New Jersey: State of emergency shuts down work on transportation infrastructure

David M. Kall | Sunday, July 10, 2016

On June 30, 2016, Governor Christie declared a state of emergency, effective immediately, by way of **Executive Order 210**. The Executive Order called for the "immediate and orderly shutdown" of all work on the state's transportation systems that the Transportation Trust Fund Authority (TTFA) funds. The TTFA exists to finance the planning, acquisition, engineering, construction, reconstruction, repair, and rehabilitation of New Jersey's transportation system through the issuance of state-contract bonds and pay-as-you-go capital.

Transportation for America noted that the shutdown puts almost all ongoing state transportation projects on hold. Work that is federally funded is not affected, nor are projects that are "absolutely essential for the protection of the health, safety, and welfare of the citizens of the State of New Jersey, or are required to ensure the receipt of federal funding."

According to **NJ.com**, Executive Order 210, the result of the lawmakers' inability to agree on a plan to replenish the TTFA, puts $3.5 billion of non-essential projects on hold. But the article cited a spokesman for Governor Christie's office who placed the blame squarely on the Senate's obstructionism. Senators opposed the Governor's proposal to fund the TTFA by raising the state's gas tax by 23 cents a gallon in exchange for cutting the state's sales tax from 7 percent to 6 percent by 2018; they claimed that the deal would "blow a nearly $2 billion hole in the state budget."

New Jersey's situation, years in the making, is the result of an insufficient gas tax. Transportation for America pointed out that the "incredibly low" rate of 14.5 cents, the second lowest in the country, has not been increased since 1988. Consequently, the Garden State has been forced to rely on bonding, not new revenue, to pay for road and transit projects. "[A]n astonishing 100 percent of all fuel tax revenues are now devoted to paying down debt on past projects."

The General Assembly and the Senate offered different solutions. The Assembly plan, set forth in **AB 10** and **AB 12**, captures Governor Christie's above-mentioned plan to swap a sales tax cut for a 23-cent gas tax increase. According to the **fiscal note**, under this plan, the sales tax would drop from 7 percent to 6.5 percent for 2017, and to 6 percent for 2018, resulting in a $376 million revenue loss in 2017, and a $1.74 billion loss annually by 2022. When the losses to pension funding are included, revenues are expected to be at a deficit of $1.2 billion in 2018, and $1.9 billion by 2022. Economists anticipate a total net revenue loss of $699.4 million to $757.4 million by 2022.

The Senate's **plan** also contains a 23-cent increase, but phases out the estate tax instead of lowering the sales tax. The **fiscal note** shows a total revenue gain of $1.1 billion gain in 2017, and between $140 million and $375 million by 2022. This is derived from the following:

- An estate tax phase out over four years (eliminated in 2020); economists anticipate revenue losses of

$120 million in 2018, and $550 million annually by 2022.

- A charitable deduction for personal income tax, with a revenue impact of -$140 million to -$280 million in 2018 and thereafter;
- An expansion to the Earned Income Tax Credit, with a revenue loss of -$122 million in 2017, and -$137 million annually by 2022;
- A new 7 percent tax on jet fuel, with a revenue gain of $123 million to $160 million

The **Tax Foundation** explained that in 1968, New Jersey had a 7 cent-per-gallon tax, which was worth an inflation-adjusted 47.5 cents per gallon. Now, that value has dropped by 66 percent because of inflation. To hedge the impact of inflation, the 23 cents increase would come with a constitutional amendment that requires the dedication of all revenue from motor fuel taxes and other petroleum taxes to transportation projects. This amendment will appear on **November's ballot**.

The Tax Foundation approves of the constitutional amendment as good policy because it ties road maintenance costs to the users who benefit, and decreases the likelihood of general fund bailouts.

It also likes the ideas of reducing the sales tax, because New Jersey's is relatively high, and phasing out the estate tax, which would spur economic growth and help the state be more competitive. Indeed, "[t]ruly great reform could include all three of the blockbuster elements: gas tax right-sizing, sales tax reduction, and estate tax elimination."

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