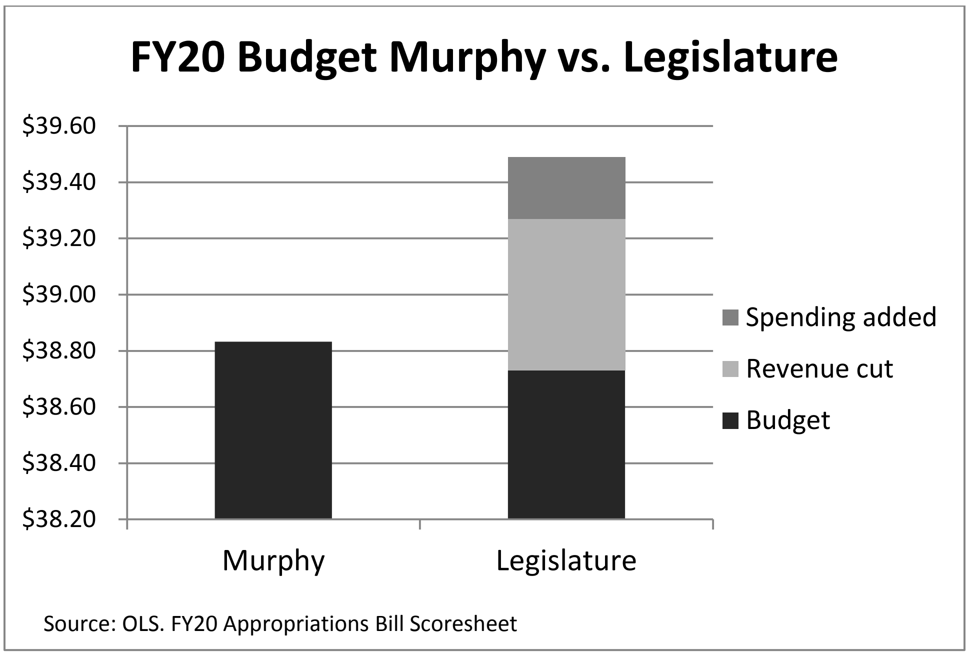
Why the Budget Bill passed by the Legislature is Dangerous for Public Workers, Services, and New Jersey

On Thursday, June 20, the Legislature sent a $38.7 billion FY20 budget to Governor Murphy for consideration.[1] The budget is substantially similar to what Governor Murphy proposed in March. It contains a second consecutive record pension payment of $3.8 billion, funds our contract, and makes significant investments in transportation, education, and property tax relief. It is more than 98% identical to what the Governor proposed in March. While the differences between the two proposals remain small, the bill passed by the legislature represents a significant threat to public workers and services.



The legislature relies on extremely rosy budget forecasts in order to achieve its funding priorities. That makes it possible for the legislature to eliminate all new revenue proposed by the Governor, such as:

- A surtax of 1.78% on income over $1,000,000
- A corporate responsibility fee for large companies that do not provide health care to workers
- A surtax on opioid pill manufacturers
- Gun license fees that would bring the cost to license guns in line with historical averages

Additionally, it adds more than $220 million in additional spending priorities with a range of add-ons, while completely eliminating all of the money Governor Murphy proposed for the state's rainy day fund.[2]

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[1] S2020/A5600 of the 2018-2019 Legislative Session.
[2] Hutchins, Ryan. "Legislature's budget adds more than $220M in spending items." www.politico.com, 6/21/19.

The result is that while the budgets are substantially similar, the legislature's version of the budget assumes approximately $660 million in additional revenues collected this year, even as many financial analysts predict an economic downturn some time in 2020.

What happens if we get to the end of next budget season and the state is $660 million short of the revenue needed to fund the programs it has legally mandated the government spend? The Governor has broad powers to do things like skip pension payments, lay off or furlough workers, cut services, and more. But this year, there will be another pressure:

Steve Sweeney's Path to Progress, which would force massive cost shifting of health care for public workers, eliminate the right of public workers to bargain health care, and make cuts so substantial to pensions of civilian pension plans that it could destabilize the entire New Jersey public pension system.

Bottom Line: The budget passed by the Legislature is an attempt to achieve a politically-created budget crisis in order for legislators who already want to attack public workers to have an excuse to do it next year.

So what's the answer? New Jersey needs sustainable, new revenue. Over the last decade, the executive branch state workforce has been cut by nearly 20% as politicians worked with Chris Christie to provide the wealthy with massive tax giveaways.

Item	Revenue Missing in FY20
Expiration of FY09 surtax on income over $400,000	$618 Million[3]
Total Corporate Business Tax relief relative to FY09	$335 Million[4]
Elimination of Estate Tax on estates over $675,000	$470.1 Million[5]
Missing revenue due to Corporate Incentives & Subsidies	$1.081 Billion[6]
3/8th of 1 cent reduction in Sales Tax	$613.9 Million
Total	**$3.1 Billion**

Had this not happened, the legislature could make a *full actuarily required* pension payment AND have $1.5 billion left over, even while using the realistic revenue scenario envisioned by Governor Murphy.

[3] In FY2010 the tax raised $903M (OLS Fiscal Note to A4102, June 30, 2009). The highest estimate offered by OLS for FY20 of $285 million (OLS Legislative Fiscal Estimate of Assembly Committee Substitute for A3088. September 28, 2018). We assume zero income growth among those earning $400,000 or more from 2010-2022, a ridiculously low assumption. Assuming even 2% growth would result in an additional $242 million more in revenue.

[4] The FY11 corporate tax cuts resulted in $700 million in savings to corporations annually. (FY18 Budget in Brief, page 36). The FY19 budget included a 2.5% surtax for tax years 2018 and 2019 and a 1.5% surtax for tax years 2020 and 2021 before expiring in tax year 2022. We make the assumption that *all* of the CBT revenue gained in FY20 will come at the 2.5% rate, another unrealistically low assumption. Further, we subtract the $110 million estimated to be gained from the enacting of combined reporting in the FY19 budget, which is the highest estimate available and many policy experts believe unrealistic.

[5] Legislative Fiscal Estimate to A12, October 12, 2016. Also the source for the sales tax estimate.

[6] Economic Development Authority FY2018-2019 Discussion Points. Page 6.