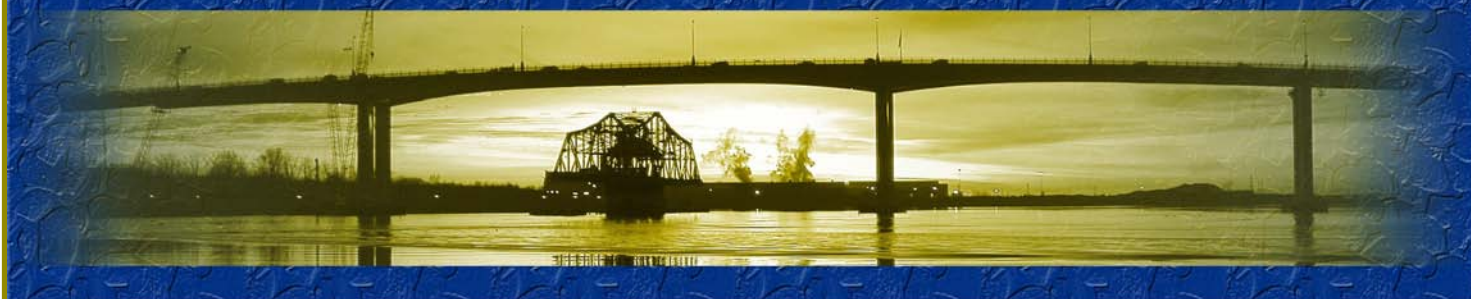


FUNDING NEW JERSEY'S TRANSPORTATION NEEDS



REFORM, REPLENISH AND GROW
THE TRANSPORTATION TRUST FUND

February 2006
State of New Jersey
Jon S. Corzine, Governor

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REFORM, REPLENISH AND GROW THE TRANSPORTATION TRUST FUND

Our transportation infrastructure is the backbone of New Jersey's economy, supporting more than 100,000 jobs annually. As we prepare the budget for FY2007, we are immediately faced with the impending insolvency of the Transportation Trust Fund (TTF) – which presents unacceptable risks to the safety and reliability of the transportation network.

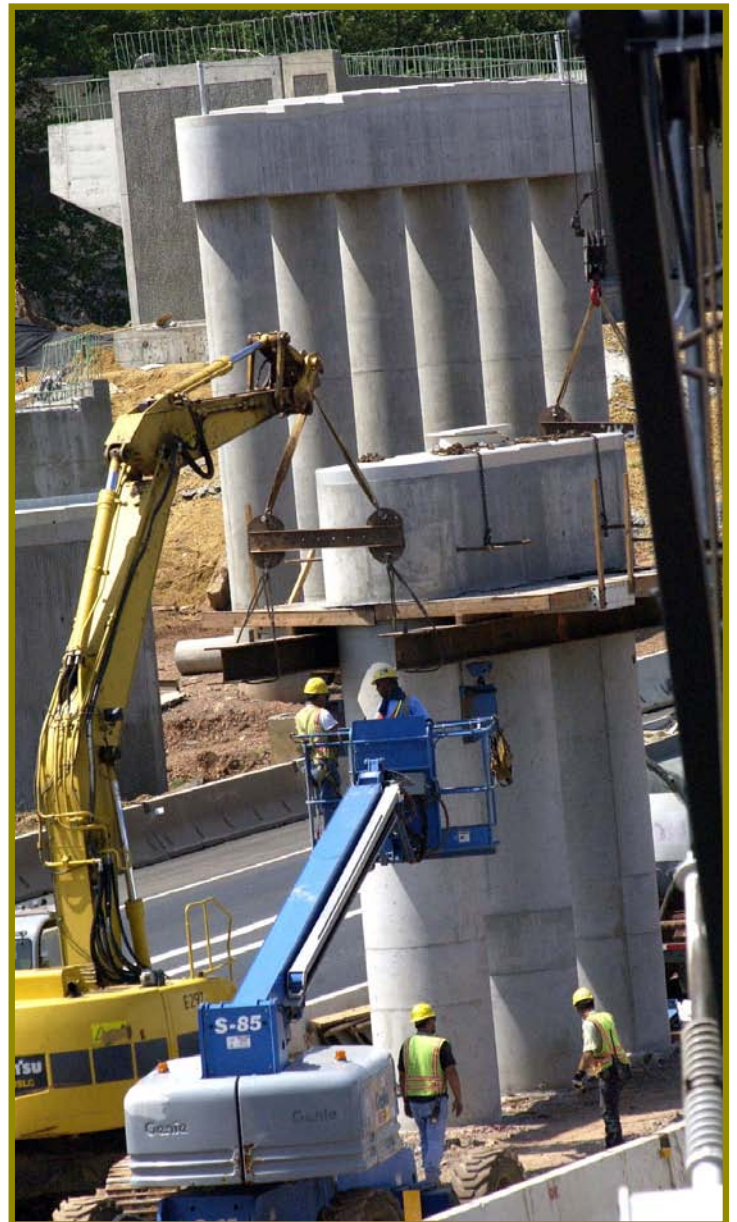
The TTF is running out of monies which would force the New Jersey Department of Transportation (NJDOT) and NJ TRANSIT to shut down core capital functions. Without significant net new revenues, the TTF would be unable to fund even the most basic safety and emergency repairs, intersection improvements and railroad rehabilitation projects. The insolvency of the TTF would also eliminate nearly \$150 million in grants that NJDOT currently provides to governments for local transportation improvements. Moreover, TTF insolvency would jeopardize New Jersey's share of federal transportation funds as federal matching requirements could not be met. These are unacceptable options.

While we work to develop strategies to address the stability and long-term viability of the Fund, we have a responsibility to reform, replenish and grow the TTF. Immediate steps must be taken to provide an appropriate level of funding to address our state's critical transportation needs. Our proposal involves the restructuring of outstanding bonds and beginning the process of recapturing and dedicating revenues originally intended for the TTF. Equally important, we must begin now to reform TTF to correct historic practices that contributed to our current crisis.

Specifically, reforming the TTF will include the following actions:

- Make progress towards recapturing and dedicating funds that were originally intended to fund TTF, but have been diverted over the last decade to the general fund.
- Freeze the level of TTF funds used for capitalized maintenance projects, which are projects that have a useful life of five years or more.
- Create an Independent Financial Policy Oversight Board charged with the responsibility to ensure TTF fiscal discipline and public accountability.

- NJDOT and NJ TRANSIT must maintain a pay-as-you-go program to ensure that some projects are financed using existing revenue sources.



I. TODAY'S CHALLENGES & NEEDS

In 2003, the Blue Ribbon Commission thoroughly documented the resources needed to safely and reliably maintain New Jersey's transportation assets and fund critical projects. The total need over the next 10 years is more than \$4 billion annually. While New Jersey's roads and bridges are the most obvious and expensive challenges, the State's overall transportation infrastructure is deteriorating faster than it can be repaired and rehabilitated. For example, in the current fiscal year more than \$200 million of critical system preservation projects are ready to be advertised for construction but will be deferred due to lack of funding. At NJ TRANSIT, crucial capacity expansion projects including Access to the Region's Core/THE (Trans-Hudson Express) Tunnel are needed to meet the expected demand of a million more New Jersey residents over the next 20 years.

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

Recognizing the scope and magnitude of the State's transportation needs highlights the requirement for a solid capital program that funds critical safety, reliability and transit capacity expansion projects.



II. FIVE-YEAR PLAN TO FUND THE TTF

Transportation investment will be funded by a combination of restructuring existing TTF debt, dedicating new revenues to TTF and increasing new TTF bonds.

The \$1.6 billion annual capital program will provide for the following annual increases:

- \$25 million to Local Aid for a total of \$175 million
- \$229 million to NJDOT for a total of \$750 million;
- \$145 million to NJ TRANSIT for a total of \$675 million.

This significant level of investment will ensure that our roadways, bridges and public transit systems are safe and reliable. In addition, this increase will provide for core capacity expansion at NJ TRANSIT and substantial congestion relief and safety projects at NJDOT.

The transportation investment plan will restructure approximately \$1.8 billion (24 percent) of the TTF's existing \$7.4 billion in outstanding debt to produce a new debt service schedule that totals \$700 million annually until FY2023. The average life of the bonds being restructured is 7.8 years and the average life of the new refunding bonds will be 15.0 years. The reduction of debt service to \$700 million annually will free up to \$105 million of existing constitutionally dedicated revenue to support capital projects. The restructuring will result in a net present value savings of approximately \$1 million.

Attaining a five-year \$1.6 billion per year annual capital program requires annual revenues of \$895 million. At the current annual revenue level of \$805 million, the TTF will have no capacity to finance new projects beginning in

FY2007. Under this Finance Plan, the TTF will generate \$90 million of net new revenue through reforms.

This new revenue will come from the following sources:

- Dedicate all 10.5 cents of the gas tax to the TTF – \$78 million in revenue;
- Recapture one half of the existing toll road contribution meant for TTF since FY2001 – approximately \$12 million.

Between the restructuring (\$105 million) and the new dedicated revenues (\$90 million), the TTF will have \$195 million annually to leverage a new five-year spending program. The TTF will then engage in five new money transactions, enough to fund a capital program of \$8 billion over the next five years. The bonds will have a maximum maturity of 30 years. The lengthening of maturities from the current 20-year restriction to 30 years is supported by the long life of transportation capital investments. Moreover, a final maturity of 30 years is not unprecedented as the federal government and states including both Massachusetts and Louisiana utilize 30-year bonds.

The estimated weighted average useful life of the capital program being financed is 21 years. Our program will also maintain a \$594 million “pay-as-you-go” component. TTF estimates the \$6.97 billion is sufficient to cover all anticipated project cash disbursements over the next five years.



Transportation Trust Fund Authority Finance Plan FY 2007-2011 Legislative Reauthorization

(Millions of Dollars)

Revenue Sources

Revenue Source	FY 07	FY 08	FY 09	FY 10	FY 11	Total
Existing Motor Fuels Tax (9 Cents)	405	405	405	405	405	2,025
Petroleum Gross Receipts	200	200	200	200	200	1,000
General Sales Tax	200	200	200	200	200	1,000
Subtotal Constitutional	805	805	805	805	805	4,025
New Revenue						
Remaining 1.5 Cent Motor Fuel	78	78	78	78	78	390
Toll Road Contributions	12	12	12	12	12	60
Subtotal New	90	90	90	90	90	450
Total Revenues	895	895	895	895	895	4,475

Capital Program Contract Authority

Description	FY 07	FY 08	FY 09	FY 10	FY 11	Total
Planned Program	1,600	1,600	1,600	1,600	1,600	8,000

Source: Transportation Trust Fund Authority

III. A PLAN TO REFORM THE TTF

There are four important reform actions that are included in this program, together with the TTF funding plan. The companion reform initiative includes the recapturing of certain revenues intended for TTF, freezing capital maintenance at current levels, creating an independent Financial Policy Review Board, and maintaining a core “pay as you go” program. Another substantial commitment of this program is to direct investments that encourage Smart Growth.

GENERATE NET NEW REVENUE

Dedicate remaining 1.5 cents of motor fuels tax to the TTF. Only 9 cents of the 10.5 cent gas tax is currently dedicated to the TTF. The remaining 1.5 cents is retained by the Treasury to pay off old bonds. These bonds are now substantially paid off and the remaining 1.5 cents must be dedicated to the TTF. This dedication is imperative to demonstrate that revenues already collected for transportation purposes will be used exclusively for transportation purposes.

Recapture at least half of the statutorily dedicated Turnpike contribution to the TTF. Current law requires that \$24.5 million in toll road revenue is committed to the TTF. However, 100% of the revenue currently goes to the general fund. Recognizing the larger budgetary challenges facing the state, it is important to begin redirecting at least half of the intended revenue to transportation purposes through the TTF.

FREEZE USE OF TTF FUNDS FOR CAPITALIZED MAINTENANCE

The practice of using TTF funds for capitalized maintenance projects must at least be frozen at the current level or less and must be used only for projects that have a five-year useful life. In addition, only capital expenses that represent five-year useful life investment will be included in the program.

MAINTAIN PAY-AS-YOU-GO IN ANNUAL CAPITAL PROGRAM

It is fiscally prudent to ensure that a portion of the capital program will continue to be funded on a “pay as you go” basis. The constitutional dedication of additional funds will introduce net new revenues into the TTF for the first time in years, and will help prevent a capital spending program that is solely reliant on debt-financing. Specifically, over a five-year period (FY 2007-2011) the “pay as you go” program will total \$590 million.

ESTABLISH INDEPENDENT FINANCIAL POLICY REVIEW BOARD

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 accountability is critical to the future solvency of the TTF as well as to the ability of the TTF to target transportation investments in projects that will have significant impact on

the State’s economy and enhance the quality of life of our residents today and in the future.

As a result of certain financial decisions, the original intent of the TTF to fund necessary transportation improvements has been severely compromised. The public should not expect 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. Borrowing directly from the 2003 Blue Ribbon Commission Report as well as the 2005 Regional Plan Association’s report, “*Putting the Trust Back in the New Jersey Transportation Trust Fund*”, this plan recommends that an independent Financial Policy Review Board be established to help protect the TTF from future insolvency.

Statutory language will be introduced to provide for such assurances. This independent oversight board is charged with evaluating the financial condition and performance of the TTF and all state transportation finance issues. This Board will ensure that the following financial standards are adhered to by the TTFA:

- The use of TTF monies for capital maintenance is frozen at the current level, with the goal of eliminating the use of TTF monies for capital maintenance over 10 years.
- The level of the annual capital program does not exceed existing TTF resources.

The Board will review, advise, oversee and hold accountable all relevant parties to ensure that funding for the State’s transportation infrastructure is fiscally prudent. The Board will also certify that the TTFA is only providing resources at a responsible and sustainable level. This Board will be independent and provide a balance between the interests of the Legislature, Executive Branch and various stakeholders.

INVEST IN SMART GROWTH PROJECTS

Over the last decade, hundreds of millions of dollars have been spent on highway expansion projects that contributed 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. New Jersey cannot build its way out of its congestion problems. Land use and transportation are inextricably linked.

NJDOT and NJ TRANSIT must invest wisely in capital improvements that will resolve transportation problems without causing new ones. The capital programs of both NJDOT and NJ TRANSIT will adhere to the principles of Smart Growth, which will curb sprawl by incorporating land use into the transportation equation. 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.

IV. INVESTING WITH A PURPOSE: A FIVE-YEAR CAPITAL PLAN

A fiscally sound transportation system is vital to New Jersey's economic growth. The refinancing and reform initiatives as proposed constitute a \$1.6 billion annual capital program over five years beginning in FY 2007. Our proposal will allow NJDOT and NJ TRANSIT to continue the long-standing commitment to "Fix-It-First" by repairing and rehabilitating deteriorating infrastructure, and make

substantial progress toward maintaining a state of good repair and advancing critically needed capacity expansion projects. In addition, this program will support 100,000 jobs annually over the next five years. The program also increases local aid to municipalities by \$25 million annually. Moreover, this program advances many transportation Projects of Regional Significance, including projects in the chart below.

PROJECTS OF REGIONAL SIGNIFICANCE: NJDOT

(not all-inclusive)

Route		County
1&9	Haynes Avenue Bridges	Essex
1&9	NYS&W Railroad Bridge	Bergen
1&9T	St. Pauls Avenue Bridge	Hudson
3	Passaic River Crossing	Bergen/Passaic
17	Essex Street Bridge	Bergen
18	Interchange/CR 516/527	Middlesex
18	Hoes Lane Extension	Middlesex
22	Liberty Avenue/ Conrail Bridge	Union
22	Sustainable Corridor	Somerset
23	Hardystown Township	Sussex
31	Raritan Valley Line Bridge	Hunterdon
33	Conrail Bridge	Mercer
35	Manasquan River Bridge	Monmouth/Ocean
36	Highlands Ave Bridge	Monmouth
46	Rockaway River Bridge	Morris
49	Cohansey River Bridge	Cumberland
50	Tuckahoe River Bridge	Cape May
52	Causeway Replacement (B)	Atlantic
56	Maurice River Bridge	Salem
57	CR 519 Intersection	Warren
57	Corridor Scenic Preservation	Warren
70	Massachusetts Avenue	Ocean
73/70	Marlton Circle Elimination	Burlington
73	Fox Meadow Road	Burlington
78	Edna Mahan Frontage Road	Warren
78	Garden State Parkway Interchange	Union
78	Resurfacing	Somerset
95	Resurfacing	Ocean
120	Paterson Plank Road	Bergen
139	Hoboken Viaduct (3)	Hudson
206	Assiscunk Creek Bridge	Burlington
206	CSX Bridge	Somerset
I-295/Route 42	Missing Moves	Camden/Gloucester
	Trenton Amtrak Bridges	Ocean

IV. PROJECTS OF REGIONAL SIGNIFICANCE: NJ TRANSIT

(not all-inclusive)

*Access to the Region's Core/THE Tunnel

Hudson Bergen Light Rail Extensions

Southern NJ Rail Initiatives - PATCO Rail Extension

Northeast Corridor-Central NJ Regional Rail Station/
Park Ride

River Line Signal Improvements

Lackawanna Cutoff Commuter Rail Extension

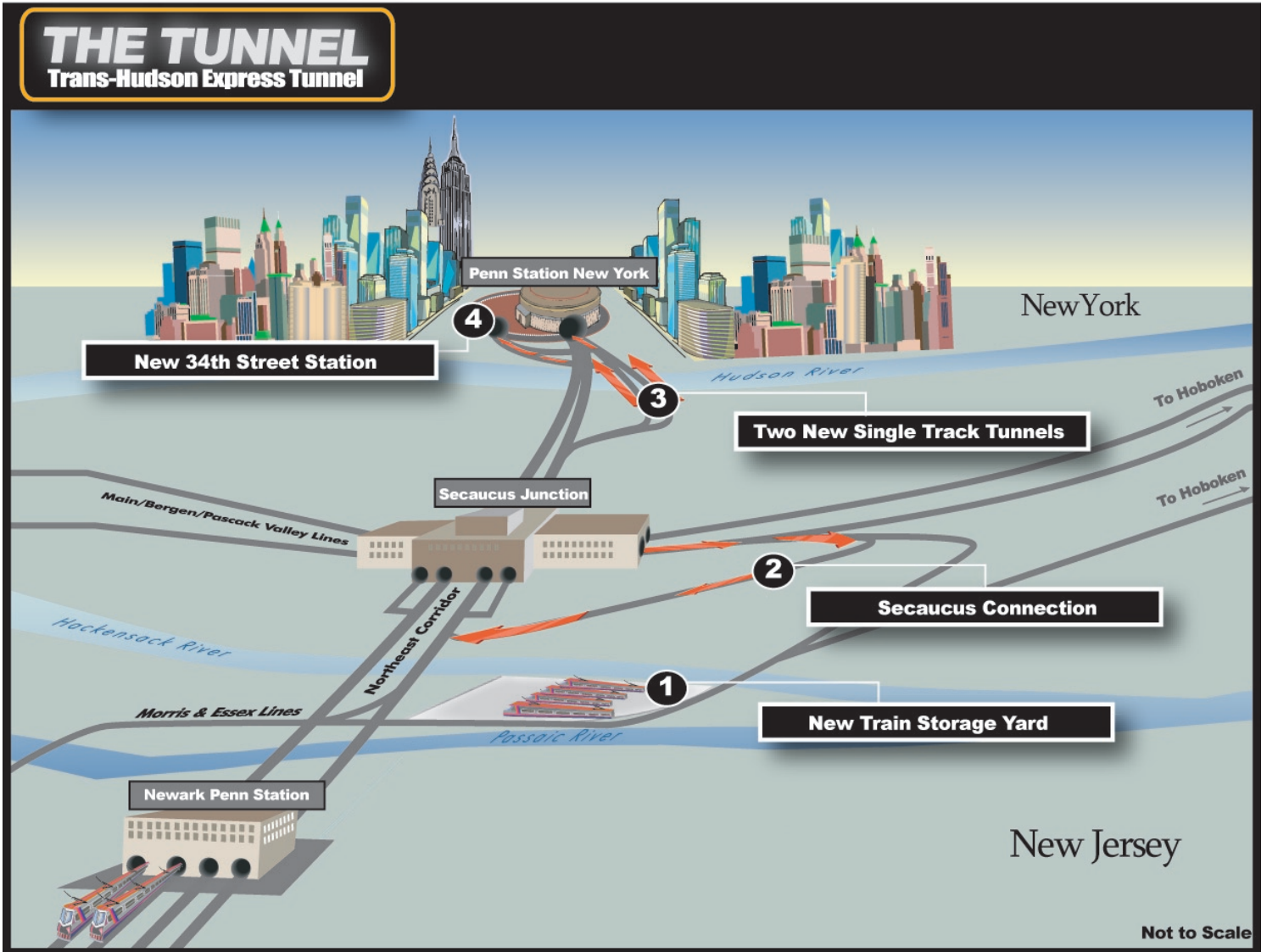
Northern Branch Passenger Rail Restoration

Central NJ Rail Extension to Lakehurst (MOM)

Hawthorne-Hackensack DMU Service

3/1/06

* This program provides a significant TTF investment of more than \$500 million in the ARC/THE Tunnel Project. When combined with the anticipated Port Authority of New York and New Jersey capital investment, additional federal support will be leveraged and all project components will be advanced including substantial construction.



ROADWAY PRESERVATION

In recent years, the deterioration of New Jersey's highways has accelerated, stimulating increased spending both for long-term and emergency projects. Almost 49 percent of our state highway system pavement is classified as "deficient," creating safety concerns, impeding traffic flow, and threatening premature failure of the highway.

This capital program will increase roadway preservation projects by approximately \$100 million a year. The rate of roadway deterioration will substantially decline at this level of investment. For FY2007, we estimate that about 300 lane miles of our interstate system and about 350 lane miles of other state highways will be rehabilitated, resurfaced, or treated by preventive maintenance measures.



BRIDGES

Restoring highway bridges to a state of good repair will be a top priority of NJDOT. Our bridge inventory continues to age and to handle huge traffic loads. Only 667 out of a total population of 2,600 state highway bridges are currently in acceptable condition. Despite increased funding in recent years, the backlog of bridge needs continues to grow. The increased funding levels over the next five years will begin to reverse the rate of deterioration.



The FY2007 capital program advances the next wave of major (high-cost) bridge projects including:

- Route 1&9T over St. Paul's Avenue, Route 3 over the Passaic River, Route 7 over the Hackensack River (Wittpen Bridge), Route 36 Highlands Bridge over the Shrewsbury River, Route 52 Causeway (Contract B), and Route 139 Contract 3 (Hoboken and Conrail Viaducts).
- Other major structures (notably the Pulaski Skyway) will be programmed for rolling programs of life-extending repairs or "right-sized" rehabilitation projects. It would be impossible to replace all of our deficient bridges in a short period of time, even with greatly increased funding, so NJDOT is using sophisticated engineering approaches to manage these assets and keep them serviceable.
- All of New Jersey's movable bridges will be rehabilitated.
- Funding will be increased for programs that extend useful bridge life, including emergency repair contracts, rehabilitation of bridge decks, bridge painting (especially critical to stop deterioration in marine environments), and reconstruction of "orphan" bridges (highway bridges over railroads, often without clear ownership).

SAFETY

Approximately \$57 million of FY2007 funds are allocated to various Safety Programs. NJDOT developed a Comprehensive Strategic Highway Safety Plan to reduce roadway crashes, injuries, and deaths. The plan's goals include curbing aggressive driving, improving design and operation of intersections, increase driver safety awareness and reducing pedestrian, bicycle, rail and vehicular conflicts.

NJDOT will continue to give top priority to the installation of safety median barriers, with a target of 25 miles in FY2007. Several closely spaced cross median crashes with multiple deaths occurred in late 2002 that prompted the NJDOT to begin a program to identify and install median barrier treatments where none had existed and where crash data supported their installation.

NJDOT initiated a senior safety pilot program, which implements low-cost safety improvements such as pavement marking and sign enhancement programs geared toward senior pedestrian and driver. NJDOT's safety improvements have included signage upgrades with reflective material for better visibility; enhanced pavement markings for better nighttime and wet weather visibility; and traffic signal timing improvements for both drivers and pedestrians.

CONGESTION RELIEF

Significant congestion results in increased driver stress, reduced quality of life, wasted fuel, increased air pollution and decreased productivity. National studies demonstrate that New Jersey ranks among the most congested areas in the country. NJDOT's Future in Transportation (NJFIT) philosophy reinvests in existing infrastructure, restricts major capacity increase projects and plans transportation improvements in the context of land use.

12 targeted corridors are now engaged in congestion reduction planning and major capacity relief projects address the constraints, or "bottleneck" effect of intersections and interchanges. Old, outdated or substandard geometries coupled with increasing traffic have overwhelmed many of these locations. NJDOT has programmed funds to address 43 high priority locations throughout the State in FY2007, such as:

- I-295/42/I-76 Interchange Improvement, \$380 million;
- I-78/Garden State Parkway Interchange Improvements, \$85 million;
- Route 17 (Bergen County) Intersection Improvements, \$14 million and;
- Route 73/70 Marlton Circle Elimination, \$37 million.

When completed, each of these projects will drastically reduce congestion and increase overall system performance.

NJ TRANSIT STATE OF GOOD REPAIR

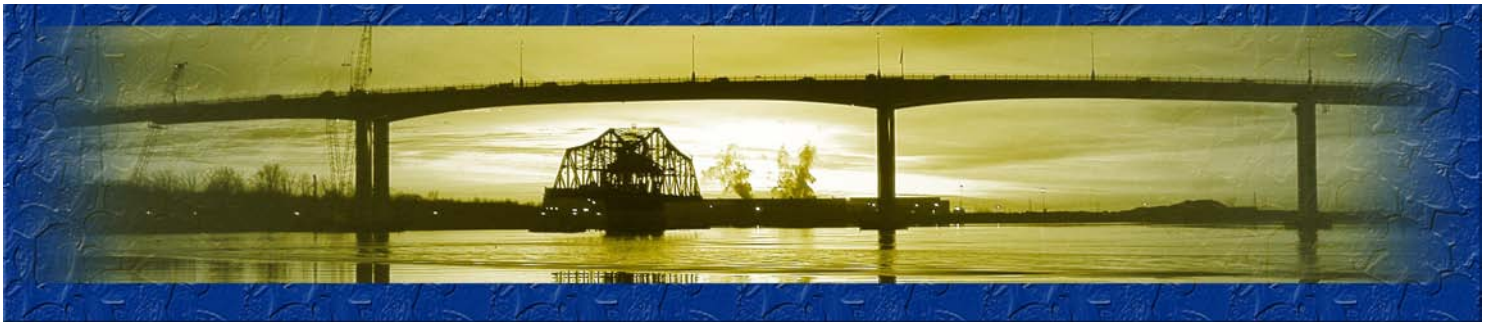
Infrastructure and equipment upgrades are central to ensuring safe and reliable performance. This program enables NJ TRANSIT to replace every one of the nearly 1,200 transit-style buses in the fleet over the next several years, replace 1970s vintage Arrow III self-propelled rail cars on the Northeast Corridor, Morris and Essex Lines, North Jersey Coast Line, and 42 locomotives, as well as rehabilitate 148 rail cars in use system-wide.

The program will enable the Corporation to address long overdue major bridge projects including the rehabilitation of the 100+ year old Newark Drawbridge, expansion of the Portal Bridge over the Hackensack River on the Northeast Corridor, replacement of the timber approaches of the Coast Line's Shark River Drawbridge and the replacement of bridges along the Raritan Valley line. The program will also provide for track renewal, passenger communication upgrades, signal system upgrades, and improvements to overhead power lines and electric substations.

Additional transit improvement projects include:

- Hoboken Terminal restoration & Long Slip Pedestrian Overpass;
- Ridgewood Station high-level platform Improvements;
- Wildwood Bus Terminal Rehabilitation;
- New Route 23 park & ride construction;
- New Mount Arlington Station;
- Newark Broad Street Station reconstruction;
- Platform rehabilitation and extension at Newark Penn Station;
- Bloomfield Newark City Subway Station Reconstruction;
- New Atlantic City Jitney buses;
- Lakewood bus terminal rehabilitation;
- Improved same platform transfer for Raritan Valley Line customers with Newark Penn Station improvements;
- White House passenger siding construction;
- Somerville Station high-level platform Improvements;
- Metropark platform expansion and reconstruction;
- Edison Rail Station platform and parking expansion;
- New Burlingame buses.
- South Amboy train station construction and parking garage;





CONCLUSION

The transportation network is an important engine driving the growth and prosperity of the state and regional economy. Our plan provides a robust capital program that spurs economic growth, improves mobility and ensures the safety and reliability of the transportation system. It also delivers reforms that enhance the fiscal responsibility and public accountability of the TTF. Additionally, the Plan provides a pathway to a long-term fix for the TTF while delivering needed congestion relief and transit capacity that will enhance the quality of life for New Jersey residents.

2/28/06