



Report of the Transportation Transition Policy Group

SUBMITTED TO GOVERNOR-ELECT JON S. CORZINE

Final Report

January 23, 2006

Preface

New Jersey's Transportation Trust Fund is going broke.¹ Although the state is facing a sizeable budget deficit, and property tax relief and funding for education have dominated public debate in recent months, New Jersey's most pressing financial problem is transportation funding. Therefore, it is essential that the state focus on the need for a robust Transportation Trust Fund while addressing the hard choices to be made balancing the budget. This is a crisis that demands Governor Corzine's immediate attention.

By June 30, 2006 New Jersey will have depleted almost all of the revenue sources it now uses to pay the costs of maintaining and expanding its road and mass transit systems. Nearly every penny paid through the state motor fuels taxes and other constitutionally dedicated taxes and fees will be needed to cover debt from past transportation spending. This marks the demise of a stable and sufficient source of transportation capital – the Transportation Trust Fund – that a prior generation of public leaders fought to create in 1985. Moreover, if the problem isn't corrected quickly, billions in federal funds, which make up about half of the annual transportation capital program, may be lost due to the State's failure to supply matching funds.

By the next day, July 1, 2006, the Commissioner of Transportation projects the following immediate impacts will take effect: mandatory layoffs for 3,200 NJDOT and NJ TRANSIT employees, transit service cuts by 24%, causing daily ridership to drop by 75,000 riders, and termination of Local Aid grants to municipalities and counties. Most importantly, the Commissioner of Transportation will no longer be able to ensure the safety of New Jersey's roads and rails.²

Of an even more pressing nature, the Commissioner of Transportation reports that funds must be included in the FY 2007 budget to meet legal obligations. By March 1, 2006, if a renewal of the Transportation Trust Fund has not occurred, the Governor's 2007 Budget must include \$485 million from the General Fund to the Transportation Trust Fund Authority, with \$405 million to pay billings on on-going contracts to avoid tort claims and \$80 million to fund regionally significant projects to meet federal financial requirements. Although a federally-funded capital program could be submitted, much of the funding would be absorbed in financing debt service on transit rolling stock and paying for operating costs in the form of preventive maintenance that have recently been financed with TTF capital resources. And at this \$485 million funding level, TTF will not support a 2007 Capital Program, NJDOT and NJ TRANSIT must stop the award of new TTF contracts in 2006 as no cash will be available to pay contract billings in 2007, and the massive layoff plans and transit service cutbacks will proceed.

Such a crisis seems wildly implausible in a state with the second highest per capita income in the nation, annual government revenues of billions of dollars and a heavy reliance by its economy on its transportation system, but it is now imminent.

¹ *Putting the Trust Back in the New Jersey Transportation Trust Fund, Executive Summary*, Regional Plan Association, July 2005.

² *Supplemental Transition Report: Transportation Trust Fund*, NJ Department of Transportation, January 2006.

A combination of factors over the last decade - increased bonding, insufficient revenues and inadequate appropriations for operations and increased investments to meet travel needs - have made the situation even more dire than predicted two years ago by the Blue Ribbon Transportation Commission.³ The simple fact is that Governor Corzine must fix the Transportation Trust Fund now.

It's difficult to overemphasize the extent to which transportation drives New Jersey's economy. The state's status as a premier consumer, job and residential market is unthinkable without a robust and constantly improving transportation system. The goods movement industry alone employs 400,000 workers, and freight transportation and distribution continue to grow as sources of employment and wealth in the state, increasing New Jersey's economic reliance on its transportation infrastructure even further. The current crisis, if not properly and promptly resolved, will set in motion a period of disinvestment in which already-strained transportation infrastructure steadily deteriorates and deters the investment of private capital, altering the location decisions of New Jersey's future workers and employers.⁴

It costs over \$3.75 billion (in state and federal funds) each year to operate, maintain, renew and expand New Jersey's transportation system – to repair the roads after accidents, paint bridges, drive the buses, buy new trains, and everything else that allows New Jersey's neighborhoods and businesses to thrive.⁵ Because the TTF will only be able to use its current revenue stream for debt service for the next 15 years, the State must now raise a significant amount of revenue to prevent the collapse of its transportation system and to protect New Jersey's core transportation infrastructure. Even more will be needed to relieve congestion at troublesome intersections and build projects like the Trans-Hudson Express Tunnel, and expand the State's transit system with projects such as the Bergen / Passaic County passenger rail restorations, Meadowlands/Sports Complex/Secaucus HBLR Connection, Somerset-Mercer Rail Extension and the Atlantic City-River Line Connection.⁶

With funding gaps of this magnitude and a crisis so potentially devastating, the State must look beyond vague financing measures and the limited savings that could result from cutting waste. Instead, Governor Corzine must take bold steps now to promote a vision of New Jersey's transportation system for the 21st Century, and propose both new revenue to keep New Jersey moving and reforms of the system to put the public trust back in the Transportation Trust Fund.

³ For more information, see *Blue Ribbon Commission Report, A Report to Governor James E. McGreevey and the New Jersey Legislature*, November 2003.

⁴ *A Transportation-Driven World Class Economy: New Jersey At Risk*, Dr. James W. Hughes and Dr. Joseph J. Seneca, Rutgers Regional Report, April 2005.

⁵ *Reform, Revenue, Results: How to Save New Jersey's Transportation System*, Regional Plan Association, November 2005.

⁶ *NJ Transit Transition Report*, New Jersey Transit, January 4, 2006.

EXECUTIVE SUMMARY

The Transportation Transition Policy Group recommends that the Governor-elect consider the following recommendations:

I. Leadership

Communicate a long-term vision; gubernatorial leadership is critical NOW:

- Within the next 30 days, establish and communicate a long-term vision for the transportation system in New Jersey and a financial plan that ensures a substantial capital program and sufficient new revenue for a permanent program or, at minimum, the next two years.
- Form an inter-departmental working group immediately that would advise the Governor on a long-term transportation capital investment plan to implement his vision and provide sustainable resources throughout the life of this plan.

II. Revenue

Raise sufficient new revenue for a substantial transportation financing program:

- With the General Fund confronting a considerable deficit for FY 2007, revenue for transportation capital investment for a permanent and a two year program will have to be raised from new sources.
- Restore and begin stabilization of resources for the operating budgets of both NJDOT and NJ TRANSIT by considering the Constitutional dedication of existing operating resources (\$360 million) and \$200 million from the General Fund.
- Establish a NJ TRANSIT fare policy that specifies a cost recovery ratio.

III. Governance

Establish financial oversight to reform the TTF and restore public trust:

- Create a politically independent Financial Policy Review Committee to review, oversee and hold accountable all relevant parties to ensure the TTF remains solvent and the State's transportation system – both operations and the capital program - is stably funded.
- Issue 6-month reports on all revenue raised by transportation-related taxes, tolls and fees.

IV. Long-Term Solution

Develop a long-term solution to restore the Transportation Trust Fund:

- If a decision is reached to propose a two-year program, continue the inter-agency working group and charge it with developing a long-range solution for restoration of the TTF.
- Create a Senior Transportation Advisory Board reporting to the Governor charged with ensuring long-term, sustainable financing for the TTF.

V. Challenges and Opportunities

The Governor is faced with a number of challenges and opportunities relating to New Jersey's Transportation Infrastructure:

- Aging/Failing Transportation Infrastructure
- The Trans-Hudson Express (THE) Tunnel
- Federal-State Partnership on the Northeast Corridor (NEC)
- Goods Movement/Liberty Corridor Board
- Federal Commitment to the Corridor States
- Newark Liberty International Airport (NLIA) Economic Viability
- Safety and Security

Strong Leadership

Bold thinking is necessary to preserve New Jersey's vital transportation system and provide new transportation capacity that will enhance New Jersey's economic competitiveness and promote a higher quality of life. The crisis is real; solutions are very difficult. Governor Corzine must exhibit rare leadership now. His response to this crisis will set the stage: He will either be credited with saving the system and creating a legacy of sizable, important transportation improvements, or he will be held responsible for the demise of New Jersey's highways, bridges and transit systems. A new financial plan must be adopted prior to the Legislature's budget break in March to avoid crisis and instill confidence in this program.

In addition, the Governor must communicate a long-term vision for transportation in the 21st Century. This vision must consider the need to ensure safety on our roads, rails, and ports, expand transit service throughout the state, provide sustainable mobility, and employ congestion mitigation programs that will encourage competitive advantage and smart growth. This vision should result in a plan released to the public no later than this summer identifying those improvements to the transportation system to be completed over the next two decades if new funding is authorized by the Legislature and approved by the voters through a constitutional dedication ballot initiative this November.

New Revenue

Raising sufficient new revenue to stabilize the TTF is essential to preventing the transportation system from slipping into a crisis. Bringing NJDOT and NJ TRANSIT up to a state-of-good-repair would require a \$3.35 billion capital program.⁷ While \$3 billion in new revenue appears untenable given the current legislative atmosphere and the General Fund budget deficit, the Governor must keep the system operational until a long-term sustainable solution is found. The TTF requires resources to support a \$1.3 billion capital program simply to survive.⁸ Any strategy to produce long-term financial stability must, at minimum, incorporate steps to prevent chaos and instability in the short-term, including but not limited to:

- Substantial, constitutionally-dedicated revenue that can produce at minimum a \$1.3 billion annual state capital program. (Even at the \$1.3 billion funding level, the condition of New Jersey's transportation infrastructure will continue to decline.⁹)
- Redirecting both statutorily dedicated funds from the General Fund and other transportation related revenues to the Transportation Trust Fund – \$114.5 million. (Another option is to Constitutionally dedicate the \$360 million now devoted to operations in the General Fund (including the \$114.5 million), as well as another \$200 million from the General Fund to start the drawdown of the capital-to-operating transfers, thereby beginning the process of stabilizing operating budgets and, in the process, freeing up to \$200 million in the annual state capital program for capital purposes.) (See *Appendix*.)

⁷ Ibid.

⁸ *Supplemental Transition Report: Transportation Trust Fund*, NJ Department of Transportation, January 2006.

⁹ Ibid.

- Conduct a thorough review of departmental costs.

A longer-term objective that coincides with a consistent revenue stream for a substantial capital program is the restoration and stabilization of resources for the operating budgets of NJDOT and NJ TRANSIT. This includes ending the structural deficit in the transportation operations budget and establishing a fare policy for NJ TRANSIT to keep pace with expenses.¹⁰ The Governor must look at transportation finance holistically -- understanding that inadequacies and unpredictability in operating budget appropriations and unrealistic transit fare policies have had adverse consequences on the capital budget.

If this is ignored – as has been the practice in the past – the state runs two risks: operating budget needs will continue to consume our capital resources, perhaps at a growing rate; the inadequacies of the state’s routine maintenance of its highways and bridges will lead to rapid deterioration of facilities and accelerate the need for major rehabilitation.

Three early steps that can be taken toward the stabilization of the operating budget are as follows:

- Constitutionally dedicating currently statutorily dedicated funds from the General Fund and other transportation related revenues to pay for NJDOT and NJ TRANSIT operations. (See Appendix)
- Establish a NJ TRANSIT fare policy that specifies a cost recovery ratio. (Suggestions for ratio in referenced RPA report.¹¹)
- Conduct a thorough review of departmental costs.

Oversight and Reform

If the public is to believe that transportation finances will henceforth be managed prudently, accountability for assuring its continued viability must be clearly established and its workings not hidden from public view. Reforms are necessary to guarantee that the Trust Fund will not find itself in this crisis again.

To that end, the Governor should work to create a politically independent Financial Policy Review Committee to oversee all relevant parties to ensure the TTF remains solvent.¹² Treasury should provide the Committee with half-yearly reports on transportation-related revenues. With this information in hand, the politically-independent Committee would be empowered to certify that requests are consistent with resources available from the Transportation Trust Fund, financing practices will ensure that the Trust Fund remains sustainable, current operating costs are being adequately and properly financed, and future operating costs for capital projects selected can be supported .

¹⁰ *Reform, Revenue, Results: How to Save New Jersey’s Transportation System*, Regional Plan Association, November 2005.

¹¹ *Putting the Trust Back in the New Jersey Transportation Trust Fund, Executive Summary*, Regional Plan Association, July 2005.

¹² Assembly members John Wisniewski and Peter Biondi and Senator Joseph Doria have proposed legislation that would create the Review Committee.

A Long-Term Solution

Assuming that a short-term financing plan proves the only feasible solution for this current budget cycle, a long-range solution to the TTF must be developed to maintain and improve New Jersey's transportation infrastructure. An inter-agency working group of representatives from Treasury, NJDOT, NJ TRANSIT, the Turnpike Authority and other officials would be responsible for looking at capital needs, operating needs, choosing new and sufficient revenue streams, developing plans to stabilize the transportation operating budgets, and communicating the Governor's transportation vision and the critical nature of the TTF and operating stability to the State's well-being. This kind of focused, collaborative effort is an essential first step for dealing with a public financing problem of such complexity.

The creation of a Senior Transportation Advisory Board would, over the next two years, be tasked with reviewing the recommendations of the inter-agency working group and providing recommendations to the Governor. Furthermore, the board would work in parallel to the inter-agency working group, to establish a public outreach program with adequate resources necessary to effectively communicate the Governor's message.

Challenges and Opportunities

Aging/Failing Transportation Infrastructure

Maintaining New Jersey's transportation infrastructure has become increasingly difficult as roads and bridges age and degrade at an accelerating rate. The NJDOT's ability to adequately maintain the condition of these assets and therefore extend their life becomes more challenging as needs continue to grow and resources continue to be vastly insufficient. The NJDOT continues to optimize limited financial resources to address these myriad needs however key elements of the transportation infrastructure have not been sufficiently preserved, due to operational and funding barriers. While New Jersey's roads and bridges are the most obvious and expensive challenges, New Jersey's overall transportation infrastructure generally is deteriorating faster than it can be repaired and rehabilitated, from drainage systems to road signs and traffic signals. The deterioration of New Jersey's transportation infrastructure is only accelerated by the capital and operating funding crises described above.

Substantial increases in infrastructure investment are needed immediately to reverse the continued deteriorations of our highway system and to address critical infrastructure needs (See Figure below) *In FY 2006 alone over \$200 million of critical system preservation projects are ready to be advertised for construction but have been deferred because funding is not available.* Over the next four years the backlog of projects ready for construction could reach over \$1 billion.

The cost of needed repairs to the highway system will continue to escalate exponentially if the system is allowed to deteriorate at its current rate, having a major negative impact to the movement of goods and services in New Jersey and to the motoring public. (See attached for more detail¹³)

¹³ More detailed breakdown of infrastructure deterioration attached

THE Tunnel

Today, the most strategically vital capital project on NJ TRANSIT's agenda is The Trans-Hudson Express (THE) Tunnel, estimated to cost \$6 billion. Governor-elect Corzine strongly supported this project as U.S. Senator. THE Tunnel project would more than double capacity and widely expand one-seat rides to Manhattan. It would also lay the foundation for future expansions of the commuter rail system in northern, central and western New Jersey. From a security perspective, it would also provide redundancy in the region's transit network in one of the most intensely traveled and most vulnerable corridors, between northern New Jersey and Midtown Manhattan.

This project could have a powerful beneficial effect on the region's economy. THE Tunnel is projected to add \$10 billion to the Regional Gross Product over the decade following its 2015 projected completion.¹⁴

The financing prospects for THE Tunnel from the Port Authority are complicated by Governor Pataki's insistence that the first \$1 billion for THE Tunnel must be accompanied by a \$1 billion PANYNJ contribution to the LIRR connection between Lower Manhattan and JFK International Airport. Once a new Governor is elected in New York State next November, consideration could be given to gaining a consensus that THE Tunnel is a project that substantially benefits both states in the region and that PANYNJ investment in this project should be maximized.

As a corollary, consideration should be given to persuading the next Governor of New York State to drop the expensive LIRR project and instead permit the PANYNJ to substitute the much less expensive, short PATH Extension from its terminus south of Newark Penn Station to the NLIA Airport station on the Northeast Corridor. Port Authority staff has been working on this project for some time. The PATH Extension could be presented to Lower Manhattan development interests as an effective alternative airport access project. Its potential for spurring to development in Jersey City, Harrison and Newark would also be significant.

THE Tunnel project will begin to draw funds heavily in the latter part of the next 5-year capital program. NJ Transit estimates that it will need an average of \$150 million per year in state funds for THE Tunnel project¹⁵. These funds would complement anticipated funding from the Port Authority of NY&NJ and a future full funding grant agreement from the Federal Transit Administration. Special attention will have to be paid by the Corzine Administration to securing both of these external sources.

Federal-State Partnership on the Northeast Rail Corridor

NJ TRANSIT supports a plan developed by the Alan M. Voorhees Transportation Center (VTC) of Rutgers University, on behalf of the Regional Business Partnership and other Northeast business interests, to reform the ownership, governance, funding, planning and operational arrangements on the Northeast Rail Corridor. The Northeast Rail Corridor (NEC), with its high

¹⁴ NJ TRANSIT, "Economic Benefits of the Trans-Hudson Express Tunnel," p.6

¹⁵ NJ TRANSIT Transition report, January 4, 2006.

quality intercity and commuter rail service, is a national and regional transportation asset, particularly in an era of volatile and higher fuel prices and aviation congestion.

The goals of the reform are to move ownership and policy control of the NEC from Amtrak, a “quasi-private” enterprise, to public hands, creating a sustained and balanced federal-state partnership to oversee control of the infrastructure and intercity rail services. The partnership would resolve to form a new NEC Corporation, controlled 50% by the Federal Government and 50% by the Northeast Corridor states to contract with Amtrak and make it accountable to the affected governments. The result would be the establishment of a stable framework for adequate long-term planning and funding by the federal government and the states, and the creation of an independent forum to resolve differences and promote innovative management arrangements, new intercity services and service integration.

This proposal for a federal-state partnership on the NEC could serve as the basis to break the long stalemate in Congress on the future federal role concerning intercity rail and could serve as the basis of a model for emerging corridors.

Goods Movement / Liberty Corridor Board

Another emerging area for priority investment attention is northern and central New Jersey’s fast-growing goods distribution industry. Import-related goods movement has emerged as one of the state’s major economic drivers. The collective need for an expanded port, improved access for rail and trucks (including the “Portway” projects) to and from the port and major railheads, and availability of proximate “value-added,” job-intensive distribution centers has been encompassed in the Liberty Corridor plan advanced by Senator Menendez. Leveraged by a \$100 million federal grant, the Liberty Corridor should become the centerpiece for advancing these important objectives. State capital funds will be needed to complement the federal grant.

The emergence of the Liberty Corridor concept affords the Corzine Administration another opportunity -- the organization of the region’s many disparate governmental organizations that now deal with goods movement issues and a forum where thoughtful, collaborative policy decisions concerning goods movement could be made. The first step, as suggested by Sam Crane of Maher Terminals, would be to form a Liberty Corridor Board to formulate goods movement policy and investments for northern and central New Jersey. A second, complementary, initiative would be to ask the Chairman of the Port Authority to take a lead role in forming a bi-state board of involved governmental agencies to perform the same function on a broader scale.

Federal Commitment to the Corridor States

New Jersey, along with the other corridor states, must maintain and improve a highly traveled and highly complex transportation infrastructure. Greater federal commitment of resources is necessary to support regionally significant projects such as THE Tunnel, the NEC, and the Liberty Corridor. The federal government must focus on preserving and expanding upon the core of this country’s economy located in and around the corridor states.

Newark Liberty International Airport (NLIA) Economic Viability

Northern and central New Jersey have greatly benefited from the flourishing of Newark Liberty International Airport (NLIA) over the last 30 years. The Airport, once the region's "best kept secret," has grown in that time from about six million annual travelers to 33 million. It now offers a rich array of destination choices with frequent flights and competitive prices. The Airport has become a major employment hub and air cargo handling facility as well. A keystone to that success has been Continental Airlines' choice of NLIA as a major hub.

One of the challenges facing the Corzine Administration is to work toward securing a competitive advantage for NLIA, or at minimum to make certain that Port Authority policy toward its three airports (NLIA and two in New York City, LaGuardia and JFK International) does not discriminate against NLIA.

Another useful step would be to promote the improvement of intercity rail passenger service on the NEC to both encourage its usage for travel between NEC points, thereby preserving valuable slots for other desirable travel destinations, and promote expansion of the through-ticketing arrangements between Continental Airlines and Amtrak through NLIA using the monorail extension that connects the Airport to the NEC.

Safety and Security

The tragic events of September 11, 2001 remind us all of the critical and fragile nature of our transportation system. While significant improvements have been made to our roads, bridges, rails and ports, more must be done to ensure that we protect our residents and visitors in an efficient, effective and equitable manner.

NJDOT is preparing a State Transportation Security Plan, and overseeing the implementation of Best Management Practices by public and private transportation entities serving the State of New Jersey.¹⁶ Tasks underway include developing the Statewide Transportation Security Strategy, completing NJDOT-wide vulnerability assessment, implementation of Best Management Practices in the transportation sector, improving education and emergency preparedness, and protecting access to the State's waterways and port facilities.

According the NJDOT Transition report, the agency "can expect that planned work activities will become increasingly impacted by commitments and support provided to emergency response/recovery events and target hardening requests for Homeland Security, further eroding the Department's ability to perform routine maintenance activities. *This situation will continue to drain limited financial resources as the Department is forced to incur the first instance costs associated with these efforts.*

But safety goes well beyond preventing attacks to our transportation system. Every pothole we avoid, every wide, busy street we cross, and every road we cycle on creates situations that could result in injury or death. In the most densely-populated state in the country, we must find ways to improve mobility while ensuring the maximum extent possible the safety of all travelers. Necessary capital improvement programs such as Median Crossover Protection, Safe

¹⁶ *New Jersey Department of Transportation Transition Report*, November 2005.

Corridor and Safe Streets to Schools all depend on a stable and sustainable funding source. Important programs such as the Pavement Management System and Resurfacing program, NJ Future in Transportation (NJFIT) and Transportation Enhancements not only improve safety, but also promote economic competitiveness and a higher quality of life.

The lesson here is that safety and security improvements cannot be divorced from the critical nature of our transportation system. Nor should they. However, without a sustainable transportation finance system and a commitment to improvements, our State's safety and security are threatened.

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