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BRIDGE TO NOWHERE

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Years of underfunding and overbonding have depleted New Jersey's Transportation Rust Fund. Debt service will eat up all existing revenue for the next 16 years, and the $500 million Bridge Bond Act approved by voters Nov. 2 will barely last two years. That leaves the Governor and legislative leaders with a series of politically unpalatable choices.

BY MARTIN E. ROBINS

Lost beneath the public focus on the recently-passed Bridge Bond issue is the unspoken, but central, transportation capital policy dilemma - the need to restore stable and predictable revenues for New Jersey's transportation infrastructure. Since 1085, the vehicle for funding road and transit improvements has been the Transportation Trust Fund (TTF) - a seldom mentioned and little-understood financial mechanism which has channeled more than $7 billion dollars into transportation projects. Now, as a result of a shift from pay-as-you-go financing to ever-increasing reliance on bonded indebtedness under the last two governors, that self-replenishing fund is about to dry up.

As Governor Christine Todd Whitman said, in releasing her strategic transportation plan for the 21st Century, "Transportation touches the lives of everyone." In few states is economic performance so closely tied to transportation as it is in New Jersey, a national distribution center and a keystone regional travel corridor with the nation's most heavily traveled roads per lane-mile and the fourth largest transit agency.

With the New Jersey Department of Transportation estimating that $1.1 billion to $1.2 billion in state dollars are needed to fund annual transportation capital needs, the impending depletion of the TTF - and the future risk that stable and predictable funding will be lost - poses a thorny problem for New Jersey's political leaders.

An historical understanding of the evolution of the TTF is essential for trying to solve its current problems. Or to borrow the oft-repeated quote from George Santayana, the early 20th Century philosopher-essayist, "Those who do not remember the past are condemned to repeat it."

Ever since 1947, when the new state constitution abolished the highway trust fund as part of an effort to put New Jersey's financial affairs in order, state policy makers have been seeking stability and predictability in transportation capital funding. In 1984, after more than 35 years of uncertainty and lost opportunities - 35 years marked by inadequate state appropriations, recourse to authority toll financing, rigid federal programs not always responsive to the state's needs, and bond issue referendums that failed more often than not -that quest was fulfilled.

Starting that year, the administration of Republican Governor Thomas H. Kean and the late Senator Walter Rand, D-Camden, teamed up to create and nurture the Transportation Trust Fund. The Transportation Trust Fund Act of 1984, and its subsequent reauthorization by the Legislature in 1988, established a new order for transportation capital finance in New Jersey. For the past 15 years, the TTF has fueled a steady progression of annual transportation capital programs, leveraging federal funds and growing in overall size to $2 billion per year.

The 1984 Act was based on findings that the state's transportation system "is a key factor in [the state's] continued economic development," and of an "urgent need for a stable and assured method of financing ...the State's transportation system." The genius underlying the TTF - and embedded in the authorizing legislation -was a disciplined commitment to certain interacting financing principles:

- Pay-as-you-go financing as the primary approach.
- Sufficiency of annual appropriations to support it.
- Minimized issuance of short-term bonds (10 year maximum) to meet peak cash-flow demands.
- Restraint of program size to the amount of work that could be supported by pay-as-you-go financing and minimal bonding.
- No use of TTF money for routine operations, maintenance and staff salaries.

Proponents of the Transportation Trust Fund acknowledged that it was a delicate mechanism, and that its first four years would be experimental. Too small an appropriation, too great a reliance on bonding, too long a duration for bonds, or too large a program size without commensurate increase in appropriated resources, and the self-replenishing money machine could go off-kilter. The framers recognized that a heavier reliance on bonding (especially of longer duration) would likely cause debt service to consume the money that would come in from bond redemptions.

After the experimental period when program costs outpaced primarily pay-as-you-go funding, the Kean administration and Senator Rand stepped in as a check-and-balance to keep the TTF stable, predictable and sufficient.

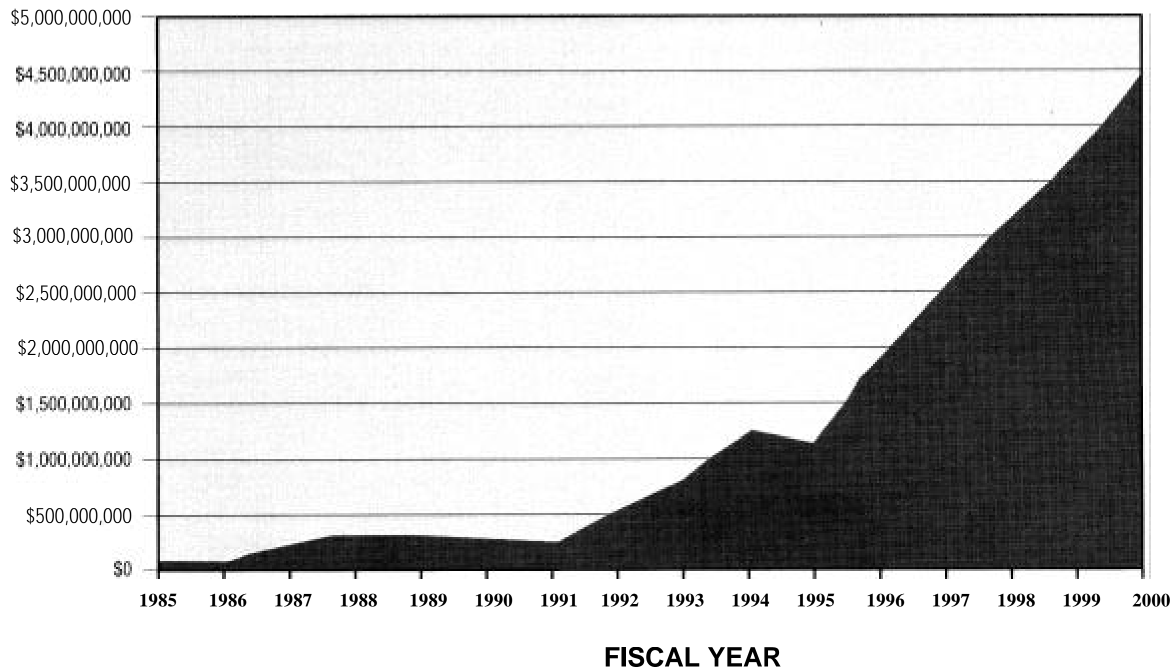
The TTF reached its high watermark of pay-as-you-go efficiency in fiscal year 1089 (the year ending June 30,1989) as a result of the addition of new revenues - 2 112 cents on the motor fuels tax. In that year, the TTF received an annual appropriation of $331 million to support both a $365 million State transportation capital program as well as debt service. At the end of that fiscal year, the TTF's ratio of debt service to total revenues (including interest) was only 12 percent.

Through fiscal year 1992, the TTF successfully sustained its pay-as-you-go approach, and low ratio of debt service to total revenues. But starting with fiscal years 1993 to 1995, bridging the administrations of Democratic Governor Jim Florio and Republican Governor Christine Todd Whitman, both program size and debt service grew, while appropriations dropped sharply.

By fiscal year 2000, with cumulative bond issuance more than tripling since fiscal year

Martin E. Robins is director of the Transportation Policy Institute of the Alan M. Vorhees Transportation Center at Rutgers University's Edward J. Bloustein School of Planning and Public Policy. Previously, he spent 25 years in a succession of policy and planning positions at transportation agencies in the region. A Westfield resident, Robins served as director of the Office of Policy Analysis for the state Department of Transportation, deputy executive director of NJ Transit, and director of planning and development for the Port

Transportation Trust Fund Authority Bonds Outstanding (FYI 985-2000)



1995, debt service will have consumed the TTF's capacity to generate new capital.

To understand what transportation capital financing will be like without a self-replenishing TTF, we can look back to the period between 1959 and 1979. The State's economy was changing from manufacturing to service-based, and its population was rapidly shifting out of the cities into the suburbs. Transportation needs emerged from all directions - building new highways; rebuilding and expanding inadequate highways and crumbling bridges; preserving and rebuilding failing commuter rail, rapid transit arid bus systems; and upgrading and expanding neglected, congested county and municipal roads.

Rarely were annual General Fund appropriations sufficient, although highway riser fees to augment these appropriations were theoretically available. Despite the state's introduction of broad-based taxes, transportation capital paled in political popularity next to other emerging needs, and became increasingly crowded out of the annual competition for the state's General Fund.

Transportation spending, which accounted for 27 percent of the General Fund in 1950, dropped to almost 4 percent in 1980. Solutions to transportation needs and crises, therefore, popped out of a grab bag of opportunistic approaches, including the creation of a new toll payer authority (the Atlantic City Expressway), the expansion of the responsibilities of other authorities (PATH and PATCO), and the infusion of federal interstate highway funds,

When the appropriations process didn't produce sufficient resources and no other solution could be plucked from the grab bag, transportation officials resorted to the prescribed constitutional route for special capital needs: legislative approval of a General Obligation bond issue that pledged the full faith and credit of the state government, accompanied by a public referendum to approve the incurring of such debt. But this route proved perilous and unpredictable. In the two decades from 1959 to 1979, five out of seven public referenda to approve transportation capital financing failed The voter rejections occurred for a variety of reasons:

- The public's unease with tire subject matter (in 1959 a state administration, for the first tune, asked for funds to subsidize commuter railroads which were threatening to strut down) .
- The source of financing (a highway bond issue in 1903 would brave relied on excess Turnpike revenues to pay debt service, but the expectation that a parallel highway was to be built in central New Jersey made taxpayers concerned about the plan's efficacy).
- The misconception that, unspent funds were available (allegations in 1963 about unspent, funds in tire account restricted to interstate highway construction created tire misim-pression that the State had money available for general purposes).
- The presence of large amounts of unspent funds for transit projects (in 19712 the bond issue sought new borrowing authority for transit, but large amounts of the successful 1968 bond issue that, had been earmarked for mass transit projects had not yet been spent).
- The absence of mass transit- funding (tire bored issue in 1974 did not anticipate the swift pro-transit shift in sentiment after the 1973 oil shortage and the long gasoline lines).
- The near-bankruptcy of New York City that shook voter confidence (in 1975 transit highway bond issues suffered from the financial jitters emanating froth New York City's fiscal crisis).

This pattern of failed bond issues, interrupted only by successes only ire 1968 and 1979, hindered the state's ability to pursue a long-term transportation capital agenda, harming the New Jersey economy by creating a defeatist attitude that, government could not provide the infrastructure that private investors expected. It also forced policymakers to spend inordinate amounts of tune and energy searching fur funds; jeopardiz receipt of federal dollar°s because of the absence of state matching funds, and caused periodic layoffs acrd restaffing of planners arid engineers, leading to a chronic loss of

expertise and project continuity. Projects that could improve the accessibility of neighborhoods and industrial sites, and increase property values were deferred.

During the second administration of Governor Brendan T. Byrne (January 1978 to January 1982), New Jerseyans got a taste of adequate transportation funding and improved management of these resources. Included in a rapid run of successes was the use of $120 million in Port Authority of New York and New Jersey funds for the purchase of buses, drawing down $480 million in federal transit funds; the Legislature's approval of the creation of NJ Transit, and voter passage of a $475 million highway-transit bond issue in 1979.

Byrne's transportation commissioner, Louis J. Garnbaccini, started a campaign for stable and predictable transportation funding that eventually led to the formation of a bipartisan consensus among policymakers in the early 1980's in the succeeding Kean Administration. The consensus was that New Jersey needed a stable, predictable and sufficient flow of funds to maintain this momentum for the transportation capital program. Meanwhile, federal policy was evolving in parallel ways that increased resources, flexibility and the importance of available matching funds, adding an incentive for the state to establish a stable, predictable source of such funding.

External economic forces and political agendas have been eroding the Transportation Trust Fund's ability to replenish itself since fiscal year 1993. Trouble for the TTF began brewing in the recession years of the early 1990's, and soon policies prompted by recession economics placed the TTF at a crossroads. Beset by a sinking economy, eroding state revenues, and virulent anti-tax reaction to the 1990 tax package, the Florio administration made decisions, as a compromise with a veto-proof Republican majority, that tended to knock the "delicate mechanism" off kilter. These decisions included:

- Raising state program levels from $365 to $565 million annually to "prime the pump" of the state's moribund construction industry without commensurately in-creasing the revenue stream.
- Reducing the annual appropriation of $331 million in half (to the level necessary to service the bonded indebtedness) starting in fiscal year 1993.
- Using the TTF for the first tine for project development salary costs and "capitalized maintenance" to stave off transit fare increases arid ease budget woes in the General Fund.

In the latter years of the Florio administration as the recession dragged on and pres sures on State budget resources grew, the TTF became badly stressed. With pay-as-you-go financing temporarily abandoned, bonds outstanding jumped by more than 50 percent in fiscal year 1993 alone and then again in fiscal year 1994. Meanwhile, the percentage of TTF annual revenues needed for debt service rose to 48 percent in fiscal year 1993 and actually exceeded its revenues in fiscal year 1994 (accumulated cash reserves from the Kean years were on hand to make up the difference). Clearly, this trend, caused by economic distress and the resultant need to "prime the pump" with transportation capital spending, could not be maintained without an infusion of new revenues beyond the constitutionally dedicated 2 1/2 cents of the motor fuels tax. Only by swiftly bringing revenues and projects and debt service spending into alignment could the TTF recover its status as New Jersey's perpetual funding program for transportation improvements.

The Whitman administration, elected in 1993 on an anti-tax platform, made a series of critical decisions in its first two years (1994 and 1995) in concert with bipartisan legislative support.

At first, the Whitman administration was not sure what direction it should take - restore pay-as-you-go financing with substantial new revenues or rely on bonding. Its first budget document observed that beginning in the second half of the Florio Administration "funding for [TTF] projects was shifted from a combination of pay-as-you-go appropriations and bonds to an exclusive reliance on bonds." It only allowed that the trend would continue for fiscal year 1995, and that the maximum capital program of $565 million would be sustained.

But in 1995, as the recession had eased and bond issuances approached their statutory ceiling, a near-consensus within state government presented to the public a stepped-up five-year spending program (between 25 percent and 60 percent higher). This program relied exclusively on bonding and on committing future revenue flows through 2021 by dedicating an additional 6 112 cents from the existing motor fuels tax to amortize the debt incurred.

An article in *The Record* of Hackensack alleged that Governor Whitman, contemplating re-election, chose not to propose raising the motor fuels tax, as Governor Kean had eight years before, because the position would have undermined her political credibility as an antitax politician. Whatever the motivation, these steps set the TTF on a course not envisioned by Governor Kean and Senator Rand (who had died by this time). Although this strategy leveraged greater annual spending levels through bonding, backed by an assured revenue stream from an increased tax dedication, the combined effect of this direction was, in bond parlance, to "close the lien" on the future TTF revenue stream. This strategy will leave virtually all of the funds dedicated to the Transportation Trust Fund after fiscal year 2000 available only to meet debt service, not to fund unmet transportation capital needs.

In the legislative discussion of what would become known as **Transportation Trust Fund III,** the Whitman administration advanced the tempting concept of "generational equity," the purported fairness of imposing the costs of current infrastructure investments on future taxpayers, because their useful lives would extend many years. The discussion did not focus on the other side of the argument - that the 1984 Transportation Trust Fund Act had established that unmet transportation capital needs had become a continuing state obligation, and that only a sustained resumption of sufficient pay-as-you-go annual appropriations would assure stable, permanent and predictable funding to meet that obligation.

The state Legislature, in a significant demonstration of bipartisanship, accepted the basic approach of the Whitman administration and agreed to a 5-year Trust Fund III renewal containing the following major elements:

Raising the annual state program level to $700 million (later twice raised to **$900 mil**lion).

Refinancing the pre-existing debt to reduce bond payments over the next eight years, but creating substantial new debt service obligations between 2004 and 2015.

Eliminating the cap on bonding to allow the TTF to rely nearly exclusively on debt to finance the future program.

Constitutionally dedicating, through a public referendum, an additional 6-112 cents of the existing motor fuels tax to pay future debt service, so that 9 cents would be so dedicated, but not raising the existing 10-112 cent motor fuels tax.

Appropriating on as-needed basis only $60 million annually (not $120 million as had been proposed by the administration) to the TTF from a reduced extension of the automobile registration surcharges that had originally been created to pay for the debt of an insurance pool for high risk drivers.

Continuing and increasing the practice of using TTF dollars to pay for project development salary costs and "capitalized maintenance," thus freeing money in the General Fund for other uses.

A lingering suspicion exists that the public did not fully appreciate the future impact of this near-exclusive reliance on **bonding, which disregarded** the original Transportation Trust Fund Act admonition to **minimize bonding,** and most important, discarded the central goal of stable and assured funding.

Voters could easily have been confused by the interpretative statement the Legislature

provided to accompany the referendum ballot in November 1905. It told voters that: "If this proposed constitutional amendment is approved, the total dedication would reach 9 cents per gallon over a four year period. *Further, the constitutional dedication of the motor fuels tax revenue would be made permanent and would provide a stable source of funding for the* [TTF]." (emphasis supplied) What the interpretative statement did not tell the voters was that the only beneficiaries of the "stable" and "permanent" funding would be the holders of the bonds issued between 1096 and 2000.

As the dust settles on the vigorous fiveyear spending program of Trust Fund Renewal III, the record of investment in the State's transportation system is impressive. Numerous roads and bridges have been rehabilitated, and our public transit system has been rehabili tated, re-equipped, reshaped and expanded.

But we paid a price for this program. The TTF's bonded indebtedness will have risen to $4.5 billion at the end of FY2000 from $794 million at the end of FY93 and $1.1 billion at the end of FY95. This amount is greater than the cumulative General Obligation bonds outstanding for the state covering all other capital needs. Annual TTF debt service will have risen to $331 million for FY2000 or 67 percent of revenues; in FY92 it was $46 million, or 14 percent of revenues. In addition, between 1996 and 2000, a total of $444 million will have been channeled to project development salaries and $353 million to "capitalized maintenance" - almost $800 million that would otherwise have been available for capital construction.

The Transportation Trust Fund has been effectively ended as a self perpetuating fund.

Its capital-generating capacity will be depleted by 2000 or early 2001, at best.

To make matters worse, administration officials are acknowledging that if the TTF is not renewed by June 30, 2000, the state will lose its entire federal allocation for that year of $670 million.

In addition, the recently approved $500 million General Obligation Bridge Bond issue will barely sustain the capital program through fiscal year 2001 at best.

For the ensuing 16 years, the entire TTF revenue stream will be used to meet debt service requirements for outstanding TTF bonds. Moreover, hardly any revenue can be relatively painlessly carved out of the existing motor fuels tax (with 9 out of 101/2 cents already dedicated) to generate any new funding, let alone revive the TTF as a self perpetuating fund.

Since the official abandonment in 1995 of pay-as-you-go financing, this common-sense approach has dropped from our political lexicon. The parties most affected have concentrated on their immediate concern that continuity of the state's annual transportation capital program is in jeopardy. This situation is exacerbated by the commitment of most of the motor fuels tax receipts to debt service and the prolonged deferral in tackling the need for new revenues.

Even Governor Whitman's politically courageous, but abortive, 1098 effort to secure a Scent gasoline tax increase from the Legislature, as part of a 7 cent motor fuels tax increase to be dedicated to transportation and open space, would not have revived the pay-as-you-go approach. Hardly anyone noticed that it would have continued, if not locked into, a near-exclusive reliance on bonding.

The basic arithmetic for leveraging a revenue stream through the issuance of 20-year bonds is inescapable. Each $1 billion of project spending must be supported by approximately $82 million in annual debt service payments over the life of the bonds. Currently, each penny of the motor fuels tax yields $43 million in annual receipts. A 5 cent increase, then, would generate revenues to support less than 2 112 years of a $1 billion annual capital spending program, and would force repeated rounds of new revenue dedications to maintain spending at the target levels.

In fact, the combination of full bonding and exclusive reliance on motor fuels tax receipts would require a 5 cent increase every 2 112 years until the original TTF revenue stream is released sometime after 2015.

As the public dialogue about the future of the TTF has begun to unfold, administration officials have been unofficially floating a much less ambitious and less politically risky proposal. The new plan would take the existing $200 million-a-year Petroleum Products Gross Receipts tax out of the General Fund, dedicate it to the TTF and issue bonds based on this new revenue stream. This source, however, would become depleted even more quickly - after two years, just long enough to get the TTF past the next gubernatorial election.

While a quick-fix borrowing program may be politically inviting in the short term, a succession of these actions comprises a costly and risky approach, similar in unpredictability to the General Obligation bond issues/ referenda of the 1960's and 1970's.

The lessons of the past teach us that chronic crisis episodes are harmful to the New Jersey economy. They require our transportation professionals to spend much more time worrying about financing as opposed to forging a long term agenda and executing projects; they disrupt the staff continuity necessary to plan, design and execute a program effectively; and they risk once more, at the hands of a volatile electorate, the eventual possibility of severe disruption in future transportation capital investment.

Our state's politicians are distressed to find, as they begin to cope with the reality that the once-solved issue of transportation capital finance is back to haunt them, that most of the existing motor fuels tax has been dedicated to debt service for past and current TTF bonding. Furthermore, the program size that needs to be financed has nearly tripled in the past decade, and operations-like costs have come to absorb 20 percent to 25 percent of its annual proceeds. These uncomfortable facts increase the danger that in the upcoming public dialogue we will overlook the lessons of the past.

The appropriate starting point for this dialogue should be the 1984 Legislature's finding that stable, assured and sufficient funding is an essential of New Jersey state policy and that its choice of pay-as-you-go financing is the most appropriate method of achieving these goals.

Financial revival of the Transportation Trust Fund as a stable, predictable and sufficient funding mechanism is going to be a daunting assignment, requiring political leadership and candor of a high order. Political leaders may have to ask the public to swallow strong medicine. Any major initiative to restore stable, predictable and sufficient funding, because of its politically painful character, would require a social contract with the state's voters, preceded by an effective education campaign.

Such a campaign could frame the issues properly, provoke thoughtful public dialogue, and build understanding and support for a rigorous solution. In this task, the public must be asked to weigh the importance to the state's economy and body politic of restoring stable, predictable and sufficient capital funding. Among the issues to be considered in any program to restore the TTF to its original goals and principles are:

- Allocating a new dedicated and sufficient revenue stream, identifying its source, and accounting for inflation and an increased appetite for capital investment.
- Reconsidering the amount of revenues that go to expenses that can be characterized as operational.
- Presenting a clearly articulated investment policy constrained by available revenues.
- Finally, and significantly, constraining the financial managers and changing the governance of the TTF so that any future changes in management approach, such as increased reliance on bonding, would be difficult to accomplish and would be transparent to the voters.

An effective educational campaign, launched by the state's public and private sector leaders, that follows Santayana's admonition to remember the lessons of the past, would properly shape the public dialogue, and would serve New Jersey well.

FOUR DECADES OF TRANSPORTATION FUNDING BATTLES

Year Element	Highway Element	Transit	Outcome	Votes in Favor	Major Factors Influencing Outcome
1959	--	$430M	Rejected	42%	• Lack of specific spending plan • Question of government subsidization of private business • New Jersey railroads cited by influential sources such as rail labor and other industry leaders for operational inefficiency
1963	$475M	-	Rejected	44%	• Turnpike revenues which were to service the issue thought t0 be jeopardized by construction of parallel, free I-95 • Hughes' revenue replacement plan meant that despite the high amount, only $150M would actually be available for new construction • High interest cost: each dollar in new construction cost taxpayer $2.21
1968	$440M	$200M	Approved	64%	• Comprehensive Master Plan by State DOT highlighting needs and resources on a project-by-project basis • Publicly visible need for major improvements in road and rail system • Identification of over $1 billion in capital needs by Governor Hughes' Blue Ribbon Capital Needs Commission
1972	$410M	$250M	Rejected	46%	• $150 million remaining from mass transit element of 1968 issue • Commuter groups felt state had not followed through with promised improvements • Bond issue viewed as "crisis financing" by those supporting long range capital planning initiatives
1974	$200M	$100M	Rejected	42%	• Omission of mass transit element unpopular, as OPEC embargo and ensuing energy crisis had improved mass transit's image and brought increasing pressure from environmental groups • Railroad element primarily oriented toward property purchases, not service improvements
1975	$300M	$300M	Rejected	38%	• Fiscal crisis in New York City shook voter confidence in government borrowing by raising questions of default • Voters feared approval of such a large issue and its associated interest cost would make a statewide income tax unavoidable
1979	$325M	$150M	Approved	54%	• Proactive role of DOT in demonstrating and publicizing need: Commissioner Louis J. Gambaccini's personal campaign throughout the State, visiting trouble spots in each of the 21 counties • Coordination with Alliance for Action and public relations firms to help DOT present its case

Year	Proposal Elements	Outcome	Votes in Favor	Major Factors Influencing Outcome
1984	Constitutional amendment dedicating 2.5 cents/gallon of motor fuel tax to Transportation Trust Fund for 17 years	Approved	64%	• Promised to place transportation capital funding on a stable and predictable basis • Only required voters to dedicate an existing tax for these purposes
1988	State Legislature raises the motor fuels tax by 2.5 cents and "dedicates" an additional 4.5 cents to the Transportation Trust Fund by statute, but not through a constitutional public referendum. Legislature subsequently ignores the "statutory" dedication during the early 199's economic recession.			
1989	$115M bond issue for bridge rehabilitation and railroad right-of-way acquisition	Approved	69%	• Chose issues then popular with voters: bridge safety and right-of-way preservation • Only supplemented the major financial commitment to transportation capital, the Trust Fund
1995	Constitutional amendment dedicating additional amounts, up to 6.5 cents/gallon, of motor fuel tax to fund Transportation Trust Fund.	Approved	61%	• Promised to finance an expanded transportation capital program on a stable and permanent basis • Again only required voters to dedicate portions of an existing tax for these purposes
1999	$500M bond issue for local bridges and transportation capital needs	Approved	64%	• Asked voters to support popular issue, the rehabilitation of local bridges • Aroused only limited public opposition