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DELAWARE RIVER PORT AUTHORITY
of Pennsylvania & New Jersey

PATCO

Port Authority Transit Corporation

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Board Chair

**Written Statement from Delaware River Port Authority
Board Chairman John H. Estey and CEO & President John J. Mathessen
before the Pennsylvania Senate Transportation Committee
at 9:00 a.m. Wednesday, September 22, 2010,
Hearing Room One, North Office Building, Harrisburg**

We would like to thank Chairman Rafferty, Vice Chair White and the Committee members for the opportunity to provide testimony today on the Delaware River Port Authority with a focus on the vetoed proposed DRPA reforms and how the DRPA intends to implement reforms going forward. We have also included information on related initiatives and policies that are already in progress.

Brief Background Information on the Authority

Before addressing the Committee's specific inquiry, we offer some background about the Authority to be placed in the Committee record. The Delaware River Port Authority is a public corporate instrumentality of the Commonwealth of Pennsylvania and the State of New Jersey created with the consent of Congress by compact legislation enacted by the two states. The Authority was the successor to the Delaware River Joint Commission, created in 1931. Its role was to construct and operate the Delaware River Bridge (now the Ben Franklin Bridge). Since the Authority's creation in 1952, the two States and Congress have amended the Compact on several occasions in order to carry out major transportation projects such as the construction of the Walt Whitman, Betsy Ross and Commodore Barry bridges, as well as the creation of the Port Authority Transit Corporation (PATCO).

The Authority is governed by a 16-member Board of Commissioners. The Governor of New Jersey appoints eight commissioners with the advice and consent of the Senate of New Jersey. The Governor of Pennsylvania appoints six commissioners, with the Auditor General and the State Treasurer of Pennsylvania serving as ex-officio commissioners for Pennsylvania. Commissioners serve without compensation. The Board of Commissioners establishes policy and plans for the operations of the Authority. A Chief Executive Officer is appointed by the Board to implement policy and to manage the daily operations. The DRPA Port District comprises the counties of Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Ocean and Salem in New Jersey and the counties of Bucks, Chester, Delaware, Montgomery and Philadelphia in Pennsylvania. In accord with its ByLaws, all actions are voted on in public. The minutes are public record.

The Authority is vested with the ownership, control, operation and collection of tolls and revenues of its 4 bridges and its high-speed transit system operated by the Authority's wholly owned subsidiary, PATCO. This transit system operates between Philadelphia and Lindenwold, New Jersey. The Authority's Port of Philadelphia and Camden Department (PPC) is responsible for the marketing and operation of the Philadelphia Cruise Terminal at Pier 1 at the former Navy Yard and the RiverLink Ferry System.

In 1992, an amendment to the DRPA Compact, approved by the legislatures of the two States, Congress and the President of the United States gave the DRPA the authority to engage in economic development projects within the port district.

Specifically, the Compact amendment provided the DRPA with the ability to undertake the “planning, financing, development, acquisition, construction, purchase, lease, maintenance, marketing, improvement and operation of any project, including but not limited to any facility of commerce or economic development activity.”

Over the past sixteen years since DRPA’s 1992 Compact amendment the Delaware River Port Authority has made a substantial investment in our region including projects such as the Kimmel Center, National Constitution Center, Lincoln Financial Field, Adventure Aquarium, Campbell’s Field and improvements along Admiral Wilson Boulevard, all adding to the vitality and economic success of the region. It is fair to say that the issue of economic development has been provocative; many object and many others support the DRPA’s involvement in economic development in the Port District.

Our Board voted, going forward, that **no** monies from the bridge toll and PATCO fare increases approved in August of 2008 will be used for regional economic development. The Board’s decision will be included in the bond covenants associated with upcoming DRPA debt issuance.

Implemented Reforms

In addition to the recently proposed reforms, the DRPA has implemented a number of reforms during our tenure at the DRPA as outlined below.

When the current administration arrived at the DRPA in 2003, we found a structural operating deficit of \$15 million and Authority debt exceeding \$1.1 billion. DRPA’s annual debt service payments were approximately \$100 million and were anticipated to grow due to risk laden refinancing schemes. We began a program to not only examine our capital needs but also our operating standards. Below are some of the significant highlights of what has been done to control expenses and concentrate on our core businesses. Cost efficiency continues as a top priority now and into the future.

- (1) In the first two years, we reduced staffing by over 120 positions – a 12% reduction in force and have maintained a workforce of approximately 900 employees. We have frozen salaries over several years and negotiated 3% salary increases with our organized labor employees. Our current contracts with two of our unions call for no wage increase in the year 2010.
- (2) We instituted a cost containment program which sharply curtailed items such as travel, vehicle and equipment purchases.
- (3) We reduced subsidies to several of our lines of business including restructuring ferry operations, spun off the World Trade Center of Greater Philadelphia as a stand alone organization, closed AmeriPort and opened the Cruise Terminal for additional revenue opportunities beyond cruising.
- (4) We have sold excess properties, consolidated space and increased office rentals by leasing two additional floors in our office building, One Port Center.
- (5) We have pursued outdoor advertising revenue at bridge properties and PATCO increasing revenues from approximately \$70,000 per year to almost \$500,000 in 2009-2010.
- (6) We have leased Authority property for cell tower communication networks.
- (7) In 2004, we implemented employee and retiree health care premium contributions for the first time. We added an HMO managed care plan and wellness programs to help manage our claims experience and contain premium costs. We restructured our health care program for all 65 and over retirees, moving from a Medicare Risk Plan platform to Medicare becoming the primary provider of medical care. Also, in an effort to contain costs and to define the pool of retirees eligible for medical and prescription benefits, all new employees hired on or after January 1, 2007 are not eligible for

retiree health care benefits. In 2009, we successfully negotiated Composite Rate Caps with the health care carrier.

(8) We kept our bridges safe, secure and serviceable while greatly paring back our capital program for a period of 9 years deferring maintenance projects to alleviate the need for a toll increase for close to a decade.

As a result of these actions, DRPA and PATCO's actual operating expenses have increased by an annual average of 1.21% over the period 2003 through 2009, excluding debt service and related costs.

Overview of Major Issues Facing the Authority

Our assets serve as an important part of our region's transportation infrastructure with over 110 million vehicles crossing our bridges annually, over 10.5 million annual PATCO customers and nearly 200,000 RiverLink Ferry and cruise passengers in 2009.

Toll and Fare Restructuring

Prior to the toll increase in September of 2008, the DRPA's last bridge toll increase occurred in January 2000 and our last PATCO fare increase was in July of 2001. The previous Board and Administration expected the monies raised from those past toll and fare increases would address capital needs for a 5-year period, but in reality, the current Board and Administration worked to leverage those dollars over nine years. It was challenging, but we managed our capital program by carefully evaluating capital projects and stretching out our resources. In early 2008, we realized we could no longer proceed in that manner and that it was imperative that we address the current and future needs of the DRPA and PATCO core capital assets. Simply stated, our bridges and PATCO need to be maintained and improved and that requires financial resources. In fact, DRPA is proud and firmly convinced that we have maintained our core capital facilities to the highest standards. We need financial resources to continue that public obligation.

A bridge toll and PATCO fare restructuring proposal was approved by the Board to commence September of 2008 after providing the public with extensive comment opportunities and public hearings. This effort was undertaken only after careful consideration of the maintenance and repair needs of our core assets which have been in operation for many decades. By way of example, the Ben Franklin Bridge has been in operation since the early 1930s, the Walt Whitman since the early 1950s and PATCO since 1968.

On September 14, 2008, a toll increase of \$1.00 began with an additional \$1.00 increase scheduled for September 2010, later postponed to July 2011 and biennial cost of living increases thereafter. Increases are proportional for each toll class. A senior citizen discount is offered as is a "Green Pass" for low emission vehicles and a commuter discount.

The PATCO fare increase was set at 10% with an additional increase scheduled for September 2010 later postponed until January 2011 and biennial cost of living increases thereafter. Our Board voted, going forward, that **no** monies from the toll and fare increases will be used for regional economic development. The Board's decision will be further memorialized in all bond covenants.

5-Year Capital Plan

Our philosophy is that we are committed to maintaining our core facilities to serve the region indefinitely. The approved Capital Program includes both ongoing and new projects planned for 2009 through 2013 and later that calls for an investment of \$1.1 Billion into our 4 bridges, PATCO, the RiverLink Ferry and Philadelphia Cruise Terminal, assuring they will remain safe, secure and serviceable now and for decades to come. Significant capital projects include the re-decking of the Walt Whitman Bridge, the de-leading and painting of the Walt Whitman Bridge, structural repairs to the Betsy Ross and Commodore

Barry Bridges, facility security upgrades, the rebuilding of the 40-year old, 121 car PATCO train car fleet, the installation of express E-ZPass lanes at the Commodore Barry and Betsy Ross Bridges, and the rehabilitation of the PATCO track on the viaducts and the Ben Franklin Bridge.

The DRPA has continually maintained a very aggressive, proactive program of identifying elements in need of attention and a Capital Program that addresses these issues in advance of them becoming structural concerns. Consequently, our assets have been maintained in good condition in keeping with the Authority's philosophy that they need to last forever. At the same time, critical ongoing maintenance and improvements need to be made to our assets to keep them sound and secure.

The DRPA and PATCO have received a nearly perfect review following two days of intense scrutiny August 23 - 24, 2010 by a Federal Transit Administration compliance reviewer. 22 areas of compliance were reviewed and the Authority received perfect scores in 21 of those areas. All agencies receiving federal transit money must undergo a FTA review every three years. Areas reviewed include Finance, Maintenance, Project Planning, Americans with Disabilities Act compliance, Safety and Security, Maintaining a Drug-Free Workplace and Equal Employment Opportunity Requirements. This successful FTA review, and similarly successful FTA reviews in the past including perfect reviews with no findings in 2001 and 2004 and only one finding in 2007, are a credit to the dedicated men and women who make PATCO one of the most reliable and efficient commuter rail lines in the country.

On the subject of job creation that will result from the DRPA's 5-Year Capital Plan, according to the Chief Economist at the U.S Department of Transportation, every \$1 Billion in capital spending on infrastructure supports 27,800 jobs over the next five years. Using this methodology, the DRPA's \$1.1 billion in capital expenditures is estimated to support approximately 30,580 jobs.

Safety and Security

Keeping our facilities safe, secure and serviceable is an ongoing and top priority effort. The DRPA previously retained the services of an independent security consultant to conduct a Threat and Vulnerability Assessment of the Authority's core facilities. The assessment provided recommended countermeasures for reducing the Authority's vulnerability to damage or loss resulting from an accident (collision, fire, etc.) or a terrorist attack.

The Authority adopted a phased approach to implementing the recommended security improvements/countermeasures. Several projects have been recently completed, some are ongoing and still others are programmed for completion within the next few years. The DRPA's 5 year capital program allocates approximately \$56 million for facility security initiatives. We continue to aggressively pursue available federal funding to help support the Authority's security program and offset some of the costs associated with these efforts.

In late 2008, based on the advice of an outside consultant, DRPA restructured its Public Safety/Security Department to create a new Department of Homeland Security/Emergency Management. The goal of the DRPA Homeland Security/Emergence Management Department is to integrate the entire organization into a comprehensive security and business continuity program for the purpose of preventing, mitigating or recovering from terrorist acts, manmade or natural disasters, or any other emergent incident that may jeopardize the safety and security of DRPA/PATCO infrastructure, employees, customers or regional partnerships.

PATCO Transit Car Rehab Program

PATCO's transit car fleet consists of 121 cars. 75 cars were built in 1969 and the remaining 46 cars were put into service in 1980. Many of the car components and systems are no longer supported in the industry and, for years, PATCO has had to either produce parts in-house or obtain them from agencies retiring similar technology in order to keep its fleet operational.

PATCO began a program to upgrade its fleet. We are about to rebuild our existing fleet as opposed to buying new at approximately half the cost of \$240M versus over \$400M.

Port of Philadelphia and Camden

RiverLink Ferry System

The RiverLink Ferry System consists of a 600 passenger ferry sailing between Camden, NJ and Penn's Landing, Philadelphia. It is operated by Hornblower Marine Services. As the Camden and Penn's Landing waterfronts continue to grow, ferry ridership will continue to increase. There are plans to build a new Ferry Terminal in Camden and upgrade the Penn's Landing Terminal, both projects will be 80% funded by federal grants.

Philadelphia Cruise Terminal

The Philadelphia Cruise Terminal was host to American Cruise Lines this season.

The Philadelphia Cruise Terminal was a port of call for the M/V Hanseatic in May and will host the Crystal Symphony in November.

The Port of Philadelphia and Camden continues to market the Cruise Terminal for home port sailings and port of calls for 2011 and beyond. The Philadelphia Cruise Terminal faces three challenges: the size of ship that can call on our port due to the height of the Delaware Memorial Bridge; the length of time it takes for a ship to sail up the Delaware River to our port; and the inability to open casinos while sailing along the river before it reaches open waters.

The Cruise Terminal is also utilized very successfully as an event location. The historic building and waterfront location make it an attractive event venue. We have increased our promotion and marketing of the Terminal as an event location. This facet of the business continues to grow.

Vetoed DRPA Reforms and Reform Implementation Efforts

You have asked that our comments focus on the reform efforts that were vetoed by Governor Christie and on how the DRPA intends to implement reform efforts going forward.

In a letter dated September 2, 2010 Governor Christie vetoed four resolutions that were passed at the August 18, 2010 DRPA Board meeting:

- **DRPA 10-040 Requiring the Authority Create an Audit Committee Chaired by the Auditor General of Pennsylvania which will Oversee an Independent, Finance Performance and Forensic Audit Every (2) Years.** Governor Christie vetoed this resolution because it did not authorize the New Jersey Comptroller to audit the DRPA. In the same letter Governor Christie approved the action of the DRPA Board in adopting an amended 10-040 at the Special Board Meeting held on August 25th. The amended resolution does authorize audits by the New Jersey Comptroller, **DRPA-10-040 (Amending 10-040 Adopted August 18, 2010) Requiring the Authority Permit the New Jersey Comptroller's Office to Conduct Such Audits As It May Deem Appropriate, and to Create an Audit Committee Chaired by the Auditor General of Pennsylvania Which Will Oversee an Independent Financial, Performance and Forensic Audit Every Two (2) Years.**
 - DRPA will carry out this reform by working closely and cooperatively with the New Jersey Comptroller on any audit the Comptroller wishes to undertake.

- DRPA staff also will work closely with the Audit Committee to assist the Committee in any audit activities it wishes to undertake.
- In addition, the DRPA will continue to conduct its annual financial audit and the management audit required by the DRPA by-laws. Those audits will be overseen by the Audit Committee in close cooperation with staff.

It should be noted that the Delaware River Port Authority Bond Indentures require us to have our financial statements audited by an independent auditor **on an annual basis**. Contrary to inaccurate media reports, the DRPA has always complied with this requirement. The last ten years of our Comprehensive Annual Financial Reports appear on our website: http://www.drpa.org/drpa/annual_report.html.

- **DRPA 10-041 Requiring All Meetings of the Authority Board to be Open to the Public and Requiring the Authority to Follow the Requirements of the Pennsylvania Right to Know Law.** Governor Christie vetoed this resolution because it did not require compliance with the New Jersey Open Public Records Act (OPRA). In the same letter Governor Christie approved the actions of the DRPA Board at its August 25th Special Meeting wherein the DRPA Board amended 10-041 to require compliance with OPRA until such time as counsel develop a policy that incorporates both OPRA and the Pennsylvania Right to Know Law, **DRPA-10-041 Requiring All Meetings of the Authority Board be Open to the Public and Requiring the Authority to Follow the Requirements of the Pennsylvania Right to Know Law and the New Jersey Open Public Records Act (Amended).**
 - DRPA has in the past but has not been mandated to comply with OPRA and the Pennsylvania Right to Know law already. DRPA counsel from New Jersey and Pennsylvania have drafted a combined policy and are finalizing that policy and the related compliance procedures.
- **DRPA 10-042 Resolution Implementing Post-Employment Restrictions Policy for Authority Commissioners, Officers and Directors.** Governor Christie vetoed this item because he objected to the lack of a complete prohibition on Commissioners, Officers and Directors working for DRPA vendors after leaving DRPA. Governors Christie and Rendell in their respective letters of July 29, 2010 to the DRPA Chair and Vice Chair have called for the enactment of “a Post-Employment restriction rule that precludes all employees at the level of director and above from accepting employment with any vendor or independent contractor of the Authority for a period of two years after the termination of his or her employment with the Authority”.
 - Counsel to the Board is in the process of drafting a post employment policy that will address the Governor’s objections as well as all legal requirements.
- **DRPA 10-064 Requiring the Authority to Hire Independent Counsel to Conduct a Legal Inquiry into the “True Up” Provisions of the Authority’s Insurance Contracts.** Governor Christie vetoed this resolution out of concern that DRPA would expend funds on an investigation that could be done by the New Jersey Comptroller at lower expense.
 - DRPA has contacted the New Jersey Comptroller’s Office and we have agreed to cooperate fully in an investigation into the challenged insurance brokerage practices. The Comptroller’s Office contacted the DRPA to commence their investigation and we will promptly comply with their request.

In another letter also dated September 2, 2010 Governor Christie vetoed one resolution that was passed at the August 25, 2010 DRPA Board meeting:

- **DRPA 10-054 Establishing a Policy Prohibiting Officers and Employees from Performing Political Activities While on Duty for the Authority or Using Their Office for Political Purposes.** Governor

Christie objected to this resolution because it covered only Officers and employees but not Commissioners. The Authority currently has a work rule in place that requires employees to devote their full attention to their job responsibility while on duty, and the Authority's policy regarding Outside Employment which requires employees to seek approval from their immediate supervisor regarding

outside employment to determine there whether the employment conflicts with the Authority's business and to ensure that it does not interfere with the employee's Authority work schedule. In addition, the Authority has another work rule that expressly prohibits the use of Authority personnel, facilities, tools, equipment, time or other Authority assets for unauthorized purposes.

- DRPA has directed counsel to work with Commissioners to develop a policy that will comply with the Governor's requirements and all legal requirements.

Additional Reforms Implemented by the Board

In addition to the resolutions vetoed by Governor Christie discussed above, the Board of the DRPA has adopted a number of other reform measures in its recent meetings, including:

DRPA 10-043 Establishing a Policy Requiring Commissioners, Officers and Employees to Avoid the Appearance of Impropriety. This requires that Commissioners, Officers and employees not only avoid engaging in improper conduct, but that they avoid even the appearance of impropriety.

It should be noted that prior to the passage of this resolution, DRPA had in place the DRPA Code of Ethics Policy Series No. 107 Date Issued August 7, 1997 and the Code of Ethics from the DRPA Bylaws, XIII. Conflicts of Interest. In addition to the Ethics policies noted above, the DRPA has had for some time work rules, policies and procedures which either reference our current ethics policy or which address ethical issues and/or concerns not contained in the policy. These policies and work rules are posted on our intranet site, www.drpa.org, and regular notices are sent to employees advising of updates. Newly hired employees are given copies of policies and work rules and sign an acknowledgement of receipt. Specifically the policies and work rules that I reference are as follows:

Authority Policies and Procedures

Series #101 - Equal Employment Opportunity - Describes the Authority's Equal Employment Opportunity Policy and applies to all officers, directors, managers, supervisors, employees and non-employees. Date Issued: May 12, 2010, Replaces Series #101, dated March 15, 2000.

Series #102 - Affirmative Action, Employment - Describes policy of the DRPA which provides for full and equal opportunity for career employment at the DRPA to minority group individuals. Date Issued: August 7, 1997, Replaces Series #429, dated April 1, 1986.

Series #103 and #103a - Sex Harassment and Harassment Not Related to Sex - Prohibits discrimination or harassment on the basis of sex and provides for a work environment free of discrimination and harassment. Date Issued: March 15, 2000.

Series #105 - Job Posting and Selection Process - Describes the policy for posting jobs and other employment decisions without regard for race, color, sex or any other protected group status. Date Issued: March 15, 2000, Replaces Series #400, dated October 16, 1991 and Series #420, dated October 16, 1991.

Series # 107 - Code of Ethics - Describes the DRPA code of ethics for its Commissioners and Employees as prescribed in the DRPA By-Laws. Date Issued: August 7, 1997.

Series # 113 - Establishment, Maintenance and Confidentiality of Personnel and Medical Records - Sets forth the standards of confidentiality and the procedures by which these records are established and maintained. Date Issued: March 15, 2000, Replaces Series #113, Employee Files - Medical & Personnel, dated August 7, 1997.

Series # 114 - Request for Accommodation Under the Americans With Disabilities Amendments Act of 2008 - Describes the manner in which applicants and employees with disabilities may request accommodations pursuant to the ADAAA. Date Issued: March 15, 2000, Replaces Series #114 dated August 7, 1997; Series #114 dated March 12, 2000.

Series # 149 - Employee Behavior - Defines certain general work rules and regulations governing the conduct of DRPA employees. Established standards of good conduct and behavior which are considered essential for the efficient operation of the Authority. Date Issued: March 15, 2000.

Series #151 - Outside Employment - Provides all employees with an explanation of rights and responsibilities in the matter of their participation in outside employment while employed in a regular, full-time position with the Authority. Date Issued: June 27, 2003.

Series #158 - Zero Tolerance Policy for Harassment, Violence or Threats of Violence - Sets for the DRPA's policy of providing a work environment that is free from threats, acts of violence, harm or harassment. Date Issued: March 15, 2000.

Series #163 - Employment of Relatives - Defines policy and procedure governing the employment of relatives of all employees and Board Members of the DRPA. Date Issued: December 8, 2006.

Series #204 - Mail Room Operations - Describes the operation of mail room activities; specifically prohibits affixing DRPA paid postage to any personal mail for any reason. Date Issued: August 7, 1997, Replaces Series #304 and #305, dated February 22, 1974.

Series #209 - Vehicle Policy - Provides policies and procedures applicable to the use of DRPA vehicles. Enumerates actions that are considered violations of the policy (e.g., use of vehicle for unauthorized personal business or commutation). Date Issued: August 7, 1997.

Series #213 - Usage of Cell Phones and Other Personal Electronic Devices - Outlines policy regarding use of DRPA issued cell phones used on and off duty and use of personal cell phones and other electronic devices during work hours. Date Issued: February 6, 2009.

Series #300-#307 -This series outlines procedures for procurement, requests for bids/proposals, contracts and agreements for consultants and professional services, vendor diversity program, surplus property control and the repair and maintenance of office equipment. Date Issued: August 7, 1997 (#300; 301; 302; 303a; 303b; 303c; 304; 305b; 306; 307) and March 15, 2000 (305a).

Series #400 - Expense Accounts - Defines the policy and guidelines concerning business and transportation expenses. Date Issued: August 7, 1997, Replaces Series #107 and #108, dated April 1, 1986. Date Issued: February 20, 2004, Replaces Series #600, dated April 1, 1986 and Revisions dated August 1, 1987, February 11, 1988 and August 7, 1997.

Series 401 - Petty Cash - Defines policy and procedure for the use of petty cash vouchers and defines the limit for petty cash purchases. Date Issued: August 7, 1997, Replaces Series #603, dated April 1, 1986.

Series #500 - Computer Security - outlines a security policy which guards against damage to and theft of computer based resources, while also protecting data from unauthorized intentional disclosure, modification and/or destruction. Date Issued: August 7, 1997.

Series #506 - Computer Network Usage and Security Policy - Provides guidelines for appropriate and acceptable use of computer resources. Date Issued: March 15, 2000.

Work Rules (Effective 1981 and Updated 10/2003)

Work Rule - 1A Application and Scope - Requires all employees to maintain self-discipline, responsibility and adherence to proper standards of conduct.

Work Rule 2A - Conduct-Standards and Offenses - Requires all employees to display the highest standards of courtesy, civility, safety and decorum while properly performing their assigned tasks.

Work Rule 2B - Conduct -Standards and Offenses - Describes offenses for which an employee may be subject to immediate dismissal, including: (3) solicitation or acceptance of gratuities or bribes, (10) leaving Authority premises during scheduled working hours without permission and (11) fraud or falsification of Authority records.

Work Rules 4A - 4C - Rules Applicable for Employees Handling Revenue - Applies to all employees performing duties that include handling any and all forms of revenue.

Our Ethics Policy and our ByLaw provisions together with the above noted Policies and Work Rules form a comprehensive backbone to the many issues we face regarding ethics but more can be done. In concert with our policies, the changes enacted by the Board will have a very significant, positive impact on how we conduct our business going forward.

Other Recent Reforms

Continuing on the subject of recent reforms implemented by the Board, they include the below resolutions.

DRPA 10-044 Implementation of Procedures for Sealed Bid Contracts and Contracts for Professional and Technical Services. This resolution enhances the existing DRPA rules for procurement by requiring the use of sealed bids on significant contracts. It also establishes rules covering contracting for professional and technical services. DRPA staff is being trained on the new procedures and is implementing them.

It should be noted, in August of 2009, the Board, with the passage of Resolution DRPA-09-056, formalized as a DRPA policy the practice of soliciting statements of qualifications or proposals when DRPA or PATCO require the services of professionals and other providers of services to implement an open and competitive procurement process of engaging the services of qualified professionals and other providers of services. The Board adopted as DRPA policy the use of a “request for qualifications” (“RFQ”) or “requests for proposals” (“RFP”) process, whichever best suits the needs of the Authority, for selecting one or more qualified firms to provide the following professional and other services to the DRPA: outside counsel to provide legal services in all practice areas; bond counsel; tax and financial counsel; investment banking; bond underwriters; bond trustees; financial advisors; other specialized services including but not limited to: lobbying, insurance brokerage, insurance consulting, commercial banking, investment advisory services, accounting, public relations consultants and advisors, marketing firms, management consultants and business development consultants.

DRPA 10-045 Requirement that All Vendors of the Authority Disclose Political Contributions. This resolution is being implemented by notice of vendors and potential vendors. In addition, DRPA outside counsel are working on a policy that will expand on this resolution.

DRPA 10-046 Implementation of a Policy Requiring Contracts be Awarded at a Meeting Open to the Public. This requires that contracts be awarded in public meetings. DRPA has embraced this reform and it has been implemented.

DRPA 10-047 Prohibiting the Pennsylvania and New Jersey Governors, to the Extent, the Board Can Bind Them , Commissioners, Officers and Employees from Soliciting or Accepting any Gifts of Value.

This reform resolution prohibits Commissioners, Officers and staff from accepting gifts of value. To the extent legally permissible, this also binds the Governors of Pennsylvania and New Jersey.

DRPA 10-048 Revising the Authority's Policy and Procedure Manual Series No. 163 to Prohibit the Employment of Relatives of Commissioners, Officers and Employees. This reform supplements existing DRPA policy against nepotism by prohibiting the hiring of relatives of Commissioners, Officers and employees by DRPA.

DRPA 10-049 Elimination of All Caucus Meetings of the Authority. This reform eliminated the long standing practice of holding separate Pennsylvania and New Jersey caucus meetings and required that all meetings of the Board be open to the public other than where the Board may go into Executive Session as permitted under DRPA By Laws. All caucus meetings have ceased and the DRPA Board is holding its discussions, as well as its voting, at meetings open to the public.

DRPA 10-050 Formation of a Compensation Review Committee of the Authority to Review the Compensation of all Officers and Directors of the Authority. This Committee has been created and it will review and make recommendations about levels of compensation at the DRPA.

DRPA 10-051 Require all Commissioners to File the Financial Disclosure Forms Required by their Respective State Governments. Requires that all DRPA Commissioners file those financial disclosure forms that are required by the appointing State. These forms will be submitted to and maintained by DRPA as well.

DRPA 10-052 Revising the Authority's Policy and Procedure Manual Series No. 151 Regarding Outside Employment. The reform requires revision of existing DRPA policy regarding outside employment by DRPA employees to add further protections particularly for Executive Staff who will require Board approval for outside employment. This policy has been implemented. Further action on this issue is being considered by the Board.

DRPA 10-053 Establishing Policy and Procedure for the Authority Requiring Full Board Approvals Prior to Making Contributions to Charitable and Civic Organizations. This policy eliminates all cash contributions to charities and civic associations and requires advance Board approval for any in kind contributions such as use of DRPA property. This policy has been implemented and the Board is currently reviewing all requests for in-kind contributions at meetings open to the public.

DRPA 10-055 Establishing a Policy Prohibiting Undue Influence By Commissioners, Officers and Employees While Performing Political Activities while on duty for the Authority or Using their Office for Political Purposes. This policy prohibits Commissioners and staff from using undue influence in all hiring and contacting decisions.

DRPA 10-056 Elimination of Car Allowances for Authority Officers and Directors. Eliminates car allowances for all DRPA Officers and Directors. This policy was implemented by CEO Matheussen prior to the approval of DRPA-10-056 by the Board.

DRPA 10-057 Elimination of All Programs Under Which All Present and Future Commissioners, Officers, Employees and Retirees of the Authority Receive Free Bridge Passes and PATCO Credits. On August 18, 2010, the Board adopted this resolution eliminating various practices under which DRPA and PATCO employees were permitted to receive free passage on DRPA and PATCO facilities. This practice was immediately terminated. At its meeting on September 15, 2010 the DRPA Board voted to reinstate the practice of allowing for free passage by DRPA employees who are commuting to or from work and for employees who need to use DRPA or PATCO facilities in the course of their work. That Resolution was vetoed by Governor Christie on September 16, 2010. At its September 15, 2010 meeting the DRPA Board also authorized the CEO

to grant two pending Union grievances relating to claims that the Union members were entitled to receive 100 free trips per year across DRPA bridges. Governor Christie also vetoed that Resolution in his letter dated September 16, 2010.

DRPA 10-058 Elimination of the positions of Assistant to the Vice-Chairman and Chief Public Safety Officer. DRPA reduced its costs by eliminating positions that were not required to perform its functions. These savings have already been obtained by eliminating the positions.

DRPA 10-059 Consolidation of Corporate Secretary Function. This resolution integrated the Corporate Secretary function into the Legal Department, specifically granting the title of Corporate Secretary to the General Counsel with no increase in salary. As a result, the Authority has achieved actual cost savings.

DRPA 10-066 Elimination of the Position of Assistant to the Chairman. Another reform that will help reduce the budget.

DRPA 10-070 Appointing Members of the Audit Committee Established by DRPA-10-040. The Board appointed members of the Audit Committee established by Resolution 10-040. The Audit Committee will commence public meetings soon.

DRPA 10-071 Appointing Members of the Compensation Committee Established by DRPA-10-050. The Board appointed members of the Compensation Committee established by Resolution 10-050 and we anticipate that this Committee will also commence meetings promptly.

DRPA 10-097 Placement of Items on Board Meeting Agenda. This reform is intended to improve the transparency and efficiency of Board actions by restricting placement of new matters on the Board agenda within 48 hours of a Board Meeting.

Reform Implementation Going Forward

With regard to the policies in place at the Authority and the recent reforms undertaken by the Board of Commissioners, we know more can and will be done in order to earn the trust of the public. As evidenced by the information provided above, at the direction of Governors Rendell and Christie, the Board has enacted a series of changes on how we conduct our business. We are committed to becoming a leader in responsible government and pledge to keep our bridges and the trains safe, secure and serviceable.

Additional plans for future reforms are the implementation of the recommendations of the recent Management Audit along with a renewed focus on Strategic Planning and Lean Government.

Management Audit

The primary objective of the recent Management Audit is to improve the overall effectiveness and efficiency of DRPA / PATCO operations, administration and management. As required by the Authority's enabling legislation, the Authority must hire an independent consulting firm to conduct a management audit of its operational effectiveness and efficiency. The most recent audit included review of the organizational structure and staffing; core competencies, functions, policies and procedures, internal controls, and operating standards; assessment of performance management and measurement throughout the Authority; preparation of an implementation strategy for all primary recommendations; and identification of areas that may warrant further investigation.

Strategic Planning

The Authority is committed to implementing strategic planning as a tool to guide our decision making and actions necessary to help us accomplish our mission. We realize the importance of acting deliberately and

thoughtfully as the decisions we make today will continue to shape the DRPA and PATCO's mission and purpose for years to come.

In 2009, the Authority undertook a new approach to strategic planning in which we re-evaluated all of our operations and business practices through an inclusive process involving managers and employees across the Authority. This process has helped the Authority to more clearly understand our organization's purpose and to establish realistic goals and objectives that are consistent with our mission and which can be implemented safely, efficiently and cost-effectively.

Recognizing that Strategic Planning is not a one-time project, but a continuous process of evaluating successes and adapting to change, the Authority remains committed to an ongoing and vital strategic planning process to ensure that the public and the employees understand why the Authority exists, that employees understand the role they play in carrying out the Authority's mission, and that the strategic plan helps to build consensus about the direction of the Authority.

Our 2010 Strategic Plan is a continuation of our 2009 Strategic Plan as we continue to develop work plans and assign resources needed to make meaningful progress toward reaching the goals and objectives that we identified.

We have identified six key goals that must be diligently pursued if the Authority is to accomplish its Mission over the next several years. These goals were agreed upon by Senior Staff and validated by employees during various discussions, meetings and employee surveys over the past year.

Goal #1: Improve and maintain transportation facilities and services

- ✓ We are committed to providing for the safe and efficient travel of people using our bridges and PATCO.
- ✓ We will do this by implementing a proactive approach to planning maintenance and other projects and by identifying, evaluating, and managing risks and exposures facing the Authority.

Goal #2: Exercise fiscal responsibility

- ✓ We are committed to making financially-sound decisions that will ensure that we will continue to be a self-sustaining Authority.
- ✓ We will tie all spending to our core mission of transportation.

Goal #3: Develop an effective and efficient workforce

- ✓ In order to continue to provide safe, quality transportation services and provide good customer service to the people who use our facilities, we must provide our employees with the tools they need to do their jobs well today and to take on new challenges in the future.
- ✓ We want to increase employee development and attract, hire, and retain quality workers.

Goal #4: Organizational development

- ✓ By enforcing policies and procedures and improving communication with all levels of staff and all departments, the Authority can strengthen each employee and the organization as a whole.

Goal #5: Emphasize ethics and transparency

- ✓ Ethics and transparency have always been important to the Authority.

✓ Through this Strategic Plan, we are renewing and formalizing our commitment to ethical and transparent policies.

✓ Discussing ethical issues on a regular basis and disseminating an ethics policy to our employees will help all levels of employees to understand the value and importance of ethics in the workplace, especially since the Authority is a public agency.

Goal #6: Support efforts to expand mass transit in the region

✓ The Authority will use its influence and expertise to work with other agencies and stakeholders to promote transit expansion efforts in our region.

Lean Government

DRPA/PATCO has been engaged in a “Lean Government” pilot program for over a year. At its foundation is a renewed focus on strategic planning, process improvement and accountability; it emphasizes the use of meaningful metrics as a way to measure organizational performance. This program combines proven “Lean” and “Six Sigma” organizational improvement methodologies with team building tools designed to empower employees across all functions and at all levels of the organization to meet our strategic objectives. Nearly 100 employees are now actively involved from Finance, Strategic Initiatives, Bridge Ops, Human Resources, PATCO, Information Systems, Purchasing, Engineering and the Executive Office. There are 5 teams that have been formed to analyze specific problems or opportunities for improvement, specifically, the teams are examining the budget process, month-end close, new hire/termination process, P-card processing, and systems testing processes.

The goal of this initiative is to push data-driven decision-making down into the organization and to provide the employees who are performing these functions with the framework and tools and authority to implement the recommended improvements. The strategic plan, to be created by the Commissioners and senior management, provides the framework and Lean and Six Sigma are the tools used to execute the strategic plan.

Six Sigma is a structured approach to decision making and problem solving. Teams of employees go through the following steps to make decisions and solve problems:

- Define – clearly define the problem, opportunity, or decision under consideration
- Measure –gather data about the current situation or state of nature
- Analyze – develop potential solutions, answers or courses of action based on what you have learned
- Improve – make the decision, solve the problem, or develop the new course of action
- Control- take steps to insure that the improvement is enduring

Six Sigma is a business management strategy developed by Motorola in 1981. It was brought into the mainstream when Allied Signal and the GE adopted Six Sigma as their primary management strategy. It has been used by many organizations, both public and private, for-profit and non-profit. While some governmental organizations are now beginning to use the Six Sigma strategy, DRPA is one of the first and is on the cutting edge in bringing this approach to government.

This concludes our testimony and we would be pleased to answer any questions the Committee may have.

Respectfully submitted,

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DRPA/PATCO

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DRPA is an equal opportunity employer

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