

Kris Kolluri
Commissioner of the New Jersey Department of Transportation
Testimony before the Assembly Budget Committee
April 8, 2008

Thank you, Mr. Chairman and members of the Committee, for the opportunity to appear before you.

My colleagues and I are here to discuss Governor Corzine's fiscal year 2009 budget request for the Department of Transportation and NJ TRANSIT.

Over the last several weeks, I have heard and read the testimony of various citizen groups about this year's budget and noted their displeasure with the deep spending cuts that it contains.

I assure you that no one in the Administration, especially Governor Corzine, celebrates the fact that programs must be cut and Departments eliminated in order to balance the budget.

In fact, we regret the circumstances that force us to present this budget.

The burden falls on this Governor, this Legislature and the residents of the State today to live with the consequences of two decades of over-spending and over-borrowing.

The budget you are about to consider matters because how we spend and what we choose to invest in matters.

The dollars we spend matter because we still have the ability to solve the financial problems facing the State and restore its fiscal integrity.

The FY 09 operating budget for the Department is actually less than the FY 07 budget, despite the statewide salary adjustments that occurred in FY 08.

The total budget for the Department is \$82.4 million, a 21 percent reduction from the previous year.

That number obviously reflects a reduction from the FY 2008 adjusted baseline, which includes a supplemental snow appropriation.

The actual savings from a state operating budget perspective in 2009 will be \$6.3 million.

Allow me to provide the Committee with some examples of these savings.

We are going to save \$1.3 million next fiscal year by eliminating 21 positions.

In addition, we will reduce the Department by another 129 positions.

The savings are not reflected in the budget document because these positions are not funded out of the operating budget.

We have also identified \$300,000 for the coming year in efficiencies pertaining to salt purchases.

Finally, we will save \$4.7 million as a result of the federal government's agreement to fund traffic incident management, which has historically been funded in the state operating budget.

There is one important cut that is not accounted for in the Department's budget.

As you know, the Governor has proposed to reduce the number of state employees by 3,000.

Beyond the 150 positions I mentioned, more will be eliminated through an Early Retirement Incentive (ERI).

Based on the assumptions in the Governor's budget for net ERI savings, 916 Department staff will be eligible to participate.

We assume a 50% participation rate.

Mr. Chairman, I would ask you and the members of this Committee to view the Department's budget within a historical context.

As you can see from the first chart in your handout, the Department:

- has fewer employees today than it had in its first full fiscal year of operation in 1968,
- has a smaller operating subsidy, in constant dollar terms, than it did in 1968, and yet
- our output is greater than it was in 1968.

As you can see on chart #2, we have experienced substantial highway system growth and the associated costs have increased:

- the number of traffic signals has increased almost two fold,
- the number of lane miles under the jurisdiction of the Department has doubled, and
- the number of vehicle miles traveled on our roadways has doubled to almost 80 billion miles traveled.

We will continue to identify efficiencies and propose additional cuts that do not compromise our ability to fill potholes, maintain safe bridges, meet our fiduciary obligations to vendors, and issue permits on a timely basis.

However, the cost cutting trend will continue because, frankly, we don't have a choice.

Here's why.

As you can see in the third chart, just in the last two years, the costs of electricity, fuel and winter treatment materials such as salt have gone up 33 percent, 34 percent and 67 percent, respectively.

The Governor's operating principle is that we have to live within the revenue cap despite rising costs.

Therefore, we are paying for rising costs in fuel, electricity and salt through offsets in other expenses.

Here are just a few examples.

First, we are working to further reduce vehicles and mileage costs at the transportation agencies.

Savings on fuel consumption and maintenance from all of the agencies are expected to total about \$500,000.

Second, we are going to continue lowering non-emergency overtime expenditures.

In an environment in which FTE's are limited, overtime is a useful tool to get important work done.

For example, I know we have in the past used and currently use overtime to pay our bills, which avoids financial penalties under the prompt payment law.

However, I am acutely aware that overtime can lead to cost overruns.

Among our transportation agencies, we saved \$3.5 million in overtime expenses over the last two years.

Our goal is to save another \$2 million in FY 09.

And we are working on more effective ways to approve local traffic devices, respond to traffic incidents and pre-qualify vendors who want to do business with the State.

These efforts build on our record of efficiency.

Over the last two years, I presented to this committee a report card of the commitments we made and the status of each initiative.

I have an updated report card for you today.

Let me shift my focus to the operating budget of NJ TRANSIT.

Our public transit system is going into its fifth consecutive year of record ridership growth, as you can see on chart #4.

Next year, we expect to serve nearly 267 million passenger trips.

In order to meet this demand, our service levels are at their peak.

We have added one million more rail car miles and 50,000 bus service hours this year, as well as expanded services on the River Line and Pascack Valley Line.

As chart #5 illustrates, ridership on our Access Link paratransit service for people with disabilities has increased dramatically, by nearly 80%, since FY 04.

As you know, NJ TRANSIT over the last two years received a \$300 million annual operating subsidy, which provides approximately 20% of the system's annual operating revenue.

Like any other business, there are inflationary cost increases attached to running an operation that supports 875,000 daily passenger trips.

The costs compound when service grows, especially when you consider that mass transit is far from a break-even business, let alone a profit making business.

Quite frankly, it is not intended to be.

Like transit agencies everywhere in the world, the business has a public mission that includes serving communities, protecting the environment and reducing roadway congestion.

As you can see on chart #6, there are several key cost drivers adding extraordinary costs -- above inflation-- to NJT'S budget.

Since FY 05, the cost to maintain stations has risen 48%. The cost of vehicle parts increased 63%. Fuel costs have skyrocketed by 113%.

And the Access Link program, which has grown to \$37 million this year, is comparable to the cost of the entire Hudson Bergen Light Rail system, and exceeds the cost of the River Line.

To offset this expense growth, TRANSIT is cutting administrative expenses by 20% -- another \$14 million cut next year.

Here are some examples of the steps we are taking:

TRANSIT will save nearly \$4 million over two years by renegotiating lower cost prescription drugs, without increasing employee copays.

TRANSIT will also save more than \$3 million in expenses through telephone center efficiencies, as well as substantial cuts in marketing and advertising.

These cuts mean that even more of TRANSIT'S budget pays directly for service delivery.

Next year, only 8 cents of each operating dollar will go to administrative costs, down from 9 cents this year and a decrease from 12 cents in 2002.

Importantly, additional service that is required to meet demand will be achieved by redeploying equipment and personnel within the system, so that there is no net service growth in FY 09.

These internal actions are critical because, combined with the Governor's proposed increase of \$60 million in state support, they enable TRANSIT riders to avoid a second consecutive-year fare increase.

There have been three TRANSIT fare hikes in the last five fiscal years, with a cumulative impact on riders of 30%.

The majority of TRANSIT riders earn household incomes of less than \$50,000.

Local bus customers earn an average of less than \$30,000 per household.

Only 10% of commuters use TRANSIT, but those riders now generate \$200 million more in annual revenue through fares than motorists generate through motor fuels tax revenue.

Mr. Chairman, I would like to briefly shift my focus to the combined capital budget.

One week ago, we submitted a \$3.3 billion capital plan, of which \$1.7 billion is funded by the federal government and the remaining \$1.6 billion is funded by a constitutionally dedicated gas tax.

Of the \$3.3 billion capital budget, \$2 billion is allocated to highways and bridges and the remaining \$1.3 billion is allocated to mass transit.

This submission is as important for what it is as for what it is not.

It is the first time in history that the Department has submitted a ten-year capital investment strategy.

This plan clearly and concisely lays out the depth and scope of our long-term infrastructure needs and our plan to address them.

It is also the first time that the State has planned to invest thoroughly in improving our infrastructure.

We plan to fund \$6 billion worth of structurally deficient bridge projects, \$3 billion worth of congestion relief projects, \$3.5 billion of local infrastructure projects and almost \$14 billion in mass transit improvements.

However, unlike in previous years, this plan does not include a wish list of projects with no real way to pay for them.

So for the first time, this entire ten-year capital plan is fiscally constrained with a small float.

To the extent that projects cannot be funded without a further infusion of state or federal dollars, we say so under the label "Tier 2."

Equally important, this plan does not mask the fact that we have an enormous revenue problem post 2011.

In my transmittal letter, I specifically stated that this plan is only funded through 2011.

After this period, the Transportation Trust Fund will run out of money.

So unless we find a long-term financial solution to fix the problem, none of the infrastructure needs outlined in this plan will be met.

I hope you don't interpret my statement to be either a threat or an attempt to scare the public. It is just a statement of fact.

Now, the Governor has a plan to pay down the debt and fund transportation for a generation.

If people have a different view about how to achieve the goals that he laid out, we welcome them.

Mr. Chairman, we are in the midst of a recession.

In this tough economic cycle, we need to do everything to keep people employed.

Investment in infrastructure does just that.

We estimate that 26,000 jobs a year will be generated by this capital program along with the vision the Governor has outlined for the toll roads.

To put it in perspective, in February 2008 alone the State lost 2,800 jobs in the transportation and utilities sector.

If you choose to support this capital plan, we can stem the loss of jobs and make sure our infrastructure is safe and secure.

The Governor's transportation budget is streamlined, clear in its investment decisions and makes a meaningful contribution to restore the financial integrity of the State.

It protects economically disadvantaged people and people with disabilities. It continues to promote diversity in our workforce and among businesses.

Mr. Chairman, that concludes my testimony.

###