A Recent History of NJ TRANSIT's Operations and Capital Budgeting

Too Many Objectives, Too Few Resources, No Accountability

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By Martin E. Robins and Neal A. Denno
Alan M. Voorhees Transportation Center
Edward J. Bloustein School of Planning and Public Policy

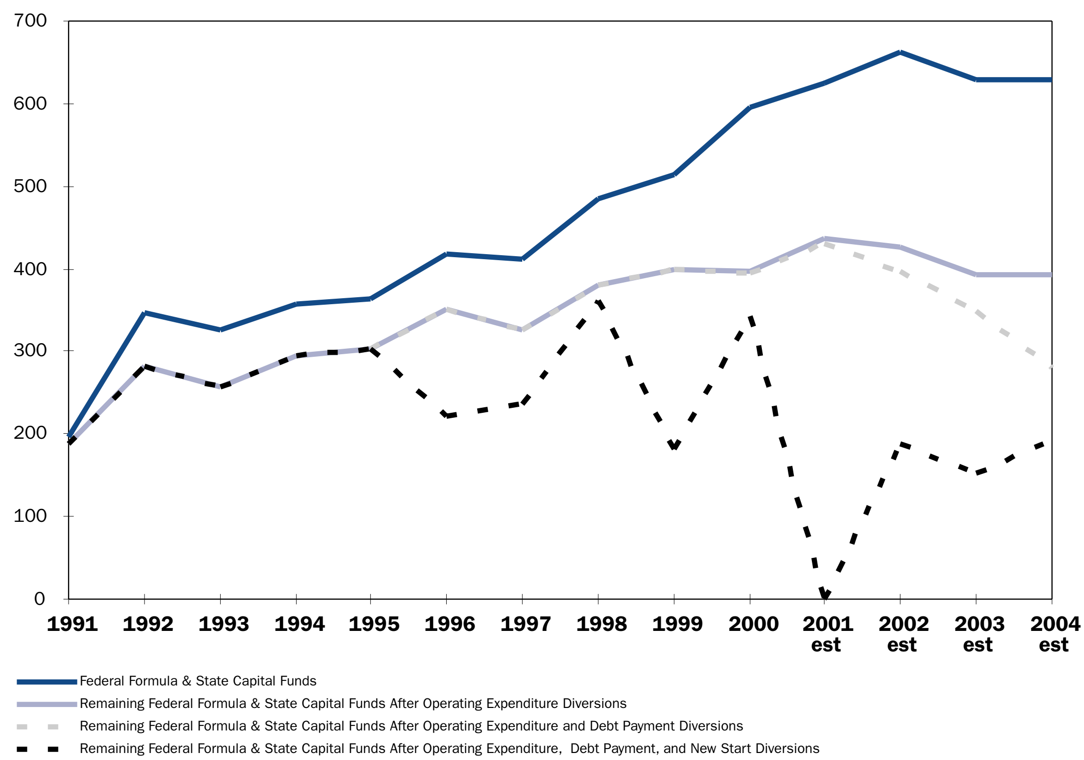
Executive Summary

New Jersey Transit Corporation (NJ Transit) has been asked to do too much with too few resources for too long. Nobody is sure who is responsible, but an impending crisis affecting the agency's entire financial structure is just around the corner. In an escalating pattern since the mid-1990s, cumulative gubernatorial and legislative policies have provided NJ Transit with operating budget appropriations that are far too small. This has led to the first threat to NJ Transit's resources for system preservation, replacement and improvement, the diversion of sizable amounts of those funds to fill its operating deficit. This, in turn, led NJ Transit to purchase 2,000 pieces of necessary rolling stock through borrowing, as opposed to the customary pay-as-you-go financing, creating a second threat to system preservation resources, long-term debt service obligations. In addition, state policy has fostered a third threat to NJ Transit's system preservation resources by promoting new rail system starts and partially financing them from this same resource.

Funds now representing 70 percent of those available for the crucial purpose of preserving the existing system are routinely being diverted. See Figure 1. Compounding the situation, the state has failed to increase NJ Transit's operating aid adequately as newly constructed net deficit rail systems start operations.

The finding that NJ Transit's diversion of funds intended for system preservation is leading to a financial crisis is consistent with a staff report presented to NJ Transit's Board of Directors in May 2000. At that meeting, NJ Transit staff reported that capital needs for system

Figure 1
Total federal formula and state capital funding available to NJ Transit for system preservation and amount remaining after diversions for operating expenses, repayment of borrowing for rolling stock acquisitions, and new start rail projects 1991-2004
(in current dollars)



preservation and existing project commitments in fiscal years (FYs) 2001-2005 exceeded identified resources by $1.5 billion (or $300 million annually). The staff's estimate of capital shortfall did not count any of the dozen capital projects that are currently in various planning stages.

The staff also reported an operating budget shortfall estimated at $681 million for the same five-year period (or approximately $135 million annually). This estimate now appears to be low. In FY 2002, the state operating appropriation of $260 million falls at least $236 million short of the $569 million difference between operating expenses and earned operating revenue. This enlarged hole in the operating budget will be filled by the diversion of capital funding intended for system preservation.

In fact, a recently published report from NJ Transit staff confirmed these trends and projected even higher annual capital and operating shortfalls.

This report finds that this three-pronged diversion of funds intended for system preservation jeopardizes NJ Transit's ability to fund projects crucial to continuing, improving and expanding its well-established and well-used services. These projects include: about $700 million in imminent rolling stock needs for fleet replacement and expansion; major overhauls of aged movable rail bridges; and $102 million annually in projects to restore NJ Transit's rail infrastructure to a "state of good repair."

Operating Budget

The need to fund unmet operating expenses is the root cause for the diversion of capital funds intended for system preservation over the last few years. These unmet operating expenses are growing and are the result of a widening gap between operating expenses and total operating revenue (consisting of fares, other earned revenue and government operating aid). NJ Transit's operating expenses have risen 4.3 percent annually and the combination of its earned operating revenues (up 3.5 percent annually) and government operating assistance has lagged behind. Thus, the operating deficit grew from approximately $300 million in FY 1991 to $569 million in FY 2002.

This shortfall is a result of fares being held constant since 1990, oscillations in revenues from leverage lease tax benefits, elimination of federal operating aid and absolute reductions in state operating appropriations from the General Fund. The recent history for NJ Transit is that, despite an eight-year period of unprecedented ridership increases (with attendant growth in operating revenues), the most crucial public policy levers for keeping the public transit budget on an even keel—fare policy and appropriations for operating assistance—have been either unavailable or have fallen well short of demonstrated need.

In the mid-1990s, while NJ Transit's operating deficit was growing and federal operating assistance was being eliminated, state General Fund appropriations for NJ Transit operations were also being cut. These reductions put NJ Transit's operating budget at considerable risk. The combination of federal and state operating assistance fell from its highest level of $300 million in FY 1993 (of which $253 million was state assistance) and decreased to a low of $149 million in FY 2000, all of which was from the State.

The operating deficit not covered by government assistance grew from about $8 million in FY 1991 to about $197 million in FY 2000. To keep NJ Transit running with chronically rising expenses, lagging earned operating revenue and declining government assistance, money had to be found somewhere else. The habit became ingrained in those years to fill those deficits with operating maintenance funding that had been intended for preservation, replacement and improvement of the existing system. The most recent estimates for FY 2002 raise the expected use of capital funds for operating maintenance expenses to $236 million.

Some of this gap could be addressed through fare increases, but the lion's share of responsibility rests with appropriations from the next gubernatorial administration and the state Legislature. If fares were increased by 10 percent and no ridership were lost, the hike would net about $50 million. Thus, fare increases could be useful but alone cannot be expected to fill the operating funding shortfall of $236 million. Atop this built-in shortfall, the operating deficit problem is about to worsen considerably, as major rail system improvements and new starts come on line in the next five years. NJ Transit estimates that by 2006, additional annual state assistance of $82 million will be needed.

Capital Budget

Governmental capital assistance for the preservation, replacement and improvement of capital-intensive transit systems, such as NJ Transit, is a precious resource. It enables the recipient, otherwise unable to generate capital funds through depreciation charges, to replenish its capital assets. Long-term dissipation of these capital resources can ultimately cause a transit operation to flounder.

Like nearly every other transit agency in the country, NJ Transit derives its capital funding almost exclusively from government aid. The two main sources for these capital funds are the state and federal governments. The total amount available to NJ Transit in federal formula and the state Transportation Trust Fund (TTF) capital funding each year for asset preservation, replacement and improvement ranges between $630 and $660 million. Despite the approximate tripling in capital preservation funding over the last decade, the growing diversion of these capital funds to cover the agency's operating deficit has effectively reduced the balance available for these purposes as compared to FY 1991 levels.

First Threat to System Preservation: Operating Maintenance Expenses

The total diversion of capital funding to operating maintenance expenditures has increased in 10 years to $236 million annually in 2002, or 36 percent of the funds intended for system preservation. While the proportion of diversions from the TTF has tapered off (from $85 million in FY 2000 to $46 million in FY 2001), the use of federal formula funds for operating maintenance purposes has dramatically increased. The diversion of federal formula capital jumped from modest amounts in the 1990s to $190 million in FY 2002.

A standard for judging NJ Transit's conduct in the use of federal formula capital funds is to compare its practices against those of its peer regional transit agencies. Data collected from the Federal Transit Administration for 2000 shows that NJ Transit is well outside the mainstream in diversion of these funds for operating maintenance expenses.

Second Threat to System Preservation: Rolling Stock Debt

The second threat to system preservation funds is the repayment of debt issued for rolling stock purchases. Before 1999, NJ Transit paid for most rolling stock with funds available from the current fiscal year capital budget and minimized the use of borrowing. In recent years, NJ Transit has not had sufficient capital resources available to make these necessary acquisitions on a pay-as-you-go basis, in part because of diversion of capital funding to operating maintenance expenses.

Instead, NJ Transit has embarked, since 1999, on an extensive practice of issuing Certificates of Participation (COPs) to fund the purchase of rolling stock. A COP is a form of borrowing, requiring an interest payment in addition to principal. Repaying these borrowed funds will consume $116 million annually by 2004 and beyond.

Third Threat to System Preservation: New Start Capital Expenditures

After operating maintenance expenses and debt payments, the third threat to funding for system preservation is the extent to which NJ Transit has committed federal formula and TTF funds to pay for an ambitious $3 billion program to construct new rail systems ("new starts"). The agency is currently advancing several major new rail projects, while a dozen others are in various stages of planning. The federal New Start discretionary funding source has not covered the entire cost of the projects, despite popular belief to the contrary.

The claims against preservation funding from new starts are in two categories. The first are more than $75 million annually in long-term debt service for the South Jersey Light Rail Line and purchases of rolling stock for both segments of the Hudson Bergen Light Rail Line. The balance, approximately another $125 million in FYs 2002 and 2003, represents annual expenditures from preservation funds on the Hudson Bergen Light Rail Line and the extension of the Newark Subway to the Morris & Essex station. The need for diversions for other new start rail projects is likely to be sustained in future years with the advancement of a dozen projects from planning to engineering and construction.

Conclusions

This is not a simple financial rut from which NJ Transit can escape with ease. With the funding made available to it, NJ Transit has been directed to overextend itself: use capital to pay operating maintenance expenses, incur too much debt service and use other preservation capital to construct and then operate too many new rail projects. Precious little (30 percent) is left for its intended purpose of the more than $600 million set aside annually from system preservation, replacement and improvement. Almost $200 million of these annual obligations cannot be discontinued, because they are now long-term legal obligations to repay debt already incurred. Another $236 million represents the habitual under-funding of NJ Transit's annual operating budget through allocation of insufficient amounts from the General Fund. Additional subtractions represent over-extensions of NJ Transit's financial resources for completion of new start projects. The queue of a dozen "new start" projects in planning promises to extend and expand the diversions. This situation involves more financial stress between objectives and resources than that experienced by the northeast freight railroads 25 years ago. Those railroads were contracting rather than expanding their systems.

The financial morass raises questions of budgetary transparency and institutional accountability concerning NJ Transit's affairs. The law creating NJ Transit invests in the seven-member Board of Directors, four of whom are "independent" citizens, the responsibility to guide the agency's finances. Yet accountability for budgetary policy has become elusive. The Treasurer, Governor and state Legislature separately participate in the policy-making. Independent state-level oversight of capital planning has been weakened.

Recommendations

Since NJ Transit's financial woes are like a war being fought on two fronts—capital and operations funding—both must be addressed simultaneously. The NJ Transit Board members, in consultation with the new gubernatorial administration and the state Legislature, must immerse themselves in the worrisome consequences of the agency's recent financial policies. The Board must examine current funding trends, capital needs, and current financial policies and resource allocations. The Board should chart a new financial direction to the agency that should try to match the agency's objectives with its resources and restore its financial integrity. Otherwise, continued distraction from these priorities will so hamstring the agency that it will be immobilized.

The Board should seriously consider the following initiatives:

- asking the state Legislature to address through the General Fund chronic inadequate funding of the operating budget, a root cause of NJ Transit's financial woes;
- establishing strategic investment priorities that husband NJ Transit's available capital funding for the preservation, replacement and improvement of the existing system; and
- placing a moratorium on commitments to new start rail projects and developing a strategic process for new start priorities.

The Governor should also appoint a blue ribbon panel to examine NJ Transit's budgetary processes and its structure to assure greater transparency and accountability.

Introduction

The New Jersey Transit Corporation (NJ Transit) has been asked to do too much with too few resources for too long, and an impending crisis affecting its entire financial structure is just around the corner. Both the operating budget and capital budget for preservation, replacement and improvement of existing assets have been under stress. Since the mid-1990s, gubernatorial and legislative policy has provided NJ Transit with operating budget appropriations that are far too small. This has required NJ Transit to divert funds intended for preservation of the capital assets of its existing transit system to cover the operating deficit. Additional system preservation funds have also been diverted and have been used to repay long-tem debts incurred in the purchase of rolling stock and to underwrite new rail systems.

The amount of funds diverted now represents 70 percent of those available for the crucial purpose of preservation of the existing system. Compounding the situation, the state has failed to increase operating aid adequately to NJ Transit as newly constructed rail systems start operations.

The finding that NJ Transit's diversion of funds intended for system preservation is leading to a financial crisis is consistent with a staff report presented to NJ Transit's Board of Directors in May 2000. At that time NJ Transit staff reported that capital needs for system preservation and existing project commitments in the fiscal years 2001 through 2005 exceeded identified resources by $1.5 billion (or $300 million annually). The staff's estimate of capital shortfall did not count any of the 12 new rail projects that are currently in the planning stages, such as the third phase of the Hudson Bergen Light Rail project, other light rail and commuter rail new start projects, and the new Hudson River passenger rail tunnel project.

The staff also reported an operating budget shortfall estimated at $681 million for the same five-year period (or approximately $135 million annually). This estimate now appears to be low, by almost 75 percent. In FY 2002, total operating expenses are estimated to exceed $1.1 billion with earned operating revenue of $568 million. With a state operating appropriation of $260 million and $73 million of other reimbursements, there is an estimated funding gap of $236 million in NJ Transit's operating budget. That gap will be filled by the diversion of capital funding intended for system preservation.

This report is based on an independent examination of NJ Transit annual reports, budget documents and materials specially prepared for this report. Note has been taken of NJ Transit's recent publication, "NJ Transit's Call to Action: An Investment for the Future." In fact, that document confirmed these financial trends.

This report asserts that preserving and expanding the capacity of the capital assets with which NJ Transit provides existing services must be the highest priority for the expenditure of capital funds. Funding is similarly necessary to operate daily service and provide routine maintenance to protect the state's extensive investment in its public transit assets. Without adequate operating funds, the temptation to divert capital funding and, thereby, defer existing system preservation and expansion projects and risk operational unreliability and patron dissatisfaction will persist.

The capital asset preservation shortfall jeopardizes many vital capital needs for the existing system. Among these are:

a) More than $700 million in unfunded rolling stock purchases for replacement and expansion, including 230 bi-level rail cars estimated at more than $500 million, 46 bi-level rail cars to replace Clocker equipment estimated at $100 million, and transit and cruiser buses estimated at $100 million.

b) Major rehabilitation of the five largest moveable rail bridges, and

c) Installation of new information technology systems for operators and customers.

The diversion of NJ Transit's capital funding from its intended system preservation purpose, the inadequacy of the state's annual appropriation of operating assistance, and inadequate funding to both build and operate new rail projects is about to result in a capital asset preservation funding crisis. Steps must be taken in the very short term to avoid the crisis.

Without corrective action, these financial practices will put the state's transit system in its worst predicament. Just as public expectations rise for NJ Transit to serve the state more comprehensively and effectively, NJ Transit's hard-pressed finances will force it to disappoint that public with increasingly unreliable and uncomfortable service and to stifle the public's expectations for many new improvements and the start-up of additional rail lines.

This report finds that NJ Transit has been asked to achieve too many conflicting objectives with far too few resources. These objectives include:

- Increasing service levels despite reductions in annual state transit operating assistance;
- Avoiding fare increases for 10 years;
- Simultaneously constructing multiple new rail projects to serve communities previously not served by rail;
- Covering the entire state with transit service, with a number of lightly patronized routes provided for good policy reasons but requiring heavy state assistance to cover costs; and
- Addressing a number of federal and state mandates (e.g., ADA paratransit service at a FY 2001 net cost of $17.6 million, reimbursement of private carriers for honoring NJ Transit bus cards at $11 million in 2001, expanded fare reduction programs for senior citizens, Federal Railroad Administration requirements for operations, drug and alcohol testing, alternative fuels requirements, and progressively lower bus emissions standards).

Faced with this unrealistic set of objectives, NJ Transit has attempted to meet as many of the objectives as possible, which has required the diversion of capital funds intended for system preservation. This report identifies three different diversions that erode NJ Transit's ability to preserve, replace and improve its existing capital assets. These diversions include:

- Supporting the operating budget's growing shortfalls;
- Repaying an increasing debt service incurred to fund cyclical rolling stock purchases for which there were insufficient capital preservation funds to permit conventional pay-as-you-go financing; and
- Financing new starts (new rail projects) through debt and direct payments.

The report concludes with a set of recommendations for urgently addressing the financial threats to NJ Transit's ability to preserve, replace and improve its valuable existing transit system. The report suggests an inquiry into the institutional structure of NJ Transit's budget-making process and the restoration of public accountability for budgetary policy.

The Operating Budget

The need to fund unmet operating expenses is the root cause for the diversion of capital funds intended for system preservation. These unmet operating expenses are growing and are the result of a widening gap between operating expenses and total operating revenue (consisting of fares, other earned revenue and government operating aid). The major factors this study will examine that have affected this shortage are fares, held constant since 1990, oscillations in revenues from leverage lease tax benefits, the elimination of federal operating aid and absolute reductions in state operating assistance appropriations from the General Fund.

For purposes of this study, we have assumed that operating expenses incurred by NJ Transit are not excessive and that the system is operated in a cost efficient manner. Last year, the firm of Booz-Allen & Hamilton found that NJ Transit is among the most cost-efficient rail systems and has the second lowest bus costs among its peer transit agencies. That would leave the following reasons for increases in operating expenses: inflation, costs incurred in serving an increasing number of riders, new policy-driven operations yielding low revenues, and new federal and state mandates.

This study will concentrate on earned operating revenue, the level of government assistance, and the gap between their sum and total expenses. To begin, we must examine NJ Transit's three main sources of operating revenue:

- Earned operating revenues (mostly comprising farebox revenues [85 percent-92 percent] that can be raised by policy and supplemented with other earned revenues from advertising, financial arrangements such as leverage lease tax benefits, and other sources);
- Federal operating assistance; and
- State General Fund appropriations for operations.

The Math of Operating Deficits and Its Consequences

Because its operating expenses exceed its earned operating revenues, NJ Transit, like nearly all public transportation systems in the United states, depends on public aid to fund the difference, its operating deficit. The mathematics of public transit operating deficits tells a confounding story for public policy-makers who see a paradox of declining public assistance while robust ridership increases occur. The missing ingredient is the less visible change in operating expenses. Assume that an agency's operating expenses are twice the size of its earned operating revenues. If the operating expenses ($1,000) and earned operating revenue ($500) of this transit agency rise at the same rate (4 percent), the agency's operating deficit will increase ($20) and so will the absolute amount of public assistance needed. Even if the earned operating revenues of that transit agency rise at a slightly faster rate (5 percent) than its operating expenses (4 percent), the operating deficit will still grow ($15), but by a lesser amount. Thus, in this case the absolute cost of public assistance still rises, because the driving force in the math is the operating expenses.

Public transit managers have controls over a few of the levers of this mathematics. Foremost is their responsibility to minimize this operating deficit between total expenses and earned operating revenue, taking into account mandates and policy parameters. This study assumes that NJ Transit staff, under the supervision of its Board of Directors, executed this responsibility reasonably well. Usually the role of setting fare levels is shared between transit managers, the NJ Transit Board and government policy-makers. State government policy-makers have a final responsibility in setting fare levels and appropriating operating assistance. The recent history for NJ Transit is that, despite an eight-year period of unprecedented ridership increases (with attendant growth in operating revenues), the most crucial public policy levers for keeping the public transit budget on an even keel - fare policy and appropriations for operating assistance - have been either unavailable or have fallen well short of demonstrated need.

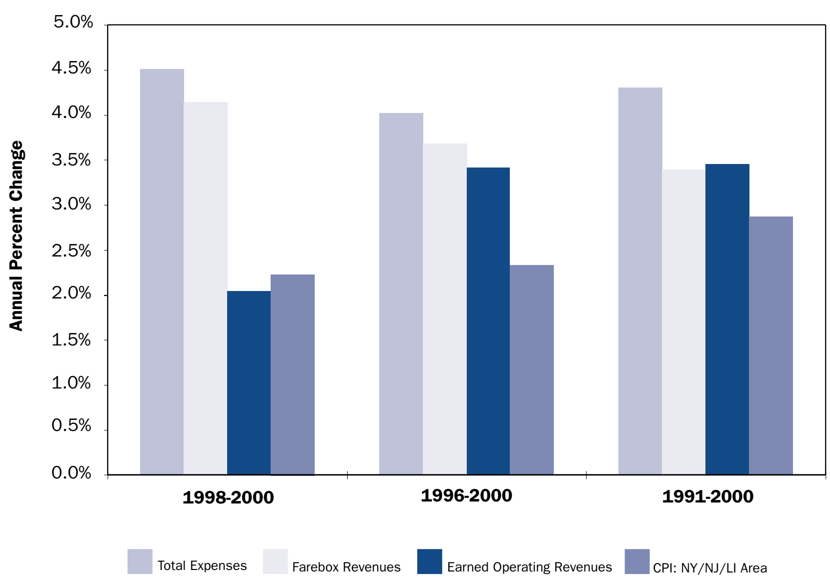
Operating Expenses Increase Faster Than Operating Revenues

No doubt public policy-makers and the public are confounded that despite NJ Transit's ridership increases over most of the past decade, its operating deficit has still been growing. Figure 2 demonstrates that over the 10-year period 1991-2000, NJ Transit's expenses increased 4.3 percent annually, while total earned revenues increased at the slower rate of 3.5 percent annually. Thus, expenses have risen 0.8 percent faster annually than total earned revenues. This is despite the fact that fare revenues also grew at a robust 3.4 percent rate during this period as a result of ridership increases beginning in 1992. This left NJ Transit with the predicament of an increasing operating deficit when public expectations were growing about its overall success in drawing customers.

As Figure 3 shows, the operating deficit at NJ Transit grew from approximately $300 million in 1991 to more than $450 million in 2000. From 1992 through 1998, the annual operating deficit remained stable in the $350 million to $400 million range when earned operating revenues virtually kept pace with operating expenses. The year 1998 was one of the most successful years in the recent history of the operating budget. After 1998, the deficit increased substantially each year, by approximately $50 million annually, despite continued ridership gains, due largely to increasing expenses and constraints on the ability to increase earned operating revenues as described below.

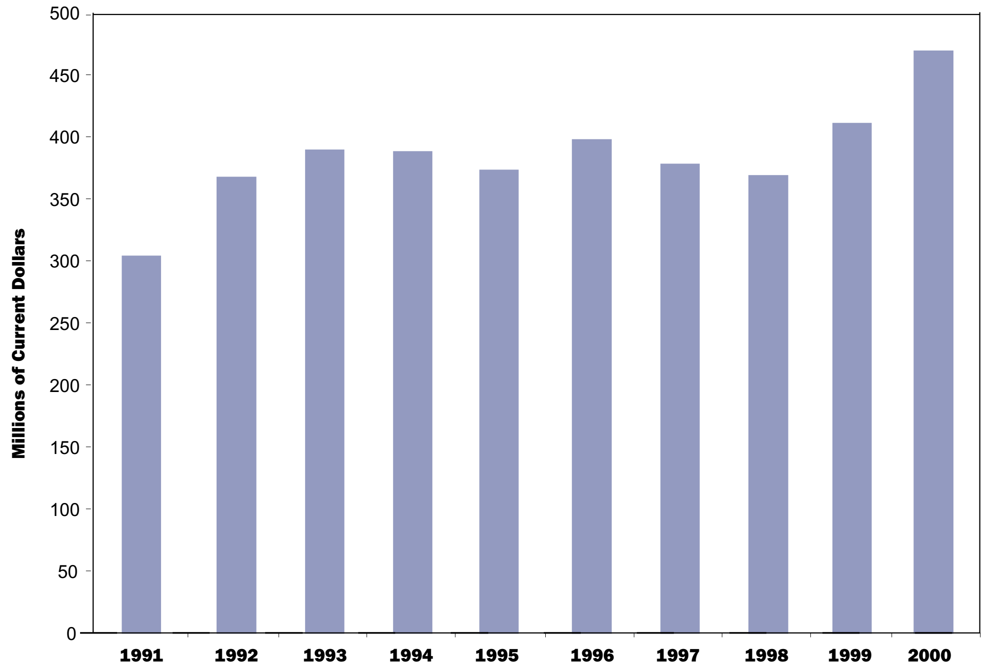
On the operating expense side of the equation, one of the factors of increasing expenses throughout the decade is the effect of inflation. Over the 10-year period 1991-2000, inflation (as measured by the Consumer Price Index for the

Figure 2
Percent annual change in NJ Transit's total expenses, farebox revenues, and total earned operating revenues compared to inflation as measured by the change in the Consumer Price Index in the New York/New Jersey area for three periods in the 1990s
(all values calculated from current dollars)



Source: *NJ Transit Annual Reports*; Bureau of Labor Statistics for CPI Data.

Figure 3
NJ Transit's operating deficit or the difference between total operating expenses and earned operating revenues, including both fares and other earned revenues, 1991-2000



Source: NJ Transit Annual Reports.

New York/New Jersey area) represents two-thirds of the expense growth. (See Figure 2.) Other factors include increased expenses because more patrons from increased ridership require a variety of additional services, new mandates and the introduction of low-yielding policy services. This study has not attempted to distinguish the relative size of each of these other factors. Government policy-makers have recently recognized the potential consequences to operating costs of overcrowding from increasing ridership. The state Legislature for FY 2002 justified a substantial increase in General Fund appropriations for operations to pay for service increases on overcrowded NJ Transit bus routes.

One of the factors, besides ridership increases, that permitted NJ Transit during the middle 1990s to keep growth in earned operating revenues on pace with operating expenses was its success in pursuing non-farebox revenues. When this good fortune disappeared near the decade's end, the agency's operating deficit rose sharply. As Figure 1 shows, between 1991 and 2000, the rate of growth of earned operating revenues (excluding farebox revenues) virtually kept pace with that of operating expenses; however, in the three fiscal years 1998 to 2000, Figure 2 shows that, while fare revenue, spurred by continued ridership increases, grew at a rate only slightly below that of expenses, total earned operating revenues grew at less than half the rate of expenses, precipitating a sharp increase in the operating deficit. (See Figure 3.) The cause of this falloff of non-farebox earned revenues is attributable to the temporary drop in revenue derived from leverage leasing of rolling stock for tax benefits, the proceeds of which are treated as earned operating revenue. This stemmed from limited opportunities for leverage leasing arrangements because of a lack of rolling stock procurements.

Fare policy could have been used to stem the rise in the operating deficit. State transit fare policy, adopted by two governors from 1991 to 2000, however, promoted the concept of no fare increases. This was another important factor constraining operating revenues. This policy removed from transit managers the ability to use the financial tool of judicious fare increases, especially in line with inflation, to offset absolute increases in operating expenses. Ridership increases alone, then, remained the only available way that farebox revenue could be increased.

Adjustments of fare levels consistent with the rate of inflation during the decade of the 1990s could have helped offset and reduce NJ Transit's widening annual operating deficit. Had fares in the 1991-2000 period been adjusted annually for inflation (using the Consumer Price Index for the New York/New Jersey area), farebox revenues would have grown about 2 percent faster than total operating expenses, assuming ridership levels had not been affected by the fare increases.

By 2000, such a policy would have reduced NJ Transit's deficit by $150 million annually. Actual farebox revenues in 2000 were $461 million. If fares had been raised every year since 1990 in line with inflation, the total increase would have been approximately 33 percent. Assuming no loss in ridership over the decade from these inflation-adjusted fares, farebox revenue would have been approximately $612 million in 2000. But since transit managers have been deprived of the financial tool of fare increases, it became imperative for the growing operating deficit to be funded by either federal or state operating assistance. As the next sections show, neither federal nor state operating assistance filled that gap. Instead, NJ Transit's recourse was to divert that amount from capital preservation resources to operating maintenance expenses.

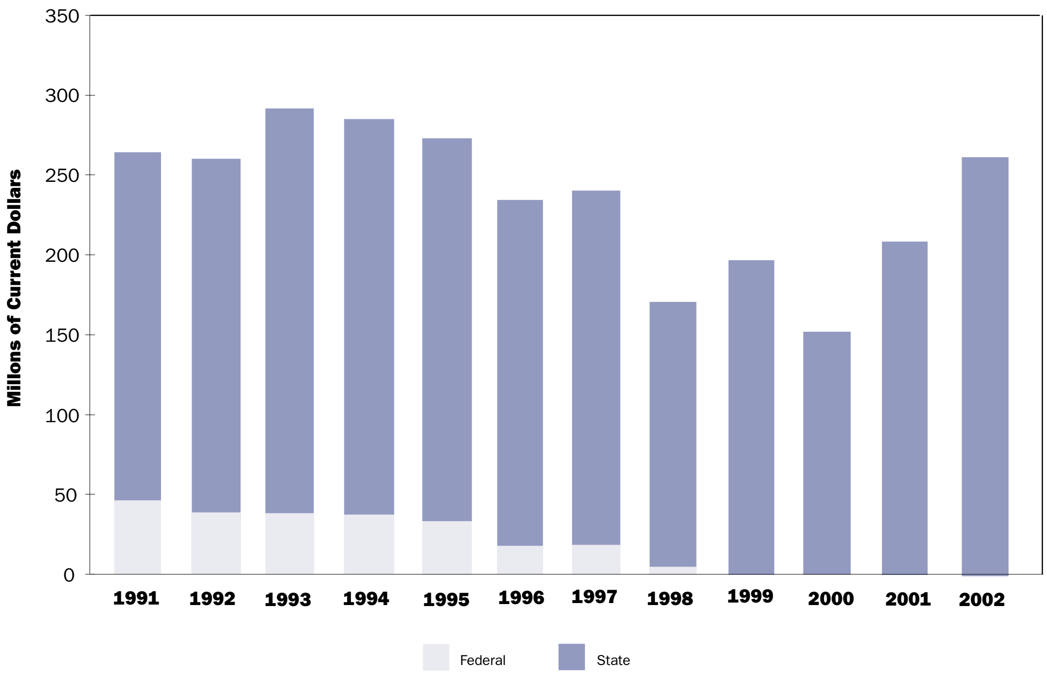
Elimination of Federal Aid for Operations

The course of government assistance for transit operating expenses during the past decade played a major role in creating a stubborn shortfall in NJ Transit's operating budget, a root cause of the financial stress that is about to reach crisis proportions. Government assistance for transit operating expenses came in two forms: federal operating assistance and appropriations from the state's General Fund. First, we will discuss the impact of the federal operating assistance program on NJ Transit. When NJ Transit was established in 1979, the federal government provided direct operating assistance to NJ Transit and other transit agencies in urbanized areas around the country. Throughout the 1980s and into the 1990s, there was a constant policy struggle between the President and the Congress over reducing this assistance. From 1994 to 1997, total annual federal appropriations for transit operating assistance were reduced from $800 million to $400 million. Finally, in 1998, the Transportation Equity Act for the 21st Century (TEA-21) eliminated operating assistance completely for transit agencies in metropolitan areas of more than 200,000 population, including NJ Transit. As Figure 4 shows, federal operating assistance to NJ Transit dropped from $46 million in 1991 to zero in 1999.

Reduction in State General Funds for Operating Assistance

In the mid-1990s, while NJ Transit's operating deficit was stable or growing and federal operating assistance was being eliminated, state General Fund appropriations for NJ Transit operations were also being cut. Because NJ Transit was enjoying ridership increases, its pleas for greater assistance to the executive and legislative branches may have been diluted. This

Figure 4
Federal and state operating assistance received by NJ Transit 1991-2002 (in current dollars)



Source: 1991-2000 data from NJ Transit Annual reports; 2001 data from NJ Transit (estimated); 2002 from state analysis

reaction put NJ Transit's operating budget at considerable risk, particularly in FYs 1999 and 2000. Figure 4 shows that the combination of federal and state operating assistance fell from its highest level of nearly $300 million in FY 1993 (of which $253 million was state assistance) to a low of $149 million in FY 2000 (all of which came from the state). This low point in operating assistance occurred just as NJ Transit's earned operating revenue (deprived of income from leverage leases) diminished. While state assistance increased to $209 million in 2001 and further to $260 million in 2002 (NJ Transit asked the Governor for $329 million), total governmental operating assistance still remained about $40 million below its highest level of nearly $300 million in 1993 (without taking into account the loss of purchasing power due to inflation).

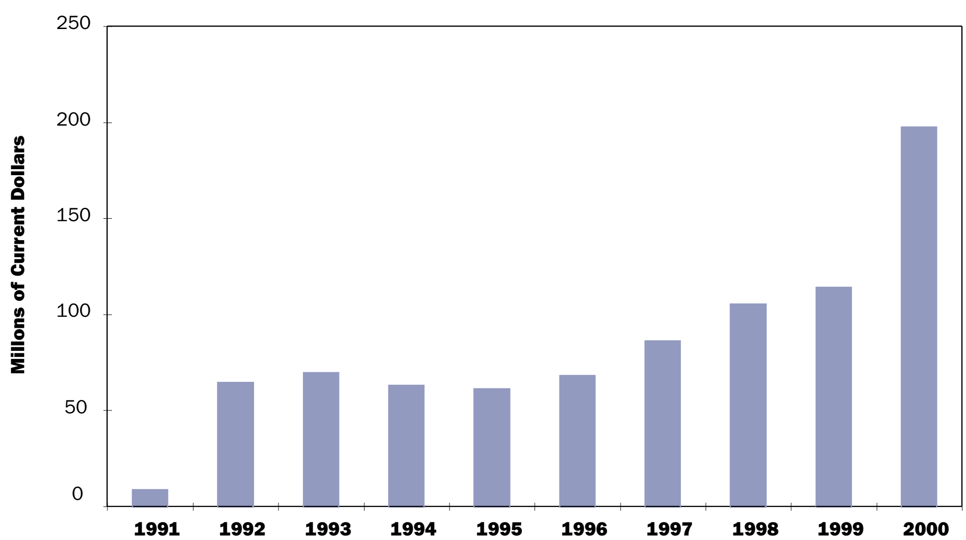
Funding NJ Transit's Operations

To keep NJ Transit running since the late 1990s with a chronically widening operating deficit and declining government assistance, money had to be found somewhere else. It has been diverted from the capital budget in sharply increasing amounts. As Figure 5 shows, chronic shortfalls in the operating budget have been bridged since the early 1990s by diversion of capital funds to operating expenses from the Transportation Trust Fund and federal formula capital funds. The amounts of capital funding diverted from the capital budget to cover the unfunded portion of the operating deficit grew from about $8 million in FY 1991, to amounts between $62 million and $85 million from 1992 to 1997, and then rose sharply to about $197 million in FY 2000. The consequences of this diversion of capital funding to cover the operating shortfall have short-term advantages and long-term disadvantages. It protects the viability and reliability of day-to-day operations by maintaining an adequate operating staff, sufficient supplies and routine maintenance. Its disadvantage is that the larger it grows, the more substantially it cuts into the funding available for longer term preservation, replacement and improvement of NJ Transit's existing capital assets (including rolling stock) and the expansion of these facilities and services to meet demand.

While state operating aid grew in FY 2001 to $209 million and again in FY 2002 to $260 million, there is still an operating funding shortfall of approximately $236 million annually. This gap will be filled by the diversion of capital funding intended for system preservation.

On top of this built-in annual shortfall, the operating deficit problem for NJ Transit is about to worsen, to grow by an estimated $82 million by 2006 as a result of new operations coming on line. The problem has begun to emerge with the opening of the Hudson Bergen Light Rail Transit (HBLRT) system. That system generated expenses of $27.1 million in 2001, with only $3.5 million collected in fares due to the fact that the incomplete system does not yet generate heavy ridership. No additional operating funding was made available by the state Legislature to cover the $23.6 million annual operating deficit of this new rail line. The Hudson Bergen Light Rail Minimum Operating Segment-2 (MOS-2), Montclair Connection, Secaucus Transfer, Newark Airport Extension, South Jersey Light Rail Line and Newark City Subway Extension projects will all be in operation in 2006. NJ Transit estimates that $149 million in additional annual expenses will be incurred to operate these services and facilities. With revenues from these facilities estimated at only $67 million, additional annual state assistance of $82 million will be needed.

Figure 5
Amount of NJ Transit operating expense funded through diversions of federal formula and state capital funding 1991-2000 (in current dollars)



Source: NJ Transit Annual Reports

Capital Budget

Capital for the preservation, replacement and improvement of NJ Transit's existing system is a precious resource, and this report will show that three threats to that resource have drained it considerably. Because too few resources have been provided and too many objectives have been pursued, these threats have been extremely potent.

Like nearly every other transit agency in the country, NJ Transit derives this precious capital funding almost exclusively from government aid. The two main sources of funds for these capital funds are the New Jersey state government and the federal government.

State Transit Capital Funding

The most flexible source of capital provided to NJ Transit comes from the state's Transportation Trust Fund (TTF). The TTF was originally established in 1984 to provide a stable pay-as-you-go funding mechanism for capital program needs. From the outset, the TTF had been largely financed from gas tax revenues. Since the early 1990s, the financing for the TTF has shifted toward an increasing reliance on debt financing through bonding. Most of the gas tax revenue is now dedicated to pay the debt service for bonds issued through FY 2000. In 2000, two existing taxes in the General Fund, the Petroleum Products Gross Receipts and a portion of the sales tax on new auto sales, were dedicated to the TTF largely to pay debt service on TTF bonds issued between FY 2001 and FY 2004. After FY 2004, the gas tax revenues, the Petroleum Products Gross Receipts, and the portion of the sales tax on new auto sales dedicated to the TTF will be nearly fully obligated just to pay the debt service on previously issued bonds. Thus, without additional revenue streams dedicated to the TTF, there is little capacity for the TTF to provide funds for capital projects after FY 2004.

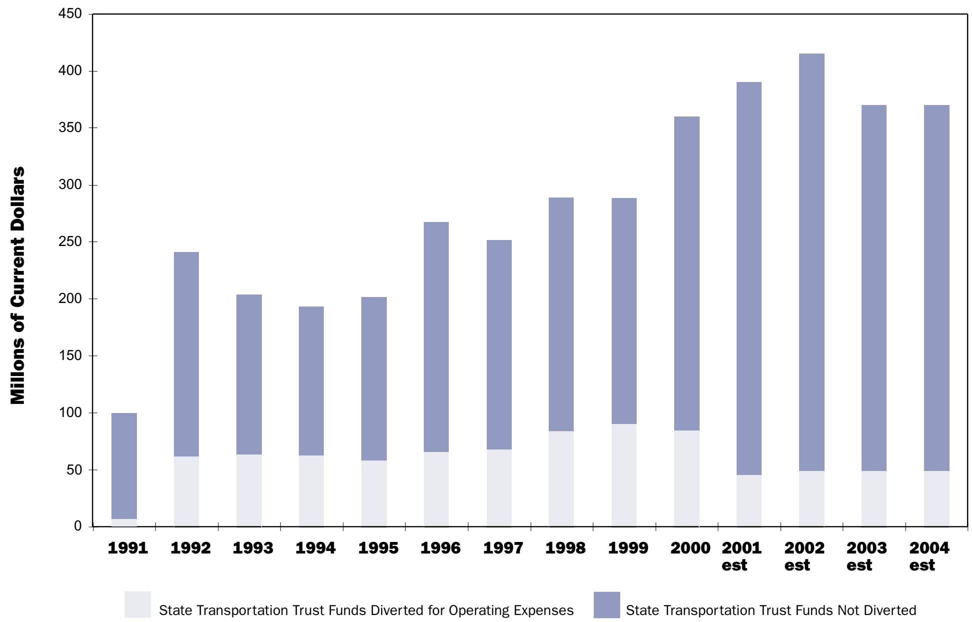
The TTF's proceeds are divided annually by the Legislature between the highway and bridge capital programs of the New Jersey Department of Transportation and the public transit capital needs of NJ Transit and its contract bus and light rail carriers. Figure 6 shows the amounts available, on an annual basis, to NJ Transit from the Transportation Trust Fund. Based on estimated funding of $415 million in FY 2002, state funding for NJ Transit from the TTF is expected to have risen about $314 million since FY 1991. Initially, most of these funds were spent on facility replacement and rehabilitation and rolling stock acquisitions and overhauls. Not until New Start project financing was well under way did these projects affect the use of federal formula and TTF funding. See Financing of New Start Rail Projects, below.

Diversions to Operating Maintenance

During the early 1990s, New Jersey state officials debated the use of TTF funds for some maintenance expenditures. In the midst of the recession-induced budgetary pressures of that time, TTF funds were made available to cover "permitted maintenance" costs that had previously been covered by the operating budget. (See Attachment 1 for the current statutory definition.) These are the direct costs of work necessary for preserving or maintaining the useful life of public transportation projects. The permitted maintenance work had to be associated with the acquisition, installation or rehabilitation of components that are not included in the normal operating maintenance of equipment and facilities. The permitted maintenance work must also ensure the useful life of the equipment or facility for five years (increased from four years in the legislative renewal of the TTF in July 2000).

Until the July 2000 renewal of the Transportation Trust Fund, the amounts of NJ Transit's allocation appropriated for permitted maintenance edged

Figure 6
Total state Transportation Trust Fund (TTF) capital funds available to NJ Transit and the portion diverted by the agency to operating maintenance expenses 1991-2004 (in current dollars)



Source: 1991-2002: NJ Transit private correspondence; 2003 and 2004: based on assumption of 2002 diversion value remaining constant

upward from approximately $62 million in FY 1992 to approximately $85 million in FY 2000. See Figure 6. In addition, in 1996 there was a one-time appropriation from the TTF of $8.8 million for operations to offset expected reductions in federal transit operating aid to NJ Transit.

As the renewal of the TTF approached, the Legislature expressed concern about the erosion of capital through the steady rise of TTF funds used for permitted maintenance through the 1990s. The July 2000 renewal of the Transportation Trust Fund reversed that trend by limiting the use of TTF funds for this purpose. This was accomplished by changing the “useful life” definition. As a result, from FY 2000 to FY 2001, permitted maintenance expenditures from TTF funds dropped $39 million, from $85 million to $46 million. This study assumes that the amounts of TTF funding diverted for this purpose will remain at FY 2001 levels. Without much public comment, the reduction in the diversion of state capital funds was largely offset by a substantial increase in the use of federal transit capital formula funding for operating expenses, as indicated below.

Federal Transit Capital Funding

While the amounts diverted to operating maintenance expenses from the TTF stabilized or declined, NJ Transit’s diversions of federal formula funds for these purposes skyrocketed. Two formula-based categories of federal transit assistance make up the second source of capital funding for the preservation, replacement and improvement of existing system assets. That amount is estimated to be $259 million in FFY 2003, approximately 60 percent of the amount now available annually to NJ Transit from the TTF. Recent changes in legislation have made the diversions of these funds to operating maintenance purposes possible. An examination of the structure of these programs will provide a framework for understanding these diversions.

The federal government provides capital funding to NJ Transit and other transit agencies around the country under the Federal Transit Act, as amended. Section 5307 of the Act is the Urbanized Area Formula Grants program. These funds are available for mass transportation capital projects to finance the planning and improvement of equipment and facilities. Until repealed by TEA-21 in 1998, this category was originally available also for explicit operating assistance. Funds are apportioned by formula to each urbanized area with a population exceeding 200,000. NJ Transit operates or administers federal aid for most of the publicly supported transit service in New Jersey (except PATH and PATCO which generally do not receive federal funding). Thus, NJ Transit uses virtually all of the funds apportioned to urbanized areas and portions of urbanized areas in New Jersey. In the current 2001 federal fiscal year, NJ Transit was eligible to receive $169 million in federal Section 5307 funds.

Section 5309 of the Federal Transit Act is the Capital Investments Grants program. The funding from this program is split into three main categories:

- Fixed Guideway Modernization (apportioned by formula based on fixed guideway and passenger miles);
- New Fixed Guideway Systems and Extensions of Existing Guideway Systems (for the so called New Starts rail projects, the funds for which are apportioned by the federal government); and
- Replacement and Rehabilitation of Buses (the funds for which are apportioned upon approval of specific projects by the federal government).

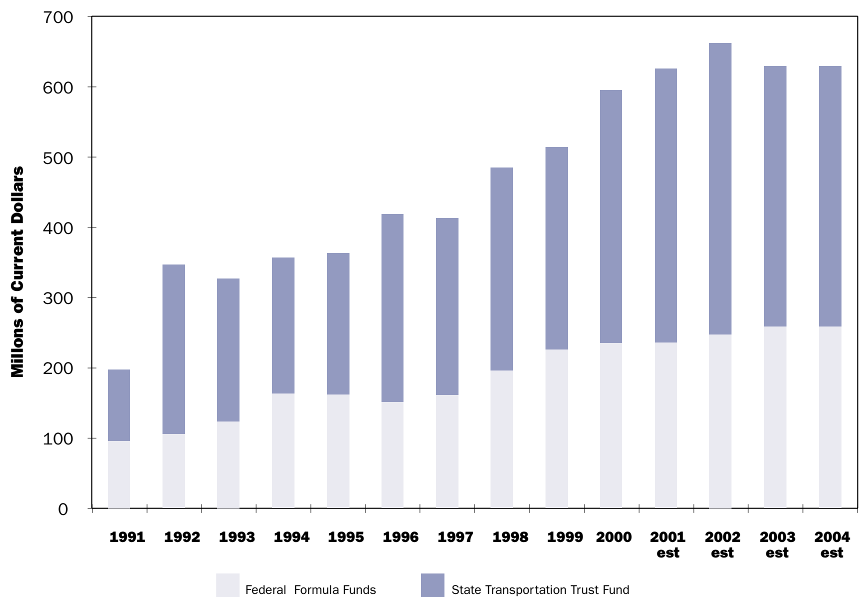
In the current 2001 federal fiscal year, NJ Transit received $81 million in federal Section 5309 Fixed Guideway Modernization formula funds. Thus, the split between the two formula-based categories of federal transit assistance to NJ Transit is approximately 2 to 1 between Section 5307 and Section 5309 Fixed Guideway.

For purposes of this report, only those formula-based funds, which are intended for preserving capital assets and expanding facilities and fleets to meet increasing passenger demand, are included. It is these funds that now are eligible to be allocated to pay operating expenses.

Total Capital Funding Available

The total amount available to NJ Transit in federal formula sources and the TTF capital funding each year for asset preservation, replacement and improvement currently stands at approximately $660 million (about 60 percent from the state's TTF). Figure 7 shows that capital funding from these sources has generally risen since 1991 from a total of $197 million in that year to more than three times that amount expected in 2003, approximately $600 million. The estimate for 2004 is based on the state TTF anticipated allocation. This study also assumes that the amount of federal capital funding available to NJ Transit in FFY 2004 will be the same as that available in 2003. NJ Transit staff in its May 2000 report predicted an increase of $12 million with similar stepped increases through FFY 2006 of federal capital funding available to NJ Transit.

Figure 7
Total federal formula and state capital funding available to NJ Transit for system preservation 1991-2004 (in current dollars)



Sources: See Figure 6; 1991-1999 FTA Statistical Summaries; 2000 from Federal Register Notice and 2001 from Transit Apportionments and Allocation, both adjusted based on 1998 initial authorizations for splitting metropolitan area Section 5307 funds by state. 2002 and 2003 based on guaranteed funding estimates. 2004 based on 2003 remaining constant.

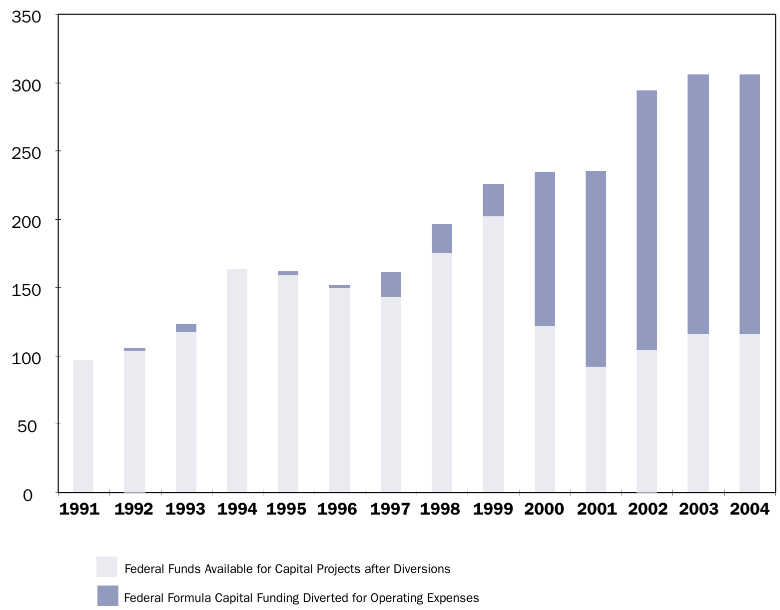
Diversions to Operating Maintenance

While the 1998 passage of TEA-21 by the U.S. Congress eliminated operating assistance for transit agencies, Congress correspondingly eased the use of formula capital funds for some expenditures previously and traditionally classified as operating expenses. Specifically, Congress authorized the use of federal capital funds for "associated capital maintenance" in Section 5307 and for "preventive maintenance" in Section 5309. These two categories of operating maintenance essentially include all maintenance expenditures that had historically been covered under transit agencies' operating budgets. This new eligible expense provides transit agencies, such as NJ Transit, with the opportunity to divert formula capital funds from Sections 5307 and 5309 Fixed Guideway to pay for expenses that had previously been paid for from operating budgets.

As Figure 7 shows, the sum of federal formula funds available to NJ Transit for the federal fiscal years 1991 through 2004 shows an upward trend with a low of approximately $100 million in 1991 growing to an estimated $259 million in 2003. (The portion of federal Section 5307 funding available to NJ Transit for operating expenses prior to enactment of the TEA-21 legislation in 1998 has been excluded from the capital funding calculation for the figure.)

Figure 8 demonstrates that, beginning in federal FY 2000, NJ Transit substantially increased its use of federal formula funds for maintenance operating expenditures, to $113 million. These increases correspond to previous and concurrent reductions in state General Funds for transit operations and the growth of NJ Transit's shortfall between earned operating revenues and expenses. (See Figures 3, 4 and 5.) NJ Transit again

Figure 8
Total federal formula capital funds available to NJ Transit for preservation of the existing system and the portion diverted by the agency to operating expenses 1991-2004
(in current dollars)



Sources: See Figure 7; Federal funds used for operating maintenance expenses from NJ Transit private correspondence.

substantially raised, to $143 million in 2001, the amount of federal capital formula funds annually diverted to operating maintenance expenses. See Figure 8. This corresponded to the $46 million reduction in TTF funds for state fiscal year 2001 that could be diverted for that purpose. Another increase in FFY 2002 to $190 million raises the portion of federal formula funds diverted to operating maintenance to almost 75 percent.

Note that this study assumes, and Figure 8 illustrates, that the diversion of federal formula funds for operating expenses will continue at approximately the same rate of $190 million in FFYs 2003 and 2004. NJ Transit's recent report indicates its staff has a consistent expectation.

Effect of Diversion of Capital Funds to Cover Operating Expenses

Despite this 10-year growth in capital funding, the growing diversion of these capital funds to cover the agency's operating deficit has effectively reduced the balance available for capital asset preservation, replacement and improvement. Figure 9 compares the combined capital funds available to NJ Transit from federal formula programs and the State of New Jersey (upper line) with the balance of those capital funds remaining after diversions to maintenance operating expenses (lower line). The figure further shows that the total diversion of capital funding to operating maintenance expenditures increased three-fold in 10 years, to nearly $200 million annually in FY 2001. In 1992, $64 million, or 18 percent, of the combined federal formula and state capital funding was diverted from capital projects to operating maintenance expenditures. Ten years later in the current fiscal year (2002), NJ Transit plans to divert $236 million, or 35 percent, of the funds intended for system preservation. The percentage diverted will rise to 38 percent in FY 2003. This acceleration of the diversion of capital funds to operations parallels the increase in NJ Transit's operating deficit after 1998, as shown in Figure 3.

This technique of diverting federal formula capital funds to cover an operating budget shortfall is outside the purview of most state government policy-makers, because the state Legislature's understandable focus on funding NJ Transit's operating budget concentrates on minimizing the impact to the state General Fund. Faced with declining operating appropriations from the state Legislature as shown in Figure 4 and growing operating deficits as shown in Figure 3, NJ Transit has been forced to resort to this back-door method of diverting federal formula capital funding to operating maintenance and closing its long-term and growing operating budget shortfall.

Comparison With Other Large Transit Agencies

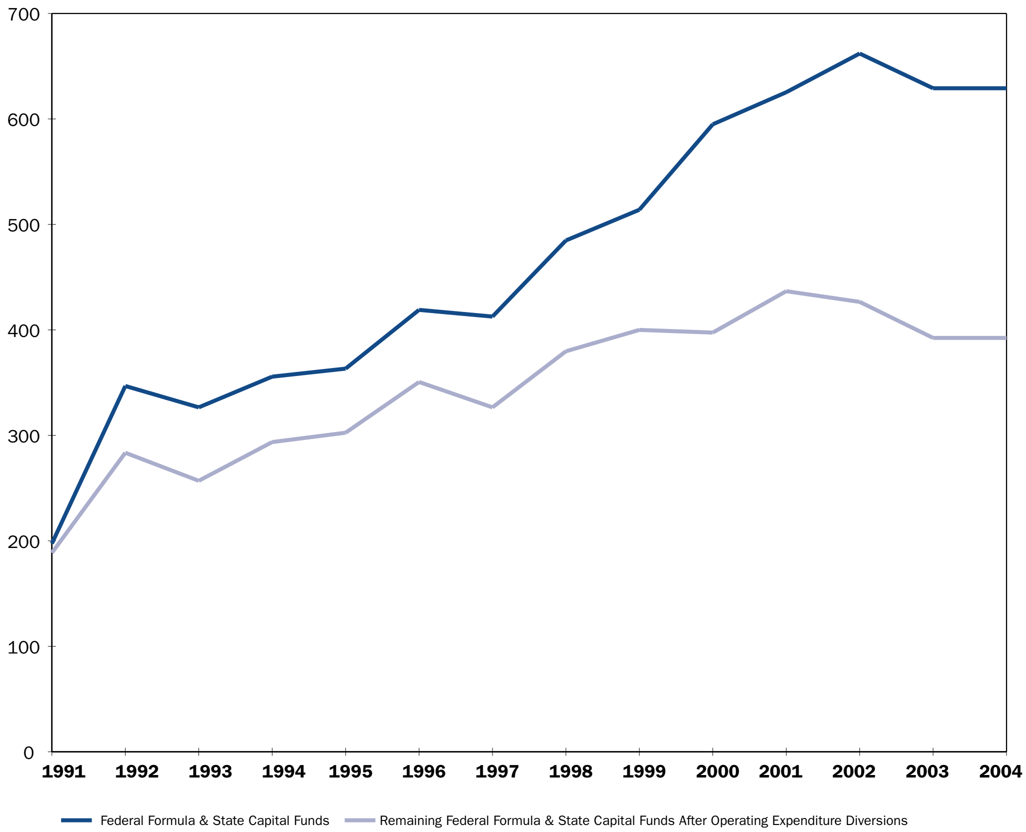
NJ Transit is far from the mainstream in terms of its diversion of federal formula funds from their intended purpose of capital asset preservation. A standard for judging NJ Transit's conduct in the diversion of federal formula capital funds is to compare its actions against those of its peer regional transit agencies throughout the United states. If the diversion of federal formula capital funds to operations were commonplace among transit agencies of similar size, NJ Transit's diversion might not be of much concern. This is not the case. Data collected from the Federal Transit Administration for the year 2000 show that NJ Transit's use of federal Section 5307 formula capital funds for maintenance expenses exceeded that of all but one of eight other large transit agencies. Even more important, NJ Transit stood out as the most financially stressed agency with the greatest propensity to use these funds to fund shortfalls in the operating deficit, while leaving pressing system preservation capital needs unfunded.

In most cases NJ Transit far exceeded other agencies in this practice. Figure 10 shows that, except for the Metropolitan Atlanta Regional Transportation Authority (MARTA) (at 90.2 percent diversion), only the Los Angeles County Metropolitan Transportation Authority (LACMTA) (at 56.6 percent) is even close to NJ Transit (61.7 percent) in the percentage of federal 5307 funds diverted to operating maintenance expenses. In comparison, the major transit agencies in Philadelphia (Southeast Pennsylvania Transportation Authority), Seattle (King County Metro), and Boston (Massachusetts Bay Transportation Authority) diverted 36.9, 26.5 and 8.3 percent, respectively, of their 5307 formula funds to operating maintenance expenses. In Chicago (Chicago Transit Authority), Houston (Harris County Metropolitan Transportation Authority), San Francisco (Bay Area Rapid Transit) and Dallas (Dallas Area Rapid Transit) absolutely no federal formula funds were diverted to operating maintenance.

Only two transit agencies diverted 5309 Fixed Guideway formula funds for preventive maintenance expenses in 2000. NJ Transit diverted the larger proportion, at 19 percent of its 5309 formula funds. The Los Angeles County MTA (LACMTA) diverted only 8 percent.

MARTA's heavy use of Section 5307 formula funds appears to be related more to the availability to MARTA of funds in this category because competing uses for capital preservation are not strong. This may be true at MARTA because of the relative newness of its fixed guideway system (requiring less capital preservation) and continued reliance on federal

Figure 9
Total federal formula and state capital funding available to NJ Transit for system preservation and amount remaining after diversions for maintenance operating expenses 1991-2004 with 2003 and 2004 estimates based on holding constant the 2002 diversion value
(in current dollars)



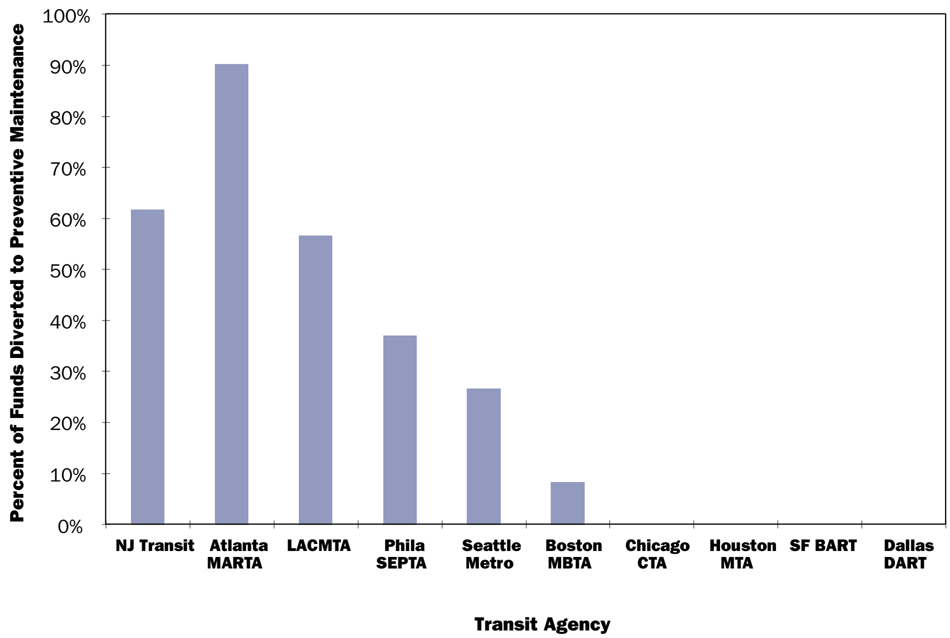
Source: See Figures 6, 7 and 8.

Section 5309 New Start funding to finance rolling stock purchases. At LACMTA, the diversion of Sections 5307 and 5309 Fixed Guideway funds to maintenance expenses is related to a consent decree under which the agency must increase funding for bus operations and decrease expenditures on new start rail projects. This occurred after years of intense capital spending on rail capital projects. One way for LACMTA to increase funding for bus operations is to use Section 5307 funds for operating maintenance expenses.

Increased Use of Debt Financing

A second threat to funding for system preservation is the extent to which NJ Transit has committed Section 5307 formula funds for the next 15 years to pay the debt service on rolling stock purchases. This debt service has been so substantial that NJ Transit's financial rating agency has imposed a cap of $125 million for NJ Transit's use of formula funds for this purpose. The cap has virtually been reached. Thus, NJ Transit has essentially no capacity for additional

Figure 10
Percentage of urbanized area federal formula transit capital funding available for system preservation but diverted to operating expenses at 10 transit agencies including NJ Transit in 2000



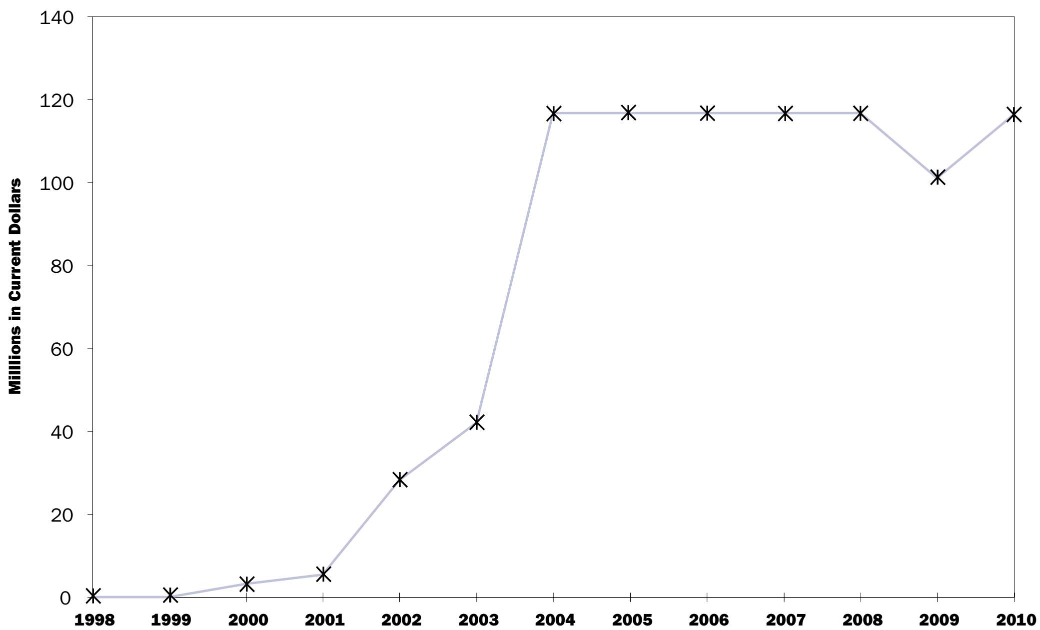
Source: Federal Transit Administration Regional Offices

borrowing from Section 5307 funds, except in the increasingly unlikely event that there is a dramatic increase in the amount of funds provided by the federal government under the program. Meanwhile, NJ Transit confronts the imminent need for about $700 million in replacement and expansion rolling stock, as described below.

Prior to 1999, NJ Transit rarely borrowed funds to finance the cyclical purchase or overhaul of rolling stock, such as rail cars, locomotives or new transit buses. Instead, it purchased more rolling stock on a pay-as-you-go basis from funds available in current fiscal year budgets. The cyclical nature of these purchases stems from NJ Transit's origin. In the late 1970s and early 1980s, about the time NJ Transit was created, a large amount of replacement rolling stock was acquired to replace an aged fleet. Periodically thereafter, NJ Transit must replace large blocks of rolling stock as vehicles reach the end of their useful life. Useful life and replacement schedules are known long in advance, and financial planning is required to prepare for these periods when larger-than-average purchases are necessary. In recent years, NJ Transit has not had sufficient capital resources available to make these necessary acquisitions on a pay-as-you-go basis, in part because of diversion of capital funding to operating maintenance expenses.

Instead, NJ Transit embarked on an extensive practice of issuing Certificates of Participation (COPs) to fund the purchase of rolling stock. A COP is a form of borrowing and requires an interest payment in addition to principal. Since 1999, NJ Transit has issued COPs to help purchase 200 rail cars, more than 40 locomotives, 500 transit buses and 1,244 cruiser buses. NJ Transit has compounded its COPs borrowing by

Figure 11
Annual amounts needed 1998-2010 by NJ Transit for debt service to repay principal and "interest" on funds recently borrowed for rolling stock acquisitions in the form of Certificates of Participation and bonds (in current dollars).



Source: NJ Transit

deferring the initial payments and adding them to the amount borrowed (capitalizing them). This increases the debt burden for future years. All of this debt has been pledged against a substantial portion of the federal Section 5307 formula revenue stream anticipated through 2016 and has resulted in NJ Transit's financial rating agency effectively precluding additional COPs to be paid from this revenue stream.

Repaying these borrowed funds plus interest will consume a sizable portion of available federal formula capital for years to come. As Figure 11 shows, the expenses related to debt service on the COPs issued to finance the acquisition of rolling stock will begin to consume funds available for capital preservation in FY 2002 ($28.2 million) and 2003 ($42 million). These financial commitments will jump to $111 million annually by 2004, remain in excess of $100 million annually through 2012 (although the debt service is only $96 million in 2009), and then taper off through 2016.

Additionally, NJ Transit has executed another COP of $5.5 million through 2014 to pay for the replacement of 53-year-old rolling stock in the Newark City Subway. This is to be paid from the TTF. Thus, the total annual debt service on rolling stock serving existing systems will amount to $116 million from 2004 through 2012. (See Figure 11.)

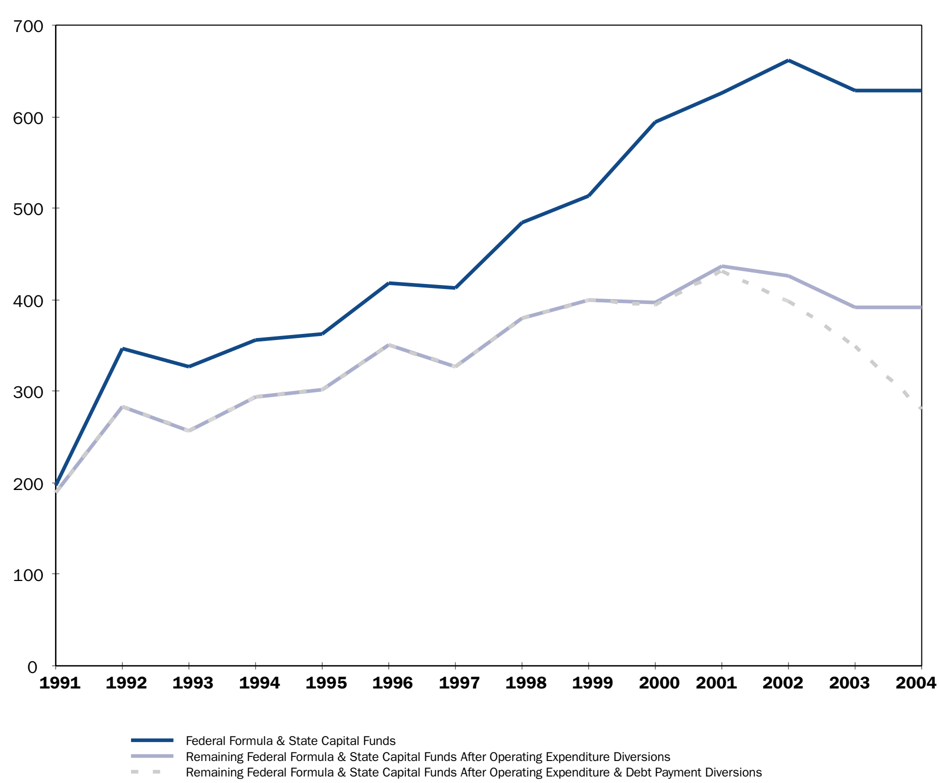
As Figure 12 illustrates for 2004, the cumulative amount of capital funds available for preservation of capital after accounting for diversions to operating maintenance expenses and rolling stock debt service shrinks from above $600 million to approximately $280 million. The figure shows the capital funds available to NJ Transit from federal formula programs and the state of New Jersey (on the top line of the figure) through 2004. The figure also shows the amount of those capital funds remaining after diversion of some of those funds to pay for operating maintenance expenses (on the first line below the top line of the figure). Finally, the figure shows the amount of those capital funds remaining after diversions for annual payments of the debt incurred for recent rolling stock COPs, including the Newark City Subway COPs (on the dashed line of the figure). Between diversions to operating maintenance expenses and debt service on rolling stock puchases, more than half of the federal formula and state capital funding will be unavailable for system preservation in 2004.

Just around the corner is another wave of substantial and costly rolling stock acquisitions for replacement and fleet expansion to meet increased ridership. These rolling stock needs total more than $700 million and include:

- 230 bi-level rail cars estimated at more than $500 million,
- 46 multi-level rail cars to replace Clocker equipment estimated at $100 million, and
- Transit and cruiser buses estimated at $100 million.

NJ Transit will probably have to rely on pay-as-you-go financing with its attendant demands on the TTF and the General Fund for these capital expenditures. Some $250 million had been

Figure 12
Total federal formula and State capital funding available to NJ Transit for system preservation and amount remaining after diversions for operating expenses, and repayment of debt 1991- 2004
(in current dollars)



Source: See Figures 6, 7, 8 and 11.

expected from the Port Authority of New York and New Jersey for these purposes, but confirmation of that commitment must be awaited in light of the September 11, 2001, events.

Financing of New Start Rail Projects

The third threat to funding for system preservation is the extent to which NJ Transit has committed federal formula and TTF funds to pay for an ambitious program to construct new rail systems in areas not currently served by rail (new starts). The agency is currently advancing four major new rail projects simultaneously (including two segments of the Hudson Bergen Light Rail Line), while a dozen others are in various stages of planning. The financing of such an ambitious program of new start rail projects requires substantial financial resources. In a case such as this, where an agency already has a sizable existing (and old) system, an inherent risk in undertaking a large new start agenda is that financing of the new systems can compete with and undermine the sound funding of the existing system's preservation, replacement and improvement.

NJ Transit's funding of these new starts has taken three main forms so far. The first and foremost is from the discretionary federal New Start program in Section 5309 of the Federal Transit Act. This source does not directly compete with federal formula funding. For Section 5309 New Start funds, NJ Transit competes with other transit agencies throughout the nation for their congressional earmarking or administrative allocation. It is generally believed that this source has financed all of NJ Transit's new rail starts. A second source of funding for NJ Transit new starts has been Section 5307 funds, whose main purpose is to finance capital asset preservation, replacement and improvement projects. The third source is the state's Transportation Trust Fund (TTF), which can be used for pay-as-you-go capital payments or to cover the principal and interest for borrowed funds, or to make lease payments. A fourth rather minor source has been funds from the Port Authority of New York and New Jersey.

As will be shown below, the use of federal formula Section 5307 and TTF funds for new start rail projects further diminishes NJ Transit's ability to fund preservation of the existing system adequately. The method for financing new starts using preservation capital funds breaks down into two categories. The first is borrowing through issuance of bonds and payment of the debt service from these sources. This now represents $77 million in annual costs paid by the TTF for debt service. These obligations will last into the next decade.

The most significant borrowing for a new start has been employed for the Southern New Jersey Light Rail Transit System (SNJLRT). This is a 34-mile, 20-station light rail transit project that will link Camden to Trenton and connect riders to the larger transportation networks of NJ Transit, Amtrak, PATCO and SEPTA. NJ Transit expects to repay the Economic Development Authority (EDA) from the TTF for the bonds EDA issued to finance the South Jersey Light Rail Transit project. The amount budgeted is $48 million annually until 2018. The total cost, including interest, is expected to approach $1 billion.

On two other occasions debt obligations have been incurred to permit NJ Transit to acquire light rail vehicles for new starts. COPs were issued for the acquisition of Hudson Bergen Light Rail Line Minimum Operating Segment 1 (HBLR MOS-1) light rail vehicles. This added $10 million annually until 2014 to the debt service that must be paid from the TTF's capital preservation funding. Later, the EDA issued bonds to finance the purchase of rolling stock for HBLR MOS-2. The debt service, which runs through 2010, adds an additional $19.4 million to the annual diversion of TTF funds from capital preservation.

The second method by which capital preservation funds have been used for new starts is through direct allocations of these funds for project development and construction. Table 1 demonstrates the respective use of federal new start, federal formula (Section 5307) and TTF funds for these projects. Putting aside the Southern New Jersey Light Rail Line project, some $293 million will have been diverted from federal formula funds meant for capital preservation and $686 million from the TTF, also intended primarily for capital preservation.

There are several major projects that account for this diversion. The most advanced is the HBLR MOS-1. This first segment of the planned 20.5-mile light rail system is a 9.6-mile section running from the Hoboken Terminal through Jersey City to both West Side Avenue in Jersey City and 34th Street in northern Bayonne. Most of this segment is in operation. The total cost of this project is expected to be $835 million, with $604 million provided by the federal Section 5309 New Starts program, $115 million from federal 5307 formula funds and $116 million from state TTF funds. (See Table 1.) Thus, an additional $231 million has been set aside from federal formula and TTF for this purpose. As noted above, the light rail vehicles were purchased through a separate issuance of COPs. The second HBLR segment (MOS-2) is still in the engineering stages. It is a 6.2-mile segment extending the system north from the Hoboken Terminal to the Port Imperial Ferry Station in Weehawken and the Tonnelle Avenue park-and-ride facility in North Bergen. This project will also extend the HBLR south from 34th Street in Bayonne to 22nd Street. The total cost of this project is expected to be $1.215 billion, with $500 million provided by the federal Section 5309 New Starts program, $154 million from federal 5307 formula funds, $530 million from state TTF funds, and $31 million from the Port Authority and utility reimbursements. Thus, an additional $684 million has been diverted from federal formula and TTF funds for system preservation for this project between 1999 and 2006.

Another of the new rail projects currently being advanced is the one-mile Newark Rail Link Minimum Operating Segment 1 (NERL MOS-1). This project will extend the existing 4.3 mile Newark City Subway from Newark Penn Station to the North Broad Street station of the Morris & Essex Line. The total cost of this project is expected to be $208 million, with $142 million provided by the federal Section 5309 New Starts program, $24 million from federal 5307 formula funds, $40 million from state TTF funds, and $1 million from Port Authority of NY & NJ funds.

Table 1
New Start Rail Project Costs for Projects
Currently Under Construction or in Engineering at NJ Transit
(in millions of dollars)

Project	Federal New Start Section 5309	Federal Formula Section 5307	state	Other	Total
HBLR MOS-1	$604	$115	$116		$835
HBLR MOS-2	$500	$154	$530	$31	$1,215
NERL MOS-1	$142	$24	$40	$1	$208
SNJLRT			$1,000		$1,000

As noted earlier, new start rail projects, in addition to the diversion of capital funds intended for system preservation, have a second impact on NJ Transit's finances. Once the construction of a new rail project is completed, there is a need to fund its annual operations. The next governor and the state Legislature will have to deal with the additional operating deficit created by the operation of these new rail projects.

The use of state TTF and federal formula 5307 funds to pay for new starts has further eroded the availability of capital funds for projects to preserve the existing transit system. NJ Transit's use of federal formula Section 5307 funds and the TTF for new start financing from 1996 to 2004 is depicted in Figure 13. In FYs 2002 and 2003, approximately 30 percent of all capital preservation funds are diverted to pay for new starts, either in the form of debt service or direct allocations. The debt service obligations described above require $77 million annually as of 2003. Figure 13 shows that, during FY 2001, of the capital funds available to NJ Transit from federal formula programs and the state of New Jersey, $441 million was diverted to new start rail projects, including a major commitment to HBLR MOS-2.

The prospects for substantial increased diversions of capital preservation funding in 2004 and beyond is alarming. Currently there are 12 major new rail projects in planning, several of which are in the advanced stages of planning.

These new start rail projects in planning include:

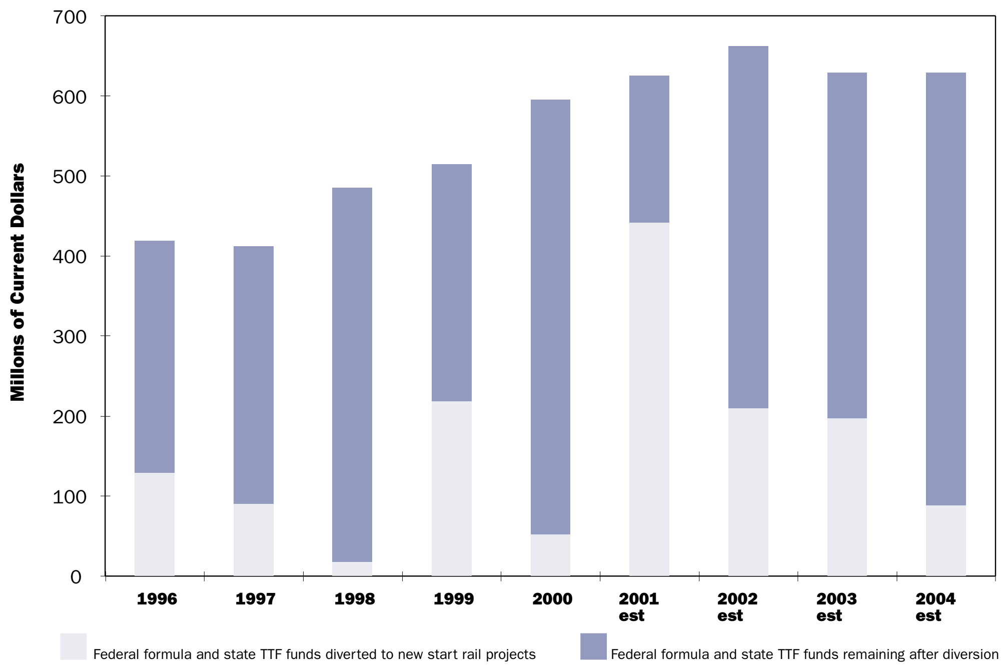
- Hudson Bergen Light Rail - MOS 3
- Newark Elizabeth Rail Link (Elizabeth Section)
- Monmouth Ocean Middlesex Rail Line
- West Trenton Rail Restoration
- Extension of South Jersey Light Rail to downtown Trenton
- New York, Susquehanna and Western Rail Restoration
- West Shore Commuter Rail Restoration (including spur to Sports Complex)
- Northern Branch (Bergen County) Light Rail
- Cross-County (Bergen/Passaic) Light Rail
- Greater New Brunswick Area Light Rail/Bus Rapid Transit
- Lackawanna Cutoff
- Access to the Region's Core (New Hudson River Tunnel)

Combined, these projects carry a price tag of approximately $10 billion. The Access to the Region's Core project is the natural outgrowth of demand for commuter rail service to New York stemming from increases in ridership and new rail line access to the Northeast Corridor. This project will likely cost $4 billion to $6 billion. The other 11 projects may carry a total price tag as high as $4 billion. Without either vast new sources of funding or restraint in the implementation of these projects, the rate of diversion could become uncontrollable for many years to come.

Conclusions

NJ Transit's financial condition is precarious and a funding crisis is looming. The budget for operation and preservation of the existing transit system is being starved. Funding for operations is inadequate and has only been sustained by diversion of capital funding needed for preservation of the existing transit system. This practice imperils quality operations in the future. Furthermore, the dearth of funding for preservation has resulted in extensive borrowing for essential preservation projects, which then diverts funds from necessary preservation to repayment of the borrowed funds. Finally, funding for preservation of the existing system is being diverted to expand the rail network, thus reducing the financial capacity to preserve the existing system now and for more than the next decade. In addition, the new components of the rail network will create substantial additional

Figure 13
Total federal formula capital and state Transportation Trust Fund funding available to NJ Transit for system preservation and amount diverted to new start rail projects 1996-2004 (in current dollars)



Sources: Federal formula funds from statistical summaries, metropolitan and state Transportation Improvement Programs (TIP), and NJ Transit. State TTF from the Annual Budget Appropriations Handbook: 1996-1999 expended information; 2000 adjusted appropriations information; 2001 requested appropriations column. Future years from NJ Transit New Start data from the NJTPA status report, STIP 2000, the final 2001TIPs for NJTPA & DVRPC, and information provided by NJ Transit.

demands on the operating budget, which is already highly inadequate.

This situation involves more stress between objectives and resources than that experienced by the northeast railroads 25 years ago. Those freight railroads were contracting rather than expanding their systems.

In FYs 2002, 2003 and 2004 there is between $629 million and $660 million available annually for preservation, replacement and improvement of the existing transit system. Some 70 percent of this funding (more than $400 million annually) will be diverted to other purposes. See also Table 2 for detail on FY 2004. Figure 14 illustrates that the dramatic reduction of capital funds available for system preservation, replacement and improvement will be dire through at least 2004. In the figure, the upper line depicts the capital funds available to NJ Transit from federal formula programs and the state of New Jersey for system preservation. The figure also shows, on respectively lower lines, the amount of those capital funds remaining after diversions to pay for maintenance operating expenses, repayment of borrowing for rolling stock acquisitions and new start rail projects.

Last year, NJ Transit staff publicly acknowledged that there were substantial shortfalls on two fronts - in both its projected operating and capital budgets. For the 2001-2005 period, NJ Transit staff estimated that an additional $1.5 billion are needed beyond projected capital resources to preserve the existing system and maintain a state of good repair, as well as fund new rail projects for which commitments have already been made. This represents a $300 million annual funding shortfall and does not account for additional new rail projects currently under study. Recent NJ Transit estimates issued in "NJ Transit's Call to Action: An Investment for the Future" raise the shortfall to $335 million annually. Had financial policies retained preservation capital for its intended purpose, and these diversions not become ingrained, the capital funding available would be sufficient to preserve the existing system.

The staff of the transit agency also warned in 2000 that the second front in its budget problems was that NJ Transit would be facing an annual operating budget shortfall of $135 million during the same five-year period. The most recent NJ Transit staff estimate puts the shortfall at $544 million over four years. This, however, does not count the $236 million annually expected to be diverted from the capital budget to cover the operating budget shortfall. These estimates do take into account the fact that the agency's current portfolio of new rail projects and improvements comes on line by 2006 with the projection that they will add $82 million to the agency's current annual operating deficit.

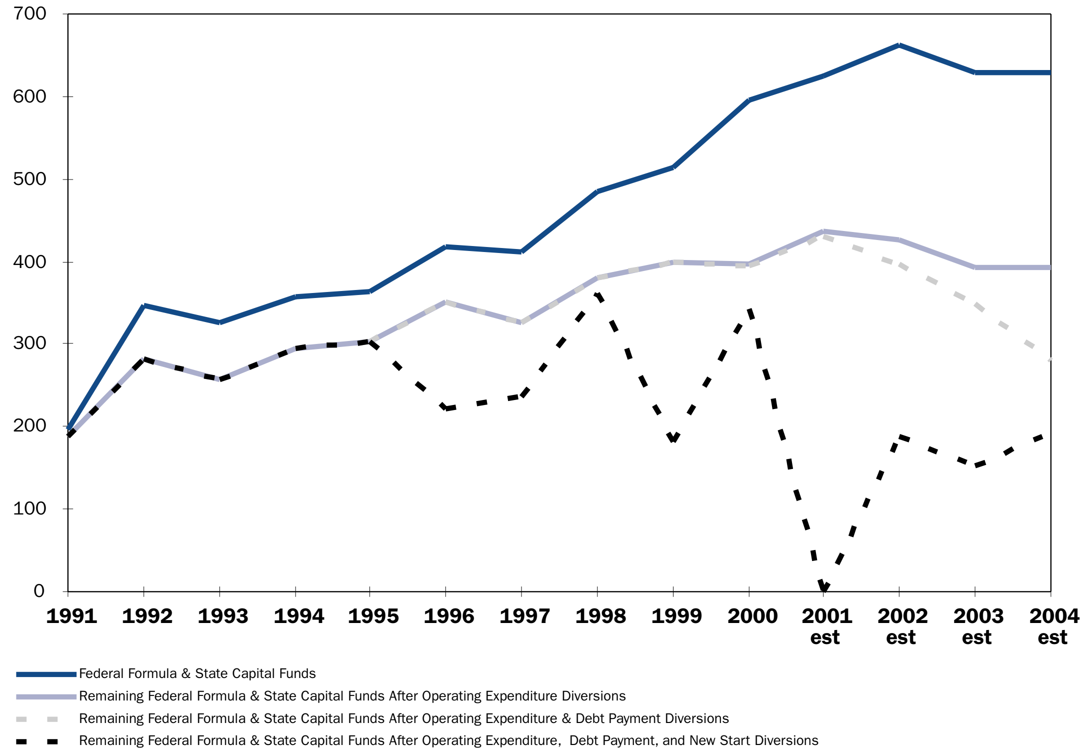
These shortfalls are not a simple financial rut from which NJ Transit can escape with ease. Instead, the inter-related financial policies currently in force are cumulatively leading to a steep cliff where there will be grossly inadequate resources to support pressing needs. Current financial policies promote false expectations among policy-makers that both NJ Transit's growing claim on the General Fund can be permanently evaded and fares do not ever have to be raised. As Table 3 shows, almost $200 million of existing annual capital obligations cannot be discontinued, because they have been converted into legal obligations to repay debt already incurred. It should be noted that NJ Transit is legally prohibited from incurring debt except for Grant Anticipation Notes. Nonetheless, mechanisms have been found to circumvent this prohibition. For example, the state's Economic Development Agency has issued bonds on NJ Transit's behalf with the promise of repayment by NJ Transit.

Furthermore, state government policy-makers have become accustomed to avoiding genuine steps to close NJ Transit's continuing and rapidly growing annual operating budget shortfall. The practice of using diversions of capital from the TTF and federal formula funds has become ingrained. These diversions of large amounts of federal formula preservation capital to pay for operating expenses are out of the mainstream of other peer agencies surveyed. While capital is being diverted to operating expenses, large capital sums are needed to purchase rolling stock on a pay-as-you-go basis to replace aged vehicles and accommodate increased ridership, overhaul aged rail and movable bridges, and keep the system's aging infrastructure in a state of good repair.

Long-standing political commitments to fund particular new start rail projects threaten to further overextend NJ Transit's already precarious financial resources. Contrary to popular belief, commitments to new rail starts displace capital funds meant for preservation of existing assets. In turn, these projects generate new and substantial operating deficits for which there has been no funding commitment.

Commitments to new starts must be made with extreme care and the agency's strategic needs must be borne in mind. The inadequacy of the resources available for system preservation pales compared to the $10 billion price tag associated with the 12 new start rail projects that are in various stages of planning at NJ Transit. The agency's existing overextension of commitments to more than $3 billion of new rail projects currently under construction or in engineering

Figure 14
Total federal formula and state capital funding available to NJ Transit for system preservation and amount remaining after diversions for operating expenses, repayment of borrowing for rolling stock acquisitions, and new start rail projects 1991-2004
(in current dollars)



Source: See Figures 6, 7, 8, 11 and 13.

could be dwarfed by commitments, fueled by strong political and public expectations, to the implementation of these 12 additional projects. The promotion of a provocative map titled "2020 Transit: Possibilities for the Future," containing approximately 20 new start rail project ideas, has whetted the public's appetite. New start proponents, with backing in the state Legislature, are predictably lodging new demands for even more precious capital and operating funds. In any event, unbridled continuation of an ambitious new start agenda could swamp NJ Transit's already precarious financial condition and leave no capacity for strategically vital improvements such as expanding the capacity of the Northeast Corridor rail line, including the construction of a new tunnel into midtown Manhattan.

Perilous Future

As we look to the future, a continuation of recent funding practices and levels is particularly perilous for three reasons. First, resources for the operating budget will be under greater competitive pressure within the state's General Fund, particularly if economic growth lags in the early part of this decade.

Second, the next TTF renewal (from which most of the state's transit capital funds originate) in 2004 hardly looks promising for lifting the agency onto sounder financial footing. Simple renewals at current levels will grossly under-fund NJ Transit's needs. Whatever funding is provided will be burdened by large debt service obligations and

Table 2
Estimated Diversions by NJ Transit of Federal Formula and State TTF Funds from System Preservation in 2004
(in millions of dollars)

Diversion	Amount
Diversion to Operating Maintenance Expenses	$236
Diversion to Rolling Stock Debt Service*	$116
Diversion to New Start Rail Projects	$89
Total Diversions	**$441**
Total Federal Formula and state TTF Before Diversions	$629
Total Federal Formula and state TTF After Diversions	$189

Table 3
2004 Annual Debt Service on NJ Transit's Outstanding Rolling Stock & SNJLRT Debt
(in millions of dollars)

Project	Annual Debt Service	Year of Last Payment
Replacement & Expansion Rolling Stock	$116	$2012*
Southern New Jersey Light Rail	$48	$2018
Hudson Bergen Light Rail MOS-1 Rollling Stock	$10	$2014
Hudson Bergen Light Rail MOS-2 Rolling Stock	$19	$2010

*The annual debt service is $116 million (see Figure 11) through 2012, with the exception of a $101 million amount in 2009. After 2012 the debt service tapers off through 2016.

the stubborn practice of diverting money from the capital budget. Simple renewal, as opposed to major increases in available funding, will entail more political risk than in the past, because the economy and a stressed General Fund will not likely permit new bonding to be supported by another large dedication of existing tax sources. Thus, simple renewal will probably require voter approval at referendum of a major increase in taxes and their dedication.

Third, the enactment by Congress of the 10-year tax cut, the sluggish economy and reduced federal tax revenues may depress future federal authorization and appropriation levels for the federal transit formula and discretionary programs. Recent political trends toward fiscal stimulus may point toward increased funding levels. NJ Transit staff assumptions about stepped increases of their programs' funding levels must be monitored and re-evaluated.

NJ Transit has attempted to achieve too many objectives with too few resources. With the funding made available to it, NJ Transit has been directed to overextend itself: to operate too many daily services, to construct and then operate too many new rail projects, and to simultaneously meet a plethora of federal and state mandates. A near doubling of operations funding is required to end the diversion of preservation capital to the operating budget. Increases in fares would reduce the amount of additional funding needed from the state Legislature.

On the capital side, preservation of the existing system needs to be fully funded, including the more than $700 million needed for rolling stock acquisitions. Direct funding of these rolling stock acquisitions, as opposed to financing, will keep this amount from ballooning to the substantially higher amounts needed to finance such acquisitions over time. Direct funding will avoid further mortgaging of the future. Critical infrastructure renewal projects, such as the movable rail bridges, must be covered. Costs of new start rail projects must not be permitted to reduce the funding available for projects needed to preserve the existing system.

Breakdown of Institutional Accountability

This financial morass raises questions of budgetary transparency and institutional accountability concerning NJ Transit's affairs. The fact that this study was undertaken is testament to the difficulty for the press, government analysts and the state Legislature in synthesizing the cumulative impact of financial policies in a complex budgetary framework. A number of reasons account for the lack of close and incisive public scrutiny of NJ Transit's budget. Rising ridership threw stewards off guard that a financial crisis was brewing. Some of the policies that have contributed to the impending crisis have been popular: no fare increases for 10 years; minimizing the amount of funding for operations drawn from the state's General Fund; timely acquisition of rolling stock to replace aging vehicles and meet demand; and advancement of new light rail starts. NJ Transit has managed to avoid public ire by operating reasonably reliable services by using the diverted capital funds to maintain day-to-day operations.

Financial problems can also be obscured because the financial framework of NJ Transit is complex and different observers have specific interests and might not see the whole unless it is clearly presented to them. The public generally has difficulty comprehending the mathematics of deficit operations where rising ridership doesn't necessarily mean less need for operating assistance. Few government policy-makers understand the workings of the Transportation Trust Fund, the roles and sufficiency of various federal capital funding categories, and the actual financing of new start rail projects. Even more obscure is the fluid relationship between NJ Transit's operating budget and capital funding. State legislators, for example, may concentrate on limiting the operating budget's effect on the state's General Fund or on diversions from the TTF. This may cause them to overlook the budget's effect on federal formula capital funds. Advocacy of a particular new start may blind proponents to the overextension these projects can impose upon both the capital and operating budgets.

In the process by which NJ Transit's policies are set, accountability has become elusive. Political expediency can obscure the straight story about the agency's finances. The law creating NJ Transit invests in the seven-member Board of Directors the responsibility to guide the agency's finances. Four of the Board members are citizens who are supposed to be independent. The other three members are from the state administration (the Commissioner of Transportation, the state Treasurer, and one other person selected by the governor from staff). The independent citizens are supposed to provide a check-and-balance on government policy. As the years have passed since NJ Transit's early days when open debates frequently occurred on the Board, the Board's independence of judgment and action on the agency's financial affairs has diminished.

In reality, key budgetary decisions have increasingly been made under the cloak of the executive branch between NJ Transit staff, its Board, the state Treasurer and, ultimately, the governor. When one experienced Board member dissented on the vote to adopt NJ Transit's FY 2000 budget, his action was treated as an aberration. Based on NJ Transit's very limited authority to issue debt, observers are surprised by the amount of debt it has incurred and how it has been achieved. Yet the agency, with the complicity of state government, has embarked on debt issuance for capital projects, soon amounting to $193 million in annual debt service.

A critical factor is that no other institution functions effectively as a watchdog over these breakdowns in responsible financial practices. The New Jersey Commission on Capital Budgeting and Planning, which was formed to monitor the state's capital spending practices and where alerts to impending budget problems could be issued, no longer plays a vigorous independent watchdog role. The Office of Legislative Services follows the budget in detail, but is not asked by the state Legislature to synthesize its inter-connected elements. These elements include the operating and capital budgets, the use of federal funding, the husbanding of capital for system preservation, and the effect of new starts on the operating budget. Without any public institution translating the many interrelated actions and policies into a coherent cumulative analysis, the press is handicapped. The absence of accountability for financial integrity underscores how remarkable was the May 2000 staff report to the NJ Transit Board of Directors that identified substantial shortfalls in both the capital and operating budgets for the period 2001-05, assuming no additional new rail projects.

Recommendations

Since NJ Transit's financial woes are like a war being fought on two fronts - operations and capital funding - they must be addressed simultaneously. At a minimum, inadequate funding of the operating budget, a root cause of NJ Transit's financial woes, must be addressed from the state's General Fund. Just as important, NJ Transit must be allowed to husband its available capital funding for the preservation, replacement and improvement of the existing system. Continued distraction from these priorities will so hamstring the agency that it will become immobilized.

The NJ Transit Board, with the support of the new gubernatorial administration and the state Legislature, must immerse themselves in the worrisome consequences of recent financial policies of NJ Transit. It must examine current financial policies and resource allocations, current funding trends, and both short-term and long-term capital needs. It should place a moratorium on commitments to new start rail projects. Finally, it should give new direction to the agency, the governor and the state Legislature that matches objectives with resources and restores its financial integrity.

Operating Deficit

The NJ Transit Board, with the support of the next gubernatorial administration and the state Legislature, must confront the root cause of NJ Transit's financial imbalance. That root cause is the growing gulf between NJ Transit's total operating expenses and its revenues, which are derived from a combination of earned operating revenue and state operating aid. This involves a reassessment of the proper level of public assistance to NJ Transit from the state's General Fund. This is essential because the practice of diverting both Transportation Trust Fund and federal formula capital funds to operating expenses must be sharply reduced or discontinued as soon as possible. This alone will require additional funding from the state's General Fund and fares of $236 million per year, an increase of more than 90 percent over the current appropriation.

The NJ Transit Board must complete a thorough financial reassessment. It should examine the effect of mandates, low-yielding policy services, and increased operating costs of $82 million annually within five years attributable to rail improvements and new rail lines. The NJ Transit Board should also evaluate the proper role of fare increases (avoided for 10 years) in sharing the burden of meeting the net operating deficit. If fares were increased by 10 percent and no ridership were lost, the hike would net about $50 million. Thus, although fare increases alone cannot be expected to fill the operating funding gap, they can shoulder a portion of the load.

To the extent that there is a failure of resources and will, whereby additional operating funding is not provided from a combination of General Fund and fare increases, the diversion of system preservation capital funding will necessarily expand to meet growing operating deficits. As a result, the capital available for urgent preservation, replacement and improvement projects for the existing system will further diminish to the point of disappearing. Expenditures for system preservation will come to a virtual halt, putting the reliability, success and acceptance of the existing system at increased risk.

Capital Funding Policy

The NJ Transit Board, with the support of the new gubernatorial administration and the state Legislature, should undertake a thorough reassessment of its capital program objectives and resources. They must collectively find ways to fund the projects imperative for the agency to carry out its basic mission. These include acquiring an enormous amount of new rolling stock required for reliable and less crowded services, and maintaining its infrastructure in a state of good repair, especially the aging movable rail bridges. They must also cure the habit of hobbling critical funding streams for system preservation with long-term debt obligations. They must address overextending resources to an overly ambitious new start rail program. Significant changes must be considered in NJ Transit's capital budgeting:

1. The practice of using federal formula and TTF capital funds for operating expenditures must be eliminated. This may have to occur through a gradual phase-out of the practice. These funds must be applied to their intended use: preservation, replacement and improvement of the existing system.

2. System preservation, replacement and improvement needs should be carefully reviewed and prioritized. High priority should be attached to state of-good-repair improvements, projects to improve the existing rail system, necessary rolling stock acquisitions, and major infrastructure renewal projects, such as the movable rail bridges. Consideration should be given to rescheduling capital commitments to ongoing new start rail projects to restore funds for system preservation, replacement and improvement.

3. Financial planning for future rolling stock purchases should assume that these purchases will be financed on a pay-as-you-go basis. Consideration should be given to the feasibility of stretching out some of these outlays if not urgently needed, as well as the work planned for the movable rail bridges.

4. A moratorium on commitments to new rail starts should be declared until fiscal integrity is restored to NJ Transit's operating and capital budgets, and these new commitments can be absorbed appropriately in future capital and operating budgets.

5. A public process should be established by the NJ Transit Board to review all of the candidate new start rail projects, develop a strategic framework for advancing the new projects, set objective criteria for their comparison, and prioritize their implementation as resources become available. Commitments to new rail projects should be made with a simultaneous assurance of the annual funding necessary to operate them.

6. The next gubernatorial administration should centralize the planning for the renewal of the federal transit authorization legislation, TEA-21, in close concert with New Jersey's congressional delegation. All parties should recognize that evolving conditions in the federal budget might not permit much increase in federal support for transit system preservation. Earmarks for new start rail projects should be sought where they are consistent with the NJ Transit Board's priorities and assessment of financial realities. In that vein, new start rail projects should be pursued virtually exclusively through the federal Section 5309 discretionary grant program (using statutory soft match from authority tolls).

7. Once the NJ Transit Board completes an initial reassessment of financial strategy, planning should commence for the next renewal of the Transportation Trust Fund, which must occur before July 1, 2004. This planning should be conducted by the next gubernatorial administration in close concert with the NJ Transit Board and staff and the state Legislature. This planning will probably be conducted against the sobering reality of a lean General Fund, substantial additional capital needs for system preservation, urgent capacity needs, strategic new starts that address added capacity, and the need to raise new tax revenues to support a sound program.

Institutional Accountability Review

The breakdown of institutional accountability that permitted NJ Transit's financial morass to occur highlights the failure of the check-and-balance system that the framers of the NJ Transit legislation had in mind. Central to that system are the four independent citizens on the Board of Directors. During NJ Transit's first decade, open debates between independent Board members on fiscal issues occurred frequently. That practice has all but disappeared. The entity of NJ Transit would benefit from restored and permanent independence of its Board of Directors. The receding role of the New Jersey Commission on Capital Budgeting and Planning in this check-and-balance scheme must also be examined.

The next governor should appoint a blue ribbon citizen's commission to examine the process by which NJ Transit's operating and capital budget policies have been set. It should recommend changes that could increase and protect the Board's independence, make the agency's budgetary process and its outcomes more transparent to the public, and re-establish checks and balances outside the cloak of the executive branch.

Attachment 1

Definitions

ASSOCIATED CAPITAL MAINTENANCE ITEMS (CHAPTER 53 OF TITLE 49, SECTION 5309):

The term “associated capital maintenance items” means equipment, tires, tubes, and material, each costing at least .5 percent of the current fair market value of rolling stock comparable to the rolling stock for which the equipment, tires, tubes, and materials are to be used.

PREVENTIVE MAINTENANCE (CHAPTER 53 OF TITLE 49, SECTION 5302 (DEFINITION OF CAPITAL PROJECT); FURTHER DEFINED IN THE NATIONAL TRANSIT DATABASE MANUAL):

Preventive maintenance costs are defined as all maintenance costs. It is an eligible cost for all Federal Transit Administration grant programs that have a capital component including Section 5307 (Urbanized Area Formula Grants), Section 5309 (Capital Investment Grants and Loans), Section 5310 (Formula Grants for Special Needs of Elderly Individuals and Individuals with Disabilities), and Section 5311 (Formula Grants for Other than Urbanized Areas). The federal share of these costs is 80% of net project costs.

The National Transit Database reporting manual further defines eligible maintenance costs as follows:

Preventive maintenance costs are defined as all maintenance costs, i.e., function 041 - vehicle maintenance and function 042 - non-vehicle maintenance.

Vehicle maintenance (041): All activities associated with revenue and non-revenue (service) vehicle maintenance, including administration, inspection and maintenance, and servicing (cleaning, fueling, etc.) vehicles. In addition, vehicle maintenance includes repairs due to vandalism and accident repairs of revenue vehicles.

Non-vehicle maintenance (042): All activities associated with facility maintenance, including:

- administration;
- repair of buildings, grounds and equipment as a result of accidents and vandalism;
- operation of electric power facilities; and,
- maintenance of vehicle movement control systems; fare collection and counting equipment; structures, tunnels and subways; roadway and track; passenger stations, operating station buildings, grounds and equipment; communication systems; general administration buildings, grounds and equipment; and electric power facilities.

PERMITTED MAINTENANCE (NJ TRANSPORTATION TRUST FUND: SECTION 3 OF P.L. 1984 AS AMENDED JULY 2000):

Permitted Maintenance means, in relation to public transportation projects, direct costs of work necessary for preserving or maintaining the useful life of public transportation projects, provided the work performed is associated with the acquisition, installation and rehabilitation of components which are not included in the normal operating maintenance of equipment and facilities or replaced on a scheduled basis. The work shall ensure the useful life of the project for not less than five years and shall not include routine maintenance or inspection of equipment and facilities that is conducted on a scheduled basis.

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