

Appendices

to

Reform, Revenue, Results: How to Save New Jersey's Transportation System

November 2005

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Appendix A: Review of the Six Recommendations from *Putting the Trust Back in the New Jersey Transportation Trust Fund*, July 2005

The July 2005 report recommended six steps to ensure the public its money will not contribute to another Trust Fund crisis. The full July 2005 report can be found at www.rpa.org.

- 1. Fully fund DOT and TRANSIT operating budgets and eliminate capital-to-operating transfers.** At present, NJ DOT and NJ TRANSIT spend over \$300 million in capital funds on day-to-day operations, some of which come from the Transportation Trust Fund. The state's failure to provide sufficient, predictable operating resources, coupled with state policy that froze NJ TRANSIT's fares for 11 years, have created a structural deficit in operating funds. Even if NJ TRANSIT instituted a series of regular fare increases of modest proportions, much of the operating gap would remain. **The November 2005 report recommends constitutionally dedicating revenue from motor fuels taxes and motor vehicle fees that are *already* collected to permanently stabilize the agencies' operating budgets.**
- 2. Regularly increase NJ TRANSIT fares to keep pace with expenses.** The July 2005 report recommends periodic fare increases, every two years, to maintain a cost recovery ratio of about 48%. This will increase NJ TRANSIT's resources for operations by approximately \$135 million per year, a small step toward closing its average yearly operating deficit of \$730 million.
- 3. Constitutionally dedicate all originally intended resources to the Transportation Trust Fund and to NJ DOT and NJ TRANSIT operating budgets,** including the motor vehicle fees statutorily dedicated to the Trust Fund, a contribution from the New Jersey Turnpike Authority, and the full collection from the motor fuels tax.
- 4. Restore long term bondability to New Jersey's transportation financing system by limiting the term of bonds issued between 2006 and 2011 to ten years.** Though shortened maturities will reduce the amount of bond borrowing the Trust Fund Authority can do, it will mean that bond borrowing can significantly increase in the future in a sustainable way, without requiring further revenue increases.
- 5. Create an independent Five Person Financial Policy Review Committee.** This report recommends adopting the same Committee composition as Assemblyman Wisniewski and Assemblyman Biondi's proposed Trust Fund reauthorization legislation (A3414, October 2004), but with longer (five year), overlapping terms of office to ensure the Committee's independence from the political process. The Committee would certify that the Trust Fund Authority is only providing resources at a fiscally responsible level; without annual certification, NJ DOT and NJ TRANSIT would not receive funding from the Trust Fund. With the semi-annual information provided by the Director of the Division of Taxation in hand, the politically independent Committee would be empowered to certify that the budgets are sustainable and requests are consistent with resources available from the Transportation Trust Fund.
- 6. Issue reports from the Director of Division of Taxation to the Committee and the public every six months showing the full amount collected from transportation-related taxes, tolls and fees.** With this information in hand, the politically independent Committee would be empowered to certify that the budgets are sustainable and requests are consistent with resources available from the Transportation Trust Fund.

Appendix B: Discrepancies in Motor Fuel Tax Collections and Appropriations

Each year, \$405 million of revenue from the Motor Fuels Tax is appropriated to the Transportation Trust Fund (TTF). According to TTF legislation, this annual appropriation should be equivalent to revenue from “nine cents” of the Motor Fuels Tax. This implies a different amount of revenue should be appropriated each year, since a 9-cent revenue equivalent would change depending on how much the Motor Fuels Tax - 10.5 cents (for gas) and 13.5 cents (for diesel) – raised that year. Nevertheless, each year the same amount, \$405 million, is appropriated.

In FY 06, the State reported \$575 million collected from the Motor Fuels Tax. Working backwards from that, and assuming 80% of motor fuel sales are gasoline and 20% are diesel (as they were in 2004 and 2005), a 9-cent revenue equivalent is estimated at \$467 million, or **\$62 million** more than the \$405 million actually appropriated under the “nine cent” legislation.

The “9-cent revenue equivalent” is unclear language. A reasonable interpretation might follow this logic: 9 cents is 85.7% of the 10.5 cent gas tax and 66.7% of the 13.5 cent diesel tax. Therefore, those proportions of the Motor Fuels Tax revenue should be appropriated to the TTF.

The State¹ does not report how much gasoline is sold, or how much revenue comes from gas or diesel fuel taxes. The only information available is the total revenue collected from all Motor Fuel Taxes. In FY 06, that was expected to be \$575 million; in FY 05, that was \$559 million.

An independent estimate shows that more revenue may have been collected than was reported by the State. The Federal Energy Information Administration provides the volume of fuel sold in New Jersey each day. The most recent data available is for FY 05, when about 4.66 billion gallons of gas and 1.16 billion gallons of diesel were sold in the state. Given that, it is assumed that each penny of the gas tax raised \$46.6 million, and each penny of the diesel tax raised \$11.6 million. FY 05 Motor Fuel Tax receipts are estimated at \$645.9 million. This differs from the State’s reported revenue by **\$86.9 million**.

The state has retained a “1.5-cent revenue equivalent” of the Motor Fuels Tax to pay back transportation general obligation bonds. These bonds have since been almost completely paid back, and the 1.5 cent revenue equivalent of the Motor Fuels Tax has been directed to the General Fund. This revenue was never specifically dedicated to the Transportation Trust Fund, however it is a transportation-related revenue source. A 1.5-cent revenue equivalent, using the FY 05 revenue estimates from the state, equals approximately **\$54.4 million**.

In short, here are the discrepancies and problems:

- In FY 05, the Transportation Trust Fund received approximately \$62 million less than the 9-cent revenue equivalent it is legislatively entitled to receive each year.
- In FY 05, the State may have reported \$86.9 million less than was actually collected.
- Approximately \$54.4 million, or 1.5-cents of the Motor Fuels Tax, that was formerly used to pay back a transportation general obligation bond is being allocated to the General Fund.
- The legislation calling for a “9-cent revenue equivalent” of the Motor Fuels Tax receipts is unclear.

¹ No New Jersey state agency reports detail on Motor Fuel Tax collections, including Office of Management and Budget, NJ DOT, and the Division of Taxation

Appendix B: Discrepancies in Motor Fuel Tax Collections and Appropriations

- Appropriating the same amount - \$405 million - each year from the Motor Fuels Tax to the Transportation Trust Fund does not follow the legislative mandate. The appropriated amount should change each year, depending on Motor Fuel Tax receipts.
- The State does not report separately how many gallons are sold or how much revenue is collected from the gas and diesel fuel taxes.

The July 2005 and November 2005 reports make recommendations that would correct these problems:

- ❖ Issue reports from the Director of Division of Taxation to the Committee and the public every six months showing the full amount collected from transportation-related taxes, tolls and fees. With this information in hand, the politically independent Committee would be empowered to certify that the budgets are sustainable and requests are consistent with resources available from the Transportation Trust Fund. (July 2005)
- ❖ Permanently stabilize the operating budgets of both agencies by constitutionally dedicating revenue from motor fuels taxes and motor vehicle fees that are *already* collected and currently going to the General Fund.
- ❖ Constitutionally dedicate all *new* revenue intended to support the capital program.
- ❖ Constitutionally dedicate all *originally intended* resources to the Transportation Trust Fund.

Appendix C: Bonding Limits and Spending Caps

Bonding Limit

Transportation Trust Fund (TTF) legislation sets a bonding limit that can only be altered by changing the law. The current maximum allowable bond issue per year is \$650 million. Bond authority can be carried over in perpetuity, from year to year, so that a \$500 million bond issue one year leaves \$150 million of excess bonding capacity to be used in subsequent years. The bonding limit is protected by the single object clause in the New Jersey constitution. The appropriations act cannot alter the bonding limit.

Spending Cap

The maximum size of the annual TTF appropriation to the capital program is now, according to TTF legislation, \$950 million. Over the last few years actual appropriations have exceeded this; in FY 05, \$1,205 million was appropriated and in FY 06 it is planned at \$1,151 million. The spending caps in TTF legislation are easily nullified by language regularly used in appropriations acts.

In the table below, the two columns on the left show that in most years, there have been discrepancies between the spending cap and the actual appropriations from the TTF to the capital plan. The two columns on the right show that in the last five years the TTF has been using up its bonding capacity. There is very little bonding capacity left to carry over. The table does not include the Transportation Trust Fund Authority's complete history, so totals are not shown.

Transportation Trust Fund Authority: Plan versus Reality				
Spending Cap			Bonding Limit	
FY	Maximum Allowable TTF Contribution to Capital Plan	Actual TTF Contribution to Capital Plan	Planned or Allowable Bonds	Actual Bonds Issued
96	\$700.0	\$880.2	\$700.0	\$334.0
97	\$700.0	\$700.0	\$700.0	\$714.0
98	\$900.0	\$900.0	\$700.0	\$703.9
99	\$900.0	\$700.0	\$700.0	\$700.0
00	\$950.0	\$900.0	\$900.0	\$900.0
01	\$950.0	\$900.0	\$650.0	\$0.0
02	\$950.0	\$1,107.5	\$650.0	\$1,015.0
03	\$950.0	\$1,108.0	\$650.0	\$0.0
04	\$950.0	\$1,228.0	\$650.0	\$924.8
05	\$950.0	\$1,205.0	\$650.0	\$1,021.7
06	\$950.0	\$1,105.0	\$650.0	\$1,000.0

Appendix D: Revenue Options

The following revenue options for the capital program are described more generally in the body of the report. This appendix provides some additional data and analysis for most options.

- Container Tax
- Corporation Business Tax
- Motor Fuels Tax
- Motor Vehicle Registration Fees
- Personal Property Tax on Vehicles
- Petroleum Gross Receipts Tax
- Privatization
- Rental Car Fee
- Sales and Use Tax
- Tolls
- Value Capture Fee or Mortgage Recording Tax

Container Tax: Create a new tax on containers coming into New Jersey ports.

Description

Billions of dollars worth of goods come to the U.S. through New Jersey ports in millions of containers each year. The ports in New Jersey handle over 4 million TEUs (20-foot equivalent units) worth over \$114 billion per year. The containers are loaded onto trucks and, to a lesser extent, rail, and moved throughout New Jersey and the country. Most of these containers come from non-U.S. corporations. A small tax on these containers would be capable of raising significant resources.

Pros & Cons

A small tax on mostly foreign entities could raise significant, transportation-related revenue. The tax would not directly affect most New Jersey corporations, the trucking industry or New Jersey residents. Revenue from such a tax would likely be stable and growing: the volume and value of containers have been increasing, and the Port Authority of New York and New Jersey reported in March 2005 that new records were set in 2004. However, the legal ability of New Jersey, or any state, to levy such a tax is questionable as the state tax would likely conflict with interstate or international commerce. There have been a number of cases related to this matter. In one case, it was decided that the State of California could not place an ad valorem property tax on foreign-owned containers. In another it was decided that the Sales and Use Tax in the State of New Jersey could apply to repair and maintenance of foreign-owned containers. This revenue option may require years of litigation before it can be implemented, making it inappropriate for solving the current Transportation Trust Fund crisis.

Appendix D: Corporation Business Tax

Corporation Business Tax: Increase the corporation business tax.

Description

The Corporation Business Tax is a franchise tax paid by all businesses in New Jersey. There are two related taxes, known as the CBT Banks and Financials tax and the Savings Institution tax, which are the industry-specific counterparts to the Corporation Business Tax. The rates for these taxes range from 6.5% to 9% and are comparable with nearby states. In fiscal year 2006, the state of New Jersey collected \$2.21 billion from these taxes; most of that was from the franchise tax. Increasing the tax could raise significant revenue depending on the rate of increase.

Pros & Cons

Increasing the corporation business tax would provide relatively high revenues for a low marginal tax rate (in other words, a fraction of a percent raises considerable revenue). The tax is very difficult to evade. However the tax's stability is compromised by its sensitivity to economic downturns. There is a link between the tax and transportation in that it is paid by corporate beneficiaries of the transportation system, however the link is not as clear as in other revenue options.

Motor Fuels Tax: Increase the gas and diesel taxes.

Implementation Options:

- Create a sales tax for motor fuels or extend the existing sales tax to motor fuels;
- Phase in the increase over time;
- Increase the diesel tax at a faster rate than the gas tax.

Description

The Motor Fuels Tax is made up of the gas tax and the diesel tax. The New Jersey gas tax is currently 10.5 cents per gallon, last raised in 1988. The New Jersey diesel fuel tax is currently 13.5 cents per gallon. There is also a 4.0 cents per gallon wholesale petroleum gross receipts tax; its rate was established in 2000. The state's sales tax does not apply to motor fuels. Therefore, the total gas tax is 14.5 cents per gallon and the total diesel fuel tax is 17.5 cents per gallon. Increasing the motor fuels tax by one cent per gallon would raise about \$47 million per year from gas and \$12 million per year from diesel fuel.¹ These revenue estimates may be high, however, since revenue from the current excise tax will decrease over time due to inflation and as high prices lead to lower fuel consumption.

Pros & Cons

The Motor Fuels Tax fits the criteria outlined in the November 2005 report very well. It is closely associated with transportation and well-suited for transportation-related expenditures. It is easily administered and generates relatively stable revenue, especially if it is administered as a sales tax.

The current New Jersey tax is very low compared with neighboring states, and among the lowest in the nation: New Jersey has the third lowest gasoline tax and eighth lowest diesel tax in the U.S.²

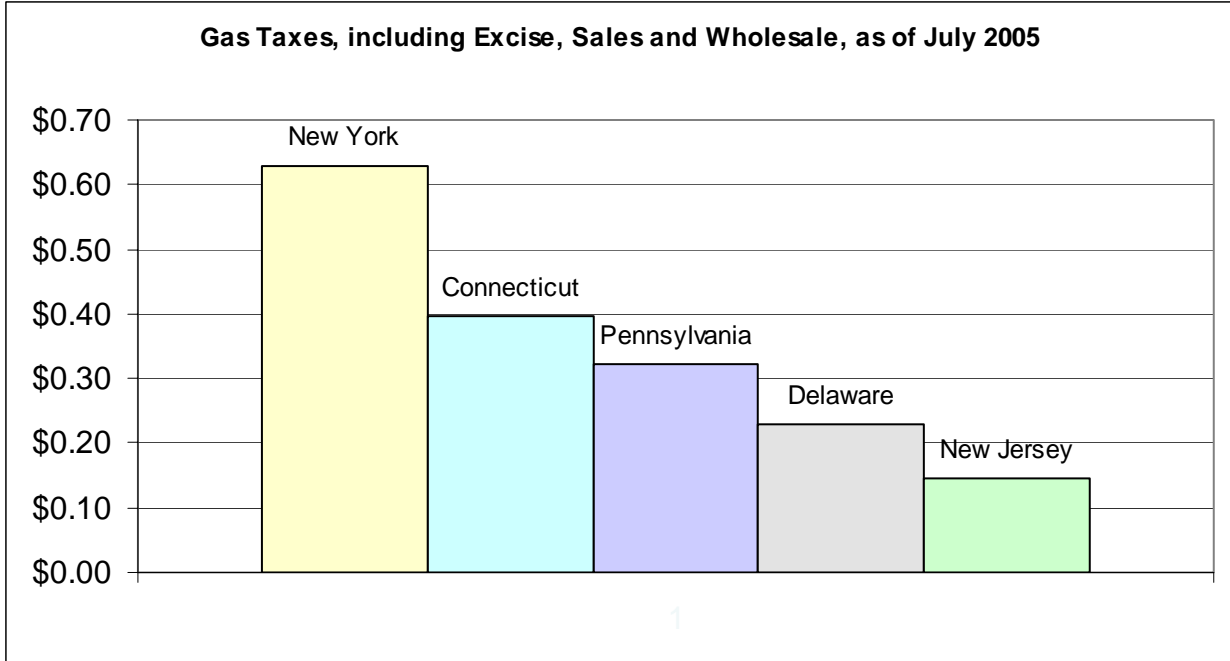
¹ Data are from the Energy Information Administration compiled for most recent months available. Note that consumption data does not include months in 2005 after the dramatic price increases.

<<http://www.eia.doe.gov/>>

² Tax rates are as of July 1, 2005. Source: American Petroleum Institute, <<http://api-cc.api.org/industry/index.cfm?bitmask=001004003000000000#>>; Federation of Tax Administrators,

<<http://www.taxadmin.org/fta/mf/default.html>>

Appendix D: Motor Fuels Tax

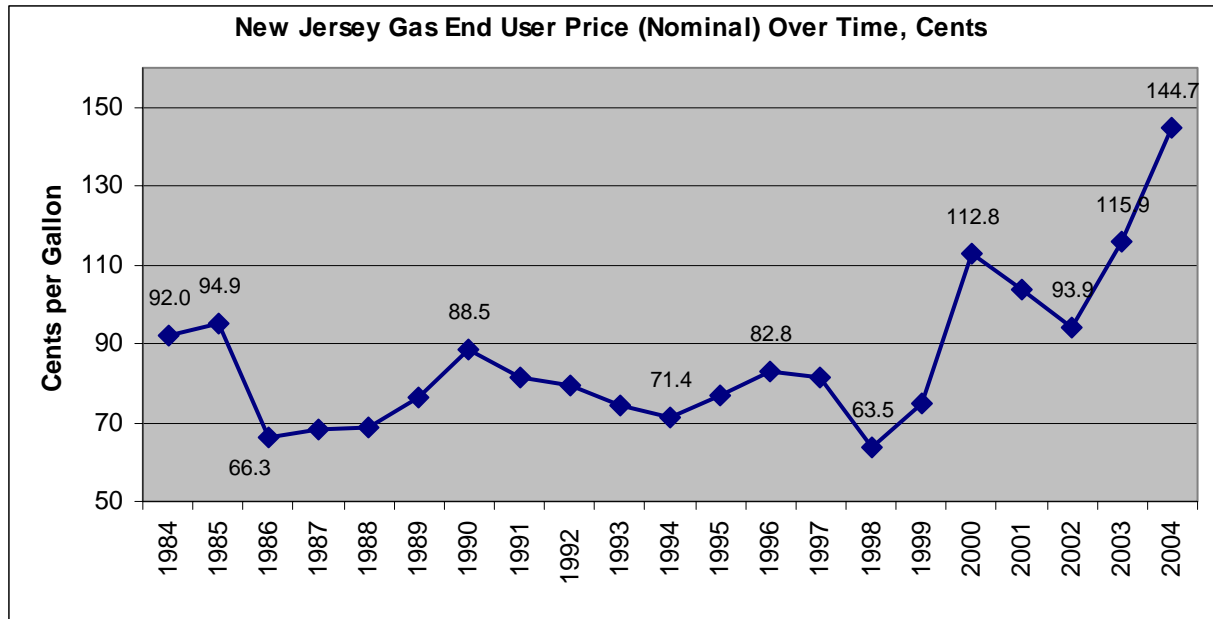


The most common argument against raising the Motor Fuels Tax – that it will lead to higher prices – may not be true. Even though New Jersey has the 3rd lowest gas tax in the nation, its price at the pump is still the 6th highest. A 10 cents per gallon tax does not necessarily translate directly to 10 cents more per gallon at the pump. Likewise, a 10% sales tax would not increase the price of gas by 10%. Gas is priced by sellers and wholesalers according to the market’s ability to pay. Gas prices correlate much more closely to household income than to tax rates.

Rank among States. 1 = lowest, 51 = highest	State Gas Taxes (all inclusive)	Gas Price at the Pump (Sept. 16, 2005)
New York	51	49
Connecticut	49	48
Pennsylvania	42	37
Delaware	22	42
New Jersey	3	45

The graph below shows the fluctuations in the price of gasoline over time. It substantiates the point that **the price of gas is not closely correlated with the gas tax.**

Appendix D: Motor Fuels Tax



New Jersey spends relatively little on transportation capital projects from its Motor Fuels Tax. Currently, \$405 million per year from the 10.5 cent gas tax and \$200 million per year from the Petroleum Gross Receipts tax are appropriated to the Transportation Trust Fund. These numbers are very low when compared with other states. New Jersey's revenue from fuel taxes appropriated to the Trust Fund are on par with Nevada and Arkansas, each of which appropriates about \$420 to \$450 million from their gas tax to their transportation systems, and each of which has about 30% of New Jersey's population.³

The arguments for raising the gas tax at the federal level, noted below in a New York Times editorial, also apply to the state of New Jersey.

“The best solution is to increase the federal gasoline tax, in order to keep the price of gas near its post-Katrina highs of \$3-plus a gallon. That would put a dent in gas-guzzling behavior, as has already been seen in the dramatic drop in the sale of sport-utility vehicles. And it would help cure oil dependency in the long run, as automakers and other manufacturers responded to consumer demand for fuel-efficient products.

There is also a good possibility that, over time, higher gas taxes would not hurt consumers as much as is generally feared. Oil exporters dread gas taxes because the higher gas prices go, the greater the incentive for companies and governments to invest in alternatives. For that reason, economists assume that raising the gas tax - say, by a dollar or so - would not necessarily raise the price at the pump by the same amount. Rather, a tax increase could induce exporters to allow the price of oil itself to fall, in order to keep the price at the pump below the level at which oil alternatives begin to look attractive.

Cheap gas is no longer compatible with a secure nation, a healthy environment or a healthy economy - if ever it was. The real question is whether we should continue paying the extra dollar or two per gallon in the form of profits to the Saudis and other producers, or in the

³ Glenn Beamer. “A Comparative Analysis of New Jersey Transportation Funding And Debt Management.” Rutgers University. Draft February 14, 2005.

Appendix D: Motor Fuels Tax

form of taxes to the United States Treasury, where the money could be used to build true energy independence.”⁴

Nonetheless, the gas tax has become a politically heated issue. Many New Jersey residents feel they are already contributing enough or too much to public services through other taxes, especially local property taxes. As gas prices have increased, people feel they’re already paying too much just to drive. A proposed increase to the diesel tax would likely be met with strong opposition from the trucking industry.

Implementation Options

- **Sales Tax.** The Motor Fuels Tax is currently collected as an excise, or cents-per-gallon tax. However the state can increase its revenue with a sales tax. At least ten states currently have sales taxes on motor fuels. They are usually collected as a percentage applied to the base price of gas (the price before federal and state taxes are added). A 1% sales tax would raise about \$93 million per year from gas and \$17 million per year from diesel fuel. If the 6% state sales and use tax applied to motor fuels, it would raise \$663 million per year.⁵ Unlike an excise or ‘per gallon’ tax, a dedicated sales tax would ensure the main revenue source for the TTF is sustainable and keeps pace with inflation. With a sales tax, the amount collected in tax from each gallon increases with the price, which can balance out lost revenue caused by drivers buying fewer gallons of gas. Extending the existing 6% state Sales and Use Tax to motor fuels may also be considered politically more feasible than other Motor Fuel Tax options.

	Revenue from Gas Tax	Revenue from Diesel Fuel Tax	Total Motor Fuels Tax Revenue (millions per year)
Cents-Per-Gallon, or Excise Tax			
Add 1 cent per gallon	\$47	\$12	\$58
Add 6 cents per gallon	\$280	\$70	\$349
Sales Tax			
Add 1% sales tax	\$93	\$17	\$111
Extend the existing 6% Sales and Use tax to motor fuels	\$559	\$104	\$664

- **Phase in increases over time.** Bringing in new revenue sources could be coordinated with debt obligations easing up, and only done as revenue is needed. Likewise new bonds could be issued based on a reasonable phasing of planned incremental tax increases. For example, the current 10.5 cent gas tax may be augmented with a 10% sales tax that increases by 1% each year until 2015, when the Transportation Trust Fund Authority’s debt obligations begin to peak. This phasing-in policy would be consistent with a policy requiring use of shorter term, 10 year bonds for at least the first five years, as recommended in the July 2005 report. As bondability is restored, the sales tax

⁴ “Gas Taxes: Lesser Evil, Greater Good.” Editorial. NewYork Times 24 October 2005.

⁵ These estimates assume the base price of gasoline is \$2.00 and the base price of diesel fuel is \$1.50.

increases can be minimized or stopped and the Trust Fund Authority can begin using longer term bonds again.

- **Increase the diesel tax at a faster rate than the gas tax.** While diesel fuel is already taxed at a higher rate than gas at the state and federal level, there is an argument for increasing the differential between gas and diesel taxes. Essentially, it is the “user pays” or “polluter pays” argument: diesel fuel pollutes the environment more, and trucks using diesel fuel do more damage to the roads costing NJ DOT more money each year.⁶ Diesel fuel also produces fine particulates and sulfur oxides, which have harmful effects on people’s ability to breathe and can cause acid rain.⁷ The Federal government taxes diesel at 6 cents more per gallon than gasoline based on these arguments.⁸

⁶“Investing in Mobility: Freight Transportation in the Hudson Region.” Environmental Defense and The East of Hudson Rail Freight Operations Task Force, 2004. <www.environmentaldefense.org/documents/3601_InvestingMobility_Hudson.pdf>

⁷ The environmental costs associated with heavy diesel fuel vehicles are estimated at 23 cents per mile higher than those associated with heavy gasoline vehicles. Dr. Peter Bein, *Monetization of Environmental Impacts of Roads*, Planning Services Branch, Ministry of Transportation and Highways, Victoria, B.C.; <www.th.gov.bc.ca/bchighways>), 1997, and <www.vtpi.org/tca/tca0510.pdf>.

⁸ The Federal gas tax is 18.4 cents per gallon, and the Federal diesel fuel tax is 24.4 cents per gallon.

Appendix D: Motor Vehicle Registration Fees

Motor Vehicle Registration Fees: Increase passenger vehicle registration fees to account for the growth in heavy vehicles and/or increase commercial truck registration fees.

Description

Passenger Vehicles

Current New Jersey passenger vehicle registration fees are based on the weight and age of the vehicle, so that newer and heavier vehicles cost more. It applies to the 4.4 million motor vehicles registered in the state, and collects \$420 to \$430 million per year; about \$200 million of that is dedicated to the motor vehicle commission. For cars made after 1980, there are two weight categories, under 3,500 pounds and over 3,500 pounds; cars under 2 years old cost \$56 and \$81 dollars to register, depending on the weight category. The difference in fees between heavier and lighter cars is small when compared to the differences in vehicle weight or fuel efficiency. For example, a Hummer weighs 2.2 times more than a Prius and gets less than 20 miles to the gallon, whereas a Prius gets 55 miles to the gallon. Yet the registration fee for a Hummer is only \$25 more than for a Prius. Given this discrepancy and the high rates of SUV ownership in New Jersey,¹ an alternative fee schedule would create a third weight category: 6,000 pounds and higher. Charging this weight category \$200 would rise about \$46 million per year.²

Current Passenger Vehicle Registration Fee Schedule in New Jersey

Model	Weight	Age	Fee
1970 or older	Under 2700 lbs.		\$32.50
1970 or older	2700 lbs--3800 lbs.		\$41.50
1970 or older	Over 3800 lbs.		\$62.50
1971 – 1979	Under 2700 lbs.		\$35.50
1971 - 1979	2700 lbs--3800 lbs.		\$46.50
1971 - 1979	Over 3800 lbs.		\$69.50
1980 and newer	Under 3500 lbs.	Fewer than 2 years old	\$56.00
		More than 2 years old	\$43.50
1980 and newer	Over 3500 lbs	Fewer than 2 years old	\$81.00
		More than 2 years old	\$68.50

¹ New Jersey has the sixth highest rate of SUV ownership in the nation. The Vehicle Inventory and Use Survey released by the U.S. Census in December 2004 showed that New Jersey is adding more light trucks per driver than the nation overall. In 2002 there were 912,600 SUVs registered in New Jersey, and sales of SUVs increased 72% between 1997 and 2002 in New Jersey.

² 1.8 million SUVs, pickup trucks and minivans registered in New Jersey in 2002 (U.S. Census “Vehicle Inventory and Use Survey”). It is assumed that 20% weighed 6,000 pounds or more, and 75% of those were more than two years old.

Appendix D: Motor Vehicle Registration Fees

Revised Passenger Vehicle Registration Fee Schedule to Account for Heavy Vehicles				New Revenue Raised
1980 and newer	Under 3500 lbs.	Fewer than 2 years old	\$56.00	n/a
		More than 2 years old	\$43.50	n/a
1980 and newer	3500 to 5,999 lbs	Fewer than 2 years old	\$81.00	n/a
		More than 2 years old	\$68.50	n/a
1980 and newer	6,000 pounds +	Fewer than 2 years old	\$200.00	\$46 million
		More than 2 years old	\$200.00	

Commercial Trucks

Like its diesel tax, New Jersey's commercial truck registration fees are well below those of neighboring states. Registration for an 80,000+ pound truck is roughly \$300 less than in Pennsylvania or Connecticut.³ There is also a strong environmental argument for increasing commercial truck registration fees. The most recent Highway Cost Allocation Study shows that trucks pay only 80% of their cost responsibility, and that those trucks over 80,000 pounds pay only half their cost responsibility. Increasing commercial truck registration fees by 10% for trucks up to 40,000 pounds and by 20% for heavier trucks would raise about \$20 million per year.⁴

Pros

Passenger Vehicles

The fee is directly related to transportation. The fee supports the 'polluter pays' criterion because its increase would come from those vehicles causing the most environmental damage. Most SUVs are more expensive than other cars, and owners are likely to be of higher incomes and able to afford the increased fee. Non-commercial vehicles that weigh over 6,000 pounds are also among the most expensive, including Excursions, Hummers, Navigators, Escalades, Yukons, Range Rovers and Mercedes-Benz G500s, which range in cost from \$37,000 to over \$117,000. Federal tax breaks further justify the increased fee: trucks weighing over 6,000 pounds are eligible for a \$25,000 federal tax deduction plus bonus depreciation and regular depreciation of around \$11,000.⁵

³ New York registration fees are not comparable since there is a weight-distance tax of about 5 cents per mile in that state.

⁴ Assumptions: Estimates are based on the weight distribution from U.S. Census Vehicle Inventory and Use Survey, 2002 data for the 539,000 trucks subject to commercial Code 11 registration fees in New Jersey.

⁵ Prior to October 22, 2004, when President Bush signed the American Jobs Creation tax bill, SUV buyers could claim up to \$100,000 in deductions. The deductions are intended to help small businesses and farmers; although few SUVs are used for business, many SUV buyers take advantage of the deduction.

Appendix D: Motor Vehicle Registration Fees

Rank among States. 1 = lowest, 51 = highest	SUV Ownership Per Driver (2002)
New York	19
Connecticut	18
Pennsylvania	15
Delaware	38
New Jersey	46

Commercial Trucks

This fee is consistent with the 'polluter pays' criterion. Increasing commercial truck registration fees would represent a modest shift toward proper cost allocation.

Cons

The revenue collected from both the passenger vehicle and commercial truck registration fee increases is small compared with the overall needs. The passenger vehicle registration fee revenue will likely decrease as fuel costs rise and sales of heavier, less fuel efficient vehicles decrease.

Appendix D: Personal Property Tax on Vehicles

Personal Property Tax on Vehicles: Create a personal property tax on vehicles.

Description

New Jersey does not currently tax the value of privately owned vehicles as personal property. Some states, including Connecticut, do. Given that there are about 4.4 million vehicles registered in New Jersey, and if the average car value is \$15,000, a ½% personal property tax on vehicles could raise over \$330 million per year. The owner of a car worth, for example, \$20,000 would pay \$100 per year.

Pros & Cons

The tax is closely tied to transportation and can be considered complementary with smart growth goals. However its potential use to supplement the Transportation Trust Fund should be considered in context with other revenue sources that affect New Jersey resident drivers, such as changes to the registration fee schedule. While this tax would likely be federally deductible, it may be considered an undue burden on lower income households.

Appendix D: Petroleum Gross Receipts Tax

Petroleum Gross Receipts Tax: Extend the petroleum gross receipts tax to out-of-state wholesalers.

Description

Currently, when petroleum is brought into New Jersey by an importer it is then bought by a wholesaler. If the wholesaler is a New Jersey company, that company pays 4 cents per gallon in a Petroleum Gross Receipts tax. The tax applies to fuel oil and aviation and motor fuels, and excludes residential heating oil. Wholesalers from other states do not pay the 4 cent tax. If the tax or some part of it were extended to wholesalers from other states, it could raise significant revenue, as over 5 billion gallons of petroleum are imported each year.

Pros & Cons

Because trucking is a high cost enterprise and New Jersey ports enjoy a natural geographic advantage, it would seem that extending this tax would simply bring in more money rather than drive business away from New Jersey's refineries and distribution centers. However it is unclear what secondary effects would occur given the relative costs of distribution of fuels throughout this multi-state region. Analysis is also necessary to determine which petroleum products would be affected and how that would affect various industries.

Privatization: Lease all or part of a toll road to a private firm.

Description

Leasing a highway in New Jersey has been suggested as a way to raise revenue and open up capital generating capacity for the Transportation Trust Fund, to eliminate Turnpike Authority or other authorities' debt, and potentially to expedite expansion projects. Recent developments make privatization a relevant, very current issue. Private firms based overseas, such as Macquarie and Transurban, are aggressively pursuing contracts in America. In addition, federal legislation has created a friendlier environment for privatization, especially of toll lanes.

Privatization can refer to different types of financial arrangements with a range of private sector involvement. A private firm may build new infrastructure, lease existing infrastructure, and/or operate infrastructure, with varying levels of restrictions imposed by its contracts with the public sector. There have been at least 10 highway privatization arrangements in the United States since 1995, with varying degrees of success. The examples below, arranged loosely by date, show a variety of deals.¹

It's important to note that in many cases, the private firm lost money in the beginning stages of the project. The heads of Macquarie and Transurban and Peter Samuel, toll expert at the Reason Foundation, have said in interviews that these deals are often expected to lose money for the first few years. Just as highway infrastructure is a long-lasting asset, these financial arrangements are considered long term investments with a steady, strong return over time.

Route 91 (California/Orange County). A private firm built toll lanes in 1995 on an existing highway and agreed to operate those lanes and collect tolls.

- 10 miles
- Private firm paid \$126 million.
- Status: Public buyout due to non-compete clause. The firm's contract with the state precluded the state DOT from building or expanding competing freeway lanes. Public pressure forced California to make improvements on other SR 91 lanes. To do so, the state had to buy back the HOT lane for \$208 million in 2003. The HOT lane itself is a success, with traffic volume and revenue steadily increasing.

Dulles Greenway (Virginia). A private firm built a new highway in 1995 and agreed to operate it for 42 years.

- 14 miles
- Private investors including the Autostrade Group paid \$338 million to construct the road.
- Status: Forced refinancing, followed by purchase by private firm. Grossly inaccurate traffic estimates as well as improvements on a competing state road led to lower-than-expected traffic counts. Some reports say the Greenway was losing \$30 million per year, others say it never earned its investors a profit. Private investors requested the state raise the toll ceiling. In late August 2005, Macquarie bought the Greenway, or more accurately paid \$533 million to acquire 87% of the Greenway and negotiated for the remaining 13%.

¹ Both Virginia projects listed here were accomplished under the 1995 statewide Public-Private Transportation Act. Under the Act, the Virginia DOT can consider proposals from private entities to build highways or other transportation facilities with private money when the need arises, rather than wait until state or federal funding is available.

Southern Connector (South Carolina). A private firm helped finance a new road; a related nonprofit agreed to own and operate the road for 50 years or until the bonds are retired (which should be in 35 years). The nonprofit is a private consortium created by the state in 1998 when a proposal to increase the motor fuels tax failed.

- 16 miles
- Financed with \$218 million in tax exempt bonds.
- Status: Faltered due to too little traffic. A \$17.5 million contribution from SCDOT plus large tax free bonds from the new nonprofit financed the deal, but bond ratings were lowered to negative in 2002. The company had to use reserve funds to make payments. However, traffic picked up in 2003 and a scheduled January 2005 toll increase helped bring revenues back in line with estimates.

Pocahontas Parkway aka I895 (Virginia). A private firm built a new toll road in 1995 and a related nonprofit agreed to collect the tolls for 30 years. VDOT operates and maintains the road.

- 8.8 miles
- The project cost over \$300 million; \$5 million came from a private firm; the state contributed \$27 million.
- Status: Initially failed due to too little traffic. In 2002, bond ratings were lowered to negative and below investment grade. In August 2005 a private firm said it would probably buy the Parkway soon. It had previously negotiated the exclusive right to investigate the feasibility of acquiring the Parkway from the nonprofit and VDOT.

Highway 407 (Toronto). In 1999, a private firm bought a 99 year lease that allows it to collect tolls on an existing toll road.

- 67 miles
- A private firm paid \$3.1 billion for the lease.
- Status: Heavily criticized. Since Toronto leased the road, the firm has raised tolls multiple times, more than 250%, resulting in public complaints. In August 2005, complaints led to a panel of independent arbitrators ruling the private firm could raise the tolls as long as traffic doesn't fall below 2002 levels, which is considered 'base year' traffic. In addition to complaints about tolls, many believe Toronto could have gotten more for the road. An investment bank involved with the financing reported that Toronto should have received \$6.3 billion for the road.

Camino Colombia (Texas). A private firm built and agreed to operate a new highway in 2000.

- 21.8 miles
- Private investors paid \$90 million.
- Status: Foreclosure and buyout. Truck traffic was low, partly because tolls were too high and partly because of false assumptions about traffic increases that would result from the North American Free Trade Agreement. Camino Colombia, Inc. owed \$75 million, the bank foreclosed, and the road was sold at an auction to John Hancock for \$12 million in January 2004. (Texas DOT wouldn't bid more than \$11 million.) Later, in May 2004, TxDOT purchased the toll road free and clear of any debt incurred by the previous owners for \$20 million.

TTC 35 (Texas). This is the first segment of a giant, privately built network of highways to be known as the Trans Texas Corridor. This segment will be leased to a private operator for 50 years.

- This segment is 316 miles long.

- \$1.2 billion of private investment, with a promise to invest \$6 billion in this segment.
- Status: A private firm won this bid in 2005.

SR 125 (California/San Diego). This is primarily a privately built highway that will be privately operated for 35 years.

- 9.5 miles
- Private firm paid \$722 million.
- Status: Yet to open; may open on schedule in 2006. Private involvement is accredited with moving the project to completion quickly.

Chicago Skyway. A private firm bought a 99 year lease that allows it to collect tolls on a portion of an existing toll road.

- 8 miles
- A private firm paid \$1.83 billion in 2005. That was \$1 billion more than the second highest bid.
- Status: Chicago is using the one-time revenue to retire debt, stabilize the city's finances, and pay for a variety of programs. The city's bond ratings immediately improved and Fitch rated a recent general obligation bond AA with a stable outlook. The private firm has raised the toll but agreed to tolling caps over time.

Washington DC Beltway. A private firm is negotiating to exclusively study the feasibility of introducing high occupancy toll (HOT) lanes.

- 22.5 kilometer segment of the Capital Beltway in Northern Virginia
- Status: Negotiations are underway. The private firm believes the DC HOT lanes will decrease travel time by around 30 minutes.

Pros

A lease with a private firm could provide a large lump sum of money to the New Jersey Turnpike Authority, South Jersey Transportation Authority, the State or to NJ DOT. Recent reports use the price of the Chicago Skyway lease to make crude estimates of the price of a similar lease in New Jersey, ranging from \$11 billion for the Turnpike to \$22.5 billion for the Turnpike and Garden State Parkway together.² Private operation of a toll road may also have benefits: private firms may have the capital and freedom from bureaucracy that facilitate investment in new technology to lower operating costs in the long run. Private firms may be less wary of experimentation, such as changing the speed limits at E-ZPass gantries. Public agencies often need extraordinary political will to expedite investments and changes such as these.

Cons

Timing: A privatization arrangement would probably take too long to save the New Jersey Transportation Trust Fund. Leasing the Turnpike, Parkway or Atlantic City Expressway is too time-consuming a process, if done properly, to solve the July 2006 Trust Fund crisis. Privatization arrangements can take years to complete.

² a. Municipal Credit Research, Global Securities Research & Economics Group. "US Toll Road Privatization, Uncovering Investment Opportunities in the Tax-Exempt Market." 29 July 2005, Merrill Lynch.

b. Peter Samuel. "Should States Sell Their Toll Roads?" May 2005. Policy Study 334. Reason Foundation. Both reports (a and b) make estimates net of debt of the New Jersey Turnpike Authority, however each report estimates the Authority's debt differently.

Public Sector Expertise: Private firms may use complex, opaque contracts which require a high level of expertise from the public sector. Contracts that are not carefully negotiated can lead to very high or uneven toll increases, higher maintenance costs later on for the public sector to absorb, and other problems that can result in a loss of mobility and a loss of public trust. Bureaucracies not accustomed to handling complex financial investments may need to hire consultants at considerable cost to manage the arrangement.

Management and Contract Terms: Private operation of a toll road may also pose some problems. A private firm may not consider the network effects of its road pricing. For example, its toll schedule may increase its profits while moving some traffic on to local roads. This may cost NJ DOT and localities more in the long run because of congestion and damage done by trucks to local roads. Privatization contracts may restrict public agencies from building ‘competing’ infrastructure. Changing traffic and land use patterns may require certain infrastructure to be built or expanded in the future, while leasing or privatization agreements can restrict this growth. A non-compete clause that seems reasonable now may prove detrimental in 20 or 30 years. While some may expect private firms to be more efficient infrastructure managers than their public counterparts because they manage public goods “more like a business,” in New Jersey even private sector firms can be tied to strict labor agreements.

Risk: Privatization projects have failed in the past due to over-estimating toll revenue. Some projects have led to governments buying back roads, higher tolls, and poor management of the toll road. The risk of default may be borne by a number of parties depending on the structure of the deal. If the private firm meets financial default due to any number of factors that could lower revenue and impede its ability to reimburse bondholders, it may be rational for the firm to abandon or neglect the road to save money. Accounting and tax ownership are also important. Public agencies do not need to account for depreciation, and this keeps tolls low. Private firms are required to account for depreciation, and such tax ownership keeps private firms’ taxes low. However, if a private firm gains tax ownership and accounts for depreciation on a highway, it may need to increase tolls. If the private firm foregoes tax ownership, it is possible that the public sector will still be responsible for rebuilding the asset when it is needed (in 25 or 50 years), probably by issuing new debt.

Politics: In Texas and other places, political opponents describe privatization deals as land grabs, or private corporations – from outside America – taking pieces of money-making, landmark infrastructure which taxpayers have invested in for years.

Options

The options are for a full concession, partial concession or a negotiated exclusive rights agreement. A full concession would, like the Chicago Skyway deal, entail a long-term lease of a New Jersey toll road to a private firm. The private firm would operate the road and collect tolls. With a partial concession, the private firm would only lease *sections* of the highway and/or its river crossings. The third option is for the state to form an agreement with a private firm that would grant that firm the exclusive right to investigate privatization opportunities (a preliminary exclusive rights agreement). This would provide a one-time influx of funds, but also might prevent private firms from competing for a final privatization bid, thus potentially lowering the final price gotten by the state.

Appendix D: Privatization

There may be an additional opportunity to restructure one of the highway authorities, or part of one, into a publicly traded company that would sell shares to private investors. This option has not yet been explored by toll road authorities. The state could retain control of the company by retaining 51% or more of the shares. In theory this would allow the state to discover the real market value of the asset, and would take considerably less time than a concession. The state would gain proceeds from selling shares over time, not all at once as with a concession. The toll road would probably have to account for depreciation and accounting would be brought up to commercial standards. On the negative side, this option would likely earn less for the state than a full concession. It would also maintain the political pressure against raising tolls because the state would still be in charge of toll increases. The tension between the shareholders' expected returns on their investment and the state's desire to keep tolls low may make this model unfeasible.

Appendix D: Rental Car Fee

Rental Car Fee: Increase the fees paid by car renters in New Jersey or on cars sold to rental car companies.

Description

New Jersey rental car fees are comparable with the surrounding region; taxes and fees comprise 19% of the full cost of renting a car. There are at least two ways to raise additional revenue from a rental car fee: increase the fee for renters or increase the tax on the sale of cars to rental companies. An example of the former would be to raise the New Jersey rental car tax from \$2.00 to \$4.00 per day. This would bring in about \$43 million in revenue for the state. A comparable example of the latter would be to place a 4% tax on the sale of rental cars to rental car agencies. This would raise about \$44 million per year.

Newark Airport		Philadelphia Airport		LaGuardia Airport	
Daily Base Rate	\$75.94	Daily Base Rate	\$64.94	Daily Base Rate	\$102.94
Newark Contract Fee \$0.75/day	\$0.75	Concession Recoup Fee 11.11%	\$7.21		
Concession Recoup Fee 11.11%	\$8.56	PA State Surcharge 2%	\$1.44		
NJ Rental Tax aka Security Fee \$2.00/day	\$2.00	Rental Vehicle Fee aka Transportation Tax \$2.00/day	\$2.00		
Veh. Lic Recoupment \$1.10/Day	\$1.10	Phil Vehicle Rental Tax aka Airport Access Fee 2%	\$1.44		
State Tax (6.0%)	\$5.18	State Tax (7.0%)	\$5.05	State Tax (13.6250%)	\$14.03
Total Estimate	\$93.53	Total Estimate	\$82.08	Total Estimate	\$116.97
Taxes and Fees as Share of Total Cost	19%	Taxes and Fees as Share of Total Cost	21%	Taxes and Fees as Share of Total Cost	12%

These costs are from an online query to National car rental in spring 2005.

Pros & Cons

A rental car surcharge or tax is tied to transportation, and such taxes and fees have the benefit of affecting many non-residents. On the other hand, the revenue collected from this option is small compared with the overall needs.

Sales and Use Tax: Increase the Sales and Use Tax.

Description

In New Jersey, the existing Sales and Use Tax is 6% and brings in over \$7 billion per year for the state. The tax exempts necessities such as food, prescription drugs, clothing and utilities. A dedicated increase of 1/4% to the Sales and Use Tax for New Jersey could raise about \$299 million for transportation. New Jersey's sales tax would still be lower than New York City's, but slightly higher than most of New York State, Pennsylvania and Connecticut. Dedicated sales taxes are commonly used to support transportation around the country, including in New York. Sales taxes have been approved for new rail construction projects in 14 major cities. Some places earmark the funds for specific transportation projects while others (including New York) let local governments adopt sales taxes more generally, "for transportation purposes." The taxes also vary in duration; some sales taxes are adopted on a permanent basis and some are time limited. Sales taxes are used around the country for all aspects of transportation: roads and transit, operations and capital. A targeted increase to the sales taxes is also possible at the county level for county-specific projects. This is often referred to as a "local option" tax, and is also used in places around the country for transportation purposes.¹

Pros

Increasing the Sales and Use Tax in New Jersey would provide relatively high revenues for a low marginal tax rate (in other words, a fraction of a percent raises considerable revenue). Residents and visitors would pay the tax continually throughout the year, not all at once. Unlike cigarette taxes, for example, sales taxes are difficult to evade, and are generally considered to be fair or at least even-handed in that those of comparable means pay roughly the same amount of tax.

Cons

There is no clear link between the Sales and Use Tax and transportation; someone paying sales tax on a product is not considering that she is paying for roads or trains. Sales tax revenues are unreliable and drop off during economic downturns. Higher sales taxes can depress overall sales, and sales taxes are often considered regressive in that low income households are disproportionately affected.

¹ Todd Goldman, Sam Corbett and Martin Wachs. "Local Option Transportation Taxes in the United States." March 2001. Research Report UCB-ITS-RR-2001-3, Institute of Transportation Studies, University of California at Berkeley.

Tolls: Increase toll road contributions to the State and constitutionally dedicate them to the Transportation Trust Fund.

Implementation Options

- Increase tolls and/or create new tolls, for example:
 - Implement peak hour pricing on the Garden State Parkway
 - Slightly increase the truck toll on the southern portion of the Turnpike and put a new, identical truck toll on the parallel portion of I-295
 - Create open access, E-ZPass-only, inexpensive truck-only tolls on currently toll-free bridges

Description

Currently, tolls on the Turnpike are comparable with other toll roads while Garden State Parkway tolls are comparatively quite low. This is reflected in the toll revenue each highway raises. In 2004, the Turnpike raised \$507 million from toll revenue and the Parkway raised \$209 million; the New Jersey Turnpike Authority raised another \$113 million from other sources. Its operating expenses and debt service consumed about \$661 million of that, leaving \$168 million to be transferred to four main reserve funds. Some of these funds have restricted uses. Atlantic City Expressway toll rates and revenue were not examined for this report.

Since Garden State Parkway tolls are very low, there would likely be very little diversion due to a toll increase. A 10% increase in tolls would bring in \$20.9 million, and so on. Turnpike tolls are not as low and some diversion can be expected if tolls are increased.

There is already \$24.5 million statutorily dedicated to the Transportation Trust Fund from the New Jersey Turnpike Authority, however it has not been appropriated to the Trust Fund since 2001. There may be an opportunity to use existing toll revenue to increase this contribution.

There are also myriad options for increasing tolls, and for putting new tolls on currently toll-free roads and bridges. The federal transportation bill, SAFETEA-LU, permits some tolling of freeways. NJ DOT, the Turnpike Authority, the South Jersey Transportation Authority and the State would develop the best way to redirect existing toll revenue toward the Transportation Trust Fund, and/or to raise more revenue from tolls.

Pros & Cons

Using toll revenue for the transportation system fits some criteria for very well:

- New technology makes it possible to add tolls to highways and crossings without adding toll booths or having drivers slow down.
- Using tolls diversifies the resources being used for transportation.
- Tolls are a reliable resource.
- Toll revenue is generally insensitive to inflation and recession.
- \$24.5 million of Turnpike Authority revenue is already intended for transportation purposes.

- Tolls can be adjusted to manage the level of congestion, and make most trips faster and more reliable.

Nonetheless, tolls are a politically sensitive issue and some believe that raising tolls will limit, not improve, mobility.

Implementation Options

New tolls or increased tolls may be necessary for the New Jersey Turnpike Authority to substantially increase its contribution to the larger transportation system. Likewise, increased tolls may be necessary to gain a contribution from the South Jersey Transportation Authority. Three new tolling options are examined below. These options can raise significant revenue, over \$150 million per year, depending on the breadth of implementation and the magnitude of the tolls.

(1) Implement peak hour pricing on the Garden State Parkway. The toll for passenger cars on the Garden State Parkway is set at \$0.35. It was last raised from \$0.25 in 1989. Prior to that, the toll had stayed at \$0.25 since the roadway opened in the 1950s. In recent months pairs of adjacent toll barriers have had their toll doubled in one direction and eliminated in the other, cutting in half the number of times a driver must slow or stop to pay a toll, a major irritant to the public. To further ease the burden, high-speed E-ZPass toll lanes have been installed in the tolled direction. Garden State Parkway tolls could be priced to encourage still more E-ZPass use, now at 72%, and to give drivers an incentive to travel in the off-peak. One example would be to lower the toll to \$0.25 in the off-peak for E-ZPass users while raising it to \$0.50 in the peak. Cash customers would pay \$1.00 at peak times and \$0.50 off peak. It could be expected that the revised toll schedule would affect New Jersey residents rather evenly since the Parkway extends through nine of its 21 counties.

(2) Slightly increase the truck toll on the southern portion of the Turnpike and put a new, identical truck toll on the parallel portion of I-295. Each year trucks travel approximately 4 billion miles on New Jersey's roads. The New Jersey Turnpike alone carries 20 million trucks annually traveling over 1.2 million miles. It is desirable to keep these trucks on the Turnpike and off local roads where they can cause environmental damage, create unsafe conditions for other drivers and pedestrians, and have a deleterious effect on the quality of life. In the past when truck tolls rose precipitously on the New Jersey Turnpike, there was a large diversion to local roads, particularly on north-south roads in central and northern New Jersey, leading to local opposition and added maintenance costs. However, examination of the road network suggests one corridor where a rise in truck tolls would cause a diversion not to local roads, but to a parallel limited-access road. This is the southernmost 53-mile stretch of the Turnpike from the Delaware Memorial Bridge to Exit 7 in Bordentown. Higher truck tolls there would result in a shift to parallel I-295, causing a revenue loss. But by installing an E-Z-Pass only toll for trucks on I-295 equal to the increased truck toll on the Turnpike, the revenue would not be lost to diverted trucks. There would be no need to construct a toll barrier. Since this corridor serves an interstate function the tolls would be paid by intra-state and interstate trucks. Trucks would not have an incentive to take one road over the other, and truck traffic could be expected to even out between I-295 and the Turnpike. The precedent for tolling just trucks on an interstate highway was established on I-87/I-287 in Rockland County, New York, part of the New York State Thruway.

(3) Create open access, E-ZPass-only, inexpensive truck-only tolls on currently toll-free bridges. DOT has demonstrated a need for approximately \$7 billion over the next 10 years to improve the condition of its 2,357 state bridges. \$1.7 billion of that is to deal with a small number of very high-cost, structurally deficient bridges.¹ Initial estimates show that considerable funding can be raised with inexpensive, low tolls on bridges. On 18 crossings identified by DOT as places where trucks travel and work is needed, tolling trucks at \$3 can raise \$39.5 million. DOT would need to consider the possibility of traffic diversions (although at very low toll rates, trucks may not divert), and whether the tolls should be removed once the capital work is finished. This tolling option has the benefit of being very closely tied to the capital line item it would fund, and it would move New Jersey toward the goal of high speed, open access tolling, since this revenue option would require all trucks to have E-ZPass transponders on board, as most already do.

¹New Jersey Department of Transportation. [NJ DOT Bridge Needs](#). Staff working draft, June 23, 2003. Also see past Capital Improvement Strategies posted on the NJ DOT website under Capital Improvement Documents. <<http://www.state.nj.us/transportation/capital/cpd/>> As of now, 89% of state bridges are in acceptable condition – or not structurally deficient. The DOT analysis excludes functionally obsolete bridges.

Appendix D: Value Capture or Mortgage Recording Fee

Value Capture or Mortgage Recording Fee: Create a new fee to recapture the value of transportation infrastructure to real estate development.

Description

New Jersey's tax structure does not currently have a way to capture, for transportation funding, the appreciation in land and property value imbued by transportation infrastructure. In New York, the Metropolitan Transportation Authority (MTA) receives some revenue from a mortgage recording tax collected by the counties within the MTA's service area. The tax comes in four different forms, at different rates and applies to different types of properties in different places, but is basically around ¼ of one percent of the debt secured by real estate mortgages. A subsidiary of MTA also receives some revenue from a property transfer tax at the rate of one percent of some properties' assessed value. New Jersey currently has two similar taxes: the realty transfer tax and a buyers' fee on homes of \$1 million or more - but the revenue they produce is not directed to the transportation agencies. The New Jersey realty transfer tax (sometimes called a fee) is imposed upon sellers of real property. The tax is progressively based on the value or price of the property. The tax rate has been increased fairly frequently in the last few years, including an increase in August 2004. There is also a buyers' fee: buyers of homes of \$1 million or more must pay one percent. Proceeds from these taxes support the Public Health Priority Fund, shore protection initiatives, housing programs, extraordinary special education and municipal aid, and direct aid to New Jersey counties. The FY 05 New Jersey state budget shows \$275 million in resources from the realty transfer tax¹

There is a wide variety of value capture options the state may consider: a tax on mortgage debt originating in the state, an increase to the realty transfer fee, or creative new sources that look more closely at the connection between land use and transportation. For example, there are over 66,000 single family homes within walking distance of transit stations in New Jersey.² Taxing the mortgage debt on these houses would raise considerable revenue and discourage low density development near transit.

Pros & Cons

Transportation and land use are closely interconnected. There is ample evidence that a quick commute adds to property values.³ Using land or property value to support transportation infrastructure has a logical consistency and often appeals to smart growth proponents. However New Jersey residents already pay some of the highest local property taxes in the country. While this revenue option may not necessarily be established as a property tax, it should be considered in light of property tax reform that may occur in New Jersey.

¹ Realty transfer tax revenues rose sharply over 4 years due to increased home sales, rising home values, and increases in the realty transfer tax rate. The New Jersey state budget shows revenue from the realty transfer tax as follows: FY 02 = \$85 million, FY 03 = \$88 million, FY 04 = \$210 million, FY 05 = \$275 million.

² RPA analysis of US Census, NJ TRANSIT and New York State Department of Transportation data, January 2005. Walking distance is defined as two thirds of a mile.

³Columbia University, 2004. "Walk-and-Ride: How MidTOWN DIRECT has affected residential property values within walking distance of train stations." Juliette Dellecker Michaelson ; Rick Rybeck. "Using Value Capture to Finance Infrastructure and Encourage Compact Development." Public Works Management & Policy. Vol 8 No 4 (2004): 249-260.