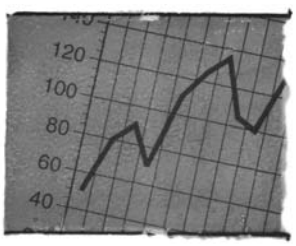

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF TRANSPORTATION AND MOTOR VEHICLE COMMISSION

FISCAL YEAR 2009 - 2010

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2009

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Authorities, Utilities, Transportation and Communications Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Joseph Hroncich. Jonathan Pushman authored the background papers on the Motor Vehicle Commission and the ARC Tunnel; Donald S. Margeson authored the background paper on the Transportation Capital Program and the TTF; and Peter Manoogian authored the background paper on federal stimulus funding. Additional contributions were made by Thomas Churchelow.

Questions or comments may be directed to the OLS Authorities, Utilities, Transportation and Communications Section (609-984-7381) or the Legislative Budget and Finance Office (609-292-8030).

DEPARTMENT OF TRANSPORTATION AND MOTOR VEHICLE COMMISSION

Budget Pages....... C-7; C-16 to C-17; C-25; C-27; C-28; C-30; D-361 to D-377; H-29

Fiscal Summary ($000)

	Expended FY 2008	Adjusted Appropriation FY 2009	Recommended FY 2010	Percent Change 2009-10
State Budgeted	1,336,286	1,386,832	1,283,197	(7.5%)
Federal Funds	721,553	*1,967,433	1,180,655	(40.0%)
Other	1,892,000	1,889,850	1,894,023	.2%
Grand Total	$3,949,839	$5,244,115	$4,357,875	(16.9%)

Personnel Summary - Positions By Funding Source

	Actual FY 2008	Revised FY 2009	Funded FY 2010	Percent Change 2009-10
State	1,929	1,905	1,905	0.0%
Federal	944	882	882	0.0%
Other	733	657	656	(.2%)
MVC	2,558	2,427	2,419	(.3%)
Total Positions	6,164	5,871	5,862	(.2%)

FY 2008 (as of December) and revised FY 2009 (as of January) personnel data reflect actual payroll counts. FY 2010 data reflect the number of positions funded.
*Includes $800 million of federal economic stimulus funds.

Key Points

Department of Transportation

- The FY 2010 State appropriations budget for the Department of Transportation (DOT) totals $1.283 billion, a decrease of $104 million or 7.5% under the FY 2009 adjusted appropriation of $1.387 billion. The largest component of this reduction is a decrease of $62 million in the State subsidy to New Jersey Transit. Other reduction items include up-front funding for winter operations; several savings initiatives, including charging the New Jersey Turnpike Authority and the South Jersey Transportation Authority for maintenance costs associated with interchanges, commonly referred to as "feeder roads"; and shifting employee salary and overhead costs associated with the construction of capital projects to the Transportation Trust Fund.

- State appropriations for maintenance and operation of State and local highway facilities by the DOT are decreased by $38.6 million to $59.3 million in FY 2010, from an

Key Points (Cont'd)

adjusted appropriation of $97.9 million in FY 2009. The largest reduction is the deletion of $23.7 million in supplemental funding for winter operations, i.e., ice and snow control costs, consistent with the practice of providing limited up-front funding for this purpose. Through language, an additional appropriation of up to $10 million is authorized for FY 2010 winter operations. Other reductions result from shifting the costs of maintaining certain toll highway feeder roads to the New Jersey Turnpike Authority and the South Jersey Transportation Authority ($8.8 million), and increasing the use of Transportation Trust Fund resources for related department costs ($6.1 million).

Transportation Trust Fund

- The Governor's Budget recommends an $895 million appropriation to the Transportation Trust Fund (TTF) to fund capital projects. In accord with the fourth TTF renewal, P.L. 2006, c.3, the Executive proposes $1.6 billion for new capital infrastructure spending, unchanged from the current year. The current TTF statute authorizes new projects totaling this amount each year through FY 2011.

- Newly recommended language exempts amounts appropriated from the TTF from the 13 percent spending limitation for salary and overhead costs for the Department of Transportation and New Jersey Transit associated with the construction of capital projects.

New Jersey Transit

- The proposed FY 2010 budget for NJ Transit is $1.79 billion, an increase of $66.4 million or 3.9%. To realize that total amount, the corporation is recommended to receive a State subsidy of $296.2 million, a decrease of $62 million, or 17.3% from FY 2009. The remainder of the total NJ Transit budget is based on a $28.2 million, or 3.7% increase in forecasted farebox revenue, and a $100.2 million or 16.4% increase in other resources. A mid-year fare increase is planned to generate $17 million of the projected farebox revenue growth.

- Transportation assistance for senior citizens and disabled residents is recommended to decrease by $2.79 million or 8.4%. This funding is linked to Casino Revenue Fund annual tax revenues.

Motor Vehicle Commission

- The Motor Vehicle Commission (MVC) is recommended to receive revenues of $291.7 million, an increase of $4.4 million or 1.5% from FY 2009. Most MVC revenue is set by statute as a portion of certain driving and security related fees and fines. However, the budget proposes to divert about $28 million of MVC revenue for budgetary support. The MVC projects a FY 2010 ending deficit of $27 million, and has proposed a fee increase to generate $40-$60 million to avert that deficit.

Key Points (Cont'd)

Background Paper

- New Jersey's Transportation Capital Program
  and Transportation Trust Fund p. 17
- The ARC Tunnel Project p. 22
- Federal Stimulus Funding for New Jersey Transportation Projects p. 25
- New Jersey Motor Vehicle Commission p. 27

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2008	Adj. Approp. FY 2009	Recom. FY 2010	Percent Change 2008-10	Percent Change 2009-10
General Fund					
Direct State Services	105,874	100,614	61,764	(41.7%)	(38.6%)
Grants-In-Aid	298,284	358,200	296,200	(.7%)	(17.3%)
State Aid	200	0	0	(100%)	0.0%
Capital Construction	895,000	895,000	895,000	0.0%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,299,358	$1,353,814	$1,252,964	(3.6%)	(7.4%)
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$36,928	$33,018	$30,233	(18.1%)	(8.4%)
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,336,286	$1,386,832	$1,283,197	(4.0%)	(7.5%)
Federal Funds	$721,553	$1,967,433	$1,180,655	(63.6%)	(40.0%)
Other Funds	$1,892,000	$1,889,850	$1,894,023	.1%	.2%
Grand Total	$3,949,839	$5,244,115	$4,357,875	(10.3%)	(16.9%)

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2008	Revised FY 2009	Funded FY 2010	Percent Change 2008-10	Percent Change 2009-10
State	1,929	1,905	1,905	(1.2%)	0.0%
Federal	944	882	882	(6.6%)	0.0%
Other	733	657	656	(10.5%)	(.2%)
MVC	2,558	2,427	2,419	(5.4%)	(.3%)
Total Positions	6,164	5,871	5,862	(4.9%)	(.2%)

FY 2008 (as of December) and revised FY 2009 (as of January) personnel data reflect actual payroll counts. FY 2010 data reflect the number of positions funded.

AFFIRMATIVE ACTION DATA

Total Minority Percent	25.8%	25.5%	25.8%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2009	Recomm. FY 2010	Dollar Change	Percent Change	Budget Page
I. State and Local Highway Facilities					
Salaries and Wages	$50,792	$35,918	($14,874)	(29.3%)	D-369

The decrease in this line item reflects the annualized savings from the Early Retirement Incentive program and continued attrition of positions. It also reflects charging approximately $8.8 million to the New Jersey Turnpike Authority and the South Jersey Transportation Authority for "feeder roads" maintenance costs, and charging $6.1 million in salary costs to the Transportation Trust Fund.

Budget Item	Adj. Approp. FY 2009	Recomm. FY 2010	Dollar Change	Percent Change	Budget Page
Maintenance and Fixed Charges	$32,386	$8,646	($23,740)	(73.3%)	D-369

The decrease in this line item largely reflects continuation of the practice, for maintenance and operations funding of winter operations costs, of relying on supplemental rather than up-front appropriations; thus far in FY 2009, such supplemental funding has amounted to $23.7 million.

Budget Item	Adj. Approp. FY 2009	Recomm. FY 2010	Dollar Change	Percent Change	Budget Page
II. New Jersey Transit Corporation (NJT)					D-372 to D-374
A. Expenditures					
1. Bus Operations	583,604	601,504	17,900	3.1%	
2. Rail Operations	692,129	723,429	31,300	4.5%	
3. Light Rail Operations	84,645	87,945	3,300	3.9%	
4. Corporate Operations	239,713	240,413	700	.3%	
5. Purchased Transportation	123,409	136,609	13,200	10.7%	
Subtotal	$1,723,500	$1,789,900	$66,400	3.9%	
B. Revenues					
1. State Subsidy	358,200	296,200	(62,000)	(17.3%)	
2. NJT Resources:					
Farebox	755,200	783,400	28,200	3.7%	
Other	610,100	710,300	100,200	16.4%	
Subtotal	$1,723,500	$1,789,900	$66,400	3.9%	
C. Casino Revenue Fund	33,018	30,233	(2,785)	(8.4%)	
NJT Total	$1,756,518	$1,820,133	$63,615	3.6%	

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2009	Recomm. FY 2010	Dollar Change	Percent Change	Budget Page

The above information summarizes by major purpose the expenditure data for NJ Transit followed by a summary of the revenue sources available to support these expenditures.

Total resources in FY 2010 are projected to increase by approximately $63.6 million, an amount attributable to a $100 million or 16.4% increase in "other resources" including $70 million in federal economic stimulus funds, and $30 million in flexed federal funds that will be used to support rail and bus preventative maintenance functions. "Other resources" includes all revenue except passenger revenue and State operating assistance received by NJ Transit. The corporation estimates average daily ridership to increase to 452,984 for FY 2010, up about 1.4 percent from FY 2009 revised ridership, with a commensurate rate of growth in farebox revenue. Farebox revenue is also projected to grow by $17 million due to a planned mid-year fare increase.

Due to the combined growth in farebox revenue and other resources, the State subsidy to NJ Transit is reduced by $62 million below the FY 2009 level.

III. Special Transportation Trust Fund

Federal/Other Funds	$1,108,329	$1,122,592	$14,263	1.3%	D-370
Federal Economic Stimulus	$800,000	$0	($800,000)	(100%)	D-370

The Administration projects Transportation Trust Fund revenue from the federal government provided via categories outlined within the Transportation Equity Act for the 21st Century (TEA-21) to increase, and expects an increase in state highway funds and decrease in local highway funds. Federal economic stimulus funding of $800 million is fully allocated to FY 2009, and at this time no additional funding is assumed.

Language Provisions

2009 Appropriations Handbook

No comparable language.

2010 Budget Recommendations

p. D-366

Notwithstanding the provisions of section 105 of P.L.2003, c.13 (C.39:2A-36) or any law to the contrary, an amount not to exceed $20,000,000 from receipts derived from the increase in motor vehicle fees imposed in 2009 shall be deposited in the General Fund as State revenue.

Explanation

This budget language added in FY 2010 diverts $20 million of receipts derived from the proposed increase in various fees from the Motor Vehicle Commission to the General Fund. The anticipated date of the increase is July 1, 2009, and the estimated revenue yield is $40-$60 million. The MVC projects that the diversion of revenue that would occur pursuant to this language would contribute to a $26.8 million FY 2010 year-end operating deficit, a projection that may be understated if it fails to account for a diversion of $12.9 million in the current fiscal year that is a component of the Governor's plan to re-balance the FY 2009 budget. If the fee increase yields revenue as projected, the FY 2010 deficit would be averted, with a structural deficit likely to persist into FY 2011.

2009 Appropriations Handbook

p. B-175

The amount [hereinabove] appropriated to the New Jersey Motor Vehicle Commission is based on proportional revenue collections for that fiscal year pursuant to the statutes listed in subsection a. of section 105 of P.L.2003, c.13 (C.39:2A-36). Of that amount, $8,138,000 [shall be] appropriated for transfer to the Interdepartmental property rental and household and security accounts, $4,800,000 [shall be] appropriated for transfer to the Division of Revenue within the Department of the Treasury, $612,000 [shall be] appropriated for transfer to the Division of State Police, and $800,000 [shall be] appropriated for transfer to the Bureau of Forestry within the Department of Environmental Protection for its Forest Fire

2010 Budget Recommendations

p. D-366

The amount appropriated to the New Jersey Motor Vehicle Commission is based on proportional revenue collections for that fiscal year pursuant to the statutes listed in subsection a. of section 105 of P.L.2003, c.13 (C.39:2A-36). Of that amount, $8,138,000 is appropriated for transfer to the Interdepartmental property rental and household and security accounts, $5,150,000 is appropriated for transfer to the Department of Transportation for the maintenance and operations program, $4,800,000 is appropriated for transfer to the Division of Revenue within the Department of the Treasury, $612,000 is appropriated for transfer to the Division of State Police, and $800,000 is appropriated for transfer to the Bureau of Forestry within the Department of

Language Provisions (Cont'd)

2009 Appropriations Handbook	2010 Budget Recommendations
p. B-175	p. D-366
Fighting Program. In addition, the Motor Vehicle Commission shall pay the non-State hourly rate charged by the Office of Administrative Law for hearing services, or an amount no less than $500,000, subject to the approval of the Director of the Division of Budget and Accounting.	Environmental Protection for its Forest Fire Fighting Program. In addition, the Motor Vehicle Commission shall pay the non-State hourly rate charged by the Office of Administrative Law for hearing services, or an amount no less than $500,000, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The recommended budget language pertains to a General Fund offset to the Department of Transportation maintenance and operating program. Budget language was originally added in FY 2009 that allowed for a one-time $5.15 million transfer of Commercial Vehicle Enforcement Fund (CVEF) surplus to offset the Department of Transportation maintenance and operations program. For FY 2010, the proportional split language was revised to allow Motor Vehicle Commission operating revenue to be utilized as a means to continue this offset. This represents the revision to the proportional split language.

2009 Appropriations Handbook	2010 Budget Recommendations
p. B-176	p. D-371
[Notwithstanding the provisions of any law or regulation to the contrary,**]** in addition to the amount hereinabove appropriated for Maintenance and Operations, there is appropriated $5,150,000 from **[**balances in**]** the **[**"Commercial Vehicle Enforcement Fund"**]** for Maintenance and Fixed Charges, subject to the approval of the Director of the Division of Budget and Accounting.	In addition to the amount hereinabove appropriated for Maintenance and Operations, there is appropriated $5,150,000 from the <u>Motor Vehicle Commission</u> for Maintenance and Fixed Charges, subject to the approval of the Director of the Division of Budget and Accounting.

Language Provisions (Cont'd)

Explanation

The recommended budget language pertains to a General Fund offset to the Department of Transportation maintenance and operating program. Budget language was originally added in FY 2009 that allowed for a one-time $5.15 million transfer of Commercial Vehicle Enforcement Fund (CVEF) surplus to offset the Department of Transportation maintenance and operations program. For FY 2010, the proportional split language was revised to allow Motor Vehicle Commission operating revenue to be utilized as a means to continue this offset. This language reflects the replacement of the CVEF reference with the Motor Vehicle Commission.

2009 Appropriations Handbook	2010 Budget Recommendations
	p. D-371
No comparable language.	Notwithstanding the provisions of any law or regulation to the contrary, the amounts hereinabove appropriated from the revenues and other monies of the New Jersey Transportation Trust Fund Authority for the Department of Transportation and the New Jersey Transit Corporation, respectively, for salary and overhead costs of employees of the Department of Transportation and the New Jersey Transit Corporation, respectively, associated with the construction of capital projects by the Department of Transportation and the New Jersey Transit Corporation, respectively, shall not be subject to any percentage limitation.

Explanation

The recommended language would exempt the Department of Transportation and the New Jersey Transit Corporation from the 13 percent spending limitation for salary and overhead costs associated with the construction of capital projects. This language corresponds to a reduction to department operating appropriations of $6.3 million, and a reduction to the General Fund subsidy to NJ Transit of unknown amount.

Discussion Points

1. The Governor's budget incorporates an estimated $5.183 billion over two fiscal years in federal stimulus funding provided by the American Recovery and Reinvestment Act (ARRA) of 2009. According to a table on page 42 of the Governor's abbreviated budget, the State will use $3.074 billion ($854 million in FY09 and $2.220 billion in FY10) from ARRA for budget relief. In addition to these funds which will offset revenue shortfalls, $2.109 billion will be used for new or expanded programs or initiatives. The ARRA allocates funds to states both by formula and by competitive awards. Most executive departments anticipate stimulus funding in either FY 2009, FY 2010 or both.

- *Question:* Please itemize the federal stimulus funding, if any, other than portions of the $3.074 billion allocated for budget relief, included in the department's budget, by fiscal year and federal program, setting forth program goals and eligible uses together with the amount for state administrative expenses and the amount for allocation to local public and private recipients, respectively. Please identify intended and actual recipients and the process by which the department determines recipients and funding awards. Are there ARRA funds that flow through the Department of Transportation for which the State has no discretion? Please also set forth the timetable for obtaining federal approval of funding, obligation and allocation of funding to recipients, and use by recipients. Could any of this funding be used to offset other State appropriations, and if so, what programs and in what amount? What additional positions, if any, have been and will be hired with these funds? If this money is being used for new or expanded activities, will the new or expanded activities be continued in FY 2011? If so, how will they be funded?

2. a. Over the past several years, the overall staffing level in the executive branch has been reduced through restrictions on hiring. The FY 2010 budget proposal envisions continuation of the hiring restrictions, coupled with possible furloughs or further reductions in positions.

- *Question:* How have hiring restrictions affected staffing in the Department of Transportation? What strategies has the department employed to deal with these staff reductions? What projects, work products or functions has the department discontinued or deferred because of "frozen" staffing levels? Will the department be able to accommodate furloughs in FY 2010 without increasing spending for overtime?

2. b. Legislation enacted in June 2008 (P.L.2008, c.21) established an early retirement incentive program under the Public Employees' Retirement System for eligible employees in most agencies of the Executive Branch of State government, including the Department of Transportation (DOT). An employee wishing to receive benefits under the program had to retire by August 1, 2008, although an extension until July 2009 was permitted if authorized by the employee's department. According to the September 15, 2008 report by the Director of the Division of Pensions to the Joint Budget Oversight Committee, of DOT's 399 eligible employees, 164 (41 percent) applied for retirement under the program; virtually all of those retirements took effect last August 1. These retirements included about 70 employees engaged in capital program management and almost 60 employees with responsibility for operations. The legislation included an "anti-backfill" provision limiting the number of new employees hired by all Executive agencies to fill vacancies created by retirements under the incentive program to 10 percent of the number of "incentive" retirements. At a meeting of the Assembly Transportation, Public Works and Independent Authorities Committee on March 12, 2009, the Commissioner testified that the Department "anticipated no new hires" at the present time.

Discussion Points (Cont'd)

• *Question:* What amount of salary and fringe benefit costs does the department expect to save in FY2010 through net reduction in staffing due to retirements under the retirement incentive program? How many of the positions vacated by these retirements have been eliminated (de-authorized)? Since August 1, 2008, how many have been filled through promotions and personnel transfers within the department, and how many have been filled through new hires? To what extent has the department reshaped its priorities in developing the 2010 transportation capital program in response to a net reduction of workforce resulting from the program?

2. c. In his March 12 testimony, the Commissioner indicated that engineering work in connection with the capital program would be performed "in house."

• *Question:* In view of both the constraints on the department's FY2010 budget and the "no-new-hires" policy, how does the department plan to ensure that engineering staff resources are sufficient to execute the tasks associated with developing and implementing the capital program?

3. The FY 2009 appropriations act anticipated that $25 million in procurement savings would be achieved by executive departments. A chart on page 75 of the Budget in Brief categorizes those savings and indicates they will continue into FY 2010. The FY 2010 budget includes another $25 million from procurement savings (Budget in Brief, Appendix I, page 8).

• *Question:* Please indicate the FY 2009 amount of procurement savings achieved by the Department of Transportation, by the categories set forth in the referenced table, and the sources of those savings by department program. What is the annual amount of these savings as continued into FY 2010? How have these reductions affected the department? What projects, work products or functions has the department discontinued or deferred in order to achieve these savings?

4. a. The legislation (P.L.2006, c.3) enacted in March 2006 to reauthorize and revise the financing of the Transportation Trust Fund Authority (TTFA) created the Financial Policy Review Board, allocating the board to the Department of Transportation. The board, for which no funding is explicitly provided under the Executive's FY2010 departmental budget recommendation, is charged (N.J.S.A.27:1B-22.2) with preparing an annual "Statement of Condition of Transportation Financing" certification of the Authority's adherence to certain standards. One of these standards would maintain control, from the level of FY2007, in expenditures of Authority funds on "permitted maintenance," which is defined under the Authority's governing statute as "work necessary for preserving or maintaining the useful life of public transportation [and highway] projects . . . for not less than five years." (N.J.S.A.27:1B-3 r.) The 2006 legislation also directed the Department to report to the Governor and Legislature on the amount of Authority funds that have been expended on permitted maintenance and on the Department's and NJ Transit's salaries and overhead during Fiscal Years 2006 and 2007 (N.J.S.A.27:1B-22.3). In response to an OLS discussion point question in connection with the FY2009 budget, the Department indicated that it does not charge in-house maintenance or operational costs to the Transportation Trust Fund.

• *Question:* How much was spent from the revenues and other funds of the TTFA on permitted maintenance and on salaries and overhead of the department and the New

Discussion Points (Cont'd)

Jersey Transit Corporation in FY2007 and FY2008? What is the projected expenditure from that source on permitted maintenance in FY2009, and what amount of Authority funds does the department plan to spend on permitted maintenance in FY2010? How does the department anticipate that the costs of the Financial Policy Review Board will be funded? Given that the board appears to have been legally constituted upon the qualification of a third member, which occurred in April 2008, when does the department expect that the board will begin to issue the statutorily prescribed certifications, and what is the initial fiscal year to be covered by those certifications?

4. b. The TTFA's enabling statute provides that the salaries and overhead of the department and the New Jersey Transit Corporation for the fiscal year beginning July 1, 2006 and each fiscal year thereafter shall not exceed 13 percent of the total funds appropriated from the revenues and other nonfederal funds of the authority for those fiscal years. The FY 2010 budget recommends new language providing that the amounts appropriated from the revenues and other monies of the TTFA for salary and overhead costs of employees of the department and of New Jersey Transit associated with the construction of capital projects shall not be subject to any percentage limitation.

Budget information attributes department salary savings of $6.3 million to how Transportation Trust Fund administrative costs will be funded, and also indicates a reduction to New Jersey Transit's operating subsidy of $20 million to "use of non-State funding sources".

- *Question:* Are each of these budget reductions made possible by the new budget language setting aside the 13 percent limitation on salary and overhead costs? What percentage of TTFA resources will be allocated to those purposes in FY 2010 under the proposed budget? What percentage of the pay-as-you-go component of the FY 2010 TTFA capital plan will salary and overhead costs comprise? Does this represent an appropriately prudent financial outcome, in light of recent reports of higher than anticipated TTFA debt service costs resulting from the Series 2008A bond sale and recently expressed concerns about the TTFA's financial viability in FY 2011, the final year of the current 5-year reauthorization?

New Jersey Transit

5. The NJ Transit proposed operating budget for FY2010 totals $1.789 billion, an increase of 3.8 percent over the adjusted FY 2009 budget. Farebox revenue is projected to increase 3.6 percent from $755 million to $783 million. The last fare increase the agency implemented occurred on June 1, 2007, was implemented over 13 months rather than 12, and averaged 9.6 percent. FY 2010 budget information indicates that NJ Transit will implement a $17 million part-year fare increase to help offset the $62 million reduction to the operating subsidy, and fund increased operating costs.

- *Question:* Why is NJ Transit seeking a fare increase and what specific conditions and factors led to this decision? Please explain if management considered and analyzed other alternative courses of action and what they are.

- *Question:* When is the fare increase expected to take effect, and what is the estimated revenue from bus, rail, light rail, peak and off-peak services? Also, please explain and provide details on the proposed fare increase plan and policy, and

Discussion Points (Cont'd)

provide the proposed rate schedule for all ticket types. What will be the short and long term impact of this increase on ridership, service and farebox revenue?

- *Question:* Has management devised a long term strategic plan for the increase or adjustment of fares and revenue requirements? Please explain the planning, strategy and decision making process that management utilizes to evaluate the need for a fare increase.

6. The FY 2010 recommended budget for NJ Transit includes a $23.4 million increase for salaries and wages, and the number of bus and rail operating positions for the next fiscal year is estimated to increase by 204 positions. According to budget information, the agency's General Fund subsidy is being reduced by $10.4 million due to wage increase limitations, and $2.6 million due to a management furlough.

- *Question:* What is the annual budgeted increase for management, agreement and non-agreement employees, and are these increases automatic for any management or non-agreement employees? Please elaborate on the steps that will be taken to limit wage increases and institute a management furlough. When will these steps take effect, and for how long? Can NJ Transit impose these measures unilaterally, or will contract provisions need to be renegotiated?

- *Question:* Please explain the need for the additional positions, and provide detail on the likely impact on operations and services. Are these full and/or part-time positions, classified or unclassified, and are they temporary or permanent? Please also provide details on the fiscal impact to the budget, and how they will be funded. Please explain the considerations that underlie NJ Transit's decision that increasing manpower is more cost effective than scheduling overtime, as the corporation has done in the past.

7. The Senior Citizen and Disabled Resident Transportation Assistance Program assists counties to develop and provide accessible feeder transportation service to accessible fixed-route transportation services and accessible local transit service to senior citizens and the disabled. The program also enables NJ Transit to develop, provide and maintain capital improvements that afford accessibility to fixed route and other transit services in order to make public transit facilities accessible to senior citizens and the disabled. Appropriations for this program amounted to $34.4 million in FY2006, $34.9 million in FY2007, $36.9 million in FY2008, and $33 million in FY2009, and are budgeted at $30.2 million in FY2010. This trend in program funding follows the trend in revenue to the Casino Revenue Fund from which its resources derive; that revenue has been affected by both economic conditions and temporary tax increases.

- *Question:* What impact has the decline in funding had on Senior/Disabled Transportation Assistance program service levels, and what further impact on those service levels may be expected in FY2010? If increased funding from local government or third party sources has been used to avoid or mitigate any such impact, please explain. To what extent did increased funding in FY2006-FY2008 lead to service levels that are not sustainable?

Discussion Points (Cont'd)

8. The FY2010 Executive budget proposal for NJ Transit recommends a reduction in the operating subsidy $62 million. The introduction to the departmental budget attributes this reduction to "a number of saving initiatives and [maximization of] several non-State funding sources." The budget reflects the latter of these offsets to New Jersey Transit's appropriation requirement in the form of an increase of $100.2 million (16.4 percent) in anticipated "other resources."

- *Question:* Please identify the individual "savings initiatives" and "non-State funding sources" (other than fare increases addressed in the response to Question 5 and the savings discussed in question 6) referred to in the budget introduction, specify the amounts anticipated to be realized from each initiative and each non-State funding source, and explain how the Corporation expects the specified savings/new revenue to be achieved. What savings will these initiatives and non-State funding sources produce beyond FY2010?

9. The downturn of the U.S. subprime mortgage market that began in 2007 has resulted in a losses to banks worldwide from declining values of securities tied to home loans and commercial mortgages and other similar instruments. NJ Transit pension portfolios, for the majority of its employees, include fixed income positions portfolios which in turn include mortgage-backed or collateralized debt securities.

- *Question*: In light of the recent downturn in the mortgage-backed securities market, have fixed income portfolios been appropriately revalued to reflect current market values? If the ratings on those securities is downgraded, how will investments be impacted or revalued? What is the total loss incurred by NJ Transit assets if these securities are marked down to current market value?

10. a. NJ Transit has noted for several years that fuel cost increases continue to exceed available revenue. There was a sharp increase in oil and petroleum costs from fall 2007 to summer 2008. With instability in oil and petroleum real production, there is a possibility prices will see another such increase in the future.

- *Question*: How will NJ Transit alter its business model to adjust to unstable oil and petroleum markets and mitigate future increases in fuel costs? What steps did NJ Transit take to minimize the fiscal impact of the sharp increase in fuel prices that occurred in 2007-2008?

10. b. Diesel fuel costs increased significantly in FY 2008. NJ Transit stated in April of 2008 that it had instituted an energy management program that includes the examination of alternatives to diesel powered rolling stock, such as the use of biodiesel mixtures in existing locomotives, the use of hybrid vehicles, and the purchase of dual-powered locomotives that are able to switch from diesel to electric power when electrification is available.

- *Question*: What progress has NJ Transit made in its examination of alternatives to diesel powered rolling stock? What steps has NJ Transit completed toward increasing the use of alternatives to diesel fuel?

Discussion Points (Cont'd)

Motor Vehicle Commission

11. The Motor Vehicle Commission continues to operate with a structural deficit which requires continued use of surplus. The MVC has previously noted the possibility the surplus will be fully depleted in FY 2010. In FY 2009 and as recommended for FY 2010, Commission resources will be allocated to other State purposes, either through imposing new interagency charges on the MVC or by revenue diversion. The MVC recently proposed fee increases by regulation that are estimated to generate $40-$60 million in additional revenue, of which $20 million would be reallocated for general State purposes. Under law, fees may be increased to take into consideration the MVC's costs of transactions for which fees are charged, and the proposed increase was justified in part on the basis of more closely aligning fees with costs.

- *Question:* Please comment on the MVC structural deficit and the impact of operating changers, overall revenue levels, and revenue from the proposed fee increase in achieving structural balance. What further steps will the Commission need to take assure that it is able to maintain operations at adequate levels if and when the surplus is depleted, and balance costs with resources? Did the MVC structure its proposed fee increases with the knowledge that it would not retain all of the revenue it produces in FY 2010? If not, are there plans to alter the proposal to provide the MVC with more net revenue in FY 2010? Please cite significant examples of fees that, as set currently or as proposed, would recover full transaction costs.

12. In FY 2008 and FY 2009 the Motor Vehicle Commission initiated and implemented its Facilities Master Plan for facility and customer service improvements, and the regionalization of driver testing services. The MVC estimated a savings of approximately $3.5 million.

- *Question:* Is this estimate still accurate? What are the amounts of savings that have been realized to date from the regionalization and consolidation programs? What progress has been made, and is the MVC on schedule to complete these improvements?

13. In 2008, the Motor Vehicle Commission eliminated evening hours for all agencies and regional service centers statewide. Thereafter, it announced that, having completed two years of planning, it would close the four regional service centers beginning in March/April 2009 and distribute operations among the 43 local agencies.

- *Question*: How did the Commission's elimination of evening hours for all agencies and regional service centers reduce operating expenses in FY 2009? What impact, if any, did the elimination of evening hours have on the Commission's customers? What is the status of implementing the plan to close regional service centers? What is the fiscal impact of implementing the plan, in FY 2009, FY 2010 and FY 2011 respectively? What impact on customers will result from these closures? Will evening hours be resumed at local agencies upon their assumption of functions form the regional service centers?

14. The Department of Homeland Security has set the extended Real ID Act compliance deadline for December 31, 2009. States that meet certain benchmarks for the security of their credentials and licensing processes will automatically be granted a second extension until May 11, 2011 to complete full implementation of Real ID.

Discussion Points (Cont'd)

- *Question*: Does the Commission have a plan concerning the costs incurred in relation to the requirements of the federal Real Act? How will the December 31, 2009 deadline affect the Commission's operation budget in FY 2010? Will the Commission qualify for the second extension to May 11, 2011?

Background Paper: New Jersey's Transportation Capital Program and the Transportation Trust Fund

Budget Pages.... B-17, C-27, C-30, D-361, D-363, D-369 to D-371, D-374, H-29

Introduction

This paper provides some general background on New Jersey's transportation capital program and a description of the means by which the FY2010 program would be financed.

The Executive Budget recommends that the Legislature authorize, and appropriate support for, a transportation capital program for FY2010 in the amount of $3.3 billion. This program includes a State-funded component ($1.6 billion) financed through the New Jersey Transportation Trust Fund Authority (TTFA or "Authority"). Additional project support would come from federal funds (projected at $1.468 billion) and funds from third-party participants, generally local government entities ($237 million). Federal fund support for the capital program, like other funding of State government activities, is constitutionally subject to appropriation by law through the annual Appropriations Act. Since, however, the availability and amount of that federal funding are a function of the projects comprising the program and of federal decisions beyond the State's control, the discussion below will not address the appropriation of federal monies.

The State component of funding for the capital program comes from three sources: annual State appropriations to the Authority's Transportation Trust Fund (TTF) account, proceeds of Authority bonds, and interest earnings – the last being relatively small. It should be noted that the Authority's annual fiscal need is for enough funding to cover, not only disbursements of project payments, but also debt service on previously issued bonds. The financing of the TTF will be considered more fully below.

The TTFA was established by and operates under the "New Jersey Transportation Trust Fund Authority Act of 1984" ("TTFA Act"), which also governs the development and adoption of the transportation capital program. Statutory citations below refer to provisions of this act.

The Transportation Capital Program

Each year, the New Jersey Department of Transportation (DOT) prepares a proposed transportation capital program for the ensuing fiscal year. The Commissioner is required by law to submit the proposed program to the Legislature in the form of a "report" that describes the projects, identifies their location, states whether they are "State" or "local" projects, and indicates the cost. (N.J.S.A.27:1B-22, subsec. c.) Either House of the Legislature may, within 45 days of its receipt of the proposal, return it to the Commissioner with its objections to, or recommendations for modification of, the program (ibid., subsec. e.); it has been many years since the Legislature has returned any such objections or recommendations.

Addressing the expenditure of the "revenues or other funds of the [TTFA]," the TTF statute directs that DOT "shall not expend any funds except as are appropriated by specific projects identified by a description of the projects, the county or counties within which they are located, and amounts to be expended on each project, in the annual appropriations act."

Background Paper: New Jersey's Transportation Capital Program and the Transportation Trust Fund (Cont'd)

(N.J.S.A.27:1B-21, subsec: b.) Accordingly, the annual appropriations act for each fiscal year identifies by name and location each project that is included in the capital program for that fiscal year and the amount of TTF funding that the project is anticipated to require. The proposed capital program project list generally becomes available only after release of the Executive budget document (this year it was issued on April 13), but the finalized list will appear in the appropriations bill as the law prescribes. The proposed list may be viewed at http://www.nj.gov/transportation/capital/tcp10/. [1]

The following table (adapted from p. H-29 of the Appendix to the FY2010 Executive budget recommendation) shows the various types of projects funded under the State's capital program and the total funding (federal and State) allocated to each in the last, current, and coming fiscal years. The department's explanation of each project category is provided in the glossary included in the capital program document available at the web address above.

FY2010 TRANSPORTATION CAPITAL PROGRAM
FUNDING BY PROJECT CATEGORY

	FY2008 Expended	FY2009 Adj. Approp.	FY2010 Recom'd
Airport Assets	8,000	13,753	7,000
Bridge Assets	469,964	914,330	539,280
Capital Program Delivery	225,453	242,340	278,609
Congestion Relief	500,560	709,494	542,963
Local System Support	376,868	638,065	414,739
Mass Transit Assets	887,883	1,283,580	1,023,950
Multimodal Programs	69,729	93,248	128,438
Road Assets	208,437	477,642	257,247
Safety Management	87,518	115,747	77,026
Transportation Support Facilities	19,632	26,360	35,360
TOTAL	2,854,044	4,514,559	3,304,612

The elevated level of funding in FY2009 is substantially attributable to federal stimulus funding under the "American Recovery and Reinvestment Act of 2009."

State Financing of the Capital Program: The Transportation Trust Fund

[1] The DOT's FY2010 capital program document projects an overall funding level of $3.6 billion, an amount $.3 billion greater than that anticipated in the Executive budget. The department attributes the difference to three factors: (1) The metropolitan planning organizations ("MPOs"), planning organizations that assist in transportation decision making as required by federal regulation, chose to program $130 million of funds anticipated to be received under the "American Recovery and Reinvestment Act of 2009" (the federal "economic stimulus" legislation) in the FY2010 federal Surface Transportation Program in case the funds could not be authorized in time for supplementary inclusion under the FY2009 capital program as planned. (2) DOT's final projected FY2010 revenue includes an increase of $32 million in "demonstration" funding, originally anticipated for FY2009, that will not be authorized until FY2010. (3) NJ Transit increased its final projection of anticipated FY2010 federal funding by $111 million.

Background Paper: New Jersey's Transportation Capital Program and the Transportation Trust Fund (Cont'd)

As noted above, funding for the transportation capital program is accomplished through the Transportation Trust Fund. This funding is authorized by the Appropriations Act in a two-step process. First, monies are appropriated *to* the Transportation Trust Fund Account, from which it becomes available to the Special Transportation Fund established to fund "payments made, or anticipated to be made by or on behalf of the department, from appropriations . . . from revenues or other funds of the authority." (N.J.S.A.27:1B-21, subsec. a.) The FY2010 Executive budget recommendation for the amount of State funds to be appropriated to the account is $895 million (p. D-369).

Monies are then appropriated *from* the TTF. For FY2010, the recommended amounts of State funding for these appropriations are $700 million for State highways and $208 million for local highways (p. D-370) and $692 million for public transportation (p. D-374). The difference between the total amount appropriated for the capital program and the amounts needed to fund program expenditures from the Special Transportation Fund plus debt service on the Authority's bonds is covered by the issuance of additional bonds. Neither the proceeds of these new bonds nor federal funds can be used to fund debt service on outstanding TTFA issues; thus in each fiscal year, the State appropriation to the TTF account plus interest earnings of the Authority must equal or exceed that fiscal year's TTFA debt service requirements.

Following is a review of the constitutional and statutory prescriptions concerning resources from which each fiscal year's State appropriation is to be funded and a short discussion of the TTFA's bond issuance program.

State appropriation

The amount annually appropriated to the Transportation Trust Fund account in FY2007, FY2008 and FY2009 was $895 million; as noted above, the Executive budget recommends appropriation to the account of the same amount in FY2010. Budget language (p. D-370) directs that this amount "shall first be provided from revenues received from motor fuel taxes, the petroleum products gross receipts tax, and the sales and use tax pursuant to . . . the State Constitution, and from funds received or receivable from the various transportation-oriented authorities pursuant to contracts . . . ."

Motor fuels tax. Since the year (1984) that the TTFA was created, the State Constitution has included language (Art.IV, Sec.II, par.4) requiring a portion of the proceeds from the State motor fuels tax to be credited to a special account and to be appropriated "only for purposes of paying or financing the cost of planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the transportation system in this State . . . ." Originally, the quantity of revenue so dedicated was "an amount equivalent to the revenue derived from $0.025 per gallon from the tax"; the "revenue equivalence" amount was increased three times during the 1990s and once more in 2006, so that it now stands at 10.5 cents per gallon ("cpg"). The motor fuels tax rate is 10.5 cpg in the case of gasoline and 13.5 cpg in the case of "special" (basically, diesel) motor fuel. The Executive budget (p. C-4) projects total motor fuels tax collections at $553.4 million; the Division of Taxation has indicated in the past that motor fuels sales in New Jersey are divided roughly eighty-twenty between gasoline and diesel fuel. These figures indicate that the dedicated portion of total motor fuels tax revenue in FY2010 will amount to about $523 million.

Background Paper: New Jersey's Transportation Capital Program and the Transportation Trust Fund (Cont'd)

Petroleum products gross receipts tax; sales tax. In 2000, language was added to the State Constitution providing that, in addition to the amounts "equivalent to" the stated portion of motor fuels tax collections, monies derived from these taxes should also be credited to the special account for support of the State transportation system. In each case, the amount to be credited was phased in; upon completion of the phase-in, the annual amounts were to be equal to $200 million derived from the wholesale tax on petroleum products (beginning in FY2002) plus $200 million from the State sales and use tax (beginning in FY2003).

Toll road authority contract payments. In 1987, a provision was added to the TTFA Act directing that there be credited to the TTF account "moneys received by the State in accordance with contracts entered into with toll road authorities or other State agencies . . . ;" a subsequent amendment to this provision set the minimum amount to be credited at $24.5 million in each fiscal year. (N.J.S.A.27:1B-20, subsec. c.) The Executive budget for FY2010 anticipates $24.5 million in Schedule I revenue from the "autonomous transportation authorities" (p. C-7). It may be noted that budget language (p. D-371) provides that of the appropriation to DOT's State and local highway program, $12.5 million is to come from contract payments from "transportation-oriented authorities," indicating that the net amount from these payments available to support the appropriation to the TTF account is $12 million.

For FY2010, the total amount constitutionally dedicated to the funding of the State transportation system appears to be roughly $923 million. The department has said in the past that it understands the Constitution as authorizing appropriation of the dedicated amount to more than one account, and that the portion of the full dedication amount not recommended for appropriation to the TTF account ($28 million in FY2010) is included in the appropriation for New Jersey Transit's operating budget for a variety of constitutionally eligible repairs.

Bonds

In FY2010, as for many years past, the amount of the recommended State appropriation to the TTF account will not be sufficient to fund the State component of the capital program plus debt service. The deficiency will be met through the issuance of new bonds of the Authority. The TTFA Act authorizes the Authority to issue up to $1.6 billion of new debt in each of the five fiscal years FY2007-FY2011, and permits any unexercised bonding authority to be carried forward without limitation. In light of the final paragraph of the preceding section, it may be noted that the Act provides for a reduction of this debt issuance cap, in any fiscal year in which the annual appropriation of State funds to the Transportation Trust Fund exceeds $895 million, by the amount of that excess. Under 2006 amendments to the Act, the maximum maturity for TTFA bonds was increased from 21 years to 31 years. (N.J.S.A.27:1B-9, subsecs. e. and i.)

The TTFA Act requires the DOT commissioner to issue each year, in addition to the annual transportation capital program, a "'Transportation Trust Fund Authority Financial Plan' designed to implement the financing of proposed projects." (N.J.S.A.27:1B-22, subsec. d.) The Authority's financial plan for FY2010 indicates that the TTFA "expects to issue $1.3 billion in new money bonds for FY2010, but may issue up to $1.6 billion if cash outlays [to project contractors] are accelerated."

The financial plan anticipates FY2010 debt services costs of $762.6 million for the bonds of the Authority.

Background Paper: New Jersey's Transportation Capital Program and the Transportation Trust Fund (Cont'd)

Cumulative TTFA Operations

According to information included in the Transportation Trust Fund Authority FY2010 Financial Plan, for the period 1985-2008 the TTFA has accumulated $24.5 billion in "obligations", comprising annual capital program spending authorizations ($18.6 billion), debt service payments ($5.9 billion), and authority operating expenses ($14 million). Projected through FY2009, the sum of TTFA obligations will grow to $26.6 billion. Against these obligations, the TTFA through FY2008 has secured "funding sources" totaling $22.2 billion, from state appropriations ($10.7 billion), investment earnings ($513 million), bond premiums ($170 million), and bond issuance proceeds ($10.8 billion). Projected through FY2009, cumulative TTFA funding sources will total $25 billion. The "balance unfunded" – the difference between TTFA spending and the resources to support that spending – totals $2.3 billion through FY 2008, falling to a projected $1.6 billion at the close of FY 2009. The OLS has in the past raised concerns about this unfunded balance. It signifies the accumulated unmet need for State funds to meet the program commitments that have been made through the TTFA to date, a need that exists above and beyond the costs to continue investment in transportation infrastructure and retire all outstanding TTFA debt. That need must be met principally through a combination of future appropriations of State funds and additional proceeds of TTFA bond financing, and therefore is an important consideration in formulating financial plans to meet the State's future transportation capital needs.

Background Paper: The ARC Tunnel Project

Introduction

Access to the Region's Core ("ARC") is the name given to a project that will expand direct commuter rail service to Manhattan and double the capacity of the Northeast Corridor (NEC) to accommodate trains going across the Hudson River between New Jersey and New York City. The centerpiece of the project is the construction of two new single-track rail tunnels under the Hudson River extending from the Frank R. Lautenberg Station in Secaucus to Fifth Avenue and 34th Street in Midtown Manhattan, commonly referred to as the Trans-Hudson Express (THE) Tunnel project or the ARC Tunnel project. The overall project will also include: a new 8.3 mile commuter line adjacent to the existing NEC between Secaucus and Manhattan; a connection between the NEC and other commuter rail lines; a new six-track rail station underneath 34th Street in Manhattan that will provide direct access to New York Penn Station, PATH trains, and various subway lines; a storage yard in Kearny, New Jersey; and the purchase of specialized dual-powered rail locomotives (electric and diesel) and bi-level coaches.

Currently, the trans-Hudson commuter rail system is operating at or near capacity during peak travel times. The ARC Tunnel project would more than double rail capacity between New Jersey and Manhattan from 23 to 48 trains per hour, thereby relieving congestion and transit delays. The new tunnel would also allow for more direct, transfer-free service to midtown Manhattan on various commuter rail lines, while other lines will experience more frequent service. By doubling trans-Hudson passenger rail capacity, the ARC Tunnel project will accommodate future travel demand, reduce commute times, and enable more frequent service.

The increase in passenger rail capacity is expected to relieve congestion on the Hudson River's vehicular crossings and on some of the State's busiest roadways, namely the New Jersey Turnpike (the tunnel should obviate the need for a $3.5 billion expansion of the New Jersey Turnpike's Western Spur) as well as other roads leading into New York City. The new tunnel will relieve stress on the existing tunnel and allow it to be shut down for necessary maintenance. The tunnel could also produce environmental benefits by providing an incentive for people to take mass transit rather than drive.

Project Cost & Funding

The cost of the ARC Tunnel project is currently estimated at approximately $8.7 billion. In late 2008, this estimate superseded an earlier projection of $7.6 billion due to an adjustment of inflation assumptions and a Federal Transit Administration (FTA) request to double the project's contingency fund. An additional $400 million will be required to purchase additional rolling stock to enable the tunnel to reach capacity once it is in service, bringing total costs to $9.1 billion. Funding for the tunnel will come from a combination of sources: the State, the Port Authority of New York and New Jersey (Port Authority), and the federal government.

The State will contribute approximately $2.7 billion to the project as follows:

- $1.25 billion from the New Jersey Turnpike Authority, which will be derived from the 2008 toll adjustments on the New Jersey Turnpike and Garden State Parkway;
- $1 billion through the "flexing" of certain federal highway formula funds to the project over a ten-year period (see next paragraph); and
- $500 million from the Transportation Trust Fund (TTF) and other federal highway formula funds.

Background Paper: The ARC Tunnel Project (Cont'd)

In May 2007, the North Jersey Transportation Planning Authority, the metropolitan planning organization (MPO) for northern New Jersey, approved the flexing of $1 billion of Federal Highway Administration (FHWA) formula funds to the ARC tunnel project over a period of ten years. The flexing of federal highway funds enables the State to divert money to a transit project as long as the State replaces this money with State funds over a certain period of time. Since this action, which was intended to demonstrate the State's commitment to the project, directs federal money to NJ Transit that would otherwise go to the Department of Transportation (DOT) for bridge and highway projects, $1 billion in State funds is being reallocated to the DOT over the same ten-year period. NJ Transit began paying this flexed money back in FY2009 when its TTF allocation was reduced from $675 million to $625 million.

While the Governor has committed approximately $500 million in TTF monies to the ARC Tunnel project, the TTF is expected to run out of financing capacity by the end of FY2011. Therefore, other sources of funds will be used to secure the State's contribution. In its proposed FY2010-2019 capital plan, NJ Transit indicates that approximately $153 million from the TTF will be directed to the ARC Tunnel project in FY2010 and FY2011 combined, but the plan does not anticipate additional TTF monies for the project beyond that point. Since the TTF is presently not a viable source funding after FY2011, the capital plan directs $220 million of federal Congestion Mitigation and Air Quality (CMAQ) funds to the project through FY2013, in addition to approximately $190 million in CMAQ funds that were allocated to the project in previous fiscal years.

The Port Authority has committed approximately $3 billion to the ARC Tunnel project. For its 2009 budget, the bi-state agency has committed $340 million to the project, which follows $40 million that was budgeted for the project in 2008. The Port Authority's 10-year (2007-2016) capital plan anticipates an additional $2.615 billion long-term commitment for the project.

While the funding of the Port Authority's and the State's contributions (approximately $5.7 billion) to the project has been identified, commitments for the remaining $3 billion required for the project have not yet been fully secured from the federal government. The American Recovery and Reinvestment Act of 2009 (the "federal stimulus") provided $130 million for final design of the ARC Tunnel project. However, this money may be applied towards the State's contribution to the project. The State has also been successful in securing congressional earmarks for the project in recent years, including $48 million through the federal FY2009 Omnibus Appropriations Act that was passed in March. NJ Transit has also submitted an application to the FTA for funding through the "New Starts" program, which is the federal government's primary financial resource for supporting major mass transit capital projects. The $3 billion that the State is seeking from the federal government for the tunnel is the largest amount for any New Starts project. Additional federal funding may also be provided through the next reauthorization of the federal surface transportation spending bill; the current program will expire this fall.

The ARC Tunnel project has been receiving appropriations from the Legislature since FY2005. The total amount appropriated to the ARC Tunnel project from FY2005 through FY2009 equals more than $355 million, nearly 70 percent of which has come from federal sources, i.e., formula funds and earmarks.

Background Paper: The ARC Tunnel Project (Cont'd)

Project Status

The ARC Tunnel project has completed the environmental review and preliminary engineering phases. In January 2009, the FTA issued a Record of Decision on the project, thereby completing the environmental review process and clearing the way for federal funding. In March 2009, NJ Transit sought bids for the first construction phase of the project - an underpass beneath Tonnelle Avenue in North Bergen. NJ Transit has also begun advertising for prospective bidders for the design and construction of the Manhattan section of the tunnel. In April 2009, NJ Transit awarded a $34 million contract for management of the tunnel's construction, which is expected to begin later this year, with project completion scheduled to occur in 2017. Meanwhile, the ultimate sources of funding needed to complete the ARC Tunnel project - about $3 billion - remain unidentified.

Background Paper: Federal Stimulus Funding for New Jersey Transportation Projects

Budget Pages.... D-370, H-29

Introduction

On February 17, 2009, the President signed the American Recovery and Reinvestment Act ("ARRA") into law. Under its state apportionment provisions, the legislation will provide over $1.075 billion for New Jersey's transportation infrastructure: $651.8 million for highway and bridge infrastructure projects and $423.4 million for New Jersey transit projects.

New Jersey may also receive ARRA monies from a separate $1.5 billion National Surface Transportation discretionary grant program to be awarded on a competitive basis for highway, bridge, rail, and other projects that will significantly impact the nation, a metropolitan area, or a region. No single state may receive more than 20 percent of the funds authorized for this program. Federal criteria for the program are to be published by May 18, 2009.

Funding Breakdown and Project Selection Criteria

The distribution and breakdown of funding within New Jersey is governed by the language of the American Recovery and Reinvestment Act.

<u>Highway and bridge infrastructure projects.</u> Of the funds allocated to these projects:

- $468 million will fund 40 highway and bridge projects chosen by the New Jersey Department of Transportation (DOT). DOT's project selection was based on each project's ability to be delivered quickly; criteria used to identify these projects included (i) minimal community impact, right-of-way acquisition, and permit requirements, and (ii) the completion of (or exemption from) environmental impact approvals. The projects selected include high cost movable bridge replacements, bridge deck replacements and rehabilitation, bridge deck and beam replacement, bridge painting, roadway reconstruction, resurfacing, drainage improvements, and highway safety improvements. Of the total amount allocated, $443 million is for construction (30 projects), $18 million is for design (nine projects), and the remaining $7 million is for right-of-way acquisition (one project). Among the 40 projects, those scheduled for the largest amount of ARRA funding are the I-295 Gloucester/Camden Rehabilitation ($80 million), the Route 52 Causeway Replacement and Somers Point Circle Elimination ($70 million), and Route 46 and Main Street improvements in Lodi Borough ($47.6 million).
- $19.6 million is available to provide community funding for non-traditional "transportation enhancement" projects, such as pedestrian and bicycle ways, streetscapes and similar projects. On April 7, the DOT announced that it was accepting applications for the ARRA "transportation enhancement" program through May 13.
- $164.2 million is suballocated for urban areas designated by the Federal Highway Administration (FHWA). Each of the State's three regional Metropolitan Planning Organizations (MPO's) has selected projects for support from these funds. Per federal regulation, all of these projects are located on the federal-aid system and meet federal design and engineering standards and environmental requirements. Each MPO selected projects for funding based on its own prioritization criteria, but common to all was project eligibility and readiness for advancement. All of the 116 projects selected are

Background Paper: Federal Stimulus Funding for New Jersey Transportation Projects (Cont'd)

construction projects; the one scheduled for the largest amount of ARRA funding is the Court Street Bridge over the Hackensack River ($16.8 million).

The deadline for obligating 50 percent of the funds apportioned to DOT is July 1, 2009. March 2, 2010 is the deadline for obligating the remaining DOT apportioned funds and all of the suballocated funds. The DOT has indicated that it will obligate 100 percent of its apportioned funds by July 1, 2009.

Public transportation projects. New Jersey Transit's project selection process first identified qualified projects having design advanced sufficiently to meet ARRA requirements. The agency then chose projects that would create and preserve jobs, build capacity on the system, keep the system in a state of good repair, and leave significant assets to future generations. The projects selected include a new intermodal transit center in Pennsauken ($40 million), light rail line signal system and switch improvements ($39 million), rehabilitation of NJ Transit's rail stock ($35.8 million) and bus fleet ($35 million), and rehabilitation of the Lower Hack Drawbridge in Hudson County to serve riders on the Morris and Essex lines ($30 million). The largest amount of ARRA funding for public transit ($130 million) supports the construction of the new multi-billion-dollar Trans-Hudson Commuter Rail Tunnel.

The State has created a general Recovery and Investment Plan website, www.state.nj.us/recovery; a DOT website, www.state.nj.us/transportation/capital/stimulus, provides information on the federal stimulus program as it affects transportation in New Jersey.

Budget Treatment

Legislation enacted in March 2009 (P.L.2009, c.22) amended the FY2009 Appropriations Act to appropriate "such additional federal funds received during [FY2009] pursuant to any federal law authorizing a federal economic stimulus program . . ." and provided for approval by the legislative Joint Budget Oversight Committee of certain projects proposed for funding from these federal monies. On April 2, the Department of Transportation submitted the list of New Jersey transportation projects, summarized above, proposed for ARRA funding to the joint committee, which approved the list on April 7. The Department has stated that it intends that the full amount of New Jersey's $1.075 billion apportionment shall have been appropriated in FY2009; reflecting this intention, the Executive recommendation for the FY2010 appropriation of federal funds to the Department of Transportation includes no appropriation of federal "stimulus" monies. The appropriation of those monies for FY2009 is indicated as a supplemental appropriation item for that fiscal year in the amount of $800 million for State and local highway facilities. The department has indicated that this figure is an estimate that was based on an earlier version of ARRA than the one finally enacted.

The impact of the stimulus program on federal funding in the FY2009 budget for DOT/NJT can be seen from a comparison of the original and adjusted appropriations of such funding for that fiscal year. As displayed on p. H-29 of the FY2010 Budget Appendix, the FY2009 adjusted appropriation of federal funds for highway projects (after netting out third party funds) amounted to $1,782.4 million, an increase from FY2008 spending of $1,131 million. The FY2009 adjusted federal funds appropriation for public transportation (net of third party funds) amounted to $949.3 million, an increase of $398.3 million. So the stimulus funding of $1.075 billion amounts to about 70 percent of the total $1.529 billion increase from FY2008 to FY2009 in federal support for New Jersey's transportation projects.

Background Paper: New Jersey Motor Vehicle Commission

Introduction

The New Jersey Motor Vehicle Commission (MVC) was established in 2003 as the successor agency to the Division of Motor Vehicles (DMV).

In 2002, Governor McGreevey formed the Fix DMV Commission to conduct a comprehensive review of the DMV and make recommendations on the restructuring of the agency. This commission found that the DMV was ineffective in providing basic customer service, was unable to secure its documents, and was incapable of performing certain statutory duties. The final report of the Fix DMV Commission described a series of recommendations for improving the motor vehicles services in New Jersey. The "Motor Vehicle Security and Customer Service Act," P.L.2003, c.13 (N.J.S.A.39:2A-1 et al.) (the "2003 Act"), was a direct response to the recommendations of the Fix DMV Commission. That legislation established the MVC as an independent agency in, but not of, the Department of Transportation (DOT).

The MVC has four primary areas of responsibility:

1) The management of all automated revenue and information systems that are needed to support the administration of the various programs related to the operation of motor vehicles;
2) Motor vehicle licensing, registration, and inspection;
3) Driver control and regulatory affairs which insure the continued fitness of persons to operate motor vehicles; and
4) The security responsibility program that enforces compulsory insurance requirements and identifies uninsured motorists.

MVC Resources

Prior to the passage of the 2003 Act, motor vehicle fees were anticipated as General Fund revenue, a portion of which was appropriated as Direct State Services spending authority for the DMV. According to the Fix DMV Commission, funding for the DMV was historically inadequate and inconsistent, and the amount appropriated to the DMV substantially less than the amount collected in fees by the agency. On average, approximately 20 percent of the nearly $900 million collected in fees in every year was returned to the DMV, while the rest supported a wide range of government services. In its final report, the Fix DMV Commission recommended dedicating motor vehicle fee revenue to the new MVC in an amount sufficient to allow the agency to pay for ongoing operating expenses.

The 2003 Act responded to the Fix DMV Commission's concerns by altering the budgetary treatment of revenues from motor vehicle fees and the appropriations for the MVC. Under the provisions of the act, the MVC receives a fixed proportion or percentage ("proportional split") of revenue from over 70 different motor vehicle fees and surcharges ("service charges"). This MVC allocation is excluded from the anticipated General Fund revenues and made available for the sole use of the MVC; it is intended to provide an adequate and reliable revenue stream for the agency. Under this new financing method, there is no "on-budget" appropriation made to the MVC as there was with the DMV.

For the first fiscal year following enactment of the 2003 Act (i.e., FY2004), a set amount of $200 million from service charges collected by the MVC was reserved for the agency. For the succeeding years, the 2003 Act provides for this amount (denoted by the MVC as its "base

Background Paper: New Jersey Motor Vehicle Commission (Cont'd)

budget") to increase or decrease in proportion to the revenues received from the stipulated service charges. For FY2004, the $200 million appropriation amounted to 37.4 percent of the revenue base from which it was drawn; since then, the MVC has received approximately 37.4 percent of the revenues subject to the proportional split. According to the MVC's 2004 Annual Report, the agency received $199.6 million from existing fees in FY2004, compared to the $124.7 million the DMV received through State appropriation the prior year. On average, the MVC has derived more than $200 million per year from the proportional split as its "base budget."

The 2003 Act also allowed the MVC to keep all of the revenues collected from any new or increased service charge, the revenue from which is not included in the calculation of the proportional revenue remitted to the commission. The act allowed the MVC to immediately begin receiving a previously authorized $6 fee for the issuance of a Digitized Driver's License (DDL), as well as the revenue from a $7 security surcharge on initial and renewed motor vehicle registrations that was newly established by the act. Since the MVC succeeded the DMV, these fees have generated nearly $60 million per year for MVC operations.

The 2003 Act also authorized the New Jersey Economic Development Authority (EDA) to issue New Jersey Motor Vehicle Commission bonds in an amount not to exceed $160 million. These bonds are secured by motor vehicle surcharge revenues. The purpose of these bonds was to pay for capital improvements to MVC facilities and equipment. The bonds were sold in 2003 and generated nearly $150 million for the MVC, not including $10 million that was statutorily directed to the Administrative Office of the Courts for improvements to the Automated Traffic System. A 2004 law expanded the purposes for which New Jersey Motor Vehicle Commission bonds could be used to include costs associated with the acquisition, demolition, construction, and maintenance of MVC facilities; site acquisition and development; property acquisition; and professional and administrative costs.

In addition to the revenue sources cited above, the MVC also receives support through the following self-funded programs:

- 40 percent of the fees for the Commercial Vehicle Enforcement Fund program;
- Insurance company payments for the Security Responsibility program;
- Fees for school and commercial bus inspection programs; and
- The Motorcycle Safety Education Fund.

MVC Budget

Annual resources and spending of the MVC increased dramatically after it succeeded the DMV. Overall resources for the agency in FY2003, as the DMV was being phased out, totaled less than $214 million, whereas in FY2004, MVC resources amounted to approximately $312 million. This amount consisted of nearly $200 million in existing motor vehicle fees; $54.7 million in new fees (the $6 DDL fee and the $7 security surcharge); $7 million in capital funds from EDA bond proceeds; $18.4 million from self-funded programs, such as the Commercial Vehicle Enforcement Fund and the bus inspection programs; and over $32 million in surplus carried forward from the prior year. These sources serve as the primary means of funding for the MVC, whose budget is 100 percent revenue-supported.

Meanwhile, the MVC's operating budget has steadily increased since its inception. In its final year of existence, the DMV incurred operating expenditures, including those for the self-funded programs referenced above, totaling just over $175 million. Since the creation of

Background Paper: New Jersey Motor Vehicle Commission (Cont'd)

the MVC, its overall operating expenditures have grown from $244 million in FY2004 to over $307 million in FY2008. Operating expenditures are expected to continue increasing for the current fiscal year before declining in FY2010.

The MVC has also made a substantial capital investments since 2003. The proceeds from the 2003 bond issuance have allowed the MVC to direct approximately $100 million towards capital improvements. Specifically, the proceeds have been used to upgrade MVC infrastructure, to expand online services, and to renovate existing and build new facilities.

The Appendix to this report contains a chart illustrating the various components of the MVC's overall budget.

Use of MVC Surplus ("carry-forward")

While the 2003 Act made significant progress toward ensuring that the MVC was supported by a steady, reliable stream of funding, the agency currently operates with a structural deficit. In its 2007 "MVC Forward" report, the commission identified the primary cause of the structural deficit as mandated salary and fringe benefit increases. While the cost of salaries and fringe benefits has increased from $92 million to $140 million between FY2004 and FY2008, the MVC's base budget (and the fees that support this budget) has remained relatively static.

The utilization of carry-forward funding has allowed the MVC to cover its structural deficit and continue to meet ongoing operational expenditures. However, continued revenue reductions beyond FY2009 will cause the MVC to exhaust its entire carry-forward and close FY2010 with a deficit balance. The MVC carried forward approximately $32.2 million in surplus following FY2003, and while this amount grew to nearly $100 million following FY2007, it is expected to be exhausted by the end of FY2010. The MVC anticipates an approximately $27 million deficit for FY2010, absent any actions to change operations or revise revenues.

The 2007 Act

In early 2007, the Chief Administrator reconvened the Fix DMV Commission to evaluate the MVC's progress and make recommendations for improvement. The result was the "MVC Forward" report, which, among other things, reiterated one of the original recommendations of the Fix DMV Commission: allow the MVC board to increase certain fees and surcharges by regulation. When the Governor signed P.L.2007, c.335 (N.J.S.A.39:2A-36.1 et al.) (the "2007 Act"), the MVC was granted this regulatory authority. The fees and surcharges that may be increased by regulation include all of those fees and surcharges whose revenues are proportionately split between the MVC and the General Fund pursuant to the 2003 Act, excluding motor vehicle registration fees and driver's license fees. In determining whether it is appropriate to increase a fee or surcharge pursuant to the 2007 Act, the board must consider the following factors:

1) The last time the fee or surcharge was increased;
2) The actual costs to the State for administering any transaction, process, filing, registration, inspection, audit, or any license permit, or other document issuance, for which the fee or surcharge is collected; and
3) The annual increase in the Consumer Price Index (CPI).

Background Paper: New Jersey Motor Vehicle Commission (Cont'd)

The 2007 Act prohibits the MVC from increasing any fee or surcharge more than once within a five-year period, and no fee or surcharge may be increased beyond an amount that exceeds how much it costs the State to administer or collect such fee or surcharge. After an initial increase, no fee or surcharge may be increased by more than the annual rate of inflation over the preceding five fiscal years. Also, all proposed increases in a given year must be consolidated into one regulatory proposal. Consistent with the provisions of the 2003 Act, the 2007 Act also directs 100 percent of the revenue derived from an increased fee or surcharge to the MVC. This revenue shall not be counted toward the proportional split in revenue between the MVC and the General Fund.

The 2007 Act also removed a sunset provision for the $7 security surcharge established under the 2003 Act. This surcharge was originally supposed to expire after ten years.

Proposed Fee and Surcharge Increases

On February 17, 2009, the MVC acted upon the authority granted to the agency under the 2007 Act and issued proposed rules that would increase various fees and surcharges. If adopted, the rules would increase more than 20 different fees and surcharges for MVC services including, but not limited to: motorcycle registrations; documents, such as driver history abstracts, suspension notices, and violation records; commercial driver license examination permits; boat ownership certificates; and the driver improvement program. As many fees have not been increased in decades, this proposal attempts to bring an outdated fee structure in line with what it actually costs the agency to provide certain services.

Diversion of MVC Revenues

As noted above, the MVC has been able to rely on a more steady stream of revenue through the statutorily required proportional distribution of revenue and other dedicated sources. However, the State has diverted funds that are statutorily allocated to the MVC under the 2003 Act. For example, in FY2009, language was included in the annual appropriations act that effectively cut $15 million from the MVC's budget by transferring to various State agencies fee revenue that would have otherwise been subject to the proportional split. These transfers might relate to costs incurred by those agencies to provide services to the MVC (e.g., revenue collection services by the Division of Revenue), the cost of which was previously borne by other resources. However, it is not clear that the amounts required to be transferred reflect actual costs; furthermore, the language does not require a provision of services as a condition of transfer.

P.L.2006, c.39 (N.J.S.A.39:3-8.3 et seq.) imposed a registration surcharge on certain new passenger automobiles with sales prices of $45,000 or more, or with Environmental Protection Administration fuel efficiency ratings of less than 19 miles per gallon. This surcharge on so-called luxury and fuel-inefficient vehicles, imposed at 0.4 percent of the sales or lease price, is annually diverted from the MVC and used as State revenue. Revenues from this surcharge totaled $17.4 million in FY2007 and $20.3 million in FY2008.

For FY2010, the Governor has proposed the same diversions of MVC revenues as those cited above. The FY2010 budget also proposes to divert $20 million of the revenue derived from the proposed MVC fee and surcharge increases to the General Fund.

Background Paper: New Jersey Motor Vehicle Commission (Cont'd)

Due to the recent economic downturn and the subsequent underperformance of State revenue sources, the Governor implemented a vast array of spending reductions throughout the current fiscal year as part of a plan to rebalance the FY2009 budget. As part of this plan, approximately $12.9 million of MVC resources were reallocated for general State purposes in FY2009.

Background Paper: New Jersey Motor Vehicle Commission (Cont'd)

APPENDIX

Motor Vehicle Commission Revenues and Expenditures (in millions)

	FY2003[1]	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009[2]	FY2010[3]
RESOURCES								
Existing Fees ("Base budget")	$124.66	$199.61	$195.98	$205.45	$214.86	$204.11	$200.23	$202.86
New Fees allocated under 2003 Act	$8.33	$54.70	$57.08	$59.39	$61.70	$55.51	$52.98	$54.78
Other Resources and Transfers	$59.79	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Reappropriation (Surplus)	n/a	$32.25	$59.91	$78.02	$81.20	$98.16	$84.79	$31.37
Less: Prior Year Reapprop. to Revert to General Fund[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	($25.30)
MVC Trust Fund Eligible Capital Proceeds	n/a	$7.06	$12.48	$19.23	$30.70	$5.62	$39.74	$6.61
MVC Trust Fund Capital Proceeds – Prior Years	n/a	n/a	$11.68	n/a	n/a	n/a	n/a	n/a
Commercial Vehicle Enforcement Fund	$5.46	$2.75	$8.26	$8.04	$8.52	$7.97	$7.85	$7.82
Security Responsibility	$13.56	$13.67	$13.46	$14.04	$15.48	$16.20	$16.50	$16.85
Motorcycle Safety Education Fund	n/a	n/a	$0.58	$0.46	$0.57	$1.48	$0.31	$0.46
Bus Inspections – School & Commercial	$1.95	$1.96	$1.97	$2.01	$2.03	$5.83	$2.07	$2.07
Newly Initiated Fees since 2003 Act	n/a	n/a	n/a	n/a	n/a	$1.59	$0.40	$0.40
Market Transition Facility	n/a	n/a	n/a	n/a	n/a	$1.50	$1.50	$1.50
Grant Awards	n/a	n/a	n/a	$1.68	$1.54	$1.11	$3.10	$2.40
Total Resources	$213.75	$311.98	$361.39	$388.32	$416.61	$399.08	$409.45	$301.82
EXPENDITURES								
Operating Expenditures	$156.12	$227.40	$250.41	$266.29	$270.78	$279.09	$305.23	$288.25
MVC Trust Fund Capital Projects	n/a	$27.43	$12.48	$19.23	$30.70	$5.62	$39.74	$6.61
Non-Trust Fund Capital Projects	n/a	$1.52	$2.92	n/a	n/a	n/a	n/a	n/a
Commercial Vehicle Enforcement Fund	$5.46	$2.75	$4.27	$4.26	$3.90	$4.28	$4.24	$4.18
Security Responsibility	$13.56	$13.67	$13.46	$14.04	$15.48	$16.20	$16.50	$16.85
Motorcycle Safety Education Fund	n/a	n/a	$0.39	$0.22	$0.27	$0.31	$0.42	$0.46
Bus Inspections – School & Commercial	n/a	n/a	$6.36	$5.04	$6.20	$7.68	$8.86	$8.89
Grant Award Expenditures	n/a	n/a	n/a	$1.68	$1.54	$1.11	$3.10	$2.40
Capital Program	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$1.00
Total Expenditures	$175.13	$272.76	$289.94	$310.77	$328.86	$314.30	$378.09	$328.63
Surplus/(Deficit)	$38.61	$39.22	$71.46	$77.55	$87.75	$84.79	$31.37	($26.81)

Background Paper: (Cont'd)

Source: New Jersey Motor Vehicle Commission Annual Reports; [1]Last fiscal year as Division of Motor Vehicles; [2]Budgeted; [3]Proposed; [4]Revised by OLS per the MVC
N.B.: Due to rounding, total may differ from summation of components.

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Individuals wishing information and committee schedules on the FY 2010 budget are encouraged to contact:

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