Remarks of Treasurer David Rousseau
Senate Budget and Appropriations Committee
Tuesday, May 13, 2008

Good morning. Madam Chair and Members of the Senate Budget and Appropriations Committee.

It is a pleasure to be here for my fourth and last scheduled appearance before this committee and seventh appearance since the budget was first introduced.

As we close the hearing process, I would first like to take the opportunity to thank the committee for the courtesy you have given me during my previous appearances and the courtesy given to the other members of the Governor's cabinet. Sitting front and center rather than behind the curtain has been an interesting experience this year for me.

At this time I would like to update the committee and the public on the revenues that will be used to support the Governor's proposed FY 2009 budget.

With receipts from the April collections now taken into account, we have before us a revenue picture that is mixed and reflective of an economy in flux.

The good news is that calendar year 2007 was a pretty good year. New Jersey clearly experienced the echo from that year through stronger than expected spring collections in a couple of the key taxes. The bad news is that it IS just an echo, and we cannot – and will not – forecast that the good times will continue to roll in the midst of today's recessionary economy.

This year's revenues reflect increased receipts from our income and corporate taxes on earnings for the calendar year ended December 31, 2007. Unfortunately, sales tax revenues, based on current economic activity are falling.

Taken together, with the objective performance of the national economy, we are forced to revise slightly downward our revenue estimates for next year.

Make no mistake, however; the numbers reconfirm what the Governor said in February, which is that we cannot afford to spend more than the roughly $32.8 billion in revenues available for the next fiscal year. This amount represents the projected $32.3 billion in anticipated revenue for FY 2009, plus the use of $500 million in excess surplus.

The use of only $500 million of the expected nearly $1.2 billion in excess surplus is necessary as we must wean ourselves off of the tricks and gimmicks of the past and the repeated reliance on one-time revenues to pay for our current and recurring spending.

The practices of the past have led our great state to the brink of financial disaster. We have placed our children's future at risk by borrowing in order to pay for current spending.

The agonizing choices we face today about how much to cut state aid to hospitals, municipalities or higher education are a direct consequence of the mistaken choices made in the past.

Instead of funding scholarships for higher education, we are appropriating State monies to the Unemployment Insurance Fund to make up for years of raids and diversions.

Rather than expanding health care coverage for New Jerseyans, we are cutting aid to hospitals in part because we now must pay more than $2.8 billion in debt service to cover the cost of our past borrowings.

Borrowings were all too often used to pay for current expenses when Governors and legislatures weren't willing to live within their means and only spend what was coming in.

As the Governor has said since February, we are at a turning point. The time has come for us, together, to say: " no more".

As you conclude your deliberations I would like to reiterate what the Governor stated in his remarks before the Conference of Mayors last month that the budget you adopt meets the following objectives:

No spending greater than $32.8 billion in available resources…

No new taxes …

No additional reliance on one-time funds or surplus to support current year spending.

In that regard, we are reaffirming the commitment that every dollar of unexpected surplus built up this year be used to pay down the state's debt. As you have heard the Governor say repeatedly, debt service is crowding out New Jersey's ability to fund critical priorities in the budget. This use of surplus revenues is critically important to relieve the onerous conditions that prevent the Governor and the Legislature from funding vital programs and services.

This use of surplus will result in a reduction of $130 million in debt service for FY 2009 that will offset a significant portion of the reduction in revenue we are now projecting.

Absent this debt service savings, additional reductions would have to be made.

Our budget relies on $500 million in surplus being carried over from this year to support FY 09 spending. It is important for us to recognize that this action has a ripple effect for FY 2010. In short, this means that we have built into the 2010 budget a requirement to identify $500 million from either spending cuts or revenues to replace this year's $500 million in one-time revenue.

Using more one-time revenue to support the FY 2009 budget would create a larger impact on the FY 2010 budget. More notably, it would constitute a relapse to irresponsible, deficit budgeting.

With this in mind, we ask that every resolution considered by this committee be subject to this same test.

Since every additional dollar of non-recurring actions that is used to support FY 2009 spending adds to a FY 10 shortfall now sized at roughly $2 billion, we ask the Legislature to recognize the amber light and proceed with due caution.

Cost cutting must start with state government itself and for that reason I ask that you support our initiative to reduce the state workforce by an additional 3,000 positions. We believe the most effective and efficient way to shrink government is through an early retirement program.

For that program to work we must ensure it is accompanied by a statutory limitation on the size of the state's workforce – we must cap the ability to rehire.

Over time we need to have a government that is increasingly efficient and able to achieve more without costing more. However, there are limits.

It is only reasonable to believe that a government that is smaller and cheaper is also a government that does less. It is inevitable that by taking the dramatic step of reducing the size of government, we will accelerate both of those processes.

If we choose not to implement an ERI, we would be required to make up the savings by identifying other program cuts.

In addition to the reduction in revenue for FY 2009 there are also a limited number of areas where we need to add items to the budget that we proposed in February. In each instance, we are identifying a funding source for restoration. By and large, these minor adjustments reflect updated projections.

However in three instances, the restorations are in direct response to the open dialogue this administration has had with stakeholders since the budget was introduced in February.

First, while we are gratified that our proposed restructuring of aid to towns has already resulted in an upsurge of local initiatives to consolidate services, we also recognize that asking our smallest communities to accept an immediate cessation in state aid is not practical. As a result, our revisions to the budget will ensure that no community faces an increase in the average residential property tax bill of more than $100 as a result of the CMPTR reduction that was proposed for small communities.

Second, we are committed to a revised DEP's Parks restructuring plan in an effort to maintain services in New Jersey's State Parks. This revised plan will be a combination of service curtailments at some parks and the redeployment of other resources within DEP.

Third, we will accept that the Department of Agriculture should remain as a state agency and have directed the Secretary to identify savings from operations, exclusive of food and nutrition programs, that replace the savings that would have come from consolidating its functions into other agencies.

Finally, the work of this legislature will not be done until we enact a proposed constitutional amendment requiring voter approval of future debt issuance and statutory change forbidding future use of non-recurring revenue to support ongoing operations.

I would now like to go into more detail on some of the specific changes we are making to the revenue and spending that was proposed in February.

Senate Budget
and
Appropriations Committee

FY 2009 Budget Update

State Treasurer R. David Rousseau

May 13, 2008

FY 2008 Revenues

(In Millions)

	FY2007 CAFR	FY2008 Approp. Act Revenues	FY2008 GBM	FY2008 Adjusted Revenues	Change from GBM	FY2008 Adj. Rev. vs FY2007 CAFR % Growth
Income	$ 11,727	$ 12,379	$ 12,172	$ 12,600	$ 428	7.4
Sales	8,181	8,480	8,490	8,390	(100)	2.6
Corporate	2,997	2,520	2,675	2,950	275	(1.6)
Other*	8,304	8,497	8,635	8,565	(70)	3.1
Total	**$ 31,209**	**$ 31,876**	**$ 31,972**	**$ 32,505**	**$ 533**	**4.2**

* All Sales Tax and Corporation Business Taxes on Energy are included in Other.

The FY 2008 Budget

(In Millions)

	FY 2008 Adjusted Approp	FY 2008 Budget May Update	Change $
Opening Surplus	**$ 2,588**	**$ 2,588**	**$ -**
Revenues			
Income	12,212	12,640	428
EITC Expansion	(40)	(40)	-
Sales	8,490	8,390	(100)
Corporate	2,675	2,950	275
Other	8,635	8,565	(70)
Total Revenues	$ 31,972	$ 32,505	533
Lapses	493	575	82
Total Resources	**$ 35,053**	**$ 35,668**	**$ 615**
Appropriations			
Original	$ 33,471	$ 33,471	-
Supplemental	148	413	265
Total Appropriations	**$ 33,619**	**$ 33,884**	**$ 265**
Fund Balance	**$ 1,434**	**$ 1,784**	**$ 350**
Transfer to Long Term Obligation and Capital Expenditure Fund	**$ (334)**	**$ (684)**	
Fund Balance after Transfer	**$ 1,100**	**$ 1,100**	

The FY 2008 Budget

(In Millions)

Changes to FY08 Lapses since GBM

FY08 Lapses at GBM		**492.909**
Changes		
SACWIS and Title IV-E	19.000	
DCF Underspending	12.950	
School Aid	14.370	
Teachers Pensions / FICA	16.065	
Health - PAAD and Nursing Homes	12.000	
Human Services Grants	(20.000)	
State Comptroller Delayed Startup	3.053	
Senior/Disab/Vets Deduction & Sr Freeze	(3.077)	
Higher Education Debt Service	21.139 *	
OIT	1.665	
State Employee / College / Muni Fringe	(4.558)	
Prior Year and Other	9.726	
Subtotal, Changes	82.333	
FY08 Lapses, May update		**575.242**

* Offset by revenue

The FY 2008 Budget

(In Millions)

Changes to FY08 Supplementals since GBM

FY08 Supplementals at GBM			**148.425**
Changes			
Nonpublic Schools	6.153	*	
Preschool Expansion Aid	(0.617)		
Excess Receipts - DEP	1.750	*	
Unemployment Compensation Fund	260.000		
Presidential Primary	2.500		
Employee Benefits	(3.275)		
Unused Sick Leave	(2.300)		
Subtotal, Changes	264.211		
FY08 Supplementals, May update			**412.636**

* Offset by revenue

Use of Long-Term Obligation and Capital Expense Fund

(In Millions)

Debt Reduction	$	650
Capital		34
Total	**$**	**684**

FY 2009 Revenues

(In Millions)

	FY2008 Adjusted Revenues	FY2009 GBM	FY2009 Budget Update	Change from GBM	FY2009 vs FY2008 Change $	FY2009 vs FY2008 Change %
Income	$ 12,600	$ 12,866	$ 12,700	$ (166)	$ 100	0.8
Sales	8,390	8,710	8,556	(154)	166	2.0
Corporate	2,950	2,460	2,700	240	(250)	(8.5)
Other*	8,565	8,433	8,354	(79)	(211)	(2.5)
Total	**$ 32,505**	**$ 32,469**	**$ 32,310**	**$ (159)**	**$ (195)**	**(0.6)**

* All Sales Tax and Corporation Business Taxes on Energy are included in Other.

The FY 2009 Budget
Prior to Proposed Actions

(In Millions)

	FY 2009 Governor's Budget		FY 2009 Budget May Update		Change $	
Opening Surplus	**$**	**1,100**	**$**	**1,100**	**$**	**-**
Revenues						
Income		12,926		12,760		(166)
EITC Expansion		(60)		(60)		-
Sales		8,710		8,556		(154)
Corporate		2,460		2,700		240
Other		8,433		8,354		(79)
Total Revenues	$	32,469	$	32,310		(159)
Total Resources	**$**	**33,569**	**$**	**33,410**	**$**	**(159)**
Appropriations						
Original	$	32,969	$	33,035		66
Total Appropriations	**$**	**32,969**	**$**	**33,035**	**$**	**66**
Fund Balance	**$**	**600**	**$**	**375**		
Additional Actions Required to Maintain $600 Fund Balance			**$**	**225**		

The FY 2009 Budget

(In Millions)

Changes to FY09 Spending since GBM

FY09 Appropriations at GBM		**32,968.603**
Changes		
ICF/MR Shortfall	19.244	
Charter Schools	8.658	
Charter Schools - Additional Hold Harmless	2.135	
CBT Dedication	18.165 *	
CMPTR for under 10k municipalities	14.900	
ELEC	0.500	
Legal Services	1.600	
Department of Agriculture	0.500	
Subtotal, Changes	65.702	
FY09 Appropriations, May update		**33,034.305**

*Offset by revenue

How FY 2009 Was Balanced

(In Millions)

Lottery Enhancements	$	25
Debt Service Reduction		130
Solutions		70
Total	**$**	**225**

FY 2009 Additional Spending Reductions

(In Millions)

Salary program - utilize carry forward (shift to other sources)	$ 10.0
DCA - Extraordinary Aid	7.3
DCA - Consolidation Fund	7.0
DHSS - Early Intervention Program (revised projections)	5.0
DOC - Inmate Medical	5.0
DOE - Teachers' Pension and Social Security (revised projections)	5.0
DHS - Medicaid - Decrease drug pricing from weekly to monthly	3.5
DHS - Medicaid - Over the counter substitution	2.9
DHS - Family Development - fraud and abuse	2.5
LPS - State Police Information Technology (revised projections)	2.0
LPS - State Police billing for urban areas	1.5
DHSS - media campaigns	1.3
LPS - State Police Non-criminal records checks (shift to other sources)	1.0
DHS - Training related expenses (revised projections)	1.0
DHS - Work Verification (revised projections)	1.0
DOC - Additional community placements	1.0
DOC - Divert Technical Parole Violators to Alternate Parole Programs	1.0
DHSS - Anti-smoking programs	1.0
DHS - Medicaid - Eliminate payments for preventable hospital errors	1.0
DHS - Mental Health community contract efficiencies	1.0
Higher Education Student Assistance Authority - OB-GYN loan redemption program	1.0
OIT - various reductions	1.0
Agr - departmental efficiencies	0.5
Other	6.5
TOTAL	$ 69.9

The FY 2009 Budget
After Proposed Actions

(In Millions)

	FY 2009 Governor's Budget	FY 2009 Budget May Update	Change $
Opening Surplus	**$ 1,100**	**$ 1,100**	**$ -**
Revenues			
Income	12,926	12,760	(166)
EITC Expansion	(60)	(60)	-
Sales	8,710	8,556	(154)
Corporate	2,460	2,700	240
Other	8,433	8,354	(79)
Proposed Revenue Actions		25	25
Total Revenues	$ 32,469	$ 32,335	(134)
Total Resources	**$ 33,569**	**$ 33,435**	**$ (134)**
Appropriations			
Original	$ 32,969	$ 33,035	$ 66
Proposed Spending Actions		(200)	(200)
Total Appropriations	**$ 32,969**	**$ 32,835**	**$ (134)**
Fund Balance	**$ 600**	**$ 600**	

Projected Shortfall Continues Into FY 2010

(In Millions)

	FY 2009 Revised		FY2010	-------DIFF------- $	%
OPENING FUND BALANCE	$ 1,100		$ 600	$ (500)	(45.5)
REVENUES					
Income	$ 12,700		$ 13,367	$ 667	5.3
Sales	8,556		8,796	240	2.8
Corporate	2,700		2,700	-	-
Other	8,379		8,379	-	-
Total Revenues	$ 32,335		$ 33,241	$ 906	2.8
TOTAL RESOURCES	$ 33,435		$ 33,841	$ 406	1.2
RECOMMENDATIONS/PROJECTIONS	$ 32,835		$ 35,372	$ 2,537	7.7
Aid to Education		$620			
Pensions at 65% *		500			
Employee Benefits (other than pensions)		300			
Medicaid		225			
Salary Increases		200			
Homestead Rebates / Senior Freeze		105			
NJ Transit		100			
Debt Service		80			
Municipal Aid Inflation		80			
Other Growth		327			
FUND BALANCE	$ 600		$ (1,531)		
Required Ending			600		
Fund Balance with Required Ending			$ (2,131)		

* If funded at 100%, $1.3 billion would be required and shortfall increases to $2.9 billion