRYAN: Swallows money. IT is just like a windmill. It just swallows money. And I don't have an appreciation of--

I mean, I don't understand why-- Everything I was ever taught-- If you're going for cost analysis, you look for a savings. If you want the latest upgrade version, it has to provide some sort of savings. I mean, that's-- I mean, we got that back with the nuns.

And in Priority 1, operating costs are going to increase $350,000 a year. There's a couple operating-- OIT is coming in, asking for more things. And in Priority 1 and 2, operating costs increase. Now, I'm sure there is some wonderful definition as to why. But in the land of logical, that doesn't make sense. And I just have to tell you, it's an immensely frustrating process.

Thanks.

MS. MOLNAR: Any other questions or comments?

Mr. Brannigan.

MR. BRANNIGAN: On Priority 3, your zSeries frames-- What's the life expectancy of those new systems?

A N T H O N Y F A V A T A: That is the IBM--

MS. MOLNAR: You have to speak into the microphone.

And give his name.

Could you identify yourself for the stenographer?

MR. FAVATA: My name is Tony Favata. I'm Director of Production Services with OIT.

The zSeries processors are the current architectural level of IBM mainframes. The types that we are envisioning putting on the floor to replace the two current processors can be implementally upgraded for some number of years.

The current processors that we have were initially installed in 1997. We've done incremental, on-the-floor upgrades on those boxes for some eight years. And we've squeezed all the processing that we can out of them at this stage. And that's the main reason for our request for processor upgrades.

MR. BRANNIGAN: Kind of a follow-up question. When the State goes out to buy these new systems, what type of outside expertise do you involve in making your own management decisions, on making these recommendations, so that we can have the confidence that-- We went through with Corrections, and we saw-- We bought a water system, and it lasted three years. So, somewhere along the line, the State screwed up on that.

So what kind of confidence can we have that the decisions and recommendations coming out are going to be lasting and solid?

MR. DAWSON: Many, if not most, of the new systems -- the very large systems like SACWIS, like UI mod, like PAMS, and so on, are large -- the solutions are largely developed by the departments. And it varies significantly, in terms of how much they put into actual assessments of what those are. We play a role in advising them on that. And in some instances, we can provide technical-- In all instances, we provide technical reviews of their procurements.

But one of my concerns, as I expressed early on, is that I'm not satisfied with the degree of scrutiny and the degree of leverage of existing infrastructure that goes into making those decisions.

MR. BRANNIGAN: Thank you.

MS. MOLNAR: Any other questions or comments?

Mr. Lihvarcik.

MR. LIHVARCIK: Good morning -- good afternoon.

The OARS project has received funding over a several year period.

MR. DAWSON: Correct.

MR. LIHVARCIK: If, through the Chair, you could provide us with how much you've received, how much it's going to cost, what has been expended, what is allocated or encumbered, and a phaseout of what remains to be done and when you're going to need it, it would be appreciated.

MS. TIMMONS: Yes, we have a detailed reconciliation of moneys received to date, and how those moneys were used, including the $8 million that was transferred to DPMC for the retrofitting of the building. So we have that detail, as well as projecting what we're going to use our current, unobligated balances for. And we will add to that, then, a projection of the use of the $6.5 million.

MR. LIHVARCIK: And I guess, is that going to be the end of it? Is this the last traunch of money that you're going to need?

MR. DAWSON: No. That facility has a disaster recovery solution. It actually begins with our most critical applications. And then, as more of the applications of other departments are made available to us, then we will also try to back them up with this facility and look at other options for providing that kind of business continuity and disaster recovery. Perhaps not at that site, but elsewhere.

MR. LIHVARCIK: Then could you also include what you feel the out-year costs are going to be?

MR. DAWSON: Yes.

MR. LIHVARCIK: Thank you.

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

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

Our next meeting is December 17 (*sic*). Because of the poor quality of the speaker in this telephone speaker, we will not be allowing telephonic attendance, so you will have to physically be here. So if you're not going to be here, we'll welcome your comments if you want to mail them in.

If there's anything else -- any other comments--

We'll see you in December.

Thank you.

Meeting adjourned.

(MEETING CONCLUDED)