

STATEMENT OF THE HONORABLE THOMAS H. KEAN
GOVERNOR OF THE STATE OF NEW JERSEY
TO THE
SUBCOMMITTEE ON GENERAL OVERSIGHT AND RENEGOTIATION
HOUSE BANKING COMMITTEE
WASHINGTON, D.C.
WEDNESDAY, MARCH 9, 1983

THANK YOU, MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE.
IT IS A PLEASURE TO BE HERE.

I AM ESPECIALLY PLEASED THAT A MEMBER OF OUR NEW JERSEY DELEGATION HAS INDICATED A SPECIAL INTEREST IN OUR PROPOSAL FOR A NEW JERSEY INFRASTRUCTURE BANK. I BELIEVE IT IS A UNIQUE AND WORTHWHILE PLAN, AND I AM PARTICULARLY HAPPY TO TESTIFY, MR. CHAIRMAN, BEFORE THE SUBCOMMITTEE YOU CHAIR. I LOOK FORWARD TO WORKING WITH YOU IN ADDRESSING THE INFRASTRUCTURE DILEMMA, AS WE HAVE WORKED TOGETHER ON SO MANY OTHER PROJECTS IN THE PAST.

I RECOGNIZE THAT THE SUBCOMMITTEE IS CONSIDERING A RANGE OF PROPOSALS NOT ONLY TO FINANCE NEEDED PUBLIC CAPITAL PROJECTS, BUT TO HELP SOME OF OUR SAGGING PRIVATE INDUSTRIES AS WELL. I UNDERSTAND THAT OTHER WITNESSES WILL BE DISCUSSING THE POSSIBILITY OF ESTABLISHING A NATIONAL DEVELOPMENT BANK OR A RECONSTRUCTION FINANCE CORPORATION.

THESE PROPOSALS GENERALLY ARE MUCH WIDER IN SCOPE THAN THE PLAN WHICH WE HAVE DEVELOPED IN NEW JERSEY. WE HAVE STUDIED LEGISLATION SUCH AS H.R. 638, ALTHOUGH WE HAVE TAKEN A LARGELY DIFFERENT APPROACH. THE TWO APPROACHES ARE NOT NECESSARILY VIRTUALLY EXCLUSIVE, SO I HOPE THAT THE SUBCOMMITTEE WILL CAREFULLY CONSIDER THE INFRASTRUCTURE BANK PROPOSAL.

AS I UNDERSTAND H.R. 638, IT WILL CREATE A FINANCING MECHANISM OF LAST RESORT FOR INDUSTRIES MOST IN NEED OF CAPITAL REPLACEMENT. OUR PROPOSAL DID NOT ADDRESS PRIVATE SECTOR NEEDS, BUT INSTEAD CONCENTRATED SOLELY ON CAPITAL NEEDS FOR PUBLIC PROJECTS. ALTHOUGH THERE ARE DIFFERENCES IN THE TWO IDEAS, I BELIEVE THAT SOME OF THE PRINCIPLES WE USED TO GUIDE US IN NEW JERSEY CAN ALSO BE APPLIED IN CONSIDERING THE BILLS BEFORE YOU.

FOR INSTANCE, AS MUCH AS POSSIBLE WE HAVE DESIGNED OUR BANK AS A FINANCING MECHANISM AND NOT A PROGRAM AGENCY. IN OTHER WORDS, WE HAVE AVOIDED SETTING UP DUPLICATE MECHANISMS TO REVIEW AND APPROVE INDIVIDUAL PROJECTS, BUT INSTEAD ARE RELIANT ON EXISTING "PRIORITY" LISTS. I WOULD URGE YOU TO CONSIDER SIMILAR ACTIONS.

LET ME TELL YOU A BIT MORE ABOUT OUR PROPOSAL.

IN NEW JERSEY, WE USED A MORE NARROW FOCUS AND SOUGHT ONLY TO ADDRESS ONE SPECIFIC PROBLEM: FINANCING PUBLIC INFRASTRUCTURE. THE CENTRAL QUESTION THAT LED US TO THE INFRASTRUCTURE BANK PLAN WAS: HOW CAN WE REPAIR AND IMPROVE OUR VITAL NETWORK OF ROADS, BRIDGES, SEWERS, AND WATER SUPPLY SYSTEMS IN AN ERA OF DECLINING FEDERAL APPROPRIATIONS FOR THESE TYPES OF PROJECTS AND INCREASING FISCAL STRAIN ON OUR STATE BUDGETS. THE ANSWER WE HAVE COME UP WITH IS TO MAKE THE MOST OF SCARCE DOLLARS FOR PUBLIC CAPITAL PROJECTS --- WHETHER THEY COME FROM THE FEDERAL BUDGET, STATE GENERAL FUNDS, OR THE SALE OF STATE BONDS --- BY IN EFFECT "RECYCLING" THEM THROUGH THE NEW JERSEY INFRASTRUCTURE BANK.

CERTAINLY, THE MEMBERS OF THIS SUBCOMMITTEE WOULD AGREE THAT CONGRESS IS NOT LIKELY TO INCREASE SUBSTANTIALLY FUNDING IN SUCH AREAS AS THE SEWER CONSTRUCTION GRANT PROGRAM IN THE VERY NEAR FUTURE. THE FEDERAL DEFICIT IS ALREADY TOO LARGE, AND AS THE MEMBERS KNOW, BECAUSE SEWERS AND POTHoles DO NOT HAVE LARGE CONSTITUENCIES THEY TEND TO LOSE OUT IN MANY BUDGET BATTLES. TO TAKE THE EXAMPLE OF SEWER GRANTS, FOR WHICH \$385 MILLION HAS BEEN AUTHORIZED FOR OUR STATE IN FISCAL YEARS 1982 THROUGH 1985, THE LEVEL OF PLANNED FUNDING IS ABOUT HALF WHAT IT HAD BEEN DURING THE PAST DECADE.

IN ADDITION, OUR STATE BUDGET, WHICH HAS TRADITIONALLY BEEN ANOTHER SOURCE OF FUNDS FOR INFRASTRUCTURE EXPENDITURE PROJECTS, HAS ITS SHARE OF FISCAL PROBLEMS. SEVERAL STRUCTURAL EXPENDITURE ITEMS, SUCH AS STATE PENSIONS, CONTINUE TO GROW FASTER THAN REVENUES, SQUEEZING OUT OTHER ITEMS SUCH AS ROAD AND BRIDGE REPAIR AS OUR STATE STRUGGLES TO MEET ITS CONSTITUTIONAL REQUIREMENT FOR A BALANCED BUDGET.

A THIRD MAJOR SOURCE OF FUNDS, PROCEEDS FROM THE SALE OF STATE GENERAL OBLIGATION BONDS, CANNOT BE EXPECTED TO PROVIDE ALL OF THE NECESSARY FINANCING IF WE ARE TO MAINTAIN OUR STATE'S FISCAL INTEGRITY AND ITS TRIPLE AAA BOND RATING. NEW JERSEY IS THE ONLY STATE IN THE NORTHEAST WHICH HAS A TRIPLE AAA RATING FROM BOTH MOODY'S AND STANDARD AND POOR'S, AND I AM COMMITTED TO MAINTAINING THAT RATING.

FINALLY, OUR COUNTIES AND MUNICIPALITIES ARE NOT IN A POSITION TO PICK UP THE WHOLE BURDEN, EITHER. LOCAL GOVERNMENTS IN NEW JERSEY ALREADY HAVE AN OUTSTANDING DEBT OF \$3 BILLION.

NEVERTHELESS --- IN FACT, PERHAPS BECAUSE OF THE SITUATION I HAVE JUST DESCRIBED --- NEW JERSEY'S NEEDS IN THE INFRASTRUCTURE AREA ARE GREAT, EVEN STAGGERING. IN THE CASE OF WASTEWATER TREATMENT FACILITIES, WE HAVE ESTIMATED THAT, IN ORDER TO MEET FEDERALLY MANDATED CLEAN WATER STANDARDS, WE WILL NEED TO CONSTRUCT 237 PROJECTS AT A TOTAL COST OF \$2.4. BILLION. ALL 237 OF THESE PROJECTS WILL BE READY FOR CONSTRUCTION IN THE NEXT FOUR YEARS.

IN TRANSPORTATION, OUR DEPARTMENT OF TRANSPORTATION HAS ESTIMATED THAT WE WILL NEED TO SPEND ABOUT \$4.9 BILLION ON HIGHWAYS, BRIDGES, AND MASS TRANSIT OVER THE NEXT SEVEN TO TEN YEARS. RIGHT NOW, WE HAVE A BACKLOG OF OVER \$500 MILLION IN CRITICALLY NEEDED REPAIRS OF ROADS AND BRIDGES.

IN WATER SUPPLY, ACCORDING TO THE WATER SUPPLY MASTER PLAN WHICH NEW JERSEY COMPLETED IN 1981, THE TOTAL AMOUNT NEEDED OVER FIVE YEARS TO CONSTRUCT NEEDED FACILITIES AND TO REPAIR ANTIQUATED SYSTEMS IS ABOUT \$350 MILLION.

AND IN THE AREA OF RESOURCE RECOVERY, WITH SOLID WASTE MANAGEMENT BECOMING A TREMENDOUS PROBLEM IN OUR STATE, OUR STATEWIDE PLAN ESTIMATES THAT WE WILL NEED 18 PLANTS BY THE END OF THE CENTURY AT A TOTAL COST OF \$1.6 BILLION.

ALL IN ALL, THE PORT AUTHORITY HAS ESTIMATED THAT THE TOTAL INFRASTRUCTURE NEEDS IN THE NEW JERSEY-NEW YORK PORT AREA WILL BE ROUGHLY \$40 BILLION IN THE NEXT DECADE.

SO THAT, IN SHORT, IS THE PROBLEM WHICH NEW JERSEY ---
LIKE MANY OTHER STATES ACROSS THE COUNTRY --- FACES: OVERWHELMING
INFRASTRUCTURE NEEDS AND DECLINING RESOURCES TO HELP MEET
THEM.

ON SEPTEMBER 29, 1982, I ANNOUNCED OUR PROPOSAL FOR THE NEW JERSEY INFRASTRUCTURE BANK AS A SOLUTION TO THIS DILEMMA. THE BANK IS THE RESULT OF A DELIBERATE BUT RADICAL RE-THINKING OF THE WAY WE GO ABOUT PLANNING AND PAYING FOR THE ESSENTIAL UNDERPINNINGS OF OUR STATE'S ECONOMY: ROADS, BRIDGES, SEWERS, AND OTHER PUBLIC SYSTEMS. THE PROPOSAL IS THE RESULT OF A GREAT DEAL OF WORK BEGUN EARLY IN MY FIRST YEAR AS GOVERNOR BY STATE OFFICIALS IN OUR DEPARTMENTS OF ENVIRONMENTAL PROTECTION, TREASURY, TRANSPORTATION, AND BY EXPERTS IN PUBLIC FINANCE FROM THE WALL STREET FIRMS OF BEAR STEARNS AND MERRILL LYNCH.

THE PLAN THESE GROUPS CAME UP WITH WILL PROVIDE A PERMANENT SOURCE OF CAPITAL WHICH CAN BE USED ONLY FOR INFRASTRUCTURE PROJECTS. THE BASIC CONCEPT IS TO ESTABLISH A BANK WHICH WOULD LOAN, RATHER THAN GRANT, FUNDS GENERATED BY THE SOURCES I MENTIONED EARLIER --- STATE GENERAL OBLIGATION BONDS AND FEDERAL AND STATE APPROPRIATIONS --- SO THAT THEY CAN BE USED ON AN ONGOING BASIS OVER A NUMBER OF YEARS TO FINANCE INFRASTRUCTURE PROJECTS.

WE BELIEVE THAT THE NEW JERSEY PLAN IS THE FIRST INITIATIVE OF ITS KIND BY A STATE IN RESPONSE TO THE CONTINUING REDUCTIONS IN FEDERAL FUNDS FOR INFRASTRUCTURE PROGRAMS, AND THE FIRST ONE WHICH MAKES A REALISTIC LONG-TERM COMMITMENT TO INFRASTRUCTURE.

ONCE FUNDS ARE APPROPRIATED TO OR DEPOSITED IN THE BANK, THEY WILL BE LOANED --- AT LOW OR NO INTEREST --- TO THE UNITS OF GOVERNMENT UNDERTAKING THE CONSTRUCTION, REHABILITATION, REPLACEMENT, OR REPAIR OF INFRASTRUCTURE. AS LOANS ARE REPAYED, NEW JERSEY WILL HAVE A PERMANENT REVOLVING FUND SO THAT MONEY WILL ALWAYS BE AVAILABLE FOR THE STATE'S BASIC INFRASTRUCTURE NEEDS. OUR GOAL IS FOR THE FUTURE GENERATIONS TO BE PREPARED SO THAT THEY DO NOT HAVE TO FACE THE DILEMMA WITH WHICH WE WRESTLE TODAY.

THE BANK WOULD ALSO SERVE AS THE STATEWIDE FINANCING VEHICLE FOR THE LOCAL SHARE OF PROJECT COSTS.

FINALLY, THE BANK WOULD FUNCTION AS THE VEHICLE THROUGH WHICH THE STATE ITSELF COULD ISSUE REVENUE-BACKED BONDS FOR VARIOUS INFRASTRUCTURE PURPOSES. THIS WOULD BE POSSIBLE POSSIBLE WHERE A NEW OR EXISTING SOURCE OF REVENUES WAS DEDICATED TO THE BANK TO MEET DEBT SERVICE REQUIREMENTS, THEREBY ENABLING THE BANK TO RAISE CAPITAL FOR PARTICULAR NEEDS OF THE STATE.

WE THINK THE INFRASTRUCTURE BANK HAS SEVERAL ADVANTAGES. FIRST, AND PERHAPS OF GREATEST INTEREST TO MANY MEMBERS OF THE HOUSE, IT WOULD REDUCE THE BUDGET STRAIN ON THE FEDERAL GOVERNMENT, BECAUSE RATHER THAN DEPENDING SOLELY ON CONTINUED FEDERAL APPROPRIATIONS, THE BANK WILL "RECYCLE" THE DOLLARS WE RECEIVE. IN ADDITION, OUR PLAN WILL ALLOW INVESTED BANK CAPITAL TO GROW, THEREBY GRADUALLY REDUCING THE DEMANDS FOR ADDITIONAL ANNUAL APPROPRIATIONS FROM THE FEDERAL AND STATE GOVERNMENTS. FURTHER, THE BANK WOULD REDUCE RELIANCE ON LOCAL TAX-EXEMPT BONDS, WHICH RESULT IN FOREGONE FEDERAL REVENUE, AS A SOURCE OF FUNDS.

SECONDLY, THE BANK WILL PROVIDE SOME OBVIOUS ECONOMIES TO THE PUBLIC IF IT ENABLES US TO MAKE THE INFRASTRUCTURE REPAIRS WE NEED TO MAKE. OUR DEPARTMENT OF TRANSPORTATION HAS ESTIMATED THAT IF, THROUGH THE BANK, WE CAN IMPLEMENT OUR SEVEN YEAR CAPITAL PLAN IN TRANSPORTATION, WE WILL ACHIEVE STATEWIDE SAVINGS OF ABOUT \$1.5 BILLION IN OPERATING COSTS TO THE PUBLIC OVER THE SEVEN YEARS. MOREOVER, THE PUBLIC WILL SAVE ABOUT 620 MILLION GALLONS OF FUEL DURING THOSE SAME SEVEN YEARS AS THEY TRAVEL OVER NEW JERSEY'S HIGHWAYS, WHICH ARE THE MOST INTENSELY USED HIGHWAYS IN THE NATION.

THIRDLY, THE BANK WOULD ENCOURAGE AND PROVIDE THE TYPE OF FINANCIAL PLANNING WHICH WOULD ENSURE THAT LOCAL AND COUNTY GOVERNMENTS HAVE THE LONG RANGE FINANCING NECESSARY TO COMPLETE LARGE CAPITAL PROJECTS. IN THIS WAY, WE CAN AVOID HALF-FINISHED PROJECTS AND MASSIVE DEBTS ON THE LOCAL LEVEL. MOREOVER, BECAUSE THE BANK WOULD PROVIDE PERMANENT, PREDICTABLE SOURCE OF FUNDS, MUNICIPALITIES AND COUNTIES WOULD BE ABLE TO PLAN FOR ESSENTIAL CONSTRUCTION OR REPAIRS AT CERTAIN TIMES, RATHER THAN PROCEEDING ON AN EMERGENCY, OR CASE-BY-CASE BASIS.

FOURTH, THE BANK CAN PROVIDE THE RESOURCES NECESSARY TO MEET FEDERAL ENVIRONMENTAL STANDARDS, WHICH WOULD OTHERWISE BE INCREASINGLY DIFFICULT IN THE FACE OF DECLINING FEDERAL FUNDING FOR SUCH ITEMS AS SEWER CONSTRUCTION.

FINALLY, AND MOST IMPORTANTLY, IT ADDRESSES THE NUMBER ONE CONCERN OF OUR CITIZENS: JOBS. REPAIRING OUR BASIC INFRASTRUCTURE IS ABSOLUTELY VITAL TO OUR ABILITY BOTH AS A STATE AND AS A NATION TO PROVIDE THE SERVICES AND FACILITIES THAT BUSINESSES NEED TO OPERATE SMOOTHLY AND TO MOVE THEIR PRODUCTS. THIS IS ESSENTIAL TO BRINGING JOBS TO OUR STATE AND RETAINING THE JOBS WE HAVE. IN ADDITION, A LONG-TERM, WELL-PLANNED INFRASTRUCTURE PROGRAM WILL BE A MAJOR SOURCE OF JOBS ITSELF. OUR DEPARTMENT OF ENVIRONMENTAL PROTECTION HAS ESTIMATED THAT AT THE LEVEL OF INVESTMENT WE HAVE PROPOSED IN OUR INFRASTRUCTURE BANK PLAN, 50,000 JOBS WILL BE CREATED IN THE WASTEWATER TREATMENT AREA ALONE, AND OUR DEPARTMENT OF TRANSPORTATION HAS PREDICTED THAT THE TRANSPORTATION ACTIVITIES ENVISIONED IN THE PLAN WILL GENERAGE ANOTHER 70,000 JOBS.

IT MAY BE HELPFUL TO THE COMMITTEE AT THIS POINT FOR ME TO PROVIDE A SPECIFIC EXAMPLE WHICH DEMONSTRATES SOME OF THESE ADVANTAGES WHICH WE BELIEVE THE BANK CAN PROVIDE.

AS I MENTIONED EARLIER, NEW JERSEY IS CURRENTLY SLATED TO RECEIVE \$385 MILLION IN SEWER CONSTRUCTION GRANTS IN FISCAL YEARS 1982 THROUGH 1985. AT THAT LEVEL OF FUNDING, WE WOULD BE ABLE TO FUND ONLY 24 OF THE 237 PROJECTS WHICH NEED TO BE BUILT. THAT WOULD LEAVE THE OTHER 213 UNBUILT, AND IT WOULD LEAVE FEDERAL CLEAN WATER STANDARDS UNMET...

UNDER THE INFRASTRUCTURE BANK PLAN, WITH A MAXIMUM OF FOUR ADDITIONAL YEARS BEYOND FISCAL YEAR 1985 OF FEDERAL SEWER CONSTRUCTION GRANTS AT OUR CURRENT ANNUAL LEVEL OF \$100 MILLION PER YEAR, WE WOULD BE ABLE TO BEGIN ALL OF THE 237 PROJECTS WITHIN A TEN YEAR PERIOD.

IN MY FORMAL TESTIMONY, THERE IS A DETAILED EXPLANATION ON PAGES 9 THROUGH 11 OF HOW THIS IS POSSIBLE.

AS YOU CAN SEE, THEN, THE INFRASTRUCTURE BANK WOULD
ENABLE US TO BEGIN CONSTRUCTION ON MANY MORE PROJECTS;
WHILE STILL YIELDING A SUBSTANTIAL SAVINGS TO THE FEDERAL
GOVERNMENT. IN ORDER FOR THE BANK TO BECOME A REALITY,
WE ARE SEEKING PASSAGE OF CERTAIN FEDERAL LEGISLATION IN
ADDITION TO THE STATE LEGISLATION WHICH IS MOVING THROUGH
THE ASSEMBLY IN TRENTON RIGHT NOW.

FIRST, WE SUPPORT AN AMENDMENT TO THE CLEAN WATER
ACT WHICH WOULD GRANT US PERMISSION TO USE OUR OBLIGATED
FUNDS AS LOW OR NO INTEREST LOANS INSTEAD OF GRANTS; TO
DEPOSIT REPAYMENTS IN THE EQUITY FUND OF THE NEW JERSEY
INFRASTRUCTURE BANK, AND TO RECYCLE THEM FOR NEW PROJECTS.

SECONDLY, I HAVE ENDORSED THE "PUBLIC INVESTMENT INCENTIVE ACT OF 1983," WHICH WAS RECENTLY INTRODUCED BY SENATOR DOMENICI AND WHICH IS BEING CO-SPONSORED BY OUR DISTINGUISHED SENATOR FROM NEW JERSEY, BILL BRADLEY. THE BILL WOULD MAKE AVAILABLE TO STATES WHICH SET UP BANK OPERATIONS FOR INFRASTRUCTURE FINANCE A SMALL SUM OF CAPITAL WHICH COULD BE USED FOR LOANS TO PUBLIC AGENCIES FOR WATER, WASTE DISPOSAL, RESOURCE RECOVERY, TRANSPORTATION, AND SIMILAR SERVICES. STATES WOULD MANAGE THESE FUNDS IN ACCORDANCE WITH AN AGREEMENT WITH THE SECRETARY OF THE TREASURY, WHO WOULD CHAIR A NATIONAL INFRASTRUCTURE COUNCIL TO OVERSEE THE INVESTMENT PROGRAM. THE BILL IS S-533.

WITH THESE PIECES OF LEGISLATION, AND WITH COOPERATION FROM OUR STATE LEGISLATURE, WE CAN TURN THE INFRASTRUCTURE BANK FROM AN INNOVATIVE IDEA INTO A WORKIING REALITY AND POSSIBLE NATIONAL MODEL. IN MY VIEW, THE INFRASTRUCTURE BANK PROPOSAL DIRECTLY ADDRESSES TWO OF OUR MOST CRITICAL NATIONAL PROBLEMS WHICH ALL OF THE VARIOUS PROPOSALS BEFORE THE SUBCOMMITTEE TODAY ARE SEEKING TO ADDRESS: THE NEED TO REBUILD OUR NETWORK OF HIGHWAYS, BRIDGES, SEWERS, AND WATERWORKS, AND THE ABSOLUTE NECESSITY OF PROVIDING JOBS FOR THE AMERICAN PEOPLE. JUST AS IMPORTANTLY, IT CONFRONTS THESE ISSUES IN A FISCALLY SOUND MANNER, ONE WHICH RECOGNIZES TODAY'S BUDGET REALITIES.

I HOPE THAT THE SUBCOMMITTEE AGREES THAT THE INFRASTRUCTURE BANK PLAN HAS MERIT, AND I THANK YOU FOR THE OPPORTUNITY TO PRESENT THE PLAN TO YOU TODAY.

THANK YOU.