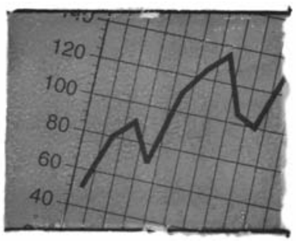

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF TRANSPORTATION
AND
MOTOR VEHICLE COMMISSION

FISCAL YEAR 2014 - 2015

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2014

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF TRANSPORTATION AND MOTOR VEHICLE COMMISSION

Budget Pages....... C-6, C-15, C-23, C-25, D-343 to D-361, H-5, H-7.

Fiscal Summary ($000)

	Expended FY 2013	Adjusted Appropriation FY 2014	Recommended FY 2015	Percent Change 2014-15
State Budgeted	$1,059,920	$1,384,556	$1,383,779	(0.1%)
Federal Funds	$1,158,514	$905,776	$788,061	(13.0%)
Other	$2,210,829	$2,330,478	$2,331,776	0.1%
Grand Total	$4,429,263	$4,620,810	$4,503,616	(2.5%)

Personnel Summary - Positions By Funding Source

	Actual FY 2013	Revised FY 2014	Funded FY 2015	Percent Change 2014-15
State	1,622	1,592	1,604	0.8%
Federal	839	848	849	0.1%
Other	664	670	671	0.1%
MVC	2,176	2,142	2,230	4.1%
NJ Transit	11,120	11,086	11,259	1.6%
Total Positions	16,421	16,338	16,613	1.7%

FY 2013 (as of December) and revised FY 2014 (as of January) personnel data reflect actual payroll counts. FY 2015 data reflect the number of positions funded.

Link to Website: http://www.njleg.state.nj.us/legislativepub/finance.asp

Highlights

Motor Vehicle Commission (MVC)

- The MVC is recommended to receive gross operating revenues of $374 million in FY 2015, a $10.1 million increase over FY 2014. Most MVC revenues are set by statute at a portion of a variety of driving and security related fees and fines. In FY 2015, the total amount being redirected through budget language from the MVC to the General Fund decreases by $1.835 million to $44.553 million. The amount of revenue redirected to the General Fund has decreased from $71.4 million in FY 2013 to $46.4 million (estimated) in FY 2014 to $44.6 million (proposed) in FY 2015, largely reflecting a drawdown in unexpended MVC balances and growth in the operational budget of the MVC. The total amount of General Fund revenue derived from motor vehicle fees for FY 2015 is $521.8 million, up from $509.2 million in FY 2014.

Department of Transportation (DOT)

- The recommended FY 2015 base State appropriation for DOT Maintenance and Operations is unchanged from FY 2014 at $38.1 million. The current FY 2014 adjusted appropriation of $123.4 million includes an $85.3 million supplemental appropriation for winter storm expenses. Current and proposed budget language authorizes supplemental funding as needed for DOT winter operations.

Transportation Trust Fund (TTF)

- The FY 2015 budget recommends a $1.26 billion appropriation to the Transportation Trust Fund Account for debt service, $99.5 million more than the FY 2014 adjusted appropriation. This appropriation is composed of $215 million from the petroleum products gross receipts tax, $517 million from the sales and use tax, $12 million from transportation oriented authorities, and at least $516 million of the estimated $541 million in revenues from the motor fuels tax. If the appropriation is larger than actual TTF debt service needs, then the sales and use tax appropriation is to be reduced accordingly.

- There appears to be no provision for pay-as-you-go funding of capital projects for the current fiscal year, meaning that the full $1.225 billion portion of the capital program for FY 2015 that is to be supported through State transportation funds will derive from debt instruments. The Port Authority of New York and New Jersey will provide $375 million in support to the capital program, bringing the non-federal portion of the capital plan to $1.6 billion for FY 2015, the same level of non-federal funding as has been provided in the prior eight fiscal years.

- The TTF is permitted $735.3 million in borrowing for FY 2015 under section 3 of P.L. 2012, c.13. With no sources of pay-as-you-go funding identified in the proposed budget, the Transportation Trust Fund Authority must identify $489.7 million in addition to the statutorily permitted bonding for FY 2014 to support the full $1.225 billion in State funds for the FY 2015 capital plan.

Highlights (Cont'd)

- The New Jersey Transportation Capital Plan for FY 2015 is $3.716 billion, a $271 million decrease from FY 2014. This decrease is attributable to a $122 million reduction in federal funding and a $148.8 million decrease in third party funds. This plan encompasses federal and State Transportation Trust funding that is appropriated in the budget as well as resources not appropriated in the Budget for New Jersey Transit and for certain projects undertaken by regional transportation agencies, e.g., the Port Authority of New York and New Jersey that benefit New Jersey.

New Jersey Transit (NJT)

- The recommended State operating subsidy to support NJT for FY 2015 is $60.3 million, $12.9 million less in General Fund support than was provided in FY 2014. The State operating subsidy is supplemented by $295 million in support from the New Jersey Turnpike Authority and $12.9 million from the Clean Energy Fund. These additional operating subsidies are $10.4 million below the projected FY 2014 level, which assumes an allocation of $23.3 million from the Clean Energy Fund that has yet to be authorized by the Legislature. However, the Executive also intends to lapse $23.3 million in FY 2014 operating subsidies, in which case FY 2015 NJ Transit operating support from all State sources will equal the amount provided in FY 2014.

- The overall NJT operations budget for FY 2015 is $2.02 billion, a $77.7 million increase over FY 2014. This increase is composed primarily of a $50 million, or 4.4% increase in salaries and wages. The increase is largely supported by a $92.3 million increase in other reimbursements, which include federal and TTF reimbursements for transportation system improvements, preventative maintenance, and administrative costs in support of the department's capital program.

- Transportation Assistance for Senior Citizens and Disabled Residents is recommended to decrease to $18.3 million in FY 2015 from $20.3 million in FY 2014. This reduction reflects declining casino tax collections. The funding level has declined each year since FY 2008 when it totaled $36.9 million. Based on the Executive's revised estimates for FY 2014 casino tax collections, the level of support will begin increasing in FY 2016 for the first time since FY 2008.

Background Paper

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2013	Adj. Approp. FY 2014	Recom. FY 2015	Percent Change 2013-15	Percent Change 2014-15
General Fund					
Direct State Services	$30,431	$130,488	$45,188	48.5%	(65.4%)
Grants-In-Aid	34,000	73,173	60,284	77.3%	(17.6%)
State Aid	0	0	0	0.0%	0.0%
Capital Construction	0	0	0	0.0%	0.0%
Debt Service	970,857	1,160,552	1,260,043	29.8%	8.6%
Sub-Total	**$1,035,288**	**$1,364,213**	**$1,365,515**	**31.9%**	**0.1%**
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	$24,632	$20,343	$18,264	(25.9%)	(10.2%)
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	**$1,059,920**	**$1,384,556**	**$1,383,779**	**30.6%**	**(0.1%)**
Federal Funds	$1,158,514	$905,776	$788,061	(32.0%)	(13.0%)
Other Funds	$2,210,829	$2,330,478	$2,331,776	5.5%	0.1%
Grand Total	**$4,429,263**	**$4,620,810**	**$4,503,616**	**1.7%**	**(2.5%)**

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2013	Revised FY 2014	Funded FY 2015	Percent Change 2013-15	Percent Change 2014-15
State	1,622	1,592	1,604	(1.1%)	0.8%
Federal	839	848	849	1.2%	0.1%
All Other*	2,840	2,812	2,901	2.1%	3.2%
NJ Transit	11,120	11,086	11,259	1.3%	1.6%
Total Positions	**16,421**	**16,338**	**16,613**	**1.2%**	**1.7%**

FY 2013 (as of December) and revised FY 2014 (as of January) personnel data reflect actual payroll counts. FY 2015 data reflect the number of positions funded. *Includes Motor Vehicle Commission.

AFFIRMATIVE ACTION DATA

Total Minority Percent (DOT)	30.5%	31.0%	30.7%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
I. Vehicular Safety – Motor Vehicle Commission					
Motor Vehicle Services – Other Funds	**$363,854**	**$374,000**	**$10,146**	**2.8%**	**D-350**

The increase in this line item is driven primarily by an $8 million increase in Motor Vehicle Services revenues. Motor Vehicle Commission (MVC) funding is the result of a statutory formula which divides various motor vehicle related charges and fee revenue between the General Fund and the MVC. From the portion that is statutorily dedicated to the MVC, additional monies are transferred to the General Fund and other departments through current and proposed budget language. FY 2015 proposed language provisions diverting MVC revenues decreased from $46.3 million to $44.6 million.

II. State and Local Highway Facilities

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
Maintenance and Operations - DSS	**$123,356**	**$38,056**	**($85,300)**	**(69.1%)**	**D-353**

The decrease in this line item reflects a FY 2014 supplemental funding adjustment of $85.3 million for winter operations. Because winter operations are funded through annual supplemental appropriations authorized pursuant to budget language, the cost does not appear in the FY 2015 recommendation, and will not be known until some time early in the 2015 calendar year. The actual base appropriation for FY 2015 is the same as in FY 2014. The FY 2014 supplemental appropriation for winter operations of $85.3 million is $46.7 million higher than the amount of supplemental appropriations approved in FY 2013 of $38.6 million.

III. Special Transportation Trust Fund

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
Trust Fund Authority – Subaccount for Debt Service for Transportation Program Bonds	**$97,562**	**$197,059**	**$99,497**	**102.0%**	**D-353**

This line item reflects debt service for bonding amounts permitted under P.L. 2012, c.13. This amount and debt issued under prior authorizations (for which a separate appropriation of $1.063 billion is recommended) comprises the total debt service cost for the Transportation Trust Fund Authority. This line item represents the annual debt service costs on $2.096 billion in bonds that have been issued under P.L.2012, c.13 to date, in addition to any additional amounts that will be issued in the remainder of FY 2014 and FY 2015. Pursuant to statute, there is no remaining bond authorization for FY 2014, and $735.3 million in bonding authorization is permitted for FY 2015. There is also statutory permission to utilize up to $188 million of FY 2016 bonding authorization in FY 2015, reducing the FY 2016 bonding

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page

authorization by an equivalent amount. The assumptions for new bond issuance and debt service costs that support the amount recommended in FY 2015 are unknown.

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
Transportation Trust Fund – Federal Highway Administration – Special Transportation Trust Fund	**$885,976**	**$768,261**	**($117,715)**	**(13.3%)**	**D-354**

The anticipated decrease in Federal Highway Administration (FHWA) funds is not clear as of this publication date, but should be explained once the the DOT Capital Program for FY 2015 is released (which, in recent years, had been provided annually in March). The FHWA issues apportionment awards based on federal fiscal years and the total transportation award from the FHWA increased from federal fiscal year 2013 to 2014 from $962.9 million to 963.7 million, respectively. Federal fiscal year 2015 awards will not be announced until September 2014. Apportionment amounts, a portion of which is attributable to NJ Transit, also do not reflect additional federal aid received from federal programs such as the $224 million in total Emergency Relief Program funding that was awarded for Hurricane Sandy cleanup and reconstruction between FY 2013 and 2014.

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page
IV. Public Transportation – NJ Transit					D-358
NJ Transit – Distribution by Fund and Object					
A. Expenditures					
1. Bus Operations	$666,300	$688,872	$22,572	3.4%	
2. Rail Operations	$770,473	$797,938	$27,465	3.6%	
3. Light Rail Operations	$20,100	$26,700	$ 6,600	32.8%	
4. Corporate Operations	$261,800	$279,806	$18,006	6.9%	
5. Purchased Transportation	$222,300	$225,400	$ 3,100	1.4%	
Subtotal	$1,940,973	$2,018,716	$77,743	4.0%	
B. Revenues					
1. State Subsidy	$73,173	$60,284	($12,889)	(17.6%)	
2. NJT Resources:					
Farebox	$920,600	$928,650	$ 8,050	0.9%	
Other Commercial	$113,000	$113,700	$ 700	0.6%	
Other Reimbursements	$515,920	$608,193	$92,273	17.9%	
3. All Other Funds	$318,280	$307,889	($10,391)	(3.3%)	
Subtotal	$1,940,973	$2,018,716	$77,743	4.0%	
C. Transportation Assistance for Senior Citizens and Disabled Residents (Casino Revenue Fund)	$20,343	$18,264	($2,079)	(10.2%)	

NJ Transit's operating budget is proposed to increase by 4.0% or $77.7 million in FY 2015; however NJ Transit's operating subsidy will remain level at $368.2 million (assuming the Legislature approves an FY 2014 appropriation of $23.3 million from the Clean Energy Fund for NJ Transit utility costs, and the Executive lapses $23.3 million of the FY 2014 General Fund operating subsidy). The FY 2015 subsidy is composed of $295 million in support from the NJ Turnpike Authority, $12.9 million from the Clean Energy Fund, and $60.3 million in support from the General Fund. The increase in NJ Transit's operating budget is made possible by a $8.1 million increase in farebox revenue, a $700,000 increase in commercial revenue, and a $92.3 million increase in other reimbursements. Other reimbursements for NJ Transit typically involve federal and TTF dollars provided to NJ Transit for certain types of operating activities that are eligible to be funded with capital program resources.

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

Budget Item	Adj. Approp. FY 2014	Recomm. FY 2015	Dollar Change	Percent Change	Budget Page

Casino Revenue Fund dollars provide the full State support for the county transportation systems, which are responsible for providing transportation to elderly and disabled residents. This year's 10.2% decrease is part of a downward trend in funding since FY 2008 as a result of declining casino revenues. The amount provided in FY 2008 was $36.9 million; hence, the recommended appropriation of $18.3 million for FY 2015 reflects a decline of more than 50% since the FY 2008 peak. The response to the funding reduction has varied by county, with most engaging in a combination of reduced services, and increased funding from a variety of sources, including county, federal, and commercial (advertising) revenue.

Significant Language Changes

Motor Vehicle Revenue – Funding Shift

Revision

2013 Handbook: p. B-165
2014 Budget: p. D-351

Notwithstanding the provisions of section 105 of P.L.2003, c.13 (C.39:2A-36) or any law to the contrary, ~~$5,000,000~~ $3,165,000 is appropriated from the revenues appropriated to the Motor Vehicle Commission for deposit in the General Fund as State revenue, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The recommended budget language directs $3.165 million in MVC revenue, reduced from $5 million in FY 2014, to the General Fund as State revenue. This change decreases the amount of Motor Vehicle Fees available to the General Fund which, as a result, are now available to support commission operations.

State and Local Highway Facilities – Highway Sponsorship

Addition

2014 Handbook: n/a
2015 Budget: p. D-354

Notwithstanding the provisions of any law or regulation to the contrary, amounts collected from fees for sponsorship programs pursuant to P.L.2013, c. 130 (C.27:7-44.18 et seq.) are appropriated to the Department of Transportation for highway purposes, subject to the approval of the Director of the Division of Budget and Accounting; provided, however, that sponsorship acknowledgement and the use of such funds shall be subject to applicable requirements promulgated by the Federal Highway Administration. The unexpended balance at the end of the preceding fiscal year is appropriated for the same purpose.

Explanation

The recommended budget language directs private sponsorship funds received from a newly created department operations and highway sponsorship program to be used for highway purposes, which is consistent with the provisions of P.L.2013, c.130 (C.27:7-44.18 et seq.). The amount of revenue to be generated by the program is not known at this time.

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

State and Local Highway Facilities – "Keep Right" Surcharges

Addition

2014 Handbook: n/a
2015 Budget: p. D-355

Notwithstanding the provisions of section 3 of P.L. 2013 c. 86 (C.39:4-88.2) or any other law or regulation to the contrary, amounts collected from the surcharge imposed on each person found guilty of a violation of R.S.39:4-82 or R.S.39:4-88 in excess of the amount determined by the Commissioner of Transportation to be necessary to acquire, install, and maintain highway signs that notify motorists entering New Jersey to comply with the provisions of R.S.39:4-82 and R.S.39:4-88 are appropriated for graffiti removal activities, subject to the approval of the Director of the Division of Budget and Accounting. The unexpended balance at the end of the preceding fiscal year is appropriated for the same purpose.

Explanation

The recommended language concerns the use of revenue deposited in a newly created non-lapsing fund from a $50 surcharge for violations of the State law requiring motorists to "keep right" on the roadways. Statute requires that these funds be used for signage informing motorists entering the State about the law. The recommended language would allow the department to utilize excess monies in the fund for graffiti removal. At this time, it is not known how much surcharge revenue will be realized annually or what amount the Commissioner will deem "excess" and available for graffiti removal.

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

Capital Program – General Fund

Revision

2013 Handbook: p. B-167
2014 Budget: p. D-355

The amount hereinabove appropriated for the Transportation Trust Fund Subaccount for Debt Service for Prior Bonds and for the Transportation Trust Fund Subaccount for Debt Service for Transportation Program Bonds shall be provided from revenues from (i) motor fuel taxes, which are hereby appropriated for such purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution; (ii) $~~228,000,000~~ $215,000,000 from the petroleum products gross receipts tax, which is hereby appropriated for such purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution; and (iii) $~~389,552,000~~ $517,043,000 from the sales and use tax which is hereby appropriated for such purposes pursuant to Article VIII, Section II, paragraph 4 of the State Constitution.

In addition, the amount hereinabove appropriated for the Transportation Trust Fund Subaccount for Debt Service for Prior Bonds may also be provided from (i) $12,000,000 of funds from the various transportation-oriented authorities pursuant to contracts between such transportation-oriented authorities and the State; and (ii) such additional amounts pursuant to P.L. 1984, c.73 (C.27:1B-1 et al.) as may be necessary and are hereby appropriated to satisfy all current fiscal year ~~2014~~ debt service, bond reserve requirements, and other fiscal obligations of the New Jersey Transportation Trust Fund Authority relating to the Prior Bonds.

Explanation

As in past years, the FY 2015 Executive Budget recommends language directing the appropriation to the TTF account to be provided from revenues dedicated under the Constitution and under specified State laws, and from funds receivable under contract from various "transportation-oriented" (i.e., toll road) authorities. The minimum amounts dedicated under the Constitution include: (1) $200 million from sales and use tax revenue, (2) $200 million from petroleum products gross receipts tax revenue, and (3) an amount equal to $0.105 per gallon of revenue from the motor fuels tax, or a minimum of $483 million, pursuant to P.L.2006, c.3. These amounts together provide a minimum of $883 million.

In addition to the minimum constitutionally required amounts dedicated to the TTF, the recommended budget language provides for further increases to the amounts appropriated from the above sources of revenue. The language increases the contribution from the petroleum products gross receipts tax by $15 million to $215 million and the sales and use tax appropriation by $317 million to $517.0 million. The amount contributed from the motor fuels tax is not specified through language, but to supplement other specified resources to achieve the appropriation total, at least $513 million is required. Total motor fuels tax collections are

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

estimated at $541 million for FY 2015. Language also provides $12 million through payments from toll road authorities.

The total amount of funding provided to the Transportation Trust Fund Account is $1.26 billion in FY 2015, of which $1.063 billion is for prior bonds, which is effectively unchanged from the FY 2014 amount, and $197.1 million is for program bonds, an increase of $99.5 million from FY 2014 (p. D-353).

Capital Program – General Fund

Revision

2013 Handbook: p. B-168
2014 Budget: p. D-359

Notwithstanding the provisions of P.L.1984, c.73 (C.27:1B-1 et al~~.),~~.) or any law or regulation to the contrary, there is appropriated up to ~~$1,224,000,000~~ $1,225,000,000 from the revenues and other funds of the New Jersey Transportation Trust Fund Authority, for capital purposes as follows:
Airport Assets
Bridge Assets
Capital Program Delivery
Congestion Relief
Local System Support
Mass Transit Assets
Multimodal Programs
Road Assets
Safety Management
Transportation Support Facilities

Explanation

The recommended language authorizes Transportation Trust Fund Authority support for the FY 2015 transportation capital program and establishes $1.225 billion as the maximum level of such support. The language indicates the categories of "capital purposes" to be funded from the TTFA. (In the Appropriations Act, the projects within the several categories will be individually specified; as in past years, the list of proposed projects was not finalized in time for its inclusion in the budget recommendations.)

The recommended budget language continues a $1.6 billion level of annual appropriations for the FY 2015 State transportation capital program, composed of $1.225 billion in State support through the Transportation Trust Fund (referenced above) and $375 million in support from the Port Authority of New York and New Jersey for State projects in the port region. The language increases the amount appropriated from the Transportation Trust Fund for capital purposes by $1 million

EXPLANATION: FY 2014 language not recommended for FY 2015 denoted by strikethrough.
Recommended FY 2015 language that did not appear in FY 2014 denoted by underlining.

Significant Language Changes (Cont'd)

from FY 2014. This mirrors a corresponding $1 million decrease to $375 million in anticipated capital project expenses by the Port Authority (p. D-354 – Project Costs – Other Parties). The Port Authority funding is part of a $1.8 billion funding agreement between the State and Port Authority over the FY 2012 to FY 2016 period. The specific projects to be funded by the Port Authority can be found in the language provision on page D-356 of the FY 2015 Governor's Budget Message.

Public Transportation – Funding Shift (Clean Energy Fund)

Addition

2014 Handbook: n/a
2015 Budget: p. D-359

Notwithstanding the provisions of any law or regulation to the contrary, in addition to the amount hereinabove appropriated for New Jersey Transit Corporation, there is appropriated $12,889,000 from the Clean Energy Fund for utility costs associated with New Jersey Transit operations.

Explanation

The recommended language shifts $12.89 million from the Clean Energy Fund to the operating subsidy for NJ Transit in FY 2015. This proposed funding shift offsets the reduction in General Fund support required to fund NJ Transit operations, which is recommended to decline by $12.89 million in FY 2015 to $60.28 million from $73.17 million in FY 2014.

In addition to the proposed new language, the Governor's Budget Recommendation also indicates the intention to shift $23.28 million from the Clean Energy Fund to NJ Transit in FY 2014 (p. C-15), although no authority presently exists to effectuate the proposed transfer in the current fiscal year. The Executive has also indicated the intent to lapse an equal amount of the FY 2014 General Fund operating subsidy appropriation.

New Jersey ratepayers finance the Clean Energy Program via the societal benefits charge included in their electric and natural gas bills. Operative since April 2001, the program was authorized as part of the "Electric Discount and Energy Competition Act," P.L.1999, c.23 (N.J.S.A.48:3-49 et seq.) to promote increased energy efficiency and the use of renewable energy sources. The Governor's FY 2015 Budget anticipates $450.9 million in available Clean Energy Fund resources in FY 2015; and $305.9 million in expenditures, including $70.6 million in transfers to the State General Fund (see page 26 of the "Supplementary Information: Other Governmental Funds and Proprietary Funds" section of the Governor's FY 2015 Budget, available in the online version only).

Background Paper: Transportation Trust Fund Financial Overview

Budget Pages.... D-353 to D-356; D-358, D-359; H-7

Introduction

The New Jersey transportation capital program provides the funding necessary to plan, finance, construct, and maintain State roadways, NJ Transit rail and bus facilities, and certain air and water facilities. The program provides matching funds to leverage federal transportation resources and provides assistance to counties and municipalities in support of their transportation infrastructure. The Department of Transportation (DOT) and NJ Transit manage and perform construction activity in the program, while the Transportation Trust Fund (TTF) manages the financing activity.

The TTF (N.J.S.A. 27:1B-1 et al.) was originally created in 1984 during the Kean Administration to administer State and federal transportation funds and maintain a separate, dedicated stream of funding to protect transportation investments. In the period immediately prior to the establishment of the TTF, transportation investment fluctuated significantly from year to year. Major transportation projects that can take 10 years from the start of planning to completion of construction require consistent and reliable funding for efficient planning and management of those projects, and the TTF allows for that consistency. The mix of funding sources to support annual appropriations to the TTF have varied greatly from year to year with some years relying more heavily on current tax revenue (pay-as-you-go funding), and other years relying more on bonded indebtedness. While additional revenues have been made available for debt costs, current revenues have been insufficient to augment authorized borrowing.

TTF Status at the End of the FY 2007-2011 Capital Program

The TTF relies on periodic statutory reauthorizations to establish, over a multiple year period (typically five years), a maximum limit on appropriations, a dedication of revenues to the TTF, and a maximum amount of permitted bonding authority over the period covered by the reauthorization. Reauthorizations are required to increase the amount of permitted bonding, when the amount of bonding permitted in a prior reauthorization has been exhausted. Sufficient bonding authority ($1.6 billion/year from FY 2007-2011) was provided in the reauthorizing legislation (P.L.2006, c.3) so that no new bonding authority was required for FY 2012. The most recent renewal legislation was passed in 2012 to cover Fiscal Years 2013-2016 (P.L.2012, c.13).

As of the start of FY 2012, the annual revenues constitutionally and statutorily dedicated to the TTF had been fully leveraged through bond issuance. TTF revenues consisted of minimum Constitutional dedications of 10.5 cents per gallon from the motor fuels tax (statutorily set at not less than $483 million), $200 million from the petroleum products gross receipts (PPGR) tax, and $200 million from the sales and use tax. In addition, a statutory dedication of $12 million in payments from transportation oriented authorities for a total of $895 million in funding was available to the TTF in FY 2011. The debt service payments due on TTF debt in FY 2012 were close to $895 million for that year and the following 30 years, leaving no revenues available to fund future projects or service new debt. In order to fund future transportation investment a new source of revenue was required.

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

A further challenge in financing additional capital projects after FY 2011 was a 2008 constitutional amendment to Article VIII, Section II, Paragraph 3 of the State Constitution requiring voter approval for new authorizations of debt by State independent authorities which are backed by State revenues. The Constitutional amendment does not, however, require voter approval if a Constitutionally-dedicated source of revenue is used to support new debt issuances, or if independent non-State revenues are used to support the new debt. An example of independent non-State revenues would be the use of toll revenue by the New Jersey Turnpike Authority to fund the recent expansion of the New Jersey Turnpike and Garden State Parkway.

FY 2012-2016 Capital Program

Initial FY 2012-2016 Capital Plan

(millions)	Expenditures			Funding Sources						
Fiscal Year	Projects	Debt Service	Total	Bonds	PANYNJ	Gas Tax	PPGR	Sales	NJ Tpk	Total
2012	$1,600	$1,035	$2,635	$1,181	$343	$535	$223	$266	$88	$2,635
2013	$1,600	$1,111	$2,711	$986	$353	$524	$223	$353	$273	$2,711
2014	$1,600	$1,155	$2,755	$849	$376	$524	$223	$448	$336	$2,756
2015	$1,600	$1,200	$2,800	$735	$375	$524	$223	$607	$336	$2,800
2016	$1,600	$1,244	$2,844	$627	$368	$524	$223	$766	$336	$2,844
Total	**$8,000**	**$5,745**	**$13,745**	**$4,378**	**$1,815**	**$2,630**	**$1,113**	**$2,440**	**$1,369**	**$13,745**

source: DOT response to FY 2012 discussion points

In the Governor's 2012-2016 transportation capital plan, it was proposed that 100% of the motor fuels tax (gas tax) and PPGR tax collections and a gradually increasing amount of sales tax revenue be appropriated to the TTF. Because these additional revenues are Constitutional sources of revenue, additional bonding under the plan was not subject to the voter approval requirement in Article VIII, Section II, Paragraph 3 of the State Constitution. However, these amounts are not constitutionally required to be appropriated to the TTF so they would otherwise have been available for other budgetary purposes.

Two other major sources of revenue were made possible by the cancellation of the Access to the Region's Core (ARC) tunnel project. Funding from the NJ Turnpike Authority and Port Authority of New York and New Jersey (PANYNJ) was originally dedicated to finance the construction of the ARC tunnel. Once that project was cancelled, these funds became available for other purposes and agreements were formed with each agency to provide support to the State transportation system. One agreement was for the provision of $1.8 billion between 2012 and 2016 by the PANYNJ for the construction of the Pulaski Skyway, the Wittpenn Bridge, and New Road projects. This agreement was made official on July 29, 2011 and provides contributions to the transportation capital program of between $343 and $376 million per year. This funding serves as dedicated pay-as-you-go (non-debt) funding for the FY 2012-2016 period. Additionally, in September 2011, the NJ Turnpike Authority Board officially approved $1.25 billion in additional funding to the State for Transportation Systems Improvements from FY 2012-2016. Funding from the Turnpike was expected to be expended either as debt service on TTF Authority bonds or pay-as-you-go funding on State capital projects. Neither agreement addressed funding for the capital program beyond FY 2016.

The original FY 2012-2016 plan relied heavily on the infusion of PANYNJ and NJ Turnpike Authority revenues combined with substantially increased appropriations of sales tax revenue to fund the program, reduce reliance on borrowing down to $627 million in FY 2016, and increase the portion of the program to be supported through pay-as-you-go funding.

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

The actual funding activities from FY 2012-2015, both through the appropriations process and TTF bonding activities have differed from the plan. Most of the funding sources in excess of what was needed for debt service were used for other purposes. Amounts from the motor fuels tax and sales tax were both appropriated only to meet debt service costs, and revenues of the NJ Turnpike were redirected for NJ Transit operating expenses in order to reduce General Fund support for NJ Transit.

Initial FY 2012-2016 Capital Plan

(millions)	Expenditures			Funding Sources						
Fiscal Year	Projects	Debt Service	Total	Bond Rev	PANYNJ	Gas Tax	PPGR	Sales	NJ Tpk	Total
2012	$1,600	$1,035	$2,635	$1,181	$343	$535	$223	$266	$88	$2,635
2013	$1,600	$1,111	$2,711	$986	$353	$524	$223	$353	$273	$2,711
2014	$1,600	$1,155	$2,755	$849	$376	$524	$223	$448	$336	$2,756
2015	$1,600	$1,200	$2,800	$735	$375	$524	$223	$607	$336	$2,800
Total	**$6,400**	**$4,501**	**$10,901**	**$3,751**	**$1,447**	**$2,106**	**$890**	**$1,674**	**$1,033**	**$10,901**

source: DOT response to FY 2012 discussion points

Actual Appropriations and Financing Activity as of FY 2015 Proposed Budget

(millions)	Expenditures			Funding Sources*						
Fiscal Year	Projects	Debt Service	Total	Bond Rev**	PANYNJ	Gas Tax	PPGR	Sales	NJ Tpk	Total
2012	$1,600	$957	$2,557	$1,367	$343	$522	$223	$200	$78	$2,655
2013	$1,600	$971	$2,571	$1,449	$353	$520	$228	$210	$12	$2,760
2014	$1,600	$1,125	$2,725	$867	$376	$531	$228	$354	$12	$2,356
2015	$1,600	$1,260	$2,860	$1,062	$375	$541	$215	$517	$12	$2,710
Total 12-15	**$6,400**	**$4,312**	**$10,712**	**$4,745**	**$1,447**	**$2,114**	**$894**	**$1,281**	**$114**	**$10,481**

*note: 2012-2014 based on amounts reported by Transportation Trust Fund Authority

**Current bond revenue represents par bond issuance and net bond premiums

2015 amounts based on Governor's proposed 2015 Budget

The reduction in funding, particularly from the sales tax and NJ Turnpike, resulted in a level of funding that was lower than the amount needed to support planned project appropriations and debt service costs. The resultant gap was resolved in a number of ways: (1) throughout the life of the program debt service costs were lower than planned, despite increased bond issuance, due to a favorable interest rate environment; (2) the actual amount of bonding authorization available was greater than the amount identified in the original plan, allowing for larger total par bond issuances; (3) bonds were issued at above market interest rates in order to obtain bond premiums, increasing total bond revenues. Despite these actions, a gap persists as reflected in the Actual Appropriations and Financing Activity table above.

FY 2012-2015 Pay-as-you-go: Initial plan vs. Actual

(millions)	Initial Plan				Actual Amounts				
Fiscal Year	Projects	Bond Rev	Pay-go	PANYNJ	Projects	Bond Rev	Pay-go	PANYNJ	Gap
2012	$1,600	$1,181	$76	$343	$1,600	$1,367	$66	$343	$176
2013	$1,600	$986	$261	$353	$1,600	$1,449	$0	$353	$202
2014	$1,600	$849	$375	$376	$1,600	$867	$0	$376	-$357
2015	$1,600	$735	$490	$375	$1,600	$1,062	$0	$375	-$163
Total	**$6,400**	**$3,751**	**$1,202**	**$1,447**	**$6,400**	**$4,745**	**$66**	**$1,447**	**-$142**

note: Initial Plan based on DOT response to FY 2012 discussion points

Current bond revenue represents par bond issuance and net bond premiums

Under the 2012 plan, pay-as-you-go financing was expected to account for $1.2 billion from FY 2012-2015 in addition to funds from the PANYNJ. Due primarily to the reduction in appropriations from the sales tax and NJ Turnpike funds, the actual amount of pay-as-you-go funding has been just $66 million. In place of pay-as-you-go funding, the TTF has utilized

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

nearly $1 billion in additional bond revenue. This has resulted in an unfunded gap of $142 million over the current period covered by the plan.

FY 2015 challenges

For FY 2015 the Office of Legislative Services estimates the TTF is facing a gap of $476 million between sources of budgetary appropriations and statutory bonding authorization against project costs and debt service. The non-budgetary resources currently available to the TTF appear to be as follows: (1) the TTF is scheduled to enter FY 2015 with a cash balance of approximately $318 million; (2) $326 million in unused bonding authority is available from the 2007 TTF reauthorization (P.L.2006, c.3); and (3) $188 million in bonding authority is available to be utilized from the FY 2016 bonding cap. Thus, the TTF appears to have approximately $832 million in non-budgetary resources available in FY 2015 to meet the $476 million gap. The FY 2015 TTF financial plan anticipates the utilization of $162.7 million of cash balance and $326 million in prior bonding authorization in order to close the gap between the absence of pay-as-you-go appropriations and the expected cash need for projects.

The cash needs of the TTF in any given year are not the same as the annual capital program appropriations. The TTF disburses funds as vendors and contractors invoice the TTF for work performed. Because capital projects take multiple years to complete, an appropriation approved in one year may not be fully expended for a number of years. The TTF has legacy obligations in the form of prior appropriations that have not yet been disbursed. In FY 2014 the TTF planned for expenditures of $1.4 billion for project costs, $176 million more than the $1.224 billion budgeted for new projects, reflecting a cash flow need from current and prior year appropriations exceeding the amount of new funding in FY 2014 net of debt service. In the FY 2015 financial plan the amount of cash disbursements for FY 2014 was revised down to $1.224 billion. It is not clear why the actual cash need was so much lower than originally estimated. The amount of cash disbursements projected for FY 2015 is estimated to be $1.26 billion; however, given the downward revision in project spending for FY 2014, it is possible that project costs were deferred that will require funding in FY 2015.

Future Concerns

Some of the significant issues concerning future transportation financing in the State are as follows:

1. TTF Cumulative Difference Between Resources and Obligations

Gap Between TTF Resources and Commitments

(thousands)	Cum. Thru 2013	FY 2014 est.	Cum. Thru 2014	FY 2015 prj	Cum. Thru 2015
Total Authority Resources	**$ 34,438,781**	**$ 2,024,148**	**$ 36,462,929**	**$ 2,360,675**	**$ 38,823,604**
Appropriated Revenues	$ 15,324,919	$ 1,124,566	$ 16,449,485	$ 1,260,043	$ 17,709,528
Bonds and Other Sources	$ 19,113,862	$ 899,582	$ 20,013,444	$ 1,100,632	$ 21,114,076
Total Authority Obligations	**$ 36,060,897**	**$ 2,293,159**	**$ 38,354,056**	**$ 2,523,393**	**$ 40,877,449**
Project Authorizations	$ 26,051,685	$ 1,227,492	$ 27,279,177	$ 1,263,350	$ 28,542,527
Debt Service	$ 10,009,212	$ 1,065,667	$ 11,074,879	$ 1,260,043	$ 12,334,922
Net Balance	**$ (1,622,116)**	**$ (269,011)**	**$ (1,891,127)**	**$ (162,718)**	**$ (2,053,845)**

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

Because of the time lag between when projects are authorized through the budget and when amounts are actually invoiced to the TTF for capital work that has been performed, the TTF carries a certain amount of unexpended appropriation balances. In theory, this amount represents the dollar value of construction activity currently taking place and approved to take place. The TTF does not hold a dedicated reserve to cover unexpended appropriations, but it usually exists in the form of authorized but unissued debt. If the State were to approve a budget one year with no new funding for capital projects, an amount would need to be provided to the TTF sufficient to cover both annual debt service and the portion of previously authorized project costs that would come due in that fiscal year.

Unfunded TTF Obligations and Cash Balance					
(thousands)	Thru 2013	FY 2014	Thru 2014	FY 2015	Thru 2015
Unfunded Commitments	**$ (2,299,914)**		**$ (2,209,727)**		**$ (2,209,726)**
Cash	$ 677,798		$ 318,600		$ 155,881
Net Balance	**$ (1,622,116)**	**$ (269,011)**	**$ (1,891,127)**	**$ (162,718)**	**$ (2,053,845)**
Ratio of Cash to Unfunded Commitments	**-29.5%**		**-14.4%**		**-7.1%**

When these unexpended appropriations will be invoiced to the TTF is known to some degree based on construction and payment schedules in the various contracts issued by the department and NJ Transit. The agencies also have some control over when they invoice the TTF for their own internal capital expenses for staff salary and overhead, and other activities that can be expensed to the capital program. Nevertheless, there is still a degree of uncertainty as to the cash needs of the TTF throughout the year. As a result, it is important to maintain some level of cash balance in light of that uncertainty. At the end of 2013, the TTF maintained a cash reserve equal to 29.5% of those outstanding commitments. By the end of FY 2015 that reserve ratio is expected to fall to just 7.1% of outstanding commitments. Additionally, the TTF will have little flexibility because it will have exhausted its outstanding statutory bonding authority, increasing the risk that the TTF could have insufficient cash to pay capital construction costs invoiced to the TTF. In FY 2016 and beyond this cushion will need to be rebuilt, and any cash management activities that take place in FY 2015 to cope with limited resources will necessarily have repercussions that affect future capital programs.

2. Imbalance Created by an Absence of Bonding Capacity

Once the TTF's bonding capacity is fully exhausted, other resources will need to be found. In FY 2014 and FY 2015, bond premiums and cash balances were present as funding sources. In FY 2016 it is likely that in addition to any expected increases in debt service and decreased borrowing under the statutory cap, an additional $600 million will need to be identified to replace cash balances, bond premiums and unused bonding authority that no longer exist. If new revenues cannot be identified for FY 2016, that gap will have to be met with a substantial increase in borrowing relative to FY 2015.

3. Loss of Temporary Contributions From Turnpike Authority and PANYNJ

The amounts provided to the capital program by the NJ Turnpike Authority and PANYNJ are not ongoing appropriations. The agreement with each of those agencies expires in FY 2016 and in the absence of subsequent agreements, there will be no money coming from those sources. In FY 2017 the State will need to identify $692 million to replace these revenues. The amount from the PANYNJ will directly impact the capital program, while $295 million in

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

revenue from the Turnpike Authority will impact the General Fund because that revenue has been used to supplement as well as supplant annual General Fund appropriations to support NJ Transit operating expenses. If a new source of revenue is not identified, this gap will also have to be met with additional borrowing or reduced capital activity.

4. Need for Increased Bonding Authority in FY 2016 and Beyond

The State Treasurer has stated that additional bonding capacity will be required for the FY 2016 capital plan because the amount of bonding capacity provided in the 2012 TTF renewal (P.L.2012, c.13) is insufficient to meet 2016 funding needs. It is unclear at this point how the Legislature will address this issue. When the TTF was previously in similar circumstances, either a one-year increase in bonding capacity was approved, or a multi-year reauthorization was approved.

A one year increase in bonding authority can most likely be supported through current constitutionally identified revenues. This avoids the need for voter approval, although it will also require subsequent legislation. A multi-year increase in bonding authority may ultimately result in annual debt service in excess of constitutionally pledged sources of revenue and require voter approval. If voter approval is required as a part of the next increase in bonding authority, the amount of time needed to obtain such an approval becomes a concern given the extremely low cash balance currently being maintained by the TTF.

An additional challenge to increasing bonding authority is that new sources of debt service must be identified. The use of bond premiums and cash balances in recent years have mitigated but not fully offset the need for pay-as-you-go funding, but has also led to a rapid rise in the cost of debt service. In the last two years, the cost of debt service has increased by $289 million. Without new sources of revenue for pay–as-you-go funding, the rate of increase in debt service costs will rise even more quickly.

5. Increasing Interest Rate Environment

In recent years, market interest rates have been well below historical averages. These low rates permitted significant savings for the TTF in a number of areas. The amount of debt service required on new issuances was lower than anticipated, allowing the TTF to restructure over $800 million of existing debt at lower interest rates for additional savings, and generating over $280 million in bond premiums with new money bond issuances. Moreover, New Jersey's debt rating has recently been downgraded by Standard and Poor's and it is possible that the other rating agencies will follow suit, resulting in increased borrowing costs. As the economy improves it is expected that interest rates will increase for all borrowing. This increase in interest rates will represent increasing costs for TTF financing going forward.

6. Limited Impact of Increased Gasoline Taxes

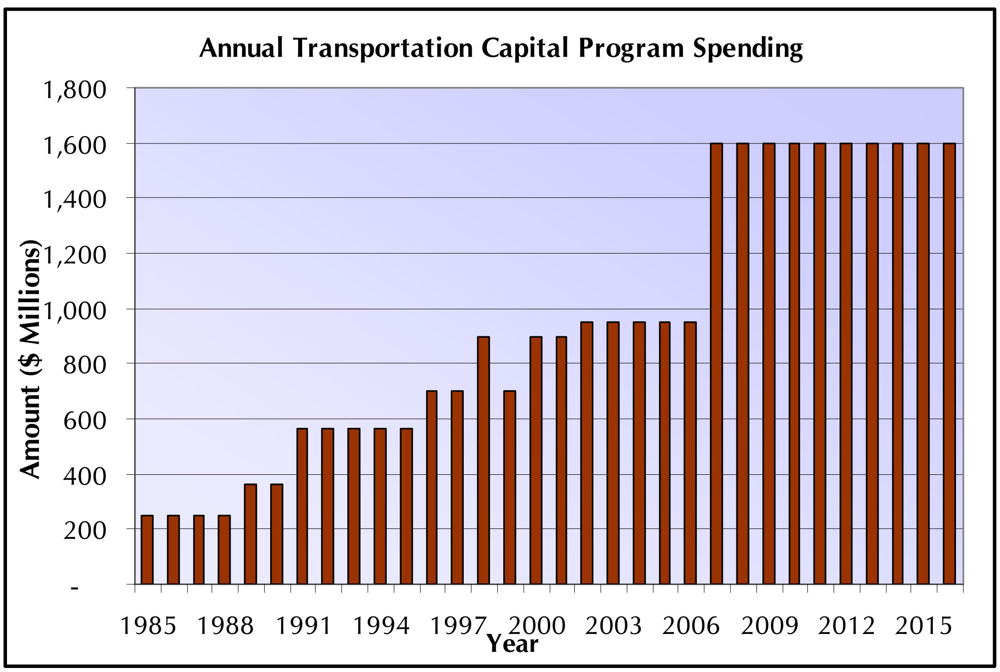
The amount of revenue generated by gasoline taxes is driven primarily by the number of miles that people travel and by the fuel efficiency of their vehicles. Vehicle miles traveled (VMT) is the standard statistical measure used to determine the amount of travel. This measurement has been down nationally and in New Jersey since 2008 and has yet to return to the previous peak. In the post-WWII era it has never taken more than 39 months for national VMT to exceed the previous peak. Since the current downturn, however, VMT has remained below peak for 75

Background Paper: Transportation Trust Fund Financial Overview (Cont'd)

months and is not projected to exceed the prior peak within the next 12 months. A fundamental shift in national driving habit is occurring precipitated by the combination of a weak economy, an aging population, higher fuel costs, and younger people living less car dependent lifestyles. Moreover, recent federal policy has mandated a steady growth in vehicle fuel efficiency through increased requirements in Corporate Average Fuel Economy standards that are combining with the recent popularity of hybrid and electric vehicles to substantially increase the fuel efficiency of vehicles on the road. This decrease in the amount of fuel needed for each mile of travel combined with less total car travel mean that gasoline tax revenues are expected to lag overall economic growth in future years. This lag calls into question the viability of increasing gasoline taxes as an attractive option for increasing transportation revenues.

If steady increases in the sales tax are not possible due to other budgetary pressures, if toll authorities are limited in their ability to support the program because of their own borrowing, and if fuel taxes are unattractive for demographic and federal policy reasons, then new revenues for the transportation system may have to come from outside of traditional transportation funding sources.

8. Declining Purchasing Power of $1.6 Billion Capital Program



The transportation capital program has been funded at the $1.6 billion level since FY 2007. Since 1984, the TTF had never gone more than five years without increasing the size of the program. The cost of infrastructure projects has been steadily increasing and the level of federal support for transportation projects has become uncertain. If the size of the transportation capital program does not increase after 2016, it is possible that recent improvements that have been realized in the condition of State transportation infrastructure will be reversed.

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Individuals wishing information and committee schedules on the FY 2015 budget are encouraged to contact:

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