

A Different Road

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The Corzine Plan

Under Governor Corzine's Financial Restructuring proposal approximately half of the State's debt, which consists of **\$7.565 billion** in non-transportation debt and **\$8.400 billion** in Transportation Trust Fund debt, would be **refinanced** for a total of **\$15.965 billion** of debt.

To create the Public Benefit Corporation (the "PBC"), the Governor proposes refinancing or paying-off approximately **\$10 billion** in Turnpike and Atlantic City Expressway debt.

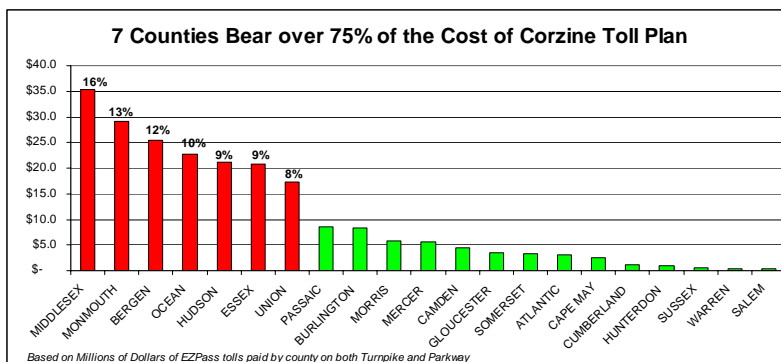
The remainder of the money raised through the PBC would go towards a capital reserves fund (**\$4 billion**) and the costs of issuance and defeasance (approximately **\$2.3 billion**).

According to the Governor's proposal, this would result in an annual budget expense reduction of approximately **\$600 million** to **\$1 billion**.

A Matter of Unfairness

The cost of doing this will fall disproportionately on the resident of just 7 out of 21 counties, who will pay 75% of the revenue. In addition to the inherent unfairness of placing the entire financial burden on those who live and commute on the toll roads, there are significant consequences of these substantial toll hikes.

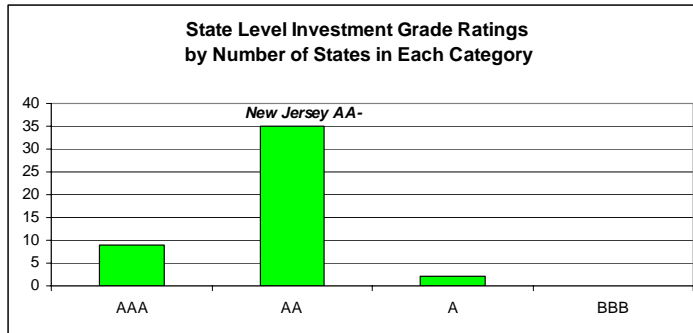
- Diversion of vehicles from toll roads to non-tolled state highways and county and local roads
- Business relocation from our ports and warehouses along the Turnpike to locations outside of New Jersey and/or onto non-tolled routes
- Employment shift due to the high cost of commuting on toll roads
- Tourism shift to other states
- Higher cost of goods resulting from higher transportation costs
- Jeopardizes the necessary repair, maintenance and safety for all roads



The State's Fiscal Picture

The State's financial picture, while not great, is nowhere near the bankruptcy scenario painted by the Governor. The "problem" needs to be put into perspective.

According to the dictionary the word "bankrupt" is defined as: "A debtor who ... by his creditors is judged legally insolvent...financially ruined, impoverished, depleted or destitute." The State of New Jersey does not fit this definition and maintains a high bond credit rating. New Jersey has a "AA-" rating from the Bond Rating Agencies.



- Over 70% of all States are rated in the AA category
- None of these States are predicting "Bankruptcy"
- Only 9 States are rated in the AAA Category
- Goldman Sachs also is rated "AA-"

Fiscal Reforms

The Governor has correctly pointed out that we need greater restraint in the way Trenton spends taxpayer money. I agree with three of the Governor's proposals;

1. Freeze Spending Right Now – The citizens of our state believe that state government wastes the money that it already collects. Before the state begins any effort to raise additional revenue, whether it's 800% toll increases or a 18¢ gas tax increase, the state needs to freeze spending.
2. Cut the Size of Government - Two years ago the Legislature convened in an unprecedented special session over the summer. As a result nearly 100 recommendations were developed on reducing the size and expense of state government. Those recommendations should be reviewed and, where appropriate, implemented.

3. Control Future Spending - In addition to freezing spending now, state government needs to put into place reforms that will control the growth of spending. The biggest driver of state spending is salary, pension and benefit costs
4. Voter Approval for Borrowing – The Governor has called for a Constitutional amendment requiring voter approval for all new debt not secured by a dedicated funding source. Far too often *caveats* like a “dedicated funding source” have been abused to the detriment of the state’s finances. Therefore I would support;
 - a. a Constitutional amendment requiring voter approval for all new debt issued by the State of New Jersey, and
 - b. a Constitutional amendment restricting the creation by the state of any entity whose purpose it is to borrow money without voter approval, and
 - c. a Constitutional amendment to restrict the issuance of debt to match the useful life of the capital improvements.

However, those reforms do not address all of the issues. The following steps should also be implemented;

1. Responsible Refinancing – The state has an existing requirement that debt be refinanced only if a minimum three percent (3%) net present value savings can be demonstrated when comparing the “old” debt service to the “new” debt service. No debt should be refinanced unless it meets these criteria.
2. Sale or Lease of the Lottery – The New Jersey Lottery is not a vital state asset, unlike our toll roads. Some estimates suggest that up to ten billion dollars (\$10,000,000,000) could be realized from such a sale or lease. Any funds from a sale or lease of the Lottery would be earmarked for paying down or the defeasance of state debt.
3. A permanent Commission on Fiscal Oversight should be formed with equal representation among the Executive, Senate and Assembly to further investigate reforms that will maintain sound financial policies into the future
4. The reforms outlined here cannot work overnight. To see if more drastic measures are needed, time is needed to evaluate these reforms.

A Different Road: Transportation Funding

Toll Road Capital Plan – The Governor has correctly pointed out that tolls have not kept pace with the true value of using the roadways to the point where they can't undertake necessary capital improvements. I would;

1. Increase Turnpike tolls by twenty five percent (25%) in each of 2008, 2012 & 2016, and
2. Increase Parkway tolls to 50¢ in 2008 and to 75¢ in 2014.
3. Increase Atlantic City Expressway tolls to 75¢ in 2008 and to \$1.00 in 2014.
4. Consolidate the Atlantic City Expressway into the Turnpike system.
5. Allow the Toll Roads to finance their capital program relying upon the toll increases provided that the debt repayment does not exceed the useful life of the improvements.

Transportation Trust Fund – Increase the funding available to the Transportation Trust Fund (TTF) by;

1. Increasing the amount of the gas tax presently collected by 18¢ a gallon through a series of increases of 6 ¢ over three (3) years¹. At the conclusion of the three year period the gas tax would be indexed to the Consumer Price Index ("CPI"). This would create a sustainable annual TTF program of approximately one billion six hundred million (\$1,600,000,000) on a 60/40 pay/go basis, and
2. Increasing the rents on Toll Road Gasoline and Concession Stations. The bulk of the money paid to these concessionaires comes from out-of-state travelers. It has been suggested that the full value of these concessions has not been maximized under the current arrangements, and
3. Selling or leasing air rights.

¹ A gas tax increase of \$0.18 will generate approximately \$900 million in revenue. An average drive traveling approximately 12,500 miles each year will pay approximately \$100 annually or \$0.50 per day.

A Different Road: Open Space Funding

Senator Bob Smith and Assemblyman John McKeon have proposed S-969 and A-1874, which would impose a tax upon water consumption. Limit this charge to no more than \$8 per quarter for users and phase implementation in over a three year period. It could generate up to \$150 million annually, yet costing the average household only \$32 per year. It would free up the current dedicated revenue of the sales tax of about \$ 98 million annually that goes for Garden State Preservation Trust debt service purposes and raise an additional \$52 million annually for new land preservation efforts. This measure should be put on the ballot as a referendum.

A Different Road: Do's & Don't's

1. Do - Keep citizen supported debt, including toll debt, within the useful life of the assets being funded.
2. Do - Match the beneficiaries of the expenses with the payers of the revenues.
3. Do - Raise revenues with fair and equitable statewide measures.
4. Do - Maintain control of statewide roadways in accountable public entities with proven track records of service.
5. Do - Have voters approve borrowings.
6. Don't - Refinance bonds that don't save money.
7. Don't - Finance capital over 65 years whose useful life is 40 years.
8. Don't - Impose a "Corridor Tax" on toll road users that unfairly burdens them while others pay very little.
9. Don't - Impose tolls, taxes, fees or other measures that are not fair and equitable on a statewide basis.
10. Don't - Increase recurring expenditures without increasing recurring revenues.

A “Different Road” Plan Savings

1. Avoids Cost of Issuance of \$380 million.
2. Avoids capitalized interest and reserves of \$4 Billion.
3. Avoids lost cost of defeasance of \$2 Billion.
4. Maintains low cost of funding achieved with current outstanding bonds.
5. Avoids billions in excess interest cost due to longer term and lower rated debt structure of administration plan.

Comparisons

Tolls on the Garden State Parkway

The following is a comparison of the toll increases in the Governor's Plan and the New Plan on the Garden State Parkway:

	<u>Governor's Plan</u>	<u>New Plan</u>
Current	35 cents	35 cents
2010	60 cents	50 cents
	<u>Governor's Plan</u>	<u>New Plan</u>
2014	95 cents	50 cents
2018	1.60	75 cents
2022	2.70	75 cents

Example of an annual commute of 3 exits each way or 6 exits roundtrip:

	<u>Daily Commute</u> (one day)	<u>Weekly Commute</u> (five days)	<u>Annual Commute</u> (50 weeks)
Current	\$2.10	\$10.50	\$502.50
2010			
Governor's Plan	\$3.60	\$18.00	\$900.00
New Plan	\$3.00	\$15.00	\$750.00
2014			
Governor's Plan	\$5.70	\$28.50	\$1425.00
New Plan	\$3.00	\$15.00	\$ 750.00
2018			
Governor's Plan	\$9.60	\$48.00	\$2400.00
New Plan	\$4.50	\$22.50	\$1125.00
2022			
Governor's Plan	\$16.20	\$81.00	\$4050.00
New Plan	\$ 4.50	\$22.50	\$1125.00

Tolls on the New Jersey Turnpike

The following is a comparison with the toll increases in the Governor's Plan and the New Plan on the New Jersey Turnpike using \$1.20 as an average trip:

	<u>Governor's Plan</u>	<u>New Plan</u>
Current	\$1.20	\$1.20
2010	\$2.05	\$1.50
2014	\$3.45	\$1.90
2018	\$5.85	\$2.35
2022	\$9.85	\$2.35

Example of an annual commute from Exit 11 to Exit 16E (Lincoln Tunnel) which is \$2.40 each way or \$4.80 roundtrip:

	<u>Daily Commute</u> (one day)	<u>Weekly Commute</u> (five days)	<u>Annual Commute</u> (50 weeks)
Current	\$4.80	\$ 24.00	\$1,200.00
2010			
Governor's Plan	\$7.50	\$ 37.50	\$1,875.00
New Plan	\$6.00	\$ 30.00	\$1,500.00
2014			
Governor's Plan	\$12.15	\$ 60.75	\$3,037.50
New Plan	\$ 7.50	\$ 37.50	\$1,875.00
2018			
Governor's Plan	\$19.65	\$ 98.25	\$4,912.50
New Plan	\$ 9.40	\$ 47.00	\$2,350.00
2022			
Governor's Plan	\$31.85	\$159.25	\$7,962.50
New Plan	\$ 9.40	\$ 47.00	\$2,350.00

Tolls on the Atlantic City Expressway

The following is a comparison with the toll increases in the Governor's Plan and the New Plan on the Atlantic City Expressway:

	<u>Governor's Plan</u>	<u>New Plan</u>
Current	50 cents	50 cents
2010	85 cents	75 cents
2014	\$1.45	\$1.00
2018	\$2.40	\$1.00
2022	\$4.05	\$1.00

The following incorporates the previous commuting examples .

	<u>New Plan Tolls</u>	<u>New Plan Gas Increase</u>	<u>New Plan Total</u>	<u>Governor's Plan Tolls</u>
Garden State Parkway				
2010	\$ 750.00	\$ 66.00	\$ 816.00	\$ 900.00
2014	\$ 750.00	\$120.00	\$ 870.00	\$1,425.00
2018	\$1,125.00	\$144.00	\$ 1,264.00	\$2,400.00
2022	\$1,125.00	\$174.00	\$ 1,299.00	\$4,050.00
New Jersey Turnpike				
2010	\$1,500.00	\$ 60.00	\$1,560.00	\$1,875.00
2014	\$1,875.00	\$120.00	\$1,995.00	\$3,037.50
2018	\$2,350.00	\$144.00	\$2,495.00	\$4,912.50
2022	\$2,350.00	\$174.00	\$2,424.00	\$7,962.50

Comparisons

New Plan vs. **Governor's Plan**

Toll Road Improvements

Toll road improvements include the widening projects on the Turnpike and Parkway.

\$4.0 billion vs. \$4.0 billion

Costs of the Deal

The Governor's Plan requires new issuance costs including underwriting and counsel fees. There will also be costs to create the PBC, including the costs of transferring the toll authorities to the PBC. Since the existing state bonds cannot be "called" there will be costs incurred to defease the bonds. There will be also costs for interest reserves since there will not be enough toll revenue generated to cover the bond and interest costs. Under the New Plan there will be no PBC. The existing NJTPA will continue to collect toll revenues.

-0- vs. \$6.135 billion

Toll Increases

The last toll increase under the New Plan takes affect in 2016. Under the Governor's Plan, the tolls increase annually after 2022 at the rate of inflation, up to 3% per year for the next 62 to 86 years.

Increases end 2016 vs. Increases continue 62-86 years

Flexibility

75 years ago there was no New Jersey Turnpike. Do we have the right to commit the future of three generations based on sample projections from a study?

Adjustments can be made based on actual outcomes, not projections. vs. LOCKED IN FOR 75 YEARS
Revenues and transportation needs can be modified based on actual demands.

Plan Element	1 Tolls	2 Toll Roads	3 Gasoline Tax	4 Transportation Funding	5 Open Space Funding	6 State Fiscal Reforms
Wisniewski Plan	Turnpike Tolls rise by 25% 3 times over 8 years	Toll Roads retained by NJ Turnpike Authority, a governmental agency	Increase by 18 cents over 3 years	Gasoline tax increases provide over \$900 million per year in recurring revenues.	Initiate water user surcharge of \$8 per quarter. Generates \$150 million annually.	Freeze Current Spending - Control Future Spending - Stop Borrowing
	Parkway Tolls raise from 35 cents to 50 cents now. Increase in 6 years to 75 cents. Increase Expressway tolls from 50 cents to 75 cents then to \$1.00 in 5 years.	Maintains governmental oversight over a key state asset that drives economic development	Then index gas tax to the Consumer Price Index ("CPI")	At end of 2041 all Trust Fund debt is paid on schedule and frees and additional \$800 million per year for roads	Over 75 years funds over \$11 Billion in open space needs.	Investigate sale/lease of Lottery as non essential State asset
	Tolls would rise only about 100% in 8 years	Allows Authority to raise up to \$8 Billion for current and future road improvements	Cost to average driver about 50 cents per day		Costs average water user less than 1 cent per day	Limit any refinancings to those that provide 3% savings
Corzine Plan	Tolls rise by 50% 4 times in 16 years	Sold to Public Benefit Corporation for at least 75 years, perhaps as long as 99 years.	No increase in gasoline tax, remains third lowest in the country in most urbanized state in the country	Over \$10 Billion of Trust Fund Debt would be paid off, freeing about \$800 million per year in recurring revenues	Fund Open Space with freed sales tax revenues after refinancing	Freeze Current Spending - Control Future Spending - Stop Borrowing
	Tolls also rise with inflation of up to 5% annually	So called PBC, not subject to government oversight for nearly a century		Fund Trust Fund with excess profits from PBC		
	Total toll increase of over 800% within 20 years	PBC sells \$38 Billion in debt, only \$4 Billion put back into toll roads				
Benefits from New Plan	Toll increases only 12.50% as much as Corzine Plan	Twice the money to improve toll roads.	Gas tax is equitable to all motorists	Provides Billions for transportation needs statewide	Permanently solves open space funding needs and frees up currently dedicated sales tax revenues when current bonds are repaid in 20 years	Provides continuing effort not just a one shot financial gimmick
		Maintains governmental oversight of toll roads for future generations.	Stops subsidizing truckers who but NJ gas cheap	Fairly charges all motorists for use of toll free roads		
		Avoids excessive borrowing to fund reserves, higher interest rates and costs of financing		Avoids excessive borrowing to fund reserves, higher interest rates and costs of financing		Avoids excessive borrowing to fund reserves, higher interest rates and costs of financing