FY20 Budget Overview & EDA Reform

Why the Legislature’s Actions are Dangerous for Public Workers, Services, and New Jersey

Here’s the Big Picture

- Murphy proposed a balanced budget that:
  - Worked with unions to achieve $1.1 billion in savings on health care
  - Proposed $500 million in new revenue, including a millionaire’s tax the legislature already passed five times
  - And he proposed reigning in New Jersey’s out of control and unlimited corporate incentives programs.

Response from the Legislature

- Democratic Leadership crafted an alternative budget that took all the savings on health care from middle class workers
  - They didn’t say thank you.
- They eliminated any tax fairness
- They extended the corporate welfare program that has now been shown to be prone to self-dealing, potentially fraudulent activity that can’t possibly be a good deal for taxpayers.
FY20 Budget

- March: Governor Murphy proposes a $38.6 Billion budget
  - $3.8 billion pension payment
  - Second consecutive largest payment in history
  - 7/10ths of the full payment, maintaining the 10ths phase-in
  - $1.1 billion in savings to health care, a portion of which was bargained with CWA
  - $500 million in sustainable new revenue
    - Millionaire’s tax (1.78% increase on income over $1 million), opioid manufacturer surcharge, increase gun license fees, surcharge on large corporations that don’t provide health care

S2020/A5600

- Legislature passes its budget on June 20
  - Not negotiated with Murphy
  - Eliminates all new revenue Murphy asked for
  - Adds $220 million in new spending
  - Introduced June 17, passed June 20
    - 53-24 in Assembly (Party line)
    - 31-6 in Senate
  - Keeps funding for our contract, pension payment, and health care.
  - More than 98% identical to the Murphy proposal

So what’s the big deal?

<table>
<thead>
<tr>
<th>FY20 Budget Murphy vs. Legislature</th>
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<td>(Billions)</td>
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<tr>
<td></td>
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<tr>
<td>Murphy</td>
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<tr>
<td>Legislature</td>
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<tr>
<td>Spending added</td>
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<td>Revenue cut</td>
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<td>Cut get</td>
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First, let’s talk about this process

Democratic leadership knows the overwhelming majority of Democratic lawmakers support a millionaire’s tax.

To keep the majority of their caucus silent, they had to offer those caucus members something. (They also had to raid 100% of what Murphy wanted to put in rainy day fund.)

Let’s take a look. This can be found if you google search “FY 2020 appropriations bill pending technical review”

So What Could Happen

1.) Legislature is right, we have a lot of unexpected additional revenue.
   - Result: everything is funded this year, but $220 million in additional budget pressure next year.

2.) Murphy is right about revenue.
   - Result: Legislature’s budget results in the state being $660 million short of revenue next June.

3.) The recession many economists predict in Q3 2020 effects revenues earlier than expected.
   - Result: An even larger shortfall next June.

What Happens if We Have a Shortfall?

- FY09: Corzine threatens layoffs in order to bargain furloughs, wage freezes
- FY15: Christie skips pension payment required by Chapter 78, leading to Burgos
- Nearly every year from FY97-FY18: Pension payment skipped or significantly cut
- But there is another threat this year.
Next June

- If we enact the Legislature’s Budget, but Murphy is right about revenues, we have about a $660 million shortfall next June.
- What would the health care savings to the state be from Path to Progress be in its first year?
- $656 million.

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So do we have money, or not?

Sweeney says we’ll have a $4 billion budget shortfall by FY23.

So why did he just pass a budget that increases spending $220 million, on top of hundreds of millions in added spending last year?

How do the corporate incentives figure in?

- New Jersey has had some form of corporate tax incentive program since 1974.
- It’s supposed to work like this:
  - A company does something it wouldn’t otherwise do up front
  - Once they do that, they don’t have to pay as much taxes
  - It’s supposed to always work in the state’s favor
- It lowers tax liability, it’s (mostly) not transferring cash outright
2013: Incentives on Steroids

2013 Economic Opportunity Act
- Vastly expands borrowing authority to award incentives
- Eliminates any caps on incentives
- Lowered the amount the State is supposed to get back
- Created five “Growth zones” where the State is supposed to get even less back—Paterson, Newark, Atlantic City, Trenton and Camden.
- Created even more benefits for Camden (and 2014 Amendments to the law added Atlantic City)

Amount of Subsidies OK’ed Annually Has Exploded

2013’s legislative overhaul removed all meaningful spending caps on these tax breaks, leading the annual amount approved—which was already quite high—to explode.

Exhibit 7 NJ pays more than 5 times as much as peer states for every dollar of investment it attracts and for every job created or retained

<table>
<thead>
<tr>
<th>Destination</th>
<th>Incentive paid per job created or retained</th>
<th>Incentive paid as % of GDP</th>
<th>Incentive paid to come from economic base</th>
<th>Incentive paid to come from economic base as % of GDP</th>
<th>Incentive paid to be paid back as % of GDP</th>
<th>Incentive paid to be paid back as % of GDP as % of incentive paid</th>
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<tr>
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<td>1.32</td>
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<tr>
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<td>0.01</td>
<td>6</td>
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The current situation

- Taxpayers are on the hook for $11 billion in incentives
- In New Jersey, we pay 5 times the national average for each job created, and we get 1/5th as much in investment from companies as a result.
- Companies can sell their awards for as little as 75 cents on the dollar.
- NJ estimates benefits over 35 years, but only requires companies to uphold their end of the bargain for 15 years.

Enter Governor Murphy

- One of the first things Governor Murphy does is demand an audit.
- That comes out in January 2019.
- It finds that about 20% of the jobs promised could not be substantiated.
- Legislature’s response: Closed hearings consisting mostly of beneficiaries discussing how great the programs are.

Murphy in Action

- Murphy proposes sweeping reforms in August, gives the Legislature legislative language in October.
- Legislative response: More closed hearings. Claim they can’t possibly craft a better program by the time the current ones expire on June 30.
So Murphy Launches a Task Force

- One company gives back $1.5 million
- Whistle blower at Jackson Hewitt
- Whistle blower at World Business Lenders

Who Wrote the Bill?

Change 1: Expanded definition of “capital investment”

Fraudulent Activity?

- More than half a billion dollars were awarded to companies that appear to have falsely answered questions on their applications under penalty of law.
- Hundreds of millions have gone to companies who promised under penalty of law that jobs were moving to Philadelphia, in which internal documents show jobs were never in danger of leaving.
Knowing this, what did the Legislature do?

- They extended the programs for at least seven months. As is.
  - Senate voted 28-2
  - Assembly voted 64-9
- All before the Legislature’s own task force “investigating” the incentives even started.
  - Among Senate Task force, vote was 5-0-2
  - Among Assembly Task force members, 9-0-1

What happens with incentives now?

- Murphy has announced he will veto bill extending programs as is.
  - He has 45 days from June 20 to do it
- The Murphy Task Force will continue its work
- The Legislature’s Task Forces may start sometime soon
  - They were supposed to meet today

Why are you telling me so much about this?

The same people in the Legislature who don’t think millionaire’s should be taxed, but do think your health care security should be destroyed and you shouldn’t be able to bargain health care and your pension should be destabilized Are

The same people who think we should extend fraudulent and unlimited corporate welfare And

This is how they fund their political campaigns
So What Happens Now

- Governor and Legislature negotiate.
  - The more pressure we put on the Legislature the better
- Governor can:
  - Sign or veto (unlikely)
  - Line item veto certain spending
  - Negotiate, resulting in legislature passing additional legislation that all gets signed at the same time (this happened last year).

Timeline

- Another voting session scheduled for Thursday
- If no deal is reached by midnight on Sunday, June 30, the state enters a shutdown
  - Be ready to pressure the Legislature Thursday, Friday, Saturday and Sunday
  - Be ready to mobilize for a lockout on Monday

What About Long Term Goals?

- We will do what we can to shine a light on the corruption and self-dealing that occurs in the legislature and with taxpayer financed resources.
- We will continue to make the case that the state needs sources of sustainable revenue to rebuild after Christie, no matter what happens in this budget.
- We are going to evaluate and get the word out about the Path to Progress.