Invest in New Jersey: Improve Our Roads and Bridges

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Congestion, Potholes and New Jersey’s Economic Future

Fixing New Jersey’s crumbling roads and bridges is vital to energizing the state’s lagging recovery from the Great Recession. Without a sound transportation system that allows businesses to cheaply and efficiently move their goods to market and eases the commute of working men and women, New Jersey’s economy will continue to trail its neighbors. Rather than contemplating a massive new tax cut, state policymakers should invest in this key to our state’s future.

We have a lot of ground to make up: The average commute in New Jersey is 20 percent longer than the national average. The American Society of Civil Engineers gives New Jersey a “D” for the quality of its roads and bridges. It estimates that the 66 percent of roads in “poor or mediocre” condition cost the average driver $601 in added repairs annually. Thirty-six percent of the state’s 6,554 bridges were categorized as “structurally deficient” (651 bridges, or 10 percent) or “functionally obsolete” (1,717 bridges, or 26 percent).¹ And while New Jersey remains a vital connection for truck traffic between Washington and Boston, our interstate highways and local roads are straining under the load.
If New Jersey is to rebound from the ravages of the Great Recession, it must exploit its enormous advantages: its proximity to New York and Philadelphia; scores of pleasant and vibrant communities with convenient transit to the cities and excellent public schools; two globally recognized research universities; and a workforce with a higher proportion of scientists, engineers and researchers than any other state. Instead of advertising these powerful attractions, the state has in recent years cancelled a new rail tunnel to New York; attacked the quality of its own public schools; underfunded its colleges and universities; and failed to protect and maintain its investments in roads, bridges and public transit.

To begin turning things around with the transportation system:

- The state needs to invest $21.3 billion in the next five years, $7.5 billion more than current financing can provide. These are the investments required just to maintain existing roads and bridges, not to expand them or build new roads.²

- Policymakers should modestly boost the state’s gas tax, which is the third lowest in the nation and has not been raised since 1988.

- Counties and municipalities need to invest $514 million per year between 2014 and 2018, which is $300 million more than is available from current sources.³

The gap between the state’s plans and the needs of county and local governments for roads and bridges and the revenues available is over $2 billion per year. That is very close to the $1.6 billion that proposed tax cuts would cost New Jersey in the fourth year and every year thereafter if phased in as proposed.

As New Jersey lags the nation in economic recovery and new jobs, its political leadership has pretended that the state is rolling along and that the only issue to be decided is who will cut our taxes the most. They hardly ever utter the word “investment.” Yet evidence abounds that years of neglect and under-investment in our roads, schools and other assets are major reasons for the state’s slow recovery.

Tax cut supporters insist they can find the funds to phase in a permanent tax cut that will cost $1.6 billion a year. Assuming that the money can be found, the state’s economy and residents would benefit much more by using it to invest in modernizing and improving the safety of our highways and bridges. This is the second brief on how better to invest those funds; the first focused on higher education, another will focus on high-quality preschool.

While using funds from the state’s annual operating budget for long-term capital projects violates a widely accepted financial principle – that the costs of building things like roads should be spread among all those who will benefit from them over decades – the operating funds could fill an urgent need to jumpstart the modernization of New Jersey’s transportation system and supplement the long-term funding of existing transportation projects.
The Need to Modernize New Jersey’s Road System is Indisputable

The investment required to bring New Jersey’s transportation system up to speed is very large – much larger than the resources now available. Just getting roads and bridges up to speed would cost billions of dollars, never mind improving public transit, preventing damage from the next Superstorm Sandy or modernizing the facilities at public colleges and universities. Moreover, the primary source of funding non-toll roads and bridges – the Transportation Trust Fund (TTF) – is a complicated mix of revenue sources and spending targets that obscures the urgency of the task.

A study by the bipartisan group Facing Our Future documents the case for making essential investments urgently and promptly in electric power, water systems, rail transportation and highways. The total bill is close to $70 billion, with $21.3 billion of that for transportation.

New Jersey will generate approximately $5.3 billion of the $7.5 billion it needs between 2014 and 2018 by using the federal and state tax revenues already dedicated to the TTF. Over eight years, the state could invest $10 billion to address its crumbling roads and bridges. Projects that are currently scheduled for future years could be put on a fast track, allowing them to be funded at lower costs and providing much-needed jobs to help the state’s economy.

Using scarce revenues in this manner would also help local property taxpayers. The Transportation Trust Fund currently provides $200 million each year to support county and municipal road construction, which relieves local property taxpayers of these costs. If an additional $10 billion were available over the next eight years, this funding for local projects should be at least doubled, providing further relief to property taxpayers while giving them safer, smoother roads and ensuring that all of New Jersey’s roads and bridges benefit from the state’s investment.

Investing $10 billion in cash over the eight-year period will also save future taxpayers $4 billion to $5 billion in interest costs compared to funding the same amount of work by issuing bonds.

Our Transportation Piggybank is Nearly Empty

The Transportation Trust Fund was established in 1984 and, conceptually, makes a lot of sense. Instead of relying on annual appropriations or federal grants for specific projects, with all the uncertainty and volatility of those sources, TTF’s purpose is to smooth out revenues so that long-term planning can guide major road and transit projects. It is supposed to use guaranteed revenues, like portions of the gas and sales taxes that are dedicated to transportation in the state Constitution, and federal approvals of multi-year projects, to borrow longer-term, assuring that an approved project can be financed through completion.

However, both state and federal policymakers can and do interfere with the TTF’s mission.
Even though TTF receives much of its money through revenues dedicated by law, the legislature has frequently diverted those taxes into the general fund. In addition, the demand for transportation improvements is outrunning revenue from even the constitutionally dedicated tax sources like the gasoline tax. People are buying more fuel-efficient cars, driving less and, therefore, buying less gas. The same trend has lowered funding from the federal gas tax.

Other decisions have also hurt the TTF. For example, the proposed ARC Tunnel to expand rail capacity to New York was cancelled in 2010, forcing the state to pay a significant penalty to contractors from the fund. In the same year, the governor put TTF on a “pay-as-you-go” plan rather than relying on the longer-term use of bonds as intended when it was established. Two years ago, state revenues were inadequate to make the scheduled $260 million payment, and the governor diverted the money to the general fund, leaving the $260 million to be paid for with bond proceeds. Meanwhile, the just-approved 2014 budget includes no “pay-as-you-go” funding for the TTF.

The combination of New Jersey’s woeful financial condition – its credit rating is now the third-worst in the country – and uncertainty about federal funding led Facing Our Future to highlight TTF’s bleak outlook:

> It is reasonable to assume that the future will bring constraints on federal government spending. This would significantly and negatively harm states, especially New Jersey. The result would be that New Jersey’s state and local governments would be forced to rely on their own funding to address infrastructure needs. New Jersey’s long-term systemic fiscal problems make this scenario improbable (emphasis added).  

The calm, neutral tone of the Facing Our Future report should not be confused for a lack of urgency.

New Jersey does not have the luxury of holding to the plodding, patchwork and financially irresponsible course it has pursued for two decades. Investment is required, not only to produce more and better-paying jobs and attract employers who are anxious to take advantage of New Jersey’s place in the center of the world’s largest market, but to provide its residents with a more efficient, less congested transportation system.

**Transportation Funding Can – and Should – Be More Reliable**

Unfortunately, many New Jersey policymakers appear to be adopting the same mentality that has blocked significant investment in transportation at the federal level.

They argue that tax cuts will pay for themselves with economic growth and that austerity is the best antidote to poor economic performance.

Most of the evidence from the real world demolishes the tax cut theory. For example, the last sustained period of economic growth in the 1990’s followed a tax increase. The growth resulted
in the first balanced budgets in 31 years and an improved standard of living for all income groups. By contrast, the tax cuts that followed in 2001 and 2003 produced a sharp run-up in the nation’s debt and the worst recession since the Great Depression.

As for calls for austerity, in the wake of the worldwide recession the European Union imposed drastic reductions in government spending at precisely at the time that most economists – conservative and liberal – were calling for more. The result has been double-digit unemployment rates in the Eurozone, with Spain and Greece topping the list at 27 percent.

Neither tax cuts nor austerity will work for New Jersey. A serious effort to begin fixing the state’s transportation system should include increasing the dedicated revenues available to the TTF by increasing the state’s gas tax, which is the third-lowest in the nation (and lowest in the Northeast). Even if the 14.5-cent-per-gallon tax\(^6\) were doubled, producing an additional $500 million or so in annual revenues, New Jersey’s rate would still be below the national average. A nickel-a-gallon increase would, if combined with the revenues diverted from the tax cut, close the gap between our transportation needs and what’s available in TTF funding over the next five years. A typical New Jersey driver of a car averaging 30 miles-per-gallon and driving 10,000 miles a year would pay just $16 more a year.

Some will argue that an increase in the gas tax is not possible politically. Certainly not in an election year, but apparently, not in any year – the base gas tax has not been increased since 1988\(^7\), which means the tax rate has fallen by 40 percent in the last two decades when inflation is taken into account.\(^8\)

Politicians fear the 30-second spot demonizing them for costing their constituents an extra 32 cents a week. But the problem is that no one is held politically responsible for the traffic delays, blown tires and bent wheels that cost New Jersey drivers an extra $600 a year. Most candidates will not even raise the issue of the steady deterioration in New Jersey’s competitive advantages and the economic harm being done by our dilapidated roads and bridges.
Endnotes

3 Council of New Jersey Grantmakers
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6 The base gas tax is 10.5 cents per gallon; there is then a 4 cent per gallon petroleum gross-receipts tax on top of that.
7 The 10.5 cents per gallon gas tax has not been increased since 1988. The 4 cent per gallon petroleum gross-receipts tax, however, was introduced in 1990.