Remarks of Martin E. Robins

Second Annual New Jersey Transportation Conference
February 9, 2004
Trenton

Good morning.

I would like to thank Senator Corzine for his generous introduction and to thank Governor McGreevey and the Alliance for Action for giving me the opportunity to share my thoughts with such a large and knowledgeable audience. For all of us, this is a particularly useful opportunity to take stock and give a fresh look at the findings of the Governor's Blue Ribbon Transportation Commission, whose important work was obscured during the "lame duck" legislative session by political friction about a gas tax increase. I'm proud that the Alan M. Voorhees Transportation Center, where I am director, served as a consultant to the Commission.

This brief presentation, based in large part on the Commission's findings, will give you an opportunity to assess:

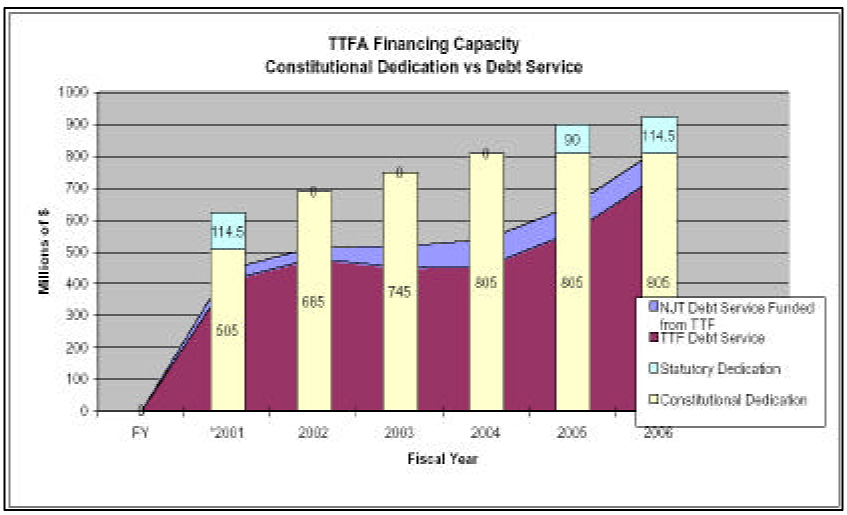
- the value that the Transportation Trust Fund has brought to the state's economy,
- the sequence of policy choices that destabilized it,
- the challenging needs for transportation investment that lie before us,
- the reforms that are necessary to win back the public's trust, and

- the essentiality of a sustained education campaign to show the public that new and sufficient financing for a reformed Trust Fund must be in place -- no later than July 1, 2006.

> Transportation Trust Fund, created in 1984, was designed to provide stable and assured funding for transportation capital expenses. The framers intended for it to operate, largely, on a pay-as-you-go, self-replenishing basis.
>
> **Alan M. Voorhees Transportation Center**

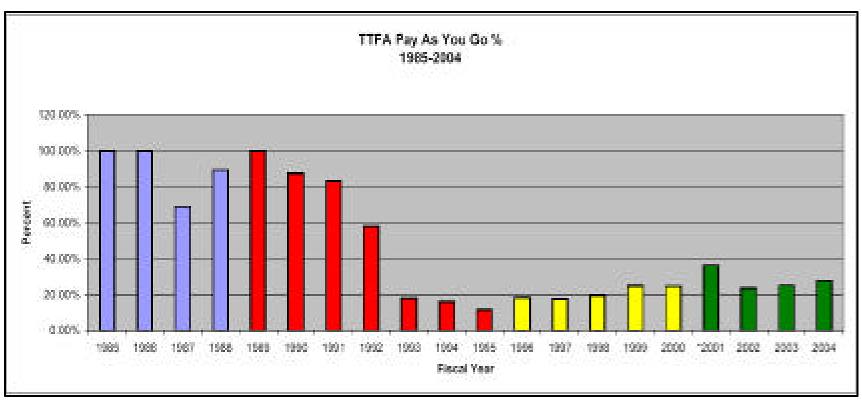
Our Transportation Trust Fund, an initiative of Gov. Thomas H. Kean and his Commissioner of Transportation John Sheridan, has been the envy of other state transportation professionals for the past 20 years. Its purpose, strongly endorsed by the late Senator Walter Rand who provided bi-partisan leadership, was to establish a "stable and assured" funding source for transportation capital expenditures. The concern of the Kean Administration and Senator Rand was forged from 25 years of frustrating experiences. Transportation capital needs fared poorly in the annual competition for appropriations from the state's General Fund and general obligation bond issues failed more often at the polls than succeeded. To assure its stability, the Trust Fund was originally designed to operate largely on a pay-as-you-go, self-replenishing basis.

The Trust Fund has served the State well over its 20-year life. For instance, over the past four years it has generated approximately $4 billion in capital for the Department of Transportation and NJ TRANSIT.



A number of policy choices made in the last dozen years have undermined the principal goals of "stable and assured" transportation capital funding. As this telling chart (above) demonstrates, the Trust Fund's constitutionally dedicated funds, now at $805 million annually, seen in the yellow vertical bars, are about to be consumed by sharply rising debt service, represented by the maroon background and the purple layer above it. The maroon represents the debt service on bonds issued by the Trust Fund. The purple represents debt service on bonds issued by the Economic Development Authority to finance light rail projects, such as the Southern New Jersey light rail line. This debt service has been adopted by the Transportation Trust Fund Authority.

Note also that some $114 million in statutorily dedicated funding sources, available to the Trust Fund most years through FY 2001, have been channeled instead to the General Fund since then. Given the State's continuing budget problems, restoring these dedicated sources to the Trust Fund (as represented above) is more a transportation official's wish than a reality.

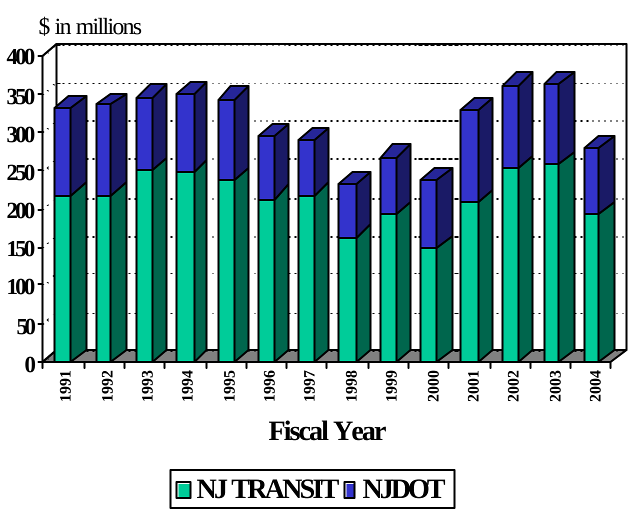


One of the important policy choices that has contributed to the destabilization of the Trust Fund was the decision to change the Trust Fund from dominantly pay-as-you-go borrowing to meet the increasing appetite for transportation expenditures. The chart (above) tracks the percentage of the Trust Fund's capital program that has been funded on a pay-as-you-go basis. The decision to resort to bonding was made temporarily in 1993 in the midst of a severe economic recession. It was established as a permanent policy through a variety of amendments in the 1995 Trust Fund renewal legislation and confirmed by the public in the subsequent referendum. The ratio of pay-as-you-go and bonding has not changed since then, contributing to the build up of debt service depicted on the previous chart.

Another policy choice that has undermined the purchasing power of the Trust Fund, as well as federal transit formula capital funds, has been the failure of General Fund appropriations for transportation operating costs to keep pace with rising net expenses. Meanwhile, Transit's net operating deficit has doubled to $555 million in FY 2004. A contributing factor was state policy not to impose any transit fare increases for 11 years.

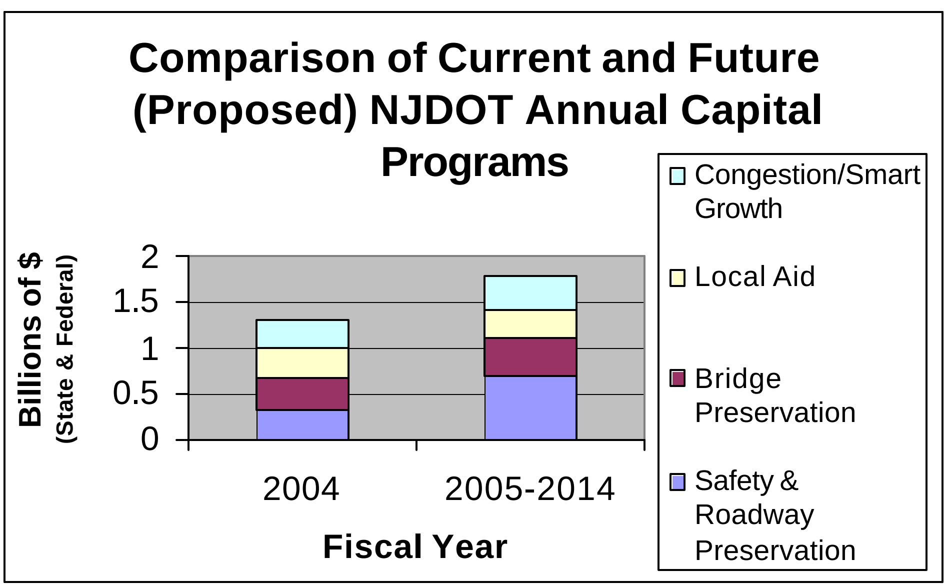
The combination of appropriations to the NJDOT and NJ TRANSIT peaked in the early 90's, declined sharply in the late 90's, and after edging past previous highs, again declined sharply in 2004. One consequence has been the substantial increases in state and federal capital funds diverted to pay for preventive maintenance, mostly, but not entirely, at NJ TRANSIT. A second consequence, reported by the Blue Ribbon Commission, has been the reduction in maintenance practices on NJDOT facilities. NJDOT now estimates that in order to cut roadside plants, clear storm drains, maintain lighting, and replace signs adequately, its annual appropriation for operations must grow more than three times higher than the current annual level of $85 million.

NJDOT Operating Expenses and NJ TRANSIT Net Operating Deficit Have Not Fared Well in Competition for General Fund Appropriations

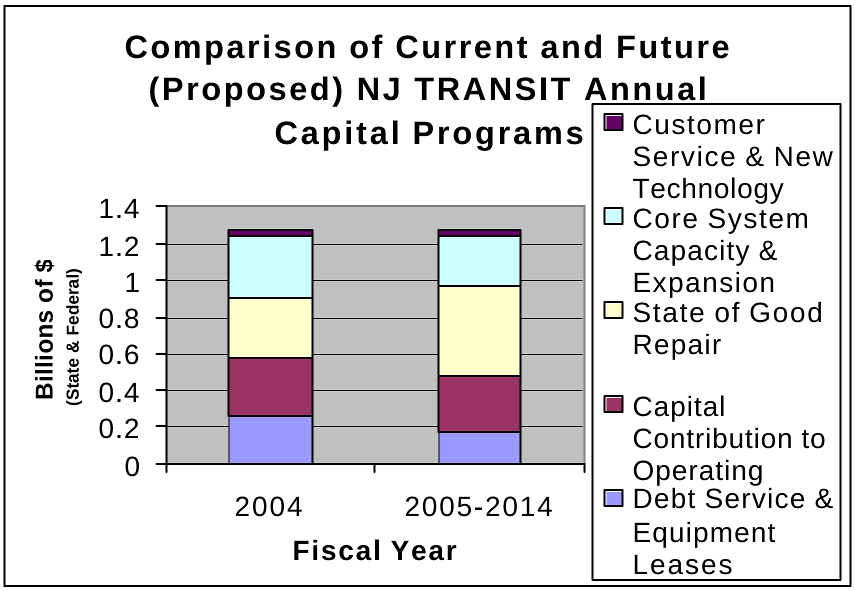


Now we make the transition from past and present to the future. The Commission collected extensive information about the capital and operating needs of NJDOT and NJTRANSIT. The chart below compares the current capital program of NJDOT, combining state and federal funds, with the Commission's recommendation of NJDOT's annual budget needs for the next 10 years **to maintain its facilities and programs at close to current performance levels.** Each vertical bar is broken into four categories: Safety and Roadway Preservation, Bridge Preservation, Local Aid and Congestion Relief/Smart Growth and Other needs.

The current program is $1.3 billion annually; the projected needs at only a "Maintain" level is $1.8 billion. You can see that the Commission recommended a doubling in annual roadway preservation work and limited increases in other categories just to maintain current performance levels.



This chart illustrates the size and distribution of NJ TRANSIT's FY 2004 capital program alongside the Commission's recommendation of NJ TRANSIT's annual budget needs for the ensuing 10 years to maintain its facilities and programs at close to current performance levels.



Each vertical bar is broken into five categories: Debt Service and Equipment Leases, Capital Contribution to Operating, State of Good Repair of its facilities and rolling stock, Core System Capacity and Expansion and Customer Service and Technology. Note that the current and future programs are both pegged at $1.3 billion. There are several noteworthy elements: the first is the 50 percent growth in the commitment to "State of Good Repair" projects to assure the agency's system goals are reached. The second is that the allocation for debt service and equipment leases is supposed to be reduced (because the Trust Fund

Authority would cover, from the constitutionally dedicated stream of revenue, the debt it had adopted). Finally, the diversion of state and federal capital to cover preventive maintenance is reduced to and capped at the current amount allocated from the Trust Fund and federal formula capital funds.

How to Ensure Accountability

BEGIN with Programmatic & Financial Reforms

- Project Selection
- Financial Administration
- Revenue Recapture
- Sufficient Operating Support

In the brief public discussion that followed release of the Commission's report, a number of commentators called for assurances of future accountability in the administration of the Trust Fund, especially in light of the controversial amount of the new revenue required. **That won't go away come the next renewal effort!** Consistent with the Blue Ribbon Commission thinking, they looked at the Trust Fund's past history and did not want to see its promise of "stable and assured" funding undermined once more by policy choices that were not transparent to the public and the Legislature.

To gain public support for a sound Trust Fund renewal, we must formulate Programmatic and Financial Reforms. That moment of truth is not too distant in the future, when the Trust Fund's revenue stream must be replenished or else, despite the *helpful* fact, as reported this morning by Governor McGreevey, that the Administration has found a way to bridge financing from today until the end of FY 2006.

In Program Selection, we must assure that future major projects meet pre-established cost-effectiveness standards.

In Financial Administration, there are many safeguards to consider. For example, how do we assure that:

- the Trust Fund is financed once again on a self-replenishing pay-as-you-go basis?
- the level of capital programming doesn't outstrip available resources?
- The diversion of revenue from capital to fund operations and maintenance expenses is capped, reduced or eliminated?
- Transit fares are increased in a financially responsible and equitable manner? and,
- TRANSIT is not forced to incur more debt for the purchase of rolling stock.

Under Revenue Recapture, we will need to consider constitutionally dedicating at least the $114 million in revenues that are statutorily dedicated to the Trust Fund but lately have gone into the General Fund. We will also need to assure that, ultimately, the full yield from the gasoline tax and other revenue sources dedicated to the Trust Fund are also identified for dedication.

So that the financial administration of the Trust Fund doesn't unravel trying to cover operating deficits, we should simultaneously take steps to assure sufficient support to both NJ TRANSIT's and NJ DOT's net operating budgets. Perhaps, the time is overdue to consider constitutional dedication of a revenue source for this purpose.

How to Ensure Accountability

FINISH with Credible Institutional Reform

Create an Independent Policy Review Board to:

- Establish criteria to measure project cost-effectiveness
- Certify:
  - Adherence to financial reforms
  - Financial health of annual capital programs
- Report publicly on annual condition of transportation finances

The Commission believed that some independent entity must be put in place to convince the public that sound, “stable and assured” funding was being protected. The Commission made a recommendation along lines similar to those I will discuss in a moment.

As we go forward in formulating a strategy for restoring the Trust Fund and clinching public faith in the process, I urge you to support the creation of a thoroughly independent Policy Review Board. This would be modeled as much as possible after the Emergency Financial Control Board that guided New York City from the edge of bankruptcy in the 1970s.

This Board would have broad powers:

- To establish criteria to measure project cost-effectiveness
- To provide necessary certification of the annual capital program, specifically, that
    - the Trust Fund Authority and other state transportation officials are adhering to the financial reforms I have outlined, and
    - the Trust Fund is on course to achieve sound, “stable and assured” funding.

In addition, the Policy Review Board would issue a public report annually before legislative action on the capital program and the balance of the budget regarding the condition of transportation finances.

How To Increase Likelihood of Public Acceptance

Commence a Sustained Public Education Program

Substantial Revenue-Raising Proposal Will Most Likely Be Required - Strenuous Effort

Public Must be Educated:

- How transportation affects their lives
- How we got here
- What our needs are
- How to assure accountability
- What revenues should be raised

As we found out in 2003, persuading the public and our elected officials, on both sides of the aisle, that substantial new revenues are inescapably needed to support our transportation system is not as straight-forward as we might have thought – it will require a strenuous effort. Looking toward the future, I believe that a sustained public education campaign is in order. **In fact, it's overdue!**

The public must be thoroughly and convincingly educated about:

- How transportation expenditures affect our lives
- How we got to this point of needing substantial new revenues
- What are our future transportation needs?
- How can accountability be assured?
- What revenues should be raised and dedicated?

I hope we leave the War Memorial Auditorium with the conviction that this challenge should be approached both thoughtfully and with the resolve that a strenuous, possibly prolonged effort to educate the public and solidify bi-partisan legislative support is ahead of us.