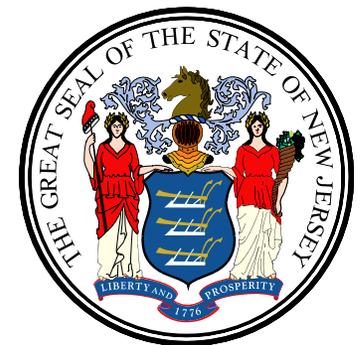




SAVE.OUR.STATE.

FINANCIAL RESTRUCTURING AND DEBT REDUCTION



February 2008

Financial Emergency

20 years of short-sighted financial decisions by both parties left us in a deep hole

Misspending

Overspending

Irresponsible Borrowing

“We’re in a hole and if we want to get out, we have to stop digging”

Annual Budget Crisis

A financial emergency

- ◆ Every year New Jersey starts the budget process billions in the red
- ◆ Every year the budget magically gets fixed
- ◆ But the problem wasn't fixed, it was hidden
 - Taxes and fees raised
 - Borrowing exploded
 - Pension/health care payments avoided
 - Unemployment and other trust funds raided
 - Tricks and gimmicks found

“Our fiscal foundation must be fixed for the next fifty years, not the next fifty weeks.” - Governor Jon S. Corzine

Short-Sighted Financial Decisions

1997

- ◆ Pension Bonds pay for tax cuts and spending

1990-2005

- ◆ Pension contributions avoided

**2000 and
2001**

- ◆ Unfunded pension enhancements made

2002

- ◆ Inflated revenue figures “pay” for new spending

2004

- ◆ Borrowing used for current spending

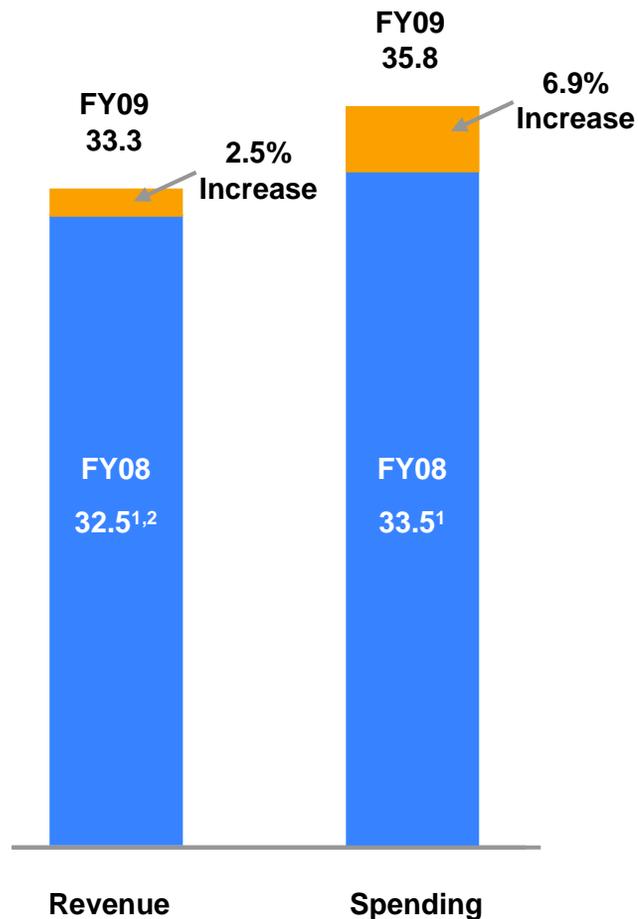
1997-2005

- ◆ Spending grows 2x the rate of revenue growth

Challenges to Balancing New Jersey's General Fund

FY09 Projected Structural Deficit: (\$2.5) billion

(\$ in Billions)



The structural deficit is caused by the State's inability to match recurring revenues to recurring expenditures.

Notes:

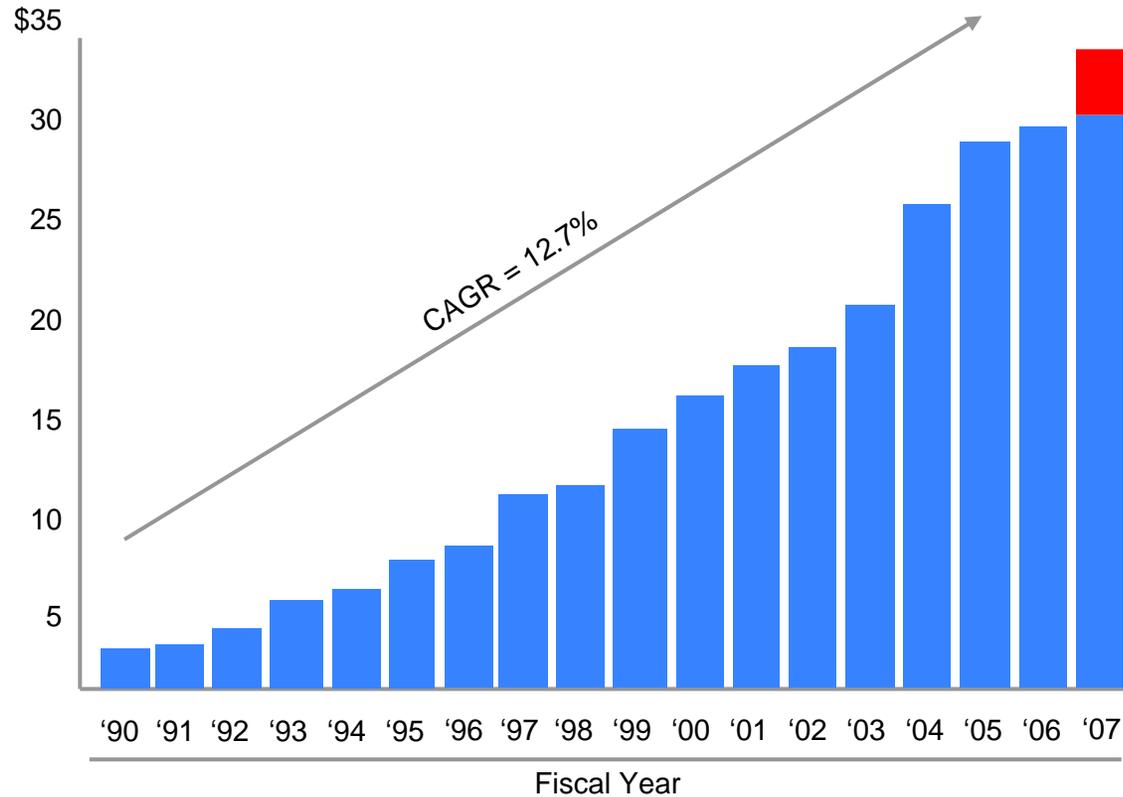
- 1 The FY08 Budget was balanced through the use of a combination of \$0.7 billion in sales tax carry forwards and \$1.2 billion in other carry forwards leaving \$0.6 billion as the projected fund balance carry forward for FY09
- 2 Reflects current estimate of FY08 revenue

Impact of Credit Card Culture on Budget and Taxpayers

- ◆ Debt is “crowding out” education, health care, property tax relief and senior services
- ◆ Taxpayers are paying more for debt:
 - New Jersey has 3rd highest debt burden in country
 - \$3,700 in debt for every man, woman and child (\$10,200 debt per household)
 - First \$860 in household taxes goes to pay debt
 - \$16,000 total long-term obligations per capita (\$45,000 per household for all long-term obligations)

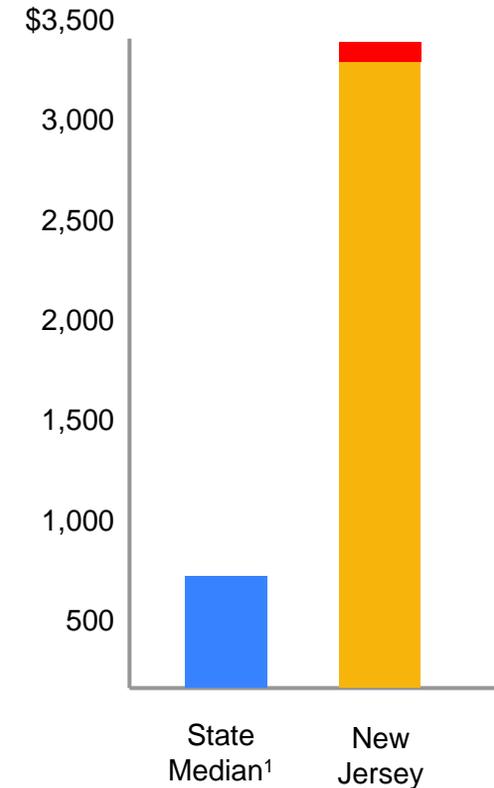
New Jersey's Debt Burden is One of the Highest¹ in the Country, and Growing Rapidly

Net Tax-Supported Debt Outstanding
(\$ in Billions)



CAGR = Compound Annual Growth Rate
 = debt issued since June 2007

Per Capita State Debt



Note:
¹ Moody's State Debt Medians, April 2007

New Jersey Has Significant Long Term Obligations Which Result in Large Annual Budget Requirements

Long Term Obligations		Actual Budget Impact	
Debt	\$32 billion	Debt Service	\$2.6 billion
Unfunded Pension Liability ¹	\$25 billion	Pension Contribution	\$1.1 billion
Post Retirement Medical Liability	\$58 billion	Post Retirement Medical Expense	\$1.1 billion
Total	\$115 billion	Total	\$4.8 billion

Annually Required Contribution FY2008	
Debt Service	\$2.6 billion
Pension Contribution	\$2.3 billion
Post Retirement Medical Liability	\$4.9 billion
Total	\$9.80 billion

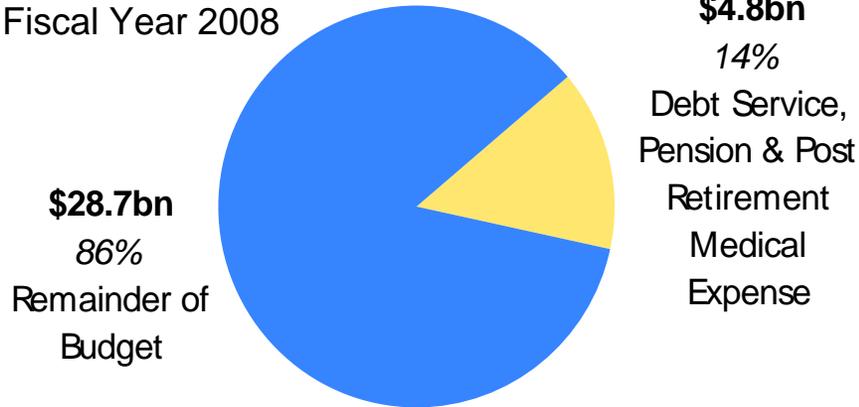
Notes:

¹ Excludes "current" pension obligation

New Jersey's Long Term Obligations "Crowding Out" Education, Healthcare, Property Tax Relief and Senior Services

Actual Budget Impact

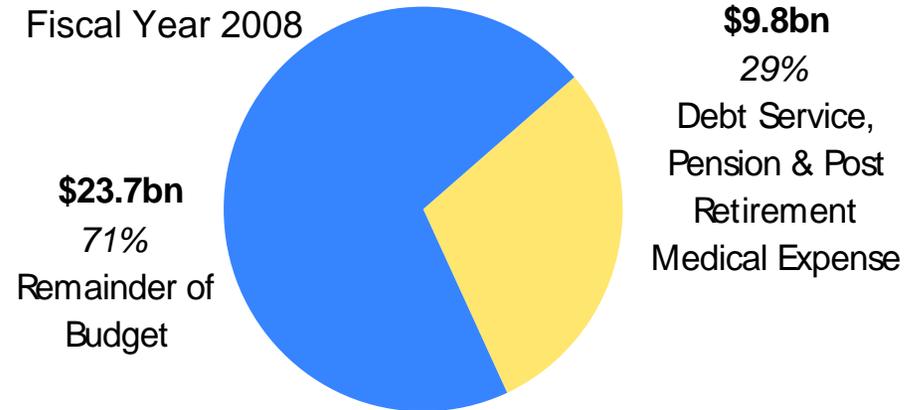
Fiscal Year 2008



Total FY08 Budget = \$33.5bn

Annual Required Contribution

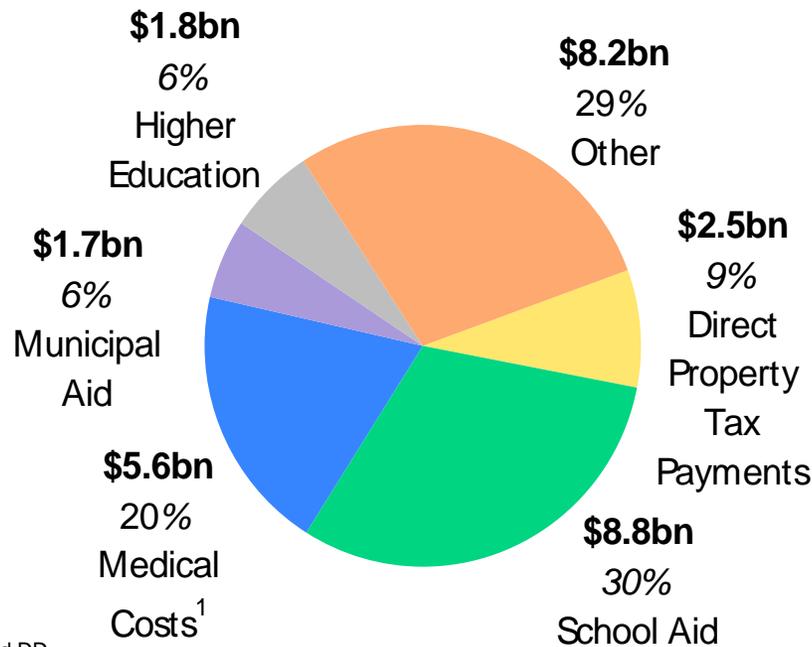
Fiscal Year 2008



Total FY08 Budget = \$33.5bn

Remainder of Budget

Fiscal Year 2008



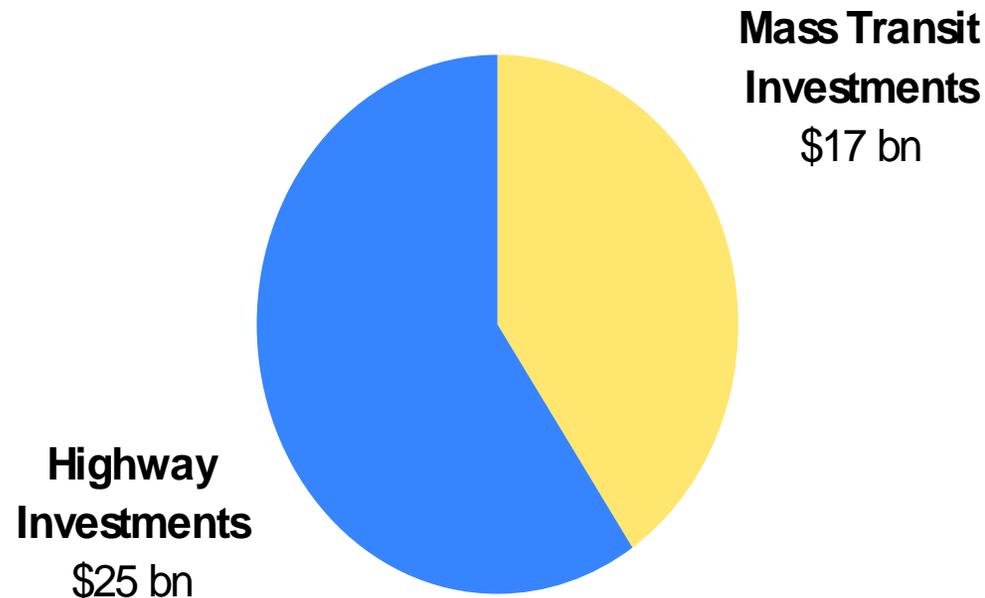
Notes:

¹ Medicaid, PAAD, Hospital Assistance, Mental Health and DD

Massive Transportation Needs but No Money After 2011

- ◆ New Jersey... most densely populated corridor state
- ◆ Absolutely dependent on transportation network
- ◆ Almost \$2 billion in annual federal funding at risk
- ◆ \$40 billion in transportation needs over the next decade for safety and congestion relief
 - 700 deficient bridges
 - 10,000 miles of highways to be resurfaced
 - 2nd rail tunnel under the Hudson River
 - Widening of the Turnpike, Parkway and Atlantic City Expressway

\$42 Billion Investment in Transportation for 2009-2018



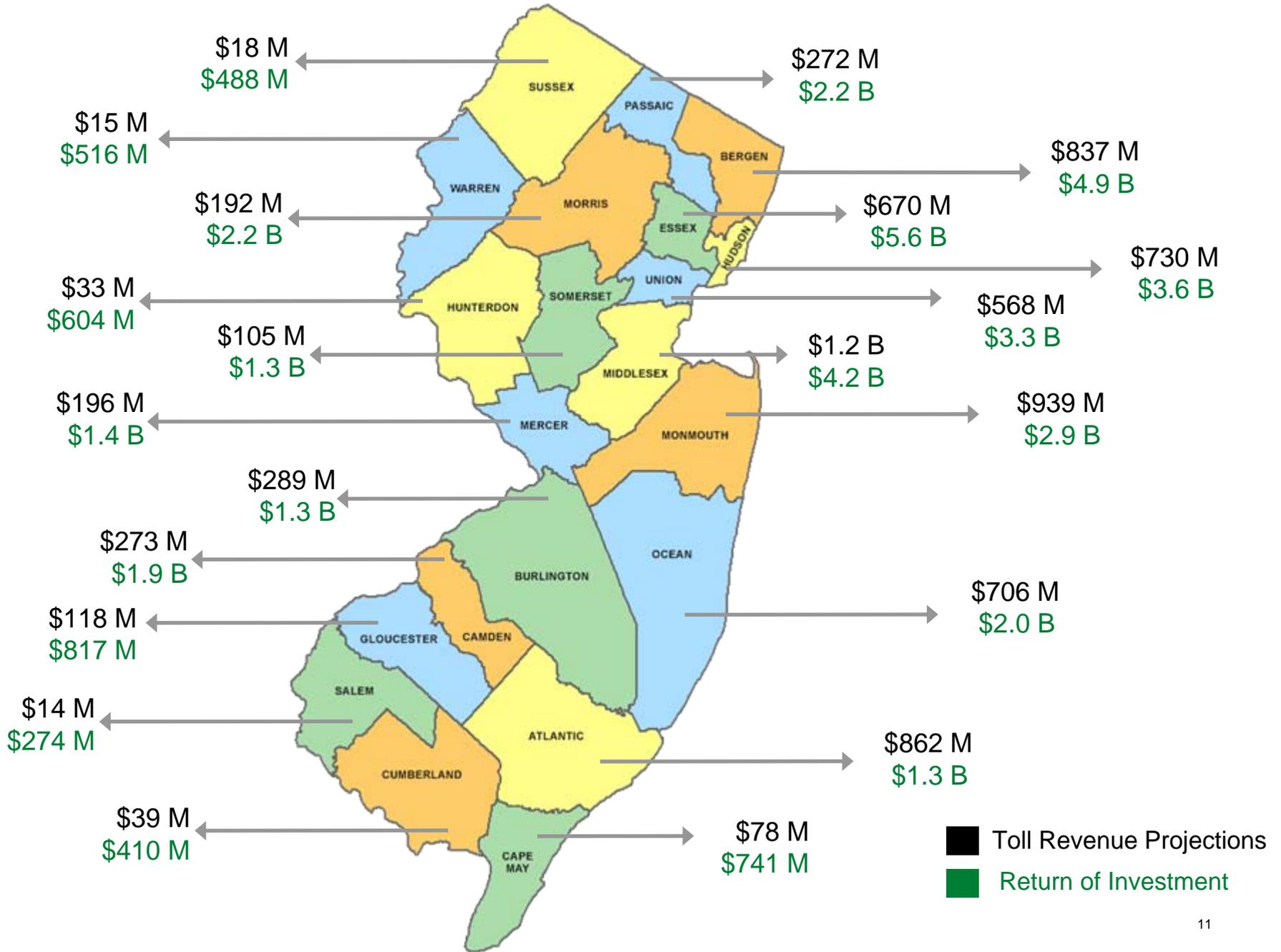
Top 5 Highway Investments

1. 295/676/42 Congestion Relief and Safety Project
2. Route 17 Congestion relief Project
3. Turnpike Congestion and Capacity Expansion Project
4. Parkway Congestion and Capacity Expansion Project
5. Route 1 Congestion Relief and Safety Improvement Project

Top 5 Mass Transit Investments

1. ARC- New rail Tunnel under the Hudson River
2. PATCO Extension into Gloucester County- Alternative Analysis and Preliminary Engineering
3. Monmouth-Ocean Rail Line Analysis
4. Extension of Northern Branch in Bergen County
5. \$1 Billion Investment in Buses

Toll Revenue Projections vs. Capital Investment By County – FY 2009-2018



The Cost of Congestion....

- ◆ New Jerseyans waste more than a full work week, or 52 hours per year, stuck in traffic¹
- ◆ The average annual cost of congestion for New Jersey \$1,443 per licensed driver¹
- ◆ New Jersey has the 3rd longest commute time in the nation²
- ◆ By 2015, traffic will grow by 18% on our highways²



1 NJIT 2007 Alternative Performance Measures for Evaluating Congestion – DRAFT Final Report

2 New Jersey DOT Capital Investment Strategy FY2008-2012

The Alternatives to Pay Down Debt and Invest in Transportation

1

- ◆ Permanent 20% across the board income tax hike

2

- ◆ Permanent 30% sales tax increase

3

- ◆ Permanent 45-50 cent gas tax increase **per gallon**

4

- ◆ Cut \$4.5 billion to \$5.0 billion of expenses (13-15% of the budget)

5

- ◆ Maximum 50% toll increase in 2010, 2014, 2018 and 2022 plus inflation adjustment
- ◆ Only cost of inflation increases thereafter
- ◆ Burden shared equally by all drivers, including out-of-state drivers and commercial vehicles

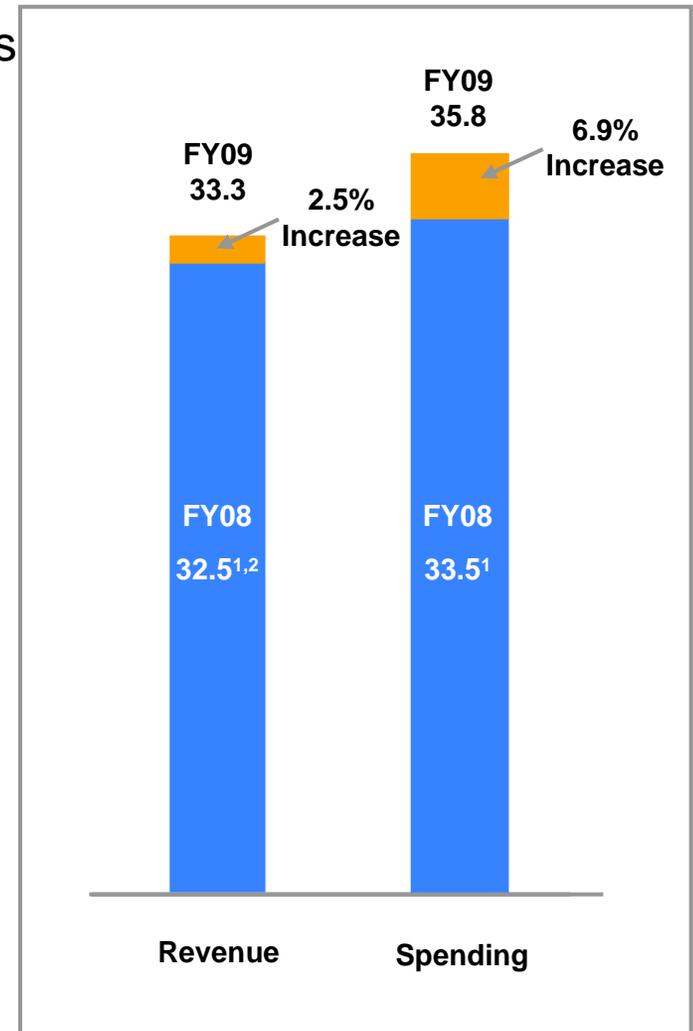
Financial Restructuring and Debt Reduction Plan

A comprehensive solution

- 1 Freeze spending in 2009 budget
- 2 Limit future spending to revenue growth
- 3 Limit future borrowing by requiring voter approval
(unless with a dedicated revenue source)
- 4 Capture value in toll roads:
 - a) to pay down 50% of State debt
 - b) fund transportation improvements for 75 years

Freeze Spending in 2009 Budget

- ◆ Spending time-out to “make-up” or “catch up” for years of over-spending
- ◆ Spending freeze means \$2 to \$2.5 billion in overall cuts
- ◆ Progress to date in reducing spending
 - Cut over 2,000 jobs, including 400 political appointees
 - Current freeze in most hiring
 - Cut spending on Christmas Tree earmarks
 - Raised retirement age from 55 to 60 for new employees
 - State employees are now contributing to health care
 - Established statewide Comptroller
 - Cap on local property tax levy
 - Created 401k plans for higher income employees and



Notes: **political appointees**

1 The FY08 Budget was balanced through the use of a combination of \$0.7 billion in sales tax carry forwards and \$1.2 billion in other carry forwards leaving \$0.6 billion as the projected fund balance carry forward for FY09

2 Reflects current estimate of FY08 revenue

Post 2009, Spending Growth **Must** Equal Revenue Growth

- ◆ Rate of expected revenue growth limits future spending

- ◆ Voter approval for debt
 - Constitutional Amendment requiring voter approval of debt without a dedicated revenue source
 - Put the public back in charge of State borrowing
 - What the Constitution intended

When Pigs Fly Over the State House...

“...pigs will fly over the State House before there’s a realistic level of new taxes or spending cuts that can fix this mess.”

- Governor Jon S. Corzine, State of the State Address, January 8, 2008

- ◆ Easy to say that we can pay down half the State's debt and fund transportation improvements if we “just cut more spending and get rid of all waste, fraud and abuse”
- ◆ We are committed to cutting \$2.5 billion from next year’s budget so we can freeze overall spending at this year’s level.



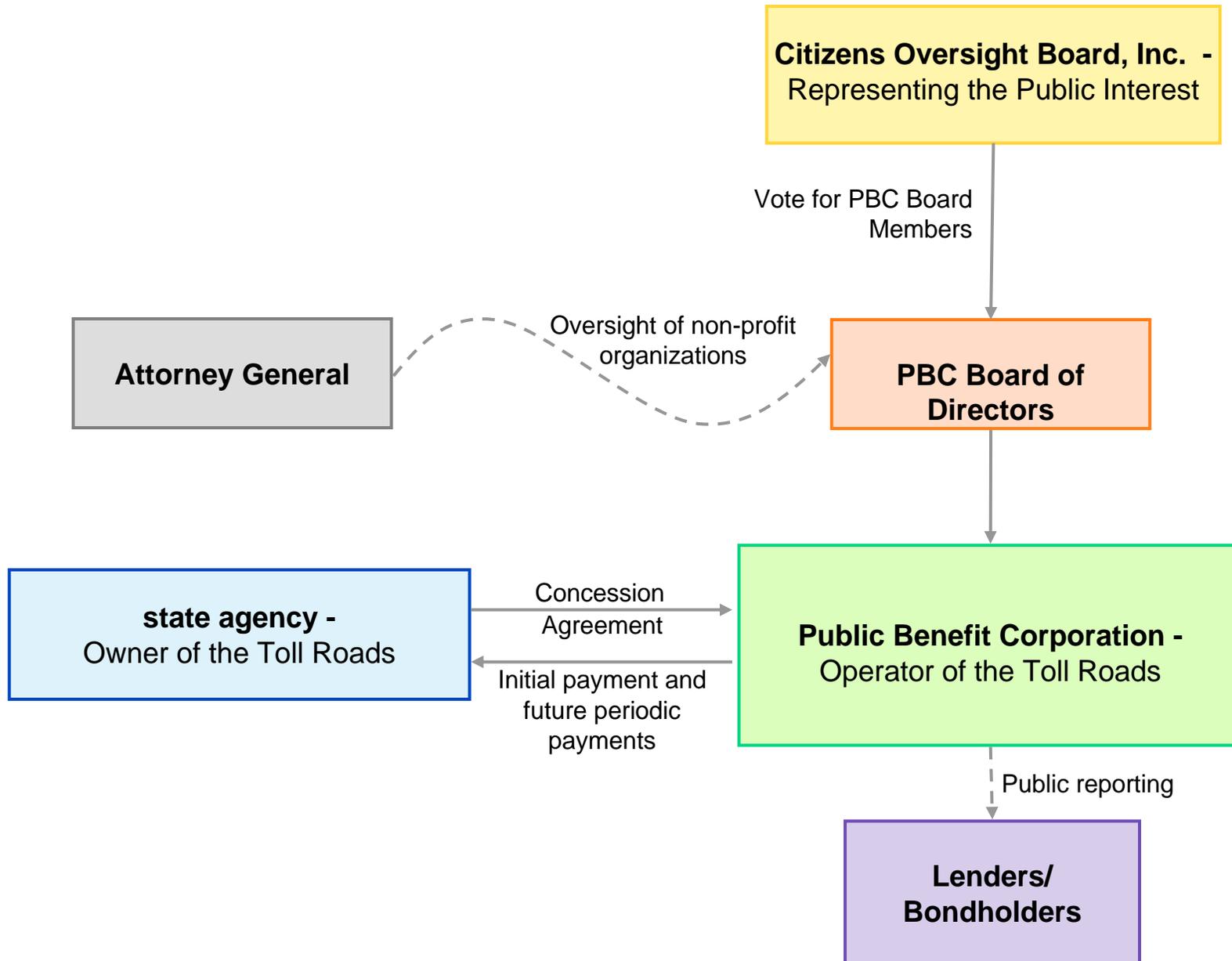
Capturing the Value of Our Toll Roads: The Corzine Principles

- ◆ New Jersey's roadways will not be sold; and they will not be leased to a for-profit or foreign operator
- ◆ Allowable use of proceeds (reducing State debt and capital investments) will be identified upfront and subject to a public and/or legislative approval with safeguards against diversions for other uses
- ◆ New Jersey citizens will retain ownership and the benefits from initial proceeds and ongoing operations
- ◆ Safety, maintenance and operating standards will be provided at current or improved levels
- ◆ Sufficient funding to meet the long-term capital needs required to improve our roadways and reduce congestion will be provided
- ◆ Terms and conditions of employment for current employees and contractors will remain unchanged with prevailing wage and competitive contracting procedures retained
- ◆ Toll schedules will be open, predictable and available to the public
- ◆ There will be a substantial, open and public discussion in advance of any transaction. I will hold 21 town hall meetings in 21 counties
- ◆ The State's bonded debt will be reduced by at least 50%.
- ◆ Permanent funding will be provided for the State's Transportation Trust Fund borrowing
- ◆ There will be new limits established on State debt issuance

Public Benefit Corporation (PBC)

- ◆ A New Jersey non-profit “public benefit corporation” will be formed to manage, not own, the day-to-day operations of the roadways
- ◆ PBC will manage Parkway, Turnpike, Atlantic City Expressway and a piece of Route 440
- ◆ The public continues to own and benefit from the roads’ operating and economic value
- ◆ PBC will have an independent, non-political Board of Directors
- ◆ State and PBC will execute a Concession Agreement (legal contract) that dictates all conditions of the operations, safety, maintenance and investments
- ◆ Safety, maintenance and operating standards will be monitored by the State and provided at current or improved levels
 - Snow removal, emergency assistance, roadside clean up remain the same
 - State police continue to patrol roads
 - Current environmental rules apply
 - Terms and conditions for current employees and contractors remain
 - Capital improvements, including widenings, required
- ◆ Significant financial penalties imposed on PBC for any unmet contract standards

Public Benefit Corporation Structure and Governance



PBC Stands Alone

- ◆ Just as Turnpike and Parkway do today, PBC will borrow funds based on identified and dedicated toll revenues
- ◆ PBC is a separate stand-alone, non-profit company
- ◆ PBC debt is not State debt.
 - There is no general or moral obligation of the State for this debt
- ◆ PBC could raise \$32 – 38 billion dollars from dedicated revenues
- ◆ Initial PBC payment to State agreed to in Concession Agreement
 - Use of initial payment and subsequent periodic payments defined in authorizing legislation
- ◆ The Concession Agreement is a legally enforceable contract
 - Failure of PBC to meet all its contractual obligations under the Concession Agreement will be subject to legal enforcement by the State, including periodic payment obligations, maintenance, operations and capital investments
- ◆ Failure of PBC to meet all its financial and operating obligations will be subject to enforcement by PBC's lenders under their lending documents
- ◆ Failure of PBC to meet its non-profit mission is subject to legal enforcement by the Attorney General under the NJ Not-for-Profit Corporation Law

Toll Schedule

- ◆ First increase is in 2010 and is a maximum of 50% plus inflation adjustment
- ◆ Three other increases of up to a maximum of 50% plus inflation adjustment will come in 2014, 2018, and 2022; then only inflationary increases thereafter
- ◆ Average trip on the Turnpike today is \$1.20
 - In five years, the average trip on the Turnpike (3 exits) will be \$2.05
 - In ten years, it will be \$5.85

New Jersey Turnpike ¹				
Concession Year	2010	2014	2018	2022
Passenger Vehicle				
Average Trip ²	\$2.05	3.45	5.85	9.85
Garden State Parkway ¹				
Concession Year	2010	2014	2018	2022
Average Trip ³	0.60	0.95	1.60	2.70
Atlantic City Expressway ¹				
Concession Year	2010	2014	2018	2022
\$0.50 Toll Barrier ⁴	0.85	1.45	2.40	4.05

Notes

- 1 Assumes 3% Annual CPI Increases
- 2 Assumes 22.9 mile average trip
- 3 Assumes 15 mile average trip
- 4 \$0.50 ramp tolls are the majority of the ACE toll points

Problem

Inflation and Cost of Living Outpace Tolls

- ◆ Tolls have never kept up with inflation or capital needs of the roadways
- ◆ Turnpike tolls have gone up only five times in its 56 year history
- ◆ Parkway tolls haven't been increased since 1989 and only once in over 50 years
 - a gallon of gas was \$1.13
 - a movie ticket was \$4.00
- ◆ Average tolls nationally are 9 cents/mile
- ◆ Replacement cost for New Jersey roads is 16 cents/mile
 - Garden State Parkway toll today = 2.2 cents/mile
 - New Jersey Turnpike toll today = 5.5 cents/mile
 - Atlantic City Expressway toll today = 5.6 cents/mile

Notes:

Over 50% of Turnpike users and nearly 1/3rd of AC Expressway and Parkway users are not New Jersey residents

Use of Proceeds

Solely to pay down debt and for transportation investment

- ◆ \$10 billion to eliminate existing debt on the Turnpike, Parkway and Atlantic City Expressway and to create the appropriate bond reserves
- ◆ \$4 billion in capital reserves for toll road improvements and widenings
- ◆ \$18 – \$24 billion to reduce state debt and fund transportation improvements
- ◆ Permanently reduces annual budget principal and interest payments by \$600 million to \$1 billion

How Does This Meet Our Goals?

Not State Debt

- ◆ PBC is a stand-alone, non-profit company separate from the State

Private Sector Efficiencies

- ◆ A professional, qualified board and management team, independent of us, will be hired to manage our roads safely and efficiently

Raising Capital

- ◆ The independent, non-profit corporation has the capacity to issue significant debt

No Sale of Assets

- ◆ Ownership of roadways retained by the State

No Equity Investors

- ◆ State benefits from future performance improvements through future periodic payments (No equity returns are paid to third parties)

Dedicated Use of Proceeds

- ◆ All proceeds used solely for debt reduction and transportation investments

Transportation Investment

- ◆ Billions of dollars in maintenance and capital investment made to transportation network

Summary of Financial Restructuring and Debt Reduction Plan

- 1 Eliminates Structural Budget Deficit
- 2 Matches recurring revenue to recurring expenditures
- 3 Limits Future Spending
- 4 Limits Future Borrowing
- 5 Pays down the State's debt by half
- 6 Funds transportation improvements for 75 years

Commentary

"All in all, if the plan is put in place in its entirety, it would address many of the concerns that revolve around New Jersey's general obligation credit rating and its fiscal operations."

~ Mark Tenenhaus, Moody's Investors Service, Bergen Record 1/21/08

The New Jersey Chamber of Commerce, "applauds the governor for putting forth a bold and aggressive plan designed to reduce out-of-control state debt and create stable long-term funding for much-needed transportation projects. Addressing these two issues is key to fostering economic growth."

~NJ Chamber of Commerce Chairman William Marino, Star Ledger and Asbury Park Press, 1/30/08

"I believe that this restructuring plan will benefit the entire citizenry of New Jersey in the long run, and that foresight and strategic planning are needed to maintain the vitality and leadership positions of New Jersey and its institutions of higher education."

~ Shirley M. Tilghman, President of Princeton University, 1/22/08

"But I would remind all New Jerseyans that mere opposition is not a meaningful public policy." ~ Bob Franks, 1/10/08

"The financial restructuring and debt reduction initiative put forward has, at its core, the reforms necessary for New Jersey to get back on the right fiscal track..."

~ Bob Franks, 1/10/08

"Our fiscal foundation must be fixed for the next fifty years, not the next fifty weeks." ~ Governor Jon S. Corzine