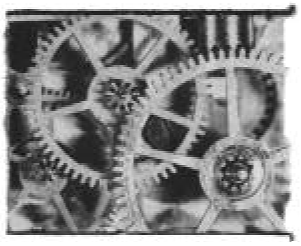

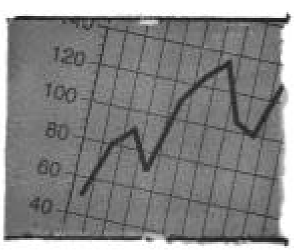

ANALYSIS OF THE NEW JERSEY BUDGET

DEPARTMENT OF TRANSPORTATION
AND
MOTOR VEHICLE COMMISSION

FISCAL YEAR 2004 - 2005

PREPARED BY OFFICE OF LEGISLATIVE SERVICES
NEW JERSEY LEGISLATURE • APRIL 2004

NEW JERSEY STATE LEGISLATURE

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This report was prepared by the Authorities, Utilities, Transportation and Communications Section of the Office of Legislative Services under the direction of the Legislative Budget and Finance Officer. The primary author was Mark Trease.

Questions or comments may be directed to the OLS Authorities, Utilities, Transportation and Communications Section (609-984-7381) or the Legislative Budget and Finance Office (609-292-8030).

DEPARTMENT OF TRANSPORTATION AND MOTOR VEHICLE COMMISSION

Budget Pages....... C-13;C-16 to C-17; C-25; C-33; C-35; C-37; C-38; D-373 to D-390; H-39 to H-40; H-41; H-61

Fiscal Summary ($000)

	Expended FY 2003	Adjusted Appropriation FY 2004	Recommended FY 2005	Percent Change 2004-05
State Budgeted	$1,311,138	$1,130,527	$1,196,894	5.9%
Federal Funds	723,623	705,124	762,761	8.2%
Other	1,099,196	1,507,230	1,486,399	(1.4)%
Grand Total	$3,133,957	$3,342,881	$3,446,054	3.1%

Personnel Summary - Positions By Funding Source

	Actual FY 2003	Revised FY 2004	Funded FY 2005	Percent Change 2004-05
State	2,793	2,770	2,746	(0.9)%
Federal	1,042	1,001	1,130	12.9%
Other	1,217	1,972	2,500	26.8%
Total Positions	5,052	5,743	6,376	11.0%

FY 2003 (as of December) and revised FY 2004 (as of September) personnel data reflect actual payroll counts. FY 2005 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 participates in the development 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.

Key Points (Cont'd)

FY2004 is the first full year of operation of the newly established Motor Vehicle Commission (MVC). Legislation to establish the MVC was approved in January 2003 (P.L. 2003, c.13). The commission,"in but not of" the department, is an eight-member appointed body headed by a Chief Administrator. The commission is responsible for all duties and functions assigned to its precedent agency, the Division of Motor Vehicles (DMV). The DMV had been found by two successive investigatory commissions to be deficient in security, performance and administrative effectiveness. The DMV was transferred from the Department of Law and Public Safety to the DOT in 1995 following the first investigative commission. In 2003, a successor commission found that the DMV remained ineffective in providing basic customer service, was unable to secure its documents and was incapable of performing certain statutory duties. As a result of this most recent investigation, the DMV was abolished and recreated as the Motor Vehicles Commission, with dedicated revenues, expanded resources, and increased autonomy within the Executive branch of government.

The State's mass transit facilities are the 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 rail lines, two light rail systems, and extensive bus routes throughout the State, and estimates that its overall transit system accommodated an average daily ridership of 380,800 people in FY 2005. 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. In compliance with federal requirements established by the Americans with Disabilities Act of 1990, the corporation provides additional transit services throughout the State for eligible riders.

Key Points

Transportation Trust Fund

- $1.205 billion is budgeted for capital infrastructure spending from the Transportation Trust Fund (TTF). In FY 2004, the final year of the most recent TTF program, the legislature authorized spending of $1.228 billion, $278 million over the planned cap of $950 million. The transportation capital program prescribed by P.L. 2000, c.73, expires on June 30, 2004. In FY2005, the State will be operating without a statutory plan for transportation capital funding for the first time since the creation of the TTF in 1984.

- To meet the needs of the transportation capital infrastructure, $805 million is budgeted to the TTF, comprising only the constitutionally dedicated revenues, and excluding $114.5 million in statutorily dedicated revenues. As with most years, this structural deficit ($400 million) between planned spending and available revenue will be made up with debt financing, and in turn, debt service will continue to rise faster than annual appropriations. If this trend continues it will render the TTF unable to fund projects, with debt service consuming all appropriations.

- Article 8, Section 2, paragraph 4 of the State Constitution dedicates the revenue from 9 cents of the motor fuels tax to the transportation capital system (a dynamic, not static amount). The FY 2005 budget estimates that the overall motor fuel tax revenue will grow to $549 million, from $506 million in FY 2000. While the amount attributable to the entire

Program Description and Overview

tax would thus increase by 8.5 percent over five years, the amount interpreted as dedicated to the transportation capital system has remained flat at $405 million per year. The total tax imposed is 10.5 cents per gallon (cpg) for gasoline and 13.5 cpg for diesel, so one interpretation of the constitutional language encompasses 85.7 percent of the tax from gasoline sales and 66.7 percent of the tax from diesel sales. Gasoline accounts for 80 percent of fuel subject to taxation. In FY 2005, it thus appears that the 9 cpg dedication would generate about $450 million, or $45 million more than the $405 million proposed.

New Jersey Transit

- The budget recommends an operating subsidy for the New Jersey Transit Corporation of $278.7 million, an increase of $85 million (44%) above FY2004. Overall, NJT's operating budget is projected to increase by $38 million (2%) in FY2005, with the increase in operating subsidy and farebox revenue (up $22 million) to be offset by a decrease of $69 million in other revenues. This decrease may be partly attributable to a decrease in the TTF capital program for NJT.

Highway Operations

- A new fee on tire sales, expected to generate $12.3 million, is proposed. $10 million of this is earmarked by budget language for costs of winter operations/snow response. The remaining estimated $2.3 million is recommended to support a new Local Tire Management state aid program in the Department of Environmental Protection. The total amount budgeted through Winter Operations for snow removal, together with supplemental appropriation authority of $10 million, is consistent with that budgeted for a moderate winter. For context, 2003 was budgeted as a mild winter (less than $15 million in snow removal expected), but actual costs which were covered through supplemental appropriations and transfers, approached $35 million.

Motor Vehicle Commission

- The FY2005 budget projects $278.1 million in operating revenue for the Motor Vehicle Commission, an increase of $2.4 million above FY2004. The proposal to accelerate registration fees paid by new car purchasers through a four-year initial registration would not provide the Commission with any additional operating resources, a departure from the statutory dedication of a portion of those fees for Commission purposes. The proposed timing change is estimated to generate $90 million for FY2005.

Background Paper

Program Description and Overview

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. 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 1984, the TTF has been authorized to finance annual construction programs that have varied over time from $249 million in FY 1985 to $1.23 billion in FY 2004. 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 exceeded in 3 of the 4 years of that program, and no limit has been statutorily established for FY2005. The FY2005 proposed budget recommends a $1.205 billion capital program, with $805 million in supporting revenue.

Throughout the program's history, and in greater amounts in the most recent program, spending planned for the program has exceeded supporting revenue from appropriations. There has been an historical pattern of appropriating less revenue to the TTF than is statutorily dedicated, and authorizing a capital program in excess of the statutory maximum. The difference has been addressed through bonded indebtedness, and the steady rise of debt service has been consuming more of the available flat revenue stream. As this trend continues, the pay-as-you-go, stable transportation fund envisioned in 1984 has diminishing funds available to support growing transportation needs.

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 2002. For FY 2004 the TTF provided $449 million for State highway and bridge projects.

Local Aid

Municipalities and counties are also subsidized by the TTF. Section 25 of P.L. 1984, c.73 (C. 27:1B-25) establishes a portion of TTF funding to be earmarked for local aid construction and resurfacing projects by counties and municipalities. The statute specifies a minimum local aid program of $30 million, although currently, the program receives $150 million annually.

Of this, 15% is spent at the discretion of the Commissioner of Transportation, and the remainder divided between counties and municipalities. In practice, only 10% ($15 million) has been allocated at the discretion of the commissioner. Five million of the amount is reserved for municipalities which qualify for State aid, pursuant to N.J.S.A.52:27D-178 ("Urban Aid"). The list

Program Description and Overview (Cont'd)

of such municipalities is revised annually. Finally, the municipal aid portion is allocated on the basis of a formula which incorporates population and mileage in the municipality as a portion of that in its county. The county portion is not allocated by formula.

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 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 through FY 2004, municipalities received $75 million from the TTF.

County 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 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 through FY 2004 counties received $75 million from the TTF.

Mass Transit

The New Jersey Transit Corporation (NJT), created pursuant to the New Jersey Public Transportation Act of 1979, P.L.1979, c.150 (C.27:25-1 et seq.) 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 2000 and new Light Rail service between Trenton and Camden in March, 2004.

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 380,300 in FY 2005. NJ Transit fares are subsidized by the State, to offset estimated losses per trip of $2.76 per rider in 2005. 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

Program Description and Overview (Cont'd)

operating area. For rail service, NJT meets the ADA standard for one accessible car per train.

Currently, New Jersey Transit operates among the lowest rates of cost recovery from users and fares in the nation. To assist NJT in carrying out its responsibilities, the State provides an annual operating subsidy to the corporation. This subsidy amount has risen steadily as fare recovery from the system users has declined, expenses and inflation have increased, and service has expanded. Fares have not been increased on a regular basis, nor are they indexed to inflation. The subsidy declined $194 million in FY 2004, and is proposed to be $279 million in FY2005. 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 another country), management efficiencies, and a liberalized definition of the permitted use of federal funds for capital maintenance, all helped NJT avoid a fare increase from FY 1991 to FY2001. However, a 10 percent passenger fare increase went into effect on April 1, 2002, based on the need for: (1) additional bus and rail service on existing routes (2) expense increases related to contractual labor agreements; and (3) new rail service for the Montclair Connection, Secaucus Transfer, Hudson-Bergen Light Rail System, and the South Jersey Light Rail System.

Regarding the NJT capital program, the FY 2005 budget proposes capital expenses of $509 million, a significant decrease from 2004 ($618.2 million). The TTF provided an average $65 million per year during the TTF's first four-year period. Since then the annual average rose to $195 million for FY 1992 through FY 1995, and reached $290 million for the period FY 1996 through FY 2000. For FY 2003 NJT received $529 million 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, the tax is only imposed at the smaller general aviation airports, so that the State's largest airports, Newark Liberty International Airport and Atlantic City International Airports, are excluded from the tax.

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 FY2002 - 2004 the TTF provided $7.0 million annually. 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.

Motor Vehicle Commission

Last year, the Motor Vehicle Commission (MVC) assumed all responsibilities of the Division of Motor Vehicles (DMV). The division was converted from an operation of the DOT into an independently funded and managed commission, as recommended by the Fix DMV Commission. P.L. 2003, c.13 (C.39:2A-1 et seq.), "The Motor Vehicle Security and Customer Service Act," abolished the DMV and created the New Jersey Motor Vehicle Commission as a successor agency in but not of the DOT. The MVC 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

Program Description and Overview (Cont'd)

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.

When the DMV was abolished, all of its career service employees were transferred to the commission and retained their present career service status. Motor Vehicle Agency employees have become employees of the commission and if employed by the agency on or before January 1, 2003 and assigned to career service titles shall, upon successful completion of a special probationary period, attain permanent, regular appointment in their respective titles and are covered under the State of New Jersey's collective bargaining agreement. Officers and employees of the commission are enrolled in the Public Employees' Retirement System and participate in the State Health Benefits Program. Motor vehicle agents are in the State unclassified service and serve at the pleasure of the Chief Administrator.

There are five advisory councils created to advise the commission, including (1) the Safety and Privacy Advisory Council, (2) the Customer Service Advisory Council, (3) the Security Advisory Council, (4) the Business Advisory Council and (5) the Technology Advisory Council.

The law also established a "Motor Vehicle Affordability & Fairness Task Force" to study the impact of non-driving related suspension of driving privileges, in particular the Merit Rating Plan Surcharges, on the driving public and to make recommendations for an amnesty policy and for the reform of the surcharge suspension program to increase motorist safety. The task force is also to examine "The Parking Offenses Adjudication Act" and municipal court process related thereto, as well as court actions on surcharge assessments and license suspensions related to nonpayment of fines or tickets as well as motor vehicle moving violations.

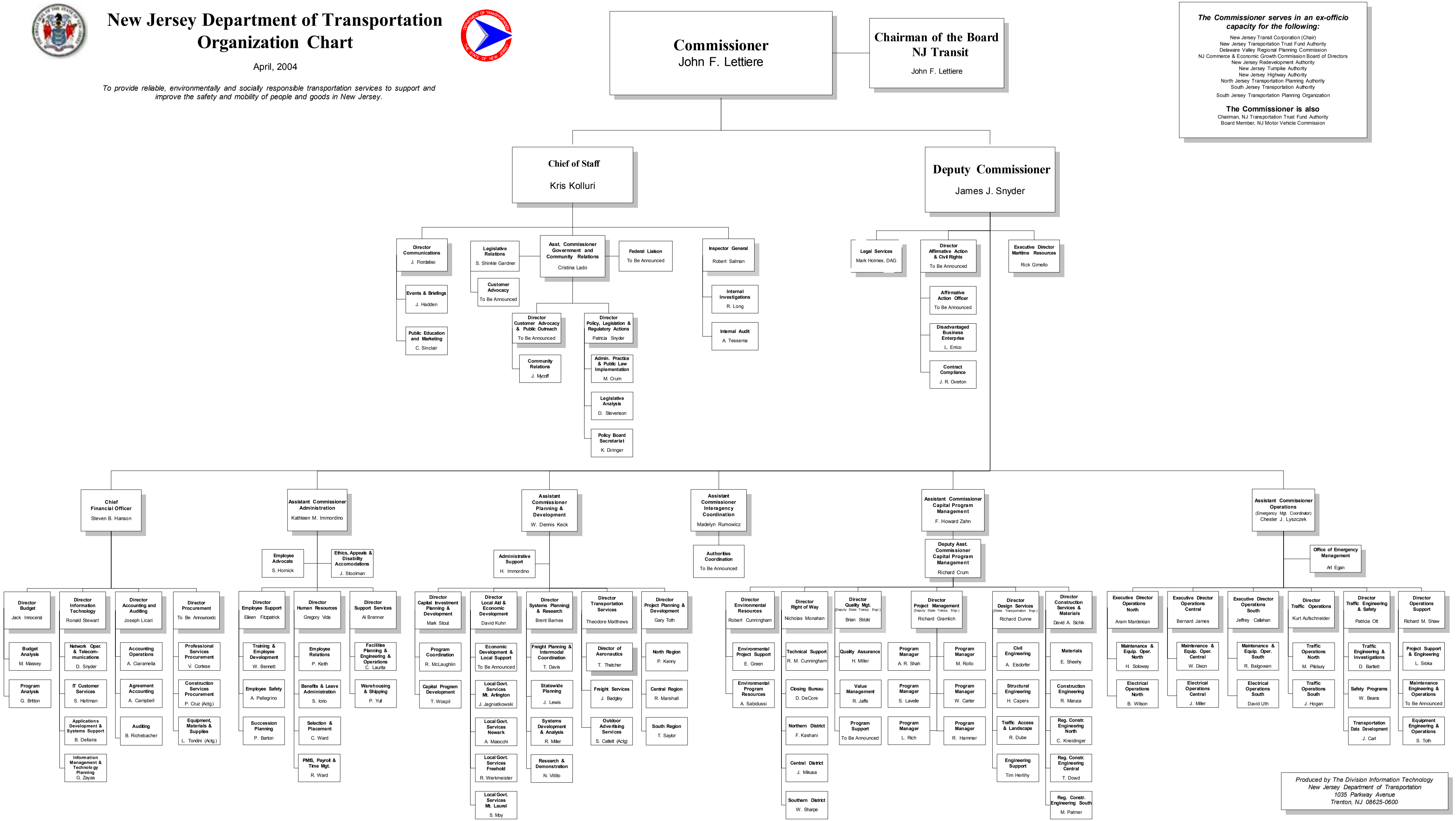
The law alters the budgetary treatment of revenues from motor vehicle fees and the appropriations for the MVC. Motor vehicle fees were previously anticipated as General Fund revenue and a fraction thereof appropriated as Direct State Services spending authority for the DMV. This amount generated from motor vehicle fees was much greater than the amount actually appropriated to the DMV, in essence allowing the fees to function as general revenue for state spending, rather than purely supporting motor vehicle regulation. The new method does not involve an "on-budget" appropriation to the commission for Direct State Services. Under the enacted law, a constant proportion or percentage from certain motor vehicle fees and surcharges (called "service charges") will be excluded from the anticipated General Fund revenues and made available for the sole use of the commission. Thus, the statute intends that the general budget and the MVC "lock in" their respective proportions of the proceeds from motor vehicle fees, subject to the provisions of annual appropriations acts.

In addition to this dedicated revenue, the law further reserves the revenue from the $6 fee authorized for digitized driver's licenses and from a $7 security surcharge on motor vehicle registrations. Seniors and the handicapped are exempt from the security surcharge. The security surcharge will sunset ten years after enactment. Finally, the law authorized the New Jersey Economic Development Authority to issue New Jersey Motor Vehicle Commission Bonds to be secured by the Market Transition Facility Revenue Fund resources that are available when the current Market Transition Facility Bonds are retired. The Motor Vehicle Commission Bonds will pay for the costs of capital improvements to commission facilities and technology systems.

New Jersey Department of Transportation Organization Chart

April, 2004

To provide reliable, environmentally and socially responsible transportation services to support and improve the safety and mobility of people and goods in New Jersey.



The Commissioner serves in an ex-officio capacity for the following:

New Jersey Transit Corporation (Chair)
New Jersey Transportation Trust Fund Authority
Delaware Valley Regional Planning Commission
NJ Commerce & Economic Growth Commission Board of Directors
New Jersey Redevelopment Authority
New Jersey Turnpike Authority
New Jersey Highway Authority
North Jersey Transportation Planning Authority
South Jersey Transportation Authority
South Jersey Transportation Planning Organization

The Commissioner is also

Chairman, NJ Transportation Trust Fund Authority
Board Member, NJ Motor Vehicle Commission

Produced by The Division Information Technology
New Jersey Department of Transportation
1035 Parkway Avenue
Trenton, NJ 08625-0600

Fiscal and Personnel Summary

AGENCY FUNDING BY SOURCE OF FUNDS ($000)

	Expended FY 2003	Adj. Approp. FY 2004	Recom. FY 2005	Percent Change 2003-05	Percent Change 2004-05
General Fund					
Direct State Services	$272,270	$106,242	$87,907	(67.7)%	(17.3)%
Grants-In-Aid	264,704	193,827	278,700	5.3%	43.8%
State Aid	0	0	0	0.0%	0.0%
Capital Construction	749,230	805,000	805,000	7.4%	0.0%
Debt Service	0	0	0	0.0%	0.0%
Sub-Total	$1,286,204	$1,105,069	$1,171,607	(8.9)%	6.0%
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	$24,934	$25,458	$25,287	1.4%	(0.7)%
Casino Control Fund	$0	$0	$0	0.0%	0.0%
State Total	$1,311,138	$1,130,527	$1,196,894	(8.7)%	5.9%
Federal Funds	$723,623	$705,124	$762,761	5.4%	8.2%
Other Funds	$1,099,196	$1,507,230	$1,486,399	35.2%	(1.4)%
Grand Total	$3,133,957	$3,342,881	$3,446,054	10.0%	3.1%

PERSONNEL SUMMARY - POSITIONS BY FUNDING SOURCE

	Actual FY 2003	Revised FY 2004	Funded FY 2005	Percent Change 2003-05	Percent Change 2004-05
State	2,793	2,770	2,746	(1.7)%	(0.9)%
Federal	1,042	1,001	1,130	8.4%	12.9%
All Other	1,217	1,972	2,500	105.4%	26.8%
Total Positions	5,052	5,743	6,376	26.2%	11.0%

FY 2003 (as of December) and revised FY 2004 (as of September) personnel data reflect actual payroll counts. FY 2005 data reflect the number of positions funded. Personnel summary excludes position data at the New Jersey Transit Corporation.

AFFIRMATIVE ACTION DATA

Total Minority Percent	23.4%	24.4%	24.6%	----	----

Significant Changes/New Programs ($000)

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
I. State & Local Highway Facilities:					
Maintenance and Fixed Charges	$33,063	$15,063	($18,000)	(54.4)%	D-383

The decrease in this line item affects the Maintenance and Operations component, where the department budgets its winter operations and snow response costs. The FY2004 budget included "base" funding of $9.8 million for snow response, with supplemental appropriations of an additional $20 million projected. As proposed for FY2005, the base budget would increase to $11.8 million, with allowance through language for an additional $10 million if needed. For the past few years, snow response costs have been between $20-$30 million, so the recommended funding correlates to expected moderate winter weather conditions.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
II. Transportation Trust Fund (TTF):					
A. Appropriation to TTF (capital construction revenue)	$805,000	$805,000	$0	0.0%	D-383
B. Appropriation from TTF (capital construction spending)	$1,228,200	$1,205,000	($23,200)	(1.9)%	D-384 D-387 H-61

The $805 million recommended to the TTF for FY2005 comprises only the constitutionally dedicated revenues provided by motor fuel taxes, the Petroleum Products Gross Receipts Tax ($200 million), and the Sales and Use Tax ($200 million). The recommendation thus holds constant at $405 million the portion of the Motor Fuels tax considered to satisfy the Constitution -- the "equivalent of revenue derived from $0.09 per gallon" -- even though the total yield from this tax is expected to rise by $9 million in FY2005, and has risen annually without an increase in the amount appropriated to the TTF since FY2000.

An amount of $114.5 million that is statutorily dedicated to the TTF, composed of motor vehicle registration surcharge fees ($60 million), certain diesel fuel revenues and truck fees ($30 million) and toll road authority contributions ($24.5 million) is not recommended for appropriation to the TTF for the 4th consecutive year. It should be noted that contracts with the State Treasurer obligate only the South Jersey Transportation Authority to contribute $2.5 million to the State transportation system; no payments are due from the Turnpike Authority.

The Administration proposes a capital construction appropriation of $1.205 billion from the TTFA for FY 2005. This amount would provide capital spending for NJTransit of $509 million, a decline of $109.2 million from FY2004 and DOT/Highway spending of $696 million, an increase of $86 million. The DOT/Highway spending portion includes $150 million for Local Aid projects.

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
IV. New Jersey Transit					D-386

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page
Corporation (NJT):					D-387
A. Expenditures -					
1. Bus Operations	$442,068	$455,400	$13,332	3.0%	
2. Rail Operations	$503,542	$520,200	16,658	3.3%	
3. Corporate Operations	215,172	215,200	28	0.0%	
4. Purchased Transportation	143,245	151,400	8,155	5.7%	
Sub-Total	$1,304,027	$1,342,200	$38,173	2.9%	
5. Transportation Assistance for Senior Citizens and Disabled Residents	25,458	25,287	(171)	(0.7)%	
NJT Total	$1,329,485	$1,367,487	$38,002	2.9%	
B. Revenues -					
1. State Subsidy	$193,827	$278,700	$84,873	43.8%	
2. NJT Resources:					
a. Farebox	537,000	558,900	21,900	4.1%	
b. Other	573,200	504,600	(68,600)	(12.0)%	
Sub-Total	$1,304,027	$1,342,200	$38,173	2.9%	
3. Casino Revenue Fund	25,458	25,287	(171)	(0.7)%	
NJT Total	$1,329,485	$1,367,487	$38,002	2.9%	

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.

Total resources are projected to increase by $38 million in FY2005. The recommended subsidy increase of $84.9 million is offset by a decline of $69 million in other resources, a drop that may stem from the recommended decrease in the NJT's capital program funding from the TTF. Also significant is the expectation of an increased fare revenue of almost $22 million, without a fare increase or major new program for ridership, and a general cost recovery of about 50% (loss per

Significant Changes/New Programs ($000) (Cont'd)

Budget Item	Adj. Approp. FY 2004	Recomm. FY 2005	Dollar Change	Percent Change	Budget Page

rider). The forecast represents a fare revenue increase of $30 million from FY2003 (actual revenue was $530 million that year).

Language Provisions

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-160	p. D-384
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.	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 $10,000,000, subject to the approval of the Director of the Division of Budget and Accounting.
No comparable language.	Of the amount hereinabove for Maintenance and Operations $10,000,000 for winter operations is payable from the receipts of the New Tire Surcharge subject to enabling legislation.

Explanation

This is ongoing language authorizing supplemental appropriations for snow response costs as an increment to that budgeted through the Maintenance and Operations account. The department budgets for snow response, but for the past few years has budgeted insufficient funds for this purpose, and has used this additional authorization and transfers to meet winter operations needs. In FY2005, this language will provide an incremental $10 million in addition to a base budget of $11.8 million for snow response.

The newly recommended language earmarks $10 million from a proposed surcharge on sales of vehicle tires to support winter operations. With the base snow response budget increased by $2 million (prior to supplemental appropriations), the earmarking comprises a substitution for current resources, rather than an augmentation thereof.

Language Provisions (Cont'd)

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-160	p. D-384
Notwithstanding any other law to the contrary, of the amounts appropriated hereinabove for the Department of Transportation from the General Fund, $24,500,000 thereof shall be paid from funds received or receivable from the various transportation oriented authorities pursuant to contracts between the authorities and the State as are determined to be eligible for such funding pursuant to such contracts, as shall be determined by the Director of the Division of Budget and Accounting.	Notwithstanding any other law to the contrary, of the amounts appropriated hereinabove for the Department of Transportation from the General Fund, $2,500,000 thereof shall be paid from funds received or receivable from the various transportation oriented authorities pursuant to contracts between the authorities and the State as are determined to be eligible for such funding pursuant to such contracts, as shall be determined by the Director of the Division of Budget and Accounting.

Explanation

Pursuant to contracts with the New Jersey Turnpike Authority and the South Jersey Transportation Authority, the department will receive $2.5 million from these authorities for the transportation system of the State. The authorities normally contribute $24.5 million annually to the transportation system, but in FY2005 only the South Jersey Transportation Authority is contractually obligated to contribute.

2004 Appropriations Handbook	2005 Budget Recommendations
p. B-160, B-163	p. D-385
Two provisions appropriating a total of $1,228,000,000 from the revenues and other funds of the New Jersey Transportation Trust Fund Authority, for capital purposes as follows: State Highway Projects, $610 million Public Transportation Projects, $618.2 million	Notwithstanding the provisions of P.L. 1984, c.73 (C.27:1B-1 et al.), there is appropriated the sum of $1,205,000,000 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 Projects Project Development Highway Planning Local Aid Projects Public Transportation Projects

Language Provisions (Cont'd)

2004 Appropriations Handbook	2005 Budget Recommendations

Explanation

This recommendation establishes the level of spending for capital projects for highways and public transit through the Transportation Trust Fund Authority and New Jersey Transit. If the Legislature concurs, the appropriations act will cite specific capital projects for each of those transportation areas, totaling $696 million for State Highway Projects, and $509 million for Public Transportation (through NJ Transit Corporation). Although the language cites (and voids) the provisions of N.J.S.A. 27:1B-1 et al., that law does not set any spending restrictions for this year.

Discussion Points

DOT/TTFA

1. The Transportation Trust Fund Authority Act (N.J.S.A. 27:1B-1 et seq.) was amended most recently in 2000. The amended law established the <u>minimum capital appropriation to the Transportation Trust Fund (TTF) at $919.5 million</u> for FY 2004. No appropriation was specified for FY 2005, and the plan has essentially expired. However, the Governor's Budget recommends that only certain revenues which are constitutionally dedicated for transportation purposes, $805 million, be appropriated to the TTF; some $114.5 million in statutorily dedicated revenues and contractual contributions from the toll roads are again not recommended for appropriation to the TTF. While this year's recommended appropriation would equal that of last year, it again is 1) short of what was intended by the approved plan (by $114.5 million) and 2) $400 million less than the recommended capital program of $1,205 million, leaving a gap to be filled by other resources, such as borrowing.

- *Questions:* Why has the Administration again chosen to recommend only the constitutional minimum appropriation to the TTF? With state revenue growth of $1.9 billion anticipated by the Governor in FY 2005, is there sufficient justification for holding annual payments to the TTF amount provided for the last 3 fiscal years? What impact on the indebtedness of the TTF will result from this recommendation?

2. Article 8, Section 2, paragraph 4 of the State Constitution dedicates the revenue from 9 cents of the motor fuels tax to the transportation capital system (a dynamic, not static amount). The FY 2005 budget estimates that the overall motor fuel tax revenue will grow to $549 million, from $506 million in FY 2000. While the amount attributable to the entire tax would thus increase by 8.5 percent over five years, the amount interpreted as dedicated to the transportation capital system has remained flat at $405 million per year.

The total tax imposed is 10.5 cents per gallon (cpg) for gasoline and 13.5 cpg for diesel, so a reasonable interpretation of the constitutional language encompasses 85.7 percent of the tax from gasoline sales and 66.7 percent of the tax from diesel sales. Gasoline accounts for 80 percent of fuel subject to taxation. In FY 2005, it thus appears that the <u>9 cents per gallon dedication will generate about $450 million</u>, or $45 million more than the minimum of $405 million.

- *Question:* Given the growth in the overall revenue from the motor fuels tax, how does the Administration interpret the constitutional language to allow the dedication of a static $405 million?

3. It was reported in various newspapers in February 2004 that state transportation officials had developed a plan to sustain transportation financing for FY 2005-2006 through the issuance of $900 million in grant anticipation revenue bonds, or GARVEE bonds. This plan seems to have been based on the premise that appropriations to the TTF at minimum constitutionally permissible levels would be fully consumed by TTF debt service, leaving no funding for projects. The FY 2005 budget is silent on the matter of GARVEE bonds, and except for a recommended reduction of $23 million (-2 percent) in the annual capital program, seems to maintain the status quo for transportation financing.

- *Questions:* Does the department plan to issue of GARVEE bonds during FY 2005 as a means of funding transportation projects, and if so, in what amount and with what maturity schedule? If no such issuance is planned, given a statutory debt ceiling of $650 million per year (excluding authorized unissued debt, no proposed increase in appropriations to the TTF, and previous inferences that debt service would fully consume

Discussion Points (Cont'd)

that level of appropriations, i.e., $805 million, how will the TTF have the capacity to fund the level of capital program the budget recommends? Will it be necessary to "forward" part of FY 2006's debt capacity to balance the FY 2005 capital program? Have prior capital project authorizations been cancelled, or will they be, to allow unused debt capacity from prior years to support FY 2005 authorizations, and if so, in what dollar amount?

New Jersey Transit

4. The Fiscal Year 2005 budget recommends an increase of $84.9 million in the New Jersey Transit (NJT) operating subsidy, but displays a decrease in other NJT resources of $68.6 million (p. D-386). Farebox revenue is projected to increase by $22 million, with no increase in fares. NJT's operating resources will thus increase by a net $38 million. The recommended transportation capital program allocation to NJT is recommended to decrease by $109 million.

- *Question:* For fiscal years 2000 - 2005, what amount of NJT's "other resources" as displayed in the budget for each year was or will be received from capital program appropriations funded by the TTF? By what amount is the Fiscal Year 2005 level of state budget support for NJT operations, i.e., the sum of the operating subsidy and NJT's portion of the transportation capital program comprising NJT "other resources", increasing or decreasing in FY 2005 compared to FY 2004? If decreasing, by what amount would average rail and bus fares, respectively, have to increased to make up the decrease?

5. The state is preparing to issue $274.3 million in certificates of participation, to be redeemed by annual state lease payments from 2007 through 2019, by which it will acquire articulated buses, diesel locomotives and Suburban/Transit buses on behalf of NJT.

- *Question:* After the sale of these certificates of participation, what will be the amount of outstanding indebtedness, in the form of certificates of participation or other debt instruments issued by or on behalf of NJT? Please be specific as to the amount attributable to each issuer, e.g., the state, the New Jersey Economic Development Authority, etc. What is the annual debt service on this indebtedness, actual and projected, for FY 2005 and for each succeeding year through maturity? Again, please be specific with respect to each issuer. What amount of FY 2005 debt service is to be funded from NJT's operating budget and what amount from the TTF capital program, net of any FY 2005 capital program appropriations which would support the NJT operating budget as "other resources"?

Motor Vehicle Commission

6. The proposed budget includes $90 million in revenue from a timing revision to motor vehicle registrations, in which purchasers of new motor vehicles will be required to pay for 4 years worth of registration fees in advance. This move will not change the base rate or volume of registrations, merely the timing of those payments. However, the fees due to the Motor Vehicle Commission (MVC) pursuant to P.L. 2003, c.13 do not reflect a corresponding increase in the proposed budget. The MVC is entitled by law to receive a certain proportion annually of base motor vehicle registration fees and 100 percent of a $7 surcharge on annual registrations.

- *Question:* What portion of this $90 million in new revenue would otherwise be earmarked by current law for allocation to the MVC? What payment arrangement will

Discussion Points (Cont'd)

be made with MVS to comply with the provisions of P.L. 2003, c.13?

7. Earlier this year the Motor Vehicle Commission (MVC) began to issue digital driver's licenses, featuring advanced security features designed to minimize counterfeit and fraud. The MVC planned to sequentially install the equipment needed tor produce these licenses so that all 45 agencies would be able to issue digital licenses by the end of April 2004.

- *Question:* Is the deployment of digital driver's license equipment progressing sufficiently to achieve the goal of full installation at all MVC centers by the end of April 2004? If not, what is the revised timetable for completion? At the conclusion of full deployment, what will be the total cost of conversion to digital licenses? Have any attempts to counterfeit digital licenses been detected?

8. The Economic Development Authority issued $160 million in bonds in June 2003 to provide funds to the Motor Vehicle Commission (MVC) for capital projects, including building improvements and acquisition of computers, machinery and electronic equipment. The results of sale produced $157.5 million in project funds, of which $10 million is earmarked for improvements to the Judiciary's automated traffic system.

- *Question:* Has the MVC developed a capital improvement plan for use of these funds? If so, please provide an overview of the plan and supply a copy. What is the status of plan implementation, and how much has been expended to date from these bond funds? Does the plan require the issuance of additional debt to finance all proposed projects and improvements ? If no plan has been developed, please explain what next steps the MVC intends to take to assure timely and proper use of these funds in accordance with legislative intent.

Background Paper: Transportation Trust Fund Authority

Budget Pages.... D-373 to 390; H-61

Introduction

The Transportation Trust Fund, ("Trust Fund", or TTF) 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. 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. 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.

Funding History

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 only a three-year program and a one year extension with each year at rapidly rising 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.

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, held the TTF 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. As part of the 1995 reauthorization legislation, the annual Trust Fund program level was increased to $700 million. In addition, its funding purposes were expanded to include specific support for general

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

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 again increased the amount of the annual Trust Fund capital program but authorized funding for only the four year period from FY 2001 through FY 2004. During this interval, the 2000 law stipulated 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 each of the remaining years, FY 2002 - 2004, the Legislature authorized a Trust Fund program in excess of the planned cap, of $1.107, $1.108, and 1.228 billion, respectively. Thus, the planned cap on spending was only implemented in the first year of the program, with the program amount revised by language inserted into the annual Appropriations Act. While some provisions of this latest reauthorization law have been implemented and some remain in effect, the program did not specify a program cap beyond FY2004. The Administration has recommended a FY2005 program of $1.205 billion. This is the first year since 1984 that the TTF will be operating without legislation which establishes levels of project spending or supporting revenues.

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 has progressed as follows:

1984 -- 2.5 cents per gallon (cpg)
1996 -- 7 cpg
1998 -- 8 cpg
1999 -- 9 cpg

(2) beginning in FY2002, the annual revenues, but not less than $200 million, from the Petroleum Products Gross Receipts Tax; and (3) also beginning in FY2001, $80 million from the Sales and Use Tax, which increased to $140 million in 2002, and finally to $200 million in FY2003. In FY2000, the Motor Fuels tax portion ("9 cents worth") was interpreted to be about $405 million, and that amount was put into statute as a minimum. Since then, the yield from Motor Fuels tax has increased 8.5 percent, to an estimated $549 million in FY2005, but the amount from Motor Fuels tax dedicated to the TTF has remained flat at $405 million. For FY2005, the Administration interprets the constitutional dedication to mean $805 million.

Second, the most recent plan provided for the TTF 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 is to receive $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

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

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. Including the statutorily planned amount in P.L. 2000, c.73, revenues for the TTF were to be at least $919.5 million in FY2005.

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: available revenue

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 million and $201 million. Pursuant to the legislation renewing the Trust Fund in 1988, the annual capital appropriation was planned 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, only $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 attributed 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 TTF 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 instead funded activities that were eligible to be funded under the contracts but which the department had previously financed out of its operating budget. Consequently, the Trust Fund received a total appropriation of only $685 million in FY 2002.

For FY 2003, the Legislature approved a capital budget appropriation of $745 million to the TTF, 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

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

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 decrease in the annual appropriation was 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%.

For FY 2004, the final year of the recently concluded program, the Legislature approved an appropriation to the TTF of $805 million. As in FY 2003, $114.5 million in statutorily earmarked capital revenues were not appropriated, but are recommended to be used as General Fund resources. No discretionary amounts are budgeted for the capital program. The same revenue amounts are proposed for FY2005.

Step 2: approved spending

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 $1.228 billion for FY 2004. The requested $1.205 billion amount for FY 2005 would be the second highest authorization in the history of the TTF.

Given the operating deficit 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 the amount of maturing bonds payable had been relatively modest in the recent past, about $184 million in FY 1997, these costs increased to $449 million for FY 2003, and are expected to exceed $500 million by FY2006.

In FY2003, the Authority disbursed $959 million to the Special Transportation Fund for the capital needs of the transportation system. The TTFA had a net asset deficit of $84.5 million, as compared to net assets of $635 million at the close of FY2002. The authority did not issue bonds for projects in FY2003. The authority had $5.0 billion in bonds outstanding at the end of 2003, a 2% decrease over the prior year, as it issued $678.1 million to refund earlier debt at more favorable interest rates. Total outstanding debt, including principal and interest for maturing bonds was $7.4

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

billion at the close of 2003, with maturities extending to 2022. Thus far during FY2004, the Authority has sold $925 million in bonds, producing $900 million for projects, and increasing total outstanding bond principal to $6.1 billion and total outstanding debt service to $9.5 billion. A partial refunding of debt is expected by the close of FY2004, which could reduce total debt service by about $60 million.

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	State Appropriation	Bond Proceeds	Investment Earnings	Debt Service	Unmet Cash Need[1]
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	$872	$749
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)
2003	1,108	745	0	16	449	796

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

Fiscal Year	Trust Fund Program	State Appropriation	Bond Proceeds	Investment Earnings	Debt Service	Unmet Cash Need[1]
2004	1,228	805	995	9	496	(85)
Sub-total	$13,124	$7,312	$7,395	$427	$4,371	2,361
2005(Est)	1,205	805	946	9	528	(27)
Total	$14,329	$8,117	$8,341	$436	$4,899	2,338

1. 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 $2.4 billion to balance the total of all program and payment expenditures authorized since FY 1985 with revenues received through FY 2004.

2. 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. Ongoing bond issuances have had 20 year maturities.

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Individuals wishing information and committee schedules on the FY 2005 budget are encouraged to contact:

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