ANALYSIS OF THE NEW JERSEY

FISCAL YEAR 2002 - 2003 BUDGET

DEPARTMENT OF TRANSPORTATION

PREPARED BY

OFFICE OF LEGISLATIVE SERVICES

NEW JERSEY LEGISLATURE

MAY 2002

NEW JERSEY STATE LEGISLATURE

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DEPARTMENT OF TRANSPORTATION

Budget Pages....... C-18 to 19, C-27, C-34, C-36, D-431 to 450, H-45

Fiscal Summary ($000)

	Expended FY 2001	Adjusted Appropriation FY 2002	Recommended FY 2003	Percent Change 2002-03
State Budgeted	$1,206,245	$1,242,238	$1,298,216	4.5%
Federal Funds	602,828	914,678	956,895	4.6%
Other	1,117,455	1,126,738	1,127,929	0.1%
Grand Total	$2,926,528	$3,283,654	$3,383,040	3.0%

Personnel Summary - Positions By Funding Source

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2002-03
State	4,301	4,288	4,407	2.8%
Federal	1,139	1,164	1,166	0.2%
Other	0	0	0	—
Total Positions	5,440	5,452	5,573	2.2%

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded. Personnel Summary excludes position data at the New Jersey Transit Corporation.

Introduction

The Department of Transportation (DOT) is responsible for managing the State's transportation system of highways and bridges, mass transit facilities, and general aviation airports. DOT also administers a rail-freight assistance program and has developed expertise in the area of intermodal and marine transportation. Further, the department provides financial aid to counties and municipalities for local transportation purposes. To support these various activities, the department relies on annual State appropriations, proceeds from previously authorized general obligation bond acts, the Transportation Trust Fund, the Casino Revenue Fund, the Airport Safety Fund, mass transit passenger fares, and federal monies.

As an additional responsibility, the Division of Motor Vehicles was transferred from the Department of Law and Public Safety to the department in 1995.

Introduction (Cont'd)

The State's mass transit facilities are the direct responsibility of the New Jersey Transit Corporation (NJT). Although the Commissioner of Transportation is the ex-officio chairperson of the corporation's seven-member governing board, the corporation functions independently of the department. NJT operates 12 rail lines, two light rail systems, and some 240 bus routes throughout the State, and estimates that its overall transit system will accommodate an average daily ridership of 395,000 people in FY 2003. In addition, NJT leases buses and bus-related equipment to private carriers at no cost, and administers a 24-hour half-fare subsidy program for senior citizens and disabled persons using public or private mass transit facilities. The corporation also assists counties with local county transit services for senior citizens and disabled persons. Further, to conform with federal requirements established by the Americans with Disabilities Act of 1990, the corporation provides additional transit services throughout the State for eligible, disabled riders.

Key Points

Transportation Trust Fund

- The Governor's Budget recommends a capital appropriation of $745 million to the Transportation Trust Fund (TTF) for FY 2003, an amount which is $114.5 million below the statutory minimum of $859.5 million established by the recent TTF reauthorization legislation, P.L.2000, c.73.

- The $745 million recommended to the TTF for FY 2003 includes only constitutionally dedicated revenues provided by motor fuel taxes ($405 million), the Petroleum Products Gross Receipts Tax ($200 million), and the Sales and Use Tax ($140 million). An additional $114.5 million in earmarked funding composed of: (1) $90 million in statutorily dedicated revenues to the TTF (motor vehicle registration surcharge fees - $60 million, and certain diesel fuel revenues and truck fees - $30 million); and (2) $24.5 million in toll road contributions dedicated to the TTF pursuant to contracts with the New Jersey Turnpike Authority ($22 million) and the South Jersey Transportation Authority ($2.5 million), will not be appropriated to the TTF. A comparable diversion of this $114.5 million also occurred in FY 2002.

- The budget message recommends a capital construction program appropriation of $1.1 billion financed from the TTF for FY 2003. This program amount exceeds by $150 million the statutory maximum of $950 million established by P.L.2000, c.73.

Highway Operations

- The budget message recommends that the Gateway Enhanced Maintenance Program receive about $8.61 million in FY 2003; the program appropriation for FY 2002 is $7.97 million. The amount for FY 2003 includes a reduction in the program's salary component of about $250,000 which is offset by almost $900,000 in additional expenses for materials and supplies, and for debt service costs for equipment purchases.

- Budget language which authorizes the appropriation of additional funds for snow removal is continued. However, the language would cap the additional amount for FY 2003 at $5.0 million whereas the current language for FY 2002 caps the amount at $3.0 million. Although the FY 2002 Adjusted Appropriation indicates a supplemental appropriation of $3.0 million for snow removal, this has not yet occurred. Further, the Office of

Key Points (Cont'd)

Management and Budget anticipates that given the relatively mild winter, the actual FY 2002 supplemental appropriation for snow removal would be less than $3.0 million.

- The recent March 2002 opening of the Route 29 tunnel and adjoining roadways in Trenton is estimated to require about $1.9 million in annual operating costs. Of this total, about $1.0 million would be allocated for materials and tunnel/roadway maintenance, and the remainder for personnel salaries.

Motor Vehicle Services

- An additional $63.6 million in new revenues is anticipated to be raised in FY 2003 by increasing or implementing fees associated with school bus re-inspections, driver license registration restoration, operating record abstracts, commercial truck registrations, boat registrations, and digitized driver's licenses .

- The appropriation for the Vehicle Inspection Program, which is responsible for the State's enhanced motor vehicle inspection program, would increase to $46.5 million from its FY 2002 adjusted appropriation amount of $27.3 million. The $19.2 million increase in State funds would offset the anticipated, partial reduction in federal funds that would occur in FY 2003 because the three-year cost sharing agreement with the Federal Highway Administration for the operation of this program, effective in December 1999, expires in December 2002. The increase for FY 2003 assumes a $6.8 million savings which is predicated on federal approval to exempt new cars from their first biennial inspection.

- Of the $7.257 million recommended for appropriation for Digitized Driver's License and Motor Vehicle Services Modernization, $6.5 million would be allocated for the Digitized Driver's License Program (DDL); this amount contrasts to the $1.5 million allocated to DDL in FY 2002. The amount for FY 2003 is for the administration of this new program, scheduled to begin implementation by January 1, 2003. However, recommended budget language would permit such sums as needed to be appropriated to continue the current photo license program, including the charging of fees, if the DDL is not implemented as currently scheduled.

- Budget language would permit revenues collected from the $6 fee for digitized pictures that are credited to the "Secure Driver's License Fund" and that are excess to the needs of the Digitized Driver's License and Motor Vehicle Services Modernization program to be appropriated for other Motor Vehicle Services purposes. Pursuant to section 15 of P.L.2001, c.391 (C.39:3-10f5), revenue credited to the fund but not appropriated for ensuring secure driver's license documents, such as digitized driver's license and the handling thereof, are to remain in the fund exclusively for those purposes.

- The appropriation for the Graduated Driver License Program would decrease to $1.25 million from the $1.75 million FY 2002 adjusted appropriation. The amount for FY 2003 would support regular, annual program operating costs and reflects the elimination of a one-time cost in FY 2002 for computer software related to driver testing.

- Budget language would permit monies appropriated for the Vehicle Inspection Program to be used to implement the on-board diagnostic test for vehicle emissions at private inspection facilities.

Program Description and Overview

Security Responsibility

- The budget message recommends a $4.5 million appropriation to develop a computer database to verify owners' and registrants' compliance with vehicle insurance requirements. In addition, recommended budget language would permit such additional sums as needed to be appropriated to implement the system. The establishment of an electronic data base concerning real-time information on private passenger automobile insurance is required pursuant to section 7 of P.L.1998, c.22 (C.17:33B-41).

New Jersey Transit Corporation

- The total recommended budget for New Jersey Transit is $1.280 billion, an overall increase of $117 million. To achieve that total amount, the corporation would receive a State subsidy of $260 million, the same amount as provided in FY 2002. Other revenue sources, e.g. passenger fares, the Casino Revenue Fund, and various federal and TTF resources, would contribute an estimated $546 million, $25 million, and $449 million, respectively, for a combined increase of $117 million.

- The major increases provide for: (1) additional bus and rail service on existing routes to reduce overcrowding and to accommodate the change in travel patterns that have resulted from the September 11, 2001 terrorist attack on the World Trade Center; (2) contractual labor agreements; and (3) new rail service related to the Montclair Connection, Secaucus Transfer, Hudson-Bergen Light Rail System, and the South Jersey Light Rail System.

Background Paper

Program Description and Overview (Cont'd)

The Department of Transportation (DOT) is responsible for the operation, maintenance and improvement of the State's transportation system - our highways, buses, railroads and general aviation airports. In addition, pursuant to Reorganization Plan No.002-1995, issued March 13, 1995, and Executive Order No. 35, dated May 8, 1995, the Division of Motor Vehicles (DMV), previously allocated to the Department of Law and Public Safety, was transferred to DOT.

To address the needs of the overall transportation system in the State, DOT manages a significant capital construction program which provides funding for improvements to highways, bridges, rail freight lines, general aviation airports, and mass transit services offered by buses and passenger rail lines. DOT also provides transportation financial assistance to local governments. The department supports these capital program activities essentially with monies provided by the New Jersey Transportation Trust Fund Authority (TTF) and federal funds. However, bond referenda in 1989 and 1999 provided an additional $115 million and $500 million, respectively, for bridge repairs, the purchase of railroad rights-of-way and other transportation improvements statewide.

Since its creation in July, 1984, the TTF has been authorized to finance annual construction programs that have varied over time from $249 million in FY 1985 to $1.1 billion in FY 2002. Although P.L.2000, c.73 established an annual TTF capital program limit of $950 million for FY 2002 through FY 2004, this limit was raised to $1.1 billion in the FY 2002 Appropriations Act. The FY 2003 Budget Message recommends that a $1.1 billion capital program for the TTF be authorized again for the next fiscal year.

Highways and Bridges

Regarding the specific TTF areas of investment, the State highway and bridge construction program has evolved from an emphasis on new road construction to the preservation of the existing highway system. In addition, high-tech system management and computerized traffic controls are used to enhance traffic capacity on highways.

TTF money for State highways and bridges, which averaged about $265 million annually in the earliest years, averaged about $350 million under the programs authorized for FY 1996 through FY 2000. For FY 2001 and FY 2002 the TTF provided $358 million and $378 million, respectively, for State highway and bridge projects.

Local Aid

Municipalities and counties are also served by the TTF. In FY 1988, funding was increased for the municipal aid program from $19 million to $30 million annually and $5 million of that higher amount was allocated to municipalities eligible for State urban aid assistance. Subsequently, when the TTF capital program ceiling was raised in 1991, municipal aid increased to $50 million for FY 1991 through FY 1995. Under a further TTF cap increase in 1995, municipalities received at least $65 million each year from FY 1996 through FY 2000. For FY 2001 and FY 2002, respectively, municipalities received $75 million from the TTF.

Counties assistance has also increased. From FY 1985 through FY 1990, $35 million was annually appropriated for a non-federal local aid program for counties. Although the $35 million, non-federal local aid program supplanted a federal program for the same amount, the State as well as local governments benefited. The State retained the federal monies for large State projects, allowing local governments greater flexibility in completing smaller local projects, because State standards rather than federal standards are applied to the use of the State monies. In 1991, the TTF ceiling was raised and county assistance increased from $35 million to $50 million for FY 1991

Program Description and Overview (Cont'd)

through FY 1995. Under the further TTF increase in 1995, counties also have received at least $65 million from FY 1996 through FY 2000. For FY 2001 and FY 2002 counties received $75 million each of those years from the TTF.

Mass Transit

The New Jersey Transit Corporation (NJT), created pursuant to P.L.1979, c.150, is a public corporation within the department but independent of supervision or control by the department. However, NJT does report to a seven-member governing board, whose statutory chairperson is the Commissioner of Transportation. Other board members include the State Treasurer, another member of the Executive Branch selected by the Governor, and four public members, at least one of whom is a regular public transportation rider.

NJT is responsible for operating, contracting for and subsidizing public transit services that are in the public interest. Since its formation, NJT has: (1) acquired Transport of New Jersey/Maplewood Bus Equipment Company; (2) assumed responsibility for commuter rail service from Conrail; (3) taken over Mercer Metro Bus Company; (4) accepted bus operating responsibilities from the Atlantic City Transportation Company; (5) assumed responsibility for several Hudson County bus routes formerly operated by Hudson Bus; (6) initiated rail service between Penn Station, Newark and Hoboken Terminal; (7) reinstituted rail service between Philadelphia and Atlantic City; (8) began passenger service on the new Hudson-Bergen Light Rail Transit System between Bayonne and Jersey City in April, 2000; and (9) commenced construction work on new passenger rail service between Trenton and Camden.

As a consequence of its varied transit responsibilities, NJT currently operates 12 passenger rail lines, two light rail systems, and some 240 bus routes throughout the State. NJT estimates that its overall transit system will accommodate an average daily ridership of 395,000 in FY 2003. In addition, NJT currently allocates about 1,000 buses at no cost to private carriers and also administers a 24-hour, half-fare subsidy program for senior citizens and disabled persons. Further, NJT is responsible for developing and implementing mass transit services for disabled persons in conformance with the federal requirements established by the Americans with Disabilities Act (ADA) of 1990. Such ADA bus service, begun by NJT in Mercer county in January 1993, now covers the entire NJT bus operating area. For rail service, NJT meets the ADA standard for one accessible car per train.

To assist NJT in carrying out its responsibilities, the State provides an annual operating subsidy to the corporation. Due to unfavorable economic conditions in the early part of the 1990's, the subsidy amount reached $251 million in FY 1993. Since then the subsidy amount was able to decline because the economy improved and generated notable increases in passenger fare revenues from ridership growth. In addition, expanded support from the TTF, innovative financial arrangements such as a "cross-border lease" (a tax-advantaged lease arrangement between NJT and a lessor of equipment located in a another country), management efficiencies, and a liberalized definition of the permitted use of federal funds for maintenance purposes, all helped NJT avoid a fare increase since FY 1991. However, based on the need for: (1) additional bus and rail service on existing routes to reduce overcrowding and to accommodate the change in travel patterns that have resulted from the September 11, 2001 terrorist attack on the World Trade Center; (2) expense increases related to contractual labor agreements; and (3) anticipated new rail service for the Montclair Connection, Secaucus Transfer, Hudson-Bergen Light Rail System, and the South Jersey Light Rail System; a 10 percent passenger fare increase went into effect on April 1, 2002.

Regarding the NJT capital program, the TTF provided an average $65 million per year during

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

the TTF's first four-year period. Since then the annual average rose to $195 million for FY 1992 through FY 1995, and averaged $290 million for the period FY 1996 through FY 2000. For FY 2001 and FY 2002 NJT received $390 million and $572.5 million, respectively, from the TTF.

Aeronautics

The department coordinates the activities of the State's public and private general aviation airports through the Bureau of Aviation. This bureau helps to ensure that such airports continue to develop into a safe and orderly airport system by relying on several funding sources. First, the bureau receives revenue from the Airport Safety Fund (ASF). The ASF, established by the New Jersey Airport Safety Act of 1983, receives about $965,000 annually from the two-cent per gallon tax on aviation fuel. However, since the tax is only imposed at general aviation airports (Newark and Atlantic City International Airports are, therefore, excluded from the tax) the amount of ASF revenue was deemed to be insufficient to meet the program needs of the bureau.

Consequently, TTF legislation enacted in 1995 permits the TTF to allocate funds on an annual basis to the ASF for aviation purposes. For FY 1996 through FY 1998 the TTF provided the ASF with$10 million each year, while the respective amounts for FY 1999 and FY 2000 were $3.0 million, and $6.0 million. For FY 2001 and FY 2002 the TTF provided $2.0 million and $7.0 million, respectively. The bureau uses both the ASF and TTF to match available federal aviation money. As a result, the bureau now manages a significant program that provides grants and loans to publicly and privately owned airports for various improvements, and safety and land acquisition programs.

Division of Motor Vehicles

The division has four major areas of responsibility: (1) the management of all automated revenue and information systems that are needed to support the administration of the various programs related to the operation of motor vehicles; (2) motor vehicle licensing, registration and inspection; (3) driver control and regulatory affairs which insure the continued fitness of persons to operate motor vehicles; and (4) the security responsibility program that enforces compulsory insurance requirements and identifies uninsured motorists.

Although the DMV has extensive responsibilities related to various motor vehicle operations, a significant part of DMV's overall responsibility involves the inspection of passenger motor vehicles to insure safe operation and conformance with emission requirements established by the Federal Clean Air Act. In November, 1998, the operation of the centralized motor vehicle inspection facilities by the State ceased and was contracted to a private vendor.

On December 13, 1999, the vendor began implementation of the required Enhanced Inspection and Maintenance Program (EIMP). However, difficulties experienced in implementing the EIMP at the State's centralized facilities prompted the Administration to request and then receive federal permission to institute a hybrid vehicle inspection program through June, 2000. The 10 most congested stations and the five single lane facilities reverted on January 31, 2000 to using the "old" vehicle inspection standards in effect prior to December 13, 1999 while the remaining State facilities use the "new" enhanced vehicle inspection standards. The difficulties experienced by the EIMP have been resolved and all centralized facilities now use EIMP standards.

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2001	Adj. Approp. FY 2002	Recom. FY 2003	Percent Change 2001-03	Percent Change 2002-03
General Fund					
Direct State Services	$269,267	$241,900	$268,255	(0.4)%	10.9%
Grants-In-Aid	209,184	260,027	260,027	24.3%	0.0%
State Aid	75	0	0	(100.0)%	0.0%
Capital Construction	701,965	715,490	745,000	6.1%	4.1%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,180,491	$1,217,417	$1,273,282	7.9%	4.6%
Property Tax Relief Fund					
Direct State Services	$0	$0	$0	0.0%	0.0%
Grants-In-Aid	0	0	0	0.0%	0.0%
State Aid	0	0	0	0.0%	0.0%
Sub-Total	$0	$0	$0	0.0%	0.0%
Casino Revenue Fund	$25,754	$24,821	$24,934	(3.2)%	0.5%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,206,245	$1,242,238	$1,298,216	7.6%	4.5%
Federal Funds	$602,828	$914,678	$956,895	58.7%	4.6%
Other Funds	$1,117,455	$1,126,738	$1,127,929	0.9%	0.1%
Grand Total	$2,926,528	$3,283,654	$3,383,040	15.6%	3.0%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2001	Revised FY 2002	Funded FY 2003	Percent Change 2001-03	Percent Change 2002-03
State	4,301	4,288	4,407	2.5%	2.8%
Federal	1,139	1,164	1,166	2.4%	0.2%
All Other	0	0	0	0.0%	0.0%
Total Positions	5,440	5,452	5,573	2.4%	2.2%

FY 2001 (as of December) and revised FY 2002 (as of September) personnel data reflect actual payroll counts. FY 2003 data reflect the number of positions funded. Personnel Summary excludes position data at the New Jersey Transit Corporation.

AFFIRMATIVE ACTION DATA

Total Minority Percent	24.8%	24.1%	24.5%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
I. Motor Vehicle Services:					
A. Special Purpose - Photo Licensing Program	$1,800	$900	($900)	(50.0)%	D-438

The amount for FY 2003 is the estimated cost to continue the current photo license program for six months. It is anticipated that the Digitized Driver's License Program would begin, as scheduled, by January 1, 2003. At that time, the fee for a digitized picture would be $6 versus the current photo fee of $2. However, should the implementation of the Digitized Driver's License Program be deferred beyond its scheduled start date, recommended budget language would permit an additional sum to be appropriated to continue the current photo license program.

Although the $1.8 million supplemental appropriation for FY 2002 has not yet occurred, the Office of Management and Budget anticipates that the referenced amount would be appropriated pursuant to a Director's Letter by late May or early June.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
B. Special Purpose - Vehicle Inspection Program	$27,278	$46,478	$19,200	70.4%	D-438

The $19.2 million increase in State funds would offset the anticipated, partial reduction in federal funds that would occur in FY 2003 because the three-year cost sharing agreement with the Federal Highway Administration for the operation of this program, effective in December 1999, expires in December 2002. The increase for FY 2003 also assumes a $6.8 million savings which is predicated on the anticipated federal approval to exempt new cars from their first biennial inspection.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
C. Special Purpose - Digitized Driver's License and Motor Vehicle Services Modernization	$2,257	$7,257	$5,000	221.5%	D-438

The increased amount for FY 2003 will support the implementation of the Digitized Driver License Program (DDL), scheduled to begin by January 1, 2003, as well as improvements at motor vehicle agencies of technology that is compatible with the new DDL program. However, recommended budget language would permit such sums as needed to be appropriated to continue the current photo license program, including the charging of fees, if the Digitized Driver License Program is not implemented as currently scheduled.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
D. Special Purpose - Graduated Driver's License	$1,750	$1,250	($500)	(28.6)%	D-438

The amount for FY 2003 would support regular, annual operating costs for the Graduated Driver's License Program and reflects the elimination of a one-time cost in FY 2002 for computer software related to driver testing.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
E. Capital Construction -					
1. Roof Replacement, Various Facilities	$500	$0	($500)	(100.0)%	D-438
2. HVAC Replacement	$377	$0	($377)	(100.0)%	D-438
3. DMV Office Construction	$350	$0	($350)	(100.0)%	D-438
4. Agency Modernization	$4,763	$0	($4,763)	(100.0)%	D-438

No capital budget funds are recommended for Motor Vehicle Services in FY 2003. Regarding the capital budget appropriation provided in FY 2002, the Office of Management and Budget anticipates that the amounts for: (1) Roof Replacement, Various Facilities; (2) HVAC Replacement; and (3) DMV Office Construction may be lapsed to help address the revenue shortfall in the current fiscal year. However, the capital budget amount for Agency Modernization is anticipated to be expended for that purpose.

II. Security Responsibility:

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
Insurance Verification System	$500	$4,512	$4,012	802.4%	D-438

The budget message recommends a $4.5 million appropriation to develop a computer database to verify owners' and registrants' compliance with vehicle insurance requirements. In addition, recommended budget language would permit such additional sums as needed to be appropriated to implement the system. An appropriation of $0.5 million is provided in FY 2002 to conduct a feasibility study for this insurance verification system. The establishment of an electronic data base concerning real-time information on private passenger automobile insurance is required pursuant to section 7 of P.L.1998, c.22 (C.17:33B-41).

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
III. Maintenance and Operations:					
A. Maintenance and Fixed Charges	$13,818	$11,518	($2,300)	(16.6)%	D-443

The amount noted above represents the Maintenance and Operations component of the Maintenance and Fixed Charges account on this page. Although the FY 2002 Adjusted Appropriation indicates a supplemental appropriation of $3.0 million for snow removal, this has not yet occurred. Further, the Office of Management and Budget anticipates that given the relatively mild winter, the actual FY 2002 supplemental appropriation to be made for snow removal pursuant to budget language would be less than $3.0 million. Similar budget language which authorizes the appropriation of additional funds in FY 2003 for snow removal is continued. However, the language would cap the additional amount for FY 2003 at $5.0 million whereas the current language for FY 2002 caps the amount at $3.0 million.

Route 29:
Included within the Maintenance and Operations amount above for FY 2003 is $700,000 for maintenance and fixed charges related to certain, annual operating costs for the Route 29 tunnel and adjoining roadways in Trenton which opened to traffic in March 2002. In addition, the FY 2003 amounts for Personnel Services, and Materials and Supplies increase $868,000 and $332,000, respectively, to provide an overall $1.9 million amount to support the total estimated operating costs associated with the Route 29 tunnel area.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
B. Special Purpose - Gateway Enhanced Maintenance Program	$7,968	$8,611	$643	8.1%	D-443

The amount for FY 2003 includes a reduction in the program's salary component of about $250,000 which is offset by almost $900,000 in additional expenses for materials and supplies, and for debt service costs for equipment purchases. This program, initiated in FY 2001, is designed to increase maintenance activities, such as litter patrol, drain clean-out, grass mowing, landscaping and other services to enhance the appearance of highways which are considered to be corridors in or gateways to New Jersey.

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
IV. Transportation Trust Fund (TTF):					
A. Appropriation to TTF Account	$685,000*	$745,000	$60,000	8.8%	D-443

* Although the FY 2002 Adjusted Appropriation indicates an amount of $709.5 million for the TTF Account, this amount was reduced by $24.5 million pursuant to the recent enactment of P.L.2002,

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page

c.12. Consequently, the capital appropriation available to the TTF in FY 2002 is now $685 million. The FY 2002 reduction represents a reallocation of contributions originally dedicated to the TTF pursuant to contracts with the New Jersey Turnpike Authority ($22 million) and the South Jersey Transportation Authority ($2.5 million), but which are now available for expenditure on eligible activities financed by the department as part of its Direct State Services budget funded by the State's General Fund.

The $745 million recommended to the TTF for FY 2003 includes only constitutionally dedicated revenues provided by motor fuel taxes ($405 million), the Petroleum Products Gross Receipts Tax ($200 million), and the Sales and Use Tax ($140 million). An amount of $90 million that is statutorily dedicated to the TTF and composed of motor vehicle registration surcharge fees ($60 million), and certain diesel fuel revenues and truck fees ($30 million) is not recommended for appropriation to the TTF; this same $90 million amount was also not provided to the TTF in FY 2002. In addition, $24.5 million in toll road contributions dedicated to the TTF pursuant to contracts with the New Jersey Turnpike Authority and the South Jersey Transportation Authority are not recommended for use by the TTF but, instead, are recommended by budget language to be used again to fund FY 2003 activities that are deemed eligible to be funded under the contracts but which the department finances within its Direct State Services budget.

B. Appropriation from TTF Authority (Capital Construction Program)	$1,107,500	$1,108,000	$500	0.0%	D-444 D-447 H-45

The budget message recommends a capital construction program appropriation of $1.108 billion from the TTF Authority for FY 2003. This program amount exceeds the statutory maximum of $950 million stipulated in section 8 of P.L.1987, c.460. (C.27:1B-21.1).

However, notwithstanding the $1.108 billion amount referenced above, the Proposed Transportation Capital Program Fiscal Year 2003, dated April 1, 2002, submitted to the Legislature by the Commissioner of Transportation, recommends that the TTF Authority provide $1.039 billion for the FY 2003 transportation capital construction program. The additional $69 million recommended in the budget message is allocated for the capital program of the New Jersey Transit Corporation; it is anticipated that the commissioner would submit a revised FY 2003 capital program in May to reflect the higher TTF Authority amount recommended in the budget message.

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2002	Recomm. FY 2003	Dollar Change	Percent Change	Budget Page
V. New Jersey Transit Corporation (NJT):					D-446 D-447
A. Expenditures -					
1. Bus Operations	$400,300	$420,200	$19,900	5.0%	
2. Rail Operations	426,227	479,527	53,300	12.5%	
3. Corporate Operations	195,700	220,400	24,700	12.6%	
4. Purchased Transportation	116,000	135,400	19,400	16.7%	
Sub-Total	$1,138,227	$1,255,527	$117,300	10.3%	
5. Transportation Assistance for Senior Citizens and Disabled Residents	24,821	24,934	113	0.5%	
NJT Total	$1,163,048	$1,280,461	$117,413	10.1%	
B. Revenues -					
1. State Subsidy	$260,027	$260,027	$0	0.0%	
2. NJT Resources:					
a. Farebox	493,100	546,400	53,300	10.8%	
b. Other	385,100	449,100	64,000	16.6%	
Sub-Total	$1,138,227	$1,255,527	$117,300	10.3%	
3. Casino Revenue Fund	24,821	24,934	113	0.5%	
NJT Total	$1,163,048	$1,280,461	$117,413	10.1%	

The above information summarizes by major purpose the expenditure data for the New Jersey Transit Corporation followed by a summary of the revenue sources available to support these expenditures.

Detail on the expenditure and revenue changes has been requested but not yet received.

Language Provisions

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-180	p. D-439
Notwithstanding any other law, if on January 1, 2001, the ten-year digitized license program is not implemented pursuant to P.L.1999. c.28 such sums are appropriated as are necessary to enable the Director of Motor Vehicles to continue the existing photo license program, including the charging of fees, until such time that the ten-year digitized license program becomes implemented, subject to the approval of the Director of the Division of Budget and Accounting.	Notwithstanding any other law, if on January 1, 2003, the Digitized Driver's License program is not implemented pursuant to P.L.1999. c.28 and subsequent amendments, such sums are appropriated as are necessary to enable the Director of Motor Vehicles to continue the existing photo license program, including the charging of fees, until such time that the Digitized Driver's License program becomes implemented, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

Recent legislation, P.L.2001, c.391, which amended P.L.1999, c.28, reduced the period of validity for a digitized driver's license from ten years to four years. Although no digitized driver's license of any period of validity has yet been issued, section 17 of P.L.2001, c.391 stipulates that the implementing date to issue four-year licenses shall be no later than January 1, 2003. However, notwithstanding the latest statutory implementation date, the budget language would accommodate any unanticipated delay in the timely issuance of a digitized driver's license.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-181	p. D-440
No comparable language.	The amount hereinabove for the Digitized Driver's License and Motor Vehicle Services Modernization program is payable from receipts out of the "Secure Driver's License Fund" established pursuant to P.L.2001, c.391, and notwithstanding any other provision of law, excess receipts in the "Secure Driver's License Fund," are appropriated for other Motor Vehicle Services purposes.

Explanation

P.L.2000, c.391 established a $6 fee for a digitized picture and directed that these fees be credited to a new "Secure Driver's License Fund." The Governor's budget anticipates collecting $10.7 million in FY 2003 from digitized photo fees. Budget language would permit those revenues that are excess to the needs of the Digitized Driver's License and Motor Vehicle Services Modernization

Language Provisions

program (recommended at $7.257 million) to be appropriated for other Motor Vehicle Services purposes. This language would supersede section 15 of P.L.2001, c.391 (C.39:3-10f5) which requires that revenue credited to the fund but not appropriated for ensuring secure driver's license documents, such as digitized driver's license and the handling thereof, are to remain in the fund exclusively for those purposes.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-181	p. D-440
No comparable language.	Of the amount appropriated hereinabove for the Vehicle Inspection Program, such sums as are necessary are authorized for the costs associated with implementing the on-board diagnostic test for vehicle emissions at private inspection facilities.

Explanation

Budget language would permit monies appropriated for the Vehicle Inspection Program to be used to implement the on-board diagnostic test for vehicle emissions at private inspection facilities. It is anticipated that, beginning January 1, 2003, a motor vehicle having a model year of 1996 or later and equipped with a certified on-board diagnostic system - - a system which identifies and stores information about malfunctions in the various emission control and mechanical components of a vehicle - - would have the vehicle's emissions checked by a computer to verify that the system is functioning properly. This verification in lieu of the standard treadmill test is pending federal approval. If approved, verification is expected to reduce the overall time required for a vehicle to be inspected under the enhanced inspection and maintenance program.

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-181	p. D-440
Notwithstanding any other provision of law, in addition to the amount hereinabove appropriated for Insurance Verification System, such sums as are necessary are appropriated to implement the program, subject to the approval of the Director of the Division of Budget and Accounting.	Same language.

Language Provisions

Explanation

The budget message recommends a special purpose appropriation of $4.5 million for the Insurance Verification System to develop a computer database to verify that the owners and registrants of motor vehicles comply with the State's insurance requirements. Pending timely development of this computer base in FY 2003, the budget language would permit additional sums to be appropriated to implement the system. A $500,000 appropriation is provided for FY 2002 to conduct a feasibility study for this insurance verification system. The establishment of an electronic data base concerning real-time information on private passenger automobile insurance is required by section 7 of P.L.1998, c.22 (C.17:33B-41).

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-182	p. D-444
In addition to the amount appropriated hereinabove for Maintenance and Operations, such additional sums as may be required are appropriated for snow removal costs, not to exceed $3,000,000, subject to the approval of the Director of the Division of Budget and Accounting.	In addition to the amount appropriated hereinabove for Maintenance and Operations, such additional sums as may be required are appropriated for snow removal costs, not to exceed $5,000,000, subject to the approval of the Director of the Division of Budget and Accounting.

Explanation

The language would authorize an additional appropriation of up to $5.0 million for snow removal costs rather than the current limit of $3.0 million. The higher amount would enable the department to cope with winter storms that are more frequent or severe than average. Although the additional amount for FY 2002 snow removal costs has not yet been appropriated, the Office of Management and Budget anticipates that the amount would be less than $3.0 million, given the recent, relatively mild winter.

Language Provisions

2002 Appropriations Handbook	2003 Budget Recommendations
p. B-182 to B-186	p. D-445
(Several language provisions appropriating a total of $1,107,500,000 for capital projects, i.e. $385 million for State projects, $150 million for local highway projects, and $572.5 million for New Jersey Transit Corporation projects from the revenues and other funds of the New Jersey Transportation Trust Fund (TTF) Authority.)	Notwithstanding the provisions of P.L.1984, c.73 (C.27:1B-1 et al.) there is appropriated the sum of $1,108,000,000 from the revenues and other funds of the New Jersey Transportation Trust Fund Authority, for capital purposes as follows: Highway Design Projects Highway Construction Projects Highway Right-of-way Acquisition Projects Project Development Highway Planning Local Aid Projects Public Transportation Projects

Explanation

Of the total proposed $1.108 billion capital program, $385 million would be allocated for State highways, bridges and general aviation, $150 million for local aid, and $573 million for public transportation. However, the $1.108 billion amount exceeds by $158 million the maximum program level of $950 million established by P.L.2000, c.73 for the TTF in FY 2003.

Notwithstanding the budget recommendation of $1.108 billion, the Commissioner of Transportation submitted a Proposed Transportation Capital Program Fiscal Year 2003 (dated April 1, 2002) to the Legislature which recommends that the TTF Authority provide $1.039 billion for the FY 2003 transportation capital construction program. The additional $69 million recommended in the budget message is allocated for the capital program of the New Jersey Transit Corporation; it is anticipated that the commissioner would submit a revised FY 2003 capital program in May to reflect the higher TTF Authority amount recommended in the budget message.

Further, although the proposed budget language references only seven project categories that are recommended for funding, the Fiscal Year 2003 Appropriations Act would replace the categories with a list of specific capital projects. The projects to be funded are currently displayed in the DOT report entitled "Proposed Transportation Capital Program Fiscal Year 2003."

Discussion Points

1. Federal enactments and federal budget proposals often impact significantly on State programs and fiscal resources.

- *Question:* What impact will the expectation of (a) increased or decreased federal funding, or (b) new or revised federal mandates or matching requirements, have on your department's resources and activities in FY 2003? Be specific with regard to the expected federal action and the corresponding State or local impact.

2. Two years ago, the Transportation Trust Fund Authority Act (N.J.S.A. 27:1B-1 et seq.) was amended. The amended law establishes the minimum capital appropriation to the Transportation Trust Fund (TTF) at $859.5 million for FY 2003. However, the Governor's Budget recommends that only certain revenues which are constitutionally dedicated for transportation purposes, totaling $745 million, be appropriated to the TTF in FY 2003; some $114.5 million in statutorily dedicated revenues and contractual contributions from the toll roads are again not recommended for appropriation to the TTF.

- *Question:* The recent TTF amendments place greater emphasis on pay-as-you-go capital financing for the transportation capital program. To reinforce that emphasis, the amendments reduced the amount of bonds authorized to be annually issued by the Trust Fund Authority from $700 million to $650 million. Please explain why it is preferable to reduce the pay-as-you-go component to the TTF for FY 2002 and FY 2003 by $229 million in revenues, and instead rely on future issuances of TTF bonds to replace these pay-as-you-go revenues?

3. N.J.S.A.27:1B-21.1 states that the total amount authorized to be appropriated from the revenues and other non-federal funds of the Transportation Trust Fund Authority (i.e., the Trust's capital program) shall not exceed $950 million for each of the fiscal years 2002, 2003, and 2004. Despite this limitation, the Executive Branch requested and the Legislature authorized a $1.1 billion program for FY 2002. The Governor's Budget requests that the Legislature again authorize a similar $1.1 billion program for FY 2003.

- *Question:* Why is an additional $150 million needed in FY 2003 and for what purposes? Does the department anticipate that the FY 2004 request would return to the $950 million level or remain at the $1.1 billion level?

4. If $114.5 million in statutorily dedicated revenues and contractual contributions from the toll roads continue to be diverted for non-TTF purposes while the annual TTF capital program continues to exceed its statutory maximum, it would appear that this difference must, of necessity, be financed through the issuance of additional TTF bonds. However, at present, only $650 million in TTF bonds may be issued each year.

- *Question:* Given the spread between the size of the State's appropriation to the TTF and the TTF's spending authority, when would the $650 million bond issuance cap become a problem to the annual cash flow needs of the TTF?

5. The debt service on outstanding TTF bonds is estimated to be about $449 million in FY 2003. If the TTF continues to borrow $650 million each year until FY 2015, then the TTF debt service can be expected to increase by about $50 million each year as a result of each issuance of $650 million in bonds. Consequently, by FY 2015 the TTF annual debt service payment would exceed $1.0 billion; in addition, that $1.0 billion payment may then remain as a yearly TTF

Discussion Points (Cont'd)

expense. The TTF could reach the $1.0 billion debt service payment level even sooner than FY 2015 if future TTF capital programs do not receive all the revenues dedicated to the TTF or if the annual TTF program increases to a level that requires borrowing above the current $650 million yearly limit.

- *Question:* Does the TTF estimate appropriations, debt service and capital program levels as far as FY 2015? If not, how far into the future does the TTF project such estimates? Please provide a TTF debt service schedule through FY 2015 that assumes the annual issuance of $650 million in TTF bonds.

6. P.L.2001, c.391 was enacted on January 8, 2002. Among other things, this law establishes a $6 fee for a digitized picture on a driver's license, in addition to the regular $18 fee for a four-year license. Revenues from the $6 fee are to be deposited in a new "Secure Driver's License Fund," which is created as a separate non-lapsing fund within the General Fund. Amounts in the fund are to be appropriated to the department for "the purposes of ensuring secure driver's license documents and the handling thereof...." The law also provides that any amounts credited to the fund from the $6 fee but not appropriated to the department "shall remain in the fund exclusively for the purposes set forth..." in P.L.2001, c.391. The law established January 1, 2003 as the target date for implementing the digital driver's license program.

The Governor's FY 2003 budget (page C-18) anticipates the Secure Driver's License Fund collecting $10.7 million in FY 2003 from the $6 digitized picture fee. The budget recommends an appropriation of $7.257 million for a special purpose account entitled "Digitized Driver's License and Motor Vehicles Services Modernization" (DDL/MVSM). Budget language on page D-440 charges this appropriation against the receipts in the Secure Driver's License Fund, but also provides that excess receipts in the fund "are appropriated for other Motor Vehicle Services purposes." In the event that the digital driver's license program is not ready on January 1, 2003, budget language (page D-439) provides that such sums as are needed to continue the existing (non-digital) photo license program are appropriated.

- *Question:* What is the basis for the $10.7 million revenue half-year revenue expectation for the Secure Driver's License Fund? By recommending the appropriation of $3.5 million in excess receipts in the fund for "other Motor Vehicle Services purposes," which could be anything in the Motor Vehicle Services' $141.3 million budget, is the department bypassing the intent of P.L.2001, c.391? Why should up to one-third of the revenue from a new fee that was established for a specific purpose be used for the general support of Motor Vehicle Services? If the digital driver's license program is not in a position to begin on January 1, 2003, would a portion of the $7.257 million DDL/MVSM appropriation be redirected to the existing photo license program?

7. From the recommended appropriation of $46.5 million for the Vehicle Inspection Program, budget language (page D-440) would authorize such sums as needed to be expended to implement the on-board diagnostic test for vehicle emissions at private inspection facilities.

- *Question:* Please explain the operation of an on-board diagnostic test. Has this test been approved by the State of New Jersey in lieu of the dynamometer test? When would the Division of Motor Vehicles (DMV) incorporate the on-board diagnostic test into the procedures at inspection facilities? How much does the DMV estimate that it would allocate from its $46.5 million Vehicle Inspection Program appropriation to the on-board diagnostic test system program at private facilities? Would the DMV lease or sell the

Discussion Points (Cont'd)

required on-board diagnostic test equipment to private facilities? Would such costs be below market value? If so, why and at what cost? Given the proposed New Car Inspection Waiver, does DMV anticipate a request for a State subsidy from private facilities to help offset the costs related to the purchase and anticipated reduced usage of dynamometers at private facilities?

8. The overall operating budget for the New Jersey Transit Corporation (NJT) increases by about 10 percent. However, limited details have been provided on the reasons for the increase in costs and the corresponding expectations for increases in certain revenue sources to support NJT's expenditures in FY 2003 .

- *Question:* Please provide detailed budget data for New Jersey Transit that explains and substantiates the Governor's budget recommendation for NJT operating subsidies in FY 2003.

9. Recent news report note that the contractor for the Southern New Jersey Light Rail Transit System has filed claims for $140 million in cost overruns on the project, claims which New Jersey Transit Corporation has not agreed to.

- *Question:* What is NJT's latest estimate of the costs of the South Jersey light rail system in comparison to original estimates? What are the most recent projections of how much of the system's operating expenses will be reimbursed from farebox revenue?

10. Both Governor McGreevey and DOT Commissioner Fox have made public statements concerning the need to review the operations of the State's three toll road authorities, one possible outcome of which could be a recommendation to consolidate them into one entity, operating either independently or under DOT's jurisdiction.

- *Question:* Beyond achieving certain operational efficiencies (e.g., purchasing, slightly reduced overhead) that might eventually benefit toll paying motorists, what benefits would accrue to the State government or the State budget from consolidation?

Background Paper: Transportation Trust Fund Authority

Budget Pages D-443 to D-447; H-45

Introduction

In 1984, the Legislature determined that it was important to provide stable and assured funding to the Department of Transportation for improvements to the transportation system in the State. During the preceding years, transportation projects competed for funding, as part of the annual appropriations' act process, with other capital improvement program requests submitted by the various State departments. However, this process generally resulted in an appropriation of State funds for transportation purposes that was just sufficient to match federal funds.

For transportation capital programs that were deemed essential and overdue, but which could not be funded through the annual capital program process because of State budgetary constraints, the use of general obligation bonds became an important financing alternative. Nevertheless, since such bonds require voter approval, the ability to provide substantial amounts of State funds for needed transportation improvements on a regular basis could not be assured. Without this assurance, the planning and construction of improvements was a lengthy and uncertain process. Consequently, the Legislature decided that the proper solution to this funding dilemma was the creation of a unique entity responsible for and empowered to finance the transportation needs of the State. This decision led to the creation of the Transportation Trust Fund Authority.

Background

The Transportation Trust Fund Authority, (hereinafter, "Trust Fund") established pursuant to P.L.1984, c. 73, is a financing mechanism intended to support the annual transportation capital construction program. It is designed to finance improvements to the State's road, bus and rail transportation networks, and to support local government transportation projects. Although envisioned in 1984 as providing an average of $250 million per year over a four-year period for transportation capital improvements, the Trust Fund subsequently financed a three-year program and a one year extension with each year at different funding levels. In January 1988, the Trust Fund was renewed pursuant to P.L.1987, c.460. Under that renewal, the capital construction program, beginning in FY 1989, was to receive $365 million each year for seven years, compared to an average $332 million received during the Trust Fund's first four years.

Nevertheless, subsequent legislation, P.L.1991, c.40, authorized a further increase in the Trust Fund program, and $565 million and $593 million were made available for FY 1991 and FY 1992, respectively. A mid-course review of the renewed Trust Fund program indicated that a two-year increase in the Trust Fund program level was justified to support accelerating infrastructure construction demands. In addition, since the amount of Trust Fund bonds issued up to that time was less than anticipated, and construction contracts were awarded in amounts below Trust Fund estimates, an increase in the construction program level was possible without any additional appropriations from the general revenues of the State. However, given the recessionary problems that continued to confront the State at that time, further legislation, P.L.1992, c. 10, permitted the Trust Fund program level to remain at an average $565 million amount through FY 1995.

To continue the Trust Fund beyond FY 1995, P.L.1995, c.108 was enacted. Although this legislation does not contain a specific reauthorization period, the Legislature intended that the Trust Fund be able to finance at least a five-year program, from FY 1996 through FY 2000. Further, as part of the 1995 reauthorization legislation, the annual Trust Fund program level was established

Background Paper: Transportation Trust Fund Authority (Cont'd)

at $700 million. In addition, its funding purposes were expanded to include specific support for general aviation airports, and permission to supplant, on a dollar for dollar basis, reductions in annual federal operating subsidies to the New Jersey Transit Corporation. However, notwithstanding the $700 million program level, the Legislature authorized $900 million programs for FY 1998 and FY 2000. As a consequence of these larger capital program levels, highway and bridge projects received an average annual amount of $350 million, mass transit facilities $290 million, general aviation airports $8 million, and local governments a minimum of $130 million for the five year period from FY 1996 through FY 2000.

Given the legislative intent to reauthorize the Trust Fund by FY 2001, further legislation, P.L.2000, c.73, was enacted. This legislation increases the amount of the annual Trust Fund capital program but authorizes funding for only the four year period from FY 2001 through FY 2004. During this interval, the 2000 law stipulates that the Trust Fund program is not to exceed $900 million in FY 2001, and $950 million in each of the years from FY 2002 through FY 2004. The $900 million program authorized by the Appropriations Act for FY 2001 was consistent with P.L.2000, c.73. However, in FY 2002, the Governor requested and the Legislature authorized a larger Trust Fund program of $1.107 billion. For FY 2003, the Governor has again supported a larger Trust Fund program, albeit the requested $1.108 billion is essentially identical to the FY 2002 program amount of $1.107 billion.

Trust Fund Financing

To financially support the Trust Fund program, monies are annually made available for appropriation from several revenue sources. First, the Trust Fund receives revenues that are constitutionally dedicated for the transportation system in the State. These revenues include: (1) a portion of the motor fuels tax which began at 2.5 cents per gallon in December, 1984, increased to 7.0 cents per gallon on July 1, 1996, to 8.0 cents per gallon on July 1, 1998, and finally to 9.0 cents per gallon on July 1, 1999; (2) beginning on July 1, 2001, the annual revenues, but not less than $200 million, from the Petroleum Products Gross Receipts Tax; and (3) also beginning July 1, 2001, $80 million from the Sales and Use Tax, which will increase to $140 million on July 1, 2002, and finally to $200 million on July 1, 2003. Second, the Trust Fund is to receive certain statutorily dedicated revenues. These revenues include: (1) $30 million from diesel fuel taxes and certain increases in truck registration fees; and (2) $60 million from certain motor vehicle registration fee surcharges. Third, the Trust Fund receives $24.5 million from contracts with two State toll road authorities (e.g., New Jersey Turnpike Authority (NJTA) - $22 million, and South Jersey Transportation Authority (SJTA) - $2.5 million). The previous annual contribution of $10 million by the Parkway to the Trust Fund ceased December 31, 2000. However, the Turnpike has increased its contribution from $12 million to $22 million to offset the cancellation of the Parkway's contribution. Finally, pursuant to P.L.1995, c.108, additional amounts, as needed, are to be appropriated to the Trust Fund from the general revenues of the State.

In turn, the Trust Fund leverages these annual revenues with the Trust Fund's bond issuing capacity to finance the amount of the construction program authorized by the Legislature to be appropriated each year from the Trust Fund. The Trust Fund carries out this financing function through a process that first appropriates monies <u>to</u> the Trust Fund and then <u>from</u> the Trust Fund.

Step 1

The revenue sources noted above provide the monies for the annual capital budget appropriation <u>to</u> the Trust Fund. From FY 1985 to FY 1988, this amount varied between $143

Background Paper: Transportation Trust Fund Authority (Cont'd)

million and $201 million. Pursuant to the legislation renewing the Trust Fund in 1988, the annual capital appropriation was to be $331 million. However, due to budgetary constraints, the appropriation decreased to $155 million in FY 1993, and remained at reduced levels of $160 million in FY 1994, and $213 million in FY 1995.

For FY 1996, consistent with debt service estimates made in 1995 regarding future Trust Fund expenses, the capital appropriation was $196.6 million. Although the FY 1997 capital appropriation was anticipated to be $362.8 million, the Governor subsequently recommended, and the Legislature appropriated, $304.5 million for FY 1997. This reduced amount reflected lower than projected debt service costs on outstanding Trust Fund bonds. In subsequent years, while the FY 1998 appropriation of $380.3 million was consistent with the 1995 funding estimate, the $463.7 million appropriation for FY 1999 was below the $511.6 million estimate made in 1995. The lower amount for FY 1999 was also attributable to lower than anticipated Trust Fund debt service costs. For Fiscal Year 2000 a continuation of lower than estimated debt service costs resulted in an appropriation of $483.1 million, rather than the originally projected amount of $525.3 million. However, the total "debt service savings" of $148.4 million - - $58.3 million in FY 1997, $47.9 million in FY 1999, and $42.2 million in FY 2000 - - were subsequently used for non-Trust Fund purposes. If the Trust Fund had received the original, larger appropriations, the overall sale of Trust Fund bonds between FY 1997 and FY 2000 could have been reduced by $148.4 million.

Although the $701.4 million appropriation in FY 2001 to the Trust Fund was consistent with P.L.2000, c.73, the $709.5 million originally appropriated in FY 2002 was $90 million below the minimum $799.5 million stipulated by P.L.2000, c.73. The $90 million not appropriated includes $30 million in truck fees and certain diesel fuel revenues, and $60 million in motor vehicle registration surcharges which are statutorily dedicated to the Trust Fund pursuant to subsection c. of section 20 of P.L.1984. c.73 (C.27:1B-20). Subsequent to the enactment of the FY 2002 Appropriations Act, the Trust Fund appropriation was reduced by an additional $24.5 million pursuant to P.L.2002, c.12. The $24.5 million reduction represents toll road contributions dedicated to the Trust Fund through contracts with the NJTA ($22 million) and the SJTA ($2.5 million). Due to the State's fiscal difficulties, this $24.5 million will instead fund FY 2002 activities that are eligible to be funded under the contracts but which the department has previously financed out of its own budget. Consequently, the Trust Fund received a total appropriation of only $685 million in FY 2002.

For FY 2003, the Governor's budget recommends a capital budget appropriation of $745 million to the Trust Fund, an amount which is $114.5 million below the minimum of $859.5 million established by the recent Trust Fund reauthorization legislation, P.L.2000, c.73. The $745 million includes only constitutionally dedicated revenues provided by motor fuel taxes ($405 million), the Petroleum Products Gross Receipts Tax ($200 million), and the Sales and Use Tax ($140 million). The $114.5 million amount not recommended for appropriation is composed of the same $90 million in certain surcharge and truck fees, and $24.5 million on toll road contracts referenced above.

As noted, the variations in the annual appropriations are attributed to lower than estimated debt service costs. The costs for debt service have been lower than projected since FY 1996 because the original interest rate assumptions of 6.5% to 8.5% on Trust Fund bonds made by the Department of the Treasury proved to be too high; instead, interest rates on Trust Fund bonds sold since FY 1996 have varied from 4.61% to 5.70%.

Background Paper: Transportation Trust Fund Authority (Cont'd)

Step 2

Along with the capital budget appropriation to the Trust Fund, the annual appropriation act also establishes the level of the capital program by appropriating monies from the Trust Fund. Since its inception, the annual program level has increased steadily from $249 million in FY 1985 to $1.107 billion for FY 2002. The requested $1.108 billion amount for FY 2003 would again exceed, by $150 million, the $950 million maximum capital program level permitted by the most recent Trust Fund reauthorization legislation, P.L.2000, c.73.

Given the difference between the annual appropriation to the Trust Fund and the amount from the Trust Fund, a second step of financing is required. To obtain the additional monies to support the legislatively approved construction programs, the Trust Fund must issue bonds. Although earlier legislation restricted the amount of Trust Fund bonds that could be outstanding at one time to $1.7 billion, this restriction was eliminated by P.L.1995, c.108. Instead, P.L.1995, c.108 limited the Trust Fund's annual bonding capacity to $700 million, except that if any portion of that amount is not issued in a fiscal year, it may be issued in subsequent fiscal years. Despite the bonding cap, the $700 million annual amount was increased to $900 million for one year pursuant to P.L.1999, c. 147 to accommodate the FY 2000 Trust Fund program of $900 million.

The $700 million annual bond issuance limitation imposed in 1995 was reduced to $650 million by P.L.2000, c.73, the same law that established the Trust Fund's capital program at $900 million for FY 2001 and $950 million for FY 2002 through FY 2004.

Consequently, the Trust Fund uses all of its resources - State appropriations, bond proceeds and investment earnings - to finance the transportation construction program. It must also be noted that the Trust Fund uses its State appropriations as well as investment earnings to pay the annual debt service costs on its outstanding bonds. While debt service costs had been relatively modest in the recent past, about $184 million in FY 1997, these costs increased to $433 million for FY 2002, and are expected to rise to about $449 million for FY 2003.

Background Paper: Transportation Trust Fund Authority (Cont'd)

The following chart provides a "recap" of the financing information provided above, and may be useful to the reader as a ready reference to the financing history of the Trust Fund.

Trust Fund Recap
(amounts rounded in $ millions)

Fiscal Year	Trust Fund Program	Annual State Approp.	Bond Sale Proceeds	Trust Fund Earnings	Debt Service Payment	Unmet Cash Need*
1985	$249	$198	$51	$6	$2	($4)
1986	323	153	0	20	9	159
1987	431	143	178	20	14	104
1988	323	201	89	28	26	31
1989	365	331	0	39	46	41
1990	365	331	0	43	46	37
1991	565	331	0	32	46	248
1992	593	331	272	22	46	14
1993	537	155	495	15	87	-41
1994	565	160	461	14	135	65
1995	565	213	182	15	163	318
1996	700	197	611	15	87**	-36
1997	700	305	674	18	184	-113
1998	900	380	715	17	249	37
1999	700	464	718	17	305	-194
2000	900	483	916	36	355	-180
2001	900	701	0	28	408	579
2002	1,107	685	1,038	17	433	-200
Sub-total	$10,788	$5,762	$6,400	$402	$2,641	$865
2003(Est)	1,108	745	650	16	449	146
Total	$11,896	$6,507	$7,050	$418	$3,090	$1,011

Background Paper: Transportation Trust Fund Authority (Cont'd)

* Unmet Cash Need represents the additional amount required to balance Trust Fund expenditures, (i.e., Trust Fund Program and Debt Service Payment) with Trust Fund revenues, (i.e., Annual State Appropriation, Bond Sale Proceeds, and Trust Fund Earnings). Although many of the projects supported by the Trust Fund require several years to complete, the Trust Fund only keeps an amount of cash on hand sufficient to pay 12 to 15 months of construction activity. As available cash is used, the Trust Fund then schedules annual sales of its bonds when it nears having only about a two month supply of cash on hand. Consequently, the Trust Fund would need $865 million to balance the total of all program and payment expenditures authorized since FY 1985 with revenues received through FY 2002. The need would be increased to $1.011 billion in FY 2003 based on the estimated Trust Fund revenues and expenditures.

** The reduction in debt service costs between FY 1995 and FY 1996 reflects the issuance of 20 year Trust Fund bonds in 1995 to refinance previously issued and outstanding 10 year Trust Fund bonds.

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The Legislative Budget and Finance Officer is the chief fiscal officer for the Legislature. The Legislative Budget and Finance Officer collects and presents fiscal information for the Legislature; serves as Secretary to the Joint Budget Oversight Committee; attends upon the Appropriations Committees during review of the Governor's Budget recommendations; reports on such matters as the committees or Legislature may direct; administers the fiscal note process and has statutory responsibilities for the review of appropriations transfers and other State fiscal transactions.

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Individuals wishing information and committee schedules on the FY 2003 budget are encouraged to contact:

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