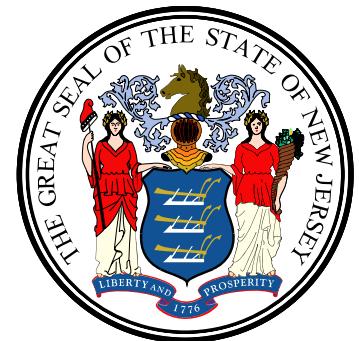


State of New Jersey

Financial Restructuring and Debt Reduction



February 2008

Executive Summary

I. The Problem

- The State has issued a significant amount of bonded debt to invest in capital and fund operating expenses
- We have not, however, had the courage to increase revenues sufficient to keep up with that debt

The consequence of our debt issuance decisions

- The State's operating budget is constrained by ever increasing amounts of debt service
- We now have limited ability to borrow to meet our current and future capital needs
- Debt has become increasingly difficult to afford

II. The Answer

- Raise capital that will allow the State to:
 - a) pay off 50% of outstanding debt - \$16 billion
 - b) fund toll road and Transportation Trust Fund capital programs for a generation
 - c) protect New Jersey's citizens by requiring future State debt issuance to be approved by voters

III. How do we do this?

- Allow a newly established New Jersey non-profit corporation, the Public Benefit Corporation (PBC), to operate and maintain the roads
- PBC raises money through its own debt issuance to pay for the right, for a period of time, to operate, maintain and invest in the toll roads
- PBC pays the State for the right to operate the toll roads and collect the tolls

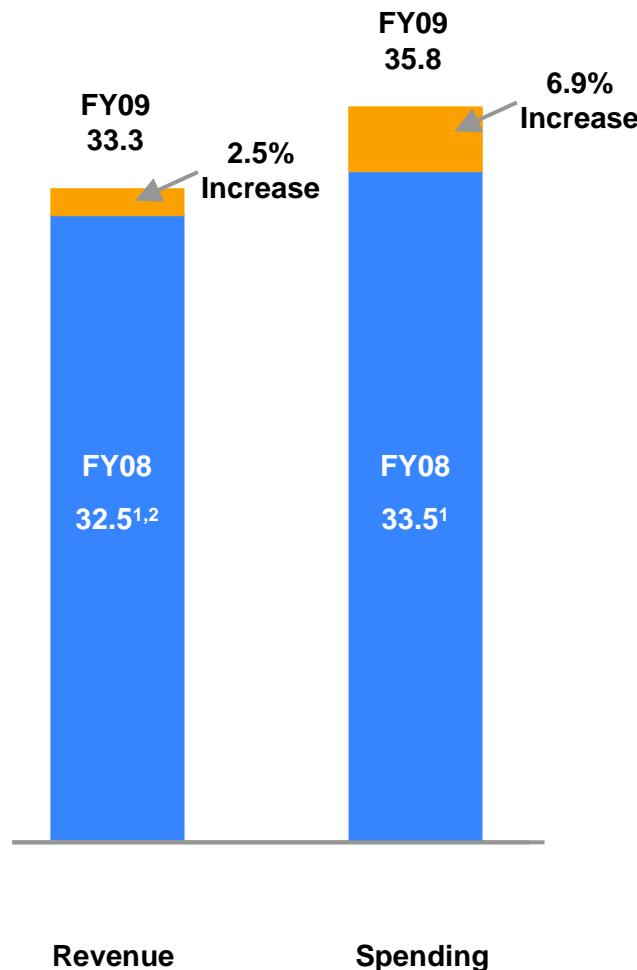
IV. Why is this a different approach?

- Debt issued by PBC is NOT debt of the State
- PBC is a non-profit company, operating the roads for the benefit of roadway users to 'lessen the burdens of government'
- PBC collects tolls and operates the roads consistent with current or improved safety, operational and maintenance standards
- The State continues to own the roads and all of the related real estate
- PBC bonds can only be repaid from the toll revenue, not from tax dollars
- Future revenues in excess of operating and capital expenses, determined by a formula, will be reinvested in New Jersey's transportation system

Challenges to Balancing New Jersey's General Fund Budget

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

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

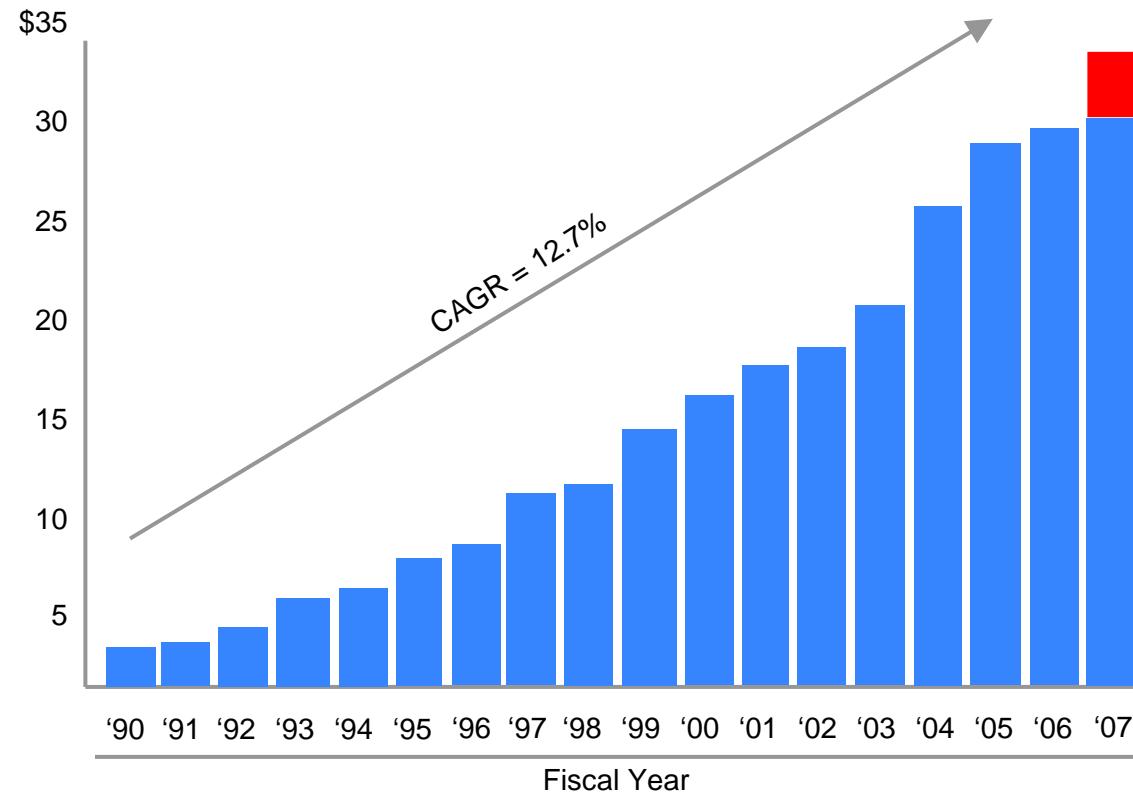
Long Term Obligations		Actual Budget Impact	
Debt	\$32 billion	Debt Service	\$2.6 billion
Unfunded Pension Liability ¹	\$25 billion	Pension Contribution	\$1.1 billion
Post Retirement Medical Liability	\$58 billion	Post Retirement Medical Expense	\$1.1 billion
Total	\$115 billion	Total	\$4.8 billion
Annually Required Contribution FY2008			
Debt Service	\$2.6 billion		
Pension Contribution	\$2.3 billion		
Post Retirement Medical Liability	\$4.9 billion		
Total	\$9.8 billion		

Notes:

1 Excludes "current" pension obligation

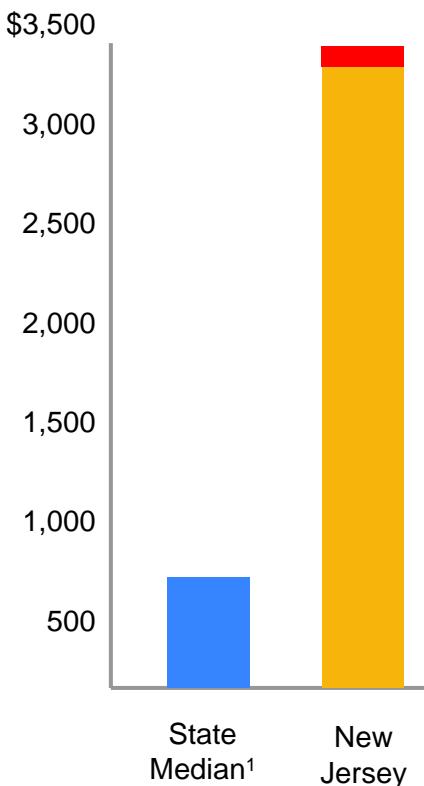
New Jersey's Debt Burden is One of the Highest¹ in the Country, and Growing Rapidly

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



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

Per Capita State Debt



Note:

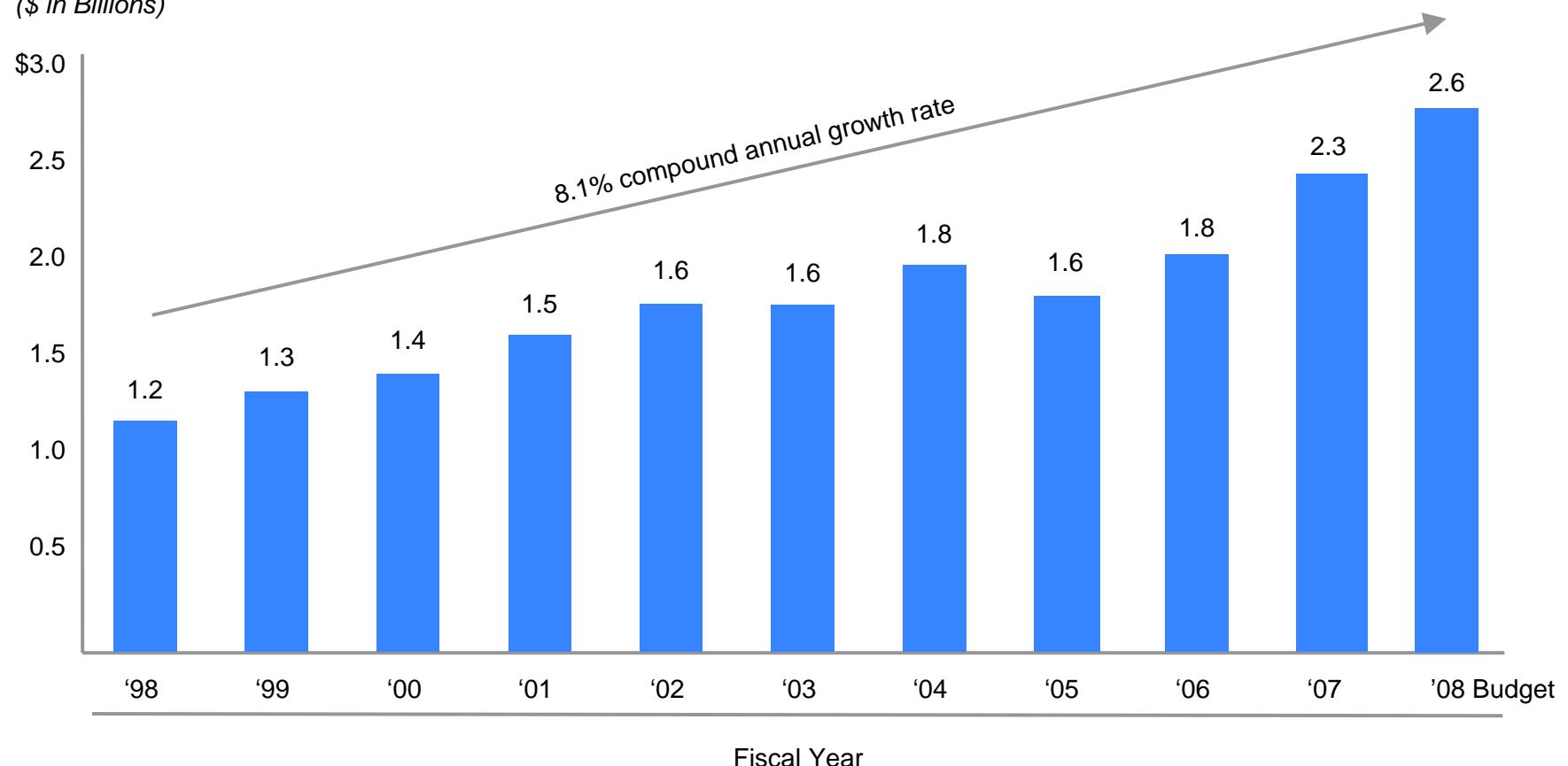
1 Moody's State Debt Medians, April 2007

Challenges to Balancing New Jersey's General Fund Budget

- ◆ Annual debt service obligations require \$2.6 billion per year = 7% of the fiscal year 2008 (FY08) budget
- ◆ The Governor has targeted debt service payments on outstanding bonded indebtedness as a category of expenditure that needs to be reduced

Annual Debt Service

(\$ in Billions)



New Jersey Faces Serious Capital Investment Challenges

- ◆ Transportation Trust Fund funding is only in place until FY11
 - If this funding is not in place, then potholes will not be filled, roads will not be built, bridges cannot be maintained safely and we cannot buy new buses, add trains or improve transit service
- ◆ Failure to identify a consistent source of transportation funding post FY11 will jeopardize receipt of annual federal matching funds of \$1.7 billion. Additionally, in order to maintain the federal matching funds for the construction of the ARC tunnel, New Jersey needs to identify \$3 billion of funding for the project.
- ◆ The State budget for FY08 is balanced at approximately \$33.4 billion, including \$1.1 billion of capital investment
 - 98% of the \$1.1 billion is constitutionally dedicated to transportation, open space preservation and other environmental requirements
 - This means that all other state agencies and departments, such as Corrections and Human Services, must share **\$22 million** for all of their capital investment needs this year – only $\frac{1}{4}$ of 1% of the next year's needs

Governor's Core Principles on Asset Monetization Address Concerns About PPPs

"Any asset monetization proposal put forth by my administration will adhere to the following core principles:

1. New Jersey's roadways will not be sold; and they will not be leased to a for-profit or foreign operator.
2. Allowable uses of proceeds (reducing State debt and capital investments) will be identified upfront and subject to public and/or legislative approval with safeguards against diversions for other uses.
3. New Jersey citizens will retain ownership and the benefits from both initial proceeds and ongoing operations.
4. Safety, maintenance and operating standards will be provided at current or improved levels.
5. Sufficient funding to meet the long-term capital needs required to improve our roadways and reduce congestion will be provided.
6. Terms and conditions of employment for current employees and contractors will remain unchanged with prevailing wage and competitive contracting procedures retained.
7. Toll schedules will be open, predictable and available to the public.
8. There will be a substantial, open and public discussion in advance of any transaction. I will hold 21 town hall meetings in 21 counties."

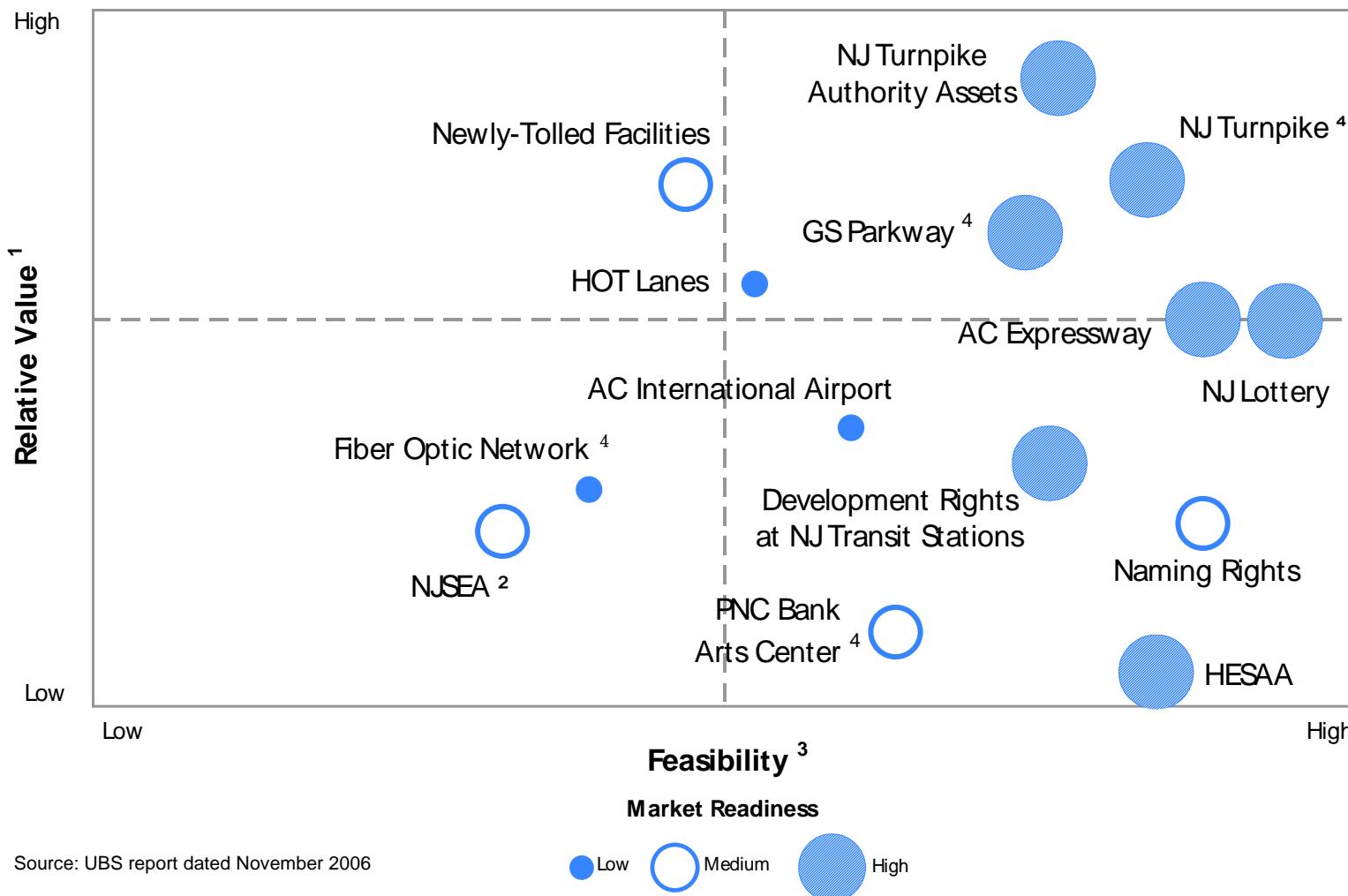
Governor Jon S. Corzine
June 28, 2007

9. "Reduce the State's bonded debt by at least 50 percent.
10. Provide permanent funding for the Transportation Trust Fund.
11. Establish new limits on State borrowing."

Governor Jon S. Corzine
November 15, 2007

The State's Asset Review

- ◆ The State began a review in the fall of 2006 to determine which of its assets could generate value for public reinvestment
- ◆ While several different opportunities were identified, the monetization of toll roads was identified as being both valuable and feasible

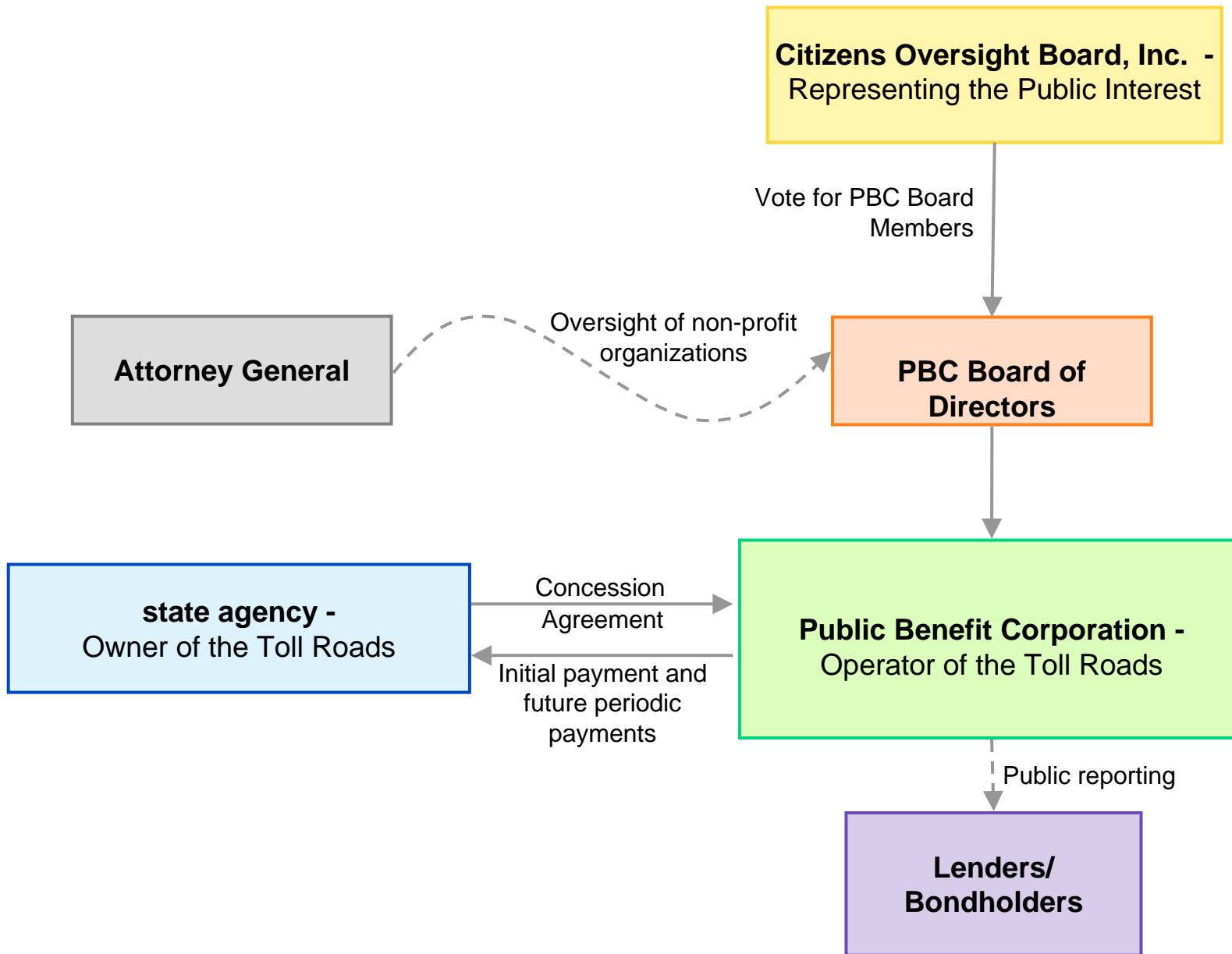


The Plan of Action to Unlock the Value in the Road Assets

The State will:

- ◆ Realize the value in the New Jersey Turnpike, Garden State Parkway, Atlantic City Expressway and Route 440 and unlock this value in the State's road assets by changing the business model
- ◆ Transfer the right to operate, maintain, expand the roads and collect tolls through the Concession Agreement with the newly created non-profit Public Benefit Corporation (PBC)
- ◆ **Retain ownership of the roads**
- ◆ Control core issues like safety, maintenance and operating standards, reinvestment in the toll roads and, within limits, toll rates, through the Concession Agreement
 - Strict financial penalties will be imposed on PBC for non-compliance with these standards
- ◆ Benefit from the Concession Agreement
 - Optimize total value
 - Fund capital investments
 - Achieve private sector efficiencies over time
- ◆ Use funds received from PBC to meet the challenges of debt reduction and investment in transportation

Public Benefit Corporation Structure and Governance



A Public Benefit Company

A New Jersey non-profit company – a Public Benefit Company – will be formed

PBC will:

- ◆ Be a New Jersey non-profit company
- ◆ Have a professional board of directors, independent of the State (the PBC Board)
- ◆ Hire a professional management team to report to the PBC Board
- ◆ Run an efficient, safe transportation network equal to, or better than, what exists today
- ◆ Provide all of the services required and exercise the rights granted by the Concession Agreement
- ◆ Be funded solely from toll and concession revenues
- ◆ Retain existing employees of the affected public authorities
- ◆ Be responsible for compliance with detailed operating, safety and maintenance standards embodied in the Concession Agreement or pay significant financial penalties

Citizens' Oversight Board will:

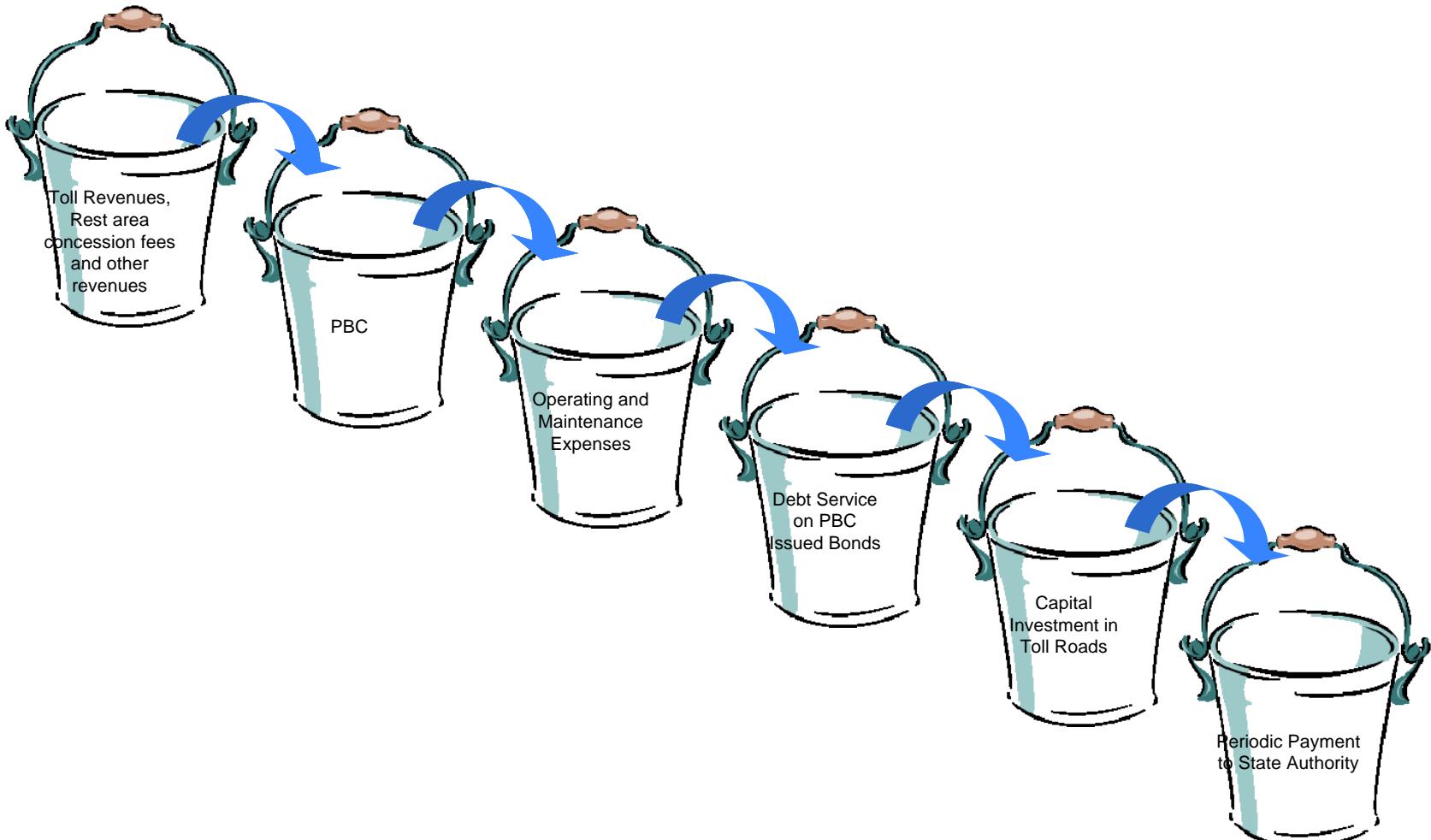
- ◆ Be formed as a new non-profit corporation (the Citizens' Oversight Board) to serve as the sole member of the PBC representing the interests of the State, its citizens and transportation stakeholders (including, for instance, commuters, truckers and environmental interests)
- ◆ Have limited rights to approve PBC board member recommendations
- ◆ Balance the board of the Citizens' Oversight Board with Gubernatorial appointees and stakeholder representatives
- ◆ Be empowered with a right to vote on the appointment of PBC Board members

PBC initial payment will be funded:

- ◆ Strictly with its own debt funding; (potentially from a significant use of tax-exempt bonds)
- ◆ Through PBC debt for which the State will have no obligation
- ◆ With no outside equity investors

Public Benefit Company Will Serve the People of New Jersey

- ◆ PBC's earnings in excess of its costs will:
 - First, go to reinvestment in the operations and maintenance of toll roads themselves and pay its debt service obligations
 - Second, be retained for investment in transportation projects on the toll roads
 - Third, pursuant to a predetermined formula in the Concession Agreement, periodic payments will be paid to the State or a State Authority to be used for transportation capital investment throughout the State of New Jersey



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

How is a PBC Different from Today's Toll Road Authorities?

PBC	State Authority
<ul style="list-style-type: none">◆ New Jersey Non-Profit Corporation◆ Independent board of directors (no elected or appointed officials and no vendors)◆ Professional, private sector management◆ Management incentives for:<ul style="list-style-type: none">– efficient operations– capital investment in the assets– meeting all prescribed obligations and lessening the burdens of government◆ Contractually defined operating, safety, maintenance and capital investment standards with strict financial penalties for non-compliance	<ul style="list-style-type: none">◆ Governmental Instrumentality◆ Politically appointed board of directors◆ Gubernatorial veto of Board minutes◆ Professional government employees◆ No incentive compensation◆ Historically operated with limited funding◆ Operations and maintenance levels are set to preserve safety, but capital investments and toll levels are subject to political considerations

How is a PBC Different from other PPPs?

PBC	Long Term Concession with Private Equity*
<ul style="list-style-type: none">◆ Non-Profit New Jersey Corporation◆ Independent board of directors◆ Upfront payment plus substantial periodic payments over time◆ Upside improvements in revenues, finances and operations permit larger payments to the State◆ Efficiencies of private sector incentives and operations	<ul style="list-style-type: none">◆ For-profit corporate entity◆ Board of directors formed to include equity investors and service providers◆ Large upfront payment, but lower payments over time, if any◆ Profits released from the corporate entity are paid to equity investors as dividends, not reinvested for public purposes◆ Efficiencies of private sector incentives and operations

In short, with a PBC

- ◆ No leakage of excess revenues to equity investors, companies or operators
- ◆ Any excess revenues reinvested in New Jersey transportation projects
- ◆ Concession Agreement controls all operations, maintenance, capital investment and safety standards
- ◆ May be able to issue tax exempt debt

* Chicago Skyway and Indiana Toll Road PPP transactions used this structure

Myths vs. Facts

Myth: The State will take on more debt through this proposal.

Fact: All potential debt would be issued by the PBC. This debt would be paid through dedicated revenues earned from tolls and the State would have no liability on debt payments.

Myth: Wall Street investors will make exorbitant equity returns from this transaction to the detriment of the State and its citizens.

Fact: Governor Corzine's public benefit corporation structure ensures that revenues in excess of the costs will be retained by the PBC to be used or reinvested in transportation projects in New Jersey. Previous efforts to monetize assets by other states did not allow for excess revenues to be retained and used in this manner.

Myth: Efforts to "cut state spending" can result in the same resetting of the budget as the Governor's financial restructuring and debt reduction proposal.

Fact: Our budget for FY09 already requires \$2.0 – 2.5 billion in cuts. In order to additionally fund transportation and debt reduction, another \$2.0 – 2.5 billion of cuts could be needed. That is 15% of our budget and it does not even address toll road capital needs. We are open to hearing alternative solutions that will cut the state's debt in half and provide transportation funding for a generation.

Myth: The money generated by this transaction will go into the general fund, or be otherwise redirected.

Fact: The money generated by this transaction will be used to cut our overwhelming state debt by half and fund transportation projects in New Jersey for a generation.

Myth: Trenton can't be trusted to use the toll road proceeds responsibly.

Fact: Our plan will only allow proceeds to be used to pay down debt and fund needed investment in New Jersey's bridges, roads and mass transportation. In fact, the Governor's plan calls for strict limits on state spending and the state's right to issue debt without voter approval.

Myth: Whoever takes over the toll roads will lay off workers and cut corners on services to save money.

Fact: The PBC will offer employment to all employees currently working on the toll roads and employ all who accept the offer. New Jersey's citizens will see continued State Police presence, high safety standards and maintenance on our toll roads. The PBC will have these standards contractually required at risk of significant financial penalties.

Maximum Permitted Toll Schedule Under the Concession Agreement

Maximum Toll Formula

All Roads: 50% maximum real toll increases in **2010, 2014, 2018, and 2022** plus annual increases, based on CPI, levied to capture the prior 4 years, starting in 2010 and every 4th year thereafter

New Jersey Turnpike: Assumes 3% Annual CPI Increases

Concession Year	2008	2010	2014	2018	2022
Passenger Vehicle					
Average Trip ¹	\$ 1.20	2.05	3.45	5.85	9.85
5-axle Truck					
Average Trip ²	\$ 5.05	8.55	14.40	24.35	41.10

Notes:

1 Assumes 22.9 mile average trip

2 Assumes 26.6 mile average trip

Garden State Parkway: Assumes 3% Annual CPI Increases

Concession Year	2008	2010	2014	2018	2022
Average Trip ¹	\$ 0.35	0.60	0.95	1.60	2.70

Notes:

1 Assumes 15 mile average trip

Atlantic City Expressway: Assumes 3% Annual CPI Increases

Concession Year	2008	2010	2014	2018	2022
\$0.50 Toll Barrier ¹	\$ 0.50	0.85	1.45	2.40	4.05

Notes:

1 \$0.50 ramp tolls are the majority of the ACE toll points

The Funds From Monetization Will Be Invested in Transportation and Debt Relief

Use of Proceeds Scenarios – Assumed Analysis Date: July 1, 2008

DEBT LEVERAGED BY PBC AND USE OF PROCEEDS (\$ millions)	SCENARIO 1	SCENARIO 2
INITIAL PBC PROCEEDS.....	\$37,600	\$32,600
Reserves		
Toll Road Capital Expenditures.....	\$4,000	\$4,000
Required Financing Reserves (Debt Service Reserve, Capitalized Interest, etc.).....	<u>4,000</u>	<u>4,000</u>
Total.....	\$8,000	\$8,000
Defeasance of All Toll Road Authorities' Debt.....	\$5,700	\$5,700
Extension of Transportation Trust Fund Authority ¹		
Defeasance of TTFA-Supported Debt.....	\$9,200	\$9,200
Capital Expenditures.....	<u>1,450</u>	<u>1,450</u>
Total.....	\$10,650	\$10,650
Defeasance of All Garden State Preservation Trust Debt.....	\$1,350	\$1,350
Defeasance of General Fund Supported Debt.....	\$11,900	\$6,900
TOTAL USES OF PROCEEDS.....	<u>\$37,600</u>	<u>\$32,608</u>

STATE BONDED DEBT BEFORE AND AFTER DEFEASANCE ²	SCENARIO 1	SCENARIO 2
Par Amount of State Debt as of 7/1/08.....	\$31,300	\$31,300
GF-Supported Debt Defeased.....	<u>(\$11,645)</u>	<u>(\$7,565)</u>
TTFA-Supported Debt Defeased.....	<u>(8,400)</u>	<u>(8,400)</u>
Total Defeased.....	<u>(\$20,045)</u>	<u>(\$15,965)</u>
Pro-Forma Debt After Defeasance.....	\$11,255	\$15,335

AVERAGE ANNUAL TRUE GENERAL FUND D/S SAVINGS ³	SCENARIO 1	SCENARIO 2
FY 2009-2018.....	\$960	\$600
FY 2019-2028.....	590	265
FY 2029-2038.....	70	15

Notes:

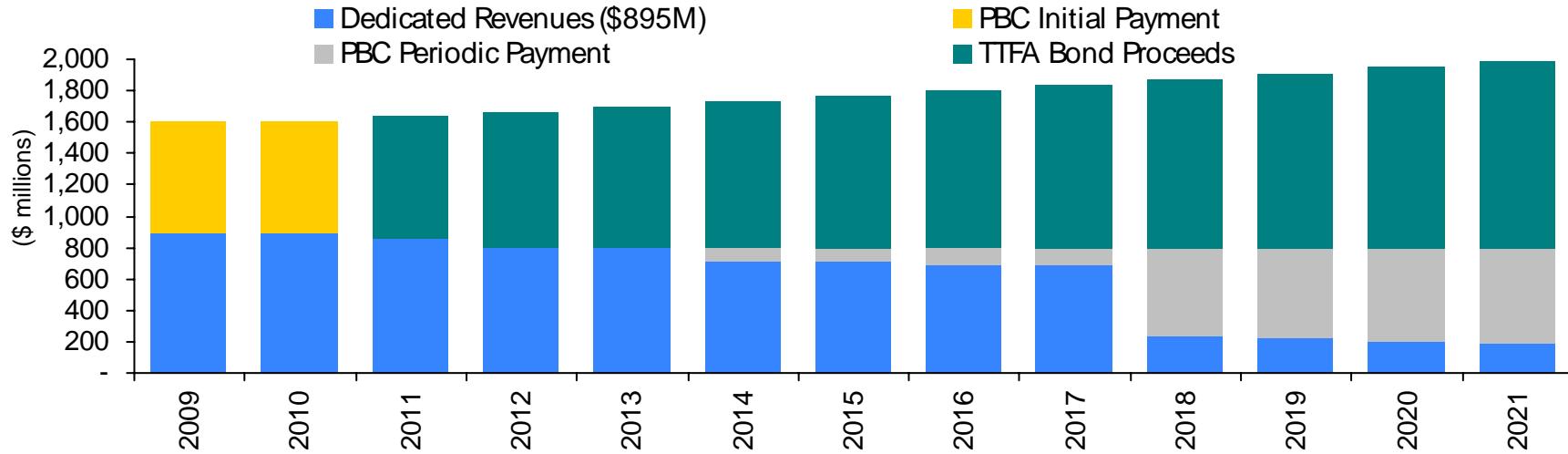
1 Extension of TTFA funding at \$1.6BN per year, inflating, through 2021 at which point concession fees are expected to fully fund TTFA projects.

2 Does not include any anticipated, but un-issued debt as of January 2008.

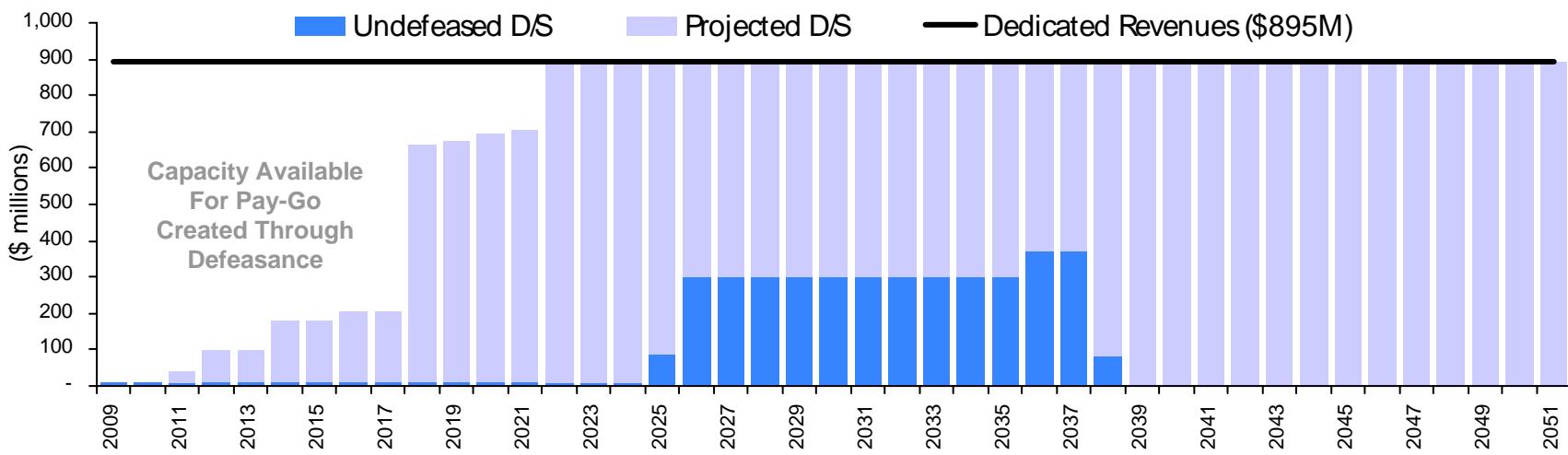
3 Impact from defeasance on the True General Fund reflects debt service savings from defeated True General Fund obligations as well as debt that is not a direct General Fund obligation but has an impact on the General Fund from reduced debt service (NJ Transit 5307, NJEDA Cigarette Tax, Motor Vehicle Commission).

Projected TTFA Funding, Dedicated Revenues and Annual Debt Service

Funding Sources of TTFA Projects FY2009 Through 2021¹ – \$800M Annual Pay-Go



Projected Use of Constitutionally Dedicated \$895M Annual TTFA Funding



Notes:

1 Funding of \$1.6BN of annual capital projects through FY2010, inflating thereafter

By accessing tens of billions of dollars of the toll roads' value, we can pay down half of the State's debt, make critical investments in roads and bridges needed; AND for the first time in years, put the State on a fiscally responsible path for the future.