



A Plan That Works For NJ

HONEST and ACCOUNTABLE

July 11, 2002

I. Install Single, Experienced Toll Contractor to Oversee New Jersey's E-ZPass System

- (1) Transition to an experienced toll contractor to remediate the E-ZPass lane installation, integrate, stabilize and operate back office processing functions and perform routine lane maintenance.**

The original contract for the E-ZPass installation and operation was awarded to MFS NT, Inc. ("MFS"), at the time a subsidiary of WorldCom, Inc. Shortly after contract award, WorldCom, sold MFS to Able Telcom with the improvidently granted approval of the past Administration. Being little more than a holding company, Able Telcom did not have the financial or technical resources to undertake this large and complex contract. Unable to sustain an acceptable level of performance, Able Telcom assigned the contract to Adesta Communications. Over the course of the next few years, Adesta was bought and sold more than once. Thus, the EZ Pass project has been without a technically and financially stable contractor from almost the first day after award. Consequently, the project has been beset by delays and technical difficulties. Repeated changes in corporate management, as well as project managers, combined with the technical inexperience of the various vendors, have significantly contributed to the problems that beset E-ZPass even today.

This review, though primarily prospective in nature, necessarily called into serious question the wisdom and integrity of the process by which MFS was selected over Lockheed Martin IMS in 1996. Of primary concern should have been the winning bidder's lack of significant experience with electronic tolls collection. MFS was primarily a fiber optics construction company with minimal experience in the ETC arena. As history has proven, MFS was ill-prepared to undertake a project of this nature and misunderstood the actual cost and challenges of the project as well as the time frame necessary for completion. The Consortium began the procurement as a pure ETC contract, but late in the process converted this to a fiber optic contract in an attempt to offset project costs rather than securing the best possible ETC vendor for New Jersey's toll payers. It is time to recognize the failed procurement and put E-ZPass back on track

The penultimate prime contractor on the E-ZPass Project, Adesta, filed for bankruptcy protection in the fall of 2001 and purported to assign the E-ZPass Contract to WorldCom, Inc., the provider of the performance bond under the original contract. Electronic toll collection is not one of WorldCom's core businesses and it is apparent that the State is best served by turning to another, more experienced vendor to assume responsibility for remediating problems in the lanes and implementing the State's E-ZPass vision.

It is recommended that the State should transition from WorldCom, Inc. to ACS State and Local Government Services. After extensive research and discussions with many companies and individuals involved with electronic toll collection, it is clear that ACS has the expertise and proven track record to remediate New Jersey's E-ZPass in both a cost-effective and expedient manner.

ACS currently operates the world's largest Electronic Toll Collection System in New York, including the New York MTA, New York State Thruway, and the Port Authority of New York and New Jersey. In addition, ACS operates ETC systems in Maryland, South Carolina, Delaware and California as well as more than 13 ETC customer service centers supporting 4.7 million vehicles.

(2) Suspend installation of mixed mode lane equipment and utilize solely dedicated E-ZPass lanes.

The Regional Consortium should abandon its plans for the broad use of "mixed mode" toll lanes in the central plazas and interchanges. A "mixed mode" lane, also known as a "full service" lane, is one in which cash and E-ZPass transactions can both be processed. The software logic necessary to allow such an operation without placing gates on tolls is complex and Adesta/WorldCom has yet to successfully complete this function. Further work on mixed mode lanes should be suspended indefinitely while the other problems are resolved. Moreover, the need for such lanes is questionable at best. In most cases, E-ZPass customers will avoid mixed mode lanes because their use would result in being stuck behind a line of cash customers. By suspending system-wide installation of mixed mode, and limiting its use to only those exit ramps or plazas where it is necessary, primarily ramp tolls where only two or three total lanes are available, the complexities of the project are minimized and cost savings should be achieved.

II. Integrate Customer Service and Violations Processing Functions to Provide Proactive, Customer-Friendly Service

(1) Promote accountability through the integration of the Customer Service Center ("CSC") and Violations Processing Center ("VPC") into a seamless operation under the direction of a single vendor.

(2) Undertake immediate restructuring of business practices of the Violations Processing center to reduce erroneous violation notices to E-ZPass customers in good standing.

(3) Implement program to proactively identify faulty transponders and alert customers.

There is no greater frustration or symbol of the failure of E-ZPass than the manner in which customers' accounts are handled and violations are issued and processed. It is inexcusable that E-ZPass customers in good standing repeatedly receive erroneous violation notices. Regardless of whether or not there are problems in the lane equipment and software that result in the failure to read transponders, the back office system that processes lane data can and must be capable of filtering out erroneous violation notices before they are sent out. Under the current bifurcated process, JPMorgan/Chase runs the CSC, which opens and maintains accounts and distributes E-ZPass tags, and WorldCom operates the VPC, which reviews lane data, issues violations notices and pursues toll cheats. This system is a direct result of MFS's inability to provide the integrated service as proposed. It does not address operational requirements, does not satisfy customer needs and must be replaced. The absence of an integrated back office process decreases vendor accountability and allows problems to build and go unresolved. An integrated CSC/VPC service provider will restore public confidence, improve accuracy, and enhance overall customer service.

At present, violations processing is highly inaccurate and a net drain on the E-ZPass Project Fund, costing far more than is collected. It has cost the State approximately \$33 million to collect \$14 million in fines and \$1.7 million in tolls since late 1999. Compounding this economic inefficiency is the added insult that the system doesn't work, resulting in E-ZPass customers repeatedly receiving incorrect violation notices. A recent survey performed by *The Star Ledger/Eagleton-Rutgers Poll* indicated that 43% of E-ZPass customers had received at least one violation notice, an additional 40% had received anywhere from two to 10 violation notices. Seventy-one percent of those who received a violation notice indicated it was a result of a malfunction of the system. These notices impact the credibility of E-ZPass, thereby preventing the implementation of court actions to enforce toll laws, encourage true scofflaws to ignore all notices, diminish collection rates while driving up operating costs and contribute to the sense that E-ZPass is mismanaged and inefficient.

The migration to a robust, integrated system will facilitate cross-referencing of potential violation notices against E-ZPass account holders and significantly reduce, if not eliminate, the number of E-ZPass tag holders in good standing who receive erroneous violation notices. As this integration is undertaken immediate steps can and must be taken to check violation notices against the E-ZPass customer database to prevent the mailing of erroneous notices – thus reducing customer frustration and wasteful State expenditures.

Transponder batteries have an estimated life of 7 years. As the battery approaches the end of its operational usefulness, the effectiveness of transponders may fade. Other transponders with active batteries may simply turn out to be defective. Currently only one out of 50 transponders released to the public are tested. Nor is there any proactive program to identify customers with faulty transponders resulting in excessive false violations.

It cannot and should not be the responsibility of the customer to determine when a battery is low or to know if a transponder is not working. First, every transponder must be tested prior to release. Second, an integrated back office operation must implement a proactive program to monitor individual accounts for signs of tag failure, such as violations being issued to valid E-ZPass customers, and develop an outreach protocol to E-ZPass holders to alert them and, if necessary, provide a replacement transponder. This will not only benefit the customer by reducing annoying false violations but will also benefit the State by making sure that system failures do not result in lost revenue and unnecessary collection expenses.

(4) Once confidence in the E-ZPass System is restored, institute aggressive enforcement.

The integration of the back office operations should foster in a new era of pro-motorist customer relations. Regrettably, the previous administration's self-funding finance scheme resulted in E-ZPass customers being viewed as cheats against whom all efforts must be directed to extract revenue. Countless toll payers have endured the hassle of objecting to erroneous violation notices as a hidden cost of E-ZPass. Instead of focusing efforts on maximizing toll cheat revenue, the goal of the new integrated Customer Service and Violations Processing Center will be to service customers and facilitate the use of E-ZPass. Instead of focusing on the universe of E-ZPass customers, enforcement efforts should be concentrated on the small segment of the population that is repeat offenders.

Pre-E-ZPass studies conducted to establish E-ZPass violation rate estimates for the original Request for Proposals (but ignored) concluded that a core group of 15,000 to 20,000 drivers is responsible for virtually all willful toll evasions on the Garden State Parkway (toll evasion was never a serious problem on the Turnpike because all toll lanes were staffed). Once lane accuracy has been certified, and software and back office operations have been stabilized, the Consortium should implement additional enforcement strategies aimed at habitual offenders. Possible measures include specialized collection agency notices, outbound telephone collection efforts, credit bureau reporting and increases in the fines and/or consequences for scofflaws such as raising the fine from \$25 to the level of a basic moving violation. Again, the primary goal should be to advance full compliance, establish systemic fairness (punish the cheats), and collect all revenue due.

(5) In the long term, integrate New Jersey's back office operations with the New York agencies (MTA, NYSTA, PANYNJ).

As originally envisioned, back office operation processing for the Port Authority's E-ZPass operations was to be provided by the back office operation of the Regional Consortium. This never occurred because the Consortium was not ready when the PANYNJ was ready and subsequently because the Regional Consortium's back office operation does not function in an effective, efficient and stable manner. Consequently,

the MTA and the New York State Thruway Authority provide the back office operations for the PANYNJ. As already stated, the integration of the New Jersey CSC and VPC into a single operational and functional entity must be New Jersey's highest priority in order to stabilize the system. Once that is accomplished, the next goal should be integration with New York's back office operation. By combining the New Jersey and New York agencies into a single back office operation, 88% of all E-ZPass accounts and transponders in the nation will be under the same operation and considerable cost savings can be leveraged for each State. Accordingly, any effort to integrate New Jersey's current back office system should be undertaken such that integration with New York can be achieved as soon as possible and at minimal additional cost and technical effort. Transitioning to ACS now is consistent with this goal because ACS provides New York's back office functions and software.

Another opportunity expected to present itself in the longer term is a single customer service center developed under the auspices of the E-ZPass Interagency Group ("IAG") to serve all 20 member transportation agencies from Maine to West Virginia. The IAG is currently soliciting input to develop a request for proposal for a regional customer service center. Such regionalization will provide many benefits to customers and agencies alike and New Jersey should encourage those efforts to drive processing costs down.

III. Improve and Expand E-ZPass Use

Regretfully, the New Jersey's E-ZPass system has become infamous as a textbook example of what not to do. The system has become the pariah of the electronic toll collection community. This perception is further exacerbated given New Jersey's large customer base, reliance on toll facilities and traffic congestion. E-ZPass offers significant potential to dramatically improve our citizens' quality of life, air quality and traffic flow. The State's obligation extends beyond fixing the financial and operational errors of the past Administration to putting forward a plan that incorporates state-of-the-art toll collection technology in conjunction with strategies to improve air quality, reduce congestion and improve the quality of life for toll road users.

(1) Develop plan to implement high-speed E-ZPass on the Parkway.

The DOT under the McGreevey administration is committed to quality of life improvements for New Jersey commuters. Traffic congestion, exacerbated by the toll barriers on the Parkway, is a major cause of frustration for Parkway users. High-speed toll lanes offer significant potential in reducing congestion and maximizing the benefits of E-ZPass.

To facilitate implementation of high-speed E-ZPass, the New Jersey Highway Authority should immediately undertake a traffic engineering study to recommend the most suitable plaza locations (factoring potential traffic diversion, E-ZPass penetration rates, and ease of construction) to implement a high-speed toll pilot program in the northern

and southern regions of the Parkway. This report should be presented no later than October 1, 2002 with a goal of implementing the pilot program by the end of 2003.

High-Speed E-ZPass

Providing modern, electronic high-speed toll lanes is currently of major interest to all United States toll agencies and, in fact, most new toll lanes being built today incorporate high-speed tolling. The Garden State Parkway is a prime candidate for the installation of high-speed E-ZPass lanes because of its on-road barrier collection system that interrupts traffic flow. E-ZPass antennas should be mounted on gantries deployed across portions of the Garden State Parkway in each direction, allowing E-ZPass customers to continue through an open toll plaza at highway speeds and unimpeded by toll booths, while cash traffic will be directed to toll plazas to the side of the main road. Lane configuration should be standardized in order to eliminate dangerous weaving maneuvers that may result in higher accident rates.

Certain toll plazas on the Turnpike are also suited for high-speed E-ZPass lanes. Interchange 6 on the Pennsylvania Extension currently offers two high-speed E-ZPass lanes. A relocated Interchange 1, currently under construction, will have two high-speed E-ZPass lanes in each direction. Interchanges 18E and 18W are barrier-style plazas that may also be amenable to a retrofit that would provide high-speed E-ZPass lanes. The Turnpike Authority should develop a plan for high-speed E-ZPass at these and any other toll plazas that may benefit from high-speed E-ZPass lanes, especially as it considers current and future infrastructure improvements.

(2) Improve E-ZPass lane design and signage.

As the E-ZPass program grows in use, and with the benefit of operational experience, it has become apparent that the originally designed lane distribution and signage for E-ZPass are insufficient. More lanes need to be added and more flexibility is required in how those lanes are run, so that more E-ZPass lanes can be opened during rush hours. However, pre-existing toll plaza configurations and canopy structures impose limitations that hinder adequate signage. A repeated complaint from E-ZPass customers is that E-ZPass lanes are inconsistently located and poorly identified. This is not only an annoyance but also a congestion and safety hazard as cars weave to locate appropriate lanes. This problem is most apparent on the Parkway, which must account for many different ingress and egress points at each toll barrier.

The Regional Consortium must improve signage to maximize customer convenience and agency flexibility. Some of the techniques that should be considered include:

- Use of lightweight banners to clearly identify E-ZPass lanes in places where design restrictions cannot support the standard signage.

- Placement of additional signs further upstream of toll barriers advising of the location of EZ Pass lanes at specific toll plazas and flashing yellow lights to mark the E-ZPass lanes.
- To guide cars approaching the E-ZPass lanes, paint approach lanes a special color (E-ZPass Purple) and consider embedding lights or reflective markings on the roadway to guide toll payers to the appropriate lane at night.
- Establish toll plaza consistency among E-ZPass lanes

(3) Support E-ZPass use for parking at Port Authority airports and Giants Stadium.

The Port Authority is working to allow E-ZPass customers to pay airport parking fees via EZ Pass transponders by the end of the year. Unlike New York toll agencies, New Jersey lacks the necessary technical architecture and functionality inasmuch as the current contractor has not deployed the software changes necessary for achieving this level of interoperability with the PANYNJ.

This service will be an added benefit and convenience to New Jersey customers, and with the proper leadership, we believe New Jersey can be brought into compliance before the end of the year. Without New Jersey's participation, the New York agencies will be negatively impacted and may have to suspend their efforts. If the Port Authority deploys this program without New Jersey's participation, significant New Jersey customer confusion will result. This needs to be a top priority for the new E-ZPass leadership team. Furthermore, the Consortium and NJ DOT staff should begin to collaborate with the Sports and Exposition Authority to implement dedicated E-ZPass parking lanes for traffic into Meadowlands facilities.

IV. Implement a Fiscally Responsible Finance Plan

New Jersey's approach to E-ZPass construction and operation was unique in that it was the only State that promoted that E-ZPass could be self-financing. As originally contemplated, the State planned to re-pay not only the \$300 million in Economic Development Authority ("EDA") bond proceeds, but also the interest and current and future operating expenses, for an aggregate amount approaching \$600 million. Sadly, the original estimates of the revenue that would be raised by violators, and to a lesser extent by fiber leases, could not have been more wrong. The result is that the State's toll payers and its taxpayers face a looming deficit that could reach upwards of \$500 million. In addition, the contract and cost projection fail to provide for maintenance of the lanes. That cost will have to be borne by the Regional Consortium.

Even more distressing is that a closer look at the figures behind this deficit reveals the extent of the negligence of those who devised, approved and carried out the financing mechanism. Originally, revenues consisting of fiber leases and violation fees (called

administrative fees) were estimated to generate \$608.4 million by 2008. The most recent analysis projects that revenues will probably total only \$336.7 million, or 44.7% less than anticipated. This shortfall is mostly the result of the misplaced reliance and false belief in the dishonesty of New Jersey drivers, coupled with the failure of New Jersey to have the proper tools in place to collect the violations of true toll evaders.

Thus, the projected revenues expected to date never materialized, bonds were not paid off early, and operating and interest expenses are rising dramatically. Original estimates of interest expense on the EDA bonds was \$87 million based on payment of principal and interest over the life of the project. However, given the severe revenue shortfall, payments on the bond principal were not made as scheduled and now interest expense is calculated at \$187 million, or more than double what was projected. On the operating expense side, costs were originally estimated to be \$309 million. Today, those costs are estimated to be \$420 million or 36.7% higher than projected. This is primarily because of poorly structured or missing contract terms, the failure of the VPC to operate efficiently and the need to supplement the CSC with additional staffing in order to provide even a hint of reasonable customer service.

An additional downfall of the self-financing scheme was the timeline under which the bonds were to be repaid. Instead of financing the debt over the useful lifetime of the asset (as is traditionally done with construction projects), the decision was made by the previous Administration to finance the bonds over the life of the contract. Since there is no economic rationale for financing under this arbitrary time, presumably it was done to provide consistency with the projections. To finance over any period of time longer than the life of the contract would have implied that the expected revenue would be insufficient over the contract to pay back the debt. Thus the State has been locked into an overly aggressive re-payment schedule, solely as part of the effort to perpetuate the myth of the viability of self-financing.

In sum, the State originally projected that not only would E-ZPass pay for itself but would generate a \$34 million profit. Instead, the State now faces a \$469 million deficit. The original projection was not simply off – it missed by an overwhelming 1,443%.

The E-ZPass deficit is more than just a crisis on the horizon. For the three NJ transportation authorities and the PANYNJ, but especially the NJHA, it is an immediate crisis requiring significant and unanticipated cash payments in 2002 and 2003. The Project Fund has only \$24 million remaining. It will cost at least that to finish construction of the E-ZPass System, without regard to the cost to remedy the system's failures. In addition, \$10.7 million in bond interest is due this year and next year \$19.369 million in deficiency payments must be made, as well as \$17 million more in interest. While the NJTA, SJTA and the PANYNJ have the financial capability of establishing sufficient reserves, and already have begun to do so, the Highway Authority is financially incapable of doing so. Absent immediate steps to enable the Parkway to meet its financial commitment as a member of the Regional Consortium, Parkway toll increases could become an unavoidable last resort. This scenario cannot be allowed to occur.

The consequences of the financial shortfall cannot be understated and addressing it will require admittedly difficult decisions by this Administration. The financial plan established by this review will outline a mechanism to pay this debt in a responsible manner that will not incapacitate other capital spending needs of the authorities.

The E-ZPass deficit must be viewed in both the short and long term. The immediate issue over the next year is to ensure that the resources exist through the Project Fund or other revenue to complete the project, begin promised enhancements, such as high-speed E-ZPass, and enable the Highway Authority to meet its financial commitments to the Regional Consortium without triggering a toll hike.

Over the long term, the issue is how to address the E-ZPass debt within the context of affordability and the overall transportation planning priorities within the State.

Near Term

(1) Rollback unsuccessful Parkway discounts.

To ease the transition from tokens and to encourage the transition to E-ZPass, the Garden State Parkway charged E-ZPass customers a discounted 33 cents instead of 35 cents per toll beginning in November 2001. In addition, a further discount was offered to encourage off-peak travel, with a toll amount of 30 cents instead of 35 cents (peak travel time was defined to be 7 am to 9 am and 4 pm to 6 pm on weekdays; 11 am to 3 pm on Saturdays, and 3 pm to 7 pm on Sundays). Experience has shown that these discounts do not provide enough incentive to impact driver behavior and, during this E-ZPass crisis, the \$13 million in lost revenue annually simply cannot be afforded by the Parkway. In March 2002, Vollmer was asked to analyze the effectiveness of the off-peak discount and they found that “changes in traffic patterns do not seem to be related to the toll rate congestion pricing but rather to the normal variations in traffic.”

The combined repeal of these discounts will generate approximately \$13 million a year for the Garden State Parkway (\$7 million from off-peak and \$6 million from E-ZPass use), nearly enough to meet the Garden State Parkway’s financial commitment to the Regional Consortium. In view of the dire straits, reluctantly the failed discount plan must be rolled back and the proceeds placed in a lockbox account solely for E-ZPass project and debt costs, inaccessible for any other uses. With the consolidation of the E-ZPass debt discussed below, and the rollback of the failed discounts, the immediate cash pressures will be reduced and funds can be dedicated to ensure the implementation of high-speed E-ZPass on the Parkway as well as other customer enhancements such as improved lane signage.

- (2) Initiate a \$1.00 monthly E-ZPass membership fee to assist in funding E-ZPass improvements such as high-speed E-ZPass lanes and to contribute towards repayment of E-ZPass debt.**
- (3) Continue policy of providing E-ZPass customers with the initial transponder at no cost, but charge for replacement transponders (if replacement due to battery life and not equipment failure). However, E-ZPass customers from States outside the Regional Consortium will be charged for initial transponders.**
- (4) Establish dedicated E-ZPass lockbox to reserve E-ZPass generated funds for E-ZPass debt repayments and project improvements.**

The time for honesty with New Jersey citizens has come and the reality is that absent a massive reduction in other transportation projects, the resources simply do not exist to meet the debt payments, let alone to finance the enhancements such as high-speed E-ZPass that citizens deserve. Compounding the tenuous financial situation is the looming end of the effective life of the transponders issued to E-ZPass's first customers. The battery life expectancy for transponders is 5 and one-half years to 7 years. Thus, the replacement of these tags by New Jersey in significant quantities will begin in 2004 based on the 1999 program start. Each interior tag costs approximately \$23 (exterior tags cost approximately \$28), with the cost being fully absorbed by the Regional Consortium at present. At a projected transponder circulation of 2 million tags, the total additional cost (in excess of the \$469 million deficit) could be \$50 million.

Given the current balance in the Project Fund, monies simply will not be available to continue the practice of providing free replacement transponders. Three of the nine states in the IAG currently charge some form of monthly fee and/or a charge for the transponder. Massachusetts charges for each transponder, plus a \$5 administrative fee when an account is opened. Pennsylvania charges a \$3 per year, per tag service fee and a \$2 monthly fee for a paper statement (on-line statements are free). Maine, which has not yet deployed E-ZPass, has reserved the right to charge a \$25 fee per tag. In addition other States such as New Hampshire, West Virginia, and New York charge some form of E-ZPass fee.

New customers will continue to receive the initial transponder at no cost just as existing customers did. In addition, to provide funding for enhancements such as the implementation of high-speed E-ZPass and to enable the E-ZPass debt to be re-paid, a nominal \$1 monthly membership fee per account holder should be instituted.

The \$1 monthly fee will not go to the General Treasury, but will be deposited in a dedicated E-ZPass account to be administered by the New Jersey Turnpike Authority solely for the purpose of E-ZPass enhancements and the repayment of debt.

Long Term

(5) As part of the State's toll road consolidation plan, the E-ZPass debt must be consolidated into the general debt structure of any successor transportation authority.

The original E-ZPass debt was financed in a manner disadvantageous to the State. The financing employed was taxable and the term of the bonds was 10 years, instead of over the useful life of the asset. In addition, and as stated earlier, initial financing projections also assumed sufficient toll cheat revenue to allow for early re-payment of the debt which, as a result of revenue shortfall, never happened. The result of these assumptions and financing decisions was that the Regional Consortium was locked into a financing plan that was inappropriate for this type of capital project and a re-payment schedule that was driven by false revenue assumptions instead of sound financial policy and planning. Ignoring the economic reality others chose not to face will only further expand the projected deficit.

One of the most important benefits of a toll road consolidation will be the enhanced ability of the State to centralize transportation planning and facilitate the undertaking of necessary projects based on need, and not on whether a specific authority has available funding. The historic Driscoll Bridge agreement entered in April 2002 was a pre-cursor of the benefits of consolidation. Currently, the State's ability to finish and enhance E-ZPass is hindered by the requirement that each authority pay a set percentage instead of a requirement that members of the Regional Consortium meet the State's obligation.

Incorporating the E-ZPass debt into the consolidated debt of a new authority will allow the State to address the inadequacies of the original financing scheme in conjunction with the overarching goals of the authorities consolidation. Specifically, this will enable the State to take advantage of tax-exempt financing, utilize a more appropriate useful life analysis, and remove the so-called "true-up" guillotine that currently hangs over the authorities by enabling the debt to be paid as a part of the new authority's general debt.

It is important to note that under this approach the authorities, via toll revenue, and not the State's General Fund, will continue to be responsible for the repayment of the E-ZPass debt.

(6) Pursue non-toll revenue opportunities.

To help offset the impact of the additional Project costs, non-toll revenue opportunities (beyond E-ZPass i.e., airport parking) must be identified and pursued. The IAG is the means through which these opportunities such as drive-thru services will become reality. New Jersey representatives on the IAG have already made it clear that we are interested in pursuing any opportunity that will enhance the customer's experience with E-ZPass and enhance revenue as long as it is consistent with good public policy. It is recommended that a task force be established under the leadership of New Jersey Turnpike Authority Chairman Joseph Simunovich and Executive Director Michael Lapolla to identify non-toll revenue opportunities.

V. Improve Management Oversight

- (1) Establish and empower a dedicated E-ZPass Quality Management Team responsible solely for overseeing implementation and enhancement of E-ZPass and directly accountable to the Commissioner of NJDOT and the Chief of the Authorities Unit.**

The Assembly Transportation Committee's legislative hearings made clear the total lack of accountability associated with this project. Beyond the incredible refusal of any one entity or person to take any responsibility whatsoever for the financing plan and the construction and operational shortfalls, the lack of any effective oversight on behalf of the State was apparent. Beyond ineffective or non-existent oversight, there have been repeated complaints about the Regional Consortium's management and inadequate decision-making structure.

Furthermore, while the organizational documents nominally put NJDOT in charge, it is more accurate to say that former NJTA Executive Director Edward Gross dominated the day-to-day process, but called on the Commissioner of DOT periodically. Serious concerns have also been raised about the manner in which the State utilized Parsons Brinckerhoff ("PB"), the program manager. As was the case for NJ's vehicle inspection contract, it appears that PB's input was quickly marginalized or ignored and any oversight or benefit PB could have brought to bear was wasted as a result of deficiencies within the organizational structure.

To bring the E-ZPass Project to final completion, it is essential that a dedicated, aggressive and experienced quality management team ("QMT"), with clear lines of authority and responsibility, be put into place. These individuals will focus their efforts exclusively on identifying the problems that plague the E-ZPass system, crafting efficient and cost effective solutions to them, and overseeing day-to-day implementation.

This recommendation has already been implemented with the hiring of Walter Kristlibas, previously the Director of Regional E-ZPass Programs for the PANYNJ, as the head of the New Jersey E-ZPass QMT. Mr. Kristlibas will work out of the NJTA Administration Building, and report directly to the Chief of the Authorities Unit and the Commissioner of the NJDOT with day-to-day reporting responsibility to the Executive Director of the NJTA.

The installation of Director Kristlibas, coupled with the transition to a single prime vendor will impose a new era of accountability and responsible government oversight.

VI. Fiber Optic Network

One relatively bright light in this debacle is the successful construction of an extensive fiber optic network. The network is complete and spans the length of the New Jersey Turnpike, across Route 42 to the Atlantic City Expressway, and north along the Garden State Parkway. Unfortunately, the collapse of the telecom industry in general and over-capacity nationally has led to lower than projected fiber optic revenues. Several of the fiber lessees have declared bankruptcy and the Consortium is unlikely to meet its fiber revenue projections.

Consequently, we recommend a comprehensive, coordinated telecommunications strategy be undertaken by the Consortium members during this lull in the market to determine the optimal strategy for marketing their collective fiber and cellular tower capacity once telecom demand returns.

In the interim, the fiber capacity should be used for public purposes to reduce government costs whenever possible. To this end, we have already approved a lease agreement with Rutgers University and the State that is expected to save the State \$200 million over the next 10 years.

The Consortium should continue to explore other opportunities for putting currently unused fiber capacity to work to save public and educational institutions money and generate revenue for the Consortium.