Taking Bold Action on Transportation Will Give New Jersey’s Economy a Firm Foundation for the Future

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In order for its economy to remain competitive, New Jersey needs a state-of-the-art transportation network and must be willing to make the investments this requires. With the funding needed to restore this essential but deteriorating lifeline about tapped out, policymakers must act with urgency to reverse a steady decline. After years of avoiding this problem – settling at best for temporary, inadequate measures – New Jersey needs bold action to fix its transportation system.

To maintain and improve the state’s roads, bridges and mass transit systems, as well as to begin projects critical to our future, New Jersey should increase funding for the state Transportation Trust Fund – which has stagnated for a decade – by 25 percent for the next 10 years, up to $20 billion over the decade from $16 billion. To do so, the most sensible option is to extend the state’s 7 percent sales tax to gasoline. Based on current gas prices of approximately $3.50 per gallon, the imposition of the sales tax would be the equivalent of a 24.5-cent-per-gallon increase.

This would not only help put the Transportation Trust Fund on solid footing, but it would also prevent the resources generated from the present gas tax from losing their purchasing power over time, jeopardizing the very transportation system the money is supposed to preserve.

Currently, New Jersey imposes a total 14.5-cent-per-gallon tax on gasoline (17.5 cents for diesel), comprised of a 10.5-cent-per-gallon motor fuels tax that has not been increased since 1988 and a 4-cent Petroleum Products Gross Receipts tax enacted in 1990. Only Alaska (8 cents) has a lower tax than New Jersey, and the average total state gas tax is 31.5 cents per gallon (the average state per-gallon tax is 24 cents per gallon). Pennsylvania’s current total gas tax is 41.8 cents, New York’s is 49.9 cents and Delaware’s is 23 cents.¹

New Jersey policymakers have not increased the overall tax on gasoline in nearly 25 years; as a result the tax’s value as it relates to the price of gas has dropped.² In 1989, the 10.5-cent tax was about 10 percent of the $1.12 price per gallon; in 1991 the 14.5-cent total tax was approximately 13 percent of the $1.14 price per gallon. Today, the 14.5-cent tax is just 4.14 percent of the current $3.50 price per gallon.
Due to increased consumption helped by a population increase of 1.2 million people, revenue from the per-gallon motor fuels tax has increased since 1989, but not anywhere near the pace of inflation. New Jersey expects to collect $541 million from the tax in the 2015 budget, up by just $124 million (or 30 percent) from 1989. Had the revenue kept pace only with inflation, New Jersey could expect approximately $795 million from the tax in 2015—an increase of 91 percent. Meanwhile, this revenue has actually decreased over the past decade and will likely continue to slip, as New Jerseyans drive less and drive more fuel-efficient vehicles.

When discussing funding for transportation infrastructure, an increase in the state’s 14.5-cent-per-gallon gas tax is the most commonly discussed option. In order to generate the $1 billion to $1.5 billion in annual revenue required to support a 10-year $20 billion program, the gas tax would need to be raised by at least 20 cents—if not by as much as 30 cents.

While increasing the per-gallon tax is a reasonable option, past history has shown that this method is totally dependent on consumption—which is likely to continue to decrease as cars continue to achieve higher gas mileage (average mileage has decreased by 20 percent in just the last five years).
Instead of increasing the gas tax with a per-gallon hike of 20 cents or more, this new 10-year plan should be funded by extending a sales or excise tax to the retail price of gasoline, as NJPP has long recommended. Sixteen states and the District of Columbia currently have this type of tax, which grows as prices increase and decreases as prices drop, tying it automatically to inflation and making it less likely than the per-gallon tax to lose its value over time (two states – Florida and Massachusetts – have a per-gallon gas tax that automatically rises with inflation). Based on the current average gas price of about $3.50 per gallon, a 7 percent sales tax would generate over $1.2 billion a year and would be the equivalent of a 24.5-cent increase in the gas tax.

Taxes on consumption, like the gas tax, are generally regressive, meaning that low-income families usually pay more of their income in these taxes than higher-income families. This means that any tax increase needed to pay for vital infrastructure improvements will end up making New Jersey’s overall tax system more regressive. In order to offset this change, these fuel tax changes should be accompanied by a policy or policies that would mitigate the impact, such as expanding low-income tax credits like the state Earned Income Tax (EITC) or enacting a new low-income tax credit specifically designed to offset this gas tax increase.

There is no simplistic way to track the consequences of a sales tax applied to gasoline purchases, particularly for low-income families. New Jersey could grant a single tax credit of $100 to all EITC filers, based on rough assumptions of 10,000 miles driven per year at 25 miles per gallon and a 25-cent increase in the overall tax. While this credit would also apply to EITC filers who do not drive and aren’t affected by the gas tax increase, these transit-riders have borne the brunt of five NJ Transit fare increases since the gas tax was last increased and deserve to share in the
relief. Such a credit would have the benefit of relatively simple administration and would help a large segment of New Jersey’s working poor (about 500,000 families).

**One of the State’s Greatest Assets Faces Real Threats**

One of New Jersey’s most valuable economic assets is its location in the middle of the world’s largest market, with convenient access to New York and Philadelphia. People are drawn to the diversity of its residential communities with excellent public schools. Add access to frequent rail and bus service to New York and Philadelphia, and families pay a premium for their housing. A sound transportation system also allows businesses to move their goods efficiently and helps facilitate the region’s important tourism industry.

New Jersey is also the most densely populated state by a wide margin – with more people, cars and trucks per square mile than any state. Some congestion is a given in New Jersey. But current policies that ignore the need to maintain the network risk tipping the balance too far away from mobility.

It takes a lot of resources to maintain, improve and expand New Jersey’s transportation networks, and the state has clearly fallen behind by not properly tending to these important assets. Two-thirds of New Jersey’s roads are of poor or mediocre quality and 36 percent of the state’s bridges are either structurally deficient or functionally obsolete, according to the American Society of Civil Engineers, which estimates that the average New Jersey driver pays $601 per year in added repair costs. And rail service, particularly into and out of New York City, is fragile and prone to delays, as it relies on two Hudson River tunnels operating at more than full capacity. Had the ARC tunnel project to provide an additional rail tunnel between New Jersey and New York City not been aborted in 2010, NJ Transit’s access to Manhattan during peak travel hours would have eventually more than doubled (from 20 to 44 trains).

Meanwhile, the state’s mechanism for paying for infrastructure – the Transportation Trust Fund – is about tapped out and will need replenishing next year. The Fund is endangered by the confluence of four factors:

- The current five-year spending plan will run out of money in the middle of next year, not the year after as scheduled (making it a four-year spending plan in reality).

- The over $1.8 billion in Port Authority payments to the Fund, originally authorized for the cancelled ARC tunnel, expire this year.

- With the Fund’s ability to borrow money exhausted, no more money can be borrowed for new projects.

- Almost all of the annual revenue now destined for the Fund – $1.26 billion – is taken up by paying off existing debt, now and until 2041.
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The premature expiration of the five-year plan is an opportunity to expand the conversation beyond five-year plans and “Band-Aid” financing and instead to focus on a long-term solution. This conversation is crucial to New Jersey’s future and should begin now. It should not await the administration’s proposal due sometime in “early 2015.” This conversation should begin with a longer-term perspective on New Jersey’s transportation needs, including issues like relieving congestion bottlenecks; repairing deficient and unsafe bridges; and ensuring the future of rail service to New York City and along the Northeast corridor.

The second big question for this conversation is how to pay for part one. The legislature and all interested parties should join with the administration in a careful review of options and financing opportunities.

By facing up to these challenges New Jersey can enact a bold financing program next year to increase annual spending on transportation commensurate with growing needs, while expanding the horizon of spending considerations beyond five years.

Insufficient Maintenance and Inadequate Investment

New Jersey’s densely clustered transportation infrastructure includes nearly 50,000 miles of roadways, close to 7,000 bridges and a large, busy mass transit system, NJ Transit, which has the nation’s third-most-traveled commuter rail system, the fourth-most-traveled bus system and ninth-most-traveled light rail system.

This extensive network is vital to the state’s economic future, as numerous reports, commissions, evaluations and academic studies have shown over the years. Amidst the tables, graphs and statistical summaries, there is absolutely no dispute that New Jersey’s transportation network suffers from insufficient maintenance and inadequate investment.

Take this passage from 2003’s bipartisan Blue Ribbon Commission report to the governor and legislature:

Many of New Jersey’s roads, rails and bridges (highway and rail) are significantly deteriorated. Growth and development patterns continue to saturate both highway and transit capacity. Delays erode the quality of life of New Jersey residents and cost the state’s economy, which relies heavily on the movement of over $7 billion in goods and services annually. … If the state’s current infrastructure is not rehabilitated, these costs will continue to rise. Heavy traffic and delays experienced by New Jersey residents will continue indefinitely and the roads, bridges, and public transportation that are getting worse will be even more expensive to fix in the future. (emphasis added)
The Commission went on to highlight that New Jersey’s inadequate approach to addressing well-documented transportation needs endangers both the state’s economic competitiveness (who wants to bring a business to a state where traffic jams are a daily ordeal?) and its eligibility for crucial federal funding. The only way to avoid the recurrence of the 2003 crisis, the Commission found, was to provide the Transportation Trust Fund with more reliable funding – from a source required by law to be spent in this manner and in a way that would keep up with inflation. The Commission recommended a gas tax increase of 12.5 to 15 cents per gallon; a requirement that the money go to transportation and not to other state needs; and increases in NJ Transit fares (that had at the time not gone up in 12 years).9

As had happened in the past, the advice about secure and steady financing was ignored (except for the fare hike for public transit). Another opportunity to reverse the deterioration in one of the state’s prime assets was lost. Instead, the fiction that essential investment can be achieved without finding ways to pay for it was continued. A 15-cent-per-gallon tax increase in 2003 would have produced approximately $7.5 billion over 10 years, stabilized the Fund and reversed the decline.

Ten years later, a study by the bipartisan group Facing Our Future came to a similar conclusion about the steady deterioration of our transportation system, as well as the need for prompt attention and a more reliable source of funding. The total bill for urgently needed investment just to maintain a condition of “good repair” was $21.3 billion. Its report echoed that of the Blue Ribbon Commission:

Transportation infrastructure investment requires consistency to encourage economic competitiveness. Suppliers need to move goods on efficient roads and rails. Retailers need access for customers. Employers, and their employees, need access to roads and transportation networks that are safe, efficient and reliable. Without a serious and comprehensive review of transportation needs, New Jersey cannot plan for the necessary investment.10

Like the Blue Ribbon Commission, Facing Our Future recommended increased taxes as essential, calling for an unspecified increase in the gas tax, the consideration of including an excise or sales tax on gas, or some combination of the two.

The Trust Fund is About Tapped Out

The Transportation Trust Fund was established in 1984 to create a stable source of support for transportation needs in New Jersey. Instead of relying on uncertain revenue sources that could vary each year – like annual state appropriations or federal grants for specific projects – the Fund distributes revenues smoothly over a longer term to allow better planning of major road and transit projects. The Fund is supposed to use guaranteed revenues, like constitutionally-dedicated portions of the state gas and sales taxes and federal approvals of multi-year projects, to borrow longer-term, assuring that an approved project can be financed through completion. The projects
have been paid for with a combination of bond proceeds and pay-as-you-go funding, but over the years the latter has decreased to virtually nothing since the entire dedicated revenue stream is now paying for previously issued bonds. In other words, *no money is available for new projects without new funding*.

Transportation Trust Fund projects are approved and scheduled through an annual capital planning process that involves the NJDOT and the four regional transportation planning organizations established under federal law. However, the plan is based on how much money is *expected to be available* rather than the state’s actual *needs*. Moreover, the latest version of the NJDOT’s 2013-2022 Statewide Capital Investment Strategy continues the practice of diverting capital funds for maintenance activities formerly included in the state budget, makes no allowance for inflation and optimistically assumes no decline in federal funding.

Since the Transportation Trust Fund’s establishment 30 years ago, New Jersey’s transportation needs have greatly increased due to the growth in the state’s population and workforce and the continued aging of the state’s transportation infrastructure. As a result, the Fund has been expanded to increase the amount of revenue dedicated, the size of the annual spending program and the amount and length of debt. Still, even with the absolute increase in budget appropriations, the Fund’s share of the overall state spending plan has remained close to flat: it is 3.5 percent this budget year, up from 2.5 percent in 1985.

![Graph showing the increase in New Jersey's transportation appropriations](image)

Other than a 1988 gas tax increase, most of the Fund’s additional funding has come from the growth of existing revenues and the diversion of money from other state commitments – very little has come from new sources. One exception was a 2000 constitutional amendment approved
by voters that phased in approximately $445 million in new annual revenue for the Fund: at least $200 million from the petroleum products gross receipts, at least $200 million from sales tax collected on automobile purchases and about $45 million in existing gas tax revenue.

Over the Fund’s first 28 years, over $15 billion in state revenues have been used to pay for projects as well as to pay off more than $15 billion in interest and principal on bonds that have been issued to also fund project costs. Total spending for transportation projects has been over $60 billion when state and federal funding is combined.

**Kicking the Can Down the Road After 2008 Plan Stalls**

The past two administrations have kept the Transportation Trust Fund functioning by shifting money from the general budget and significantly increasing overall debt, thereby reducing the ability to pay for projects as they are undertaken and taking money away from other essential state services.

During the first year of its tenure, the Corzine administration needed to renew the Fund. It initially increased the allowable length of bonds to be issued to 30 years from 20 – reducing annual debt service costs – and allotted about $75 million in undedicated gas tax revenue to the Transportation Trust Fund. This move was intended to be a stopgap until a longer-term financing solution could be developed, but that proposed solution was derailed not long after it was unveiled.

Early in 2008, Gov. Corzine proposed creating a “public benefit corporation” to operate the state’s tolls roads, the New Jersey Turnpike and Garden State Parkway. New Jersey would have used the upfront payment (and future payments) from a for-profit corporation to fund transportation projects and other infrastructure needs while putting money into the state’s underfunded pension system and paying off debt. The plan, which included significant toll increases of 800 percent over 30 years, never picked up steam and withered on the vine.

Without the toll-road plan, the changes made in 2006 that were originally meant as a stopgap measure were the only method of funding transportation projects – particularly after the recession hit in the fall of 2008 and decimated state revenues. While these changes allowed the Fund to remain solvent for five years without a tax increase and with only a minimal impact on annual state budgets, they were certainly not a long-term fix. By the time the Corzine administration’s five-year plan was completed in 2011, almost all of the $895 million in constitutionally dedicated revenue was needed just to pay the principal and interest on borrowing through 2041.
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The Christie administration faced a challenge: how to propose a five-year financing plan when all of revenue flowing into the Transportation Trust Fund was paying off debt. Like Gov. Corzine, Gov. Christie refused to consider a gas tax increase as a solution to that challenge. Instead, he opted to cancel the ARC tunnel and forced the Port Authority to allocate the entire $1.8 billion that it had pledged to the tunnel construction to other New Jersey transportation projects, including the rebuilding of the Pulaski Skyway, the Route 7 Wittppen Bridge and new road projects on a pay-as-you-go basis. He also secured $1.25 billion from the New Jersey Turnpike Authority, agreeing to a toll increase to help make that payment. Over the same time, the state budget appropriation was increased by almost $300 million to cover the rising debt service payments.

What would have happened if either the Corzine or Christie administrations, or both, had chosen to increase the gas tax? The Transportation Trust Fund would not be in peril, as it now is. The amount of money borrowed would be less and far less of the current dedicated revenue would be committed to paying off debt. And the ARC tunnel project might be under construction, employing thousands of workers and promising improved access to New York City.

The failure of the past two administrations over the past eight years to acknowledge and act on the depletion of the Transportation Trust Fund has brought it to its present condition of near bankruptcy: no money for ongoing projects, no authority to issue additional bonds and the expiration of bailout funding from the Port Authority and the Turnpike Authority.

More than two-thirds of the Fund’s total bond issues – $13 billion of $19.1 billion – were issued in just the last 11 years. It is only the persistence of uncommonly low interest rates over the same period that has allowed for refinancing of the Fund’s debt to keep overall debt service costs from growing even faster. Pay-as-you-go financing has been nearly eliminated, dropping to a mere 2.5 percent of all projects financed during the current administration. Going forward this number will be zero percent unless additional revenues are enacted. The “free lunch” era is over.

With transportation, there always is the challenge of finding the right mix between paying for ongoing work through existing funds and borrowing money over the long term. By and large, borrowing is prudent (which is why most homeowners take out mortgages to buy their homes).
Transportation projects have a long useful life, so it is appropriate for those who benefit in the future to share in the costs by helping to repay the bonds. But there also is a risk of pushing off so much of the cost into the future that it places pressure on future state budgets and squeezes out vital needs for other programs. Just as relying entirely on pay-as-you-go funding isn’t a good idea, neither is the almost total reliance on bonding by the Corzine and Christie administrations a sustainable practice.

**Paving the Way Towards the Future**

New Jersey needs to put $20 billion in state funding towards the next 10-year period of transportation projects. This would be an average of $2 billion per year, a 25 percent increase over the $1.6 billion in state funds that have been provided over the last 10 years. If federal funding stays approximately the same as in past years, the $20 billion in state dollars would likely be complemented with close to $20 billion from the federal government, providing approximately $40 billion for transportation infrastructure over the next decade.

A $2 billion average annual state program will cost between $1 billion and $1.5 billion a year, depending on how the increased program is phased in as well as the program funding balance between bonds and pay-as-you-go financing. The funding needs will also be impacted by future borrowing costs; if the historically low interest rates of the last 20 years increase, the amount of revenue needed to support a $2 billion average program would increase.

It is clear that existing revenue growth or reallocating spending from other services and programs in the state’s operating budget cannot come close to meeting New Jersey’s needs. The fact is undeniable that New Jersey’s transportation system needs more money – and it has to come from some place that doesn’t mean shortchanging other important needs.

Over the past few months, Assembly Speaker Prieto has publicly supported raising the gas tax to fund future transportation needs. Senator Lesniak has introduced legislation to raise the per-gallon gas tax by 5 cents each year for three years for a total 15-cent increase that would generate about $750 million a year once fully phased in. Many business groups and newspaper editorials have supported raising the gas tax, marking the first time in many years a broad consensus is emerging around a tax increase.

This increasing support reflects the growing recognition that avoiding the reality confronting New Jersey’s transportation assets is no longer an option. Politically appealing pledges of “no new taxes” are simply not as important as restoring our roads, bridges and public transit to a state of “good repair.” Presidents Reagan and George H. W. Bush, not to mention Pennsylvania Gov. Corbett, all acted in the public interest and increased taxes when conditions demanded it (despite campaign pledges not to increase taxes).

Congestion, potholed highways, unsafe bridges and aging buses and trains will harm the state’s ability to attract and hold well-paying jobs. It’s clear New Jersey’s conditions demand action. Will the state’s leaders rise to the occasion?
Endnotes


2 New Jersey’s gas tax was created in 1927 and was increased seven times between 1930 and 1985; since then it has only been increased twice.


5 Federal Transportation Administration and NJ Transit, Final Environmental Impact Statement for the Access to the Region’s Core (ARC) Project

6 While regional, national and bi-state public transportation systems like the PATH, PATCO, SEPTA and Amtrak operate in New Jersey, they are not included in this paper as they receive all or some of their funding from entities other than the state of New Jersey.


9 Ibid 6