Reform Revenue Results

How to Save New Jersey's Transportation System

November 2005

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This report was prepared by Regional Plan Association, in cooperation with the AAA Clubs of New Jersey, the Edward J. Bloustein School of Planning and Public Policy and the Alan M. Voorhees Transportation Center at Rutgers University, and Tri-State Transportation Campaign. David Beale from Goldman, Beale Associates, served as a consultant on bonding issues.

We thank The Fund for New Jersey, the Schumann Fund for New Jersey, the AAA Clubs of New Jersey and the New Jersey Chapter of the National Association of Industrial and Office Properties for their financial support.

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Introduction

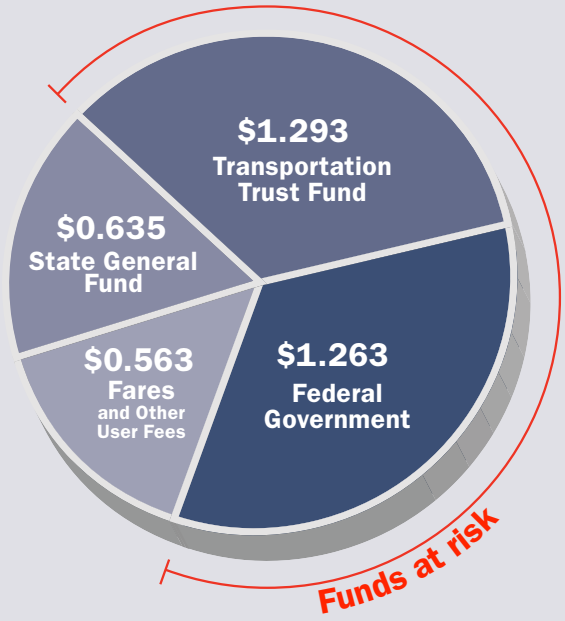
It costs over $3.5 billion each year to operate, maintain, renew and expand New Jersey's transportation system – to repair the roads after accidents, paint bridges, drive the buses, buy new trains, and everything else that lets New Jersey's neighborhoods and businesses thrive.[1] In less than one year, $1.3 billion of the revenue that pays this bill will be gone and another $1.3 in Federal funds will be at risk if the State match is lost. There are currently no plans to rectify the situation. **No solid proposals were issued during the recent gubernatorial campaign. A solution could be implemented in the lame-duck session. Otherwise, in January, Governor Corzine will have six months to devise and implement a plan.**

Because the Transportation Trust Fund will need to use its revenue stream for debt service for the next 15 years, the state now has to raise a significant amount of new revenue to prevent the collapse of its transportation system. Raising new revenue can be a challenging task, and so there is often talk of cutting waste and improving efficiency to save the transportation system. In fact, it may be possible to reduce spending at least in the short term, and perhaps save some money by increasing efficiency. There is also some tax and fee revenue already collected and going to the General Fund that could rightly be claimed for transportation purposes. **But it would be a mistake to trust that cutbacks and revenue redirections can avert this crisis. Over two thirds of the transportation budget – $2.5 billion – is at risk. Efficiency savings would be negligible in light of this tremendous need, and revenue redirections of this magnitude would severely impede another part of the State budget. This is the cost of the transportation system on which New Jersey's economy, its commuters, and its very ability to function depend. A solution is needed, and a large part of it will have to come in the form of new money.**

There are two potential sources of new revenue that have been discussed, albeit briefly: the gas tax and tolls. With the gas price spikes that occurred this fall following hurricane Katrina, it seemed politically infeasible to raise the gas tax, even though gas prices and gas taxes are not correlated – New Jersey had the 4th lowest gas taxes and the 6th highest gas prices in the U.S. in mid-September 2005.[2] Election season coincided with a particularly disastrous hurricane season, and the gas tax was effectively taken off the agenda for now.

Tolls were the other revenue source mentioned as a possible solution to the Transportation Trust Fund crisis. There has been some discussion of 'securitizing' toll revenue or 'privatizing' the Turnpike or the Garden State Parkway. The former describes a process of borrowing against toll revenue that is already done by the New Jersey Turnpike Authority. It is unclear how the 'securitizing' mentioned during election season would differ from that already being done, and how it would raise new revenue. The latter term describes a variety of arrangements wherein private firms pay for the right to collect tolls; this option is described more fully later in this report. However, it is important to note that privatization contracts are normally the result of one or two years of negotiations. New Jersey's transportation system would almost certainly run out of money before a fair and reasonable contract can be signed.

The value of the transportation system to the economy, quality of life and



FY 05 sources of revenue for NJ TRANSIT and NJ DOT, capital and operating, in billions

With funding gaps of this magnitude and a crisis so potentially devastating, it is vital to look beyond vague financing measures and the limited savings that could result from cutting waste.

the future prosperity of the state has been well established.[3] With funding gaps of this magnitude and a crisis so potentially devastating, it is vital to look beyond vague financing measures and the limited savings that could result from cutting waste. Instead, leadership is obligated to take bold steps to reform the system and raise the new revenue needed to keep New Jersey moving – literally. As was noted in our July 2005 report, Putting the Trust Back in the New Jersey Transportation Trust Fund,[4] the responsibility for New Jersey's transportation funding crisis is bipartisan, as is the responsibility for fixing it. It will take political will on both sides of the aisle to reform the way the Trust Fund is managed, fully fund the operating budgets and stabilize financing for the capital plan. **Governor Corzine in particular must now exhibit rare leadership. His response to this crisis will set the stage: he will either be credited with saving the system and create a legacy of sizable, important transportation improvements, or he will be held responsible for the demise of New Jersey's highways, bridges, and transit system.**

In the July 2005 report, this collaboration called for six key structural reforms to ensure the Transportation Trust Fund does not revisit its current crisis. Those reforms remain vital to the future of the Trust Fund and should be adopted. They will not, however, obviate the need for new revenue sources for both the operating budgets and capital programs of NJ DOT and NJ TRANSIT. This paper recommends a way to fully fund the operating budgets. It also lists a variety of new revenue options that could be used, in some combination, to restore the Trust Fund and finance the next generation of capital improvements. Both the operating and capital elements of this problem are vital. One of the major flaws of the Transportation Trust Fund Authority is that it is only charged with financing the capital side of the ledger. Now funding for both operating and capital is at risk, and any solution must restore both. The two budgets need to be planned to function together.

Recommendations for reform from the July 2005 report

- **Fully fund NJ DOT and NJ TRANSIT operating budgets and eliminate capital-to-operating transfers.**
- **Regularly increase NJ TRANSIT fares to keep pace with expenses.**
- **Constitutionally dedicate all originally intended resources to the Transportation Trust Fund and to NJ DOT and NJ TRANSIT operating budgets.**
- **Restore bondability to New Jersey's transportation financing system by limiting the term of bonds issued between 2006 and 2011 to ten years.**
- **Create an independent Five Person Financial Policy Review Committee.**
- **Issue reports from the Director of the Division of Taxation to the Committee and the public every six months showing the full amount collected from transportation-related taxes, tolls and fees.**

Operating

The operating budgets of NJ TRANSIT and NJ DOT need to be permanently stabilized. For years the state's failure to plan and appropriate sufficient, predictable operating resources has created a structural deficit in operating funds. Instead of raising fares to match inflation and increased use of the system, NJ TRANSIT's operating budget has been kept precariously afloat with pass-throughs from its capital budget, this year in the amount of $356 million. [5] NJ DOT, on the other hand, has been severely under-funded. Putting the Trust Back in the New Jersey Transportation Trust Fund estimated that over $700 million per year in new revenue is needed to support stable operating budgets for both these agencies. This figure is based on eliminating the harmful capital-to-operating transfers that have been inappropriately using federal and state capital funds for NJ TRANSIT operations, and it takes into account the recent fare increases, assuming fares will continue to be increased as necessary to maintain the current 47% cost recovery ratio. (See pages 11-15 of Putting the Trust Back in the New Jersey Transportation Trust Fund for details on these assumptions.)

To permanently stabilize the operating budgets of both agencies, the state should constitutionally dedicate revenue from the motor fuels tax and motor vehicle fees that is already collected. Table 1 shows these two sources of revenue. It is important to note that they are already collected from New Jersey taxpayers and drivers. Both are well-suited for funding the transportation system because they are paid directly by users of the system. As of now, only $405 million of the $1.08 billion collected from those taxes and fees are dedicated to transportation. The remaining $675 million goes to the General Fund (the amount shown below from motor vehicle fees, $480 million, excludes the $278 million that is annually earmarked for the Motor Vehicle Commission). A small part of that, $90 million of the motor vehicle fees, is statutorily dedicated to the Transportation Trust Fund, but has not been appropriated to the Trust Fund since 2001.

Constitutional dedication of the full revenue collected from the motor fuels tax and motor vehicle fees to the operating budgets of NJ TRANSIT and NJ DOT will add $675 million to those budgets and virtually close the $700 million operating gap. The constitutional dedication will stabilize the budgets, averting future steep fare increases from NJ TRANSIT, and costing the taxpayer less in the long run as it enables NJ DOT to perform adequate maintenance of the state's roads and bridges. Since these funds are currently going to the General Fund, this will either reduce revenue for other programs in the state budget or require an increase in taxes, fees or other statewide revenue. However, these specific items – motor fuel taxes and motor vehicle fees – are already collected from the users of the transportation system, and they should be rightly spent on that transportation system.

How To Fully Fund Transportation Operations

Revenue sources recommended to stabilize operating budgets	Amount collected	Amount appropriated to Transportation Trust Fund	Remaining amount appropriated to General Fund
Motor Fuels Tax	$580,000,000	$405,000,000	$175,000,000
Motor Vehicle Fees	$500,000,000	$0	$500,000,000
Total	$1,080,000,000	$405,000,000	$675,000,000

Capital

Capital funds pay for building and buying new infrastructure: buses, trains, tracks, signals, stations, parking, and maintenance facilities on the TRANSIT side; repaired bridges, expanded highways, and hundreds of local projects such as the Safe Streets to School projects on the DOT side. Capital funds create well-paying jobs in construction and logistics. More urgently, capital funds are used to sustain the safety of the system, especially its aging bridges and highways. Capital funds are an investment in the future of the state's economy.

Governor Corzine has an opportunity and an obligation to bring both vision and realism to the transportation capital planning process in New Jersey. The capital projects now in the agencies' respective plans and the Capital Investment Strategy are too numerous and, when taken all together, too expensive to be funded. A realistic plan is needed, one that matches revenue to specific projects, without excessive borrowing and without undercutting operations. The public should be able to participate in creating the plan and clearly identify where its tax and fee dollars are being spent. The capital program is pricey and should be supported not just by new revenue but by a realistic vision from the Governor.

In FY 2005, capital work on transportation projects in New Jersey was expected to cost $2.33 billion, with 40% of that coming from the Transportation Trust Fund.[8] The July 2005 report estimated a need for $2 billion in new revenue each year to adequately sustain a sizable ten-year capital plan. It was assumed that the $2 billion in new revenue would be bonded, according to recommended limits, to raise $2.4 billion in average yearly Trust Fund contributions to the capital program over ten years. This number was based on the agencies' stated needs. In other words, a reasonable level of borrowing would require $2 billion of new money each year to pay the new debt on bonds that would fully support the agencies' needed capital program.

Last year, the Transportation Trust Fund contributed $937 million to the capital budgets of NJ TRANSIT and NJ DOT, excluding the capital-to-operating transfer. The size of the state's transportation capital program in the next 10 to 20 years will be based on whether Transportation Trust Fund annual contributions will total $937 million, $2.4 billion, or somewhere in between. Regardless, significant new revenue will be needed, and it is time to make difficult decisions about revenue options. As of July 2006, the Trust Fund will no longer be able to generate capital funds as the revenue it receives will be completely dedicated to paying interest on old bonds.

What follows is a list of revenue options, in alphabetical order, examined as potential sources of funding for the capital gap. Given data limitations, revenue estimates are available for some of the options but not for others. The revenue estimates provided – for example, a 1% sales tax on gas – are merely illustrative and do not represent a recommended tax level. A fuller description of each revenue option, particularly privatization, is available in Appendix D. No one revenue source is recommended in this report, rather the pros and cons of each are noted. Some options would generate sizable revenue and some are relatively small, but could be part of a larger package of revenue options. It is recommended that a variety of revenue sources be used to ensure the stability of the Transportation Trust Fund over time and to avoid burdening any single group of taxpayers.

Revenue Options

	Description	Implementation Options	Revenue Potential	Pros	Cons
Container Tax	Create a new tax on containers coming in to New Jersey ports.		Not estimated; likely significant	Most of the revenue would come from foreign entities	Would probably require years of litigation
Corporation Business Tax	Increase the corporation business tax.		Not estimated; likely significant	High revenue potential for low tax rate	May negatively affect state's economic competitiveness
Motor Fuels Tax	Increase the gas and diesel taxes.	Create a sales tax or extend the existing sales tax to motor fuels; Phase in the increase over time; Increase the diesel tax at a faster rate than the gas tax	One cent increase raises $58 million 1% sales tax raises $111 million	High revenue potential for low tax rate; would bring NJ closer to other states' tax rates; would probably not significantly affect price of gas	Recent fuel price increases make this option politically less feasible
Motor Vehicle Registration Fees	Increase passenger vehicle registration fees for heavy vehicles and/or increase commercial truck registration fees.		$20 to $46 million	Directly linked to transportation, promotes better air quality and a smart growth agenda	Small compared to needs; would be part of a larger package
Personal Property Tax on Vehicles	Create a personal property tax on vehicles.		½% raises $350 million	Directly linked to transportation	May place undue burdens on lower income households
Petroleum Gross Receipts Tax	Extend the petroleum gross receipts tax to out-of-state wholesalers.		Not estimated; likely significant	Directly linked to transportation	Affect on the industry and economy is unclear
Privatization	Lease all or part of a toll road to a private firm.		$11 billion or more	Could provide a large lump sum	Would take too long to save the Transportation Trust Fund
Rental Car Fee	Increase the fees paid by car renters in New Jersey or on cars sold to rental car companies.		$2 per day or 4% on sales raises $44 million	Directly linked to transportation; would not be paid by most NJ residents	Small compared to needs; would be part of a larger package
Sales and Use Tax	Increase the sales and use tax.		¼% raises $299 million	High revenue potential for low tax rate	May place undue burdens on lower income households
Tolls	Increase toll road contributions to the State and constitutionally dedicate them to the Trust Fund.	Increase tolls or create new tolls	Potentially significant depending on rate	Directly linked to transportation; can be used to mitigate congestion	Recent fuel price increases make this option politically less feasible
Value Capture Fee or Mort-gage Recording Tax	Create a new fee to recapture the value of transportation infrastructure to real estate development.		Potentially significant depending on rate	Pays for some of the transportation cost induced by new development	Property tax debate may make this politically less feasible

Revenue Options for the Capital Program

While recommendations to implement specific revenue sources are not provided here, it is recommended that new revenue sources be chosen by the Governor and legislature according to this set of criteria:

Criteria

- The source of funding should be closely tied to transportation purposes.
- Equity: the burden of paying the tax or fee should be progressive.
- User pays: Drivers and riders should pay transportation-related fees and taxes in proportion to their use and to the environmental and other costs they impose on the system.
- Inflation resistance: the buying power of the proceeds should not be eroded by inflation.
- Recession resistance: collections should be stable against economic conditions.
- Implementing the funding mechanism should have minimal negative impact on regional competitiveness.
- Minimal transactions costs: the funding source should be inexpensive to administer and not place undue inconvenience on those who are paying.
- The funding sources should provide high enough yearly revenue.

It is further recommended that any new revenue intended to support the capital program be constitutionally dedicated to the Transportation Trust Fund. In the past, obscure language has prevented the full, originally intended amount of revenue from the motor fuels tax from reaching the Transportation Trust Fund (see Appendix B for details). Statutorily dedicated sources have also been leaked out to the General Fund over time. To prevent this from happening again, and to prevent the irresponsible use of large, long-term bonds that can result from inadequate appropriations to the Trust Fund, all new revenue should be constitutionally dedicated through a public vote in November 2006. In addition, it is important to limit bond maturities to 10 years until the Trust Fund is restored. New revenue will likely be borrowed against by the Trust Fund Authority, and it should be done consistently with the reform recommendations in the July 2005 report.

- **Container Tax**
- **Corporation Business Tax**
- **Motor Fuels Tax**
- **Motor Vehicle Registration Fees**
- **Personal Property Tax on Vehicles**
- **Petroleum Gross Receipts Tax**
- **Privatization**
- **Rental Car Fee**
- **Sales and Use Tax**
- **Tolls**
- **Value Capture Fee or Mortgage Recording Tax**

Revenue Options for the Capital Program

Container Tax

Create a new tax on containers coming into New Jersey ports.

Description

Billions of dollars worth of goods come to the U.S. through New Jersey ports in millions of containers each year.[9] The containers are loaded onto trucks and, to a lesser extent, rail, and moved throughout New Jersey and the country. Most of these containers are coming in from non-U.S. corporations. A small tax on these containers would be capable or raising significant resources.

Pros & Cons

A small tax on mostly foreign entities could raise significant, transportation-related revenue. The tax would not directly affect most New Jersey corporations, the trucking industry or New Jersey residents. Revenue from such a tax would likely be stable and growing: the volume and value of containers have been increasing, and the Port Authority of New York and New Jersey reported in March 2005 that new records were set in 2004. However, the legal ability of New Jersey, or any state, to levy such a tax is questionable as the state tax would likely conflict with interstate or international commerce. This revenue option may require years of litigation before it can implemented, making it inappropriate for solving the current Trust Fund crisis.

Corporation Business Tax

Increase the corporation business tax.

Description

The corporation business tax is a franchise tax paid by all businesses in New Jersey. There are two related taxes, known as the CBT banks and financials tax and the savings institution tax, which are the industry-specific counterparts to the corporation business tax. The rates for these taxes range from 6.5% to 9% and are comparable with nearby states. In 2005, the state of New Jersey collected $2.21 billion from these taxes; most of that was from the franchise tax. Increasing the tax could raise significant revenue.

Pros & Cons

Increasing the corporation business tax would provide relatively high revenues for a low marginal tax rate (in other words, a fraction of a percent raises considerable revenue). The tax is very difficult to evade. However the tax's stability is compromised by its sensitivity to economic downturns. There is a link between the tax and transportation in that it is paid by corporate beneficiaries of the system, however the link is not as clear as in other revenue options.

Motor Fuels Tax

Increase the gas and diesel taxes.

Implementation Options: Create a sales tax for motor fuels or extend the existing sales tax to motor fuels; phase in the increase over time; increase the diesel tax at a faster rate than the gas tax.

Description

The motor fuels tax is made up of the gas tax and the diesel tax. The New Jersey gas tax is currently 10.5 cents per gallon, last raised in 1988. The New Jersey diesel fuel tax is currently 13.5 cents per gallon. There is also a 4.0 cents per gallon wholesale petroleum gross receipts tax; its rate was established in 2000. The state's sales tax does not apply to motor fuels. Therefore, the total gas tax is 14.5 cents per gallon and the total diesel fuel tax is 17.5 cents per gallon. Increasing the motor fuels tax by one cent per gallon would raise about $47 million per year from gas and $12 million per year from diesel fuel.[10] These revenue estimates may be high, however, since revenue from the current excise tax will decrease over time due to inflation and as high prices and greater fuel efficiency lead to lower fuel consumption.

Pros

The tax is closely associated with transportation and, therefore, well-suited for transportation-related expenditures. It is easily administered and generates relatively stable revenue, especially if it is administered as a sales tax as discussed below. The current tax is very low compared with neighboring states, and among the lowest in the nation: New Jersey has the fourth lowest gasoline tax and eighth lowest diesel tax.[11] The most common argument against raising the motor fuels tax – that it will lead to higher prices – may not be true. Even though New Jersey has the fourth lowest gas tax in the nation, its price at the pump is still the sixth highest.[12]

Cons

The gas tax has become a politically heated issue. Many New Jersey residents feel they are already contributing enough or too much to public services through other taxes, especially local property taxes. A proposed increase to the diesel tax would likely be strongly opposed by the trucking industry.

Implementation Options

Sales Tax: The motor fuels tax is currently collected as an excise, or cents-per-gallon tax. However the state can increase its revenue with a sales tax. At least ten states currently have sales taxes on motor fuels. They are usually collected as a percentage applied to the base price of gas (the price before federal and state taxes are added). A 1% sales tax would raise about $93 million per year from gas and $17 million per year from diesel fuel. If the 6% state Sales And Use Tax applied to motor fuels, it would raise $664 million per year.[13] Unlike an excise or 'per gallon' tax, a dedicated sales tax would ensure the main revenue source for the Trust Fund is sustainable and keeps pace with inflation. With a sales tax, the amount collected in tax from each gallon increases with the price, which can balance out lost revenue caused by drivers buying fewer gallons of gas. Extending the existing sales tax to motor fuels may be considered politically more feasible than other motor fuel tax options.

Phase in increases over time: Bringing in new revenue sources can be coordinated with debt obligations easing up, and only done as revenue is needed. For example, the current 10.5 cent gas tax may be augmented with a sales tax that increases by 1% each year until 2015, to restore bondability to the Trust Fund as its debt obligations begin to peak. Sales tax increases can be minimized or stopped when the Trust Fund starts using longer term bonds again.

Increase the diesel tax at a faster rate than the gas tax: While diesel is already taxed at a higher rate than gas, there is an argument for increasing the differential between gas and diesel taxes. Essentially, it is the

"user pays" or "polluter pays" argument: diesel fuel pollutes the environment more, and trucks using diesel fuel do more damage to the roads costing NJ DOT more money each year.[14] Diesel fuel also produces fine particulates and sulfur oxides, which have harmful effects on people's ability to breathe and can cause acid rain.[15] The Federal government taxes diesel at 6 cents more per gallon than gasoline based on these arguments.[16]

Motor Vehicle Registration Fees

Increase passenger vehicle registration fees to account for the growth in heavy vehicles and/or increase commercial truck registration fees.

Description

Passenger Vehicles

Current New Jersey passenger vehicle registration fees are based on the weight and age of the vehicle, so that newer and heavier vehicles cost more. It applies to the 4.4 million motor vehicles registered in the state, and collects $420 to $430 million per year; about $200 million of that is dedicated to the Motor Vehicle Commission. For cars made after 1980, there are two weight categories, under 3,500 pounds and over 3,500 pounds; cars under 2 years old cost $56 and $81 dollars to register, depending on the weight category. The difference in fees between heavier and lighter cars is small when compared to the differences in vehicle weight and fuel efficiency. For example, a Hummer weighs 2.2 times more than a Prius and gets less than 20 miles to the gallon, whereas a Prius gets 55 miles to the gallon. Yet the registration fee for a Hummer is only $25 more than for a Prius. Given this discrepancy and the high rates of SUV ownership in New Jersey, [17] an alternative fee schedule would create a third weight category: 6,000 pounds and higher. Charging this weight category $200 would bring in about $46 million per year.[18]

Commercial Trucks

Like its diesel tax, New Jersey's commercial truck registration fees are well below those of neighboring states. Registration for an 80,000+ pound truck is roughly $300 less than in Pennsylvania or Connecticut.[19] There is also a strong environmental argument for increasing commercial truck registration fees. The most recent Highway Cost Allocation Study shows that trucks only pay 80% of their cost responsibility, and that those trucks over 80,000 pounds pay only half their cost responsibility. Increasing commercial truck registration fees by 10% for trucks up to 40,000 pounds and by 20% for heavier trucks would raise about $20 million per year.[20]

Pros

Passenger Vehicles

The fee is directly related to transportation. The fee supports the 'polluter pays' criterion because its increase would come from those vehicles causing the most environmental damage. Most SUVs are more expensive than other cars, and owners are likely to be of higher incomes and able to afford the increased fee. Federal tax breaks further justify the increased fee: trucks weighing over 6,000 pounds are eligible for a $25,000 federal deduction plus bonus depreciation and regular depreciation of around $11,000.[21]

Commercial Trucks

This fee is consistent with the 'polluter pays' criterion. Increasing commercial truck registration fees would represent a modest shift toward proper cost allocation.

Cons

The revenue collected from both the passenger vehicle and commercial truck registration fee increases is small compared with the overall needs. The passenger vehicle registration fee revenue will likely decrease as fuel costs rise and sales of heavier, less fuel efficient vehicles decline.

Personal Property Tax on Vehicles

Create a personal property tax on vehicles.

Description

New Jersey does not currently tax the value of privately owned vehicles as personal property. Some states, including Connecticut, do. Given that there are 4.4 million vehicles registered in New Jersey, and if the average car value is $15,000, a ½ % personal property tax on vehicles could raise over $330 million per year. The owner of a car worth, for example, $20,000 would pay $100 per year.

Pros & Cons

The tax is closely tied to transportation and can be considered complementary with smart growth goals. However its potential use to supplement the Trust Fund should be considered in context with other revenue sources that affect New Jersey resident drivers, such as changes to the registration fee schedule. While this tax would likely be federally deductible, it may place an undue burden on lower income households.

Petroleum Gross Receipts Tax

Extend the petroleum gross receipts tax to out-of-state wholesalers.

Description

Currently, when petroleum is brought into New Jersey by an importer it is then bought by a wholesaler. If the wholesaler is a New Jersey company, that company pays 4 cents per gallon in a Petroleum Gross Receipts tax. The tax applies to fuel oil, aviation and motor fuels, and excludes residential heating oil. Wholesalers from other states do not pay the tax. If the tax or some part of it were extended to wholesalers from other states, it could raise significant revenue, as over 5 billion gallons of petroleum are imported each year.

Pros & Cons

Because trucking is a high cost enterprise and New Jersey ports enjoy a natural geographic advantage, it would seem that extending this tax would simply bring in more money rather than drive business away from New Jersey's refineries and distribution centers. However it is unclear what secondary effects would occur given the relative costs of distribution of gas throughout this multi-state region. Analysis is also necessary to determine which petroleum products would be affected and how that would affect various industries.

Privatization

Lease all or part of a toll road to a private firm.

Description

Privatization can refer to different types of financial arrangements with a range of private sector involvement. A private firm may build new infra-

Revenue Options for the Capital Program (cont.)

structure, lease existing infrastructure, and/or operate infrastructure, with varying levels of restrictions imposed by its contracts with the public sector. There have been at least 10 highway privatization arrangements in the U.S. since 1995, with varying degrees of success (see Appendix D for more details). Privatization of toll roads in New Jersey is usually mentioned in light of the recent Chicago Skyway deal in which a private firm paid $1.83 billion for a 99-year lease that allows it to collect tolls on an 8-mile section of road. The city of Chicago is using the one-time revenue to retire debt, stabilize the city's finances, and pay for a variety of programs. Recent reports use the Skyway lease to make crude estimates of the price of a similar lease in New Jersey, ranging from $11 billion for the Turnpike to $22.5 billion for the Turnpike and Garden State Parkway together.[22]

Key questions on road privatization

- How much time will it take to close the deal?
- How much and how often could the private firm increase tolls?
- Is the public sector restricted from building other roads?
- What labor agreements must the private sector uphold?
- What entity bears the risk of default? Are taxpayers at risk?
- What entity will be responsible for major rebuilding and other capital investments over time?
- How will the public sector spend the new money?

Pros

A lease with a private firm could provide a large lump sum of money to the New Jersey Turnpike Authority, South Jersey Transportation Authority, the State or to NJ DOT. Private operation of a toll road may also have benefits: private firms may have the capital and freedom from bureaucracy that facilitate investment in new technology to lower operating costs in the long run. Private firms may be less wary of experimentation, such as changing the speed limits at E-ZPass gantries.

Cons

A privatization arrangement would probably take too long to save the New Jersey Transportation Trust Fund. Leasing the Turnpike, Parkway or Atlantic City Expressway is too time-consuming a process, if done properly, to solve the Trust Fund crisis. Privatization arrangements can take years to complete. Private firms may use complex, opaque contracts which require a high level of expertise from the public sector. Contracts that are not carefully negotiated can lead to very high or uneven toll increases, higher maintenance costs later on for the public sector to absorb, and other problems that can result in a loss of mobility and a loss of public trust. Bureaucracies not accustomed to handling complex financial investments may need to hire consultants at considerable cost to manage the arrangement. Private operation of a toll road may also pose some problems. A private firm may not consider the network effects of its road pricing. For example, its toll schedule may increase its profits while moving some traffic on to local roads. This may cost NJ DOT and localities more in the long run because of congestion and damage done by trucks to local roads. Privatization contracts may restrict public agencies from building 'competing' infrastructure. Changing traffic and land use patterns may require certain infrastructure to be built or expanded in the future, while leasing or privatization agreements can restrict this growth. A non-compete clause that seems reasonable now may prove detrimental in 20 or 30 years.

Options

The options are for a full concession, partial concession or a negotiated exclusive rights agreement. A full concession would, like the Chicago Skyway deal, entail a long-term lease of a New Jersey toll road to a private firm. The private firm would operate the road and collect tolls. With a partial concession, the private firm would only lease sections of the highway and/or its river crossings. The third option is for the state to form an agreement with a private firm that would grant that firm the exclusive right to investigate privatization opportunities. This would provide a one-time influx of funds, but also might prevent private firms from competing for a final privatization bid, thus potentially lowering the final price gotten by the State.

Rental Car Fee

Increase the fees paid by car renters in New Jersey or on cars sold to rental car companies.

Description

New Jersey rental car fees are comparable with the surrounding region; taxes and fees comprise 19% of the full cost of renting a car. There are at least two ways to raise additional revenue from a rental car fee: increase the fee for renters or increase the tax on the sale of cars to rental companies. An example of the former would be to raise the New Jersey rental car tax from $2.00 to $4.00 per day. This would bring in about $43 million in revenue for the state. A comparable example of the latter would be to place a 4% tax on the sale of rental cars to rental car agencies. This would raise about $44 million per year.

Pros & Cons

A rental car surcharge or tax is tied to transportation, and such taxes and fees have the benefit of affecting many non-residents. On the other hand, the revenue collected from this option is small compared with the overall needs.

Sales and Use Tax

Increase the Sales and Use Tax.

Description

In New Jersey, the existing Sales and Use Tax is 6% and brings in over $7 billion per year for the state. The tax exempts necessities such as food, prescription drugs, and utilities. A dedicated increase of ¼% to the Sales and Use Tax for New Jersey could raise about $299 million for transportation. New Jersey's sales tax would still be lower than New York City's, but slightly higher than most of New York State, Pennsylvania and Connecticut. Dedicated sales taxes are commonly used to support transportation around the country, including in New York. Sales taxes have been approved for new rail construction projects in 14 major cities. Some places earmark the funds for specific transportation projects while others (including New York) let local governments adopt sales taxes more generally, "for transportation purposes." A targeted increase to the sales tax is also possible at the county level for county-specific projects. This is often referred to as a 'local option' tax, and is also used in places around the country for transportation purposes.

Pros

Increasing the Sales and Use Tax in New Jersey would provide relatively high revenues for a low marginal tax rate (in other words, a fraction of a

percent raises considerable revenue). Residents and visitors would pay the tax continually throughout the year, not all at once. Sales taxes are difficult to evade, and generally considered to be fair or at least even-handed in that those of comparable means pay roughly the same amount of tax.

Cons

There is no clear link between the Sales and Use Tax and transportation. Sales tax revenues are unreliable and drop off during economic downturns. Higher sales taxes can depress overall sales, and sales taxes are often considered regressive in that low income households are disproportionately affected.

Tolls

Increase toll road contributions to the State and constitutionally dedicate them to the Transportation Trust Fund.

Implementation Options: Increase tolls or create new tolls.

Description

Currently, tolls on the Turnpike are comparable with other toll roads while Garden State Parkway tolls are comparatively quite low. This is reflected in the toll revenue each highway raises. In 2004, the Turnpike raised $507 million from toll revenue and the Parkway raised $209; the New Jersey Turnpike Authority raised another $113 million from other sources. Its operating expenses and debt service consumed about $661 million of that, leaving $168 million to be transferred to four main reserve funds. Some of these funds have restricted uses. Atlantic City Expressway toll rates and revenue were not examined for this report.

There is already $24.5 million statutorily dedicated to the Transportation Trust Fund from the New Jersey Turnpike Authority, however it has not been appropriated to the Trust Fund since 2001. There may be an opportunity to use existing toll revenue to increase this contribution. There are also myriad options for increasing tolls, and for putting new tolls on currently free roads and bridges. The federal transportation bill, SAFETEA-LU, permits some tolling of freeways. NJ DOT, the Turnpike Authority, the South Jersey Transportation Authority and the State would develop the best way to redirect existing toll revenue toward the Transportation Trust Fund, and/or to raise more revenue from tolls.

Pros & Cons

Tolls are directly tied to transportation, provide a reliable stream of revenue, generally are insensitive to inflation and recession, and are already intended for transportation purposes. New technology makes it possible to add tolls to highways and crossings without adding toll booths or having drivers slow down. It is also possible to adjust the tolls by the level of congestion. In this way, tolls can be used to make most trips faster and more reliable. Nonetheless, tolls are a politically sensitive issue and some believe that raising tolls will limit, not improve, mobility.

Implementation Options

New tolls or increased tolls may be necessary for the New Jersey Turnpike Authority to substantially increase its contribution to the larger transportation system or to gain a contribution from the South Jersey Transportation Authority. A variety of new tolling options is examined in Appendix D. These options can raise significant revenue depending on the breadth of implementation and the magnitude of the tolls. Briefly, the options discussed include:

- Implementing peak hour pricing on the Garden State Parkway.
- Slightly increasing the truck toll on the southern portion of the Turnpike and putting a new, identical truck toll on the parallel portion of I-295.
- Creating open access, E-ZPass-only, inexpensive truck-only tolls on some currently toll-free bridges.

Value Capture or Mortgage Recording Fee

Create a new fee to recapture the value of transportation infrastructure to real estate development.

Description

New Jersey's tax structure does not currently have a way to capture, for transportation funding, the appreciation in land and property value imbued by transportation infrastructure. In New York, the Metropolitan Transportation Authority (MTA) receives some revenue from a mortgage recording tax collected by the counties within the MTA's service area. The tax comes in four different forms, at different rates and applies to different types of properties in different places, but is basically around ¼ of one percent of the debt secured by real estate mortgages. A subsidiary of MTA also receives some revenue from a property transfer tax at the rate of one percent of some properties' assessed value. New Jersey has similar taxes – the realty transfer tax and a buyers' fee on homes of $1 million or more – but the revenue they produce is not directed to the transportation agencies.

Pros & Cons

Transportation and land use are closely interconnected. There is ample evidence that a quick commute adds to property values. Using land or property value to support transportation infrastructure has a logical consistency and often appeals to smart growth proponents. However New Jersey residents already pay some of the highest local property taxes in the country. While this revenue option may not necessarily be established as a property tax, it should be considered in light of property tax reform that may occur in New Jersey.

Conclusion

This research project was undertaken because the Trust Fund is running out of money fast. By July 2006, all revenue currently appropriated to the Trust Fund each year, including most of the gas taxes collected in the state, will be used to pay the interest on Trust Fund bonds for the next 15 years. There will be almost no funding left for building new roads, repairing bridges, or making crucial NJ TRANSIT expansions. There will be even less available to operate the NJ TRANSIT system as it has been using capital funds for operations in the past.

The Transportation Trust Fund is in dire need of a long-lasting solution. This report and the July 2005 report recommend reforming the system, raising new revenue, and constitutionally dedicating the resources to pay for transportation. The people of New Jersey should know what they will be getting for their investment. Tax collections, appropriations and financing methods have been obscured from the public for too long. Governor Corzine should make a commitment to transparency by adopting the set of six reform recommendations outlined in Putting the Trust Back in the New Jersey Transportation Trust Fund (July 2005), including most immediately forming an independent Financial Policy Review Committee and requiring public reports on transportation-related revenue from the Division of Taxation.

But even with all these pieces in place, one additional change is needed to ensure New Jersey has the best possible transportation system in the future: a realistic vision. In addition to knowing how much is raised, New Jersey residents should know, in advance, what projects its transportation-related taxes and fees will pay for. In the past, ambitious capital plans have been adopted alongside structurally deficient operating budgets. The projects on the table right now are too numerous and, when taken all together, too expensive to be funded. The new governor has an opportunity to bring both vision and realism to the transportation planning process in New Jersey, and can start by (1) permanently stabilizing transportation operating budgets, and (2) fully funding a capital plan that matches real revenue to specific projects, without excessive borrowing, gimmicks, or undercutting operations.

Summary of Recommendations

1. **Permanently stabilize the operating budgets of both agencies by constitutionally dedicating revenue from motor fuels taxes and motor vehicle fees that are already collected and currently going to the General Fund.**

2. **Constitutionally dedicate all new revenue intended to support the capital program.**

3. **Use a variety of new revenue sources to ensure the stability of the Transportation Trust Fund over time and to avoid burdening any one group of taxpayers.**

4. **Choose new revenue sources according to a set of criteria emphasizing stability and equity.**

5. **Develop a realistic vision for how new revenue will be invested in the transportation system.**

6. **Adopt the recommendations from Putting the Trust Back in the New Jersey Transportation Trust Fund, July 2005.**
   - Fully fund NJ DOT and NJ TRANSIT operating budgets and eliminate capital-to-operating transfers.
   - Regularly increase NJ TRANSIT fares to keep pace with expenses.
   - Constitutionally dedicate all originally intended resources to the Transportation Trust Fund and to NJ DOT and NJ TRANSIT operating budgets.
   - Restore bondability to New Jersey's transportation financing system by limiting the term of bonds issued between 2006 and 2011 to ten years.
   - Create an independent Five Person Financial Policy Review Committee.
   - Issue reports from the Director of the Division of Taxation to the Committee and the public every six months showing the full amount collected from transportation-related taxes, tolls and fees.

Appendices

Appendix A: Review of the Six Recommendations from Putting the Trust Back in the New Jersey Transportation Trust Fund, July 2005.

Appendix B: Discrepancies in Motor Fuel Tax Collections and Appropriations

Appendix C: Bonding Limits and Spending Caps

Appendix D: Revenue Options

Endnotes

[1] New Jersey Transportation Fact Book 2005, New Jersey Department of Transportation

[2] Tax information is based on data from American Petroleum Institute, State Motor Fuel Excise Taxes, July 1, 2005, which lists excise, sales and all other taxes that apply to motor fuels. Price information is based on AAA, Daily Fuel Gauge Report, updated on September 16, 2005. Both assume there are 51 states; they consider the District of Columbia as a ranking state.

[3] Hughes, James W. and Seneca, Joseph J. "A Transportation-Driven World-Class Economy: New Jersey at Risk." Issue Paper No. 23, April 2005.

[4] Regional Plan Association et al. "Putting the Trust Back in the New Jersey Transportation Trust Fund," July 2005. <http://www.rpa.org/pdf/TTFfullreport071105.pdf>

[5] Meetings with NJ TRANSIT and NJ DOT, 2004 and 2005, and Blue Ribbon Transportation Commission. Blue Ribbon Commission Report, A Report to Governor James E. McGreevy and the New Jersey Legislature, November 2003.

[6] The Motor Vehicle Fees that are statutorily dedicated to the Transportation Trust Fund but have not been appropriated to the Trust Fund since 2001 include $30 million of the Heavy Truck Fees and $60 million from the Good Driver surcharge.

[7] Motor Fuels Tax and Motor Vehicle Fees revenue are rounded based on FY 06 revenue from the Office of Management and Budget. The Motor Vehicle Fees revenue excludes $277,000,000 that was off budget because it was appropriated to the Motor Vehicles Commission, and excludes $87,500,000 in revenue from the "MTF Revenue Fund" which is backing Economic Development Authority bonds dedicated to Motor Vehicle Commission capital improvements. The total listed includes the Good Driver surcharge at $71,500,000, and the Heavy Truck Fee, pursuant to NJSA27:1B-20

[8] These figures are from NJ DOT for FY 05 but exclude the $356 million capital-to-operating transfer for NJ TRANSIT.

[9] The ports in New Jersey handle over 4 million TEUs (20-foot equivalent units) worth over $114 billion per year.

[10] Data are from the Energy Information Administration compiled for most recent months available. Note that consumption data does not include months in 2005 after the dramatic price increases. <http://www.eia.doe.gov/>

[11] See endnote 2

[12] A 10 cents per gallon tax does not necessarily translate directly to 10 cents more per gallon at the pump. Likewise, a 10% sales tax would not increase the price of gas by 10%. Gas is priced by sellers and wholesalers according to the market's ability to pay. Gas prices correlate much more closely to household income than to tax rates.

[13] These estimates assume the base price of gasoline is $2.00 and the base price of diesel fuel is $1.50.

[14] Investing in Mobility: Freight Transportation in the Hudson Region". Environmental Defense and The East of Hudson Rail Freight Operations Task Force, 2004. <www.environmentaldefense.org/ documents/3601_InvestingMobility_Hudson.pdf>

[15] The environmental costs associated with heavy diesel fuel vehicles are estimated at 23 cents per mile higher than those associated with heavy gasoline vehicles. Dr. Peter Bein, Monetization of Environmental Impacts of Roads, Planning Services Branch, Ministry of Transportation and Highways, Victoria, B.C.; <www.th.gov.bc.ca/bchighways>), 1997, and <www.vtpi.org/tca/tca0510.pdf>.

[16] The Federal gas tax is 18.4 cents, and the Federal diesel fuel tax is 24.4 cents per gallon.

[17] New Jersey has the sixth highest rate of SUV ownership in the nation. The "Vehicle Inventory and Use Survey" released by the U.S. Census in December 2004 showed that New Jersey is adding more light trucks per driver than the nation overall. In 2002 there were 912,600 SUVs registered in New Jersey, and sales of SUVs increased 72% between 1997 and 2002 in New Jersey.

[18] 1.8 million SUVs, pickup trucks and minivans registered in New Jersey in 2002 (U.S. Census "Vehicle Inventory and Use Survey"). It is assumed that 20% weighed 6,000 pounds or more, and 75% of those were more than two years old.

[19] New York registration fees are not comparable since there is a weight-distance tax of about 5 cents per mile in that state.

[20] Assumptions: Estimates are based on the weight distribution from U.S. Census "Vehicle Inventory and Use Survey," 2002 data for the 539,000 trucks subject to commercial Code 11 registration fees in New Jersey.

[21] Prior to October 22, 2004, when President Bush signed the American Jobs Creation tax bill, SUV buyers could claim up to $100,000 in deductions. The deductions are intended to help small businesses and farmers; although few SUVs are used for business, many SUV buyers take advantage of the deduction.

[22] Municipal Credit Research, Global Securities Research & Economics Group. "US Toll Road Privatization, Uncovering Investment Opportunities in the Tax-Exempt Market." 29 July 2005, Merrill Lynch. b. Peter Samuel. "Should States Sell Their Toll Roads?" May 2005. Policy Study 334. Reason Foundation. Both reports (a and b) make estimates net of debt of the New Jersey Turnpike Authority, however each report estimates the Authority's debt differently.

[23] Todd Goldman, Sam Corbett and Martin Wachs. "Local Option Transportation Taxes in the United States." March 2001. Research Report UCB-ITS-RR-2001-3, Institute of Transportation Studies, University of California at Berkeley.

[24] Columbia University, 2004. "Walk-and-Ride: How MidTOWN DIRECT has affected residential property values within walking distance of train stations." Juliette Dellecker Michaelson ; Rick Rybeck. "Using Value Capture to Finance Infrastructure and Encourage Compact Development." Public Works Management & Policy. Vol 8 No 4 (2004): 249-260.

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