The Unsustainable Structure of New Jersey’s Transportation Trust Fund

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Regional Plan Association
Acknowledgments

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Sources


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Interview with Jack Lettiere, President of Jack Lettiere Consulting LLC and former Commissioner of the New Jersey Department of Transportation. 2010.
The Transportation Trust Fund, New Jersey’s main source of funding for road and transit projects, is caught in a massive spiral of debt.

It didn’t happen overnight but gradually: Over the last 25 years, we have bought ourselves major transportation improvements – road widenings, interchange redesigns, new rail lines and countless other projects – without raising the money necessary to pay for them.

Instead, we’ve borrowed money. We have borrowed – and we continue to borrow – so much money that nearly every dollar we raise in taxes for transportation projects from the gas tax and other taxes, almost $900 million a year, is instead going to pay off interest and principal on bonds issued years ago.
New Jersey has no choice but to own up to this untenable pattern of borrowing and chart a new path to fiscal sustainability. The reality is that New Jersey spends $3.5 billion each year to maintain, renew and expand New Jersey’s transportation system – to repair the roads after accidents, paint bridges, buy new buses, expand our rail system, and everything else that lets New Jersey’s neighborhoods and businesses thrive. Nearly half of that is to come from the Transportation Trust Fund. Yet the Trust Fund is on track to be insolvent by the time it is up for re-authorization in mid-2011. Without a meaningful infusion of new annual revenue, there will be no dedicated source of funding for even the most basic safety and emergency repairs to our roads and railways. We will also be unable to provide $250 million in local-aid grants for municipal transportation projects. Finally, the federal government’s $1.6 billion annual match for New Jersey transportation projects will be at risk if the state contribution from the Trust Fund is lost.

We’ve been here before. In 2006, the Transportation Trust Fund neared bankruptcy. But instead of dedicating significantly more tax revenue to the Trust Fund and cutting transportation capital costs, Gov. Jon Corzine and the state legislature postponed the crisis by refinancing the Trust Fund’s debt and stretching it out farther into the future. This fiscal gimmick bought us a few years’ reprieve, but did nothing to address the long-term issue: that New Jersey does not commit enough tax revenue to fund its growing transportation capital program.

New Jersey is nearing a transportation meltdown.

- The Transportation Trust Fund runs dry in mid-2011 at the latest. At that point, 100% of the $883 million that is collected each year from gas taxes and other sources will go to pay off debt.
- NJ DOT and NJ TRANSIT will lose their primary source of funds for construction projects, a major source of operating money, as well as up to $1.6 billion in federal matching funds.

What is the Transportation Trust Fund?

The Transportation Trust Fund is responsible for funding the state portion of the capital programs of NJDOT and NJ TRANSIT, as well as Local Aid, the state’s contribution to municipal transportation budgets. It provides the state’s share of what’s necessary to maintain and upgrade New Jersey’s 40,000 miles of highways, roads and streets, its 6,500 bridges its 1,100 miles of rail and other key infrastructure. The Trust Fund is also a key source of funding for ARC, NJ TRANSIT’s new train tunnel to Manhattan. The Trust Fund, in other words, ensures that our transportation system remains reliable and effective, and that New Jersey continues to be able to thrive economically.

Of the state’s entire $3.5 billion annual Transportation Capital Program, the Trust Fund contributes $1.6 billion – a contribution that is matched one-to-one by the federal government.

[A not insignificant share of the Trust Fund, more than $350 million a year, also goes to NJ TRANSIT’s operating expenses, an objectionable practice later addressed in this report.]

Annual revenue for the Trust Fund is approximately $900 million a year, including $883 million that is constitutionally dedicated. The Trust Fund’s four main sources of tax/fee revenue are a large portion of the motor fuels tax (the so-called “gas tax”), a large portion of the petroleum gross receipts tax, a small portion of the sales tax, and contributions from the state’s two Toll Authorities. The Trust Fund is also authorized to issue bonds and use those proceeds to meet its cash flow need.

Nearly half of New Jersey’s transportation capital program is paid for by the Transportation Trust Fund.
The motor fuels tax has become a very small share of the price of gas or diesel.
**The Transportation Trust Fund is broke**

Every year, the Transportation Trust Fund spends almost three times as much as it raises in taxes. To cover the gap, the Trust Fund is authorized to issue up to $1.6 billion in bonds every year, at an enormous long-term price tag. For every time that the Trust Fund borrows $1.6 billion, it commits to paying $100 million a year for 30 years in debt payments (assuming a 5% interest rate). And so, since 2005, the Trust Fund’s annual debt payments have escalated by 56%, from $623 million to $845 million. Starting in mid-2011, the entire $895 million that taxpayers contribute to the Trust Fund every year to pay for transportation projects will instead go to pay off the debt on previously issued bonds.

### How we got here

The State Legislature created the Transportation Trust Fund in 1984 in order to put an end to New Jersey’s haphazard way of paying for transportation capital improvements. Unpredictable and expensive year-by-year legislative appropriations, coupled with unconstrained borrowing, had prevented any kind of meaningful long-term transportation planning and was harming the state’s overall finances. The creation of the Transportation Trust Fund was based on the following principles:

- Ensure the solvency and self-sufficiency of the Trust Fund;
- Use pay-as-you-go as the primary financing approach;
- Minimize the issuance of short-term bonds and thereby limit debt service obligations;
- Limit the program size so that it could be supported by pay-as-you-go financing and minimal bonding; and
- Prohibit the use of Trust Fund money for routine operations and maintenance.

The Legislature committed certain tax revenues to the Trust Fund (a portion of the existing gas tax, contributions from New Jersey highway toll road authorities, and fee increases imposed on heavy trucks), which were expected to fully fund New Jersey’s transportation capital needs.

Over the course of the last 25 years, however, the focus of the Trust Fund as a funding mechanism has shifted from primarily pay-as-you-go financing to a heavy reliance on first short-term (10-year), and now long-term bonds (20-year, and since 2006, 30-year). Trust Fund monies, originally intended to support capital improvements, have also increasingly been used to fund maintenance costs once considered part of the operating budget paid for out of the state’s general fund. Finally, the Trust Fund’s overall annual spending in Capital Program contributions and debt service payments have grown more than twice as fast as the tax and fee revenues dedicated to the Trust Fund. The bonds issued to cover the gaps commit the Trust Fund to higher annual debt payments, further increasing the Trust Fund’s expenses. This is the spiral of debt from which New Jersey now has to break free.

### Transportation Trust Fund Money Out (FY2010)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Capital Program</td>
<td>$1,388 billion</td>
</tr>
<tr>
<td>Debt service payments</td>
<td>$874 million</td>
</tr>
<tr>
<td>Other</td>
<td>$2 million</td>
</tr>
</tbody>
</table>
Trust Fund contributions to the Transportation Capital Program and debt service payments have increased more than twice as fast as the tax/fee revenue dedicated to the Trust Fund ($ million).

The Trust Fund’s annual debt service payments have increased 59% since 2005 ($ million).

New bond issuance – not tax revenue – is funding the Trust Fund’s contribution to the Transportation Capital Plan ($ million).
How will New Jersey build tomorrow’s transportation infrastructure?

NJDOT estimates that all the major transportation improvements planned in the State of New Jersey for the next decade – road and bridge repairs, new transit vehicle purchases, train station rehabilitations, local roads improvements, and new rail service – will cost $34 billion. Nearly half, or $18 billion, is to be paid for by the Transportation Trust Fund – $1.6 billion a year at first, and then growing to more than $2 billion a year by the end of the decade.

Without the Trust Fund, the state and federal funding necessary for these major capital projects, each of which is vital to the state economy, will be lacking:

- ARC, a new trans-Hudson passenger train tunnel that will double NJ TRANSIT’s capacity to Manhattan
- The extension of PATCO from Philadelphia to Gloucester County
- The extension of the Hudson Bergen light rail line into Bergen County
- The reconstruction of the Portal Bridge; the NJ TRANSIT / Amtrak Bridge over the Hackensack River
- The replacement of the General Pulaski Skyway, a 3.5-mile stretch of Route 1/9 between Newark and Jersey City
- Bridge rehabilitation throughout the state
- New express bus service (Bus Rapid Transit) in Newark
- The purchase of new NJ TRANSIT buses

Not an option: Letting the Transportation Trust Fund become insolvent

Letting the Transportation Trust Fund become insolvent is out of the question. New Jersey’s failure to contribute to the Trust Fund would likely make it ineligible to receive a one-to-one match from the federal government, and there would be no dedicated money for transportation. Only the most critical and urgent repairs would be paid for out of the State’s General Fund, which is already under severe fiscal stress. Any other road or transit improvement would be postponed indefinitely. Regular road maintenance would end. Structurally deficient bridges would close for safety reasons. The productivity of our economy would plummet, as commutes got longer and freight movement got slower. Businesses and jobs would leave the state, incomes would go down. Accident rates would increase.

Without a reliable and efficient transportation system to serve businesses and residents, New Jersey’s economy would falter, and the safety of drivers and transit users would be at stake. Inaction has a price.

These transportation capital expenses are in addition to the massive debt service payments that the Trust Fund is already committed to for debt issued before 2010 – almost $850 million a year from now until 2023.

Existing tax revenue to the Trust Fund is enough to cover only debt service payments for the next generation. Any new capital program costs must be met with new sources of revenue ($ million).
Not an option: Taking on new unfunded debt

Refinancing the Trust Fund’s existing debt to stretch it out even farther into the future is equally unacceptable. The Trust Fund’s total outstanding debt already stands at $11 billion, which including interest, will cost us more than $20 billion to repay. This debt represents five times the Trust Fund’s annual budget. As a point of comparison, the State of New Jersey’s debt is $34 billion, just a fraction more than its annual budget.

Debt of this scale not only burdens future generations, it also threatens the solvency of the Transportation Trust Fund Authority and its bond rating. Lower bond ratings would significantly increase the cost of borrowing. Besides, even if we wanted to continue borrowing at the rate that we have been, we would still have to identify significant new sources of revenue to cover the additional debt service payments, since we have exhausted all current revenue sources. New revenue sources are needed whether we pay as we go or add to our debt.

The U.S. DOT considers half of New Jersey’s roads to be in mediocre or poor condition – higher than any other state in the country. More than 700 bridges are also structurally deficient.

“Today’s successful global economy requires a comprehensive, multi-modal, global transportation grid. If New Jersey fails to invest in its component of that transportation grid, it will cease to be a competitive player in the global economy.”

— James W. Hughes, Dean, Edward J. Bloustein School of Planning and Public Policy at Rutgers

Moving forward

New Jersey’s economic strength depends on our ability to provide a reliable and effective way to move people and goods across and through the state. The financial structure of the Transportation Trust Fund must reflect this imperative. As legislators and newly elected Gov. Chris Christie contemplate the future of transportation funding in New Jersey, here is a set of principles that should guide their decision-making:

1. Go back to the original intent of the Transportation Trust Fund

The Transportation Trust Fund was originally designed to be financially self-sufficient, use pay-as-you-go as the primary financing approach and issue minimal bonding. Instead, the Trust Fund has received far too little tax/fee revenue to cover the state’s growing Transportation Capital Programs, and has instead issued substantial long-term debt. Current realities require adjustments to some of the Trust Fund’s original principles. Critical transportation needs are much more expensive than envisioned in 1984, and both the state and transportation fund must climb out of a deep fiscal hole before stability can be restored. However, the Trust Fund must be structured in a way that ensures its long-term financial stability, and the long-term stability of our roads, bridges and transit infrastructure. This means:

- Raising more revenue for the Trust Fund and transitioning to more pay-as-you-go financing.

A predictable and continuing public investment in transportation would ensure the long-term sol-
vency of the Trust Fund and help it self-replenish as originally conceived. New, dedicated revenues need to be coupled with a strategy to pay off old debt, minimize new borrowing and gradually increase the amount of capital expenditures that are paid for without the issuance of new bonds.

- **Stopping the practice of spending Trust Fund monies on maintenance and operating expenses at NJDOT or NJ TRANSIT.** Over the past two decades, the Trust Fund has gradually assumed a larger share of NJDOT and NJ TRANSIT maintenance and operating costs, a trend that has further exhausted the availability of funding for capital projects. Most notably, NJ TRANSIT’s practice of transferring more than $360 million a year from the Transportation Trust Fund to the agency’s operating budget is fiscally irresponsible and should be phased out. Capital funds that are bonded out for the next 30 years should not be spent on annual operations; when they are, the true operating cost of the system is obscured, and the fare-setting, legislative appropriations and other policies that should be based on true operating costs get skewed. A strategy to fill the resulting gap in NJ TRANSIT’s operating budget will be necessary, and because operations cannot be funded with borrowed money, it makes the overall picture much more expensive.

- **Reduce costs**

  Cutting costs needs to be a part of the solution, but the reality is that most transportation projects are simply not expendable.

  NJDOT estimates that it costs $1.1 billion a year to conduct basic road repair and replacement. The vast majority of NJDOT’s Capital Program costs (77%) is for maintaining and repairing our existing road network – critical projects, considering New Jersey has, by far, the worst roads in the nation (see box). Only 7% of the DOT’s capital budget goes to widen roads. Nevertheless, a thorough review of NJDOT’s capital program ought to be undertaken to determine which projects, particularly road widening projects, could be cancelled or postponed in order to rein in costs. (Given the tough fiscal climate, it may be worth revisiting whether to widen the Turnpike and Parkway, for example. These projects, which have a combined price tag of $3.5 billion, are technically being funded out of the New Jersey Turnpike Authority, but the money saved could be redirected to the Trust Fund. The widenings could be postponed or scaled back.)

  NJ TRANSIT could reduce its capital costs by only pursuing those transit expansion projects that are cost effective and promote smart growth. Many train line extension projects, for instance, would cost hundreds of millions of dollars for a limited number of new riders. By contrast, NJ TRANSIT’s first experience with bus rapid transit (“Go Bus” in Newark) has shown that very modest capital investments can generate significant travel benefits for thousands of riders in urban areas.

- **Share the burden of raising sufficient new revenue**

  It is only fair that the financial burden of building and maintaining New Jersey’s transportation system is spread among a wide range of people – drivers, transit riders, polluters, among others. All of these constituents benefit from a stronger economy, cleaner air and less congestion on our roads. Drawing new revenue from a variety of sources would ensure that no one group is unfairly burdened; it would also help the long-term financial stability of the Transportation Trust Fund. Past efforts to raise revenue for the Trust Fund have generally focused on increasing the gas tax. While this is the most obvious source that draws from the large segment of the population that receives the most direct benefits from transportation investments, the problem has grown too large to expect a single revenue source to solve the problem. Instead, a range of potential revenue sources ought to be examined and adopted as a package that “spreads the pain” among the variety of constituents who benefit.

  To share the burden equitably and efficiently, new revenue sources should be chosen by the Governor and legislature according to this set of criteria:

  - **Transportation-related:** The sources of funding should be closely tied to transportation beneficiaries.

Merging transportation authorities could also reduce costs and improve the provision of transportation services in New Jersey. Today’s fragmented system includes New Jersey Department of Transportation, New Jersey Turnpike Authority, South Jersey Transportation Authority and various port and airport facilities, each of which is independently managed and financed. Consolidating some or all of these functions could facilitate better statewide planning, ensure that transportation investments are made in the most strategic way, and allow New Jersey to provide transportation at the lowest possible cost.

A six-cent gas tax increase would raise approximately $300 million a year, a small fraction of the $1.6 billion needed. The cost of borrowing the remaining $1.3 billion would quickly gobble up the $300 million gas tax revenue. Within three years, the Trust Fund would be right back where it is now – with no long-term source of revenue for transportation projects, with hundreds of millions of dollars a year diverted to fill operating budget gaps, and with more than a billion dollars a year in tax revenue used to pay off old debt.
• **Equity**: the burden of paying the tax or fee should be as progressive as possible.

• **User pays**: Drivers and riders should pay transportation-related fees and taxes in proportion to their use and to the environmental and other costs they impose on the system.

• **Inflation resistance**: the buying power of the proceeds should not be eroded by inflation.

• **Recession resistance**: collections should be stable against economic conditions.

• **Regional impact**: Implementing the funding mechanism should have minimal negative impact on regional competitiveness.

• **Minimal transactions costs**: the funding source should be inexpensive to administer and not place undue inconvenience on those who are paying.

While there is no one source that would completely meet all of these criteria, a package of revenue sources should be judged by the degree to which it meets these principles.

4 **Constitutionally dedicate new funding to the Trust Fund**

A sufficient amount of revenue designated to support the capital program should be constitutionally dedicated to the Transportation Trust Fund. Annual legislative appropriations, once a significant source of revenue for the Trust Fund, have, over time, been leaked out to the General Fund. Constitutional dedication would require approval through a referendum.

It would be an understatement to say that breaking this cycle of debt will be politically difficult. Governor Chris Christie has been vocal about not raising taxes, but without several hundred million dollars in new revenue dedicated to the Trust Fund, New Jersey will lose the transportation system that our economy depends on. Governor Christie and the Legislature have a responsibility to acknowledge this imminent crisis and adopt real, effective solutions.

**How other states have raised new revenue for transportation**

- Collect the gas tax at point of distribution instead of point of sale
- Charge a sales tax on gasoline
- Increase the gas tax
- Enact several future gas tax increases at once
- Increase the diesel fuel surcharge
- Charge higher tolls during high-demand times of the day
- Charge a toll to use a guaranteed-congestion-free highway lane
- Toll new facilities
- Increase tolls
- Increase transit fares
- Index tolls and fares to the rate of inflation
- Implement enhanced toll collection methods (boothless, cashless)

- Charge a parking tax
- Increase vehicle registration fees (passenger vehicles and/or commercial trucks)
- Adopt a sales tax surcharge
- Charge a personal property tax on privately owned vehicles
- Charge a vehicle lease tax / rental vehicle tax / hotel room rental tax / liquor tax / cigarette tax
- Increase corporation business taxes
- Increase payroll taxes
- Increase the petroleum gross receipts tax
- Charge a tax based on the number of miles driven
- Charge traffic impact fees on developments that generate significant vehicle traffic
- “Capture” increases in private land values generated by a new transportation investment

New Jersey cannot have a functional, sustainable transportation system while borrowing beyond its means. “Cutting waste” and “improving efficiency” are appealing catchphrases, but given that more than $3 billion is at risk, efficiency savings would at best make up a small part of the solution. A refinancing strategy would also provide only limited breathing room, since the Trust Fund refinanced its entire bond portfolio to very long (30-year) maturities, just four years ago. Finally, redirecting existing revenue toward the Trust Fund at levels required would severely impede another part of the state budget. New Jersey needs real, lasting solutions that will require new financial contributions by many sectors.
Regional Plan Association (RPA) is an independent regional planning organization that improves the quality of life and the economic competitiveness of the 31-county, New York-New Jersey-Connecticut region through research, planning, and advocacy. Since 1922, RPA has been shaping transportation systems, protecting open spaces, and promoting better community design for the region's continued growth. We anticipate the challenges the region will face in the years to come, and we mobilize the region's civic, business, and government sectors to take action.

RPA's current work is aimed largely at implementing the ideas put forth in the Third Regional Plan, with efforts focused in five project areas: community design, open space, transportation, workforce and the economy, and housing. For more information about Regional Plan Association, please visit our website, www.rpa.org.

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