



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

Transportation Trust Fund Authority

July 1, 2011 to June 30, 2013

**Stephen M. Eells
State Auditor**



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The Honorable Stephen M. Sweeney
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The Honorable Vincent Prieto
Speaker of the General Assembly

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Enclosed is our report on the audit of the Transportation Trust Fund Authority for the period of July 1, 2011 to June 30, 2013. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
December 11, 2014

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Scope

We have completed an audit of expenditures made by the Department of Transportation for the period July 1, 2011 to June 30, 2013 for transportation projects funded from the New Jersey Transportation Trust Fund Authority (TTFA). Our scope did not include the project expenditures for New Jersey Transit Corporation since this entity and its financial activities are audited by an independent certified public accounting firm.

Total expenditures of the projects during the audit period were \$1.5 billion. The primary responsibility of the TTFA is to provide the payment for and financing of all, or a portion of, the costs incurred by the Department of Transportation for the planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation system. These activities are accounted for in the Special Transportation Fund.

In addition, we are to report on the status of the bonds including the investment status of all unexpended bond proceeds and a description of any anticipated bond issues. Accordingly, we have included this supplementary data in our report.

Objectives

The objectives of our audit were to determine if funds are expended for costs eligible for funding from the authority and in a manner consistent with appropriations made by the Legislature. In addition, the statutes require that we report on the status of bonds and projects financed from the proceeds of the bonds, the investment status of unexpended bond proceeds, and to provide a description of any anticipated bond issues.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes as well as N.J.S.A. 27:1B-21.1e and N.J.S.A. 27:1B-21.1f.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Department of the Treasury, Office of Management and Budget, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and the

internal controls and to determine the status of bonds, projects financed by the bond proceeds, the investment status of unexpended bond proceeds, and a description of anticipated bond issues.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected for testing.

Conclusions

We found the funds included in our testing were expended for costs eligible for funding from the authority and in a manner consistent with appropriations made by the Legislature. In making this determination, we noted an outstanding loan which merits management's attention.

Information on the status of bonds, projects financed from bond proceeds, investment status of unexpended bond proceeds, and anticipated bond issues is included as supplementary data in this report.

Additionally, we observed a future funding issue with the state's transportation infrastructure.

Loan

Controls need to be strengthened over the department's loan accounts receivable process.

New Jersey statute states that aid to counties and municipalities administered by the department may, at discretion of the commissioner, be disbursed on a grant basis. The Department of Transportation signed an agreement on October 14, 1997 to loan the City of Elizabeth \$5 million to support the construction of road improvements for the MetroMall project. The agreement stated Elizabeth shall repay the loan in consecutive annual payments of \$500,000. The first payment was due 11 years after the MetroMall project received its final certificate of occupancy, upon the appropriate billing from the department. Elizabeth's MetroMall received its final certificate of occupancy on January 11, 2000. Therefore, the 11 year period expired over three years ago. This had been the only instance that the department granted a loan, therefore proper controls had not been developed to administer the repayment process. Consequently, the department has not billed, nor received, a single payment on the loan. Upon being notified of this weakness, management took immediate action to start a loan repayment plan.

Recommendation

We recommend that the department develop a procedure to properly administer the billing and collection of loans.

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SUPPLEMENTARY DATA

Bonds Issued and Status of Bonds

On January 15, 1985 the Transportation Trust Fund Authority (TTFA) issued bonds for the purpose of financing the cost of planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation system. The 1985 Series A bond was the initial series of bonds issued by the TTFA under the bond resolution. The TTFA has issued bonds totaling \$35,496,851,077 as of June 30, 2013. Total debt service at June 30, 2013 was \$23,662,228,328. See Schedule I for the status of bonds issued as of June 30, 2013. This schedule has been adjusted to the debt service information reported by the Department of the Treasury, Office of Public Finance.

Investment Status

Investments and cash and cash equivalents consist of short term investments acquired under forward delivery agreements and State of New Jersey Cash Management Fund deposits, respectively. The investment value was zero and the fair market value of cash and cash equivalents at June 30, 2013 was \$609,322,103.

Projects Financed by Proceeds

The projects financed by the proceeds of each bond issue are indeterminable. The bond proceeds are pooled to fund all ongoing construction projects while the dedicated revenue sources including motor fuel taxes and toll road authority contributions are used almost exclusively for debt service. A schedule of encumbered and uncommitted balances by budget fiscal year is provided on Schedule III.

Future Bond Issues

One new bond totaling \$849.2 million was issued in fiscal year 2014. Approximately \$1,061.6 million in additional bonds are expected to be sold during fiscal year 2015.

TRANSPORTATION TRUST FUND AUTHORITY

SCHEDULE I
TRANSPORTATION TRUST FUND AUTHORITY
SCHEDULE OF BONDS ISSUED AND STATUS OF BONDS
AS OF JUNE 30, 2013

Bond Series	Amount Issued	Outstanding		Total Debt Service*
		Principal Balance	Interest	
1985 Series A	\$61,270,000	\$0	\$0	\$0
1986 Series A	200,000,000	0	0	0
1988 Series A	125,000,000	0	0	0
1992 Series A	275,000,000	0	0	0
1993 Series A	500,000,000	0	0	0
1993 Series B	61,470,000	0	0	0
1994 Series A	400,000,000	0	0	0
1995 Series A	804,475,000	0	0	0
1995 Series B	788,225,000	0	0	0
1996 Series A	334,065,000	0	0	0
1996 Series B	714,340,000	0	0	0
1997 Series A	703,940,000	0	0	0
1998 Series A	700,000,000	0	0	0
1999 Series A	450,000,000	158,795,000	46,773,663	205,568,663
2000 Series A	450,000,000	0	0	0
2001 Series A	325,000,000	0	0	0
2001 Series B	690,000,000	0	0	0
2001 Series C	1,191,450,000	234,135,000	35,471,575	269,606,575
2003 Series A	331,100,000	288,300,000	33,865,700	322,165,700
2003 Series B	345,000,000	345,000,000	87,011,312	432,011,312
2003 Series C	924,810,000	0	0	0
2004 Series A	471,655,000	107,495,000	68,220,587	175,715,587
2004 Series B	849,800,000	508,425,000	63,602,481	572,027,481
2005 Series A	566,785,000	176,940,000	9,411,150	186,351,150
2005 Series B	1,213,140,000	884,825,000	323,868,469	1,208,693,469
2005 Series C	524,750,000	0	0	0
2005 Series D	953,020,000	0	0	0
2006 Series A	1,580,540,000	1,576,785,000	734,962,584	2,311,747,584
2006 Series A Garvee	131,555,000	64,335,000	9,963,500	74,298,500
2006 Series B	109,375,000	0	0	0
2006 Series C	1,115,496,792	1,115,496,792	0	1,115,496,792
2006 Series C Accretion	2,593,088,208	2,593,088,207	0	2,593,088,207
2007 Series A	1,171,055,000	871,055,000	788,716,012	1,659,771,012
2008 Series A	2,295,700,000	1,000,779,638	851,770,653	1,852,550,291
2008 Series A Accretion	1,172,955,362	1,172,955,362	0	1,172,955,362
2009 Series A	869,075,000	142,730,925	0	142,730,925
2009 Series A Accretion	726,344,076	726,344,076	0	726,344,076
2009 Series B	273,500,000	273,500,000	498,282,813	771,782,813
2009 Series C	150,000,000	150,000,000	3,557,129	153,557,129
2009 Series D	147,500,000	147,500,000	3,949,274	151,449,274
2010 Series A	1,273,180,000	359,253,361	0	359,253,361

TRANSPORTATION TRUST FUND AUTHORITY

2010 Series A Accretion	913,926,639	913,926,639	0	913,926,639
2010 Series B	500,000,000	500,000,000	902,137,500	1,402,137,500
2010 Series C	1,000,000,000	1,000,000,000	794,326,868	1,794,326,868
2010 Series D	485,875,000	485,875,000	235,107,638	720,982,638
2010 Series E	14,100,000	14,100,000	2,284,200	16,384,200
2011 Series A	600,000,000	590,275,000	574,575,338	1,164,850,338
2011 Series B	1,295,225,000	1,295,225,000	1,225,687,018	2,520,912,018
2012 Series A	326,255,000	326,255,000	444,493,500	770,748,500
2012 Series AA	920,745,000	920,745,000	650,906,525	1,571,651,525
2013 Series A	538,845,000	538,845,000	153,731,160	692,576,160
2013 Series B	338,220,000	338,220,000	28,272,434	366,492,434
Subtotal	\$35,496,851,077	\$19,821,205,000	\$8,570,949,083	\$28,392,154,083
Less Unamortized				
Interest on Capital				
Appreciation Bonds		(4,729,925,754)		(4,729,925,754)
Total	\$35,496,851,077	\$15,091,279,246	\$8,570,949,083	\$23,662,228,329

*Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$59 million to \$93.6 million through fiscal year 2019.

SCHEDULE II
DEPARTMENT OF TRANSPORTATION
TRANSPORTATION TRUST FUND AUTHORITY
SCHEDULE OF DEBT SERVICE PAYMENTS ON BONDS
AS OF JUNE 30, 2013

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service*
FY2014	\$408,045,000	\$638,945,014	\$1,046,990,014
FY2015	451,450,000	612,595,494	1,064,045,494
FY2016	474,500,000	589,436,590	1,063,936,590
FY2017	503,150,000	565,648,454	1,068,798,454
FY2018	522,915,000	543,456,561	1,066,371,561
FY2019	547,500,000	518,495,774	1,065,995,774
FY2020	628,725,000	496,225,596	1,124,950,596
FY2021	666,710,000	458,292,752	1,125,002,752
FY2022	702,945,000	422,044,344	1,124,989,344
FY2023	740,520,000	384,469,787	1,124,989,787
FY2024	779,390,000	345,562,777	1,124,952,777
FY2025	785,980,000	311,736,108	1,097,716,108
FY2026	806,175,000	287,208,308	1,093,383,308
FY2027	821,260,000	268,206,334	1,089,466,334
FY2028	839,205,000	248,784,435	1,087,989,435
FY2029	858,580,000	228,118,622	1,086,698,622
FY2030	664,170,000	213,106,597	877,276,597
FY2031	676,065,000	203,913,372	879,978,372
FY2032	688,525,000	194,307,152	882,832,152
FY2033	682,330,000	181,286,144	863,616,144
FY2034	724,210,000	164,467,594	888,677,594
FY2035	742,665,000	146,012,950	888,677,950
FY2036	790,515,000	129,665,425	920,180,425
FY2037	772,105,000	115,820,856	887,925,856
FY2038	763,820,000	102,264,937	866,084,937
FY2039	836,320,000	89,463,069	925,783,069
FY2040	935,655,000	69,265,612	1,004,920,612
FY2041	848,060,000	34,162,675	882,222,675
FY2042	159,715,000	7,985,750	167,700,750
Total Minimum Payments	\$19,821,205,000	\$8,570,949,083	\$28,392,154,083
Less Unamortized			
Interest on Capital			
Appreciation Bonds	(4,729,925,754)		(4,729,925,754)
Total	\$15,091,279,246	\$8,570,949,083	\$23,662,228,329

* Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$59 million to \$93.6 million through fiscal year 2019.

TRANSPORTATION TRUST FUND AUTHORITY

SCHEDULE III
DEPARTMENT OF TRANSPORTATION
TRANSPORTATION TRUST FUND AUTHORITY
SUMMARY OF ENCUMBERED AND UNCOMMITTED BALANCES
AS OF JUNE 30, 2013

Budget Fiscal Year	Pre-Encumbered	Encumbered	Uncommitted
1993	\$43,215	\$523,475	\$621,131
1994	1,117,005	4,232,007	3,201,584
1995	830,167	1,466,249	1,118,372
1996	405,778	679,539	368,261
1997	178,396	833,840	328,461
1998	596,750	2,403,115	238,085
1999	3,338,058	1,921,822	2,660,113
2000	6,080,044	1,309,831	3,533,910
2001	3,026,435	3,663,175	3,427,766
2002	599,422	4,405,769	5,316,895
2003	1,074,709	4,574,858	5,882,116
2004	1,899,877	7,517,086	4,609,462
2005	3,890,016	9,372,394	3,319,892
2006	12,157,082	10,399,380	11,802,360
2007	21,691,646	21,361,553	6,090,077
2008	24,909,441	35,551,288	9,940,890
2009	14,302,512	54,995,025	9,318,931
2010	31,016,233	135,480,725	34,047,199
2011	47,798,934	114,110,291	20,158,109
2012	18,014,999	183,157,744	9,962,783
2013	108,357,313	264,754,435	116,050,316
Total	\$301,328,032	\$862,713,601	\$251,996,713

Pre-Encumbered Represents a requisition which earmarks or sets aside funds for future purposes.
Encumbered Represents legally obligated funds reserved for future payment usually supported by issuance of a purchase order or execution of a contract.
Uncommitted Represents appropriation balance after charging all disbursements, encumbrances, and pre-encumbrances.

Observation

Future Funding Issue

The state's plan to institute a "pay as you go" philosophy was predicated on available dedicated revenue sources, including motor fuels taxes and sales tax, being used to fund current transportation projects. This would allow the Transportation Trust Fund Authority's reliance on bond issuances to be lightened. In fiscal year 2014, almost all dedicated revenue sources, including a sales tax appropriation of \$189.5 million over the statutorily mandated amount of \$200 million per year, were used to fund debt service. The sales tax dedication for fiscal year 2015 is \$517 million.

The TTFA has a 2015 bonding cap of \$735 million. Combined with the \$326 million of unused 2014 cap space, the TTFA plans to issue \$1.062 billion in bonds in 2015. An unused 2014 cash balance combined with the bond issuance will support project spending authority in 2015 of \$1.225 billion.

With the "pay as you go" philosophy in mind, the 2016 bonding cap was statutorily reduced to \$626.76 million. This amount plus any unused cash balance will fall short of the current funding level on projects. The TTFA has the option to issue refunding bonds, but that will only create new debt service for future years, compounding the issue. If the annual bonding cap is not raised, or an effort is not made to increase dedicated revenues, the fund will be unable to fully fund expected 2016 transportation infrastructure needs.

Motor fuels taxes have remained flat at \$540 million over the last decade. The Gasoline and Diesel Taxes are 10.5 cents and 13.5 cents per gallon, respectively, and have not been increased since 1989. Per a 2011 report by the Institute on Taxation and Economic Policy, 35 states have increased their gas tax since New Jersey's last increase.



State of New Jersey

DEPARTMENT OF TRANSPORTATION
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Lt. Governor

December 1, 2014

Stephen M. Eells, State Auditor
Office of the State Auditor
PO Box 67
Trenton, New Jersey 08625-0067

Dear Mr. Eells:

SUBJECT: NJ Department of Transportation (NJDOT)
Transportation Trust Fund Authority – OLS Audit (July 2011 – June 2013)
Auditee Response to Audit Recommendations

NJDOT's Office of the Chief Financial Officer, which provides staff support to the NJ Transportation Trust Fund Authority (TTFA), has reviewed the findings and recommendations in the Office of the State Auditor's report on the TTFA's expenditures for the period July 1, 2011 to June 30, 2013. The following response seeks to clarify one specific point in the "Observation" section of the report regarding the projected funding shortfall in fiscal year 2016.

Specifically, the audit states that the combination of the statutorily authorized bonding cap for fiscal year 2016 of \$626 million and unused cash balances will fall short of the "...current funding levels on projects." The latter phrase apparently references the annual program spending authority to advance new projects, which according to the current TTF statute will total \$1.2 billion in fiscal year 2016. The projected shortfall, however, is derived from the fact that the projected rate of TTF cash expenditures is expected to exceed available resources in fiscal year 2016. In any given year, the revenues made available to or generated by the TTFA are used to pay the cash expenditures for projects, and those expenditures are attributable to projects that were authorized in the current fiscal year and in prior fiscal years.

We concur with the audit recommendation regarding the loan receivable process. Upon notification of this finding, NJDOT promptly proposed a repayment schedule that the City of Elizabeth has agreed to. This loan was considered an aberration and no additional loans are contemplated. Nonetheless, the Department also plans to adopt a formal procedure governing the issue of loans, as suggested in the audit.

Sincerely,

A handwritten signature in black ink that reads "Gary J. Brune".

Gary J. Brune
Chief Financial Officer