Blue Ribbon Commission Report

Recommendations for Ensuring a Strong Transportation Network for the 21st Century

A Report to
Governor James E. McGreevey
and the New Jersey Legislature
November 2003

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Over the past decade, the State's ability to fund repairs and safety improvements to highways, bridges, and public transportation has been jeopardized by poor fiscal policy and growing financial constraints. The State's Transportation Trust Fund (TTF), which has been the primary funding mechanism for State transportation dollars since 1984, now faces insolvency. Without a significant influx of new revenues it will cease to fund any capital projects at the New Jersey Department of Transportation (NJDOT) and NJ TRANSIT beginning in FY2006, eliminating any possibility of improving transportation in New Jersey.

This financial crisis comes at a time when New Jersey's transportation networks are plagued by aging infrastructure and costly congestion. Many of New Jersey's roads, rails and bridges (highway and rail) are significantly deteriorated. Growth and development patterns continue to saturate both highway and transit capacity. Delays erode the quality of life of New Jersey residents and cost the State's economy, which relies heavily on the movement of over $7 billion in goods and services annually. Demands to support smart growth investments in cities and suburbs are increasing. If the State's current infrastructure is not rehabilitated, these costs will continue to rise. Heavy traffic and delays experienced by New Jersey residents will continue indefinitely and the roads, bridges, and public transportation that are getting worse will be even more expensive to fix in the future.

Based on these conditions, the following illustrates some of the State's most pressing transportation needs:

- $1 billion annually for the next 10 years to rehabilitate 15,289 lane miles of highway.
- $7 billion to eliminate the backlog of structurally deficient bridges.
- $4.9 billion over the next 10 years to restore NJ TRANSIT infrastructure to a state-of-good-repair.
- $7 billion over the next 10 years to increase capacity on NJ TRANSIT services.
- $50 million annually to improve customer service and technology at NJ TRANSIT.
- $90 million annually for programs and improvements to make driving safer.
- $5.5 billion over the next 10 years to alleviate heavy traffic.
- $360 million over the next 10 years for rail freight infrastructure improvements to maintain the State's economic advantage in the goods movement industry.

- $22 million annually to support commuter ferry services, boating infrastructure, and shipping-based national and international trade.

- $340 million over the next 10 years to acquire and preserve the State's core airport system.

These challenges exist on the local level as well. New Jersey's counties and municipalities are responsible for 88% of all roads and 39% of all bridges. Current projections estimate annual transportation needs of local governments to be $374 million a year, with $255 million needed by counties and $119 million needed by municipalities annually.

Each year, the TTF provides $150 million in grants to assist local governments through the NJDOT's Local Aid Program. These grants improve the local transportation system, encourage redevelopment of downtowns and improve the quality of life. If the TTF fails to generate capital, the Local Aid Program will not distribute any funding, and local governments will be forced to either abandon projects or pay for infrastructure improvements by other means, including cuts in services or increased property taxes.

The impending insolvency of the TTF is directly linked to decisions made over the past twelve years to increase reliance on bonding, to extend the term of bonds from 10 to 20 years, and to raise spending caps without additional revenues to keep pace with needs and inflation. In addition, due to inadequate general fund appropriations to meet maintenance operations needs, the application of TTF funds has been expanded to cover many maintenance operations at a cost to the capital programs of both NJDOT and NJ TRANSIT.

Once a self-replenishing, pay-as-you-go mechanism, the TTF now pays $536 million in annual debt service (includes $83 million in TTF funded NJT debt). This figure will grow to nearly $805 million by FY2006, thereby consuming all dedicated TTF revenues before a single penny can be used for capital improvements at NJDOT and NJ TRANSIT. When this occurs, the State would also lose federal transportation funding because it would be unable to meet the matching fund investment levels required by federal law.

Given the staggering need for transportation investments and the impending insolvency of the TTF, the State must take swift and forthright action to ensure the future viability of New Jersey's transportation network. This will require a substantial infusion of new revenue into the TTF. At the same time, the Blue Ribbon Commission also recognizes that the enormous transportation needs highlighted above cannot be met immediately. The Commission must in good faith recommend a level of investment that balances the financial needs of the State's transportation networks with the financial needs of its residents. However, residents of New Jersey cannot be asked to pay any more money without a strong commitment from the State that all new revenue will be constitutionally dedicated to meet transportation needs. Below is a summary of the Commission's package of comprehensive recommendations:

1. **Fund a Transportation Capital Program to Begin Improving the Condition of the Transportation Network.**
   The State must fund a $3.1 billion annual capital program for NJDOT and NJ TRANSIT ($520 million more than the combined FY2004 capital program) to improve the roadway and rail infrastructure owned by the State and local governments:

   - NJDOT will target investments to make driving conditions on roads and bridges safer, relieve congestion and allow for the safe and efficient movement of goods to sustain economic growth.
   - NJ TRANSIT will replace one-third of its bus fleet, overhaul or replace half of its rail coaches, rehabilitate or replace bridges, tracks, signals, and maintenance facilities. In addition, NJ TRANSIT will reconstruct over 60 rail stations and provide for capacity expansion in heavily congested corridors.
   - Local aid to counties and municipalities will increase by $150 million, providing funds to repair roads, build sidewalks, and make intersections safer and less congested.

2. **Increase Annual TTF Revenues.**
   State Motor Fuels tax must be increased by 12.5 cents per gallon but potentially by up to 15 cents. The 12.5 cents is recommended with the expectation that the reauthorization of the federal transportation program will bring an additional $125 million a year to New Jersey, or the equivalent of 2.5 cents in the state motor fuels tax. The new revenue should be constitutionally dedicated to the Transportation Trust Fund Authority (TTFA) and indexed to inflation.

3. **Ensure Adherence to Strict Financial Standards.**
   To prevent future insolvency of the TTF, the following financial standards must be instituted:

   - Require the TTF capital program to adhere to a 50/50 pay-as-you-go bonding ratio over the life of the program;
   - Cap the diversion of revenue from capital to fund maintenance and operation costs at the current level, with the goal of eliminating this practice over the next 10 years; and
   - Cap the level within the annual capital program so as to not exceed the financial resources of the TTF based on the above limitations.

4. **Increase Revenues for NJ TRANSIT Operations.**
   NJ TRANSIT must adopt equitable fare increases for all of its services that reflect inflation. In addition, it should also receive adequate appropriations from the State General Fund to meet its operating needs.

5. **Improve Efficiency, Advance Smart Growth and Incorporate Best Practices to Maximize Investments.**
   Transportation funding must be used to combat sprawl and support economic growth in existing communities. Technology must be incorporated to improve safety and enhance the quality of life by creating system wide efficiency. The Commission strongly encourages the NJDOT and NJ TRANSIT to increase efficiency and enhance best practices. NJDOT and NJ TRANSIT should examine efficiency measures and best practices adopted by other states and private corporations to ensure that the public investments made in New Jersey's transportation infrastructure will be maximized.

6. **Mandate Public Accountability to Prevent Future Insolvency of the TTF.**
   A Financial Policy Review Committee must be established, charged with the responsibility to ensure compliance with the strict financial standards mentioned above. The Financial Policy Review Committee would certify, annually, that strict financial standards are adhered to.

The Commission recognizes that the impending insolvency of the TTF places a financial burden on the residents of this State. However, as the State deals with the financial management decisions with respect to the TTF over the past decade, New Jersey's transportation needs continue to grow. The quality of New Jersey's transportation system has a direct relationship to both the quality of life enjoyed by its residents and the vitality of its economy. To that end, increasing funding for transportation and restoring the solvency of the TTF is imperative. However, it must be done in conjunction with a strong commitment from the State that all new revenue will be constitutionally dedicated to meet transportation capital needs only. The Commission strongly urges the Governor, lawmakers and the public alike to adopt the policy recommendations made herein.

PREFACE

On January 7, 2003, Governor James E. McGreevey signed Executive Order No. 43, creating a Blue Ribbon Transportation Commission (hereafter referred to as Commission), charged with examining and making recommendations related to pressing transportation issues facing New Jersey over the next ten years. It was also charged with issuing a final report in time for consideration during the upcoming renewal of the TTF.

The Commission consists of seven public members and is chaired by the Commissioner of the NJDOT. The members of the Commission are as follows:

- Chairman: Jack Lettiere, Commissioner, New Jersey Department of Transportation.
- Vice Chairman: Al Koeppe, former President and Chief Operating Officer, PSE&G.
- Dr. Robert A. Altenkirch, President, New Jersey Institute of Technology.
- Louis Gambaccini, Senior Fellow, Voorhees Transportation Center and former DOT Commissioner.
- The Honorable Harry Larrison, Jr., Freeholder, Monmouth County Board of Chosen Freeholders.
- Barbara Lawrence, Executive Director, New Jersey Future.
- Raymond M. Pocino, Vice President and Eastern Regional Manager, Laborers' International Union of North America.
- John P. Sheridan, Jr., Partner and Co-Chairman, Riker, Danzig, Scherer, Hyland and Perretti and former DOT Commissioner.

The Commission met and reviewed a variety of technical reports and presentations prepared by transportation experts including NJDOT and NJ TRANSIT staff and private consultants. These reports provided the Commission with detailed information on the current status of the TTF, transportation system needs, potential future revenue requirements and options for raising needed revenue.

In addition to information provided by the transportation experts, the Commission held three public hearings at which time New Jersey residents were given the opportunity to testify on the current condition of the State's transportation system and identify future infrastructure needs.

This report documents the Commission's findings and recommendations for consideration by the Governor and Legislature.

INTRODUCTION

New Jersey's transportation system provides mobility, supports and generates economic development and enhances the quality of life for the residents of this State and the region. Ensuring the viability of this system is critical for the health of the State's economy and the quality of life for all New Jerseyans. NJDOT and NJ TRANSIT are responsible for maintaining this network of infrastructure and public transportation services and providing residents with safe and efficient transportation throughout the State.

Specifically, the State is responsible for more than 15,289 lane miles of roadway, 2,346 bridges, and a public transportation system covering more than 5,000 square miles. New Jersey's highways provide 8.5 million residents with access throughout the State and NJ TRANSIT bus and train lines accomodate752,000 weekday passenger trips. In addition, New Jersey's multi-billion dollar network of roads, rails, waterways and airports move more than 375 million tons of freight annually, generating billions of dollars and jobs for the State's economy.

This Commission recognizes that it is the role of the State to provide a safe and efficient transportation network. Furthermore, for New Jersey to truly prosper, our communities must be livable with maximum mobility and access. Transportation investments today must direct growth and development to the right places. Sprawl must be prevented and congestion must be eased without simply building more roads. To ensure these goals are met, funding for transportation projects and maintenance must adequately meet the needs of the system and the State must prioritize investments, which revitalize our existing communities, stop sprawl and create more transportation choices.

However, State funding for transportation improvements is in jeopardy. Over the past decade there has been a decline in revenues to meet the capital and operating needs necessary to run a safe and efficient transportation network. Increasing infrastructure needs and past fiscal commitments threaten the viability of the financial mechanisms, specifically the Transportation Trust Fund (TTF), which was designed to be a stable and guaranteed source of capital funding.

The following report details the findings and recommendations of the Commission. First, it details the growing needs of the transportation network in New Jersey as a result of the capital and operating shortfalls. Second, it examines the underlying issues that have led to the impending insolvency of the TTF. Third, it explores investment options to meet the capital and operating needs of NJDOT and NJ TRANSIT. Fourth, it sets forth specific goals to ensure the future solvency of the TTF through public accountability. Finally, it details a number of recommendations not only to keep the TTF solvent indefinitely but also ensure that the infrastructure needs are funded adequately today and in the future.

CAPITAL NEEDS

The analysis detailed in this section illuminates New Jersey's growing transportation investment needs and demonstrates that current investment levels will be insufficient to meet those needs.

In preparing this report, the Commission considered a range of transportation system needs analyses prepared by NJDOT and NJ TRANSIT professional staff along with private consultants. These reports described the components of the system, presented current conditions and projected future system conditions to estimate what investments will be needed in the future to maintain and improve conditions. In addition to the in-house analysis, the Commission also received valuable feedback from the users of the infrastructure system.

"Traffic congestion costs our employees countless hours of lost productivity especially traveling to North Jersey. Consequently, we are evaluating a move to another state." – John Martinson, Managing Partner, Edison Venture Fund.

"The citizens of our state are not demanding fewer goods nor are they working or traveling less and it is the state's responsibility to ensure that resources are available to keep pace with what we need to live and work and play."- Chip Hallock, President, Regional Business Partnership.

"NJ Transit is bleeding its capital program to fund operations. Budget appropriations have not kept up with NJ Transit's operating budget needs despite the growing popularity of transit by the public…" - Janine G. Bauer, Esq., General Counsel, Tri-State Transportation Campaign.

Public Feedback

In evaluating the needs and future of New Jersey's transportation infrastructure, the Commission believed it essential to hear from the users of the system. During three public meetings held in Cherry Hill, New Brunswick and Newark, and via email, regular mail and phone messages, the Commission received comments from hundreds of individuals. The public response reflected a broad range of perspectives from all corners of New Jersey.

A careful reading of all of the comments reveals some common themes:

- The negative impact congestion has on both employers and the quality of life of their employees.
- The need for increased funding to improve all aspects of the system, including roads, highways and public transportation.
- The demand for increased measures to ensure the appropriate uses of transportation dollars.

NJDOT CAPITAL NEEDS

Physical Condition of Highways

Growing traffic volume and vehicle weight have taken a heavy toll on the State's aging highway infrastructure. Today, less than half of the State highway system pavement (47%) is rated as structurally adequate. Only 71% has adequate surface condition (smoothness).

Over the past ten years, the Department has allocated about $130 million a year for pavement preservation improvements. This funding level will not hold overall pavement conditions at current levels, even in the short term. A recent thorough study of our Interstate highway system has revealed that many sections of that essential network will fail during the next decade due to natural aging, dramatic increases in traffic, and prolonged underinvestment.

There are documented needs of about $1 billion per year over the next 10 years to bring all of our State highways to a desirable structural condition and surface smoothness. A failure to increase investment to rehabilitate our roadways will lead to a decline in the percentage of structurally acceptable conditions from 47% acceptable in 2004 to 10% in ten years, causing major disruptions in New Jersey's economy and the mobility and quality of life of our citizens.

The NJDOT recently began a Pavement Management Program, which uses new technology to monitor pavement and prescribe the correct treatment to preserve and extend the life of the pavement. This program has been proven in other states to extend the life of pavement by a decade, preventing the need for future repair, saving $10.00 for every $1.00 invested. However, roads must be brought to a state of good repair before this program can be fully applied. [See Figure 1-A.]

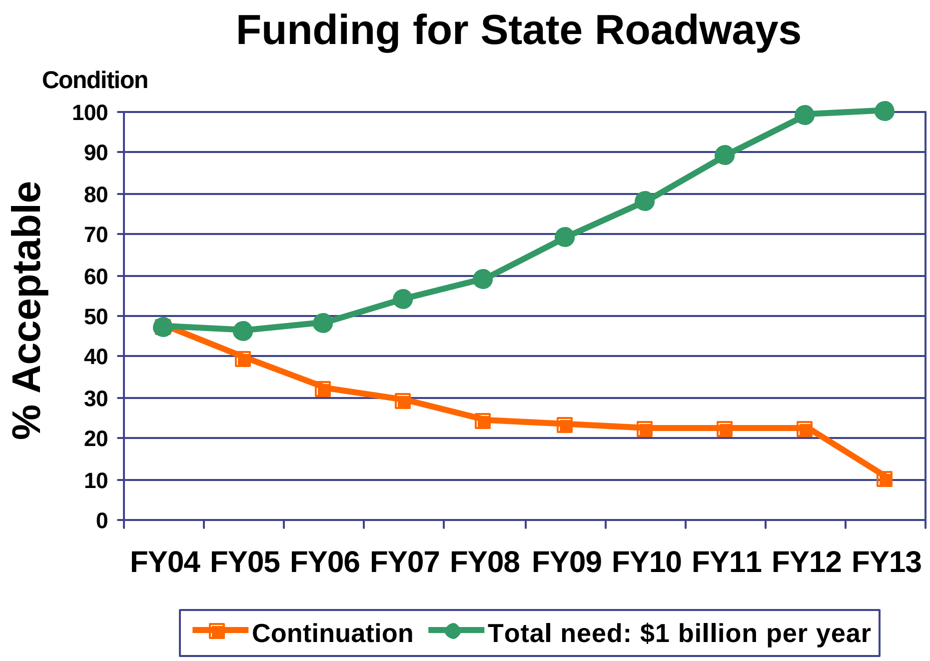

Figure 1-A

Physical Condition of Bridges

Highway bridges are the key connectors holding our state's transportation system together. Currently, 87% of New Jersey's bridges are in acceptable structural condition. Although the current condition of New Jersey's bridges compares reasonably well with the national average and with other northeastern states, several "high-cost" bridges (i.e. those costing $50 million or more) will require replacement or extensive rehabilitation in the near term. Examples of these high cost bridges are:

- Route 1&9, Elizabeth River, Union County, $58 million;
- Route 1&9, Pulaski Skyway, Essex & Hudson counties, $300 million;
- Route 1&9T, St. Paul's Avenue, Hudson County, $138 million;
- Route 3 over the Passaic River, Bergen & Passaic counties, $199 million;
- Route 7 over the Hackensack River, (Wittpen Bridge), Hudson County, $377 million;
- Route 36 Highlands Bridge, Monmouth County, $71 million;
- Route 52 Causeway, Atlantic & Cape May counties, $265 million;
- Route 72 over Manahawkin Bay, Ocean County, $200 million; and
- Route 139 Viaducts, Hudson County, $188 million.

The total cost to eliminate the backlog of structurally deficient bridges on the state highway system over the next 10 years is estimated to be $7 billion or $700 million annually.

These critical bridges link New Jersey to the rest of the country, serve as portals to the world economy through our ports and airports, provide access to the shore and barrier islands, and underpin essential elements of our transportation network for emergency evacuation and homeland security. If these bridges are allowed to deteriorate without rehabilitation or replacement, they will generate huge maintenance and repair costs just to keep them safe and open to traffic and ultimately they will have to be weight-restricted or closed, at enormous cost to New Jersey's economy.

The total cost to eliminate the backlog of structurally deficient bridges over the next 10 years is estimated to be $7 billion or $700 million annually. A continuation of current funding levels ($350 million annually) will result in a short-term drop in performance as additional bridges are added to this list. The overall condition will decline to 83% acceptable in 10 years. [See Figure 1-B].

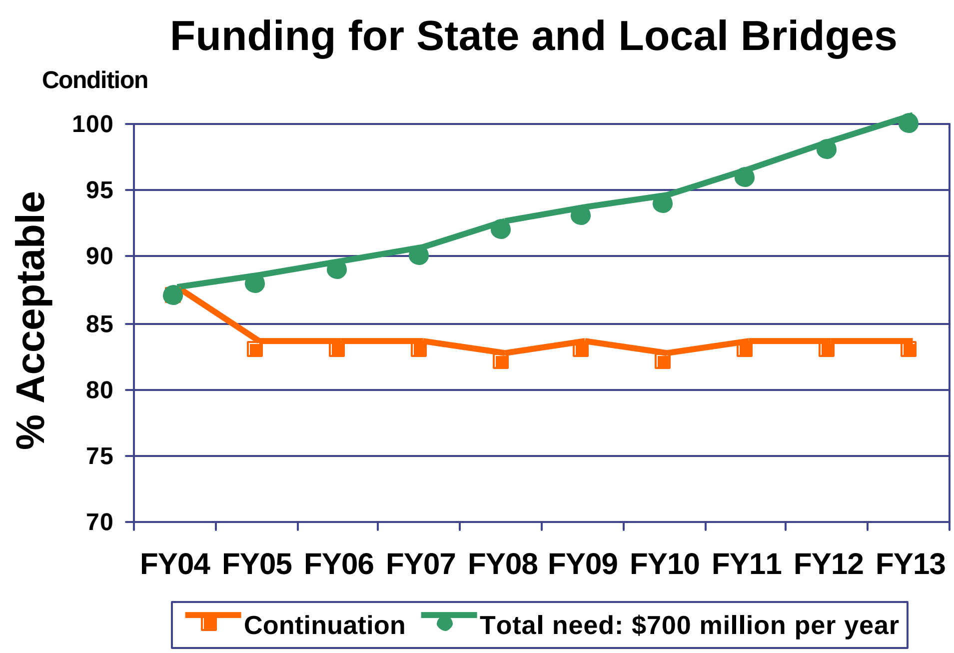

Figure 1-B

Safety

Safety of the traveling public is a high priority and major challenge for NJDOT and NJ TRANSIT. Addressing those safety needs requires sufficient investments and commitment to institute special initiatives to improve safety on our transportation network. Over the next 10 years, NJDOT needs $900 million to ensure that its safety related programs are fully funded. A discussion of NJDOT's safety program needs is outlined below. [See Table 1.]

- **Safety First Initiative**
  The "Safety First" program combines road improvements, stricter police enforcement and new driver education initiatives to reduce fatalities and injuries. This initiative includes a $15 million median barrier program to prevent cross-over accidents, installation of 500 miles of raised pavement reflectors, enhanced written drivers test and drivers manual and the raising of fines for overweight trucks and trucks with faulty equipment.

- **Safe Corridors**
  NJDOT has designated numerous "Safe Corridors" on its highway system. These corridors were identified as having higher than average accident rates. NJDOT is committed to funding the necessary safety improvements along these corridors.

- **Intersection Improvement Program**
  This program provides for the development and implementation of safety and operational improvements at intersections identified by the Safety Management System as having significant safety problems.

Average Annual Cost over Ten-Year Period

Safety Program	Average Annual Cost
Safety First	$35 million
Safe Corridors	$35 million
Intersection Improvements	$20 million
Average Annual Total	**$90 million**
10-Year Total	$900 million

Table 1

Congestion Relief

New Jersey's roads, bridges, rail lines, and airports must support constant economic activity while maintaining a high quality of life for the 8.5 million residents who depend upon them everyday. It is estimated that by 2020, New Jersey will have 1.4 million additional residents, 21% more jobs, double the amount of freight moving into, out-of, and through the State, for a total of 34 billion additional vehicle miles traveled.

It is estimated that by 2020, New Jersey will have 1.4 million additional residents, 21% more jobs, double the amount of freight moving into, out-of, and through the State for a total of 34 billion additional vehicle miles traveled.

Population growth, economic development, and changes in social structure and land use have combined to produce steadily increasing levels of traffic congestion in New Jersey. Studies show that New Jersey drivers lose 261 million hours every year stuck in traffic that costs our economy $7.3 billion annually.

In order to effectively ease congestion and meet the growing demands on the transportation network, it is necessary to take a coordinated approach that includes investing heavily in the repair and rehabilitation of existing roads and bridges, substantially increasing public transportation opportunities, and encouraging alternate modes of transportation. A comprehensive congestion relief strategy encompasses principles of smart growth and encourages redevelopment in accordance with the State Development and Redevelopment Plan (SDRP). With these goals in mind, investments are needed in the following areas: [See Table 2].

- Continued expansion of the park-and-ride program;
- Implement low-cost, quick-turnaround congestion relief projects through the Fast Moves program, designed to improve traffic flow by using Intelligent Transportation Systems;
- Continued funding for highway operational improvements, including redesigning bottleneck intersections and traffic circles;
- Expanded the use of Context Sensitive Design improvements;
- Increased local initiatives such as the transit village program and others that encourage transit and pedestrian-oriented development; and
- Expedited infrastructure improvements in the most congested areas in the state, as identified by the Congestion Buster Task Force. [See Table 3.]

Congestion Relief Initiative	Annual Cost
Operational Highway Improvements	$110 million
Intelligent Transportation System	100 million
Highway Capacity Increases (4 percent)	180 million
Park and Ride Initiatives	25 million
Smart Growth Corridors/Economic and Urban Development	135 million
Average Annual Total	**$550 million**
10-Year Total	**$5.5 billion**

Table 2

	Most Congested Roadways	County
1	Route 1	Mercer
2	Route 1	Middlesex, Union
3	Route 3	Bergen, Hudson, Passaic
4	Route 4	Bergen
5	Route 9	Ocean, Monmouth
6	Route 17	Bergen
7	Route 21	Essex
8	Interstates 80 and 287	Morris
9	Interstates 295 and 76, Route 42, Route 55	Camden, Gloucester
10	Routes 38, 70, 73	Camden
11	Interstate 78	Warren, Morris
12	Route 22	Union
13	Route 46	Morris, Passaic
14	New Jersey Shore access	Atlantic, Cape May

Table 3

Local Aid to Improve Roadway and Bridge System

Of the 36,000 roadways in the State, the counties and municipalities have jurisdiction over 25,000 miles of roads and 2,472 bridges. State provided assistance through NJDOT's Local Aid program enables local governments to fund necessary improvements on these facilities and relieves the property tax burden for residents.

The annual local transportation needs are $211 million for county bridges, $7.5 million for municipal bridges, $44 million for county roadways and $112 million for municipal roadways. [See Table 4.] In total, there is a local annual need of $374 million ($255 million—counties and $119 million—municipalities). The major need for counties is bridge funding; the major need for municipalities is roadway funding.

Average Annual Needs Over Ten Years (in millions)

Jurisdiction	Roadway Needs	Minor Bridges	Major Bridges Deficient	Major Bridges Obsolete	Total Annual Cost
County	$ 43.478	$37.300	$102.900	$71.300	$254.978
Municipality	111.681	--	5.300	2.200	119.181
Total	**155.159**	**37.300**	**108.200**	**73.500**	**374.159**
10-Year Total					**$3.74 billion**

Table 4

Bicycle and Pedestrian Facilities

Investments in bicycle and pedestrian infrastructure are an important part of the transportation network. NJDOT's bicycle and pedestrian investments create opportunities for alternate modes of transportation, which relieve congestion by reducing the number of automobiles using New Jersey's roads. In addition, these programs enhance quality of life and create recreational opportunities. However, as the number of bicycles and pedestrians on our roads increase, so does the likelihood of accidents with automobiles. Accidents involving motorized vehicles and pedestrians or bicyclists have a great potential to cause severe injury and loss of life. Funding for the following initiatives is necessary to continue bicycle and pedestrian investments and ensure public safety. [See Table 5.]

- **"Safe Streets to School" Program**
  "Safe Streets to School" is a Local Aid Grant Program designed to protect New Jersey's school children by providing funding for safer sidewalks and crosswalks, as well as other safety improvements that will increase motorist's awareness of children and the routes they use.

- **Bicycle Program**
  NJDOT currently has more than 1,300 miles of bicycle facilities in development to provide healthy and attractive transportation alternatives to driving. The continued construction of safe and usable bicycle accommodations on the roadway network is an important component of the state's smart growth initiative.

Average Annual Cost over Ten Years

Bicycle/Pedestrian Programs	Average Annual Cost
Bicycle	$14 million
Pedestrian	$26 million
Average Annual Total	**$40 million**
Total 10-Year Total	**$400 million**

Table 5

General Aviation

The primary objective of the NJDOT Aviation program is to protect the core airport system. It applies Governor McGreevey's fix-it-first policy to airports by focusing on preservation and improvement of airports without expanding runway lengths. Over the next 10 years NJDOT needs to work with New Jersey's general aviation owners to bring all facilities to a state of good repair with required safety upgrades. The investment needs over the next ten years are $340 million. [See Table 6.]

Average Annual Cost Over Ten Years

Aviation	Average Annual Cost
Ongoing infrastructure program	$14 million
Core System Preservation	$20 million
Average Annual Total	**$34 million**
10-Year Total	**$340 million**

Table 6

The number of general aviation airports in New Jersey has declined precipitously over the past several decades. In 1950, the State had 82 public use airports; now there are 48. The loss of general aviation airports has significant economic, tourism, and open space preservation implications for New Jersey.

A viable small aircraft airport system also helps alleviate demands on the State's major hub airports by diverting small general aviation planes. New Jersey is unique with respect to this challenge – more than 60% of its public use airports are privately owned. These airports are especially vulnerable to closure and conversion to non-transportation purposes. Preservation is only permanently achieved by outright public purchase, or the public purchase of the airport development rights. A related need for ensuring the viability of the aviation industry is upgrading and improving existing facilities.

Furthermore, many airports are now at or near 100% of their aircraft storage capacity. Many airport users cannot base their aircraft at their first, second, or even third choice airport. The challenge is to expand aircraft storage capacity.

Since 1998, with a combination of federal, state and local funds, the following airports have been acquired outright, or their development rights have been purchased:

- Greenwood Lake Airport – outright purchase
- Trinca Airport – outright purchase
- Lincoln Park Airport – purchase of development rights
- Central Jersey Regional Airport – purchase of development rights

Discussions are currently underway to preserve the following airports, which may result either in outright purchase or in purchase of development rights, with a combination of federal, State, and local funds:

- Monmouth Executive (Allaire) Airport--outright purchase
- South Jersey Regional Airport--outright purchase
- Solberg Airport--outright purchase
- Sussex County Airport--purchase of development rights
- Blairstown Airport--purchase of development rights
- Camden County Airport--Green Acres Funds
- Sky Manor Airport--purchase of development rights

- Alexandria Airport--purchase of development rights
- Essex County Airport-- requested development rights purchase

Rail Freight

The total cost estimate for rail freight needs for the next 10 years is $310 million. The needs are segmented into three areas, the State Rail Plan (a program used primarily for the shortline railroad operators), the major rail improvements (focused primarily on the Class I railroads within the Conrail Shared Asset Area), and rail improvements in the Portway Corridor. [See Table 7.]

- **State Rail Plan for the Shortline Railroads-- $100 million**
  This program provides assistance to the 14 shortline railroad operators in New Jersey. The program will cost $10 million annually over the next 10 years. In recent years the TTF has been the funding source. Given the condition of the current railroad infrastructure, this funding is required to meet growing reconstruction and rehabilitation requirements.

- **Major Rail Freight Improvement Plan for Class I's-- $160 million**
  The I-95 Corridor Coalition – Mid-Atlantic Rail Operations Study identified several projects in the State that will eliminate bottlenecks in the rail system and create a safer, more efficient rail network. Phase I of the program, an $80 million investment, is being funded by a partnership of Norfolk Southern, CSX, the Port Authority of New York and New Jersey, and NJDOT. Major improvements for Phase I include the following:

  - Chemical Coast Line Double Tracking
  - Lehigh Valley Line Double Tracking
  - Raff Acquisition Project for Oak Island Rail Yard Expansion
  - New County Line Railroad Overpass

  Phase II will cost $80 million and be funded under the same partnership. This phase is not as advanced as Phase I, but it includes the following projects:

  - P&H Line Second Track
  - Port Reading Junction
  - Marion Connection Second Track
  - Waverly Loop
  - Raff Acquisition Project for Rail Yard Expansion
  - Chemical Coast Second Track
  - Port Reading Secondary Improvements – Sidings, switches and Traffic Control System.

Average Annual Cost over Ten Years

Rail Freight	Average Annual Cost
Shortline Railroad Improvements	$10 million
Major Freight Improvement Plan, Class I	$16 million
Portway	$10 million
Average Annual Total	**$36 million**
10-Year Total	**$360 million**

Table 7

Maritime Resources
The Maritime Program supports New Jersey's $50 billion maritime industry, which includes ports and terminals, cargo movement, boat manufacturing and sales, ferry operations, marine trades, and maritime environmental resources. In order to continue providing support for technology research and development, investigating innovative dredge material management technologies and to ensure a balance between development and protection of the ecosystem, a total $120 million is required over the next 10 years. [See Table 8.]

- **Channel Dredging**
  New Jersey has responsibility for maintaining both State channels and the navigation channels, which support port commerce. New Jersey is the prime non-federal sponsor for the deepening of the Port Jersey Channel. One of the most serious constraints facing waterborne shipments in New Jersey is the depth of the navigation channels approaching Port Newark/Elizabeth. A number of dredging projects are currently underway while additional dredging proposals are under consideration. Despite ongoing dredging efforts, this will remain a considerable challenge for the NJDOT in the future.

- **Ferry Infrastructure**
  Commuter ferry service from New Jersey to Manhattan is now an essential part of the State's transportation strategy. Ferries serve as an alternative to crowded trains and buses and congested bridges and tunnels. The number of ferry commuters, which had been growing steadily prior to the tragedy of September 11, 2001, has been surging.

- **Boating Infrastructure**
  The National Boating Infrastructure Grant (NBIG) Program provides funding to states under the Federal Sport Fishing and Boating Safety Act of 1998 in Transportation Efficiency Act legislation. The program serves to spur and enhance transient boating as a form of recreation.

- **Port Inland Distribution Network (PIDN)**
  The Port Inland Distribution Network (PIDN) is a system for distributing shipping containers moving through the Port of New York and New Jersey by rail and barge, in addition to trucks. This hub and spoke system is designed to move containers by barge to water accessible points such as the Camden and Salem areas in southern New Jersey.

  PIDN-South Jersey will provide necessary system redundancy, environmental benefits, and limit wear and tear on New Jersey's over-burdened highway infrastructure.

Average Annual over the Ten-Year Period

Maritime Resources	Average Annual Cost
Channel Dredging (State Contribution)	$6 million
Ferry Infrastructure / Projects (State Contribution)	$1 million
Boating Infrastructure	$3 million
Port Inland Distribution (State Contribution)	$2 million
Average Yearly Total	**$12 million**
10-Year Total	**$120 million**

Table 8

NJ TRANSIT CAPITAL NEEDS

Importance of Public Transportation in New Jersey

NJ TRANSIT is the nation's third largest provider of bus, rail and light rail transit, providing services to major points in New Jersey, New York and Philadelphia. The agency operates a fleet of 2,027 buses, 711 trains and 45 light rail vehicles. NJ TRANSIT provides nearly 223 million passenger trips each year on 236 bus routes and 11 rail lines statewide and covers a service area of 5,325 square miles.

Over the past ten years, NJ Transit's ridership grew by 36%, mirroring the growth in the State's economy over the same period.

NJ TRANSIT also administers several publicly funded transit programs for individuals with disabilities, senior citizens and those living in the state's rural areas who have no other means of transportation. In addition, the agency provides support and equipment to privately owned contract bus carriers.

The present rail and commuter bus systems primarily serve New York markets. There is also an extensive local bus route network serving the State focused on areas where there is a high density of population, where many of the residents are largely transit dependant. Over the past ten years, NJ TRANSIT's ridership grew by 36%, mirroring the growth in the State's economy over the same period. Supplementing NJ

TRANSIT's bus operations are its partnerships with a number of private bus companies throughout the state that has helped to meet this growing demand.

The condition of the transit infrastructure has improved greatly from the days of private control, but significant deficiencies still remain. Increases in congestion on the State's highways and changes in attitudes about travel have shifted auto users to the rails and express bus system, giving rise to severe crowding on the rail network, particularly into Manhattan, and negatively impacting the competitiveness of the bus network as well.

The NJ TRANSIT bus system carries two-thirds of the agency's annual total of 223 million passengers using the state's highways and roads. There are also bus services provided by private operators. NJ TRANSIT furnishes equipment to those operators. Some bus facilities used by NJ TRANSIT and the private operators are owned and/or operated by other agencies. The primary examples are the Exclusive Bus Lanes feeding the Lincoln Tunnel and the Port Authority Bus Terminal, for which the Port Authority of New York and New Jersey is responsible.

New Jersey has the second highest Transit use of any state except New York, and is home to five of the top twenty Transit cities in the country.

NJ TRANSIT has been successful in fulfilling its role of reducing demands on the highway system. According to the 2000 Census, one out of every ten New Jersey workers uses public transportation to get to work, double the national average. In select corridors, like New Jersey crossings to Manhattan, public transportation's market share is over 80% (commuter rail, bus, PATH and ferry). New Jersey has the second highest transit use of any state except New York, and is home to five of the top 20 transit cities in the country.

As the demand for public transportation in New Jersey continues to increase, it is important to ensure that adequate capacity exists on the bus and rail network.

NJ TRANSIT Investment Needs

NJ TRANSIT must invest an average of $490 million annually over the next ten years to bring the bus and rail system to a state of good repair and maintain that level. Faced with the basic need to provide safe and reliable statewide transit service, NJ TRANSIT avoided a sharp decline in the general state of good repair of its buses, rail coaches and locomotives by going into debt to acquire new equipment. However, substantial portions of these fleets need to be overhauled or replaced in the next five years including half of the diesel locomotive fleet, all 230 of the Arrow III electric rail cars, one third of the bus fleet, and all the Comet I coaches.

All of NJ TRANSIT's major drawbridges must be replaced or require a major overhaul. Over 60 rail stations require reconstruction to bring them to a state of good repair and meet current regulatory standards. All of the bridges and rail infrastructure are on a regular life cycle replacement schedule to keep them at a state of good repair. The safety of the rail operation must be enhanced by the completion of the positive train stop and automatic train control systems. An obsolete bus maintenance garage must be replaced and others rehabilitated.

NJ TRANST NEED HIGHLIGHTS

- **$490 million over 10-years to bring bus and rail to state of good repair.**
- **60 rail stations have to be reconstructed.**
- **$7 billion is necessary for rail capacity expansion.**
- **$500 million for customer service technology improvements.**

A tremendous need exists to grow the core transit system capacity in order to meet the increased travel demands generated by the forecasted population growth. With limited ability to expand highway capacity, the only viable alternative is to expand transit capacity to provide access to jobs and encourage smart growth.

A 10-year investment of $7 billion is necessary to increase core transit capacity and expand the system. Key components of this investment are:

- Expansion of rail capacity along the New Jersey's Northeast Corridor into Midtown Manhattan ($4 billion) where demand is expected to double;
- Acquisition of 131 more bi-level rail cars for $250 million;
- Expansion of the rail line capacity from Philadelphia to Atlantic City;
- Completion of the third phase of the Hudson-Bergen Light Rail line ($1 billion); and
- Commencement of investment to extend rail service to areas where sufficient demand exists ($700 million).

In addition, regional intermodal centers must be established and the number of park and ride facilities must be significantly increased. Funding is also required to build six new rail stations and to provide alternative approaches to station access, including bus shuttles, bus rapid transit, bicycle and pedestrian improvements. [See Figure 1-C.]

NJ TRANSIT TEN YEAR CAPITAL NEEDS SUMMARY

	($ BILLIONS)	PERCENT OF TOTAL
State of Good Repair (Including Safety and Security)	$ 4.9	28%
Increase Core System Capacity and Expansion	7.1	39%
Contribution to Operations	3.0	17%
Debt Service and Equipment Leases	2.5	13%
Customer Services and New Technology	0.5	3%
TOTAL	$18.0 BILLION	100%

Figure 1-C

Previously incurred debt for rail expansion projects and equipment acquisitions will require $2.5 billion over 10 years. Improving customer services and implementing new technology will require $500 million over 10 years to replace an obsolete bus radio system, replace an obsolete automatic ticket machine system with a regional intermodal fare collection system, and to make significant improvements to the passenger communication systems.

Implementing the projects outlined in this Needs Forecast [see Table 9] will attract more people to use transit and encourage those who already use the system to use it more frequently. It will make New Jersey's communities more livable, our roads more tolerable and our businesses more profitable. Funding this Needs Forecast will deliver the kind of transit system that New Jersey needs to prosper in the 21st Century.

Average Annual Combined NJDOT and NJ TRANSIT Need Over a 10-Year Period

Program	Average Annual Need (millions)
NJDOT	
Roadway Preservation	$1,000
Bridge Preservation Programs	$700
Safety First & Roadway Safety Programs	$90
Congestion Relief Programs	$550
Rail Freight	$36
Bicycle and Pedestrian Programs	$40
Aviation	$34
Maritime Resources	$12
Local Road and Bridge System	$374
Total NJDOT	**$2,836**
NJ TRANSIT	
State of Good Repair	$490
Core Capacity Expansion	$710
Contribution to Operating	$300
Debt Service and Equipment Leases	$250
Customer Services and New Technology	$50
Total NJ TRANSIT	**$1,800**
Average Annual Need For 10-Years	**$ 4,636/year**

Table 9

THE NEED FOR ADEQUATE OPERATING FUNDS

Over the past decade, decreasing appropriations from the General Fund for the operating budgets of NJDOT and NJ TRANSIT have resulted in a siphoning off of TTF capital funds to pay for maintenance and operations. This situation has further eroded the ability of the TTF to meet the capital needs at NJDOT and NJ TRANSIT and must be addressed during the reauthorization.

The Operating Budget

Traditionally, the operating budget covers routine maintenance of the infrastructure to prevent deterioration of the assets and extend their useful life. Operating funds ensure New Jersey's roads and rails are safe, reliable and can provide the quality of transportation New Jersey residents deserve. Operating funds pay for the provision of services, such as snow removal, pothole filling, the operation of public transit bus routes and train lines, as well as preventive maintenance and routine repairs on roads and bridges.

The principal source of funding for transportation net operating expenses has historically been appropriations from the State's General Fund. In this arena, transportation competes with all other claims for state assistance. Over the past decade, NJ TRANSIT and NJDOT have not fared well in this intense competition. The trend has been to under-fund operating budgets and rely more heavily on TTF funding.

NJDOT Operating Budget

Inadequate funding for operations and maintenance has a direct relationship to infrastructure: cutbacks lower maintenance standards and further state of disrepair, leading to unsafe conditions and eventually, to more costly rehabilitation projects in future years.

Inadequate funding for operations and maintenance has a direct relationship to infrastructure: cutbacks lower maintenance standards, leading to unsafe conditions and eventually, to more costly rehabilitation projects in future years.

The $28 million reduction in appropriated funding for annual operations at NJDOT between 1991 and 2004 has come at a real cost to the quality of New Jersey's transportation network. The corresponding reduction in NJDOT staffing (17% since 1994) has limited the ability of the State to maintain its system. NJDOT could not perform basic maintenance functions, such as sealing cracks in pavements and trimming back plants from covering highway signs, on a regular basis, and instead, was relegated to completing many of these tasks only in response to complaint or incident.

The decline of operating budget resources can be seen most dramatically in the loss of maintenance crew staff. NJDOT's road, electrical, landscape, and fleet maintenance crews are the backbone of the Department's road maintenance effort. In addition to the critical role they play in conducting winter storm operations, these crews perform the regular maintenance tasks necessary to keep our state highways operating in an efficient manner.

Due to the loss of General Fund operating appropriations, maintenance crew staffing has steadily declined, dropping from 2007 in 1982 to only 1226 in FY 2003. [See Figure 1-D.] This drop of 781 employees represents nearly a 40% decline in manpower over the period. As can be seen below, the reductions have occurred across all aspects of state highway maintenance including pavement maintenance, landscape, traffic signal and lighting maintenance, and fleet maintenance.

Road, Landscape, Equipment, and Electrical Crew Staffing Levels FY 1982-FY 2003

Description	FY 82	FY 87	FY 92	FY 97	FY 02	FY 03	Chg FY 82 vs FY 03	% Chg FY 82 vs FY 03
Electrical	159	161	123	135	138	129	-30	-18.87
Landscape	98	90	32	18	25	24	-74	-75.51
Road	1350	1369	980	778	861	843	-507	-37.50
Fleet	400	374	300	272	256	230	-170	-42.50
Total	2007	1994	1435	1203	1280	1226	-781	-38.91

Figure 1-D

During that same period of time, the size of the system that the crews are responsible for maintaining continued to increase. The number of lane miles maintained has increased by 700 since FY 1982, steadily rising from 10,400 lane miles to the 11,100 currently maintained.

Some of the loss of staff has been partially offset by contracting the work to outside vendors at a higher cost using TTF resources. Examples of capitalized maintenance functions, which are contracted using TTF resources, include the following:

- Drainage rehabilitation and maintenance ($3 million)
- Electrical facilities ($1.5 million)
- Restriping ($3 million)
- Sign structure inspection ($1 million)
- Sign structure repairs ($1 million)
- Sign replacement ($10 million)
- Group traffic signal relamping ($1.5 million)
- Traffic signal replacement ($4 million)

Even though this capitalization has partially mitigated the loss of 781 maintenance workers, many maintenance functions still are either no longer or rarely performed. [See Figure 1-E.]

Work activity	Current status	Reasonable level
Close cutting of roadside plants	Only in response to complaint or incident	3 cycles per year
Drainage (Open ditches, swails, headwalls)	Only in response to complaint or incident	25% of inventory
Roadway Inlet manhole repairs	Based on noticeable structural failure	Repair based on need prior to failure as identified by maintenance management system
Electrical repair and evaluation of highway and sign lighting	Only in response to complaint or incident	Semi-annually
Highway sign repair/replacement	Only when signs are observed to be illegible or missing	15% of inventory annually
Snow and Ice Removal	100% as needed	100% as needed
Pothole Repair	100% as needed	100% as needed

Figure 1-E

The shift from routine to responsive maintenance means just that: infrastructure and facilities are not properly maintained, deterioration occurs and the situation becomes an inconvenience and sometimes a safety hazard. It is important to note however, that snow removal and pothole repair are the exceptions: these critical safety measures have been and will continue to be fully performed by NJDOT.

NJDOT estimates that the full package of maintenance services requires 650 additional person years of labor, almost doubling the current maintenance force. Compared to the current level of $85 million in annual operating assistance received by NJDOT, the proposed maintenance cost increment would be $16 million in added personnel expenses and $184 million annually for equipment and materials, for a total of $200 million in additional annual funding for NJDOT maintenance.

NJ TRANSIT Operating Challenges

The operating budget at NJ TRANSIT is used to keep the trains and buses running and stations and bus shelters clean and in working order. Operating funds are paid for with revenues from passenger fares, appropriations from the General Fund, commercial transactions and funding diverted from NJ TRANSIT's capital program. Increasing costs due to inflation and the addition of new services raise the demand for operating funds on an annual basis.

- **Inflation**
  General price inflation costs NJ TRANSIT $13 million per year for each 1% growth in the Consumer Price Index. At current CPI rates, this translates into unavoidable cost increases of $40 million each year just due to inflation, without any new service or service quality enhancements.

- **Service Growth**
  The addition of substantial new transit services adds measurably to NJ TRANSIT's total operating costs. Most new services impose a special short-term financial burden on NJ TRANSIT's operating budget. New services generally take several years to reach anticipated ridership and revenue potential, making them more expensive to operate than well-established services that have matured to their full ridership potential. In the last seven years, NJ TRANSIT has added seven new services and over the next five years is scheduled to add seven more, based on projects currently in construction as well as assuming funding of planned projects in the capital needs forecast.

  Given the revenue streams remain at current levels (i.e. no fare increase, no increase in appropriations from the General Fund, no additional service beyond those currently scheduled and modest ridership growth), this will create a growing deficit. The increasing operating deficit could require that more capital funds are diverted if revenues from fare and General Fund appropriations are not augmented.

- **Passenger Fares**
  Fare revenue depends heavily on ridership and has historically fluctuated with the health of the economy. In the 1980s and 1990s, ridership on NJ TRANSIT train and bus lines grew substantially due to a new federal and state commitment to investment in public transportation. That growth has been somewhat offset by recent ridership losses of 4%, due in part to the weakening regional economy.

  Increasing passenger fares is a principal lever for transit managers in closing gaps between operating expenses and revenues. However, for almost 12 years (1990 and 2002), public policy prevented NJ TRANSIT from raising fares. Fares are estimated to generate $537 million in FY2004. The most critical period for raising fares would have been in the early part of this decade, after the HBLR line began operations, system-wide ridership began weakening, and the net operating deficit began rising. Since a fare increase was not implemented at that time, NJ TRANSIT is forced to play "catch-up" now to make up for the inadequate funding level at the time.

  Regularly occurring, anticipated fare increases at the rate of inflation are consistent with private enterprise practice, minimize the ridership impacts of infrequent, large-scale fare increases, and minimize the fiscal turmoil between infrequent fare changes as operating costs rise.

NJ TRANSIT Operating Cost Projections

In addition, to the $40 million in annual inflationary cost increases, NJ TRANSIT projects total annual operating costs will grow to more than $2 billion by 2015. It is important to note that because the initiation of major new services in FY04 and FY05, and significant use of one-time revenues in FY04, the immediate budget need in FY05 is the greatest of the ten-year period

If revenue streams remain at current levels (i.e. no fare increase, no increase in appropriations from the General Fund, no additional service beyond those currently scheduled and modest ridership growth), NJ TRANSIT will have an $85 million deficit in FY05, increasing to a $638 million annual operating deficit in FY15. [See Table 10.]

NJ TRANSIT is currently forced to divert $383 million in state and federal capital dollars to fund maintenance operations. The increasing operating deficit articulated above would require NJ TRANSIT to divert even more capital funding unless additional revenue sources are identified.

Estimate Of Net Operating Costs 2004-2015

	Budget 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fares	537.0	563.0	574.6	582.0	589.3	595.2	601.1	609.1	617.1	632.0	641.1	650.2
State Assistance	193.8	260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0	260.0
Other Revenue & Assistance	573.2	468.4	479.6	474.0	469.0	473.2	477.6	482.0	486.7	491.2	496.0	500.9
Total Resources	**1,304.0**	**1,291.4**	**1,314.2**	**1,316.0**	**1,318.3**	**1,328.4**	**1,338.7**	**1,351.1**	**1,363.8**	**1,383.2**	**1,397.1**	**1,411.1**
Expenses	**1,304.0**	**1,376.3**	**1,443.6**	**1,489.7**	**1,551.8**	**1,618.2**	**1,676.5**	**1,752.9**	**1,819.8**	**1,915.1**	**1,981.2**	**2,049.7**
Annual Surplus (Deficit)	**0.0**	**(84.9)**	**(129.4)**	**(173.7)**	**(233.5)**	**(289.8)**	**(337.8)**	**(401.8)**	**(456.0)**	**(531.9)**	**(584.1)**	**(638.6)**

Table 10

CRISIS IN THE MAKING
History of the New Jersey Transportation Trust Fund

In 1984, the New Jersey State Legislature established the Transportation Trust Fund to ensure New Jersey had a stable and predictable method to finance and plan for the State's transportation needs. Over the past two decades, the focus of the TTF as a funding mechanism has shifted from primarily pay-as-you-go financing to a heavy reliance on first short-term, and now long-term bonds. The function of TTF dollars has also expanded to include maintenance costs once considered part of the operating budget and paid for from the General Fund. This section outlines a history of the TTF and illustrates its transformation from a self-sufficient mechanism to one currently incapable of meeting the transportation needs of the State.

FY 2004 Capital Resources

Federal	**($ Billion)**
Funds to NJDOT	$ 0.704
Funds to NJ TRANSIT	0.512
Other Federal	0.002
TOTAL Federal Assistance	**$ 1.2**
TTF (pay-as-you-go + bonding)	
Funds to NJDOT	$ 0.610
Funds to NJ TRANSIT	0.618
TOTAL TTF Financing	**$ 1.2**
Other	
NJ TRANSIT [1]	$ 0.211
NJDOT [2]	0.025
TOTAL funds from other sources	**$ 0.236**
Total Resources	**$ 2.68**

FY 2004 Legislative Appropriations to TTF

Constitutionally dedicated revenue	
Motor fuels tax	0.405
Petroleum gross receipts tax	0.200
Sales tax from motor vehicles	0.200
Statutorily dedicated revenue	0.000
Heavy truck fees	0.000
Good driver surcharge	0.000
Contributions from toll roads	0.000
TOTAL TTF Appropriations	**$ 0.805**

Notes:
1 – Revenue from commercial transactions and leveraged leases
2 – Primarily, 1999 Bridge bond issue

Table 11

Funding New Jersey's Transportation Investments

NJDOT and NJ TRANSIT spend billions of dollars annually on capital improvements to meet the needs of the State's transportation network. The financing mechanisms for such improvements must provide adequate and reliable funding both today and in the future.

Funding to support New Jersey's transportation capital investments comes from several sources, including federal transportation funding, the State TTF, and special bond issuances. [See Table 11.]

Federal transportation funds are distributed from the federal Highway Trust Funds through the

Transportation Equity Act of the 21st Century (TEA-21) and make up roughly half of the NJDOT and NJ TRANSIT's Capital Program.

A portion of the program comes from the passage of two major bond issues, which provide additional funds for transportation improvements. One bond issue approved in1989 provided $115,000,000 for rehabilitating bridges and preserving and acquiring railroad rights-of-way. A second bond issue in 1999 approved $500,000,000, half for rehabilitating the state transportation system and half for rehabilitating structurally deficient local bridges.

Approximately one-half of the transportation funding comes from the TTF, which is funded through state General Fund appropriations and both from constitutionally dedicated and statutorily dedicated revenues. The ability of the TTF to provide its share of necessary funding will be lost in 18 months.

History of the Transportation Trust Fund Authority Act of 1984

In the 1960s and 1970s, New Jersey's transportation network was faced with growing needs and unreliable resources. The state's General Fund, the source of funding for transportation projects at that time, was rarely sufficient to meet the need. By 1980, allocations for transportation capital fell to less than 5 percent of General Fund appropriations. Recognizing that the State's transportation needs required a stable and adequate source of funding, the New Jersey State Legislature passed the Transportation Trust Fund Act in 1984.

The Act established the TTF, which became the primary state financing mechanism for transportation improvements, based on the following principals:

- Use pay-as-you-go as the primary financing approach;
- Provide all the statutorily dedicated funds for transportation to the TTF;
- 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;
- Prohibit the use of TTF money for routine operations, maintenance and staff salaries; and
- Ensure the solvency and self-sufficiency of the TTF.

The Act also established a Transportation Trust Fund Authority (TTFA) for the issuance of bonds and for the administration of funds from the TTF. The Authority originally consisted of five members: the Commissioner of Transportation, the State Treasurer and three public members appointed by the Governor. In 2000, the Board was expanded to seven members, the new members representing trade unions and construction firms. In practice, the Authority has concentrated on administration of the Fund: the distribution of appropriations, the issuance of bonds, and the payment of obligations incurred. It is not charged, explicitly, with the responsibility to assure the long-term solvency of the TTF's capital generating capacity.

For the first several years of its existence the TTF functioned as a stable pay-as-you-go funding resource. The original cash stream for the TTF was composed of the following: a constitutional dedication of an equivalent of 2.5 cents ($88 million) of an 8-cent state motor fuels tax, a $24.5 million annual contribution from the state's toll road authorities, $30 million in heavy truck fees and annual appropriations from the General Fund. The original law permitted the TTFA to use revenues to secure the sale of short-term bonds to support a four-year capital program (FY 1985-1988). Borrowing money by selling bonds allowed the state to leverage revenue into a capital program several multiples greater and to postpone the cost--in the form of annual debt service charges--into future years. The legislation directed the TTFA to exhaust appropriated funds before resorting to the issuance of bonds.

For the first several years of its existence the TTF functioned as a stable pay-as-you-go funding resource.

From Self-perpetuating Funding Source to Debt-ridden: the TTF from 1988 to 2004

From FY1985 to 1988, the percentage of pay-as-you-go financing remained near 100% of total annual capital spending. The level of debt service began at just $2 million in FY 1985 and grew to only $26 million in FY 1988, a very small percentage of the overall spending program. In 1988, the New Jersey Legislature voted to reauthorize the TTF, affirming the success of this self-perpetuating source of capital.

However, during its second authorization and continuing over the next fifteen years, new constraints on TTF dollars coupled with slow revenue growth eroded the TTF's ability to self-perpetuate and ushered in a new era of debt.

The First Reauthorization: 1989-1995

In 1988, TTF reauthorization included a seven-year transportation program (FY 1989-1995) and increased the annual capital spending limit from $250 to $365 million. At the same time, the Legislature approved a 2.5-cent increase in the State motor fuels tax increasing the tax up to 10.5 cents per gallon. The Legislature also increased the amount of revenues statutorily dedicated from the motor fuels tax to the TTF to 7 cents (2.5 cents dedicated in 1984 plus 4.5 cents in 1988). This new revenue stream worked to ensure the TTF could support the increase in the spending cap while maintaining pay-as-you-go as the primary funding mechanism.

To meet the new program size, TTF went from a pay-as-you-go system to one overwhelmed with a heavy debt burden.

However, this new balance did not last long. In 1991, in response to the ongoing economic recession, the spending cap was raised from $365 million to $565 million without increasing revenues. To meet the new program size, TTF went from a pay-as-you-go system to one burdened with heavy debt.

Outstanding debt almost doubled to approximately $900 million in FY1993 and to more than $1.2 billion in FY1994. Debt service jumped from $46 million to $87 million in FY1993 and reached $168 million per year by FY1995. Pay-as-you-go financing had dropped to 11.6 percent of total TTF financing.

Shifting Gears: 1996-2000

The reauthorization in 1995 represented a dramatic turn of events in the management of the TTF. It included a five-year transportation capital program with annual capital spending raised from $565 million to $700 million. Significantly, the law also raised the bonding cap to $700 million per year and allowed the TTF Authority to issue bonds with 20 year maturities, leading the way for a far greater reliance on the issuance of debt to finance the TTF capital program, with larger payouts and greater accumulations of debt service.

To address the need for additional TTF revenue and to assure that the increased debt service would be paid, the Legislature proposed a Constitutional amendment which increased constitutional dedications of the 10.5 cent motor fuel tax revenue from 2.5 cents to 7 cents (7 cents had been statutorily dedicated in 1988) in FY1997-1998, increasing to 8 cents in FY 1999 and 9 cents in FY 2000. New Jersey voters in a referendum approved the amendment. The reauthorization also augmented the statutory earmarks for the TTF by adding up to $60 million annually from the Good Driver insurance surcharge.

However, despite increasing revenues, the pay-as-you-go portion of the TTF capital program was never increased. In other words, the level of bonding continued at a high level. As a result, the outstanding debt was almost $4.5 billion by FY 2000. Recognizing the need to address this problem, in 1998, a 5-cent motor fuels tax increase was proposed but never voted on.

The Growing Crisis: 2001-present

The 2000 TTF reauthorization once again raised the authorized annual capital program level to $900 million in FY 2001 and in excess of $950 million in FYs 2002-2004. In attempting to create greater balance between bonding and pay-as-you-go, the Legislature lowered the annual bonding cap to $650 million.

In addition, to finance the spending increases, the Legislature constitutionally dedicated revenues from both the existing tax on petroleum sales and the existing sales tax. The petroleum tax guaranteed new revenue for the TTF of at least $100 million in FY01 and $200 million thereafter. The sales tax guaranteed new revenue of at least $80 million in FY2001 growing to $200 million by FY2004.

However, the capital program exceeded the planned $950 million level by $593 million over the four year period. The revenue available to support that larger program was actually $343.5 million less than planned. Over the last three years of the authorization, none of the statutorily dedicated revenues have been appropriated to the TTFA, creating a TTF revenue shortfall of $114.5 million each year.

It is estimated that the TTF will have issued $1.9 billion in bonds over the four-year authorization. Debt service on TTF bonds will grow $331 million in FY2000 to $450 million in FY2004. This spending is projected to support an annual capital program of $1.2 billion. The proportion of pay-as-you-go financing, which reached as high as 38% in FY2001, has since slipped steeply reaching 24% to 28% over the past three years.

Additional Pressures: Expanding the TTF Role to Fund Maintenance
Over the past fifteen years, the TTF has assumed the funding responsibility for an increasing amount of NJDOT and NJ TRANSIT maintenance costs, a trend that has further exhausted available TTF funding. This shift has occurred due to decreasing appropriations from the General Fund for operating expenses and increased operational demand on services without a matching NJ TRANSIT fare policy.

NJDOT Operating Challenges
The operating budget problems at NJDOT have significantly hampered the Department's efforts to provide proper stewardship over the state's highway and bridge facilities. From 1991 through 2004, the legislative appropriations to meet operating needs at NJDOT declined from $113.8 million to $85.3 million. For the same years, the appropriations for road and bridge maintenance declined from $86 million to $72 million. [See Figure 1-F.]

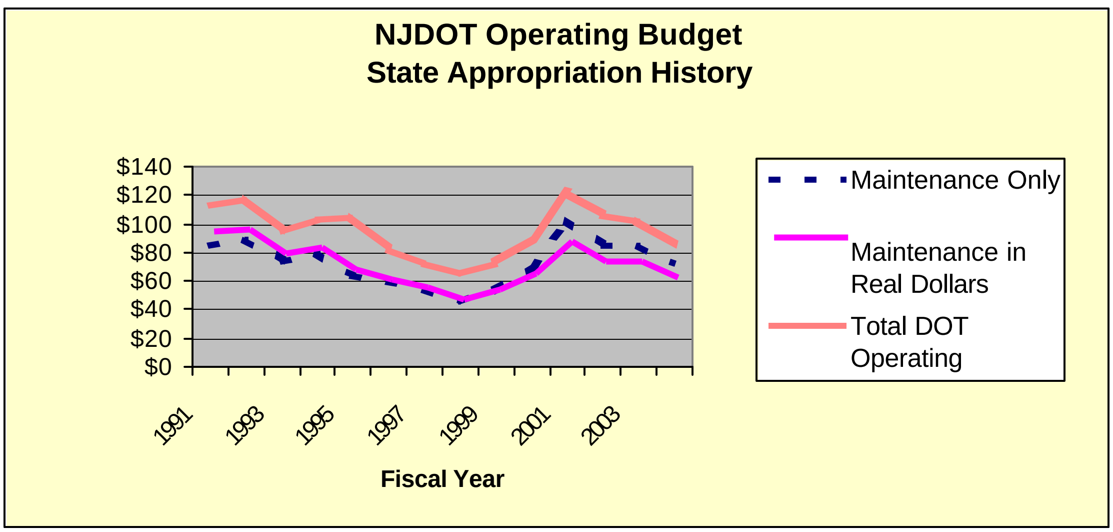

Figure 1-F

NJ TRANSIT Maintenance Challenges
Over the past decade, NJ TRANSIT has experienced large-scale deficits in funding for net operating expenses due to stagnant fare policy and shortfalls of the annual appropriations process. Fares did not rise for 12 years until 2002, and appropriations from the General Fund for NJ TRANSIT's net operating expenses peaked in 1993 at $251 million and have steadily declined to about $150 million in FY 2000. Operating funds are critical at NJ TRANSIT because they provide for the provision of services,

such as public transit bus routes and train lines, as well as preventive maintenance and routine repair that keeps transportation facilities in safe condition.

While such diversions were taking place, the net operating deficits of NJ TRANSIT have been on a steady rise, only compounding the problem. For example, the net operating deficits have risen from $232.8 million in FY 1991 to $555.4 million in FY 2004, a 150% increase. [See Figure 1-G.] Almost $200 million or two-thirds of this increase can be directly attributed to new rail services and a slump in ridership growth due to weakening economic conditions.

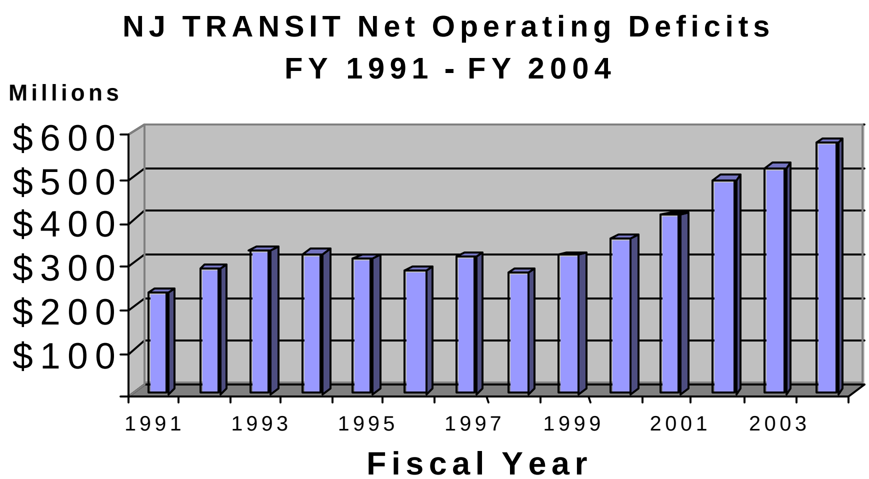

Figure 1-G

CURRENT STATE THE CHANGING ROLE OF TTF AND ITS CAPITAL GENERATING ABILITY

The TTFA currently projects sufficient debt service coverage in FY2005 to authorize another $1.1 billion capital program. However, in FY2006, the combination of TTFA debt service and mandated pay-as-you-go expenses for NJ TRANSIT related debt service will consume the entire $805 million constitutionally dedicated revenue base. [See Figure 1-H.] In other words, the State's ability to generate its own capital will be jeopardized, and the capital programs of both NJDOT and NJ TRANSIT will grind to a halt.

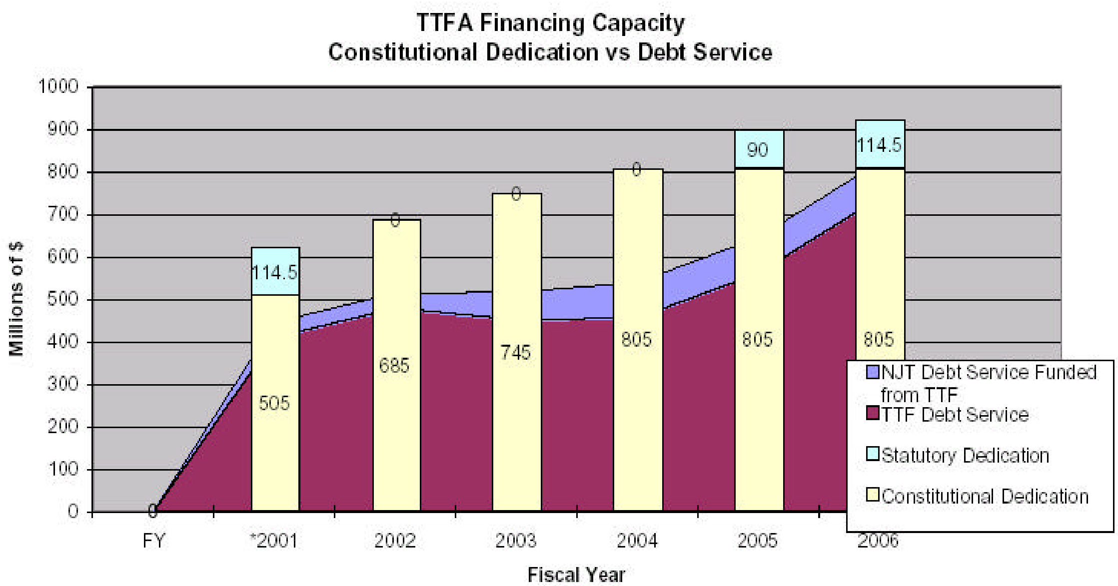

Figure 1-H

As described in preceding sections, two significant trends in the development of the TTF over the past two decades have led to this crisis, including:

- **Reduced proportion of pay-as-you-go financing and an increased reliance on long-term debt:** As noted earlier, for its first several years, the TTF maintained a high proportion of pay-as-you-go funding, as originally intended. [See Figure 1-I.] In the early 1990's, the majority proportion of pay-as-you-go financing shifted dramatically to bonding, in response to the sharp drop in appropriations and the growth in the annual capital program.

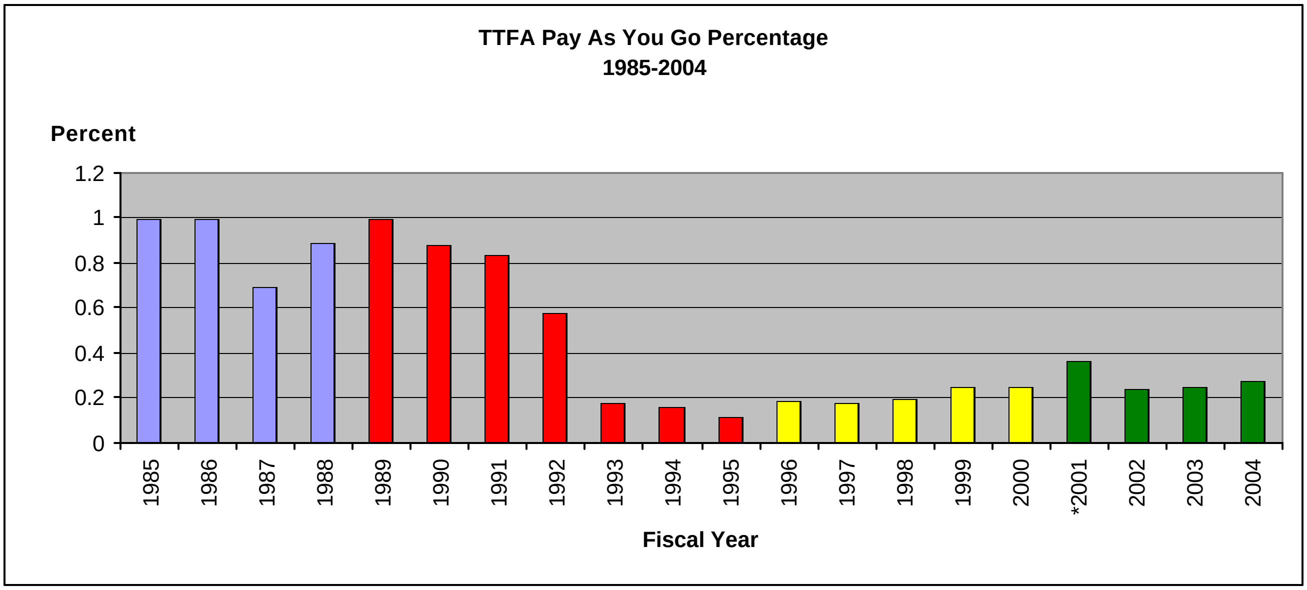

Figure 1-I

In 1995, bonds were shifted to longer maturities (i.e., 20 years instead of 10) and increased the TTF's ability to leverage the support of larger capital spending programs on a smaller revenue stream. From FY1995 through 2004, the TTF will have increased its outstanding debt from $1.3 billion to $5.7 billion. [See Figure 1-J.]

With the exception of FY2001, from FY1999 to 2004, the proportion of pay-as-you-go remained relatively steady at just over 20% of total expenditures, meaning that the amount of bonding had increased to nearly 80%. This imbalance, along with longer bond maturities, is one of the factors contributing to the insolvency of the TTF, and partially explains why the TTF is unable to replenish itself as originally conceived.

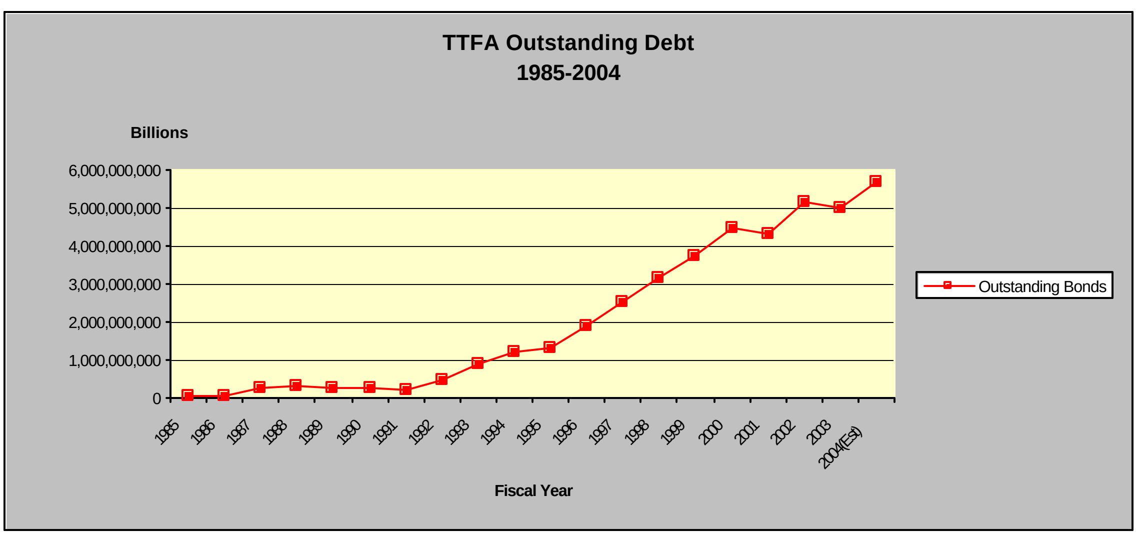

Figure 1-J

- **Increasing spending levels for the annual capital program, insufficient amounts dedicated revenue and rising debt service:** The size of the New Jersey TTF capital program has increased substantially every several years from $365 million (1988) to $565 million (1991) to $700 million (1995) to $1.2 billion (2004). The increases in program size significantly outpaced TTF revenues, leading to the rise of increased bonding and the demise of the pay-as-you-go financing mechanism.

  A number of forces have been at work against maintaining the pay-as-you-go financing structure:

  1. Since 1993, statutorily dedicated revenues have not been fully appropriated on eight separate occasions.

  2. New Jersey has a history of disappointing attempts to increase the motor fuels tax for additional transportation funding. In 1988, although a 5-cent increase was proposed, a 2.5-cent increase was enacted. The absence of a motor fuels tax index necessary to keep up with inflation has only compounded the funding problem.

  3. TTF annual debt service, combined with NJT debt service funded from TTF, continued to rise to a current level of $536 million (projected to reach the $805 million in constitutionally dedicated revenues by FY2006).

It is important to note that New Jersey currently has the 4th lowest state motor fuels tax in the nation. Neighboring states such as Delaware, Pennsylvania, Connecticut and New York have tax rates of 23, 26.9, 30, and 32.7 cents per gallon respectively. See attached Chart.

Rank	State	Gasoline Tax	Diesel Tax	Other
1	New York	32.7	30.5	Includes 14 cpg Petroleum Business Tax
2	Wisconsin	31.5	31.5	
3	Rhode Island	31	31	
4	Connecticut	30	31	Includes 5 cpg equivalent Gross Earnings Tax
5	Washington	28	28	
6	Montana	27.75	28.5	
7	Pennsylvania	26.9	31.9	
8	Maine	26.1	27.2	
9	Idaho	25	25	
10	Kansas	25	27	
11	California	25	23.5	
12	Nebraska	24.6	24.6	Variable - unknown base
13	Utah	24.5	24.5	
14	North Carolina	24.2	24.2	Variable based on wholesale price
15	Ohio	24	24	
16	Oregon	24	24	
17	South Carolina	24	24	Includes 2 cpg throughput tax
18	Nevada	23.805	27.805	
19	Maryland	23.5	24.25	
20	Massachusetts	23.5	23.5	
21	Delaware	23	22	
22	New Hampshire	22.6	22.6	Includes bulk storage fee
23	Colorado	22	20.5	
24	Minnesota	22	22	
25	Arkansas	21.7	22.7	
26	Tennessee	21.4	19.4	
27	Iowa	21.3	23.5	
28	North Dakota	21	21	
29	West Virginia	20.5	20.5	Plus a variable wholesale tax based on wholesale price.
30	D.C.	20	20	
31	Louisiana	20	20	
32	Texas	20	20	
33	Vermont	20	26	
34	Michigan	19.875	15.875	Plus 6% sales tax
35	Illinois	19	21.5	Plus 6.55% tax and 6 cpg on diesel for commercial users
36	Arizona	19	19	
37	Mississippi	18.4	18.4	
38	Virginia	18.1	16.6	
39	Alabama	18	19	
40	Indiana	18	16	
41	New Mexico	18	19	Includes 1 cpg loading fee
42	Missouri	17	17	
43	Oklahoma	17	14	
44	South Carolina	16.75	16.75	
45	Florida	16.3	28.9	
46	Hawaii	16.12	16.12	Plus 4% sales tax
47	Kentucky	15	12	Variable rate based on wholesale price.
48	New Jersey	14.5	17.5	Includes 4 cpg Petroleum Products Gross Reciepts Tax
49	Wyoming	14	14	
50	Alaska	8	8	
51	Georgia	7.5	7.5	Plus 4% sales tax

The Impending Financial Crisis

As illustrated in the preceding section, debt service and inadequate revenues threaten insolvency of the TTF by FY2006. If no new revenues are made available to the TTF by FY2006, its capacity to generate capital will evaporate completely.

Beginning in FY2006, the state-financed transportation capital program in New Jersey will go from a current level of $1.2 billion to zero, meaning no new state funded projects can be authorized. The $150 million NJDOT Local Aid program will terminate in FY2006, dramatically increasing the property tax burden on municipalities.

Without an on-going capital program, in FY 2006, New Jersey will lose federal transportation funding.

In addition, without an on-going state funded capital program, in FY 2006, New Jersey will also lose $1.3 billion in federal transportation funding. If the State is unable to demonstrate that it is meeting its "maintenance of effort" requirement, New Jersey will not be eligible for, nor will it receive federal transportation dollars. Except for snow removal, litter pick-up, and emergency services, maintenance functions at the NJDOT will also cease.

This sequenced loss of State and federal capital funds will deteriorate the condition of highway, bridge and public transportation infrastructure, NJDOT's maintenance and operations programs and NJ TRANSIT operations. For example:

- The condition of the State highway system will deteriorate dramatically. Currently, 47% of the State highway system is in acceptable structural condition. If the capital program were to come to a halt, the percentage of highways in acceptable condition would decline to zero within 10 years.

- Bridge conditions will deteriorate from 87% in acceptable condition to 74% in 10 years.

- NJ TRANSIT will have to defer the replacement of 34% of its bus fleet and the overhaul of 50% of its rail car fleet. As a result, NJ TRANSIT will experience an operating crisis that will result in one or all of the following actions: (1) dramatic cuts in the quantity and quality of service, or (2) an untenable fare increase.

MOVING FORWARD
Examining Future Investment Options

The challenge of the upcoming renewal of the TTF will be to ensure an adequate, reliable funding source capable of meeting the enormous needs depicted in the preceding sections of this report. The renewal of the TTF must provide an appropriate level of investment to refurbish our aging infrastructure and provide congestion relief in accordance with the State Development and Redevelopment Plan.

Future Investment Options

The Commission considered a number of funding choices and developed two capital investment options. These options are designed to illustrate the resulting condition of New Jersey's transportation network given two distinct investment patterns over the next 10 years. The results and costs of these options are set out in more detail below.

Option I, Improve the Transportation System

This option will provide for a combined annual capital investment program at a level of $3.1 billion -- $520 million more than the combined FY2004 capital program. Under this option, the State will accomplish the following:

- **Highways** – stop the deterioration of the roadways in the State. In other words, NJDOT will ensure that at least 47% of New Jersey's highway infrastructure is in acceptable structural condition.
- **Bridges –** stop the deterioration of bridges on the State system. This means, NJDOT will ensure that at least 80% to 85% of all bridges in New Jersey are in acceptable condition.
- **Bus and Rail –** provide additional critical capacity in heavily congested corridors, and maintain bus and rail infrastructure and rolling stock in a state of good repair, including continuation of the private bus company replacement program.
- **Local Aid –** increase local aid to counties and municipalities by $150 million, providing property tax relief and funds to repair roads, build sidewalks, and make intersections safer and less congested.
- **Safety** – complete safety-related projects to make driving safer with a goal of reducing the accident and fatality rate.
- **Rail Freight** –improve the shortline and rail freight networks in conjunction with local governing bodies to relieve congestion on our highways and enhance the efficiency of goods movement. In addition, this program level will allow for the continued construction of the Portway program.

- **Aviation** –increase funding to preserve existing essential general aviation airports.

- **Maritime** –continue the State Channel Dredging program.

- **Bicycle/Pedestrian –** expand opportunities for local governments to provide bikeways and pedestrian walkways.

This investment option will allow NJDOT to target investments to begin relieving congestion, make driving conditions on roads and bridges safer, offer more transportation choices and allow for the safe and efficient movement of goods to sustain economic growth. It will also allow NJ TRANSIT to bring its infrastructure and equipment to a State of Good Repair as well as provide additional critical capacity in heavily congested corridors.

Option II, Significantly Improve the Transportation System

Option II, which will lead to significant improvements in our State's transportation system, requires a $3.8 billion annual investment ($2.3 billion NJDOT, $1.5 billion NJ TRANSIT), an increase of about 45% over current funding levels (State and federal).

- **Bridges:** Under this option, the condition of State and local bridges will be improved over the 10-year period. Upwards of 90% of all bridges will be deemed structurally acceptable.

- **Highway**: The deterioration of State highways would be halted and current and future traffic volumes could be accommodated.

- **Local Aid**: State funding for the Local Aid program will increase from the current level of $150 million up to $350 million, enabling counties and municipalities to provide real upgrades to their local roads and other infrastructure.

- **Other NJDOT programs** will be expanded: more congestion relief projects, more bicycle and pedestrian projects, more funding to upgrade freight railroads and to prevent key airports from closing, investment in rehabilitating older highway corridors, and more investment in urban and suburban economic development.

- **Aviation**: Modest increases will be made to preserve existing general aviation airports.

- **Bus and rail:** Infrastructure will be maintained in a state of good repair and additional critical capacity would be provided in heavily congested corridors. Some expansion of NJ TRANSIT's core system capacity will be funded.

- **Maritime**: The State dredging program to improve maritime transportation will continue.

However, even this significant level of investment does not allow for NJ Transit to provide the capacity between Newark and Manhattan to address the growth in demand from the increasing labor force and the extension of rail service into new areas of the state.

Ensuring Public Accountability

The renewal of the TTF must not only provide adequate resources, it must also restore confidence in the governance of the trust fund investments to ensure that the taxpayers of New Jersey receive the services they are paying for. This section addresses the Commission's concern for the fiscal and public accountability of both the TTF and the investment of New Jersey's transportation dollars. When evaluating the current state of transportation in New Jersey, it is important to consider both the financial management of funds and the capital investments made with those funds. This Commission is concerned with preserving the future solvency of the TTF and targeting transportation investments to projects that will have the most significant impact on the economy and quality of life of this State today and in the future.

TTF Solvency and Financial Standards

As described in earlier sections of this report, the lack of sound financial management over the past decade has lead to the impending insolvency of the TTF. As a result of certain financial decisions, the original intent of the TTF - specifically its pay-as-you-go focus--to fund necessary transportation improvements has been severely compromised.

Members of this Commission cannot in good faith recommend a substantial infusion of new revenue into the TTF without assurances that those funds will be managed prudently and used to leverage other funding sources in a responsible manner. In other words, members of this Commission strongly believe that the public should never again be asked to bail out the TTF from insolvency as a result of imprudent financial management of taxpayer dollars.

However, current State law does not provide for such assurances: the TTFA is not charged with the responsibility to ensure the solvency of the TTF, nor do the members who serve on the Board have the appropriate background in finance to carry out such a function. This must be changed. Those who are in charge of spending taxpayer dollars have a fiduciary duty to protect the Trust Fund from insolvency.

Therefore, an independent oversight committee must be created and charged with the responsibility to evaluate the financial condition and performance of the TTF and all state transportation finance issues. Specifically, this committee must ensure that the following financial standards are adhered to by the TTFA:

- the ratio of bonding to pay-as-you-go financing must not exceed 50/50 of the TTF capital program over the life of the program;
- the diversion of revenue from capital to fund maintenance and operation costs at the current level must be capped, with the goal of eliminating this practice over the next 10-years; and
- the level of the annual capital program must not exceed the financial resources of the TTF based on the above limitations.

The Commission also strongly advocates that any legislation to reauthorize the TTF must limit the TTFA's ability to exceed the financial constraints imposed under the above-mentioned standards.

Wise Transportation Investments

In addition to less than prudent financial decisions, transportation investment patterns of the past are also responsible for the great disparity between needs and resources. Hundreds of millions of dollars have been spent on highway expansion projects that have led to the proliferation of sprawl development and added traffic congestion. Moreover, hundreds of millions of dollars have then been spent trying to ease the resulting congestion, in a system of spend and mitigate, which can no longer continue. We cannot pave our way out of congestion. Land use and transportation are inextricably linked.

This Commission cannot in good faith recommend a significant increase in transportation funding unless that money is going to be invested wisely on capital improvements that will resolve transportation problems without causing new ones. The capital programs of both NJDOT and NJ TRANSIT must adhere to the principals of Smart Growth, which will stop sprawl and strengthen the State's economy by providing the necessary support for growth and development in the right places.

Transportation investments must also incorporate the latest techniques and technologies so that New Jersey gets the most out of its transportation dollars. Improvements must be made as quickly as possible and investments must endure as long as possible.

The NJDOT must continue to develop its efficient investment strategies such as the Pavement Management Program, which will save $10 for every $1 invested, and the Smart Moves program, which utilizes technology to ease congestion without construction. Similarly, NJ TRANSIT must continue to make its operation more efficient through the introduction of new computer systems and programs to manage its fleets, service and support functions.

The Commission is heartened by these developments, as they would seem to indicate that these agencies recognize their mission to be responsible stewards of the public's transportation infrastructure as well as the funds bestowed upon it by the public.

KEY FINDINGS

- New Jersey's transportation capital investment needs are considerable and without a substantial investment beyond the current level will result in the deterioration of the State highway network and public transportation infrastructure over the next 10 years.

- Beginning in FY2006, existing TTF revenue will be exhausted, bringing the NJDOT and NJ TRANSIT capital program to a halt. At that time, nearly all constitutionally dedicated revenue will be needed to repay debt service on outstanding bonds. If this were to occur, the State would lose federal transportation funding because it would be unable to meet the matching fund investment levels required by federal law.

- The impending insolvency of the TTF is directly linked to decisions made over the past ten years to increase reliance on bonding, to extend the term of bonds from 10 to 20 years, and to raise spending caps without additional revenues. In addition, due to inadequate general fund appropriations, the application of TTF funds has been expanded to cover many maintenance operations at a cost to the capital programs of both NJDOT and NJ TRANSIT.

RECOMMENDATIONS

New Jersey's transportation system has a direct effect on the quality of life enjoyed by its residents and the State's economy. Clearly, the needs of the transportation network outweigh the resources available. This problem is only compounded by the impending insolvency of the TTF. The Commission has identified a package of comprehensive actions that will restore the financial viability and integrity of the TTF. These actions must be taken together and implemented immediately in order improve the transportation network and restore the public's confidence in the government's stewardship of the transportation system.

1. Fund a Transportation Capital Program to Begin Improving the Condition of the Transportation Network: Investment Option I.

As evidenced by the extensive needs outlined in this report, a significant level of new investment is required, especially in the areas of highway and bridge preservation, TRANSIT infrastructure and rolling stock and capacity to meet core transit system demand. The Commission evaluated several levels of capital investment that would provide for substantial improvement to highway, bridge, and rail conditions.

Given the impending insolvency of the TTF, the Commission seeks to ensure the level of investment is adequate to preserve the viability of this critical funding mechanism. The Commission also recognizes that increased funding requires increased revenues, and that proposing such an increase must be done responsibly, taking into full consideration current economic circumstances and the well being of residents and businesses of this State.

Therefore, at this time, the Commission recommends the adoption of Capital Investment Option I. Although the higher funding levels of Options II would make great strides to providing the safe and efficient transportation system New Jersey residents and businesses deserve, the Commission must in good faith recommend a level of investment that balances the financial needs of the State's transportation networks with the financial needs of its residents. Option I will provide for a combined annual capital investment program at a level of $3.1 billion -- $520 million more than the combined FY2004 capital program:

- **Highways** – stop the deterioration of the roadways in the State. In other words, NJDOT will continue to ensure that at least 47% of New Jersey's highway infrastructure is in acceptable structural condition.

- **Bridges –** stop the deterioration of bridges on the State system. This means, NJDOT will continue to ensure that at least 80% to 85% of all bridges in New Jersey are in acceptable condition.

- **Bus and Rail –** maintain bus and rail infrastructure and rolling stock in a state of good repair, including continuation of the private bus company replacement program and provide additional critical capacity in heavily congested corridors.

- **Local Aid –** increase local aid to counties and municipalities by $150 million, providing funds to repair roads, build sidewalks, and make intersections safer and less congested.

- **Safety** – complete safety-related projects intended to make travel safer with a goal of reducing the accident and fatality rate.

- **Rail Freight** –improve the shortline and rail freight networks in conjunction with local governing bodies to relieve congestion on our highways and enhance the efficiency of goods movement in support of our economy.

- **Aviation** –provide modest increases to preserve existing essential general aviation airports.

- **Maritime** –continue the State Channel Dredging program.

- **Bicycle/Pedestrian –** expand opportunities for local governments to provide bikeways and pedestrian walkways.

2. Increase Annual TTF Revenues

An increase in annual TTF revenues is required to achieve the objectives of Capital Investment Option I. In addition, an adherence to stricter conditions is required to return the TTF to its original mission of providing a stable and reliable source of capital funds. To this end, the Commission recommends the following:

a. Increase the State Motor Fuels tax by 12.5 cents per gallon but potentially by up to 15 cents. The 12.5 cents is recommended with the expectation that the reauthorization of the federal transportation program will bring an additional $125 million a year to New Jersey, or the equivalent of 2.5 cents in the State motor fuels tax. In addition, the new revenue should be constitutionally dedicated to the TTF Authority (TTFA).

b. Increase the TTF capital program to a 50/50 pay-as-you-go bonding ratio over the life of the program.

c. Provide for inflationary protection by indexing the Motor Fuels tax.

d. Dedicate full yield from new Motor Fuels Tax (currently $49.5 million/penny).

e. Capture revenues generated from heavy truck fees, good driver surcharges and contributions from toll road authorities to the TTFA over the next 10 years.

3. **Ensure Strict Adherence to Financial Standards**

The impending insolvency of the TTF is directly linked to decisions made over the past ten years to increase reliance on bonding, to extend the term of bonds from 10 to 20 years, and to raise spending caps without additional revenues. In addition, due to inadequate general fund appropriations, the application of TTF funds has been expanded to cover many maintenance operations at a cost to the capital programs of both NJDOT and NJ TRANSIT. To protect the TTF from ever becoming insolvent again, the Commission recommends the following:

a. Increase the TTF capital program to a 50/50 pay-as-you-go bonding ratio over the life of the program.
b. Cap the diversion of revenue from capital to fund maintenance and operation costs at the current level, with the goal of eliminating this practice over the next 10 years.
c. Cap the level of the annual capital program so as to not exceed the financial resources of the TTF based on the above limitations.

4. **Increase revenues for NJ TRANSIT operations**

Twelve years without an increase in passenger fares until 2002 on NJ TRANSIT trains and buses has led to a growing operating deficit, inadequate maintenance and subsequently, the siphoning off of State and federal capital funds for operating purposes. Therefore, the Commission recommends that NJ TRANSIT fares be indexed to inflation and that fares be raised accordingly.

5. **Improve Efficiency, Advance Smart Growth and Incorporate Best Practices to Maximize Investments**

The NJDOT and NJ TRANSIT have already demonstrated their commitment to improving efficiency and ensuring today's transportation investments benefit the State for years to come. The Commission is heartened by these developments, as they indicate that these agencies recognize their mission to be responsible stewards of the public's transportation infrastructure as well as the funds bestowed upon it by the public. Transportation funding must be used to combat sprawl and support economic growth in existing communities. Technology must be incorporated to improve safety and enhance the quality of life by creating system wide efficiency.

The Commission strongly encourages the NJDOT and NJ TRANSIT to increase efficiency and enhance best practices. NJDOT and NJ TRANSIT should examine efficiency measures and best practices adopted by other states and the private sector ensure that the public investments made in New Jersey's transportation infrastructure will be maximized.

6. Mandate Public Accountability: Financial Oversight of TTF Solvency

In light of the TTF's impending insolvency, the Commission recognizes that the significant increase in revenue it has recommended must come with increased financial accountability to the public. To assure future fiscal discipline, the Commission recommends the creation of a Financial Policy Review Committee, charged with the responsibility to evaluate the financing of transportation, prepare an annual "State of Condition of Transportation Financing" certification. This certification and accompanying documentation will focus on the financial condition and performance of TTF and all state transportation finance issues. The Committee should submit the certification to the Governor, the Legislature and the TTFA Board. Specifically, in issuing the certificate, the Financial Policy Review Committee must ensure that the TTFA meets the following financial standards:

- The ratio of bonding to pay-as-you-go financing does not exceed 50/50 of the TTF capital program over the life of the program;
- The diversion of revenue from capital to fund maintenance and operation costs must be capped at the current level, with the goal of eliminating this practice over the next 10 years; and
- The level of the annual capital program does not exceed the financial resources of the TTF based on the above limitations.

Once the certificate is attested to by the Financial Policy Review Committee and concurred to by the TTFA Board, it and the underlying documentation must be presented to the Governor and the State Legislature. Members of the Financial Policy Review Committee who falsely certify that the financial standards have been met would be subject to civil penalties for breach of their fiduciary duty to the public. The same civil penalties would be applied to those TTFA Board members who falsely concur with the certificate.

The Financial Policy Review Committee would be composed of five bi-partisan public members preferably with a background in public or corporate finance. The Governor, with the advice and consent of the Senate would appoint each member to a four-year staggered term.

The Commission also strongly advocates any legislation to reauthorize the TTF include provisions limiting TTF Authority's ability to issue more debt for new projects without a certificate of compliance from the Financial Policy Review Committee.

CONCLUSION

The Commission recognizes the enormity of the challenges detailed in this report and that the financial decisions made over the past decade have led to the impending insolvency of the TTF. The quality of New Jersey's transportation systems has a direct relationship to both the quality of life enjoyed by its residents and the vitality of its economy. As such, increasing funding for transportation and restoring the solvency of the TTF is imperative along with mandates to reassure the public's confidence in the government's stewardship of taxpayer dollars and the transportation network. The Commission strongly urges the Governor, lawmakers, and the public alike to adopt the comprehensive package of six policy recommendations of the Commission so that New Jersey's transportation system will continue to provide the residents and businesses of New Jersey with the mobility and economic support they need and deserve.