



**State of New Jersey**  
DEPARTMENT OF THE TREASURY  
OFFICE OF PUBLIC FINANCE  
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JON S. CORZINE  
*Governor*

MICHELLENE DAVIS  
*Acting State Treasurer*

January 22, 2008

Senator Thomas Kean  
New Jersey Senate  
State House, PO Box 099  
Trenton, NJ 08625

Assemblyman Alex DeCroce  
New Jersey General Assembly  
State House, PO Box 098  
Trenton, NJ 08625

Dear Senator Kean and Assemblyman DeCroce,

Governor Corzine has asked me to respond to your letter of January 9, 2008, in which you requested information and documents relating to the Financial Restructuring and Debt Reduction proposal which was introduced in the State of the State speech on January 8, 2008. In response to the extensive questions which you asked, I am providing the detail, website references and attachment described in the next few pages.

**Question 1. Please provide a copy of any and all final reports and other data and information prepared by vendors who have provided work product related to monetization. To be clear, we are not only requesting complete final reports prepared by vendors, but also portions of other reports and work product (including earlier reports prepared by Steer Davies & Gleave) provided the provisions contain data and information not included in final reports. We are not seeking recommendations or strategy contained in these other reports -- only data and information that taxpayers have paid to produce. Data and information not included in final reports or directly related to proposals being advanced is important to us so we may thoroughly explore, through the legislative process, possible alternatives to proposals that have been made.**

Answer: The UBS Asset Evaluation Program Phase 1 Report, dated November 15, 2006, is posted on the State Treasurer's website, and can be found at the following web address: [http://www.state.nj.us/treasury/pdf/asset\\_evaluation\\_report.pdf](http://www.state.nj.us/treasury/pdf/asset_evaluation_report.pdf)

The Final New Jersey Traffic and Revenue Study being prepared by Steer Davies Gleave has been released publicly and can be found on the Treasurer's website at the following addresses: <http://www.state.nj.us/treasury> or the Governor's website at <http://www.state.nj.us/governor>. This report is the most comprehensive of any draft version previously done by the consultant and includes all data and analysis that may have been included in work product that preceded it.

The Final New Jersey Asset Valuation Report being developed by Halcrow, Inc. is expected to be delivered over the next few weeks. It too, will be the most comprehensive of any draft version previously provided and includes all data and analysis that may have been included in work product that preceded it. As soon as it is received, it will be made available.

**Question 2. Please provide a thorough accounting, including any surveys, reports, or EZPASS data, that shows who is paying tolls demographically by state, county, or municipality**

Answer: This information has been provided by the Department of Transportation, and is attached. (Attachment I)

**Question 3. Please provide documentation explaining the anticipated new debt offerings associated with monetization. At a minimum, documents should show:**

- **The anticipated date, or dates, and amounts of debt offerings.**
- **The anticipated rating, interest rate and tax status of investment returns on anticipated debt offerings.**
- **A spreadsheet showing the annual debt service requirements for each anticipated issuance.**
- **The intended use of debt proceeds from each offering with as much specificity as possible. For example: how much will be spent on a new tunnel to New York City, widening projects, other road projects, etc?**
- **The anticipated cost of issuance for each debt issuance, including, but not limited to underwriter fees, legal fees, insurance, etc.**

The preliminary financial plan for the Public Benefit Corporation (the 'PBC' or the 'Corporation') anticipates the Corporation issuing its debt no sooner than the fall of 2008, depending upon the timing of passage of legislation and completion of the many elements of having the Corporation created, including recruiting a Board of Directors and a management team as well as PBC's requesting an IRS ruling, ratings, bond insurance and loan commitments. The PBC's debt will likely be issued in a series of different debt markets, including both the taxable and tax-exempt bond markets and the bank market. The preliminary financial plan anticipates maximizing the use of the tax exempt market based on what regulation and market conditions allow at the time of the offerings. Initially, debt maturities may range from short term floating rate and bridge loan obligations to 30-40 year bonds. The preliminary plan is that PBC would offer a wide

range of types of securities across multiple markets, including variable rate and fixed rate debt. Debt that has floating interest rates will likely be hedged with interest rate swaps or other derivative products. Since the concession agreement is proposed to be 75 years long, the PBC's debt will include, in part, refinable maturities, that the Corporation will refinance periodically. The overall debt structure is anticipated to be fully amortized approximately 10 years prior to the termination of the concession agreement. The structure for the PBC's debt offerings can only be determined once the tax exempt/taxable mix of bonds can be finalized, as well as an assessment made of the market conditions at the time of the debt issuance. The preliminary finance plan also anticipates that the PBC's debt will be offered with a series of different credit ratings.

The proposed financial plan includes the use of approximately \$4 billion from the initial debt offerings of PBC to provide for New Jersey Turnpike/Garden State Parkway and Atlantic City Expressway capital projects. These projects include the Turnpike widening from exit 6 to 8A, as well as all the other projects currently contemplated in the Turnpike and Expressway long term capital plans. The concession agreement will require that the PBC complete all the projects in the Turnpike and Expressway current capital plans for the roads. PBC will not undertake the ARC Tunnel project. The ARC tunnel project will remain a responsibility of NJDOT.

The initial payment received by the State from the PBC will be used to restructure and extend the life of the Transportation Trust Fund and provide for payment/defeasance of debt obligations issued by the State or any of its Independent Authorities, who have issued bonds whose debt service is payable from a budget appropriation. Please see page 18 of the background materials that are posted on Governor Corzine's website, located at: <http://www.nj.gov/sos2008/background.pdf>

There have not been any professionals hired to provide underwriting services, bond counsel services, or other services associated with the PBC's bond offerings. We anticipate using a competitive selection process to hire these professionals. A reasonable projection, based upon general market practices, for the total costs of issuance should not exceed 1% of the total par amount of the PBC's bonds issued.

**Question 4. Please provide documentation explaining how current debt will be reduced with toll revenue or the proceeds of borrowings backed with toll revenue. At a minimum, documents should show:**

- **An accounting of the specific types and amounts of outstanding debt, whether issued by the State or and instrumentality thereof, that will be retired, together with their insured rating, rate of return, the tax status of income for investors, and under what terms the debt is callable.**
- **A spreadsheet showing the annual debt service requirement for each outstanding debt that will be retired.**

Answer: The selection of the specific bond maturities to be redeemed or defeased will be based upon a number of things, including the market conditions at the time of the offerings, the amount of funds available from PBC's initial payment to the state, and the tax status of the PBC's bonds. In order to maximize the savings in the general fund from the reduction in debt service, and maintain a predictable remaining debt service schedule, a set of criteria must be selected. In the proposed debt reduction plan our intention is to select the specific bond maturities which would maximize the debt service savings by selecting higher interest rate bonds which will have impact on both the early years' debt service as well as longer term debt service, and will result in a generally level debt service profile. The specific series and maturities of debt to be refunded or called is market sensitive **insider information** and cannot be released prior to its final determination and simultaneous release to market participants. However, in order to assist you in your review of the possible defeasance options, we have provided a list of all of the general obligation and appropriation bonds which have been issued by the State and its Independent Authorities. (Attachment II)

**Question 5. Please provide a net present value savings/cost calculation of debt defeasance/refunding associated with this plan.**

Answer: The PBC's debt is not debt of the State or of a State Authority. Therefore, the debt being defeased is not being replaced by State debt so the concept of NPV savings doesn't apply.

**Question 6. For any constitutionally dedicated revenue sources currently paying debt service and that will be freed up by this proposal (i.e. gas tax revenues dedicated to transportation projects or sales tax revenue dedicated to open space projects), please provide the plan for using these funds in the future.**

Answer: The plan for the constitutionally dedicated TTFA and GSPT funding is to have each dedication remain in place and be used for its originally intended purpose of funding transportation projects and open space acquisition and paying debt service. After the initial redemption/defeasance of TTFA and GSPT bonds, it is anticipated that over time new bonds will be issued supported by the constitutionally dedicated revenues. The GSPT constitutionally dedicated revenue would need to receive new voter approval for the extension of the term of the dedication, in order to secure new bonds whose proceeds would be used for open space purposes. The proceeds of the respective bonds will be used for their dedicated purposes.

**Question 7. Please provide an accounting of revenue, other than revenue generated by tolls, that is anticipated to be generated by this proposal.**

Answer: The concession agreement will allow PBC to collect tolls as well as revenues from the commercial concessions at rest areas, EZ pass administration fees and advertising. Today, these sources produce revenues equal to approximately 8-9% of the revenue at the Turnpike Authority and the Expressway. Under the concession agreement PBC will have the right to enter into future agreements for naming rights, utility easements and advertising, subject to approval of the New Jersey Turnpike Authority.

(In this context the Turnpike Authority owns the roads and monitors and enforces the terms of the concession agreement). These additional revenues, if any, have not been factored into the revenue projections of the traffic and revenue consultant as they are not measurable at this time.

Thank you for your interest in Governor Corzine's Financial Restructuring and Debt Reduction Plan.

Regards,

A handwritten signature in black ink, appearing to read "Nancy B. Feldman", with a long horizontal line extending to the right.

Nancy B. Feldman  
Director, Office of Public Finance  
Department of the Treasury